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Protecting Americans from Tax Hikes Act of 2015

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On December 18, 2015, President Obama signed the Protecting Americans from Tax Hikes Act of 2015 (or PATH) into law (the “Act”). The Act will end a frustrating cycle for millions of taxpayers who have been forced to wait each year to see if Congress would extend a variety of tax benefits. Over the past few years many such tax benefits, which include deductions for school teachers’ supplies or state sales taxes, have been extended very late in the year and in one case they were not extended until January (which necessitated confusing retroactivity rules).

What follows is a summary of some of the most significant tax deductions and benefits made permanent by the Act:

- **IRA Charitable Transfers**: This provision allows Individual Retirement Account (IRA) owners aged 70½ and older to donate as much as $100,000 of account assets a year directly to one or more charitable organizations, including schools, health care groups or churches. The charitable donations count as part of the IRA owner’s required minimum distribution (RMD), so if the owner’s required payout in 2015 is $25,000 and the owner donates $10,000 of IRA assets to his or her college and church, the owner only has to withdraw $15,000 from the IRA.

  Here’s the benefit: There is no tax deduction for the donated assets, **BUT** they don’t count as income, either. The lower income can help charitably minded donors avoid taxes on Social Security benefits, higher Medicare premiums, higher tax brackets, and surtaxes such as the 3.8% net investment income tax. To qualify for this break, the donation of IRA assets must be to a charity, not a donor-advised fund or grant-making foundation, and the assets must be transferred directly from the IRA custodian, such as a brokerage firm or bank, to the charitable organization. In addition, the law is retroactive to January 2015, so it blesses IRA transfers made earlier this year. All such transfers must be completed by December 31, 2015 in order for such donations to qualify for 2015, **AND** there can be no benefit back to the taxpayer from the charity, such as a dinner or a favor.

- **State and Local Sales-Tax Deduction:** This provision allows taxpayers to deduct sales-tax payments instead of state and local income taxes on their federal income tax return. Although the deduction is available to everyone, it is used mostly by taxpayers that are residents of states without an income tax, such as Florida, Texas, and Washington.

- **Educator-Expense Deduction:** This highly popular write-off allows millions of K-12 teachers, and others who qualify, to deduct as much as $250 of unreimbursed expenses for classroom supplies. The law expands the deduction to include certain professional-development costs and indexes the amount of the deduction for inflation.

- **Mass-Transit Benefits:** This provision gives benefits for employer-provided transit passes and van pools. The changes are intended to provide parity with benefits for employer-provided parking.

- **American Opportunity Tax Credit:** The American Opportunity Tax Credit (AOTC), which is often the best education tax break for many, was scheduled to expire after 2017. It is an offset of as much as $2,500 annually for as many as four years of post-secondary education. The phase-out threshold is as high as $160,000 for married couples filing jointly.

- **Expanded Benefits for 529 Plans:** Withdrawals from 529 education-savings plans will be allowed for purchases of computer equipment and related technology. In addition, certain tuition refunds can be placed back into a 529 plan account, if the transfer is made within sixty (60) days.

As the Act is over 230 pages in length, there are many other tax benefits effecting individual and business taxpayers. Please contact our office if you have any questions about how the PATH Act might affect you and how you might be able to maximize your tax savings.

About the Author: Mr. Fernandez focuses his practice on structuring and implementing estate and tax planning strategies for individuals and closely held businesses. His work includes assisting clients with all of the legal and tax aspects of the administration of decedent's estates. If you have any questions about the Act, please contact Mr. Fernandez (afernandez@wispearl.com) or one of the other attorneys in Wisler Pearlstine's Tax Practice Group.

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