DOLLARS & SENSE

By Jamie Fortin

PATH ACT: What Does It Mean For Your Dairy?

Like many years in the past, CPAs and business owners are always on the edge of their seats around December anticipating the verdict from Congress on whether or not certain tax provisions have been renewed or extended. Many of these favorable tax provisions have expired by December 31, 2014, which can significantly impact the tax consequences of businesses and individuals for the 2015 tax year. As such, it can really make tax planning burdensome. Imagine having your year-end tax planning meeting with your CPA and hearing that you owe a significant amount of taxes. Then they tell you that if Congress extends this certain tax provision, you will then have no tax liability. Does that sound all too familiar to you? If so, you may recall receiving a phone call or email from your CPA soon after December 18, 2015, giving you the good news of having to only pay minimal or even no taxes for 2015. That was the day the President signed into law the Protecting Americans from Tax Hikes Act of 2015 (a.k.a. the PATH Act), which not only extended over 50 tax provisions, but made some of these provisions permanent.

Section 179 Tax Provision Now Permanent

First, let's take a look at the tax provision that covers ***section 179*** expensing. For those who are unfamiliar with this tax deduction, section 179 is a tax code that helps businesses by allowing them to deduct the full amount of the purchase price of qualified equipment in the tax year it was purchased that would otherwise be deducted over the life of the equipment. Tax incentives like this generally have certain limitations and typically expire at the end of each year. In the past, these limitations generally fluctuate up and down over a period of years. However, if a business purchases equipment over $2 million, the deduction decreases dollar for dollar. That means if $2.5 million worth of equipment was purchased, the section 179 deduction gets phased out and reduced to zero. Before the PATH Act was signed into law, the section 179 deduction limitation and phase-out amount was scheduled to return to the $25,000 and $200,000 limit, respectively, in 2015. Fortunately, with the new law in place, it permanently extends the expensing limitation of $500,000 and $2 million. By making this temporary tax provision permanent, it allows certainty to taxpayers who no longer have to worry every December for Congress to take action on specific tax relief policies.

Bonus Depreciation Extended

However, not all tax extenders were made permanent. A few provisions, such as the ***bonus depreciation*** for businesses, were luckily revived in 2015 and extended for a few years. For those taxpayers who are unaware of what bonus depreciation can do for your business, it's a tax benefit where you can depreciate a percentage of the cost of equipment in the year acquired and placed in service. Furthermore, it has several differences compared to the section 179 deduction. Bonus depreciation applies to only new equipment, while both new and used equipment qualify for the section 179 deduction. It also allows businesses to take the deduction regardless of a net operating loss, unlike the section 179 deduction. With the PATH Act, the extension and modification of bonus depreciation is available for property acquired and placed in service during 2015-2019. The bonus depreciation is 50% for property placed in service during 2015-2017, 40% for property placed in service during 2018, and 30% for property placed in service during 2019.

Instead of extending tax breaks for just a year or two, which has been Congress' style in the past, the PATH Act makes many popular tax breaks permanent and extends others for more than several years, as illustrated above with the section 179 deduction and bonus depreciation.

Other PATH Act Tax Provisions

The PATH Act tax provisions are advantageous on the federal level; however, not all states fully conform to these federal rules, so be aware of state implications. Other highlights of the PATH Act that benefit individuals and businesses are summarized below:

For Individuals

Adjustments to Gross Income:
- Educator expenses
- Tuition deduction

Itemized Deductions:
- State and local general sales tax deduction
- Deduction of mortgage insurance premiums
- Charitable contributions

Individual Tax Credits:
- Child tax credit
- American opportunity tax credit
- Nonbusiness energy property credit
- Residential energy efficient property credit (solar credit)
- Earned income tax credit

For Businesses

- Bonus depreciation
- Section 179
- Transportation fringe benefit
- Small business stock
- Built-in gains
- Business credits (such as the research credit)
- Other business provisions

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