TAX UPDATE: EXTENDER PROVISIONS PASSED BY SENATE

Insight on the Tax Increase Prevention Act of 2014

December 22, 2014

The enactment of the “Tax Increase Prevention Act of 2014” extends numerous expired tax provisions for 1 year (most of which cover only the 2014 tax year, retroactive to January 1, 2014) including an income exclusion for 2014 direct distributions from individual retirement accounts to eligible public charities.

The House of Representatives passed the Tax Increase Prevention Act on December 3, the Senate subsequently passed the Act late in the evening on Tuesday, December 16, and the Act was signed into law by President Obama on Friday, December 19. In response to the expiration of several provisions of the Internal Revenue Code (including credits, deductions and special classifications), the House and the Senate drafted competing “extender bills.” The Senate bill (the “Expiring Provisions Improvement Reform and Efficiency Act of 2014” or the “EXPIRE Act”) came first and was substantially similar to the Tax Increase Prevention Act (drafted by the House), with the key differentiator being the extension period: the Senate’s EXPIRE Act included a 2 year extension (retroactive to January 1, 2014), which would have provided an extra year of certainty. In all, the Tax Increase Prevention Act extends 8 personal tax provisions, 28 corporate tax provisions, and 10 energy tax provisions through 2014, as well as 2 pension plan provisions through 2015. Notably, the Tax Increase Prevention Act omits the Senate bill’s extension of the credit for health care taxes.

Under the newly enacted Tax Increase Prevention Act, 2014 direct distributions to eligible public charities not exceeding $100,000 made from an individual retirement account owned or inherited by an individual who has reached age 70½ at the time of the distribution, (i.e., a qualified charitable distribution or “QCD”) will be excluded from gross income. Despite its exclusion from gross income, a QCD will satisfy the owner’s or beneficiary’s required minimum distribution. However, QCDs are not limited to the required minimum distribution, so that eligible individual retirement account owners and beneficiaries who have already personally withdrawn their required minimum distributions may also direct a QCD of up to $100,000 to eligible public charities.

FOR MORE INFORMATION

As a premier financial firm, Northern Trust specializes in life-driven wealth management backed by innovative technology and a strong fiduciary heritage. For 125 years we have remained true to the same key principles – service, expertise and integrity – that continue to guide us today. Our Wealth Planning Advisory Services team leverages our collective experience to provide financial planning, family education and governance, philanthropic advisory services, business owner services, tax strategy and wealth transfer services to our clients. It is our privilege to put our expertise and resources to work for you. If you’d like to learn more, contact a Northern Trust professional at a location near you or visit us at northerntrust.com.

Northern Trust