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Tax Alert

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5 Things To Know About Year-End's Massive Tax Bill

After all the years of deadlock, a massive tax bill called the PATH Act– Protecting Americans From Tax Hikes– seemed to slide easily through Congress and was signed by the President. There is something for everyone in this big tax law. One of its most important accomplishments is to restore some predictability to taxes. Congress can always change its mind and change the law, but that risk is different from the odd year-by-year dance we have gotten used to tolerating.

For years we have had year-end band aids that allow one more year of a particular tax benefit, often after it is already too late to do any effective planning. In large part, the new law does away with that inefficiency, at least for now. Rather than year by year last minute deals, many 'extenders' were made permanent parts of the tax code. Some were extended until the end of 2016, and some until the end of 2019. Here are 5 key rules:

1. Section 179 Expensing. Section 179 of the tax code allows small businesses to immediately deduct up to $500,000 of investments. That means deduct, rather than capitalize and depreciate over time. The law had dropped back to $25,000 a year, so this $500,000 allowance is huge. The PATH Act makes it permanent, and even indexes it for inflation.

Deducting is easier and better than capitalizing and depreciating over time. Rather than a five or seven year life, and little deductions each year, you can write it off!

2. Bonus Depreciation. What if you do make capital expenditures *beyond* the $500,000? There's bonus depreciation. This one is big too. Although the new tax law didn't make it permanent, it is phasing it out over 5 years. So there is still time to take advantage of it.

Bonus depreciation allows businesses to immediately deduct 50 percent of some investment costs. Again unlike section 179, this one isn't limited, so even big expenditures qualify. Unfortunately, the PATH Act only extends bonus depreciation until the end of 2019, rather than making it permanent. However, with the current election cycle, there is talk that this may not expire in 2019 after all. We'll see.

3. Research & Experimentation. This one is huge. It is called R&E or R&D. But whatever you call it, it is worth *billions*. In fact, it is the single most expensive provision in the PATH Act. It makes the research and experimentation credit permanent.

The R&E credit allows businesses that engage in research activities to lower their taxes. It has been volatile in the extreme. Since 1981, the credit has expired and been renewed a whopping 16 times! But now, the credit is permanent, and the usually 20% credit—remember, we mean tax *credit*, not tax deduction—is huge.

4. Cadillac Tax Delay. One of the most dreaded parts of a dreaded law, the Cadillac tax was supposed to pay for much of the Affordable Care Act. And it turned out that under Obamacare, everyone drives a Cadillac. But now, it is delayed from its scheduled 2018 start date until 2020. Maybe that will turn into a permanent delay? Most people seem to agree that the Cadillac tax is no Rolls Royce. and is more of a lemon.

5. Medical Device Tax Delay. The Affordable Care Act also included a new excise tax on medical devices, and it too has been quite controversial. The PATH Act delays the medical device tax for two years, until 2018.

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