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Expired Tax Provisions That May Affect You

By Mike Peterson
214.855.3009 | mpeterson@ccsb.com

While Congress has broken the deadlock and approved a budget after last fall's government shutdown, the recent budget bill did not deal with the so-called "tax extenders." Congress let a package of popular tax breaks expire at the end of 2013. While these tax breaks seem to lapse almost every year, Congress has routinely followed up and approved them retroactively. However, there is some concern in 2014 that they will not be approved. The chairmen of the House Committee on Ways and Means and the Senate Committee on Finance have put off consideration of the tax extenders pending their attempts to enact comprehensive reforms of the federal tax system. Just like the extension of unemployment benefits, the budget compromise left off the tax extenders due to their cost. While many have criticized this approach for leaving taxpayers with a lot of uncertainty and an inability to accomplish tax planning, sometimes compromise has certain positive side effects.

While a number of the tax extenders likely will not affect you, you should be aware of several that could have a significant impact. These are available when filing 2013 taxes, but as of right now will not be available when filing 2014 taxes.

1. **Option to Deduct State and Local Sales Taxes.** In 2013, individuals could choose to claim an itemized deduction for general state and local sales taxes instead of claiming an itemized deduction for state and local income taxes. This option was beneficial for taxpayers in Texas, which has no personal income tax.

2. **Tax-Free Treatment for Homeowner Mortgage Debt Workouts.** Cancelled debts generally count as taxable income. However, a temporary exception applied to cancelled mortgage debt used to acquire a taxpayer's principal residence. Under the expired provision, up to $2 million of such income from debt that was cancelled between 2007 and 2013 was not taxable for federal income tax purposes.

3. **Charitable Donations from IRAs.** Individual retirement account (IRA) owners who had reached age 70 1/2 were allowed to make charitable donations of up to $100,000 directly out of their IRAs in 2013. The donations counted as IRA required minimum distributions and owners were not subject to charitable contribution limits on those gifts.

4. **Deduction for Higher Education Tuition and Related Fees.** In 2013, you could deduct up to $4,000 for qualifying higher education tuition and related fees paid for you, your spouse or your dependents.

5. **$500 Energy-Efficient Home Improvement Credit.** For 2013, taxpayers could claim a tax credit of up to $500 for certain energy-saving improvements to a principal residence.

6. **$250 Deduction for Teachers' School Expenses.** For 2013, teachers and other personnel at K-12 schools could deduct up to $250 of school-related expenses they paid out of their own pockets, whether or not they itemized deductions.

7. **Expanded Section 179 Deductions.** For tax years that began in 2013, eligible businesses (those spending less than $2 million on such purchases) could immediately write off up to $500,000 of certain new and used assets, including most software, certain "heavy" passenger vehicles, non-passenger vehicles, equipment, and up to $250,000 of qualifying real estate improvements. The maximum Section 179 deduction for tax years beginning in 2014 will be only $25,000 and no Section 179 deductions will be permitted for real estate improvements.

8. **15-Year Depreciation for Certain Improvements.** Generally, taxpayers must depreciate non-residential real property on a straight-line basis over 39 years for federal tax purposes. But 15-year straight-line depreciation was allowed for the cost of qualified leasehold improvements, qualified restaurant buildings and improvements, and qualified retail space improvements that were placed in service in 2013 (to the extent other deduction accelerators were not used)

Hopefully we can report in a later issue of this newsletter that some or all of the extenders were renewed retroactively.