

ROBERTS, McKENZIE, MANGAN & CUMMINGS, PC  
NEWS NOTES

**Individual Provisions – The Protecting Americans from  
Tax Hikes Act of 2015**

Congress passed and President Obama, on December 18, signed H.R. 2029, the tax (the “Protecting Americans from Tax Hikes Act of 2015” (PATH Act)) and spending bills (Consolidated Appropriations Act, 2016) to fund the government for its 2016 fiscal year. The tax portion includes a two-year delay on taxing high-cost “Cadillac” health plans, as well extensions to several renewable energy credits and a tax break for oil refiners, with tax extenders language making permanent or extending dozens of expired business and household tax breaks. This News Note is the first of four covering these very important provisions. In this News Note, we review some of the major Individual Provisions of the PATH Act.

**Enhanced Child Tax Credit Made Permanent**

The Child Tax Credit (CTC) allows taxpayers to claim a \$1,000 tax credit for each qualifying child under age 17 that the taxpayer can claim as a dependent. The CTC phases out when taxpayers' income exceeds certain thresholds. To the extent the CTC exceeds the taxpayer's tax liability, the taxpayer is eligible for a refundable credit equal to 15% percent of earned income in excess of a threshold dollar amount. The Act makes the enhanced CTC permanent by setting the threshold dollar amount for purposes of computing the refundable credit at an unindexed \$3,000. This change is effective for tax years beginning after the date of enactment.

**Enhanced American Opportunity Tax Credit Made Permanent**

The Hope Scholarship Credit is a credit of \$1,800 (indexed for inflation) for various tuition and related expenses for the first two years of post-secondary education. It phases out for AGI starting at \$48,000 (if single) and \$96,000 (if married filing jointly), with indexing for inflation. Under pre-Act law, through 2017, the American Opportunity Tax Credit (AOTC; essentially a modified version of the pre-existing Hope credit) increased the above credit to \$2,500 for four years of post-secondary education, and increased the beginning of the phase-out amounts to \$80,000 (single) and \$160,000 (married filing jointly). The Act makes the AOTC permanent.

Finally, for expenses paid after Dec. 31, 2015 for education furnished in academic periods beginning after that date, higher education institutions are required to report (on Form 1098-T) only qualified tuition and related expenses actually paid (rather than choosing between amounts paid and amounts billed, as under current law).

**Enhanced Earned Income Tax Credit Made Permanent**

Certain low- and moderate-income workers may be eligible for a refundable EITC. The amount of the credit depends on the taxpayer's earned income and the number of qualifying children, if any, and is calculated as a percentage of an inflation-adjusted earned income level. Under pre-Act law, through 2017, the EITC amount was temporarily increased (to 45%) for those with three or more children, and the EITC marriage penalty was

reduced by increasing the income phase-out range by \$5,000 (indexed for inflation) for those who are married and filing jointly. The Act makes these provisions permanent.

### **Above-the-Line Deduction for Educator Expenses Made Permanent**

Under pre-Act law, eligible elementary and secondary school teachers could, for tax years beginning before Jan. 1, 2015, claim an above-the-line deduction for up to \$250 per year of expenses paid or incurred for books, certain supplies, computer and other equipment, and supplementary materials used in the classroom. The Act permanently extends the educator expense deduction and, for tax years beginning after Dec. 31, 2015, modifies the deduction by (i) indexing the \$250 amount for inflation, and (ii) treating professional development expenses as expenses eligible for the deduction.

### **Increase in Excluded Employer-Provided Mass Transit and Parking Benefits Made Permanent**

For 2015, an employee could exclude from gross income up to: (1) \$250 per month for qualified parking, and (2) \$130 a month for transit passes and commuter transportation in a commuter highway vehicle (including van pools). However, notwithstanding the applicable statutory limits on the exclusion of qualified transportation fringes (as adjusted for inflation), for any month beginning before Jan. 1, 2015, a parity provision required that the monthly dollar limitation for transit passes and transportation in a commuter highway vehicle had to be applied as if it were the same as the dollar limitation for that month for employer-provided parking (\$250 for 2014). For months after Dec. 31, 2014, the Act permanently extends the maximum monthly exclusion amount for transit passes and van pool benefits so that these transportation benefits match the exclusion for qualified parking benefits. These fringe benefits are excluded from an employee's wages for payroll tax purposes and from gross income for income tax purposes.

### **State and Local Sales Tax Deduction Made Permanent**

Taxpayers who itemize deductions could, for tax years beginning before Jan. 1, 2015, elect to deduct state and local general sales and use taxes instead of state and local income taxes. Under pre-Act law, this choice was unavailable for tax years beginning after Dec. 31, 2014. Effective for tax years beginning after 2014, the Act retroactively revives and makes permanent the option to claim an itemized deduction for State and local general sales taxes in lieu of an itemized deduction for State and local income taxes. The taxpayer may either deduct the actual amount of sales tax paid in the tax year, or alternatively, deduct an amount prescribed by IRS.

### **Liberalized Rules for Qualified Conservation Contributions Made Permanent**

A taxpayer's aggregate qualified conservation contributions (i.e., contributions of appreciated real property for conservation purposes) were, for tax years beginning before Jan. 1, 2015, allowed up to the excess of 50% of the taxpayer's contribution base over the amount of all other allowable charitable contributions (100% for qualified farmers and ranchers), with a 15-year carryover of such contributions in excess of the applicable limitation. Under pre-Act law, these rules didn't apply to any contribution made in a tax year beginning after Dec. 31, 2014, and contributions made thereafter were to be subject to the otherwise applicable 30% limit for capital gain property (50% limit for qualified farmers and ranchers). Effective for contributions made in tax years beginning after Dec. 31, 2014, the Act retroactively revives and permanently extends the charitable deduction for contributions of real property for conservation purposes and the enhanced deduction for certain individual and corporate farmers and ranchers. The Act also modifies the deduction beginning in tax years after

Dec. 31, 2015, to permit Alaska Native Corporations to deduct donations of conservation easements up to 100% of taxable income

### **Nontaxable IRA Transfers to Eligible Charities Made Permanent**

Taxpayers who are age 70½ or older could, in tax years beginning before Jan. 1, 2015, make tax-free distributions to a charity from an Individual Retirement Account (IRA) of up to \$100,000 per year. These distributions weren't subject to the charitable contribution percentage limits since they were neither included in gross income nor claimed as a deduction on the taxpayer's return. Under pre-Act law, these rules didn't apply to distributions made in tax years beginning after Dec. 31, 2014. Effective for distributions made in tax years beginning after Dec. 31, 2014, the Act retroactively revives and permanently extends the ability of individuals at least 70½ years of age to exclude from gross income qualified charitable distributions from IRAs of up to \$100,000 per year.

### **Exclusion for Discharged Home Mortgage Debt Retroactively Extended Through 2016**

Discharge of indebtedness income from qualified principal residence debt, up to a \$2 million limit (\$1 million for married individuals filing separately), was, in tax years beginning before Jan. 1, 2015, excluded from gross income. Under pre-Act law, this exclusion didn't apply to any debt discharged after Dec. 31, 2014. The Act extends this exclusion for *two years* so that it applies to home mortgage debt discharged before Jan. 1, 2017.

### **Mortgage Insurance Premiums as Deductible Qualified Residence Interest Retroactively Extended Through 2016**

Mortgage insurance premiums paid or accrued before Jan. 1, 2015 by a taxpayer in connection with acquisition indebtedness with respect to the taxpayer's qualified residence were treated as deductible qualified residence interest, subject to a phase-out based on the taxpayer's AGI. The amount allowable as a deduction was phased out ratably by 10% for each \$1,000 by which the taxpayer's adjusted gross income exceeded \$100,000 (\$500 and \$50,000, respectively, in the case of a married individual filing a separate return). Thus, the deduction wasn't allowed if the taxpayer's AGI exceeded \$110,000 (\$55,000 in the case of married individual filing a separate return). Under pre-Act law, this provision only applied to premiums paid or accrued before Jan. 1, 2015 (and not properly allocable to any period after that date). Effective for amounts paid or accrued after Dec. 31, 2014, the Act retroactively extends this provision for two years so that a taxpayer can deduct, as qualified residence interest, mortgage insurance premiums paid or accrued before Jan. 1, 2017 (and not properly allocable to any period after 2016).

### **Above-the-Line Deduction for Higher Education Expenses Retroactively Extended Through 2016**

Eligible individuals could, for tax years beginning before Jan. 1, 2015, deduct higher education expenses—i.e., “qualified tuition and related expenses” of the taxpayer, his spouse, or dependents—as an adjustment to gross income to arrive at AGI. The maximum deduction was \$4,000 for an individual whose AGI for the tax year doesn't exceed \$65,000 (\$130,000 in the case of a joint return), or \$2,000 for individuals who don't meet the above AGI limit, but whose AGI doesn't exceed \$80,000 (\$160,000 in the case of a joint return). No deduction was allowed for an individual whose adjusted gross income exceeds the relevant adjusted gross income limitations, for a married individual who does not file a joint return, or for an individual for whom a personal exemption deduction may be claimed by another taxpayer for the tax year. Under pre-Act law, this deduction wasn't available for tax years beginning after Dec. 31, 2014. Effective for tax years beginning after Dec. 31,

2014, the Act retroactively extends through 2016 the above-the-line deduction for qualified tuition and related expenses for higher education.

Please keep in mind that this is only a summary of these new provisions. If you would like to discuss this matter further, please do not hesitate to call.

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