NATP
National Association of Tax Professionals

Tax Increase and Prevention Act of 2014
[H.R. 5771]
December 19, 2014

The *Tax Increase Prevention Act* (TIPA) contains two parts. Division A contains over 50 provisions that expired at the end of 2013 that are retroactively extended for one year. Division B, the *Achieving a Better Life Experience Act of 2014* (ABLE) contains provisions for a new type of tax-advantaged savings program to help in meeting the financial needs of disabled individuals and families raising children with disabilities.

Following are the more notable extensions for individuals and businesses. Absent future Congressional action, each of these provisions expire after December 31, 2014.

Individuals

- $250 above the line deduction for educator expenses.
- State and local sale tax deduction.
- $4,000 above the line deduction for qualified tuition and fees for higher education.
- Mortgage insurance premium deduction.
- Charitable distributions from an IRA by individuals age 70½ and older.
- $2 million cancelled mortgage debt exclusion.
- $250/month exclusion for transit benefits.
- Contributions of real property for conservation purposes.
- Nonbusiness residential energy property credit.

Businesses

- $500,000 §179 expense deduction; $2 million investment cap.
- §179 expensing election may be revoked without IRS consent.
- $250,000 expense deduction for qualified leasehold, retail improvements and restaurant property.
- 50% bonus depreciation on new property, $8,000 cap on vehicles for a total of $11,160 ($11,460 for trucks and vans).
- Research credit (20% for qualified research expenses or 14% alternative simplified credit).
- Work Opportunity credit (40% up to $6,000).
- 100% exclusion for gain on qualified small business stock.
- 5-year recognition period for S corporation built in gains tax.
- Classification of certain race horses as 3-year property.
- 7-year recovery period for motorsports entertainment facilities.

- Enhanced deduction for charitable contributions of food inventory.
- New markets tax credit.
- Accelerated depreciation for business property located on an Indian reservation.
- Basis adjustment to stock of S corporations making charitable contributions of property.
- Empowerment zone tax incentives.
- Employer wage credit for employees who are active duty military.

Achieving a Better Life Experience Act of 2014

This new program allows certain individuals to establish a tax-exempt ABLE account to pay for qualified disability-related expenses [§529A(a)]. The account will operate similar to a Qualified Tuition Plan where contributions are made with after tax dollars and earnings accumulate on a tax-deferred basis.

Following are the key features of ABLE accounts:

- Established by individuals or families to support themselves or dependents.
- Accounts are established for eligible individuals who are:
  - Blind or disabled before reaching age 26.
  - Eligible for Supplemental Security Income (SSI) or Social Security Disability Insurance (SSDI).
  - Eligible after a disability certificate is filed with the IRS.
- Each eligible individual is limited to one ABLE account.
- Total annual contributions by all individuals are limited to the gift tax exclusion ($14,000 for 2014 and 2015).
- Aggregate contributions are subject to the state limit for education-related §529 plans.
- ABLE accounts can be rolled over into another ABLE account for the same individual or into an ABLE account for a sibling who is also an eligible individual.
- Distributions are tax-free if used for the benefit of an individual with a disability and related to the disability. Expenses include:
  - Education.
  - Housing.
  - Transportation.
  - Employment support.
  - Health, prevention and wellness costs.
  - Assistive technology and personal support services.
  - Other IRS –approved expenses.
- The portion of non-qualified distributions attributable to earnings are subject to tax and 10% penalty.
- Upon death of an eligible individual, the remaining account balance goes to the deceased's estate or to a designated beneficiary. Earnings are subject to tax but no penalty.
- Contributions by a parent or grandparent of a designated beneficiary are protected in bankruptcy if made 365 days prior to the bankruptcy filing.