

# The Individual Taxpayer Implications of the Tax Extenders in H.R. 5771

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Every year for the past several years, **Congress** has passed a series of what are referred to as "tax extenders" - ***reinstatements of tax deductions*** and ***credits*** that have expired before the current tax year. It did so again in 2014, renewing several key tax breaks for individuals that apply exclusively to the 2014 tax year.

- Taxpayers with forgiven *mortgage debt* on their principle residence can now exclude up to \$2 million of that discharged debt from gross income. Traditionally, discharged debt of any kind qualifies as income to the taxpayer and is taxed accordingly.
- For tax purposes, mortgage insurance premiums are treated the same way as mortgage interest payments and are deductible.
- *Energy efficient* improvements to homes qualify for a tax credit of up to \$500 (a direct reduction in tax liability). Upgraded air conditioning and heat pump systems, new windows,
- Residents in states without an income tax received a gift in the form of an extension of a provision that allows taxpayers to choose to deduct state and local sales taxes rather than state and local income taxes. This itemized deduction can be calculated using a calculator provided by the IRS to estimate sales tax paid throughout the year.
- *College students* or parents of college students with income of up to \$65,000 for a single taxpayer or \$130,000 for taxpayers filing jointly who pay higher education expenses are eligible for an above-the-line deduction of up to \$4000. That deduction drops to \$2,000 for those with income between \$65,000 and \$80,000 (single) or between \$130,000 and \$160,000 (joint). Those with incomes above those amounts are not eligible for the deduction.
- Individuals who are 70 ½ and older can make tax-free distributions to certain public charities from their *IRAs*. Distributions of up to \$100,000 are eligible.
- Elementary and secondary school *teachers* who purchased educational items out-of-pocket for their classrooms are eligible for a \$250 above-the-line deduction.

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