A Closer Look at the PATH Act
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In December, Congress took on the task of addressing a host of tax provisions that had expired or were set to expire at the end of 2015. On Dec. 18, 2015, the Senate passed the Protecting Americans from Tax Hikes Act of 2015 (PATH Act). Unlike in years past, this legislation went beyond simply extending certain tax breaks for a year, but rather extended several of them for at least two years while making over 20 key provisions permanent including the research credit, enhanced Sec. 179 expensing and the American Opportunity Credit. The following provisions represent a select few that were made **permanent** by the PATH Act:

The Child Tax Credit – A partially refundable credit of $1,000 per qualifying child subject to phase out above certain income limits.

American Opportunity Tax Credit – A credit of up to $2,500 per year for four years of post-secondary education subject to phase out above certain income limits.

Deduction for certain expenses of elementary and secondary school teachers – An above-the-line deduction for eligible expenses of school teachers of $250 indexed for inflation.

Deduction of state and local sales tax – Gives individuals the option to claim an itemized deduction for state and local sales tax in lieu of an itemized deduction for state and local income taxes. The taxpayer may deduct the actual amount of sales tax paid in the year or deduct an amount from the IRS table based on their state and local tax rate.

Tax-free distributions from IRAs for charitable purposes – Allows individuals who are at least 70 ½ years old to exclude from gross income qualified charitable distributions from IRAs, not to exceed $100,000 per taxpayer per year.

Section 179 Expense – Extends the Sec. 179 expense limit to $500,000. Prior to passage, the limit was set to return to $25,000.

Gain Exclusion on small business stock – Non-corporate taxpayers may exclude 100 percent of the gain on disposition of certain small business stock acquired and held for more than five years. The gain is also excluded from alternative minimum tax (AMT).

One provision that was not made permanent, but extended through 2019, is Bonus Depreciation. Bonus Depreciation allows a taxpayer to immediately deduct 50 percent of the cost of new assets placed in service. Under the new law, 50 percent bonus will be in place for 2015, 2016 and 2017. In 2018, it phases down to 40 percent and in 2019 it will be phased down again to 30 percent.

The remainder of the provisions were extended through 2016. Some of those include:

> **Mortgage Insurance Premiums Deduction** – Qualified mortgage insurance premiums will be treated as mortgage interest and deducted as an itemized deduction.
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> **Exclusion from gross income of discharge of principal residence indebtedness -** Any cancellation of debt income related to the discharge of qualified principal residence will be excluded from the taxpayer's return.
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> **Deduction for tuition and related expenses** – An above-the-line deduction is allowed for tuition and related higher education expenses up to $4,000.

One new provision in the law allows taxpayers to rollover amounts from an employer-sponsored retirement plan, such as a 401(k), to a SIMPLE IRA, provided the plan has existed for at least two years.

These are just a few of the most relevant provisions included in the PATH act. There are dozens more affecting individuals, small businesses and large corporations.

Source:

Protecting Americans from Tax Hikes Act of 2015: http://waysandmeans.house.gov/wp-content/uploads/2015/12/SECTION-BY-SECTION-SUMMARY-OF-THE-PROPOSED-PATH-ACT.pdf

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