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**DECEMBER 23, 2015**

Dear Clients and Friends,

Now that the celebration is over and the confetti has been cleaned up you are probably aware that The *Protecting Americans from Tax Hikes Act of 2015* was signed into law on December 18, 2015. The law renews a long list of tax breaks known as “extenders” that have been expiring on an annual basis. This legislation makes some of the rules effective through December 31, 2016. Others are effective through 2019, and some are effective permanently. Provisions in the *Act* also make changes to existing tax rules that were not part of the extenders.

The timing, as to the passage of the law, provides little opportunity for 2015 tax planning; however, the changes should affect your tax planning in future years. Our software programs are currently being updated for the changes in the law and we will be looking at each of our clients specific situations to determine the impact of the new law on their 2015 taxes as well as in future years.

**Here’s an overview of selected provisions -**

**Businesses:**

**Capital Assets:**

- The maximum Section 179 deduction for qualified business property, including off-the-shelf software, **is now permanently set at \$500,000** (subject to a taxable income limitation). That means you can immediately write off up to \$500,000 of the cost of assets you purchased and placed in service during the year. **The deduction is phased out above a \$2 million threshold.** Both thresholds will be indexed for inflation beginning in 2016.
- **You can treat qualified leasehold improvements, qualified retail improvements, and qualified restaurant property as Section 179 property subject to a first-year write-off limit of \$250,000 for 2015.** Modifications to the definition of certain real property that can be treated as Section 179 property, as well as limitations and the maximum amount available to such property, take effect after 2015. In addition, the thresholds will be indexed for inflation beginning in 2016.
- The additional first-year depreciation deduction, known as “**bonus depreciation**,” is **generally extended through 2019 when you buy qualified business property.** The deduction is subject to a phase-out beginning in 2018 of 10% per calendar year, but

you can deduct up to 50% of the cost of qualified property for 2015 through 2017.  
**You can claim this deduction in conjunction with Section 179.**

**For those businesses that had substantial new investment dollars in capital asset during 2015, the retroactive application of these provisions should be beneficial in lowering your 2015 income tax liability.**

**In January 2016, we will be reviewing your 2015 asset additions and discussing with you your options for 2015 and your planned capital investments in future years.**

#### **EMPLOYEE CREDITS:**

- The work opportunity tax credit is extended for five years (through 2019) when you hire eligible individuals. The credit is also expanded to include qualified long-term unemployment recipients who begin work after December 31, 2015. **After certain payroll expense adjustments, the credit could result in a direct reduction of your income tax liability.**

#### **Individuals:**

- The provision for tax-free distributions from IRAs to charities is now permanent. When you're age 70½ and over, this break lets you make a qualified distribution of up to \$100,000 from your IRA to a charity. The transfer counts as a required minimum distribution and is excluded from your gross income.
- If you're a homeowner, you can exclude mortgage debt cancellation or forgiveness of up to \$2 million for 2015 and 2016. Discharges of qualified mortgage debt can also be excluded after January 1, 2017, if you have a binding written agreement in effect before that date. This tax break is only available for your principal residence.
- If you or a family member is an eligible student, you may be able to claim a tuition and fees above-the-line deduction for qualified higher education expenses for 2015 and 2016. For 2015 tax returns, the maximum deduction is \$4,000 when your adjusted gross income (AGI) does not exceed \$65,000 (\$130,000 for joint filers). The maximum deduction is \$2,000 when your AGI is less than \$80,000 (\$160,000 for joint filers).
- The deduction for up to \$250 of out-of-pocket eligible educator expenses is now permanent. It will be indexed for inflation beginning with 2016 tax returns. You claim this deduction "above the line," meaning it's available even if you don't itemize. If you do itemize, you can also generally claim qualified expenses above \$250 as a deduction subject to a 2% of adjusted gross income limit.
- The optional itemized deduction for state and local sales taxes in lieu of deducting state and local income taxes is now permanent. This deduction is especially beneficial if you live in a state with no income tax. You may also benefit no matter where you live if you pay sales tax on a large ticket item such as an automobile, boat, or RV.

- When you itemize, you can treat mortgage insurance premiums as deductible home mortgage interest in 2015 and 2016. The deduction is subject to phase-out based on adjusted gross income.
- You may be able to claim a credit of 10% of the cost of energy-saving improvements installed in your home in 2015 and 2016, subject to a lifetime credit limit of \$500.



The remaining extenders range from such things as enhanced deductions for donating land for conservation purposes to tax credits for energy-efficient new homes.

The *Protecting Americans from Tax Hikes Act of 2015* also makes changes to 529 college savings plans, such as including the purchase of computers and related services in the definition of qualified higher education expenses.

Because the *Act* was passed so late in the year, it will be important for you to review your 2015 transactions to take advantage of applicable breaks in order to claim them on your 2015 federal income tax return. Also, with the rules now extended through 2016 (and in some cases beyond), you can begin to update your current tax plan with some measure of certainty.

Contact us for more information and for help determining which changes affect you.

**MERRY CHRISTMAS**

Dan Jefferson, Sr. and Staff