# Supplement to J. K. Lasser’s 1,001 Deductions and Tax Breaks 2015

###### By Barbara Weltman

Since the publication of the book, Congress has taken action that impacts your 2014 returns. In addition, there have been court cases and IRS pronouncements that also affect your 2014 returns as well as taxes for 2015.

Here are the key developments, some of which can apply to your 2014 return while others impact your 2015 withholding and estimated taxes. The changes presented in this Supplement are tied to the chapters in the book.

## Introduction

***Above-the-line deductions extended.*** The above-the-line deductions for educator expenses of up to $250 and tuition and fees which had expired at the end of 2013 have been extended retroactively for 2014. The fate of these rules for 2015 is not yet known.

***Standard deduction amounts.*** The basic standard deduction amounts for 2015 have been increased for all filing statuses:

* Married filing jointly and surviving spouses: $12,600
* Heads of households: $9,250
* Singles and married filing separately: $6,300

*Additional standard deduction amounts.*For 2015, the additional standard deduction amount for age and/or blindness remains unchanged at $1,550 for single filers and heads of households, but for married filers (filing jointly or separately) and surviving spouses, it has increased to $1,250.

***Overall limit on itemized deductions.*** High-income taxpayers lose a portion of their itemized deductions due to a phase-out. For 2015, the phase-out begins when adjusted gross income exceeds $258,250 for singles, $284,050 for heads of households, $309,900 for married filing jointly and surviving spouses, and $154,950 for married filing separately.

## Chapter 1—Your Family

***Personal and dependency exemptions.*** The exemption amount has increased for 2015 to $4,000. Exemptions are phased out in 2015 beginning at the same threshold as shown in the *Introduction* above for the itemized deduction phase-out.

***Earned income credit.*** The earned income credit amounts, including adjusted gross income limits, have been increased for 2015.

***Adoption credit.*** The adoption credit limit for 2015 increases to $13,400. The modified adjusted gross income limits on eligibility for the credit have also been increased for 2015.

 Claiming the credit for a special needs child requires a determination by the state of the child’s status. A taxpayer cannot make this call on his/her own.

## Chapter 2—Medical Expenses

***Premium tax credit.*** This refundable tax credit is designed to help individuals pay for the cost of mandated health coverage for themselves and their dependents; the credit applies in 2014 and future years. The U.S. Supreme Court will decide by the end of June 2015 whether the credit can be claimed for coverage obtained through the federal marketplace or is limited to coverage from a state-run exchange. Oral arguments on this issue are set for March 4, 2015. What Congress or the states will do if the Court decides that the credit is restricted to coverage through a state exchange is unclear.

***Individual health care mandate for 2015.*** Individuals who fail to maintain minimum essential health coverage can be subject to a tax penalty in 2015. The penalty amount for 2015 is increased to the lesser of 2% of your household income or $325 per adult ($162.50 per dependent under age 18) in your household. However, the penalty continues to be capped at the national average premium for a bronze plan, which is $207 per individual (up from $204 per individual in 2014).

***Itemized medical expenses.*** For 2015, the rate for medical driving is 23 cents per mile (a half penny less than in 2014).

***Long-term care coverage.*** The portion of long-term care insurance premiums that are treated as a deductible medical expense has increased slightly in 2015 for each age group.

***Flexible spending arrangements (FSAs).*** In 2015, the maximum salary contribution to an FSA is capped at $2,550 (up from $2,500 in 2014).

***Health savings accounts and Archer medical savings accounts.*** The contribution limits for HSAs and MSAs in 2015 have been increased slightly.

***Accelerated death benefits.*** For chronically ill individuals, the daily dollar limit excludable from gross income for 2015 is $330 (the same exclusion amount as in 2014); excess amounts are taxable to the extent they exceed actual long-term care costs.

***ABLE accounts.*** There is a new type of savings plan, created by the Achieving a Better Life Experience (ABLE) Act, which is designed to help pay certain costs of a person who is disabled. ABLE accounts are similar to 529 education savings plans, but here the beneficiary must be an individual entitled to benefits based on blindness or disability under the Social Security Act, where such disability occurred before the age of 26, or the person has a disability certification on file with the IRS (the details of this are yet to be released). While contributions are not tax deductible, withdrawals to pay qualified expenses are fully tax free. Qualified expenses include costs for health, education, transportation, housing, assistive technology, legal fees, burial expenses, and any IRS-approved expenses. Nonqualified distributions are taxed using the rules applied for commercial annuities (i.e., part of each such distribution is taxable and part is tax free), and are subject to a 10% penalty. States set up these plans for their residents, so check with your state for details.

## Chapter 3—Education Costs

***American opportunity credit.*** There is no modified adjusted gross income limit change in 2015 for eligibility to claim the credit

***Lifetime learning credit.*** The modified adjusted gross income limits on eligibility to claim the credit have been increased slightly for 2015.

***Tuition and fees deduction.*** The above-the-line deduction for tuition and fees of up to $4,000 has been extended retroactively for 2014. The fate of this rule for 2015 is not yet known.

***Student loan interest.*** There is no modified adjusted gross income limit change in 2015 for eligibility to claim the deduction.

***Interest on U.S. savings bonds.*** The modified adjusted gross income limits on eligibility to claim the exclusion for interest on bonds redeemed to pay qualified higher education costs have been increased for 2015.

***ABLE accounts.*** See Chapter 2.

## Chapter 4—Your Home

***Mortgage insurance.*** The ability to treat mortgage interest as deductible mortgage interest has been extended retroactively for 2014. The fate of this rule for 2015 is not yet known.

 A homeowner who receives a loan modification that includes past-due interest cannot deduct the accrued interest until it is actually paid; the loan modification itself does not give rise to the interest deduction.

***Cancellation of mortgage debt.*** The exclusion for income resulting from the cancellation of debt up to $2 million on a principal residence has been extended retroactively for 2014. The fate of this rule for 2015 is not yet known.

***Moving expenses.*** Use of a vehicle for deductible moving purposes in 2015 is figured at the rate of 23 cents per mile (a half penny less than in 2014).

***Energy improvements.*** The residential energy property credit for making certain improvements, such as adding insulation or installing energy-efficient windows and exterior doors, has been extended retroactively for 2014. The fate of this rule for 2015 is not yet known.

***Parsonage allowance.*** Members of the clergy can exclude from income any housing allowance they receive. There had been a court challenge to the constitutionality of this rule. However, a federal appeals court dismissed the challenge for lack of standing (the people who brought the case had not tried to claimed the exclusion and been denied). Thus, the parsonage allowance is still available at this time.

***ABLE accounts.*** See Chapter 2.

## Chapter 5—Retirement Savings

***Traditional IRAs and Roth IRAs.*** The modified adjusted gross income (MAGI) limits on eligibility to make contributions have increased for 2015. There is no change to the basic contribution limit of $5,500 or to the additional “catch-up” contribution limit of $1,000 for those who are at least 50 years old by the end of 2015.

 The one-rollover-per-year rule limits rollovers to one per taxpayer starting in 2015 (technically, the one-year rule means within a 12-month period). This applies to rollovers from a traditional or Roth IRA; it does not apply to conversions from a traditional to a Roth IRA or direct trustee-to-trustee transfers.

 ***Correction:* In the example following Table 5.1, $64,000 should be $65,000, and $69,000 should be $70,000.**

***401(k) and similar plans.*** The 2015 elective deferral contribution limit and the additional contribution limit for those age 50 or older by the end of the year have been increased to $18,000 and $6,000, respectively.

***Self-employed retirement plans.*** Contribution, benefit, and other limits for these plans have been increased for 2015.

***Simplified Employee Pension plans (SEPs).*** Contribution limits for these plans have been increased for 2015. Also increased is the earnings threshold for including an employee in a SEP.

***Savings Incentive Match Plans for Employees (SIMPLEs).*** The 2015 contribution limit for SIMPLEs of and the additional contribution limit for those age 50 or older by the end of the year are increased to $12,500 and $3,000 respectively.

***Retirement saver’s credit.*** The MAGI limits on eligibility to claim the retirement saver’s credit for contributions to IRAs, 401(k)s, and similar plans have been increased for 2015.

***Charitable transfers of IRA distributions.*** The rule allowing those age 701/2 and older to transfer up to $100,000 of IRA funds directly to a public charity on a tax-free basis has been retroactively extended for 2014. The fate of this rule for 2015 is not yet known.

***Canadian retirement plans.*** A Canada-U.S. income tax treaty has for many years allowed income accruing in Canadian registered retirement savings plans (RRSPs) and registered retirement income funds (RRIFs) to be deferred until income is actually distributed (in the same way as income in IRAs and 401(k) plans is treated). However, previously deferral was permissible only if a taxpayer made an irrevocable election by checking a box on IRS Form 8891 and attaching it to his or her Form 1040. Now deferral is automatic for U.S. citizens and resident aliens, including anyone who failed to previously make an election.

***Chapter 6—Charitable Giving***

***Real estate donated for conservation purposes.*** The favorable percentage limitations on donations of realty for conservation purposes (50% of the contribution base, or 100% for farmers and ranchers) have been extended retroactively for 2014. The fate of this rule for 2015 is not yet known.

***IRA transfers to charity.*** See Chapter 5.

***Leave-based donations to Ebola victims.*** Some employers allow employees to contribute unused vacation, sick, or personal days to a leave donation program. Employees who participate and who opt to use their unused leave time to benefit victims of Ebola are not taxed on this contribution. However, employees cannot claim any charitable deduction (employers who donate the funds to a charity benefiting victims in Guinea, Liberia, and Sierra Leone before January 1, 2016, can claim a deduction).

## Chapter 7—Your Car

***Business use of your personal car.*** The IRS announced the standard mileage rate, used in lieu of deducting the actual costs of business driving, in 2015 is 57.5¢ per mile (a penny and a half more than in 2014).

The dollar limits on depreciating passenger cars, trucks, and vans placed in service in 2015, which applies when the standard mileage rate is not used, are the same as in 2014 with this exception: the second-year limit for trucks and vans is $5,600 (up from $5,500 in 2014). However, the fate of the $8,000 additional dollar limit for the first-year limit for vehicles qualifying for bonus depreciation is not yet known (the $8,000 allowance has been extended retroactively for 2014)i.

***Electric vehicles.*** The credit for qualified 2- and 3-wheel vehicles expired at the end of 2013 and was *not* extended for 2014.

## Chapter 8—Investing

***Capital gains and qualifying dividends.* Correction in the *Pitfalls:* $39,600 should be $36,900.**

***Gain on the sale of small business stock.*** The exclusion on gain from the sale of qualified stock acquired after 2013 was set to revert to 50% (instead of the 100% exclusion for qualified stock acquired in 2013), but the 100% exclusion has been extended retroactively for stock acquired in 2014. The fate of this rule for stock acquired after 2014 is not yet known.

***Gain on empowerment zone assets.*** The rollover of gain from empowerment zone assets has been extended retroactively for 2014. The fate of this rule for 2015 is not yet known.

## Chapter 9—Travel

***Business travel per diem rates.*** The maximum federal per diem rate for travel starting October 1, 2014, through September 30, 2015, covering lodging and meals and incidental expenses (M&IE) within the continental United States (CONUS) in most locations is $129 per day ($83 for lodging and $46 for M&IE). A number of the rates to certain areas and/or for certain periods of the year have changed. These rates can be found at [www.gsa.gov](http://www.gsa.gov) (click on “Per Diem Rates”).

The high-low substantiation rates for high-cost and all other areas within CONUS for the period October 1, 2014, through September 30, 2015, are slightly higher than those for the previous 12-month period. The rates are $259 for travel to high-cost localities and $172 for travel to all other areas within CONUS. Of these rates, the meal portion is $65 for high-cost areas and $52 for all other areas within CONUS (these amounts are unchanged). Note that the list of the high-cost list has changed (see Notice 2014-57).

***Driving your car for medical or moving purposes.*** The IRS standard mileage rate for 2015 is 23 cents per mile.

## Chapter 10—Entertainment

***Standard meal allowance.*** The rates are set for the government’s fiscal year beginning October 1, 2014, through September 30, 2015:

* *Maximum allowance for meals and incidental expenses.* The maximum federal allowance for travel in CONUS remain unchanged for the period October 1, 2014, through September 30, 2015, at the daily rate of $46 ($51, $56, $61, $66, and $71 for higher-cost areas).
* *High-low substantiation rate.*The IRS set rates for meal and incidental costs within CONUS from October 1, 2014, through September 30, 2015, remain unchanged at $65 per day for high-cost areas and $52 per day for other areas.
* *Meal allowance for transportation industry workers.* The IRS set rate for CONUS remains at $59 per day; the rate for travel outside of CONUS remains at $65 per day.

## Chapter 11—Real Estate

***Mortgage insurance***. The deduction for mortgage insurance has been extended retroactively for 2014. The fate of this rule for 2015 is not yet known.

***Cancellation of mortgage debt.*** The exclusion for the cancellation of mortgage debt on a principal residence up to $2 million has been extended retroactively for 2014. The fate of this rule for 2015 is not yet known.

***Deduction for energy-efficient commercial buildings.*** The ability to deduct up to $1.80 per square foot for an energy-efficient building has been extended retroactively for 2014. The fate of this rule for 2015 is not yet known.

***Special breaks for certain disaster victims.*** Unfortunately, natural and other disasters continue to occur. There are no special breaks for certain disaster victims in 2014 as there were in the past for victims of Hurricane Katrina and other specified disasters.

## Chapter 13—Insurance and Catastrophes

***Disaster losses.*** Find a list of all federal disaster areas for 2014 from FEMA at [www.fema.gov/disasters/grid/year/2014](http://www.fema.gov/disasters/grid/year/2014).

***Accelerated death benefits.*** For chronically ill individuals, the daily dollar limit excludable from gross income for 2015 is $330 (unchanged from 2014); excess amounts are taxable to the extent they exceed actual long-term care costs.

***Payments to avoid future illness.*** Damages paid as compensation for personal physical injury or illness are tax free. However, the IRS indicated that payment by a city to insulate a home in order to avoid possible exacerbation of a physical illness is taxable. Only damages to compensate for injuries already sustained are tax free.

## Chapter 14—Your Job

***Educator expenses.*** See the *Introduction*.

***Repayment of supplemental unemployment benefits.*** The health insurance credit that had applied for those who repaid supplemental unemployment benefits in order to obtain health coverage under COBRA or a state program is not available in 2014. It expired at the end of 2013 and was not renewed, but individuals may qualify for the premium tax credit (see Chapter 2).

***Fringe benefits.*** A couple of benefits have been impacted for 2015:

*Transportation fringe benefits.* Parity between the exclusion free parking and commuter passes and vanpooling (collectively called transportation fringe benefits) was extended retroactively for 2014. Whether parity will also be extended for 2015 is not yet known. If it is not extended, the exclusion is $250 per month in 2015 for parking (unchanged from 2014) and $130 per month for transit passes and vanpooling.

 *Adoption assistance.* The exclusion amount for 2015 is $13,400.

***Income earned abroad.*** The maximum foreign earned income exclusion for 2015 has been increased to $100,800.

## Chapter 15—Your Business

***Equipment purchases.*** Two key changes impact write-offs for equipment purchases in 2015:

* *First-year expensing.* The $500,000 limit (with the phase-out starting at $2 million) was extended retroactively for 2014. Unless it is extended again, the dollar limit for the Section 179 deduction in 2015 will be $25,000 and this dollar limit will start to phase out when equipment purchases exceed $200,000.
* *Bonus depreciation.*Bonus depreciation has been retroactively extended for 2014. The fate of this rule for 2015 is not yet known.

***Employment-related tax credits.*** The following credits have been retroactively extended for 2014; their fate for 2015 is not yet known:

* Work opportunity credit
* Empowerment zone credit
* Indian employment credit
* Wage differential payment credit (for payments to certain activated reservists)

***Self-employment tax.*** The wage base for the Social Security portion of the self-employment tax in 2015 is $118,500 (up from $117,000 in 2014).

***Standard mileage rate.*** The IRS announced the standard mileage rate, used in lieu of deducting the actual costs of business driving, for 2015; it is 57.5¢ cents per mile (a penny and a half more than in 2014).

Those who own their vehicles and use the standard mileage rate for 2015 must reduce the vehicle’s basis by 24¢ per mile (the rate in 2014 was 22¢ per mile).

***Business-related tax credits.*** The following credits have been retroactively extended for 2014 (in addition to the employment-related credits noted earlier); their fate for 2015 is not yet known:

* Credit for wages paid in an empowerment zone
* Energy-efficient home credit
* New markets credit
* Research credit

The credit for energy-efficient appliances was *not* extended retroactively for 2014.

## Chapter 16—Miscellaneous Items

***State and local sales taxes.*** For those who itemize their personal deductions, the option to deduct state and local sales taxes instead of state and local income taxes has been extended retroactively for 2014. The fate of this rule for 2015 is not yet known.

***Gifts you receive.*** The annual exclusion amount for 2015 is $14,000 per recipient (the same as in 2014). Of course, the recipient can receive any amount tax free (the exclusion impacts only the gift tax, if any, owed by the person making the gift).

***Alternative minimum tax (AMT).*** The AMT exemption amounts are:

|  |  |  |
| --- | --- | --- |
| **Filing status** | **2014 exemption** | **2015 exemption** |
| Married filing jointly/surviving spouse  | $82,100 | $83,400 |
| Single/head of household | $52,800 | $53,600 |
| Married filing separately | $41,050 | $41,700 |

*Exemption phase-out.* The exemption amounts for 2015 start to phase out when alternative minimum taxable income (AMTI) exceeds $119,200 for singles and heads of households, $158,900 for married filing jointly and surviving spouses, and $79,450 for married filing separately.

*Start of 28% rate.* The 26% AMT rate for 2015 applies to alternative minimum taxable income up to $185,400 ($92,700 for married persons filing separately); the 28% rate applies to excess taxable income over these amounts.

***ABLE accounts.*** See Chapter 2.

## Bonus—Checklist of Expired Provisions

While the Tax Increase Prevention Act of 2014, which was signed into law on December 19, 2014, extended many provisions retroactively for 2014 as explained throughout this Supplement, the law was merely a one-year extension. All of the extended provisions expired on December 31, 2014. Congress has promised to take up comprehensive tax reform in 2015. Whether this will happen, and whether it will include extensions for expired provisions or a permanent fix for some or all of them, remains to be seen. The following have been referenced within the chapters to which they relate. They are included here for a handy checklist.

1. Bonus depreciation—50% deduction
2. Cancellation of home mortgage interest on a principal residence—exclusion
3. Conservation easements—enhanced charitable deduction
4. Educator expenses up to $250—deductible as an adjustment to gross income
5. Energy-efficient buildings—deduction up to $1.80 per square foot
6. First-year expensing—enhanced deduction
7. Indian employment credit
8. IRA transfers directly to charity by those age 701/2—tax free up to $100,000
9. Mortgage insurance premiums—deduction for premiums as mortgage interest
10. New markets credit
11. Nonbusiness energy improvements for a principal residence—tax credit
12. Research credit
13. Small business stock—100% exclusion
14. State and local sales taxes—deductible as an itemized deduction instead of state and local income taxes
15. Tuition and fees—deductible as an adjustment to gross income
16. Wage differential credit for payments to reservists
17. Work opportunity credit