



Important Information on the Newly Signed Tax Increase Prevention Act

Greetings:

McRuer CPAs closely monitors federal and state tax laws affecting our clients and friends using the CPA industry's best research materials and services.

Friday afternoon we learned from our Bloomberg/Bureau of National Affairs Tax Management Staff (Bloomberg/BNA) that President Obama had signed into law the ***Tax Increase Prevention Act of 2014***. We have monitored progress on this act (or the lack of it) since summer. The final version has a number of provisions that interest our clients and friends.

Please note that most of these provisions are *only effective for ten days – through December 31, 2014*. While late Congressional and Executive Branch actions like this make your year-end tax planning more difficult, there may be useful opportunities in this Act I want to share with you.

I have edited and am attaching Bloomberg/BNA's summary highlighting parts of the act that are most important to our clients and friends. Those topics of particular interest include:

- Internal Revenue Code §179 expense elections restored to \$500,000 with certain limitations
- Bonus depreciation restored
- Research and development credit restored
- Deduction for educational expenditures extended
- Tax-free retirement plan distributions for charitable donations extended

There is also a new provision increasing late payment and underpayment penalties to be indexed with inflation.

If you have questions about the opportunities this Act may provide you, please contact us at: 816.741.7882 or through our web site at: www.kccpa.com.

Best regards,

Scott McRuer, CPA
Managing Member

Selected Topics from the Tax Increase Prevention Act of 2014

Prepared December 22, 2014 by Scott McRuer, CPA for McRuer CPAs client and friends use only. Information selected from the Bloomberg BNA Summary of H.R. 5771 issued December 21, 2014 following the President's approval.

NOTE: **Highlighted information represents items that may affect our clients individually.**

Bloomberg BNA Summary of the Tax Increase Prevention Act of 2014 (H.R. 5771) by the Tax Management Staff, Arlington, VA

On December 16, 2014, the Senate passed, without change, the Tax Increase Prevention Act of 2014 (H.R. 5771), which passed the House of Representatives on December 3, 2014. The Bill extends over 50 tax provisions. The bill now awaits the President's signature.

The Bill contains technical corrections to previously enacted legislation. The bill also incorporates, H.R. 647 which would create tax-favored accounts for the benefit of disabled people. The engrossed version of the House bill combines H.R. 5771 and H.R. 647.

DIVISION A: Tax Increase and Prevention Act of 2014

TITLE I: Certain Expiring Provisions

Subtitle A - Individual Tax Extenders

- **Extension of increased expensing limitations and treatment of certain real property as section 179 property [Bill §127]**

The Bill would extend for one year (through 2014) the small business expensing limitation and phase-out amounts in effect from 2010 to 2013 (\$500,000 and \$2 million) to property placed in service during 2014. Without this change, the amounts would be \$25,000 and \$200,000, respectively. The special rules that allow expensing for computer software, qualified leasehold improvement property, qualified restaurant property, and qualified retail improvement property also would be extended through 2014. [I.R.C. §179]

- **Extension of bonus depreciation [Bill §125]**

The Bill would extend 50% bonus depreciation to property acquired and placed in service during 2014 (2015 for certain property with a longer production period). This provision would continue to allow taxpayers to elect to accelerate the use of AMT credits in lieu of bonus depreciation under special rules for property placed in service during 2014. The provision would also continue a special accounting rule involving long-term contracts and a special rule for regulated utilities. The Bill would label qualifying property as "round 4 extension property." [I.R.C. §168(k)]

▪ **Extension of 15-year straight-line cost recovery for qualified leasehold improvements, qualified restaurant buildings and improvements, and qualified retail improvements [Bill §122]**

The Bill would extend for one year (through 2014) the special 15-year cost recovery period for certain leasehold improvements, restaurant buildings and improvements, and retail improvements for property placed in service in 2014. [I.R.C. §168(e)(3)(E)]

▪ **Extension of research credit [Bill §111]**

The Bill would extend for one year (through 2014) the research credit. [I.R.C. §41]

▪ **Extension of above-the-line deduction for qualified tuition and related expenses [Bill §107]**

The Bill would extend for one year (through 2014) the above-the-line tax deduction for qualified education expenses. The deduction is capped at \$4,000 for an individual whose adjusted gross income (AGI) does not exceed \$65,000 (\$130,000 for joint filers) or \$2,000 for an individual whose AGI does not exceed \$80,000 (\$160,000 for joint filers). [I.R.C. §222]

▪ **Extension of deduction for certain expenses of elementary and secondary school teachers [Bill §101]**

The Bill would extend for one year (through 2014) the \$250 above-the-line tax deduction for teachers and other school professionals for expenses paid or incurred for books, supplies (other than non-athletic supplies for courses of instruction in health or physical education), computer equipment (including related software and service), other equipment, and supplementary materials used by the educator in the classroom. [I.R.C. §62(a)(2)(D)]

▪ **Extension of exclusion from gross income of discharge of qualified principal residence indebtedness [Bill §102]**

The Bill would extend for one year (through 2014) the exclusion from gross income of a discharge of qualified principal residence indebtedness. [I.R.C. §108(a)(1)(E)]

▪ **Extension of mortgage insurance premiums treated as qualified residence interest [Bill §104]**

The Bill would extend for one year (through 2014) the treatment of qualified mortgage insurance premiums as interest for purposes of the mortgage interest deduction. This deduction phases out ratably for taxpayers with adjusted gross income of \$100,000 to \$110,000 (half those amounts for married taxpayers filing separately). [I.R.C. §163(h)]

▪ **Extension of deduction of State and local general sales taxes [Bill §105]**

The Bill would extend for one year (through 2014) the election to take an itemized deduction for State and local general sales taxes in lieu of the itemized deduction permitted for State and local income taxes. [I.R.C. §164(b)(5)]

▪ **Extension of tax-free distributions from individual retirement plans for charitable purposes [Bill §108]**

The Bill would extend for one year (through 2014) tax-free charitable contributions from an individual retirement account (IRA) of up to \$100,000 per taxpayer, per taxable year for taxpayers who are at least 70 1/2. [I.R.C. §408(d)(8)]

Subtitle B - Business Tax Extenders

▪ **Extension of second generation biofuel producer credit [Bill §152]**

The Bill would extend for one year (through 2014) the cellulosic biofuels producers credit. [I.R.C. §40(b)]

▪ **Extension of incentives for biodiesel and renewable diesel [Bill §153]**

The Bill would extend for one year (through 2014) the \$1.00 per gallon production tax credit for biodiesel and the small agri-biodiesel producer credit of 10 cents per gallon. The Bill would

extend for one year (through 2014) the \$1.00 per gallon production excise tax credit for diesel fuel created from biomass. [I.R.C. §40A]

- **Extension of work opportunity tax credit [Bill §119]**

The Bill would extend for one year (through 2014) the work opportunity credit which provides businesses a credit for hiring employees from specified groups that have historically been difficult to employ. [I.R.C. §51]
- **Extension of enhanced charitable deduction for contributions of food inventory [Bill §126]**

The Bill would extend for one year (through 2014) the provision allowing businesses to claim an enhanced deduction for the contribution of food inventory of apparently wholesome food for non-corporate business taxpayers. [I.R.C. §170(e)(3)(C)]
- **Extension of basis adjustment to stock of S corporations making charitable contributions of property [Bill §137]**

The Bill would extend for one year (through 2014) the provision allowing S corporation shareholders to take into account their pro rata share of charitable deductions even if such deductions would exceed such shareholder's adjusted basis in the S corporation. [I.R.C. §1367]
- **Extension of reduction in S corporation recognition period for built-in gains tax [Bill §138]**

The Bill would extend for one year (to sales of assets occurring during 2014), the rule reducing to five years (rather than 10 years) the period for which an S corporation must hold its assets following conversion from a C corporation to avoid the tax on built-in gains. [I.R.C. §1374(d)]
- **Extension of empowerment zone tax incentives [Bill §139]**

The Bill would extend for one year (through 2014) the designation of certain economically depressed census tracts as empowerment zones. The tax benefits available include tax-exempt bonds, employment credits, increased expensing, and gain exclusion from the sale of certain small-business stock. [I.R.C. §1391(d)]
- **Extension of credit for energy-efficient new homes [Bill §156]**

The Bill would extend for one year (through 2014), the credit for the construction of energy efficient new homes. [I.R.C. §45L]
- **Extension of special allowance for second generation biofuel plant property [Bill §157]**

The Bill would extend for one year (through 2014) 50% bonus depreciation for cellulosic biofuel facilities. [I.R.C. §168(l)(2)]
- **Extension of energy efficient commercial buildings deduction [Bill §158]**

The Bill would extend for one year (through 2014) the above-the-line deduction for energy efficiency improvements to lighting, heating, cooling, ventilation, and hot water systems of commercial buildings. [I.R.C. §179D]
- **Extension of excise tax credits relating to certain fuels [Bill §160]**

The Bill would extend for one year (through 2014) the \$0.50 per gallon alternative fuel tax credit and alternative fuel mixture tax credit. [I.R.C. §6426]

Subtitle D - Extenders Relating to Multiemployer Defined Benefit Pension Plans

- **Extension of automatic extension of amortization periods [Bill §171]**

The Bill would extend for one year (through 2015) a provision that automatically grants a 5-year extension to multiemployer defined benefit pension plans that apply for additional time to amortize funding shortfalls. Effective for extension applications submitted after December 31, 2014. [I.R.C. §431(d)(1)(C); ERISA §304(d)(1)(C)]
Editor's Note: This provision was made permanent with the enactment of H.R. 83, Division O, §101, which repealed the sunset provision of 2006 PPA.
- **Extension of shortfall funding method and endangered and critical rules [Bill §172]**

The Pension Protection Act of 2006 (2006 PPA) added special rules for multiemployer defined benefit pension plans that are significantly underfunded. These rules created three categories of

underfunding (endangered, seriously endangered, and critical), with specific obligations for plans in each category. The 2006 PPA also generally permitted multiemployer plans to start or stop using the shortfall funding method without obtaining approval from the IRS. Under a 2006 PPA sunset provision, these rules do not apply to plan years beginning after December 31, 2014. The Bill would extend these rules through 2015. Effective for plan years beginning after December 31, 2014. [I.R.C. §432; ERISA §305]

Editor's Note: This provision was made permanent with the enactment of H.R. 83, Division O, §101, which repealed the sunset provision of 2006 PPA.

DIVISION B: Achieving a Better Life Experience Act of 2014

TITLE I: Qualified Able Programs

Investment direction rule for 529 plans [Bill §105]

The Bill would allow limited investment direction for contributors or beneficiaries of §529 accounts for education.

Effective for taxable years beginning after December 31, 2014. [I.R.C. §529]

TITLE II: Offsets

Inflation adjustment for certain civil penalties under the Internal Revenue Code of 1986 [Bill §208]

The Bill would index several tax-related civil penalties under current law to inflation: (1) failure to file a tax return or to pay tax; (2) failure to file certain information returns, registration statements, and certain other statements; (3) failure of a paid preparer to meet certain obligations; (4) failure of a partnership to file or an S corporation to file a return; and (5) failure to file correct information returns and payee statements. [I.R.C. §6651, §6652, §6695, §6698, §6699, §6721, §6722]

Increase in continuous levy [Bill §209]

The Bill would allow the IRS to levy, or seize, as much as 30% (up from 15%) of federal payments to Medicare providers and suppliers who have unpaid taxes.

Effective for payments made after 180 days after the date of the enactment. [I.R.C. §6331]

Certified professional employer organizations [Bill §206]

The Bill would establish a certification program for professional employer organizations (PEOs) that administer payrolls for businesses. Certification would allow the PEO to become solely responsible for paying employment taxes, rather than the employer being liable if taxes aren't withheld or transmitted. PEOs would also have to pay an annual fee of \$1,000.

Effective with respect to wages for services performed on or after January 1 of the first calendar year beginning more than 12 months after the date of the enactment. Certification program to be established by Treasury not later than six months before the previous sentence effective date.

[I.R.C. §3511 (new), §7705 (new), §7528]

Exclusion of dividends from controlled foreign corporations from the definition of personal holding company in come for purposes of the personal holding company rules [Bill §207]

The Bill would exclude dividends received from a foreign subsidiary from the additional 20% tax on personal holding company income, though the dividends would remain subject to corporate income tax.

Effective for taxable years ending on or after the date of enactment. [I.R.C. §543]

We want to work with you as your trusted advisors and tax planning strategist to make certain you receive the tax deductions and tax credits for which you qualify. If you have any questions about the above tax information and how it may apply to your overall 2014 individual and/or business tax return, please don't hesitate to contact us.

We look forward to visiting with you and appreciate your continued trust in our accounting and tax preparation team at McRuer CPAs.

Thank you.

Phone: 816.741.78892

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