



Protecting Americans from Tax Hikes Act of 2015 (PATH)

Congress finally took action and passed a tax extender bill known as the Protecting Americans from Tax Hikes Act of 2015 (PATH), which was then signed into law in late December. Retroactive to January 1, 2015, many tax provisions were made permanent while others were extended through 2016 or 2019. Here is a summary of some of the tax provisions most likely to affect taxpayers when filing their 2015 tax returns:

Individual Extenders

- **State and Local Sales Taxes**

The state and local sales tax deduction was made permanent by PATH. Taxpayers can deduct either state and local income taxes or sales taxes paid during the year. The sales tax deduction works best for people who live in a state with no income tax or whose sales tax deduction is larger than their state income tax deduction.

- **Teachers' Deduction for Certain Expenses**

Primary and secondary school teachers buying school supplies out-of-pocket may be able to take an above-the-line deduction of up to \$250 for unreimbursed expenses. This deduction was made permanent and will be indexed for inflation after 2015.

- **American Opportunity Tax Credit**

The American Opportunity Tax Credit (AOTC) had previously take those permanent provisions of the Hope Scholarship Credit and increased the credit to \$2,500 for four years of post secondary education (with AGI phase-out). The PATH ACT makes the AOTC permanent.

- **Exclusion of Discharge of Principal Residence Indebtedness**

Typically, forgiven debt is considered taxable income in the eyes of the IRS; however, this tax provision has been extended through 2016, allowing homeowners whose homes have been foreclosed on or subjected to short sale to exclude up to \$2 million of canceled mortgage debt. Also included in this provision are taxpayers seeking debt modification on their home.

- **Mortgage Insurance Premiums**

Mortgage insurance premiums (PMI) are paid by homeowners with less than 20 percent equity in their homes. These premiums were deductible in tax years 2013, 2014, and now, once again in 2015. This deduction was extended through 2016.

- **Distributions from IRAs for Charitable Contributions**

Taxpayers who are age 70 1/2 or older can donate up to \$100,000 in distributions from their IRA to charity. Some people do not want to take the mandatory minimum distributions (which are counted as income) upon reaching this age and instead can contribute it to charity, using it as a strategy to lower income enough to take advantage of other tax provisions with phaseout limits. This deduction was made permanent by PATH.

- **Parity for Mass Transit Fringe Benefits**

This tax extender allows commuters who used mass transit in 2015 to exclude from income (up to \$250 per month), transit benefits paid by their employers such as monthly rail or subway passes, making it on par with parking benefits (also up to \$250 pre-tax). This provision was also made permanent.

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Protecting Americans from Tax Hikes Act of 2015 (PATH), continued

- **Energy Efficient Improvements and Energy Efficient Property Property**

If you made your home more energy efficient or placed in service energy efficient property in 2015, you may be able to claim a tax credit on your 2015 tax return. The credit reduces your taxes as opposed to a deduction that reduces your taxable income. This credit is cumulative, so if you've taken the credit in any tax year since 2006, you will not be able to take the full \$500 tax credit this year.

- **Qualified Tuition and Expenses**

The deduction for qualified tuition and fees was extended through 2016. This is an above-the-line tax deduction, which means that you don't have to itemize your deductions to claim the expense. Taxpayers with income of up to \$130,000 (joint) or \$65,000 (single) can claim a deduction for up to \$4,000 in qualified education expenses. Taxpayers with income over \$130,000 but under \$160,000 (joint) and over \$65,000 but under \$80,000 (single) can take a deduction up to \$2,000; taxpayers with income over those amounts are not eligible for the deduction.

Business Extenders

- **Bonus Depreciation (5 Year Extension)**

The PATH ACT extended 50% Bonus depreciation through 2019 with phase down each year. Bonus depreciation allows taxpayers to claim an additional first-year depreciation deduction for qualified property.

- **Code Sec. 179 Expensing (Permanent Extension)**

Code Sec. 179 allows taxpayers to immediately deduct, rather than gradually depreciate, the cost of qualified assets, subject to certain limitations. The PATH ACT set the Code Sec. 179 dollar limit permanently to \$500,000 (with a \$2 million overall investment limit).

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