Temporary Tax Provisions Set to Expire in 2014

Some may be renewed, others may not be.

Provided by IWM Partners

At the end of every year, certain federal tax breaks face a sunset. Some are renewed, some expire. As 2014 will soon start, here is a list of some of notable tax provisions that may go away next year – offering some opportunities that you may want to take advantage of this year.

Qualified tuition deduction. For 2013, an individual taxpayer has the chance to claim an above-the-line deduction for tuition and fees. This applies only to qualified higher education expenses. This deduction is set to expire at the end of this year; it may or may not be extended.[1,2]

Mortgage insurance premiums deductions. Are you paying for private mortgage insurance (PMI)? This year, you can treat qualified PMI premiums as home mortgage interest, but the deduction only applies if your adjusted gross income is no greater than $109,000. This tax break could go away in 2014; it is available only for mortgages entered into during 2007-13.[1,3,4]

Mortgage debt relief. In 2013, canceled mortgage debt of up to $2 million (or $1 million, in the case of married taxpayers filing separately) can be excluded from taxable income. The debt must be forgiven on a qualified principal residence (i.e., a taxpayer's primary home) due to the borrowers' financial condition or a decline in value of the residence. You can thank the Mortgage Debt Relief Act of 2007 for this. The tax break is set to sunset at the end of 2013, though – and if it does, then any such debt forgiven next year will be taxable income.[2,5]

State & local general sales tax deduction. 2013 might be the last year individual taxpayers can choose to deduct state and local general sales taxes as opposed to state and local income taxes. This option is set to expire at the end of the year.[1]

Educator out-of-pocket expenses deduction. Classroom teachers/instructors, counselors, principals and aides who work in grades K-12 have enjoyed a special deduction of up to $250 in out-of-pocket costs above the line in 2013. As for 2014, this deduction is still a question mark.[1]

Qualified charitable distributions from an IRA. If you are over 70½, you have through December 31 to make a tax-free transfer of assets from an IRA directly to a qualified charity. While you can't deduct the amount as a charitable contribution, it does count toward your annual required minimum distribution (RMD). Will this option be extended into 2014, or be made permanent? No one knows just yet.[1]

Increased expensing & bonus depreciation allowances. This year, the Section 179 deduction is set at $500,000 while the qualifying property limit is $2 million. In 2014, these limits are slated to drop dramatically: a Section 179 deduction of $25,000, a qualifying property limit of $200,000. In 2013 you can expense off-the-shelf software under Section 179; not so in 2014.

This year, you can amend or irrevocably revoke a Section 179 election; next year, a Section 179 election will generally be irrevocable with IRS consent. While you can claim the Section 179 deduction on up to $250,000 of qualified real property this year, 2014 may offer you no such chance. For 2013, qualified leasehold and retail improvements and qualified restaurant property were given a 15-year straight-line recovery period; in 2014 the straight-line recovery period becomes 39 years. Congress may act to preserve all these current allowances.[1,2]

Currently, 50% special depreciation is permitted for qualified property additions placed into service in 2013, only long production-period property and certain kinds of aircraft will are slated to qualify to special depreciation in 2014. Again, Congress may preserve the current allowance.[2]

Electric vehicle credit. If you bought (or even leased) an electric car this year, you may be eligible for a tax credit of up to $7,500 (variable based on the size of the battery pack used by the vehicle). This tax perk is set to sunset in 2014. If you bought a qualifying 2-wheel or 3-wheel plug-in electric vehicle this year, you are eligible for a federal tax credit of up to $2,500.[2,3]

Personal energy property credit. Since 2006, there has been a $500 lifetime tax credit available to taxpayers who remodel their homes for energy efficiency. If you haven't remodeled enough to claim the full $500 credit yet, a heads-up: it is set to expire at year's end.[1,3]

R&D tax credit. This credit is admittedly hard to figure, but it can bring about major savings and can be carried forward or back. Up to 20% of R&D expenses (above a base) may generally be used as a credit against tax owed. Who knows, it may not be around for 2014.[6]

Transit benefits. In 2013, the exclusion for transit passes and/or vanpooling, provided by an employer, is $245 monthly; this is the same as the exclusion for employer-provided parking. Next year, the benefit for public transportation falls to $100 per month (with adjustment for inflation) while the exclusion for employer-provided parking stays at $245 per month.[2,3]

One more thing to keep in mind. The IRS will delay the start of the tax-filing season by at least a week, a consequence of October's federal government shutdown. It had planned to accept tax returns on January 21; that date will now be January 28 or later, with the final determination coming in December. The April 15 deadline for filing returns or requesting extensions still applies.[7]

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