Congress Gives Americans Tax Gift for Christmas

BY LAURA SAUNDERS, MARKETWATCH - 7:54 PM ET 12/18/2015

US ECONOMY

Congress's Christmas-tree tax bill contains surprising presents: permanent extensions of tax benefits for individuals that have long been temporary. The Protecting Americans from Tax Hikes Act of 2015, or PATH, has been passed by both the House and Senate and is expected to be signed into law by President Barack Obama.

The bill will end a frustrating cycle for millions of taxpayers. In the past, lawmakers have enacted popular temporary provisions, such as deductions for schoolteachers' supplies or state sales taxes, and then left taxpayers hanging until the last minute as to whether the provisions would be renewed.

For example, the provision allowing IRA charitable transfers (http://www.wsj.com/articles/congress-poised-to-make-tax- break-for-ira-charitable-transfers-permanent-1450285437)--a highly popular measure that helps charities and lowers taxes for many older Americans--has been renewed five times since 2006, with four of them coming after Thanksgiving. The nadir was 2012, when the break wasn't re-enacted until early in 2013, and many donors were confused by rules for making retroactive 2012 gifts.

The bill doesn't permanently extend all popular breaks. Tax relief for mortgage-debt forgiveness, "bonus" depreciation, and a credit for alternative-fuel vehicles expire in 2016.

Here are notable benefits slated to become permanent:

IRA charitable transfers. This provision allows IRA owners 70 1/2 and older to donate as much as $100,000 of account assets a year directly to one or more charities, such as schools, health care groups or churches. The donations count as part of the IRA owner's required annual withdrawal--so if the owner's required payout is $25,000 in 2015 and she donates $10,000 of IRA assets to her college and church, she only has to withdraw $15,000 from the IRA.

Here's the benefit: There's 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 charity. The law is retroactive to January, so it blesses IRA transfers made earlier this year. Gifts for 2015 must be made by the year-end.

In addition, there can be no benefit back to the taxpayer from the charity, such as a dinner or a favor. "Don't let a $25 tote bag cost you thousands of dollars in tax benefits," says Ed Slott, a CPA and IRA expert in Rockville Centre, New York.

State and local sales-tax deduction. This provision allows taxpayers to deduct sales-tax payments instead of state and local income taxes on the federal return. Although the deduction is available to all, it is used mostly by 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 provision to include professional-development costs and indexes it for inflation.

Mass-transit benefits. This provision gives benefits for employer-provided transit passes and van pools. It's intended to provide parity with benefits for employer-provided parking.

American Opportunity tax credit. This benefit, 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 postsecondary education. The phaseout threshold is as high as $160,000 for married couples filing jointly.

529 plan expanded benefits. Withdrawals from 529 education-savings plans will be allowed for purchases of computer equipment and technology. In addition, certain tuition refunds can be put back into the 529 plan, if the transfer is made within 60 days.

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