California Senate Office of Research

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Federal Update

Federal Tax Extenders: Congress Makes 52 Tax Provisions Permanent

Fifty-two provisions of the Internal Revenue Code expired on December 31, 2014. These same 52 provisions expired on December 31, 2013, and were retroactively reinstated for all of 2014. After much discussion and many delays, White House and congressional negotiators reached an agreement to make *permanent* more than 50 of the temporary tax breaks, or "tax extenders." The deal is expected to pass the House and Senate this week before being signed by the President.

According to House Ways and Means Chair Kevin Brady (R–Texas), The "Protecting Americans From Tax Hikes" act will grow our economy and help American taxpayers keep more of their hard-earned dollars.

Working Families Tax Breaks

This is a suite of tax breaks aimed at working families, intended as breaks for low- and middle-income taxpayers and also for workers with little or no income tax liability. These include a $1,000 child tax credit, the Earned Income Tax Credit for the working poor, and the American Opportunity Tax Credit for college tuition expenses.

COST: Nearly $200 billion over 10 years

Teachers

Teachers are entitled to a $250 deduction per year for K–12 school supplies; the amount is indexed for inflation.

COST: Nearly $369 million over 10 years

Research and Development

The research and development (R&D) tax credit, long in existence with sunset dates, consists of several credits, which give businesses tax breaks for research expenses. This credit is not only permanent but also can be used to offset payroll taxes with the credit (no income tax necessary). Businesses have complained that the potential extinction of the credit hurt long-term planning. This is the biggest ticket item of all of the extenders.

COST: $113.2 billion in the first decade

Enhanced Section 179 Deductions

This allows businesses to deduct up to $500,000 of the cost of an asset acquisition (such as computers, retail, or restaurant improvements) and also indexes the amount for inflation.

COST: $42 billion in the first decade

Apple Cider

Apple-growing states (New York, Oregon) pushed for tax breaks for hard cider. This increases the permissible alcohol and carbonation levels for the popular apple drink, reducing the excise tax on some products that exceed those levels.

COST: $12 million over 10 years

Sales Tax Break

Some states without state income taxes long pushed for a state and local sales tax deduction that gives individual taxpayers the option of claiming an itemized deduction for general sales taxes instead of deducting state and local income taxes. In states with an income tax, like California, taxpayers are able to deduct state taxes on their federal taxes under existing law.

COST: $42 billion over 10 years

Timber

One of the more complicated provisions, pushed by Arkansas and Louisiana, reduces the top tax rate paid by certain corporations on profits from the sale of timber that has been held for more than 15 years.

COST: $35 million in 2016–17

Small Business Break

Small business expensing would let small businesses deduct up to $500,000 annually for expenses of machinery, office equipment, and computer technology. The National Federation of Independent Business called it "easily the most positive thing Congress has done for small business in the past several years."

COST: $77 billion for 10 years

Racehorses

Under this provision, racehorses are eligible for depreciation over a three-year period, rather than the more typical seven years.

COST: $168 million in 2016–17; offset by changes in later years.

Active Financing

The "active financing" exemption, which dates to 1990, would permanently allow financial companies to defer taxes paid on interest and dividends earned overseas unless they bring the income back to the United States. Some opposed this break due to the "inversions" of American corporations merging with companies in low-tax countries to avoid U.S. taxes.

COST: $78 billion over 10 years.

Affordable Care Act Delays

The agreement pauses the 2.3 percent excise tax on medical devices in 2016 and 2017 and also delays the so-called "Cadillac tax" on high-cost employer-sponsored health insurance until 2018–20.

Written by Gayle Miller. The California Senate Office of Research is a nonpartisan office charged with serving the research needs of the California State Senate and assisting Senate members and committees with the development of effective public policy. The office was established by the Senate Rules Committee in 1969. For more information, please visit http://sor.senate.ca.gov or call **(916) 651-1500.**