CPA
Practice Advisor

extending a slew of others for two or more years. Here's a roundup of the key individual, business and miscellaneous provisions in the new measure.

Dec. 21, 2015

President Obama signed the new tax extenders law – the "Protecting Americans from Tax Hikes" (PATH) Act of 2015 – on December 18, almost as soon as the paperwork landed on his desk. The PATH Act makes more than 20 tax breaks permanent in addition to retroactively extending a slew of others for two or more years. In some cases, these include significant modifications. Here's a roundup of the key individual,

American Opportunity Tax Credit (AOTC): The PATH Act makes permanent an enhanced AOTC, with a maximum deduction of $2,500 and phaseout thresholds of $80,000 for single filers and $160,000 for joint filers. It was scheduled to expire after 2017.

Tuition-and-fees deduction: In lieu of one of the two higher education credits, parents may claim a tuition-and-fees deduction, subject to phaseouts based on modified adjusted gross income (MAGI). The deduction is extended through 2016.

Child tax credit: The enhanced child credit, which allows for a refundable portion with a reduced income threshold, is made permanent. This provision was scheduled to expire after 2017.

Charitable distributions from IRAs: The PATH Act permanently extends the provisions allowing tax-free distributions by individuals age 70½ or older directly from their IRAs to qualified charities. The annual limit is $100,000 per taxpayer.

Charitable conservation property: Generally, gifts of property to charity are limited to 35% of adjusted gross income (AGI), but a special provision permits deductions of conservation property of up to 50% of AGI (100% for farmers and ranchers). This provision is now permanent.

Earned income tax credit (EITC): The PATH Act makes permanent certain enhancements in the EITC for lower-income taxpayers. Previously, the enhancements were only available though 2017.

Employee transportation benefits: The tax-free monthly benefit for three transportation benefits – mass transit passes, vanpooling and parking fees – is permanently equalized. The monthly benefit of $250 will be indexed for inflation for 2016 and thereafter.

Educator classroom expenses: Under the PATH Act, the $250 above-the-line

deduction is extended through 2016.

Residential energy credit: The latest version of the residential energy credit, which provides a lifetime credit of up to $500 for 10% of qualified expenses, is extended through 2016.

Business Tax Provisions

Section 179 expensing: The PATH ACT permanently restores the generous maximum expensing deduction of $500,000 for qualified business property with a phaseout threshold of $2 million. (It was scheduled to drop to $25,000 with a $200,000 phaseout threshold.) It will be indexed for inflation for 2016 and thereafter.

Bonus depreciation: Although 50% bonus depreciation for qualified business property is retroactively extended to 2015, it will be reduced to 40% for 2018 and then 30% for 2019. Bonus depreciation will completely expire after 2019 unless it is extended again.

15-year cost recovery: The tax law provision allowing taxpayers to use a straight-line cost recovery period of 15 years for qualified leasehold, restaurant and retail is permanently extended. The usual cost recovery period is 39 years.

Research and development credit: The credit for research and development expenses is made permanent with certain modifications. Notably, the alternative simplified credit is increased from 14% to 20%, while small businesses may be able to offset alternative minimum tax (AMT) liability and start-ups can offset payroll taxes, beginning in 2016.

S corporation changes: The PATH Act makes permanent the five-year recognition period for built-in-gain (BIG) gain following a conversion to S corporation status. It also permanently extends the basis adjustment in stock when an S corporation

minor modifications, through 2019.

New markets tax credit: The PATH Act authorizes allocation of $3.5 billion of new markets credits retroactive to 2015 and through 2019.

Miscellaneous Tax Provisions:

Affordable Care Act (ACA): The PATH Act delays for two years, from 2018 to 2020, imposition of the Cadillac tax on high-priced health insurance plans. It also places a moratorium on the ACA tax on medical devices for two years – 2016 and 2017 – and the health insurance provider fee for one year, 2017.

Section 529 plans: Funds in Section 529 college savings plans may be distributed tax-free for qualified higher education expenses. The PATH Act permanently extends the rule allowing computers and related equipment to be treated as qualified expenses.

Achieving a Better Life Experience (ABLE) Accounts: With an ABLE account, tax-free distributions may be made on behalf of a qualified disabled individual. The PATH Act permits tax-free rollovers from a 529 plan to an ABLE account if certain requirements are met.

Savings Incentive Match Plan for Employees (SIMPLE): The PATH Act generally permits tax-free rollovers from an employer-sponsored qualified plan to a SIMPLE plan.

Taxpayer Bill of Rights: Previously, the IRS had proposed a Taxpayer Bill of Rights, which is now made a permanent part of the tax code.

Real estate investment trusts (REITs): Finally, the PATH Act includes numerous provisions relating to REITs, including changes involving tax-free spinoffs.

Keep in mind that this is just the tip of the iceberg. The PATH Act is 231 pages long