Tax

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Five Facts About the Tax Increase Prevention Act of 2014

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On December 19, 2014, President Obama signed into law the Tax Increase Prevention Act of 2014 (Division A of H.R. 5771) extending many tax provisions that had expired at the end of 2013.

1. **The extensions are only through the end of 2014**. Many of the extended provisions were enacted as "temporary" measures several years ago and have been renewed on multiple occasions.

2. **The** 10-year cost estimate by the Joint Committee on Taxation is $41.6 billion**.** Specifically, the Act will reduce 2015 federal revenues by $81.4 billion, but that loss will be offset over the following nine years by revenue gains of $39.8 billion. Bonus depreciation alone will reduce federal revenue by $45 billion in the first year but reverses over the following nine years so that the overall net cost is stated as $1.2 billion.

3. **These are the five costliest provisions**: $7.6 billion for R&D credits, $6.4 billion for renewable energy production credits, $5.1 billion for the subpart F exception for active financing income, $3.1 billion for the exclusion from cancellation of indebtedness income for principal residences, and $3.1 billion for the personal deduction for state and local sales tax.

4. **Other items are being extended.** These include the 100 percent exclusion for qualified small business stock, the reduction in the S corporation recognition period for built-in gains and the controlled foreign corporation look-through rule.

5. **A veto threat led to this compromise.** The Act results from a hastily negotiated compromise in the wake of President Obama's threat to veto a $450 billion package that would have made several business tax breaks permanent. The President was concerned that those permanent provisions would crowd out the earned income tax credit and the child care credit, which would have remained temporary.

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