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On July 31, President Obama signed a law that provides a three-month extension of the Highway Trust Fund (HTF). The Surface Transportation and Veterans Health Care Choice Improvement Act of 2015 came just in the nick of time — the HTF was set to expire on the same day. The last-minute budgetary extension is relevant to more than just contractors working on federal transportation projects. It also calls for the following tax law changes that will affect businesses, estates and individuals.

Changes in Tax Filing Deadlines

The HTF extension changes the filing due date for calendar-year C corporations from March 15 to April 15 and permits a five-month automatic extension until September 15 for tax years beginning on or before December 31, 2025, at which time a six-month extension of October 15 would be permitted. For C corporations that don't use a calendar year end for tax purposes, the filing deadline under the HTF extension is the fifteenth day of the fourth month after the close of its tax year.

Partnerships face an *earlier* deadline than before. Instead of filing by April 15, calendar-year-end partnerships must file their returns by March 15 under the HTF extension. For partnerships that don't use a calendar year end for tax purposes, the updated filing deadline is on or before the fifteenth day of the third month after the close of its tax year. A six-month extension (up from five months) will be available for partnerships, so the extension deadline remains September 15. (These are the same filing deadlines that already applied to S corporations.)

The deadline changes generally go into effect for tax years beginning after December 31, 2015. However under a special rule for C corporations with a June 30 year end, the changes aren't effective until tax years beginning after December 31, *2025*.

Requiring pass-through entities, such as partnerships and S corporations, to file their returns a month before the personal income tax deadline will help ensure that individuals who own interests in these entities have the requisite information to file more accurate and timely personal income tax returns. "The new structure will provide more accurate information to taxpayers in a more logical flow and reduce the number of extended and amended individual and corporate tax returns that are filed each year," commented AICPA President and CEO Barry Melancon.

The HTF extension modifies the due date for the Report of Foreign Bank and Financial Accounts (FBAR), formerly June 30, to April 15. This modified deadline coincides with the tax filing deadline for individuals. Taxpayers can also ask for the same six-month extension for FBARs that they can get for their tax returns under the new law. Additionally, Congress gave the IRS authority to abate first-time penalties for taxpayers who miss the new April 15 FBAR deadline and don't formally ask for an extension, as long as they file by October 15.

Exclusion of Vets in ACA Headcounts

Certain businesses may have an extra incentive to hire veterans under the new law: It allows employers to exclude employees who are covered under the Defense Department's TRICARE or Veterans Administration's medical coverage programs from headcounts when determining whether the business is an "applicable large employer" under the Affordable Care Act (ACA). Generally, businesses that have an average of at least 50 full-time employees or the equivalent during the preceding tax year are considered to be applicable large employers.

Under the ACA, such employers are responsible for offering full-time employees and their dependent children "minimum essential" health care coverage that meets certain additional standards and must meet certain health care information reporting requirements. These employers may be subject to substantial penalties if just one full-time employee receives a tax credit for buying coverage through a health care marketplace.

More-Detailed Mortgage Reporting Requirements

Financial institutions are already required to file information returns for qualified mortgages that pay $600 or more in interest for the calendar year. The HTF extension requires banks, credit unions and other mortgage providers to disclose more details about these loans to help reduce inaccurate reporting, including:

- Mortgage principal balance at the beginning of the calendar year,
- Mortgage origination date, and
- Address of the property (or other description for properties without postal addresses) which secures the mortgage.

The expanded mortgage reporting requirements go into effect for statements furnished after December 31, 2016.

Tighter Disclosures for Large Estates

The HTF extension explicitly requires large estates that are required to file an estate tax return to also report the fair market value of property at the owner's death to the IRS and to persons having or receiving any interest in the property. Such disclosure would provide consistency between property values reported for gift and estate tax purposes and the basis in property reported for future income tax purposes. The goal is to prevent heirs from understating their tax liabilities when they later sell inherited assets.

This change is effective for estate tax returns filed after July 31, 2015. Statements of fair market value must be furnished to the IRS and interested parties by the earlier of 1) 30 days after the date the estate tax return is required to be filed or 2) 30 days after the estate tax return is actually filed. Any underpayment of tax liabilities due to the overstatement of basis under this provision would be assessed a 20% accuracy-related penalty.

The IRS is also authorized to issue regulations affecting property where no estate tax return is required to be filed.

This change is effective for (1) returns filed after July 31, 2015 and (2) returns filed on or before July 31, 2015 where the statute of limitations has not expired by July 31, 2015.

Longer Statute of Limitations on Basis Overstatements

Generally, the IRS can go back only three years from the filing date (or the tax return due date) when assessing income tax liabilities. However, an exception applies when a taxpayer "omits from gross income" an amount greater than 25% of the amount of gross income reported on the tax return — then the IRS can go back up to six years.

The HTF extension clarifies that an understatement of gross income caused by an overstatement of unrecovered cost (or other basis) *is* an omission of gross income that's subject to a six-year statute of limitations. The change effectively overrides the U.S. Supreme Court's decision in *Home Concrete & Supply LLC* that an overstatement of basis *isn't* an omission of gross income subject to the six-year statute of limitations.

Pension Fund Transfer Extension

The HTF extension gives businesses four more years to transfer excess pension plan assets from ongoing defined benefit plans to retiree health plans and group term life insurance accounts. Previously, businesses had until the end of 2021 to make these transfers. Now the transfers must be completed by the end of 2025.

More Changes Underway

The HTF is set to expire again on October 29. In the meantime, Congress hopes to enact a long-term HTF extension that may be funded by additional tax law provisions. Contact your tax adviser for more information on the tax-related provisions of the Surface Transportation and Veterans Health Care Choice Improvement Act and any future transportation funding legislation.

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