BURNS & LEVINSON LLP

TAX LAW UPDATE

December 2014

TAX EXTENDERS FOR THE 2014 TAX YEAR: A HOLIDAY TAX GIFT FROM D.C.

Just days before the 2014 tax season draws to a close, new legislation was enacted in D.C. to provide a one-year retroactive extension for over 50 tax benefits and incentives which had expired in 2014. The one-year extension is only applicable from January 1, 2014 through December 31, 2014. Effective January 1, 2015, these tax incentives will disappear unless new legislation is passed. Below is a list of key tax extenders for businesses and individuals that may be relevant to you.

BUSINESS TAX EXTENDERS

Exclusion of Gain on Qualified Small Business Stock

Noncorporate taxpayers who acquire "qualified small business stock" during the 2014 tax year and hold onto such stock for more than five years, can exclude from gross income 100% of any gain realized on the subsequent sale or exchange of such stock. In addition, the gains will not be subject to the alternative minimum tax.

Shortened S Corporation Recognition Period for Built-in Gains

A 5 year instead of 10 year period following conversion of a C corporation into an S corporation will avoid the corporate level built-in gains tax on the sale of assets, for asset sales completed in 2014.

Lower Shareholder Basis Adjustments for Charitable Contributions by S Corporations

A shareholder in an S corporation that makes a contribution of property to a charitable organization in 2014 reduces his or her basis in the S corporation stock just by an amount equal to the shareholder's pro-rata share of the adjusted basis of the contributed property.

Section 179 Expense Amounts

The increased Section 179 expensing limitation of $500,000 (allowing current deduction rather than capitalizing the expense over a period of years) continues for 2014, with a $2 million phase-out amount. In addition, provisions were extended permitting expensing for:

- Computer software.
- Qualified leasehold improvements.
- Qualified restaurant property.
- Qualified retail improvement property.

Bonus First Year Depreciation

Businesses are eligible for bonus first-year deductions on the purchase price of qualified property bought and used during 2014. The bonus deduction is equal to one-half of the depreciation value of the qualified property, and is allowed for regular tax, as well as alternative minimum tax. Businesses can generally write

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TAX LAW PRACTICE:

Burns & Levinson's tax attorneys represent businesses and individuals on federal, state, and local tax issues both nationally and internationally. Our clients include families, partnerships, corporations, estates and trusts, nonprofit organizations, and governmental entities.

Clients of all sizes benefit from our experience with the Internal Revenue Service and state tax authorities during audits and other tax controversies.

Corporate clients engage our services to structure acquisitions and dispositions of their businesses and plan restructurings that are part of public offerings. We keep abreast of the most recent tax law changes that impact clients' transactions and reporting, and whenever appropriate, we advise our clients and their accountants.

Individual clients rely on our strategies to transmit wealth from one generation to another in a tax-efficient manner. When catastrophic personal and family events occur, we mitigate the tax consequences.

CONTACT THE AUTHORS:

Harry Miller — Co-Chair, Tax Practice
617.345.3236 | hmiller@burnslev.com

Jennifer Green — Associate
617.345.3324 | jgreen@burnslev.com

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off 50% of the cost of their qualified fixed assets additions placed in service in calendar year 2014.

Research & Development Credit

The 20% credit for qualified research expenses (or an elective 14% alternative simplified credit) is available for 2014 qualified expenditures.

New Markets Credit

The new market credit applies for qualified equity investments to acquire stock in a community development entity in 2014. The carryover period for unused new market credits is extended for an additional year to 2019.

Look-Through Rule for Payments Between Related CFCs Under Foreign Personal Holding Company Income

Dividends, interest, rents, and royalties received by one controlled foreign corporation ("CFC") from a related CFC are not treated as foreign personal holding company income ("FPHCI") to the extent attributable or properly allocable to non-subpart-F income, or income that was not effectively connected with the conduct of a U.S. trade or business of the payor (look-through treatment). The recipient CFC looks at the underlying activities of the paying CFC to determine whether those payments are currently subject to inclusion in U.S. taxable income in 2014.

Treatment of RIC as Qualified Investment Entity

Gains from the disposition of a U.S. real property interest ("USRPI") by a foreign person are treated as income effectively connected with a U.S. trade or business and are subject to tax and to withholding under the Foreign Investment in Real Property Tax Act ("FIRPTA") provisions. However, a USRPI does not include a interest in a domestically controlled "qualified investment entity." A regulated investment company ("RIC") that meets certain requirements can still be treated as a "qualified investment entity" for 2014.

INDIVIDUAL TAX EXTENDERS

Exclusion for Discharged Home Mortgage Debt

Ability to exclude from gross income in 2014, the amount of mortgage debt on a personal residence discharged (or written off), up to a $2 million limit ($1 million for married individuals filing separately).

Mortgage Insurance Premiums as Deductible Qualified Residence Interest

Mortgage insurance premiums incurred by an individual in 2014 in connection with acquisition indebtedness with respect to his/her qualified residence are treated as deductible qualified residence interest, subject to a phase-out based on adjusted gross income ("AGI"). The amount allowable as a deduction is phased out ratably by 10% for each $1,000 by which adjusted gross income exceeds $100,000 ($500 and $50,000, respectively, in the case of a married individual filing a separate return).

State and Local Sales Tax Deduction

Individuals who itemize deductions may elect to deduct state and local sales and use taxes instead of state and local income taxes for 2014.

Increase in Excludible Employer-Provided Mass Transit and Parking Benefits

The monthly exclusion for employer-provided transit and vanpool benefits is $250, which is now the same amount as the exclusion for employer-provided parking benefits for 2014.

Deduction for Certain Expenses of Elementary and Secondary School Teachers

This "above-the-line" deduction of up to $250 will again be available in 2014 for eligible expenses paid for books, supplies (with certain exceptions), computer equipment (including related software and service), other equipment and supplementary materials used by the educator in classrooms.

Deduction for Qualified Tuition and Related Expenses

The 2014 deduction continues to be capped at $4,000 for individuals with adjusted gross incomes not in excess of $65,000 ($130,000 for joint filers) or $2,000 for individuals with adjusted gross incomes not in excess of $80,000 ($160,000 for joint filers).

Tax-Free Distributions from Individual Retirement Plans for Charitable Purposes

Individuals who are at least 70½ years old can make tax-free distributions up to $100,000 from their IRAs directly to a charitable organization for 2014.

The legislation also includes other tax extenders applicable for the 2014 tax year, including energy tax extenders, among other extensions. Please feel free to contact your Burns and Levinson tax attorney to discuss the impact of the new legislation on your 2014 tax return.

OFFICE LOCATIONS:

Boston (HQ) | Andover | Hingham | New York | Providence | Waltham
MA: 617.345.3000 NY: 212.231.2237 RI: 401.831.8330

BURNS & LEVINSON LLP