

Safe Harbor Financial Planning

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 **SAFE HARBOR**
FINANCIAL PLANNING &
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New Legislation Makes Many Tax Provisions Permanent

The Protecting Americans from Tax Hikes (PATH) Act of 2015

In one of its final actions for calendar year 2015, Congress passed the Consolidated Appropriations Act, 2016, a massive spending bill that will keep the federal government funded for fiscal year 2016. Signed into law on December 18, 2015, the legislation includes the Protecting Americans from Tax Hikes (PATH) Act of 2015 (Division Q of the Consolidated Appropriations Act), which addresses a host of popular but temporary tax provisions--commonly referred to as "tax extenders"--that had expired at the end of 2014, making many of them permanent. Some of the major provisions addressed are listed below.

Individuals

American Opportunity Tax Credit	The American Opportunity Tax Credit (a modified version of the original Hope Credit) and the credit rules--including maximum credit amount, number of years of education covered, income phaseout ranges, and refundability provisions--are made permanent.
Child tax credit	The lower \$3,000 earned income threshold for determining the refundable portion of the tax credit is made permanent (if the credit exceeds tax liability, an amount equal to 15% of earned income over \$3,000 may be refunded).
Credit for nonbusiness energy property	The credit is extended for two additional years (through 2016); lifetime cap of \$500 remains.
Deduction for classroom expenses paid by educators	The \$250 above-the-line deduction is made permanent--the rules that applied in 2014 are retroactively extended for 2015; starting in 2016, the limit will be indexed for inflation, and qualifying professional development expenses will be considered eligible expenses for purposes of the deduction.
Deduction for qualified higher-education expenses	The above-the-line deduction, worth up to \$4,000, is reinstated for 2015 and extended through 2016.
Deduction for state and local general sales taxes	Individuals who itemize deductions on Schedule A of IRS Form 1040 can elect to deduct state and local general sales taxes in lieu of the deduction for state and local income taxes--this is made permanent.
Discharge of qualified personal residence debt	The exclusion from gross income of the discharge of debt associated with a qualified principal residence is reinstated for 2015 and extended through 2016.
Earned income tax credit	The increased credit percentage for families with three or more qualifying children and the increased threshold phaseout range for married couples filing joint returns are made permanent.
Employer-provided mass transit benefits	The monthly exclusion for employer-provided transit pass and vanpool benefits will be permanently set to the same level as the exclusion for employer-provided parking (applies retroactively to 2015, increasing the exclusion from \$130 to \$250 monthly).



Mortgage insurance premiums	The provision allowing premiums paid for qualified mortgage insurance to be treated as deductible qualified residence interest on Schedule A of IRS Form 1040 (subject to phaseout based on income) is extended for two additional years, through 2016.
Qualified charitable distributions (QCDs)	The provision allowing individuals age 70½ or older to make qualified charitable distributions (QCDs) from their IRAs, and exclude the distribution from gross income (up to \$100,000 in a year), is made permanent.
Qualified conservation contributions of capital gain real property	Special rules for qualified conservation contributions of capital gain real property are made permanent; new rules for qualified contributions by certain Alaska Native Corporations are added for years after 2015.

Businesses

Bonus depreciation	Additional 50% bonus depreciation is reinstated for 2015 and extended through 2019; the bonus percentage is reduced to 40% in 2018 and 30% in 2019 for most property types.
Exclusion of gain on qualified small business stock	The 100% exclusion of capital gain from sale or exchange of qualified small business stock held for more than 5 years is made permanent; it applies to alternative minimum tax as well as regular income tax.
IRC Section 179 expensing	Increased dollar amounts (\$500,000/\$2,000,000) associated with Section 179 expensing are made permanent and indexed for inflation after 2015; \$250,000 limit on qualified real property eliminated after 2015.
Research credit	The research tax credit is made permanent, with new provisions effective in tax years beginning after 2015 that will provide additional benefits to some small businesses.
Work Opportunity Tax Credit	The tax credit is extended through 2019 and expanded (after 2015) to apply to employers who hire qualified long-term unemployment recipients.

Other changes

In addition to the tax extender provisions, the Consolidated Appropriations Act contains multiple other tax provisions, including:

- The Act delays imposition of the excise tax on high-cost employer-sponsored health coverage (the so-called "Cadillac tax") for two years; the tax, originally scheduled to take effect after 2017, will now be effective for tax years beginning after December 31, 2019.
- The Act eliminates the requirement that ABLE accounts (tax-favored savings vehicles intended to benefit disabled individuals) be established only in the ABLE account owner's state of residence.
- Rules relating to 529 plans are modified for tax years after 2014, including expansion of the definition of qualified expenses to include the purchase of a computer, peripheral equipment, computer software, and Internet access if used primarily by the beneficiary while enrolled at an eligible education institution.
- The Act permits funds to be rolled over to a SIMPLE IRA from employer-sponsored retirement plans and traditional IRAs once a participant has participated in the SIMPLE IRA for a two-year period (effective for rollover contributions made after December 18, 2015).

IMPORTANT DISCLOSURES

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