Year-end tax planning and what's new for 2016

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As the year rolls to an end, practitioners need to consider what year-end tax planning opportunities they should discuss with their clients, as well as what changes clients need to be made aware of. The following are some of the areas practitioners may want to review with clients before the end of the year.

INDIVIDUALS

Postponing income, accelerating deductions

Typically, if a client is expected to be in a lower tax bracket in future years, it generally makes sense to defer income (e.g., have any bonus due paid in the following year) into later years and accelerate deductions (e.g., prepay property taxes and state income taxes, make charitable deductions, or sell loss-generating assets) into the current year. This strategy can help move the taxpayer into a lower tax bracket in the current year. It can also help the taxpayer avoid crossing the threshold at which he or she is subject to the net investment income tax or subject to losing all or part of certain deductions (e.g., the dependency exemption).

In addition, lowering the taxpayer's income and accelerating expenses into the current year can make it easier to deduct expenses subject to the 2%-of-adjusted-gross-income threshold. For clients who may have a chunk of money to donate but don't know which charity they want to contribute it to, practitioners should suggest they give the money to a donor-advised fund. The client can take the deduction in the current year while deciding which charities to parcel it out to over the next couple of years.

Accelerating income, postponing deductions

Alternatively, if a client expects a substantial increase in income or anticipates using a less favorable tax filing status in future years, accelerating income into the current year may be an appropriate strategy to lessen the client's tax bill next year. This can be accomplished by moving up planned retirement distributions (assuming the 10% penalty tax doesn't apply), selling gain-generating assets, billing clients in advance, or deferring deductions (e.g., delaying the purchase of business property that will generate Sec. 179 deductions and depreciation) to the following year.

Gifting appreciated stock to college kids

"A popular strategy for saving taxes on the sale of appreciated stock while helping college kids financially is to gift appreciated stock to them," noted Tricia Welsh, with Beck Bode Wealth Management in Dedham, Mass. "If the child has earned income and is taxed in the bottom two income tax brackets, the capital gains generated on the stock sale is taxed at 0% (rather than the 15% or more that would be paid by the parent) assuming the gain on the sale doesn't push the child past the 15% federal tax bracket." This scenario also assumes that the kiddie tax does not apply. This will be the case if the child is 18 or older and generates earned income equal to at least one-half the child's support needs. However, if the child has little or no earned income, the kiddie tax is a factor, and the client will want to limit the child's unearned income to $2,100 or less for 2016 to avoid having the parent's top tax rate apply to the child's income.

Withholdings and estimated taxes

It's important to nail down a client's expected net income for 2016, including any net investment income subject to the net investment income tax, to ensure the appropriate amount of tax has been paid for the year. For taxpayers who expect to owe at least $1,000 in tax, the required tax payment to avoid underpayment of tax penalties is the lesser of 90% of the tax shown on the current year's return or 100% of the tax shown on the prior year's tax return. However, if an individual's gross income for the preceding year was more than $150,000 ($75,000 if the filing status for the current year is married filing separately), 110% is substituted for 100% in determining the amount of tax that must be paid by Jan. 16, 2017, to avoid penalties. In calculating the tax due for 2016, the top tax rate remains the same as the prior year—39.6%. For 2016, this top tax rate applies to incomes over $415,050 (single), $466,950 (married filing jointly and surviving spouse), $233,475 (married filing separately), and $441,000 (head of household).

If it looks as if a client's income tax withholdings will not be enough come Jan. 16, have the client file a new Form W-4, *Employee's Withholding Allowance Certificate*, with his or her employer to increase the withholdings through the end of the year. Income tax withholdings are considered paid equally throughout the year, even if they are bunched near the end of the year. On the other hand, if it appears the client will have overpaid his or her taxes for the year, suggest filing a Form W-4 to decrease withholdings and get a refund upfront, rather than giving the IRS an interest-free loan.

Alternative minimum tax

Practitioners should be on the lookout for clients who may be newly subject to the alternative minimum tax (AMT). For example, clients who have seen a big jump in income and a corresponding increase in state taxes ▶

may be especially susceptible to the AMT if they live in high-tax states such as California, Hawaii, New Jersey, Oregon, or the District of Columbia, because state and local income taxes are not deductible for AMT purposes. And because personal exemptions are also disallowed in calculating the AMT, an increase in a client's personal exemptions should signal that the AMT could be an issue.

Another indication that the AMT may be a problem for a client is if the client exercised incentive stock options (ISOs) during the year. If a client exercises ISOs (and does not sell the stock received in the same tax year), the client has no income related to the exercise of the ISOs for regular tax purposes, but must include the spread between the option price and the purchase price in his or her alternative minimum taxable income. This usually (but not always) causes the taxpayer to be subject to the AMT. However, it's worth noting that AMT paid due to an AMT adjustment for the exercise of ISOs generates an AMT minimum tax credit that the client can use to offset regular tax when he or she later sells the shares and recognizes the income for regular tax purposes.

Education tax breaks

Beginning in 2016, to be eligible for the American opportunity tax credit, the lifetime learning credit, or the tuition and fees deduction, taxpayers must have received a Form 1098-T, *Tuition Statement*, from the educational institution they attended in 2016. The information an educational institution is required to report on Form 1098-T is the amount paid for qualified tuition and related expenses for a single year. The form must be used to complete Form 8863, *Education Credits (American Opportunity and Lifetime Learning Credits)*. Taxpayers may be confused as to why the amounts reported on the form do not correspond to their payments. There can be several reasons for the discrepancy. For example, the amounts reported do not include charges such as insurance, room and board, and health fees because those amounts are not considered qualified tuition and related expenses.

BUSINESSES

Sec. 179 expense deduction and 50% bonus depreciation

For 2016, the maximum amount of qualifying property a business can expense is $500,000. That amount is reduced dollar for dollar by the amount of property purchased over $2,010,000. New for 2016, air conditioners and heating units are now eligible for the Sec. 179 expense deduction. The Sec. 179 expense deduction, combined with the 50% bonus depreciation and normal first-year depreciation, can provide significant tax relief for any business projecting substantial taxable income. For example, if a business purchases $700,000 of qualifying equipment, the total first-year deduction would be $620,000 ($500,000 (first-year write-off) + $100,000 (50% bonus depreciation on the remaining basis of $200,000) + $20,000 (normal depreciation of 20% times the remaining basis of $100,000)), resulting in a cash savings to the business of $217,000 ($620,000 × 35% tax rate).

Accelerated filing deadlines take effect for Forms W-2, W-3, and 1099-MISC for 2016 tax year

Beginning with the 2016 tax year, the due dates for filing Forms W-2, *Wage and Tax Statement*, and W-3, *Transmittal of Wage and Tax Statements*, and certain Forms 1099-MISC, *Miscellaneous Income*, in 2017 have been moved up to Jan. 31 from the last day of February. Form 1099-MISC is now due to the IRS by Jan. 31 when a business is reporting nonemployee compensation payments in box 7. Otherwise, a business has until Feb. 28, if filing by paper, and March 31, if filing electronically.

Increased penalties for late information return filings

Along with the accelerated filing dates for Forms W-2 and other information returns, sharp increases in information-reporting penalties took effect in 2016. Penalties for failing to file correct information returns and/or furnishing correct payee statements not only increased but, beginning in 2017, are also now subject to inflationary adjustments. For example, for Forms 1098, 1099, W-2, and W-2G, *Certain Gambling Winnings*, for small businesses with gross receipts of $5 million or less, the per return penalty and maximum penalty for returns less than 30 days late increased from $30 per return to $50 per return and from a maximum fine of $75,000 (before 2016) to $186,000 (for tax years beginning in 2016); for returns over 30 days late but filed before Aug. 1, the penalty increased from $60 per return to $100 per return and from a maximum penalty of $200,000 (before 2016) to $532,000 (for tax years beginning in 2016); and for returns filed after Aug. 1 or not at all, the penalty increased from $250 per return to $260 per return and from a maximum penalty of $500,000 (before 2016) to $1,064,000 (for tax years beginning in 2016). For returns that were not filed due to intentional disregard of the rules, the penalty increased from $250 per return to $530 per return, with an unlimited maximum penalty before and after 2016.

Changes to C corporation, partnership, and other tax return due dates

Effective beginning with 2016 tax returns, the due date for C corporation calendar-year and fiscal-year returns, other than C corporations with a fiscal year ending ▸

June 30, has been moved back one month to the 15th day of the fourth month following the corporation's year end. A six-month extension is available for fiscal-year-end corporations (other than June 30 fiscal-year-end corporations), and for calendar-year-end corporations a five-month extension is available through 2025 and a six-month extension for years after 2025. For corporations with a June 30 fiscal year end, the new due date rules for fiscal-year-end corporations go into effect after 2025; thus, for these corporations, the due date remains March 15, and the extended due date remains Sept. 15 until that time.

On the flip side, partnership tax returns are now due a month earlier—on the 15th day of the third month following the partnership's year end. Thus, 2016 calendar-year partnership returns are due March 15, 2017. Partnerships are now eligible for a six-month extension, however, which is a month longer than under the prior rules and makes the extended due date the same as under prior rules.

Also effective for 2016 and later returns, the filing deadline for FinCEN Form 114, *Report of Foreign Bank and Financial Accounts* (FBAR), was moved up from June 30 to April 15. FBAR filers can request a six-month extension. The filing deadline for taxpayers abroad is automatically extended until June 15, with an additional four-month extension available until Oct. 15. The IRS is authorized to waive penalties for taxpayers who are first-time FBAR filers who fail to timely request an extension. The IRS has been cracking down on taxpayers trying to skirt the law on filing these forms, and the penalties for failing to file the form can be significant. Generally, the return must be filed by a taxpayer that has a financial interest in or signature authority over a foreign financial account, including a bank account, brokerage account, mutual fund, trust, or other type of foreign financial account, exceeding certain thresholds.

CHANGES TO 3 CREDITS AFFECT TAXPAYERS AND PRACTITIONERS

Congress gave taxpayers good news when it permanently extended various expired tax provisions at the end of last year (Consolidated Appropriations Act, 2016 (the Act), P.L. 114-113). This permanency gives taxpayers and practitioners a better ability to plan for these tax breaks without the annual worry of wondering whether they will be extended and for how long.

However, buried in the good news of the extensions were some other, less-publicized changes that affect the child tax credit, the American opportunity tax credit, and the earned income tax credit (EITC). These changes include new restrictions, new penalties, and new due-diligence requirements for practitioners.

Child tax credit

Sec. 24 provides a $1,000 tax credit to a taxpayer whose income is below certain thresholds for each of the taxpayer's qualifying children under age 17. The credit is generally nonrefundable, meaning that the credit cannot exceed the taxpayer's tax liability. However, Sec. 24(d) makes portions of the credit refundable. This refundable credit is commonly referred to as the additional child tax credit, and it is calculated using a percentage of the taxpayer's earned income for the year (15% of the excess of taxable earned income over $3,000). A separate limitation applies to taxpayers with three or more qualifying children.

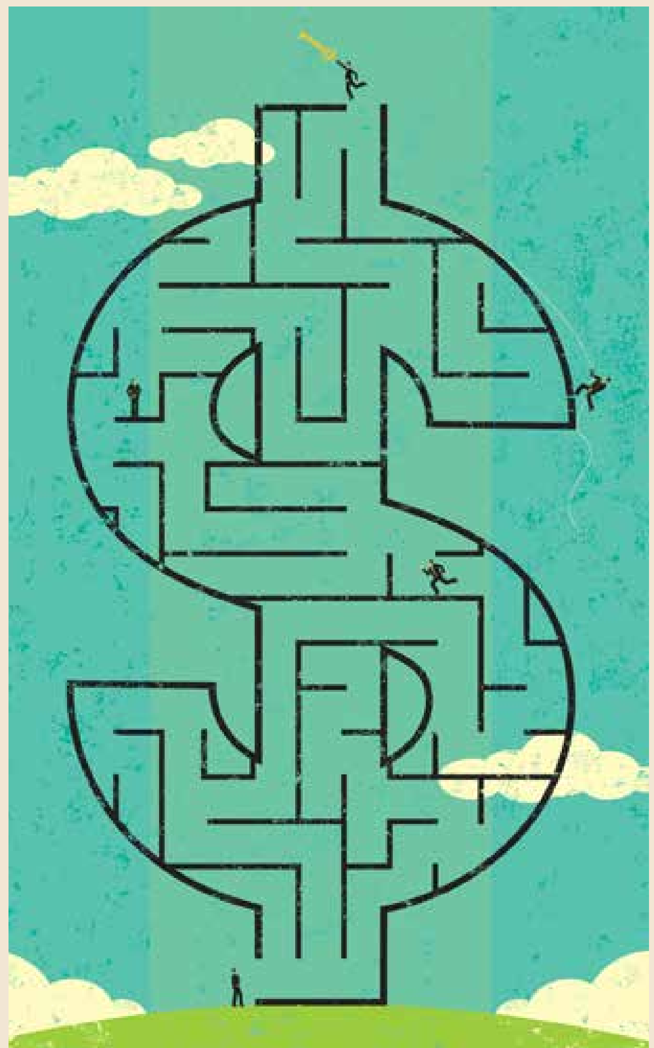
Before the new legislation, the $3,000 amount for calculating the refundable portion of the credit was scheduled to increase to $10,000, adjusted for inflation, in 2018. Now, the threshold amount for determining whether a taxpayer is eligible for the refundable (or additional) Sec. 24 child tax credit is permanently set at $3,000 (not indexed for inflation), which has been the threshold since 2009.

Retroactive claims: One change the legislation makes is to prohibit retroactive claims of the child tax credit. It does this by preventing taxpayers from amending a return (or filing an original return) to claim the credit for any prior year in which the taxpayer or the qualifying child did not have an individual taxpayer identification number (ITIN). This means that taxpayers cannot file returns claiming the credit using an ITIN issued after the year for which the credit is being claimed. The effective date of this provision allows taxpayers to file their 2015 returns without regard to this rule if the returns are timely filed (Section 205 of the Act).

New penalties: Before the new legislation was enacted, there was no penalty for taxpayers who recklessly or fraudulently claimed the child tax credit. Now, the rules that already applied to false claims for the EITC also apply to the child tax credit. Individuals who fraudulently claimed the credit are barred from claiming the credit for 10 years. If they are found to have claimed the credit with reckless or intentional disregard of the rules, the bar applies for two years (Sec. 24(g) as amended by Section 208(a)(1) of Division Q of the Act).

IRS claim processing: The Act gives the IRS math error authority, which allows it to disallow improper credits without a formal audit if the taxpayer claims the child tax credit in a period in which he or she is barred from doing so (Sec. 6213(g)(2)(P)). For taxpayers claiming the additional child tax credit after Dec. 31, 2016, the IRS will have additional time to review the refund claim and will not be required to pay the refund before the 15th day of the second month following the close of the tax year (Sec. 6402(m)).

Due diligence: Effective for tax years beginning after Dec. 31, 2015, return preparers are subject to due-diligence requirements for returns that claim the child tax credit, much as they are currently subject to for returns that claim the EITC. For the EITC, those requirements include submitting a completed checklist with the return; completing a prescribed worksheet; maintaining certain records for three years that document their due diligence; and not knowing, or having reason to know, that any information that was used to determine whether the taxpayer is eligible to claim the credit or to compute the amount of the credit is incorrect. What the exact child tax credit due-diligence requirements will be is, as yet, unknown: The IRS was given authority to issue regulations imposing due-diligence requirements for returns claiming the child tax credit but has not yet done so. The penalty for failure to comply with the due-diligence requirements will be $500 for each failure (Sec. 6695(g)).



American opportunity tax credit

The American opportunity tax credit permits taxpayers to claim a credit of up to $2,500 for each eligible student for qualified educational expenses (Sec. 25A). The credit phases out when modified adjusted gross income (AGI) exceeds certain amounts.

Before legislation was enacted in 2009, the credits for educational expenses were called the Hope credit and the lifetime learning credit. In 2009, the American Recovery and Reinvestment Act, P.L. 111-5, renamed the Hope credit the American opportunity tax credit. The new credit was originally to be effective from 2009 to 2017 (Sec. 25A(i)). The Act makes the credit permanent.

Reporting requirements: Taxpayers claiming the American opportunity tax credit are now required to report the employer identification number of the educational institution to which the taxpayer makes qualified payments under the credit (Sec. 25A(i)(6)(C)). Also note that the Act made changes to the reporting requirements for higher education institutions, which will be required to report only qualified tuition and related expenses actually paid on Form 1098-T rather than being allowed to choose between reporting amounts actually paid or amounts billed. Both provisions are effective for expenses paid after Dec. 31, 2015, for education furnished in academic periods starting after that date.

Retroactive claims: Similar to the child tax credit, the law prohibits an individual from retroactively claiming the credit by amending a return (or filing an original return) for any prior year in which the individual or a student for whom the credit is claimed did not have an ITIN (Secs. 25A(i)(6)(A) and (B)). This means that taxpayers cannot file returns claiming the American opportunity tax credit using an ITIN issued after the year for which the credit is being claimed. The effective date of this provision allows taxpayers to file their 2015 returns without regard to this rule if the returns are filed by the due date (Section 206(b)(2) of the Act).

New penalties: Again adding a provision that previously applied only to the EITC, individuals are barred from claiming the American opportunity tax credit for 10 years if they fraudulently claim the credit, and for two years if they are found to have claimed the credit with reckless or intentional disregard of the rules (Sec. 25A(i)(7)).

IRS claim processing: The IRS is given math error authority, which allows it to disallow improper credits without a formal audit if the taxpayer claims the credit in a period in which he or she is barred from doing so (Sec. 6213(g)(2)(Q)).

Due diligence: Similar to the new due-diligence requirements under the child tax credit, effective for tax

years beginning after Dec. 31, 2015, return preparers are subject to due-diligence requirements for returns that claim the American opportunity tax credit. And, as with the child tax credit, the due-diligence requirements relating to the American opportunity tax credit are unknown: The IRS was given authority to issue regulations imposing due-diligence requirements for returns claiming the American opportunity tax credit but has not yet done so. The penalty for failure to comply with the due-diligence requirements will be $500 for each failure (Sec. 6695(g)).

Earned income tax credit

The EITC grants a refundable credit to low- or moderate-income taxpayers with earned income. The amount of the credit is the taxpayer's earned income (up to the statutory maximum amount as adjusted for inflation) multiplied by the credit percentage. The maximum earned income amount and the credit percentage that apply to a taxpayer are based on the taxpayer's number of qualifying children. The credit is phased out for taxpayers with AGI or, if greater, earned income, over the applicable credit phaseout threshold amount, which is also based on the number of the taxpayer's qualifying children.

Higher credit amount: The credit rate is 7.65% for taxpayers with no qualifying children, and it increases to 34% for one qualifying child, 40% for two qualifying children, and 45% for three qualifying children. The 45% credit for three qualifying children was originally a temporary provision that was scheduled to expire in 2018. Instead, the Act made the 45% credit permanent.

In 2009, the credit phaseout threshold amounts for married couples filing a joint return were increased by $5,000, with an annual inflation adjustment, over the threshold amounts for other filers, for the years 2009 through 2017. After 2017, the increase in the threshold amounts for married taxpayers filing jointly was scheduled to expire. The Act made the $5,000 increase to the credit phaseout threshold amounts for married taxpayers filing jointly permanent and continues the annual inflation adjustments for years after 2015.

Retroactive claims: Similar to the other credits described above, the Act prevents retroactive claims of the EITC by prohibiting individuals from claiming the credit on an amended return (or original return) for any prior year in which the individual did not have a valid Social Security number (SSN). This means that taxpayers cannot file returns claiming the credit using an SSN issued after the year for which the EITC is being claimed. The effective date of this provision allows taxpayers to timely file their 2015 returns without regard to this rule. (Unlike the other credits, taxpayers must have SSNs to claim the EITC, not merely an ITIN (Sec. 32(m)).)

IRS claim processing: For taxpayers claiming the EITC after Dec. 31, 2016, the IRS will have additional time to review the claim and will not be required to pay the refund before the 15th day of the second month following the close of the tax year (Sec. 6402(m)).

OTHER RECENT FEDERAL TAX LAW CHANGES

The Act extended a lengthy list of expired tax provisions—some permanently, some for five years, and many just for two years, through 2016. These changes will affect 2016 tax returns.

Permanent extension of provisions affecting individuals

In addition to the changes to the child tax credit, American opportunity tax credit, and the EITC, Congress permanently extended a handful of provisions affecting individuals. The Sec. 62(a)(2)(D) above-the-line deduction for elementary and secondary school teachers, allowing teachers to deduct up to $250 on books, supplies, computer equipment, and other materials they buy to use in their classrooms was made permanent. The $250 amount is indexed for inflation beginning in 2016 (although the amount remains $250 for 2016). Sec. 132(f), which provides parity between the exclusion for employer-provided mass transit and parking benefits, was also made permanent. And finally, the Sec. 164(b)(5) deduction for state and local general sales taxes in lieu of state and local income taxes was made permanent.

Permanent extensions affecting charitable contributions

Various incentives for charitable giving have been made permanent. The Sec. 170(b) charitable deduction for contributions of real property and the special rule for contributions of capital gain real property made for conservation purposes, which permits qualified conservation contributions to be deducted up to 50% of a taxpayer's contribution base (100% for qualified farmers and ranchers), are both now permanent. Alaska Native Corporations can now deduct conservation easement donations up to 100% of their taxable income.

The provision in Sec. 408(d)(8) that allows taxpayers who are at least 70½ years old to make up to $100,000 in qualified charitable distributions from individual retirement plans without including the distributions in income was also made permanent.

Various changes were made to Sec. 170(e)(3)(C), which allows businesses to make contributions of "apparently wholesome food" to charities that will use it for the care of the ill, the needy, or infants and to take an above-basis deduction for these contributions. In addition to making the deduction permanent, the limitation was increased from 10% to 15% of the taxpayer's ▶

AGI (15% of taxable income for C corporations) per year. Also, new rules were introduced for valuing food inventory for these purposes.

Sec. 512(b)(13)(E) was made permanent. It modifies the tax treatment of certain payments to controlling exempt organizations so that they are not treated as unrelated business income.

Finally, Sec. 1367(a)(2), which allows S corporation shareholders to adjust their basis in their stock when the S corporation makes charitable contributions of property using their basis in the property instead of its fair market value, was made permanent.

Permanent extensions affecting businesses

After years of short-term renewals, the Sec. 41 research and development credit was finally made permanent. The credit was also modified so that eligible businesses with $50 million or less in gross receipts can claim the credit against their AMT liability. Also, certain small businesses can now claim the credit against their payroll tax liability.

The $500,000 Sec. 179 expensing limit and $2 million phaseout threshold were made permanent. The $500,000 and $2 million amounts are indexed for inflation beginning in 2016 (they are $500,000 and $2,010,000, respectively, for 2016). Also, Congress made permanent Sec. 179(f)'s special treatment of "qualified real property." As noted above, air conditioning and heating units placed in service after 2015 are also eligible for expensing. Finally, the $250,000 cap for qualified real property is eliminated beginning in 2016.

In welcome news for investors, Sec. 1202, which provides an exclusion of 100% of gain on certain small business stock, was made permanent.

Congress also made permanent the Sec. 45P employer wage credit for employees who are active duty members of the uniformed services, which provides a credit for employers for up to 20% of the eligible differential wage payments made while an eligible employee is serving on active duty.

Other business provisions that were made permanent include Sec. 168(e)(3), which allows 15-year straight-line cost recovery for qualified leasehold improvements, qualified restaurant buildings and improvements, and qualified retail improvements; Secs. 871(k)(1) and (2), which exempt interest-related dividends and short-term capital gain dividends from a regulated investment company (RIC) from tax; Sec. 1374(d)(7), which reduces the S corporation recognition period for built-in gains tax to five years; and the Subpart F exception under Secs. 953(e)(10) and 954(h)(9) for active financing income.

Permanent extensions affecting real estate investment

The Act also made permanent several incentives for real estate investment: the Sec. 42(b)(2) minimum low-income housing tax credit rate for nonfederally subsidized buildings, which allows a 9% minimum low-income housing credit rate for those buildings; Sec. 142(d)(2)(B)(ii), under which the military basic pay allowance for housing exclusion is disregarded for a qualified building for purposes of the low-income housing credit; and Sec. 897(h)(4), which treats RICs as qualified investment entities under the Foreign Investment in Real Property Tax Act, P.L. 96-499.

5-year extensions

A handful of provisions were extended through 2019 (not permanently). Perhaps the most important of these was Sec. 168(k), which provides a depreciation deduction equal to 50% of the adjusted basis of qualifying property in the first year it is placed in service (also known as bonus depreciation). However, the percentage will phase down to 40% for property placed in service in 2018 and to 30% for property placed in service in 2019. The AMT rules are also modified to increase the amount of unused AMT credits that can be claimed in lieu of bonus depreciation. Bonus depreciation is now allowed for "qualified improvement property"—a new category of property. Also, certain trees, vines, and fruit-bearing plants are now eligible for bonus depreciation when planted or grafted, rather than when placed in service.

The Sec. 45D new markets tax credit, which provides tax credits for investments in businesses or real estate in low-income communities, was also extended through 2019 (carryovers of the unused limitation were extended through 2021).

The Sec. 51 work opportunity tax credit equal to 40% of the qualified first-year wages of employees who are members of a targeted group was extended through 2019. This credit was also modified beginning in 2016 to allow it to be claimed by employers that hire qualified long-term unemployed individuals (individuals who have been unemployed for 27 or more weeks).

Finally, Congress also extended through 2019, Sec. 954(c)(6), which provides for lookthrough treatment of payments of dividends, interest, rents, and royalties received or accrued from related controlled foreign corporations under the foreign personal holding company rules.

2-year extensions

Other expired provisions have been extended for two years, retroactively for 2015 and through 2016.

Individual tax incentives: Provisions for individuals extended through 2016 include:

- Sec. 108(a)(1)(E), which excludes from gross

income discharge of qualified principal residence indebtedness income.
- The Sec. 163(h)(3) treatment of mortgage insurance premiums as qualified residence interest, which permits a taxpayer whose income is below certain thresholds to deduct the cost of premiums on mortgage insurance purchased in connection with acquisition indebtedness on the taxpayer's principal residence.
- Sec. 222, which provides an above-the-line deduction for qualified tuition and related expenses.

Business tax incentives: Provisions for businesses extended through 2016 include:
- The Sec. 45A Indian employment tax credit for employers of enrolled members of Indian tribes (or their spouses) who work on and live on or near an Indian reservation.
- Sec. 45G, the railroad track maintenance credit, equal to 50% of the qualified railroad track maintenance expenditures paid or incurred by an eligible taxpayer.
- The Sec. 45N mine rescue team training credit, which provides a credit for a portion of the training costs for qualified mine rescue team employees.
- Sec. 54E qualified zone academy bonds, which allows qualified schools to issue bonds for renovations (but not new construction), equipment purchases, teacher training, or developing course materials when they partner with private businesses.
- Sec. 168(e)(3)(A), which allows certain racehorses to be depreciated as three-year property instead of seven-year property.
- Secs. 168(i)(15) and (e)(3)(C)(ii) allowing a seven-year recovery period for motorsports entertainment complexes.
- Sec. 168(j), which allows owners accelerated depreciation for qualifying property used predominantly in the active conduct of a trade or business within an Indian reservation.
- The Sec. 179E election to expense mine safety equipment, which permits taxpayers to elect to treat 50% of the cost of any qualified advanced mine safety equipment as a deduction in the year the property is placed in service.
- The Sec. 181 special expensing rules for certain film and television productions, which allows taxpayers to treat costs of any qualified film or television production as a deductible expense. The provision is modified to also apply to live theatrical productions.
- Sec. 199(d)(8), which permits a deduction for income attributable to domestic production activities in Puerto Rico.
- The Sec. 1391 empowerment zone tax incentives. This provision is modified to allow employees to meet the enterprise zone facility bond requirement if they reside in the empowerment zone, an enterprise community, or a qualified low-income community.
- The Sec. 7652(f) temporary increase in the limit on cover over of rum excise taxes from $10.50 to $13.25 per proof gallon to Puerto Rico and the Virgin Islands.
- The American Samoa economic development credit.

Energy tax incentives: Provisions for energy expenses extended through 2016 include:
- Sec. 25C, which provides a 10% credit for qualified nonbusiness energy property. The law also updates the Energy Star requirements.
- Sec. 30B, which provides a credit for qualified fuel cell motor vehicles.
- Sec. 30C, which provides a 30% credit for the cost of alternative (non-hydrogen) fuel vehicle refueling property.
- The Sec. 30D 10% credit for plug-in electric motorcycles and two-wheeled vehicles.
- Sec. 40(b)(6), which provides a credit for each gallon of qualified second-generation biofuel produced.
- The Sec. 40A credit for biodiesel and renewable diesel, which includes the biodiesel mixture credit, the biodiesel credit, and the small agri-biodiesel producer credit.
- The Sec. 45(e)(10)(A)(i) production credit for Indian coal facilities.
- The Sec. 45 credits for facilities producing energy from certain renewable resources.
- Sec. 45L, which provides a credit for each qualified new energy-efficient home constructed by an eligible contractor and acquired by a person from the eligible contractor for use as a residence during the tax year.
- Sec. 168(l), which provides a depreciation allowance equal to 50% of the adjusted basis of qualified second-generation biofuel plant property.
- The Sec. 179D deduction for energy-efficient commercial buildings.
- The Sec. 451(i) special rule for sales or dispositions to implement Federal Energy Regulatory Commission or state electric restructuring policy for qualified electric utilities.
- The Secs. 6426(c) and 6427(e) excise tax credits for alternative fuels. ■