



On February 9th, 2018, President Trump signed into law H.R. 1892, the Bipartisan Budget Act of 2018. This may have an impact on a number of taxpayers. The Bipartisan Budget Act of 2018 contains provisions for the reinstatement of individual tax incentives that had previously expired at the end of 2016. These provisions have been extended only through 2017, unless otherwise noted. Most notably they include:

- Discharge of qualified principal residence indebtedness income exclusion
- Treatment of mortgage insurance premiums as qualified residence interest
- Above-the-line deduction for qualified tuition and related expenses
- Credit for qualified nonbusiness energy property
- Credit for qualified residential energy property (extended through 2021)

Discharge of qualified principal residence indebtedness income exclusion

The qualified principal residence indebtedness exclusion allows a taxpayer to exclude, from gross income, up to \$2 million of the forgiven debt related to a decline in the value of the residence or to the financial condition of the taxpayer. Debt reduced through mortgage restructuring, as well as mortgage debt forgiven in connection with a foreclosure, qualify for the relief. This is an important provision for struggling homeowners.

Treatment of mortgage insurance premiums as qualified residence interest

Taxpayers who pay mortgage insurance premiums as a condition of their home loan, subject to certain income limits, can take the expense as an itemized deduction, along with mortgage interest expense. This is an important provision for first-time homebuyers or others that are considered high-risk borrowers.

Above-the-line deduction for qualified tuition and related expenses

An education deduction is available for qualified tuition and related expenses of the taxpayer, the taxpayer's spouse or a dependent claimed on the taxpayer's return, of up to \$4,000. This provision allows for an above-the-line deduction that directly offsets income, and is available for undergraduate and graduate tuition and fees, books, supplies, and certain equipment.

Credit for qualified nonbusiness energy property

Taxpayers can claim a credit for the installation of qualified energy property and improvements to a principal residence. The improvement must be new (not used) property. This includes, but is not limited to, natural gas water heaters, electric heat pumps, energy-efficient air conditioners, and exterior windows. If the home is used partly for business, the qualified expenditure must be allocated between nonbusiness and business use if the improvement is used more than 20% for business. Only the portion allocated to nonbusiness use qualifies for the credit.

Credit for qualified residential energy property

Taxpayers can claim a credit for a percentage of the cost of fuel cells, small wind energy systems, and geothermal heat pumps that were placed in service for a personal residence. The eligibility of these types of property had previously expired at the end of 2016, but have now been extended

through 2021. In addition, there is a credit available for 30% of the cost of solar energy systems (water heating and electricity). This credit has also been extended through 2021.

The Bipartisan Budget Act also included provisions for certain business tax incentives that have been extended through 2017. Some notable provisions include:

- Accelerated depreciation for the racehorse industry
- Special expensing rules for qualified film or television production
- Deduction for income attributable to domestic production activity in Puerto Rico
- Empowerment zone tax incentives for urban and rural communities

Also included in the Bipartisan Budget Act are provisions regarding disaster relief for victims of the California wildfires and Puerto Rico. They focus on providing incentives for those who have suffered great losses from these disasters, as well as those who help the relief effort through charity.

The full text of the Act can be found at:

<https://www.congress.gov/115/bills/hr1892/BILLS-115hr1892enr.pdf>

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