KPMG

GMS Flash Alert

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United States - KPMG Publication on Expiring Tax Provisions

There are just over 30 temporary tax incentives in the U.S. tax system, known as "tax extenders," scheduled to expire at the end of 2016.[1] About a handful of them impact individuals, such as education- and housing-related incentives. Unless Congress acts to extend them, these incentives will no longer be available to U.S. taxpayers after December 31, 2016.[2]

KPMG LLP (U.S.) has just published a report on all the expiring tax extenders in "Here Today, But What About Next Year? Tax Incentives Scheduled to Expire at End of 2016." This article highlights tax incentives, including those tax extenders pertaining to individual taxpayers, that are scheduled to expire at the end of 2016 and makes observations about the prospects for future "extenders" legislation.

WHY THIS MATTERS

Currently, these tax incentives help spur certain taxpayer activity, e.g., saving and spending for college education, home-ownership, and helping taxpayers over the age of 65 meet the costs of rising medical care. Taxpayers and their tax preparers need to be aware that, although these incentives may be available for qualifying 2016 activity, there is risk that some or all these incentives might not be available next year.

Taxpayers may want to monitor future legislative activity to see if any of these incentives are extended.

Tax Extenders Affecting Individuals Due To Expire

The individual tax provisions that are scheduled to expire at the end of 2016 are as follows:

Exclusion of income from discharge of qualified principal residence indebtedness – Excludes from gross income certain amounts from the discharge of indebtedness on qualified principal residence (Section 108(a)(1)(E)).

Deduction for mortgage interest premiums – Treats premiums paid or accrued for qualified mortgage insurance in connection with acquisition indebtedness as qualified residence interest for purposes of interest deduction rules (Section 163(h)(3)(E)).

Above-the-line deduction for qualified tuition – Allows certain individuals to deduct qualified tuition and related expenses, subject to limitations (Section 222).

Credit for energy efficient improvements – Allows taxpayers to claim a credit for the portion of the amount paid for non-business qualified energy efficiency improvements of personal property and residential energy property expenditures (generally relating to a taxpayer's personal residence) (Sections 25C and 25D).[3]

Bonus depreciation – Additional first-year depreciation allowance equal to 50 percent of the adjusted basis in the tax year the qualified property is placed in service, subject to a phase-down (Section 168(k)).

Tax Incentives Affecting Individuals Due to Change in 2017

Medical expense deduction with adjusted gross income (AGI) floor of 7.5 percent for individuals age 65 and over – Allows taxpayers over age 65 to deduct medical expenses in excess of 7.5 percent of adjusted gross income (AGI) (Section 213(f)). Beginning in 2017, the limitation percentage for seniors increases to 10 percent - the same limitation rate applicable to other taxpayers.

FOOTNOTES:

1 For additional information, see Congressional Research Service, "Tax Provisions Expiring in 2016 ("Tax Extenders")" by Molly F. Sherlock, Specialist in Public Finance (November 4, 2016).

2 For coverage of tax incentives that had been due to expire at the end of 2015, and were renewed or made permanent, see GMS *Flash Alert* 2015-152, December 23, 2015.

3 For the residential renewable energy tax credit, if a taxpayer claims the credit for solar photovoltaic or solar thermal efficiency upgrades, these won't expire at the end of 2016. Such a credit will undergo a gradual step-down in the value to taxpayers (30 percent through the end of 2019, 26 percent in 2020, and 22 percent in 2021).

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The above information is not intended to be "written advice concerning one or more Federal tax matters" subject to the requirements of section 10.37(a)(2) of Treasury Department Circular 230 as the content of this document is issued for general informational purposes only.

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