2015 YEAR END TAX NEWSLETTER

Just before recessing for the Holidays, the House and Senate passed and the President signed the Protecting Americans from Tax Hike Act of 2015 (PATH Act). Unlike recent year-end tax legislations which merely extended a long list of popular tax incentives, the PATH Act made many of these tax breaks permanent. Some of the more popular provisions are listed below.

INDIVIDUALS

1. *State and Local Sales Tax Deduction*

The election to claim an itemized deduction for state and local general sales taxes, in lieu of deducting state and local income taxes, expired after December 31, 2014. The PATH Act makes the election permanent.

This provision is particularly valuable to taxpayers who live in a state without an income tax as well as for taxpayers who make big ticket purchases during the year.

2. *American Opportunity Tax Credit*

The American Opportunity Tax Credit, a popular education tax credit, was made permanent by the Act. The credit provides up to $2,500 to help offset education costs subject to adjusted gross income (AGI) phase-out amounts of $80,000 (single) and $160,000 (married filing jointly).

This credit had been scheduled to expire after 2017 and now gives parents trying to fund college education costs some certainty with respect to the credit.

3. *Teachers' Classroom Expense Deduction*

The PATH Act permanently extends the above-the-line deduction for elementary and secondary school teachers' classroom expenses. It also modifies the deduction by indexing the $250 maximum deduction amount for inflation beginning in 2016. In tax years after 2015, professional development expenses are also now made part of the deduction.

4. *Transit Benefits Parity*

The Act permanently extends parity among transit benefits, including van pool benefits, transit passes and qualified parking.

For tax years beginning in 2016, the inflation-adjusted monthly exclusion amount for transit passes and van pool benefits will increase to $255 (up from $250 in 2015).

5. *Charitable Distributions from IRAs*

The Act permanently extends the provision allowing individuals aged 70 ½ and older to make tax-free distributions from individual retirement accounts (IRAs) to qualified charitable organizations. The cap continues to be $100,000; however, amounts in excess of $100,000 may be claimed as an itemized deduction.

6. *Qualified Conservation Contributions*

A special rule allows contributions of capital gain real property for conservation purposes, with the contribution to be taken against 50 percent of the contribution base. Under the Act, this special rule is permanently extended.

In addition to the provisions being made permanent, the following provisions received a two-year extension retroactive to the beginning of 2015 (and therefore will expire at the end of 2016 unless renewed):

7. *Qualified Tuition/Related-Expenses Deduction*

The Act extends through 2016 the above-the-line deduction for qualified tuition and fees for post-secondary education.

8. *Mortgage Debt Exclusion*

The Act excludes from income cancellation of mortgage debt on a principal residence of up to $2 million ($1 million for a married taxpayer filing a separate return) through 2016.

Without the extension, debt that is forgiven through a foreclosure, short sale or loan modification could be treated as taxable income unless an another exclusion (insolvency) is not available.

9. Mortgage Insurance Premium Deduction

Mortgage insurance premiums are deductible as qualified residence interest subject to AGI phase-out.

10. *Code Sec. 529 Plans*

Under the Act, qualified expenses now include the purchase of computer equipment and technology made with a distribution from a Code Sec. 529 plan. The change for computer equipment and technology applies to tax years beginning after December 31, 2014.

BUSINESSES

The PATH Act also includes many business tax incentives, with some major provisions being made permanent and some extended. Some of these provisions are highlighted below.

1. *Code Sec. 179 Expensing*

The Act permanently sets the Code Sec. 179 expensing limit at $500,000, with a $2 million overall investment limit before phase-out (both amounts indexed for inflation beginning in 2016). The limits had been set to revert back to $25,000 with an investment limit of $200,000.

2. Research Tax Credit

The research and development (R&D) tax credit is available to taxpayers with specified increases in business-related qualified research expenditures and for increases in payments to universities and other qualified organizations for basic research. The Act permanently extends the credit and increases the alternative simplified credit from 14 percent to 20 percent.

Although used primarily by large businesses, the credit is also available to small businesses and could be of especially great value in the technology sector.

3. *100-Percent Gain Exclusion on Qualified Small Business Stock*

The 100-percent exclusion allowed for gain on the sale or exchange of qualified small business stock held for more than five years by non-corporate taxpayers is made permanent.

4. Reduced Recognition Period For S Corporation Built-In Gains Tax

The Act makes permanent the five-year recognition period for built-in gain following conversion from a C to an S corporation.

5. Other Permanent Business Extenders

The Act also extends permanently and in some cases modifies:

- 15-year straight-line cost recovery for qualified leasehold improvements, restaurant property and retail improvements
- Employer wage credit for employees who are active duty members of the uniformed services
- Treatment of certain dividends of regulated investment companies (RICs)
- The subpart F exception for active financing income
- Charitable deductions for the contribution of food inventory
- Tax treatment of certain payments to controlling exempt organizations
- Basis adjustment in stock when an S corporation makes charitable contributions of property
- Minimum low-income housing tax credit for non-federally subsidized buildings
- Military housing allowance exclusion in determining low-income tenants
- RIC qualified investment entity treatment under FIRPTA

6. Bonus Depreciation

The Act extends bonus depreciation (additional first-year depreciation) under a phase-down schedule through 2019:

- at 50 percent for 2015-2017;
- at 40 percent in 2018; and
- at 30 percent in 2019.

ENERGY PROVISIONS

The Act extends many energy provisions for both individuals and businesses.

1. *Code Sec. 25C Credit*

The Act extends through 2016 the Code Sec. 25C residential energy property credit.

Qualified Code Sec. 25C property includes adding insulation, energy efficient exterior windows and energy efficient heating and air conditioning systems. The Act allows a credit of up to 10 percent of qualifying expenses, capped at $500.

2. Production Tax Credit

The FY 2016 omnibus extends the production tax credit (PTC) for wind energy through 2019 but subjects the credit to phase-down.

3. *Solar Incentives*

The FY 2016 omnibus also extends the solar investment tax credit and the credit for qualified residential solar property but subjects the credits to phase-down. Under the omnibus, both credits will not be available after 2021.

4. Energy-Efficient Commercial Buildings Deduction

The Act extends through 2016 the deduction for energy efficient commercial buildings. Additionally, the Act updates the energy efficiency standards.

MASSACHUSETTS

1. *Massachusetts Income Tax Decrease*

The Massachusetts income tax decreased from 5.15 percent to 5.10 percent on both earned income (salaries and wages) and unearned income (interest, dividends, etc.) as of January 1, 2016.

2. *The Real Estate Tax Credit for Taxpayers 65 and Older*

The real estate tax credit for those 65 and older who qualify for the credit was increased from $1,050 to $1,070 and the income threshold increased by $1,000 for single taxpayers to $57,000, heads of household to $71,000 and married couples to $85,000. The maximum assessed value of the homeowners' principal residence was also increased by $2,000 to $693,000.

In order to qualify, the taxpayer's real estate taxes for the year must exceed 10% of the above amounts.