



Congress Enacts Legislation to Restore and Expand Tax Saving Provisions

Client Advisories

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Once again, Congress acted at the eleventh hour to retroactively extend tax breaks that would otherwise have expired at the end of 2014. The name of the Act, "Protecting Americans from Tax Hikes Act of 2015" or more simply referred to as "PATH" makes a number of the provisions permanent, meaning they will not expire at the end of the current year as so often has been the case in prior enactments. Here is the summary of the key provisions affecting individuals and businesses.

IRA Charitable Transfer. This provision applies only to persons who are at least 70½ years of age. It allows IRA owners, 70½ and older, to donate as much as \$100,000 from their traditional IRA accounts to charity. The donation can satisfy part or all of a taxpayer's Required Minimum Distribution. The benefit of this provision is that the amount of the IRA transfer is not treated as taxable income. The non-taxability of the transfer replaces the usual tax deduction of the gift on a Schedule A, Itemized Deduction form. This can be a great advantage for two types of taxpayers. First, those who cannot otherwise benefit from taking the value of the transfer as an itemized deduction. Second, the taxpayer who wants to avoid the additional income from pushing them into a higher income tax bracket or causing other types of income to be taxed at a higher tax rate because of income floors that are breached, such as for taxing social security income, and the net investment income surtax. Excluding the withdrawal from income is generally worth more than having the distribution included in income and then taken as a charitable deduction.

In order to have utilized this benefit for 2015, you must have contacted the charitable recipient and completed the transfer by December 31, 2015. For the 2016 tax year you must complete the transfer by December 31, 2016. The transfer needs to go directly to the charity from the IRA custodian such as the bank or financial institution administering the IRA. Also, there can be no benefit back to the donor from the charity for the contribution. No mugs, subscriptions, or umbrellas can be given as a thank you.

Other provisions that were retroactively enacted and are now permanent include the following:

1. The option to take a deduction for state and local sales tax instead of a deduction for state and local income tax. This generally benefits persons who live in states without an income tax.
2. Mass transit benefit. This increases the amount an employee can exclude from income for employer provided mass transit passes.
3. The American Opportunity Tax Credit. This is an offset of as much as \$2,500 annually for up to four years of post-secondary education. The tax credit is subject to phase outs for higher income individuals and couples.
4. Expanded 529 Benefits. Withdrawals from Code Section 529 educational savings plans will be allowed for purchases of computer equipment and technology costs used by the student.
5. Educator Expense Deductions. Qualifying elementary and secondary school teachers can claim up to a \$250 deduction for expenses paid or incurred for books, certain supplies, and computer and other equipment used in the classroom. It allows the individual to take the deduction on the front of the tax return rather than as an itemized deduction.
6. Child Tax Credit. The law makes permanent the child tax credit for qualifying lower and middle income families.
7. Business Owner Provisions. Business owners are provided with expanded Code Section 179 deductions which allow business owners to deduct costs currently that would otherwise have had to be depreciated over future years. It reinstates the credit for qualified research expenses. It allows for 2015, and extends through 2016, various energy efficiency tax credits.

If you have concerns about a particular tax benefit and need to clarify the current law on the subject, we are here to help. Please contact me, **Kenneth Ahl** in the Philadelphia office at (215) 963-3300 or **Gordon Moore** in the Haddonfield office at (856) 795-2121 and we will be pleased to answer your questions.

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