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Taxes: What you need to know for 2016

- **Higher penalties for those without health insurance:** If you aren't covered by qualifying health insurance in 2016, the higher penalty for going uninsured will hurt. The maximum penalty will be the national average premium of the Bronze Plan on the federal exchange, or up to about $2,085. To avoid the penalty for 2016, you'll need to be covered under an employer's plan, or you'll need to enroll in a health plan on an exchange in the first two months of 2016.
- **Higher tax-free benefit for mass-transit commuters:** One of the expiring tax breaks the huge new federal spending bill has made permanent is a gift to those who pay for mass-transit commuting costs. The bill raises the monthly amount allowed to be paid with pretax income to $255 starting in 2016. The current limit is $130, so this will be a big benefit. The same amount will also apply to the pretax monthly amount car commuters can use for parking costs (which was $250 per month).

The new spending bill also makes permanent other tax breaks that were set to expire:

- **IRA charitable transfers:** This allows IRA owners age 70-1/2 or older to donate as much as $100,000 to a charity from their IRA tax-free. The charitable transfer also counts toward the IRA owner's required minimum distribution for the year of the transfer.
- **State and local sales tax deduction:** This allows taxpayers to deduct the greater of either sales tax payments or state and local income taxes on their federal returns. This is mostly used by taxpayers living in states such as Florida, Texas and Washington, which have no state income tax.
- **Educator expense deduction:** Many teachers use this to deduct as much as $250 of unreimbursed expenses for classroom supplies.
- **American Opportunity tax credit:** This allows a dollar-for-dollar credit against your tax liability of up to $2,500 per year when you pay for qualifying education costs for as many as four years of post-secondary education.

Charitable donations from IRAs made permanent

Under this now-permanently-restored break, you can make up to $100,000 in cash donations to IRS-approved charities directly out of your IRA(s) for this year if you will be age 70 1/2 or older as of Dec. 31, 2015. Your spouse is entitled to a separate $100,000 limitation for any IRA(s) that he or she separately owns, assuming your spouse has also reached the magic age.

Direct-from-your-IRA donations are called qualified charitable distributions, or QCDs. They are tax-free and no deductions are allowed for them, so QCDs don't directly affect your tax bill. However, they count as withdrawals for purposes of meeting the required minimum distribution (RMD) rules that apply to your traditional IRAs after age 70 1/2. You'll have to hurry to take advantage of this break for the 2015 tax year. You only have until Dec. 31 to do so.

Tax-free treatment for forgiven principal residence mortgage debt extended through 2016

For federal income tax purposes, a forgiven debt generally counts as taxable cancellation of debt (COD) income. However, an important exception applies to COD income from canceled mortgage debt that was used to acquire a principal residence. Under the exception, up to $2 million of COD income from such canceled principal residence acquisition debt can be treated as a tax-free item. This supergenerous break expired at the end of 2014, but the new law restores it for eligible COD transactions that occur in 2015 and 2016.

$250 deduction for K-12 educator expenses made permanent

The $250 deduction for teachers and other K-12 educators for school-related expenses paid out of their own pockets was made permanent. It now covers eligible expenses paid in 2015 and beyond.

$500 energy-efficient home improvement credit extended through 2016

In recent years, taxpayers could claim a tax credit of up to $500 for certain energy-saving improvements to a principal residence. This break expired at the end of 2014, but the new law extends it for 2015 and 2016. However, the $500 cap on the credit is reduced by any credit that you claimed in a pre-2015 year.

Mortgage related tax breaks

Under the new law, you can treat qualified mortgage insurance premiums as interest for purposes of the mortgage interest through 2016. However, the deduction phases out for taxpayers with AGIs of $100,000 to 110,000.

The 2 most important resurrected breaks for small businesses

Generous Section 179 deduction rules made permanent

The Section 179 deduction allows the cost of qualifying new and used depreciable assets (including most software) to be fully written off in Year One. For assets placed in service in tax years beginning in 2015 and beyond, the new law maintains the maximum Section 179 deduction allowance at the generous figure of $500,000 (same as for the last few years). For post-2015 years, the $500,000 cap will be indexed for inflation.

For tax years beginning in 2015, Section 179 deductions can also be claimed for up to $250,000 of qualifying real property expenditures. For 2016 and beyond the $250,000 cap on real property expenditures is eliminated. However, deductions allowed for real property expenditures reduce the overall $500,000 Section 179 deduction cap.

50% first-year bonus depreciation extended through 2017

The new law allows 50% first-year bonus depreciation for qualifying new (not used) business assets that are placed in service in calendar years 2015-2017. This break combined with the Section 179 deduction can lead to big tax savings for small and medium-size businesses.