EXPIRED TAX PROVISIONS:
Will Relief Arrive in Time to Plan?

Both business and individual taxpayers have struggled in recent years trying to determine if historically significant tax incentives will be available to lower their current-year taxes. A number of tax breaks have been part of last-minute legislation that temporarily extended them. This uncertainty in determining whether or not taxpayers can depend on these incentives to help them lower their current tax bill has been particularly acute in recent years.

In January 2013, extender legislation was passed retroactively reinstating 51 tax incentives to January 1, 2012, and through 2013. In December 2014 Congress again retroactively extended most of those provisions, but only for 2014. **As the end of 2015 rapidly approaches, we still have no clear indication that Congress will once again act to reinstate these tax incentives.**

Expired Individual Tax Incentives

Tax incentives for individuals that expired at the end of 2014 include:

- The above-the-line deduction for certain **expenses of elementary and secondary school teachers,** which allows teachers to deduct up to $250 they spend to buy books, supplies, computer equipment and other materials for use in their classrooms.
- The above-the-line deduction for **qualified tuition and related expenses.**
- The ability of taxpayers at least 70½ years old to distribute up to $100,000 in **qualified charitable contributions from individual retirement plans** without including the distributions in income, but still satisfying their required minimum distributions.
- **Treatment of certain mortgage insurance premiums as qualified residence interest,** which permits a taxpayer whose income is below certain thresholds to deduct the cost of premiums on mortgage insurance purchased in connection with acquisition indebtedness on the taxpayer's principal residence.
- The exclusion from gross income of up to $2 million from **discharge of qualified principal residence indebtedness income.**
- **Deduction for state and local general sales taxes** in lieu of a deduction for state and local income taxes.
- Special rule for **contributions of capital gain real property made for conservation purposes,** which permits them to be deducted up to 50% of a taxpayer's contribution base (100% for qualified farmers and ranchers).
- **Parity between the exclusion for employer-provided mass transit and parking benefits,** making the limit for the monthly tax exclusion for employer-provided transit passes and vanpools the same as the limit for employer-provided parking benefits.

Tax Incentives for Businesses

Tax incentives for businesses that expired at the end of 2014 include:

- **Bonus depreciation,** which provides a depreciation deduction equal to 50% of the adjusted basis of qualifying property in the first year it is placed in service.
- **An expanded definition of Sec. 179 property** to include qualified real property and an increased $500,000 expensing limit and $2 million phase-out threshold.
- **Reduced S corporation recognition period** for built-in gains tax to five years.
- **15-year straight-line cost recovery** is allowed for qualified leasehold improvements, qualified restaurant buildings and improvements, and qualified retail improvements.
- **Exclusion of 100% of gain on certain small business stock** which had reverted to 50%.
- **The new markets tax credit,** which provides tax credits for investments in businesses or real estate in low-income communities.
- **Empowerment zone** tax incentives.

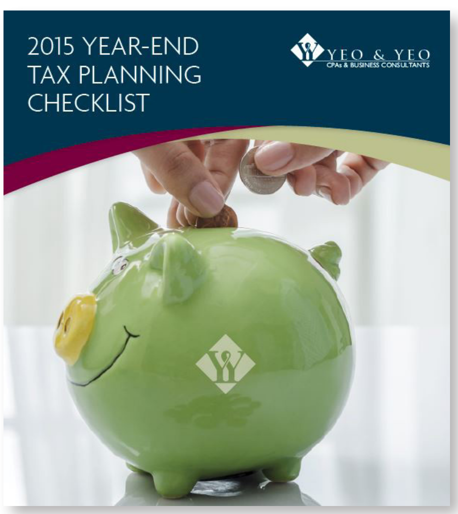
Tax Incentives for Businesses, continued

- **The research and development credit,** which provides a credit of 20% of qualified research expenses over a base amount.
- A temporary **minimum low-income housing tax credit rate** for non-federally subsidized buildings, which allows a 9% minimum low-income housing credit rate for those buildings.
- The employer **wage credit for employees who are active duty members of the uniformed services,** which provides a credit for small business employers for up to 20% of the eligible differential wage payments paid while an eligible employee is serving on active duty.
- The **work opportunity tax credit** equal to 40% of the qualified first-year wages of employees who are members of a targeted group.
- Corporations can elect to **accelerate their alternative minimum tax credit** in lieu of bonus depreciation.
- The qualified **zone academy bonds,** which allows qualified schools to issue bonds for renovations (but not new construction), equipment purchases, teacher training, or developing course materials when they partner with private businesses.
- Businesses can make contributions of "apparently wholesome food" to charities that will use it for the care of the ill, the needy, or infants and take an **above-basis deduction for these contributions of food inventory.**
- **Certain payments to controlling exempt organizations** are modified so they are not treated as unrelated business income.
- S corporation shareholders' ability to adjust their basis in their stock when the S corporation **makes charitable contributions of property using the tax basis in the property instead of its fair market value.**

Energy Tax Incentives

Various energy tax provisions that expired at the end of 2014 include:

- The 10% credit for qualified **nonbusiness energy property.**
- The credit for qualified **fuel cell motor vehicles.**
- The 30% credit for the **cost of alternative (non-hydrogen) fuel vehicle refueling property.**
- Credits for facilities **producing energy from certain renewable resources.**
- The credit for each qualified new **energy-efficient home constructed by an eligible contractor** and acquired by a person from the eligible contractor for use as a residence during the tax year.
- The **energy-efficient commercial buildings deduction.**
- The depreciation allowance equal to 50% of the adjusted basis of qualified **second-generation biofuel plant property.**



THE CHALLENGE: Effective Tax Planning

The fate of the tax incentives listed above, as well as almost two dozen other, more obscure provisions that expired last year, are in the hands of our legislators in Washington. While some bills are pending in Congress, at this time none has gained enough traction to predict approval of extender legislation before December 31, 2015. If history is any guide, when Congress finally acts it will be at the last minute, making effective tax planning extremely difficult.

We invite you to contact us to discuss your particular tax situation. We also will need to stay in close touch in the event Congress revives expired tax breaks, to assure that you don't miss out on any resuscitated tax-saving opportunities.

For additional timely tax information, please refer to Yeo & Yeo's **Year-end Tax Planning Checklist** and our **Tax Guide Online** at **yeoandyeo.com.**

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