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Congress Extends Many Tax Breaks for Individuals

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The *Tax Increase Prevention Act of 2014*, which was signed into law on December 19, renewed through 2014 a long list of personal and business federal income tax breaks that had been allowed to expire at the end of 2013. Because Congress habitually allows these breaks to expire before restoring them for a year or two, they are sometimes called "the extenders."

This article provides a quick summary of the personal extenders that were renewed for the 2014 tax year.

Higher Education Tuition Deduction

This write-off, which can be as much as $4,000, or $2,000 for higher-income taxpayers, expired at the end of 2013. The *Tax Increase Prevention Act* extended it through 2014.

Eligible individuals can deduct qualified higher education tuition and related expenses for themselves, their spouses, or dependents to arrive at adjusted gross income (AGI). The maximum deduction is allowed for an individual whose AGI for 2014 doesn't exceed $65,000 ($130,000 for married couples filing jointly). A $2,000 deduction is allowed for individuals who don't meet this AGI limit but whose AGI doesn't exceed $80,000 ($160,000 for joint filers).

Important Note: If your AGI is too high to qualify for the tuition deduction, ask your tax advisor about the American Opportunity Tax Credit. It also has income limitations, but they are higher.

Option to Deduct State and Local Sales and Use Taxes

In recent years, individuals who paid little or no state income taxes were given the option of claiming an itemized deduction for state and local general sales and use taxes instead of an itemized deduction for state and local income taxes. The option expired at the end of 2013. The *Tax Increase Prevention Act* extends it through 2014.

Charitable Donations from IRAs

In recent years, IRA owners who reached age 70 1/2 have been allowed to make tax-free charitable cash donations of up to $100,000 directly out of their IRAs. These donations are called qualified charitable distributions (QCDs). If you are married and your spouse also has one or more IRAs set up in his or her name, your spouse is entitled to a separate $100,000 QCD limit.

While you get no tax deduction for QCDs, they count toward your IRA required minimum distribution (RMD) obligation. Qualified distributions allow charitably inclined seniors with more IRA money than they need for retirement to reduce their income tax bills by arranging for tax-free QCDs to take the place of taxable RMDs. This break expired at the end of 2013, but the *Tax Increase Prevention Act* extended it through 2014.

Parity for Employer-Provided Transit and Parking Benefits

Thanks to the *Tax Increase Prevention Act*, your employer can provide you with up to $250 per month on a tax-free basis this year to cover transit passes. This is the same amount that you can receive on a tax-free basis for parking. For example, you could get up to $250 per month to pay for the park-and-ride, plus up to another $250 to pay for train or subway passes (for a total of $500). Without the new law, the monthly limit on tax-free employer-provided transit passes for 2014 would have been a paltry $130.

Tax-Saving Alternative: If your company doesn't pay for these fringe benefits, it might offer a salary reduction arrangement instead. Under such an arrangement, you could set aside up to $250 per month for transit passes, plus up to another $250 for parking, for a total of $500 per month. If you are in the 25 percent federal income tax bracket and have 7.65 percent of your salary withheld for Social Security and Medicare taxes, you could have saved up to $1,959 in 2014 federal income and employment taxes ($500 times 12 times 32.65 percent).

Tax-Free Treatment for Forgiven Principal Residence Mortgage Debt

For federal income tax purposes, a forgiven debt generally counts as taxable cancellation of debt (COD) income. However, for the last few years, an exception has been available for COD income from canceled mortgage debt that was used to acquire a principal residence.

Under the exception, up to $2 million of COD income from principal residence acquisition debt that was canceled after 2006 has been treated as a tax-free item. The *Tax Increase Prevention Act* extended this break to cover eligible debt cancellations that occur in 2014.

Energy-Efficient Home Improvement Credit

For the last few years, individuals have been allowed to claim a tax credit of up to $500 for certain energy-saving improvements to a principal residence. This break expired at the end of 2013, but the *Tax Increase Prevention Act* extended it through 2014.

Deduction for K-12 Educator Expenses

The new law extended through 2014 the $250 deduction for teachers and other K-12 educators for school-related expenses paid out of their own pockets.

Mortgage Insurance Premium Write-Off

Premiums for qualified mortgage insurance on debt to acquire, construct, or improve a first or second residence can potentially be treated as deductible qualified residence interest. Before the *Tax Increase Prevention Act*, this break was available only for premiums paid through 2013. The new law extended it to cover premiums paid in 2014. However, the deduction is available only for premiums for qualifying policies issued after December 31, 2006, and for premium amounts allocable to periods before 2015. The break is phased out for higher-income taxpayers.

Qualified Conservation Contribution Rules

Liberalized deduction rules for qualified conservation contributions expired at the end of 2013. The *Tax Increase Prevention Act* extended them through 2014. Qualified conservation contributions are charitable donations of real property interests, including remainder interests and easements that restrict the use of real property.

For individuals, the maximum write-off for qualified conservation contributions of long-term capital gains property is increased from the normal 30 percent to 50 percent of AGI. In addition, qualified conservation contributions are not counted when calculating an individual's allowable write-offs for other charitable contributions. Qualified conservation contributions in excess of what can be written off in the year of the donation can be carried forward for 15 years. (Only a five-year carryover period is allowed under the normal rules.)

For an individual who is a qualified farmer or rancher, the qualified conservation contribution write-off for donated farm or ranch real property can be as much as 100 percent of the donor's AGI. However, the donation must include a usage restriction stating that the property must remain available for agricultural or livestock production.

This article only provides the basics of the new tax law for individuals. Consult with your tax advisor about your situation and to learn about the implications of the law on businesses.