Summary

HR 5771, the Tax Increase Prevention Act of 2014 restores for the current 2014 tax year more than four dozen so-called "tax extenders" that benefit particular individuals and business interests — which would allow businesses and individuals to claim those tax breaks when filing their 2014 tax returns. Most of the renewed tax extenders, notably the research-and-development and tuition tax credits, expired at the end of calendar year 2013.

In total, Joint Committee on Taxation (JCT) estimates that the tax extenders would reduce revenue by $44.7 billion over 10 years.

Credits for Individuals

The measure extends for the 2014 tax year the following eight provisions that are aimed primarily at individuals, which JCT estimates would reduce revenue by nearly $8.2 billion over 10 years:

- The deduction for state and local sales taxes in lieu of state income taxes ($3.1 billion over 10 years);
- A rule that allows individuals to exclude from gross income the discharge of indebtedness on a principal residence ($3.1 billion over 10 years);
- The deduction for private mortgage insurance premiums as qualified residence interest for purposes of the mortgage interest deduction, phasing out at adjusted gross income levels of $100,000 to $110,000 ($919 million over 10 years);
- A rule that allows those age 70-and-a-half or older to make up to $100,000 in tax-free distributions to charities from their individual retirement accounts ($384 million over 10 years);
- The "above the line" deduction for qualified tuition and other related expenses for individuals below certain income levels, worth up to $4,000 ($300 million over 10 years);
- The "above the line" deduction for teachers for up to $250 in out-of-pocket classroom expenses ($214 million over 10 years);
- The increased contribution limits and the carryforward period for amounts in excess of the limits for contributions of capital gain real property made for qualified conservation purposes, as well as the special contribution rules for farmers and ranchers ($129 million over 10 years); and
- A provision of the 2009 economic stimulus law (**PL 111-5**) that equalizes the tax-free benefits employers can provide for transit and parking, excluding them from wages for both payroll and income tax purposes ($10 million over 10 years).

Credits for Businesses

The measure extends 31 provisions that are aimed primarily at businesses, which would reduce revenue by nearly $24 billion over 10 years.

Research & Development

The measure extends the research and development credit, at a cost of $7.6 billion over 10 years. This provision provides either a 20% credit for qualified research expenses or a 14% alternative simplified credit.

Overseas Financing

The next most expensive tax extender extends the ability of financial services companies and manufacturers with financing arms to defer taxes on income earned overseas from active financing operations, at a cost of $5.1 billion. The bill also extends the look-through treatment for payments of dividends, interest, rents and royalties between related foreign controlled corporations, at a cost of $1.2 billion over 10 years.

Bonus Depreciation & Other Expensing Rules

Another significant business extender, at a cost of nearly $1.5 billion over 10 years, involves 50% bonus depreciation rules for property placed in service before the end of 2014 (and through 2015 for certain transportation property, as well as certain longer-lived items). This provision allows businesses to deduct from their taxes 50% of the value of that property in addition to amounts that they could otherwise claim under depreciation rules.

Bonus depreciation is allowed against both the regular tax system and the AMT, and businesses could elect to accelerate the AMT credit in lieu of bonus depreciation. The bill continues special rules for long-term contracts and regulated utilities.

It also extends the ability of small businesses to more quickly recover the cost of certain capital expenses, which has been modified several times over the past few years. Section 179 of the tax code gives small-business taxpayers the option to deduct from their taxes, (i.e., "to expense") the cost of purchases, up to specified limits, in the year items are acquired, rather than recovering the costs of the items over time through depreciation. Current law also establishes a "phase-out threshold," and if businesses place more than that specified amount of property into service in a year, then the amount that they are permitted to expense is reduced dollar for dollar, but not below zero.

The bill maintains both the expensing limit to $500,000, with the phase-out beginning when investments exceed $2 million. It also extends special rules for computer software, qualified leasehold improvement property, qualified restaurant property and qualified retail property. JCT estimates that this single provision would reduce revenue by $1.4 billion over 10 years.

In addition, the measure continues a provision that allows businesses to recover the cost of certain leasehold improvements and restaurant and retail property over a 15-year period, rather than over 39 years. JCT estimates that this provision would reduce revenue by $2.4 billion over 10 years.

Work Opportunity Tax Credit

The bill extends the work opportunity tax credit for qualified wages paid to members of targeted groups, such as food stamp recipients or individuals receiving Supplemental Security Income benefits. JCT estimates this provision would reduce revenues by $1.4 billion over 10 years.

Smaller Business Credits

The other business-targeted tax extenders, most of which apply to the 2014 tax year, are as follows:

- The so-called "new markets tax credit" provided to businesses that make certain investments in low-income community development entities, with a maximum annual amount of $3.5 billion in qualified investments in 2014 ($978 million over 10 years);
- The 100% exclusion of gain on small-business stock for non-corporate taxpayers and the exception from alternative minimum tax preference treatment ($881 million over 10 years);
- Rules related to development, such as special tax incentives for businesses and employers within economically depressed census tracts known as Empowerment Zones ($251 million over 10 years);
- A credit for 50% of certain maintenance expenses on railroad tracks owned or leased by Class II and Class III railroads ($207 million over 10 years);
- Various provisions concerning charitable donations, such as enhanced deductions for certain food donations ($143 million over 10 years) and basis adjustments for S-corporations that donate property ($51 million over 10 years);
- The qualified zone academy bond program that provides funding for renovating school buildings, purchasing equipment, developing curricula and/or training school personnel ($126 million over 10 years);
- Rules allowing production activities in Puerto Rico to qualify for the Section 199 domestic production activities deduction ($109 million over 10 years), as well as the increased amount of rum excise tax revenue paid, or "covered over," to Puerto Rico and the Virgin Islands, under which as much as $13.25 (rather than $10.50) of the $13.50 per gallon collected is given to those territories ($168 million over 10 years);
- Special rules relating to regulated investment companies, including the pass-through tax treatment of certain dividends to non-residents ($97 million over 10 years) and the extension of the treatment of regulated investment companies as "qualified investment entities" under the Foreign Investment in Real Property Tax Act that makes them not subject to U.S. tax withholding ($44 million over 10 years);

- A reduction in the recognition period for S-corporation built-in gains tax following conversion from a C-corporation ($94 million over 10 years);
- The tax credit for employing those who work and live on or near an Indian reservation ($62 million over 10 years), as well as accelerated depreciation rules for certain business property placed in service on an Indian reservation ($79 million over 10 years);
- A seven-year recovery period for motor sports racetrack property placed in service in 2014, instead of the 15-year period that would otherwise apply ($33 million over 10 years);
- Rules concerning the tax treatment of payments made to tax-exempt organizations by entities controlled by those organizations ($18 million over 10 years);
- A payment to American Samoa in lieu of an economic development credit for certain domestic corporations operating in American Samoa to offset their U.S. tax liability on income earned in the territory ($14 million over 10 years);
- Special expensing rules for film and television productions, which can currently expense the first $15 million in production costs, no matter the total production costs ($6 million over 10 years);
- A credit of up to $10,000 for training mine rescue teams ($3 million over 10 years), as well as rules allowing businesses to expense mine safety equipment (no revenue effect over 10 years);
- An employer wage credit for activated military reservists equal to 20% of the sum of differential wage payments to reservists ($1 million over 10 years);
- The temporary minimum low-income housing tax credit rate of 9% for non-federally subsidized new buildings (less than $500,000 over 10 years) and the exclusion of military housing allowances for determining income for purposes of low-income tax credit buildings (less than $500,000 over 10 years); and
- A three-year recovery period for racehorses placed in service in 2014 (no revenue effect over the 10-year period).

Energy Tax Incentives

The measure extends for the 2014 tax year the following 11 provisions that are aimed primarily at energy incentives, which would reduce revenue by at least $12.6 billion over 10 years.

- The production tax credit for wind energy and certain other renewable-energy sources for facilities for which construction began before the end of 2014 ($9.6 billion over 10 years);
- The production tax credits for biodiesel, the small agri-biodiesel producer credit and diesel fuel created from biomass ($1.3 billion over 10 years);
- The non-business energy property tax credit of up to $500 for qualified energy improvements ($832 million over 10 years);

- Excise tax credits for alternative fuel and alternative fuel mixtures, other than liquefied hydrogen ($397 million over 10 years);
- The manufacturer credit of up to $2,000 for construction of energy-efficient new homes ($267 million over 10 years);
- The above-the-line deduction for energy-efficiency improvements to commercial buildings ($127 million over 10 years);
- The production credit for Indian coal facilities placed in service before 2009 ($38 million over 10 years);
- The credit for production of cellulosic biofuel with a maximum credit of $1.01 per gallon ($25 million over 10 years), as well as the special depreciation allowance for cellulosic biofuel plant property (less than $500,000 over 10 years);
- The special rule for sales or dispositions to implement Federal Energy Regulatory Commission (FERC) or state electric restructuring policy that allows taxpayers to recognize gain over an eight-year period (no revenue effect over 10 years); and
- The credit for refueling properties for alternative fuel vehicles (cost estimate was unavailable as of press time).

Pension Provisions

The bill extends through 2015 a provision from the 2006 Pension Protection Act (PL 109-280) that allows multi-employer pension plans to take an additional five years to amortize funding shortfalls on top of the 15 years that are already permitted. Multi-employer plans also can seek approval for an extra 10 years to amortize funding shortfalls, but the total extension time cannot exceed 10 years.

The measure extends through 2015 special rules for three categories of severely underfunded multi-employer plans — yellow zone, orange zone and red zone — based on the percentage of funding and when the plan is projected to be unable to meet minimum required contribution or pay benefits. It also extends the ability of multi-employer plans to generally start or stop using the shortfall funding method, which could result in a longer amortization period, without Treasury approval.

JCT estimates that the pension-related provisions would reduce revenues by $28 million over 10 years.