Bill extends popular tax credits, deductions

'Cliff' deal also makes some breaks retroactive

By David Slade
POST AND COURIER

The bill approved by Congress this week to head off the "fiscal cliff" means higher income tax rates for the wealthy and an end to the payroll tax break, but there's much more tucked into those 150 pages of legislation.

Some of the more controversial provisions have been widely reported, such as tax breaks for the construction of race tracks, for Puerto Rico rum producers, and for manufacturers of electric motorcycles.

But the bill also extends many popular tax credits and deductions for families and businesses, such as the child tax credit and the research tax credit, and in dozens of cases not only extends tax breaks but makes them retroactive.

That means tax breaks for things that may have happened last year, such as renovating a restaurant or buying insulation for a home, just became available Wednesday when President Obama signed the Ameri can Taxpayer Relief Act.

From homeowners to schoo teachers, from small business owners to parents paying tu ition bills, there are lots of sur prises, all of which should keep accountants busy this spring.

For teachers:

A modest tax benefit for

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teachers expired at the end of 2011, but the tax deal revived it and made it retroactive. That means teachers who spent their own money on classroom supplies last year can deduct up to $250 from their taxable federal income when they file their 2012 taxes, reducing both their federal and state income tax bills.

It's an "above-the-line deduction," which means it can be claimed by people who don't itemize. For a teacher taxed at a top federal rate of 25 percent, the full $250 deduction would be worth $80 in tax savings ($62.50 federal, $17.50 state).

"That's a wonderful thing," said Patrick Hayes, who taught elementary school in the Charleston area and runs the pro-public-education group EdFirstSC. "A lot of teachers spend more than you would think on classroom supplies."

Efficient builders get bucks:

The fiscal cliff revived the expired credit for construction of energy-efficient new homes, and made it retroactive for 2012. For a company like Nexus Energy Homes, which is now building in Summerville, that means the company will get a $2,000 tax credit for every home it built last year, and builds this year. Amerisips Homes on Johns Island is another company that will benefit.

"It's a great gift, and the government is not giving me many gifts this time of year," said Steve Bostic, chairman of Amerisips.

A choice for all taxpayers:

Taxpayers who itemize deductions once again have the choice, for the 2012 and 2013 tax years, of deducting state and local sales tax instead of state and local income tax. In South Carolina, where sales taxes can exceed income taxes, particularly for retirees, that could mean some savings. The IRS has a sales tax calculator, which will need to be updated, for those who didn't save receipts.

A bonus for insulating:

Homeowners who made their homes more energy-efficient last year (or will do so this year) with insulation, new windows, or updated heating/cooling systems can claim a 10 percent tax credit for the cost of materials, worth up to $500 in tax savings. The credit previously expired at the end of 2011. Those interested can check the rules, of which there are many, when IRS updates them.

Help with tuition:

In addition to extending through 2017 the American Opportunity Tax Credit, which is worth up to $2,500 yearly for qualifying tuition-payers, the tax deal brought back a tax deduction for tuition and related expenses that had expired, and made it retroactive. Taxpayers can either claim the credit, or the deduction — not both — but the deduction can be claimed in circumstances where the credit would not be allowed, such as for paying tuition beyond four years of college.

The maximum tax deduction is either $4,000 or $2,000, depending upon the taxpayers' income, and vanishes above certain income limits. For a married couple filing a joint return, the upper income limit is an adjusted gross income of $160,000, which is more than what 90 percent of families in South Carolina earn.

For those paying PMI:

Homeowners who pay for private mortgage insurance, which is typically required for mortgage loans exceeding 80 percent of a property's value, can deduct those payments from their taxable income just as they would deduct mortgage interest. The deduction is retroactive for 2012 and extends through 2013. The deduction phases out for those with adjusted gross incomes above $100,000.

The legislation also extended a provision that means taxpayers who have mortgage debt canceled or forgiven, such as in a short-sale, won't have to pay taxes on the amount of debt forgiven as if it were income.

Restaurants get a break:

If someone leases a building and spends lots of money on renovations to create a restaurant, they would normally be able to deduct those costs over the next 39.5 years. A provision allowing restaurants to reclaim the costs over 15 years — giving them larger deductions — expired in 2011, but now will become retroactive for 2012 and extend through 2013.

For anyone who opened a restaurant last year, that's an unexpected and positive financial surprise.

"That definitely is great news to hear," said David Crowley a partner in The Alley, a restaurant and bowling alley that opened in November in downtown Charleston.

Movie producers, too:

Tax incentives for television and film productions have been controversial in South Carolina, where the television series "Army Wives" is filmed in Charleston. But there's also a nationwide tax incentive, and it's been made retroactive for 2012 and extended through 2013.

The tax break allows film and TV producers to write off the first $15 million of production costs incurred in the U.S., or $20 million in certain depressed areas.

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