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The new "tax extenders" legislation just unveiled by Congress does more than merely extend dozens of expires tax breaks. It also makes several important provisions permanent, with certain modifications, while delaying onerous rules under the Affordable Care Act (ACA). But the agreement being hammered out by our nation's lawmakers, which is expected to be completed at week's end, is far from a "done deal."

With that in mind, here's a brief summary of the "Protecting Americans from Tax Hikes (PATH) Act" of 2015 as it currently stands:

Key Permanent Provisions

The list of key tax provisions that would become a permanent part of the tax code includes the following:

Section 179 allowance: The maximum Section 179 "expensing" allowance, which had technically plummeted to $25,000 after 2014, would be reinstated to $500,000, retroactive to January 1, 2015. Similarly, a phase-out threshold of $2 million would continue to apply, as opposed to only $200,000. These figures will be indexed for inflation in future years.

Research credits: The near-annual ritual of extending the research credit could be over. The credit would become permanent dating back to January 1, 2015. Furthermore, effective January 1, 2016, a small business with $50 million or less in gross receipts may be able to claim the credit against alternative minimum tax (AMT)

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to certain phase-outs based on modified adjusted gross income (MAGI). But the maximum credit was scheduled to revert to $1,800 in 2017 with lower MAGI phase-out thresholds. The new law would keep the enhanced AOTC on a permanent basis.

Charitable donations: The new law permanently extends certain charitable incentives for donors, including enhanced deductions for contributions of conservation property, tax-free IRA distributions made directly to charity by individuals over age 70½ and favorable rules for donations of food inventory and contributions of stock by S corporation shareholders. These extensions would be retroactive to January 1, 2015.

Child tax credit: Going back to 2009, parents are entitled to a child tax credit of up to $1,000, subject to a phase-out, with an additional refundable credit of 15% of earned income in excess of $3,000. The $3,000 threshold was scheduled to increase to $10,000 in 2017. However, the new law restores the enhanced additional credit and makes it permanent.

State and local sales taxes: Prior to 2015, a taxpayer could elect to deduct state and local sales taxes in lieu of deducting state and local income taxes. This optional deduction, which is especially valuable to residents of states with no or a low income tax, would be revived retroactive to January 1, 2015 and made permanent.

Qualified small business stock (QSBS): Investors in QSBS) could exclude 100% of the gain from the sale of the stock acquired before 2015. This tax exclusion was reduced to 50% for QSBS acquired after 2014. Under the new law, the 100% exclusion would be permanently restored, effective for stock acquired on January 1, 2015 or thereafter.

Employee transportation benefits: The tax law provides tax-free fringe benefits for employee mass transit passes, vanpooling and parking fees. The maximum monthly benefits for mass transit passes and vanpooling had been cut to $130 after 2014, but

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A slew of other tax provisions would be extended, for a period of two or more years, including the following:

Bonus depreciation: This often-extended tax law measure enables a business to claim 50% "bonus depreciation" for qualified assets placed in service during the year. (Note that bonus depreciation may be combined with the Section 179 deduction in some cases.) The new law would retroactively extend 50% bonus depreciation from January 1, 2015 through December 31, 2017 before reducing it to 40% for only the next two years.

Tuition-and-fees deduction: Taxpayers were previously able to deduct tuition and fees paid to a college in lieu of claiming a higher education tax credit. However, the maximum deduction of $4,000 was phased out based on MAGI. The deduction is retroactively extended from January 1, 2015 through December 31, 2016.

Work Opportunity Tax Credit (WOTC): Generally, a business could claim a maximum WOTC of $2,400 for hiring workers from specified disadvantaged groups (higher for certain disabled veterans). The WOTC would be retroactively extended from January 1, 2015 through December 31, 2019.

Mortgage tax breaks: In the past, homeowners could benefit from a tax exclusion for mortgage loan forgiveness on debts of up to $2 million. A separate provision permitted tax deductions for mortgage insurance premiums subject to a phase-out starting at an AGI of $100,000. Both tax breaks would be retroactively extended from January 1, 2015 through December 31, 2016.

Residential energy credits: The residential energy credit has existed in various forms over the years. In the latest reincarnation, a maximum $500 credit was available for 10% of qualified energy-saving expenditures like new heating and air conditioning systems. This credit would be retroactively extended from January 1, 2015 through

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revisions ranging from increased penalties for improperly claiming credits to material changes for tax-free corporate spin-offs.

We will continue to watch this proposed bill as it works its way to the president’s desk. Although some modifications appear inevitable, the legislation is ultimately expected to pass and be promptly signed into law.

Income Tax

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