# Recent Changes to 2015 Tax Law

This document summarizes recent 2015 tax law changes that Tax-Aide Counselors should be aware of as they prepare for the 2016 filing season:

I. The Protecting Americans from Tax Hikes Act of 2015 which extends several expired provisions

II. IRS Notice 2015-82 which increases the de minimis safe harbor limit for self-employed taxpayers without an Applicable Financial Statement

III. IRS Notice 2016-2 which gives details about the reinstated Health Coverage Tax Credit

Each state with a state or local income tax should determine the effects of these federal tax law changes to their state or local returns.

## I. The Protecting Americans from Tax Hikes Act of 2015

This act reinstitutes several tax provisions for individuals – some permanently and some for two years through 2016. There are also a number of other tax provisions in the bill.

- **Permanent Extensions**
  - Deduction of expenses incurred by K – 12 educators as an adjustment to income. The provision indexes the $250 maximum deduction amount for inflation and provides that expenses for professional development also be considered eligible expenses for purposes of the deduction for years after 2015.
  - Deduction for state and local sales taxes on Schedule A in lieu of state and local income taxes
  - Exclusion of otherwise taxable traditional or Roth IRA distributions from gross income to the extent they are qualified charitable distributions. The exclusion may not exceed $100,000 per taxpayer per taxable year. The distribution applies to the taxpayer's required minimum distribution.

- **Extensions Through 2016**
  - Exclusion from gross income of discharges of acquisition indebtedness on principal residences. Notes:
    - State Coordinators will decide if this is in scope for their state.
    - If so, Counselors who have passed the Advanced test may self-train and self-certify on this topic. The tax year 2015 Pub 4491 has the training material, there is still a 2014 Link & Learn module available on-line and the 2014 version of Pub 5182 (on OneSupport) contains the training material and test and retest questions.
    - LCs must be aware of their Counselors who have completed this training and ensure that at least two are at their site to prepare and QR returns.

- Deduction of qualified mortgage insurance premiums on Schedule A
- Deduction of qualified tuition and related expenses as an adjustment to income
- 10-percent credit for the purchase of qualified energy efficiency improvements to existing main homes reported on Form 5695 Part II
- The 10% credits for the purchase of electric motorcycles and fuel cell vehicles are extended, but remain out of scope.

- **Program Integrity**
  - Retroactive claims are no longer allowed for earned income credit (EIC), child tax credit (CTC) or American Opportunity Tax Credit (AOC) for any taxable year for which the taxpayer has a taxpayer identification number that has been issued after the due date for filing the return for such taxable year. That is, a taxpayer who files a return with an ITIN and later receives a SSN may not amend prior year return to claim EIC or amend a prior year return to claim CTC or AOC for a dependent who later received an ITIN or SSN.
  - The educational institution's employer identification number (EIN) is required to claim the American Opportunity Tax Credit after December 31, 2015.
  - Higher education information reporting changed to include qualified tuition and related expenses actually paid rather than amounts billed after December 31, 2015.
  - The 10-year disallowance rules for EIC in the case of fraud (2-year if due to neglect) are expanded to CTC and AOC after 2015.

- **Miscellaneous Provisions**
  - Payments from a comprehensive student work-learning-service program operated by a work college that requires resident students to participate in a work-learning-service program that is an integral and stated part of the institution's educational philosophy and program are exempt from gross income.
  - Payments to certain wrongfully incarcerated individuals are excluded from gross income.
  - For 2015, a separation from service exception to the 10% additional tax on early distributions applies to distributions from a governmental defined-benefit pension plan if the employee separates from service after age 50 (rather than age 55) and the employee is a qualified public safety officer (PSO). A PSO is defined as someone who provides police protection, firefighting services or emergency medical services and). As of 2016, the PSO definition is changed to also include Federal law enforcement officers, Federal customs and border protection officers, Federal firefighters, and air traffic controllers, nuclear materials couriers, members of the United States Capitol Police, members of the Supreme Court police and diplomatic security special agents of the United States Department of State. In addition, the special rule was extended to distributions from governmental defined-contribution plans.

- Section 529 program rules were modified to include the purchase of computer or peripheral equipment, computer software, or Internet access and related services if the equipment, software or services are to be used primarily by the beneficiary during any of the years the beneficiary is enrolled at an eligible education institution. Changes are also made on how to calculate the taxable distributions or re-contributed distributions to avoid any tax on the distribution.
- Modification to qualified ABLE programs that eliminates the requirement that ABLE accounts may be established only in the state of residence of the ABLE account owner. Additionally, amounts from qualified tuition programs (also known as 529 accounts) may be rolled over to an ABLE account without penalty.

## II. *Safe Harbor Limit* for Self-Employed Taxpayers

IRS Notice 2015-82 increases the de minimis safe harbor limit for expensing tangible property used for business purposes (not including land, parts of a building or inventory) on Schedule C from $500 to $2,500 per invoice (or per item on an invoice) for tax year 2016. The safe harbor applies to amounts spent to acquire, produce or improve tangible property that would normally qualify as a capital item. As a result, small businesses will be able to implement accounting procedures to immediately deduct many expenditures that would otherwise need to be spread over a period of years through annual depreciation deductions. The change affects businesses that do not maintain an applicable financial statement (audited financial statement). The safe harbor requires that the deduction policy be in place before the start of the tax year and that it cannot be changed during the year. Although the notice states the IRS may not audit taxpayers who expense items up to $2,500 in 2015, the $500 limit applies to Tax-Aide prepared returns to be in compliance with the notice as written.

To elect to use this safe harbor amount, a statement must be attached to the original timely-filed tax return. In TaxWise, add an Election Explanations form, enter “Section 1.263(a)-1(f) de minimis safe harbor election” in the first line and include the taxpayer's name, address, taxpayer identification number, and a statement that the taxpayer is making the de minimis safe harbor election under §1.263(a)-1(f) in subsequent lines.

## III. Health Coverage Tax Credit

The Health Coverage Tax Credit (HCTC), reinstated in mid-2015 retroactively for 2014 and through 2019 continues to be out of scope for Tax-Aide. Taxpayers should be referred to a paid preparer if they state that they are eligible for HCTC or that they received a letter from the Department of Labor, a state workforce agency or employment office, or the Pension Benefit Guaranty Corporation about benefits that qualify for the HCTC. Counselors are not otherwise required to determine if a taxpayer may be eligible for HCTC.