

TAX UPDATE: TAX EXTENDER LEGISLATION

Current Status of Tax Legislation, as of December 18th, 2015



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Congress has extended many popular tax provisions that significantly impact individuals and businesses, known as “tax extenders.” On Friday, December 18, 2015, President Obama signed into law the Protecting Americans from Tax Hikes Act of 2015, which had been passed by the Senate earlier in the day and by the House of Representatives earlier in the week.¹ This legislation extends the 50-plus tax provisions that expired at the end of 2014, and comes just before taxpayers and the Internal Revenue Service (the Service) gear up for the 2016 tax filing season. A number of provisions are made permanent, with certain provisions extended temporarily for two and five years, through December 31, 2016, and December 31, 2019, respectively.

The 2015 tax extenders package includes a number of provisions to assist individuals and small businesses. A summary of select provisions extended by the bill is shown in the chart below.

Expired Individual Provisions That Have Now Been Extended Include:

| Provision | Rule as Extended | Duration of Extension |
|---|--|-----------------------|
| Deduction for State and local sales taxes | Makes permanent taxpayers’ option to take an itemized deduction for State and local general sales taxes in lieu of an itemized deduction for State and local income taxes. The taxpayer may either deduct the actual amount of sales tax paid in the tax year, or, alternatively, an amount prescribed by the Service. | Permanent |
| \$250 above-the-line deduction for qualified educator expenses | Makes permanent the \$250 above-the-line tax deduction for teachers and other school professionals for expenses paid or incurred for educator materials used in the classroom, indexes the \$250 cap to inflation and expands the types of eligible expenditures to include professional development. | Permanent |
| Above-the-line deduction for qualified tuition and related expenses | Extends through 2016 the above-the-line tax deduction for qualified tuition and related expenses for higher education of \$4,000 for taxpayers with adjusted gross income (AGI) of \$65,000 or less (\$130,000 for joint filers), or \$2,000 for AGI of \$80,000 (\$160,000 for joint filers) or less. | 2 years through 2016 |
| Deduction for mortgage insurance premiums treated as qualified interest | Extends through 2016 the deductibility of mortgage insurance premiums on a qualified personal residence. This deduction phases out ratably for married taxpayers filing jointly with adjusted gross income of \$100,000 to \$110,000. | 2 years through 2016 |



| Provision | Rule as Extended | Duration of Extension |
|---|---|-----------------------|
| Income exclusion parity for employer-provided mass transit and parking benefits | Makes permanent the increased monthly exclusion for employer-provided transit and vanpool benefits from \$130 to \$250, so that it would be the same as the exclusion for employer-provided parking benefits. The provision adds expenses associated with the use of a bike sharing program to the list of qualifying expenses. | Permanent |
| Income exclusion of up to \$2 million (\$1 million if married filing separately) of discharged principal residence indebtedness | Extends through 2016 the exclusion of up to \$2 million of discharged qualified principal residence indebtedness from gross income (\$1 million if married filing separately), and provides that mortgage debt discharged in 2017 would be eligible for exclusion as long as it was pursuant to an arrangement entered into and evidenced in writing in 2016. | 2 years through 2016 |

Expired Business Provisions That Have Now Been Extended Include:

| Provision | Rule as Extended | Duration of Extension |
|--|---|-----------------------|
| Special treatment of certain dividends of regulated investment companies (RICs) | Makes permanent the pass-through character of interest-related dividends and short-term capital gains dividends issued by RICs to foreign investors. | Permanent |
| Special 100% gain exclusion for qualified small business stock | Makes permanent the 100% exclusion of the gain from the sale of qualifying small business stock by non-corporate taxpayers that is acquired after December 31, 2014, and held for more than five years. This provision also permanently eliminates such gain as an alternative minimum tax preference item. | Permanent |
| Reduced S corporation minimum holding period for avoidance of built-in gains tax | Makes permanent the rule reducing to five years (rather than 10 years) the period for which an S corporation must hold its assets following conversion from a C corporation to avoid the tax on built-in gains. | Permanent |

Expired Charitable Provisions That Have Now Been Extended Include:

| Provision | Rule as Extended | Duration of Extension |
|---|---|------------------------------|
| Income exclusion for direct distributions to qualified charities from certain individual retirement accounts (IRAs) | Makes permanent the income exclusion of up to \$100,000 distributed directly to qualified charities from the IRA of a taxpayer who has reached age 70½. | Permanent |
| Enhanced charitable deduction for contributions of food inventory | Makes permanent the enhanced deduction for charitable contributions of inventory of apparently wholesome food for non-corporate business taxpayers. The provision modifies the deduction by increasing the limitation on deductible contributions of food inventory from 10% to 15% of the taxpayer's adjusted gross income (15% of taxable income in the case of a C corporation) per year. The provision also modifies the deduction to provide special rules for valuing food inventory. | Permanent |
| Basis adjustment to stock of S corporations for charitable contributions of property | Makes permanent the rule providing that a shareholder's basis in the stock of an S corporation is reduced by the shareholder's pro rata share of the adjusted basis of property contributed by the S corporation for charitable purposes. | Permanent |
| Special rules for conservation contributions of appreciated real property | Makes permanent the enhanced charitable deduction for contributions of appreciated capital gain real property for conservation purposes. The provision also extends the enhanced deduction for certain individual and corporate farmers and ranchers. | Permanent |

In planning for 2016 and beyond, it is important to keep pace with the ever-changing tax and wealth planning landscape. As a reminder, every individual's tax situation is unique and should involve advisors familiar with your particular circumstances so that you and your family can better chart the course to a successful New Year.



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¹ PROTECTING AMERICANS FROM TAX HIKES ACT OF 2015, H.R. 2029, 114th Cong. (2015) (enacted).

