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New Legislation Extends Popular Tax Provisions

In one of its final actions, the 113th Congress passed the Tax Increase Prevention Act of 2014. This legislation extends for one year a host of popular tax provisions (commonly referred to as "tax extenders") that had expired at the end of 2013. The President is expected to sign the legislation. All of the following provisions were among those retroactively extended, and are now effective through the end of 2014.

Deduction for qualified higher-education expenses

You may be entitled to a deduction if you paid qualified higher-education expenses during the year--this includes tuition and fees (for yourself, your spouse, or a dependent) for enrollment in a degree or certificate program at an accredited post-secondary educational institution. The deduction doesn't include payments for meals, lodging, insurance, transportation, or other living expenses. The maximum deduction is generally $4,000. However, if your adjusted gross income (AGI) exceeds $65,000 ($130,000 if married filing jointly), your maximum deduction is limited to $2,000; if your AGI is greater than $80,000 ($160,000 if married filing jointly), you can't claim the deduction at all.

Deduction for classroom expenses paid by educators

If you're an educator, you may be able to claim up to $250 of unreimbursed qualified classroom expenses you paid during the year as an "above-the line" deduction. Qualifying expenses can include the cost of books, most supplies, computer equipment, and supplementary materials used in the classroom. Teachers, instructors, counselors, principals, and aides for kindergarten through grade 12 are eligible, provided a minimum number of hours are worked during the school year.

Deduction for state and local general sales tax

If you itemize deductions on Schedule A of IRS Form 1040, you can elect to deduct state and local general sales taxes in lieu of the deduction for state and local income taxes. You can calculate the total amount of state and local sales taxes paid by accumulating receipts showing general sales taxes paid, or you can use IRS tables. If you use IRS tables to determine your deduction, in addition to the table amounts you can deduct eligible general sales taxes paid on cars, boats, and other specified items.

Tax-free charitable donations from IRAs

If you're age 70½ or older, you can make a qualified charitable distribution (QCD) of up to $100,000 from your IRA and exclude the distribution from your gross income. The distribution must be made directly to a qualified charity by December 31, 2014, and must be a distribution that would otherwise be taxable to you. QCDs count toward satisfying any required minimum distributions (RMDs) that you would otherwise have to receive from your IRA, just as if you had received an actual distribution from the plan. You aren't able to claim a charitable deduction for the QCD on your federal income tax return.

Deduction for mortgage insurance premiums

Premiums paid or accrued for qualified mortgage insurance associated with the acquisition of your main or second home may be treated as deductible qualified residence interest on Schedule A of IRS Form 1040. The amount that would otherwise be allowed as a deduction is reduced if your AGI exceeds $100,000 ($50,000 if married filing separately), and no deduction is allowed if your AGI exceeds $109,000 ($54,500 if married filing separately).

Bonus depreciation

You may be able to claim an additional first-year "bonus" depreciation deduction, equal to 50% of the adjusted basis of qualified property placed in service during the year. The additional first-year depreciation deduction is allowed for both regular tax and the alternative minimum tax. The basis of the property and the regular depreciation allowances in the year the property is placed in service (and later years) are adjusted accordingly.

Expanded IRC Section 179 expensing limits

Under IRC Section 179, if you're a small-business owner you can generally elect to expense the cost of qualifying property, rather than to recover such costs through depreciation deductions. The maximum amount that can be expensed for 2014 now remains at $500,000 (the same limit that applied in 2013), rather than dropping to $25,000 had the legislation not passed. The $500,000 limit is reduced by the amount by which the cost of qualifying property placed in service during the taxable year exceeds $2,000,000.

Exclusion of gain--qualified small-business stock

Generally, you're able to exclude 50% of any capital gain from the sale or exchange of qualified small-business stock provided that certain requirements, including a five-year holding period, are met. However, the temporary increase of the exclusion percentage to 100% that applied in 2013 is now extended to qualified small-business stock issued and acquired in 2014.

Other provisions extended

Other provisions extended by the legislation include:

- The ability to exclude from income the discharge of debt associated with a qualified principal residence
- Provisions related to employer-provided mass-transit benefits
- Special rules for qualified conservation contributions of capital gain real property
- Provisions relating to business tax credits, including the research credit and the work opportunity tax credit

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