Summary of 2014 Tax Law Changes

Penalty for failure to comply with individual health insurance mandate:

The Affordable Care Act signed into law on March 23, 2010 requires that individuals who fail to carry “adequate” health insurance in 2014 will face a penalty. More specifically, nonexempt U.S. citizens and legal residents will owe the penalty if they don't have so-called minimum essential coverage. There are a number of exceptions to the penalty, such as the one for eligible lower-income individuals and the one for certain individuals whose existing health insurance plans were canceled.

New tax credit for buying health insurance:

For 2014, a so-called premium assistance credit is available to eligible taxpayers who obtain qualifying health insurance by enrolling through a state exchange or an exchange operated in partnership between a state and the federal government. You are potentially eligible if your household income is between 100% and 400% of the federal poverty line and you don’t have access to employer-sponsored affordable coverage. The allowable credit can vary widely depending on your specific circumstances.

The credit can be paid by the government directly to your insurance company to lower your monthly premiums or it can be claimed when you file your federal income tax return. You may not know the exact amount of your allowable credit until you file your return. Any differences between what you receive in the form of reduced insurance premiums and the credit you’re actually entitled to for the year will be reconciled when you file your 2014 return sometime next year. In other words, if you collect more than you’re entitled to, you’ll have to pay back the excess with your return.

On the plus side, the credit is refundable. That means you can collect the full credit even if it exceeds your federal income tax liability for this year. More specifically, the credit is first used to reduce your 2014 federal income tax bill. After your tax bill has been reduced to zero, any remaining credit can be either refunded to you in cash or used to make estimated tax payments for 2015.

New $500 carry-over deal for health care FSAs:

Late last year, the IRS announced a new exception to the dreaded “use-or-lose” rule for health care flexible spending accounts (FSAs). Under the exception, employers can allow you to carry over to the following year up to $500 of any unused balance from the previous year. The new carry-over deal is in lieu of allowing a grace period through March 15 of the following year to incur enough expenses to use up your unused balance from the previous year. In other words, your company’s health care FSA plan can allow either the $500 carry-over deal or the grace period deal but not both. Contact your employee benefits department to see what your company plan allows, because it may affect what you need to do between now and March 15 if you have an unused balance left over from last year.

Key individual tax breaks that <u>were</u> set to expired at the end of last year:

- **Option to deduct state and local sales taxes:** Last year, you had the choice of claiming an itemized deduction for state and local sales taxes instead of an itemized deduction for state and local income taxes. This option was beneficial if you lived in a state with no personal income taxes or if you paid only a minimal state income tax bill.
- **Deduction for higher education tuition and related fees:** This write-off was up to $4,000, or up to $2,000 for higher-income folks.
- **Tax-free treatment for forgiven mortgage debt:** Canceled debts generally count as taxable cancellation of debt (COD) income. A temporary exception applied to COD income from canceled mortgage debt that was used to acquire a principal residence: up to $2 million that was canceled in 2007-2013 was treated as a federal-income-tax-free item.
- **Mortgage Insurance Premium Deduction**
- **Charitable donations from IRAs:** Last year, IRA owners who had reached age 70½ by Dec. 12, 2013 were allowed to make charitable donations of up to $100,000 directly out of their IRAs. The donations counted as IRA required minimum distributions. So well-off seniors could reduce their taxes by arranging for charitable donations from their IRAs to replace taxable IRA required minimum distributions. Unless Congress takes action, this tax-smart deal won't be available this year.
- **Larger tax break for transit passes:** Your employer may allow you to reduce your taxable salary to pay for transit passes to get to and from work. In 2013, the maximum monthly amount you could set aside was $245. Unless Congress takes action, the monthly maximum for this year will be only $130.
- **$500 credit for energy-efficient home improvements:** Under this break, you could claim a tax credit of up to $500 for certain energy-saving improvements to your principal residence.
- **$250 deduction for teacher school expenses:** Teachers and other personnel at K-12 schools could deduct up to $250 of school-related expenses paid out of their own pockets.

Congress renewed a number of the "extender" provisions listed above that expired at the end of 2013. These provisions were renewed by Congress through the end of 2014. The final legislation was signed into law December 19, 2014.

Following the passage of the extenders legislation, the Internal Revenue Service has announced that it anticipates opening the 2015 filing season as scheduled in January.

The IRS will begin accepting tax returns electronically on January 20. Paper tax returns will begin processing at the same time.