

2014 Tax Extenders and ABLE Act

Passed at the last minute by Congress, the **Tax Increase Prevention Act of 2014** extends retroactively for one year (through 2014) a series of popular tax incentives that had expired at the end of 2013. Taxpayers will be able to claim these tax incentives on their 2014 tax returns, filed in 2015. Action to extend beyond 2014 or make permanent these tax incentives will fall to the next Congress.

2014 Individual Tax Extenders

State and Local Sales Tax Deduction

Taxpayers who itemize can deduct state and local general sales taxes in lieu of deducting state and local income taxes. While primarily of benefit to taxpayers in states without state and local income taxes, taxpayers in those states with state and local income taxes may also benefit if they make a big-ticket purchase before the end of 2014. For example, state and local sales taxes paid on the purchase of a motor vehicle may exceed the deduction for state and local income taxes.

Higher Education Deduction

Taxpayers can deduct qualified tuition and fees paid in 2014 for post-secondary education. This is an "above-the-line" deduction, meaning that a taxpayer need not itemize in order to take the higher education deduction. The maximum deduction is \$4,000 for taxpayers with adjusted gross income (AGI) not exceeding \$65,000 (\$130,000 for joint returns), \$2,000 for AGI from \$65,000 to \$80,000 (\$130,000 - \$160,000 for joint returns) and \$0 for all other taxpayers. **NOTE:** Expenses paid by the end of 2014 for an academic term starting on or before March 31, 2015 qualify for the deduction in 2014.

Charitable Distributions from IRAs

Individuals age 70-1/2 and older can continue through 2014 to make a maximum of \$100,000 in tax-free distributions from IRAs to qualified charitable organizations. Amounts in excess of \$100,000 must be included in income, but may be taken as an itemized charitable deduction, subject to the normal AGI annual caps for charitable contributions.

Teachers' Classroom Expense Deduction

Primary and secondary education professionals, including teachers, school administrators and assistants, can deduct qualified expenses up to \$250 paid out-of-pocket during 2014. Substantiation for payment of qualified expenses is a requirement. This is an "above-the-line" deduction, meaning that a taxpayer need not itemize in order to take the teachers' classroom expense deduction. Expenses beyond the \$250 limit may be deducted as an itemized deduction, subject to the overall 2% adjusted gross income floor on miscellaneous itemized deductions.

Mortgage Debt Exclusion

Normally, cancellation of indebtedness, as through foreclosure, a short sale, or a loan modification, is included in income. For 2014, however, cancellation of mortgage debt on a principal residence of up to \$2 million (\$1 million if married filing a separate return) is excluded from income.

Mortgage Insurance Premium Deduction

The treatment of mortgage insurance premiums as deductible interest that is qualified residence interest subject to AGI phaseout is extended through 2014.

2014 Business Tax Extenders

Bonus Depreciation

Bonus depreciation means that business taxpayers can claim an additional first-year depreciation deduction. In this case, 50% bonus depreciation is extended through 2014. Bonus depreciation is claimed in the year that a qualifying asset is placed in service and only new property is eligible for bonus depreciation.

Section 179 Expensing

Extends through 2014 the use of enhanced Section 179 depreciation, allowing business taxpayers to immediately deduct, rather than gradually deduct, the cost of qualified assets, subject to limitations.

Research Tax Credit

The research tax credit, which may be claimed up to specified limits for increases in business-related qualified research expenditures and for increases in payments to universities and other qualified organizations for basic research, has been extended through 2014.

Work Opportunity Tax Credit (WOTC)

The WOTC can be taken by employers that hire military veterans and other qualified individuals who begin work before January 1, 2015. The credit amount is generally equal to 40% of up to \$6,000 in qualified first-year wages.

100% Exclusion for Gain on Small Business Stock

Qualified small business stock acquired before January 1, 2015 and held for more than five years is eligible for a 100% exclusion for gain on the sale or exchange of the stock.

ABLE Act

The Achieving a Better Life Experience (ABLE) Act authorizes states to create an ABLE Program for tax-favored savings accounts for individuals with disabilities for tax years beginning after December 31, 2014.