Impact of Last Minute Tax Changes Unknown

Let's Talk Tax

By

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On December 16th, the Senate Passed, H.R. 5771, *The Tax Increase Prevention Act of 2014,* a $42 billion dollar tax package and sent it to President Obama for signature (the Bill was signed into law on December 19th). This bill contains over 150 provisions, many of which would extend tax breaks that expired in 2013 - welcome changes that would greatly benefit taxpayers and small business owners.

Welcome Changes:

Here are a few of the changes included in the Bill passed by the House and the Senate that will benefit most readers:

- **Extending Bonus Depreciation.** If passed, H.R. 5771 would allow businesses to depreciate up to 50% of certain qualifying assets placed in service in 2014.
- **Extending Section 179 Expensing Limitations:** The 179 Expenses allows qualifying businesses to expense the cost of certain qualifying property placed in service during the year. In 2014 the expense limit had dropped to $25,000 from $500,000. The House bill would extend the $500,000 limit through 2014. It would also extend the ability to expense certain qualifying real property leasehold improvements.
- **Above-the-line deduction for qualified tuition and related expenses:** This deduction expired in 2013 and will be extended to 2014. It allows taxpayers who qualify to

maximize their education-related tax savings by comparing the deduction to available education credits.

- **Deduction of state and local general sales taxes:** Individuals and families who itemize deductions will be able to deduct either their state sales tax paid during 2014 or their state income tax paid during 2014. This deduction will especially benefit taxpayers living in one of the seven states that currently have no personal state income tax.
- **Mortgage insurance premiums treated as qualified residence interest:** This provision will allow certain taxpayers who itemize to treat qualifying mortgage insurance premiums as deductible mortgage interest and deduct it on Schedule A as an itemized deduction.
- **Exclusion from gross income of discharge of qualified principal residence indebtedness:** Taxpayers who sell or lose a home that has a mortgage greater than the home's value (often informally referred to as "underwater") will have potential taxable income if the lender forgives all or a portion of the remaining debt. H.R. 5771, if it becomes law, will extend the homeowners ability to exclude this income from taxation if it meets certain conditions.

Changes too Late: Unfortunately, however, these tax provisions may have arrived too late for many taxpayers to take advantage of them. It is also uncertain whether these changes will cause a repeat of the problems created two short years ago when Congress passed last minute tax-law changes to 2012's tax rules.

Retroactive Challenge: In early 2013 Congress wreaked technological havoc on the IRS and tax professionals when it passed the the *American Taxpayer Relief Act of 2012*, AKA *the Fiscal*

Cliff Tax Act, on January 1st, 2013. This legislation contained 157 pages of Tax Code changes, many of which were retroactive and altered the tax rules for 2012.

Unfortunately, Congress made these changes just days before taxpayers were starting to file their 2012 tax returns. As with *The Tax Increase Prevention Act of 2014,* these changes were made after the IRS and the entire tax-processing industry had programmed their systems to process income tax returns following rules that were already in place.

The impact of these retroactive changes on taxpayers was twofold. First, taxpayers and professionals had no time to effectively plan to make meaningful use of the changes. Second, because the IRS and tax-processing industry have to reprogram for the changes (The tax code is, after all, a large formula in a giant computer program.), taxpayers had to wait to file their returns, receive their refunds, and file their returns with an increased possibility of their returns containing errors. Hopefully, because *The Tax Increase Prevention Act of 2014,* was passed a few weeks earlier than 2012's changes, the IRS and the tax preparation industry will have a little more time to make the required adjustments to their systems and we will not see a repeat of the problems that plagued the filing of 2012's returns.

This column has discussed a few of the changes included in House Bill H.R. 5771, the challenges these last-minute changes create for tax payers, and the possibility of filing problems that may result. We do not in this short article have time to discuss other changes and extenders such as the research and development credit, the ability to take a charitable deduction for contributions of qualifying real property for conversation purposes, or the ability to exclude from income the donation of qualifying IRA distribution, among many others.

For detailed information about these and other tax law changes for 2014, please contact your tax preparer. As always, please remember that this or any article does not constitute tax advice. If you need any help with your taxes or are facing a particular tax issue, please feel free to call us at 304 267-2594 to set up an appointment.

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