*The tax laws continue to provide opportunities for the wise and traps for the unwary. Often, tax savings can be achieved by taking action before the year-end. The information and strategies discussed herein may or may not be appropriate for your situation. Remember to consult with your tax professional before implementing them.*

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***New Tax Laws***

The American Rescue Plan Act of 2021 (ARPA) is a $1.9 trillion economic stimulus package passed by Congress and enacted into law by President Joe Biden on March 11, 2021, with the goal to speed up the United States’ recovery from the economic and health effects of the COVID-19 pandemic and the ongoing recession. First proposed on January 14, 2021, the package builds upon many of the measures in the 2020 CARES Act, as well as the 2021 Consolidated Appropriations Act.

**Recovery rebate credit (EIP3 stimulus checks).** ARPA provided a third round of nontaxable stimulus checks that were paid directly to individuals. The payments were structured as refundable tax credits against 2021 taxes due in 2022 but were paid out in 2021.

The maximum payments were $1,400 per eligible individual ($2,800 for married joint filers) and $1,400 for each dependent, including older children and adult dependents. This change is different than the first two stimulus payments which only included payments for dependents who were under the age of 17. The payment phases out proportionally between $75,000 and $80,000 AGI for single filers, $112,500 and $120,000 for head of household filers, and $150,000 and $160,000 for married joint filers.

Eligibility for the Economic Impact Payments (EIP 3) was based on information from 2020 income tax returns, or 2019 returns, if 2020 returns were not filed when the advanced credit was initially issued. For households whose payment was based on 2019 income data, and who would be eligible to receive a larger payment based on 2020 data, the IRS was directed to issue a supplementary payment.

**Child tax credit**. The definition of qualifying children changed for 2021 by including all children who have not reached age 18. The child tax credit (CTC) is increased to $3,000 per child ($3,600 for children under age six), but the increase is subject to modified AGI phase out rules. Most notably, the credit is refundable, and the IRS began making periodic advance payments in July totaling 50% of what the IRS estimates to be the total of your credit. The advance payment will continue through December. The IRS will use the information from the 2020 tax return (or the 2019 return if the 2020 had not been filed) to determine the amount of the advance payment.

If you receive advance CTC payments that are more than the credit allowable to you for 2021, you might have to repay the excess amounts. This is achieved by increasing the tax liability on your 2021 return, and consequently reducing your potential refund.

**Note:** IRS says that it will send Letter 6419 in January 2022 to provide the total amount of advance CTC payments that were disbursed to taxpayers during 2021. In addition, if you received an Economic Impact Payment (discussed above), you should receive Notice 1444-C. This notice provides information about the amount of the payment, how the payment was made, and how to report any payment that was not received. Please remember to include this information with your other tax documents for your tax appointment.

What remained the same for 2021, is the requirement that to claim the CTC, you must include each qualifying child’s name and social security number (SSN) on your tax return, and that those SSNs must have been issued before the due date of your return, including extensions. If a qualifying child doesn’t have an SSN, you will be able to claim the $500 other dependent credit for that child using an individual taxpayer identification number (ITIN) or adoption taxpayer identification number (ATIN).

**Earned income credit.** The earned income credit (EIC) has been modified for 2021. First, the credit is increased for taxpayers with no qualifying children and age restrictions for those taxpayers are relaxed. Prior to ARPA, eligible taxpayers must have reached age 24 and be no older than age 64. The new rules allow taxpayers with no children who have reached age 19 to qualify for the credit. There is no upper age limit. Students (other than “qualified foster youths” or “qualified homeless youths”) must be at least 24 years old. Qualified foster youths and qualified homeless youths must be at least 18.

There are a few changes to claiming the EIC that are now permanent. Effective for tax years beginning after 2020, if you have qualifying children, but cannot provide proper identification (SSN, etc.), you’re still eligible for the EIC that applies for individuals that have no qualifying children. After 2020, the amount of investment income that a taxpayer can have and still earn the credit is increased and separated married couples are no longer required to file a joint return to claim the credit.

**Child and dependent care credit.** New in 2021 is that the credit is refundable. Also, the amount of qualifying expenses taken into account for the credit is increased from $3,000 to $8,000 if there is one qualifying care recipient and from $6,000 to $16,000 if there are two or more. The maximum percentage of qualifying expenses for which credit is allowed is also increased to 50%, up from 35%.

If you participate in your employer provided dependent care assistance program, the amount you are allowed to exclude from income reduces the amount of expenses considered for the credit.

**Dependent care assistance programs.** For 2021, the amount excludible under a dependent care assistance program is increased to $10,500 (or $5,250 for a married taxpayer filing a separate return). Retroactive plan amendments are allowed to facilitate the increase.

**Health care premium assistance credit.** For 2021 and 2022, the credit will be available for a larger percentage of insurance premiums, and if your income is greater than 400% of the federal poverty line, you still might be eligible for the credit. And, if you received unemployment compensation at any times during 2021 you are also eligible for the premium tax credit.

If you were provided advances of the credit in 2020 under the Patient Protection and Affordable Care Act in excess of the credits to which you were entitled, you were not required to pay back the excess.

**Income exclusion for unemployment benefits.** For 2020, taxpayers with modified AGI less than $150,000 can exclude from gross income $10,200 of their unemployment benefit. The exclusion is available to each spouse if a joint return is filed.

**Note:** This exclusion does not apply in 2021. This means that any unemployment benefits you received after 2020 are once again taxable.

**Student loan forgiveness.** Beginning in 2021 and continuing through 2025, the forgiveness of many types of loans for post-high school education won’t result in income inclusion for the forgiven amounts.

***Additional Information***

**IRA distributions.** In 2020,taxpayers who reached age 72 and who attained age 70½ after December 31, 2019, were required to begin annual distributions from their IRAs. However, because of COVID-19, and the hardships many faced, required minimum distributions (RMDs) were waived for everyone. This was a temporary provision.

In 2021, required minimum distributions are again mandatory for all taxpayers who were over 70½ before December 31, 2019, and for those who reached age 72 after that date. In other words, an individual whose 70th birthday was on June 30, 2019, would be subject to the age 70½ rule, while an individual whose 70th birthday was on July 1, 2019, would be subject to the age 72 rule.

**Note:** You must take your 2021 RMD no later than December 31, 2021. Failure to take a required distribution may result in penalties.

**IRA contributions.** If you are considering making an IRA contribution for 2021, you have until April 15, 2022. For 2021, you can contribute up to $6,000 or $7,000 if you are age 50 or older. Also keep in mind that income limits apply if you or your spouse are covered by an employer provided retirement plan.

**Charitable contributions.** In 2021, taxpayers who do not itemize deductions on Schedule A are allowed to deduct up to $300 of cash contributions to a qualified charitable organization. If you are married and file a joint return, the deductible amount increases to $600 ($300 for each spouse). For example, if a married couple, who file a joint tax return in 2021, contributed $700 in cash to a qualified charitable organization - they would be allowed to deduct $600 as an above-the-line deduction. Keep in mind if this same couple elected to itemize, they would not get an above-the-line deduction. In that case all charitable contributions would be reported on the Schedule A (*plus* any other itemized deduction for the tax year).

**Medical expenses.** To be deductible, your total medical expenses must exceed 7.5% of your adjusted gross income. For many that’s a difficult number to meet. When totaling your expenses this year be sure to include any expenses you incurred for COVID related personal protection equipment. This can include masks, hand sanitizer, sanitizing wipes, home testing kits, and other personal protective equipment used to prevent the spread of COVID-19. These costs are also eligible to be paid or reimbursed under health flexible spending arrangements, Archer medical savings accounts, health reimbursement arrangements, or health savings accounts.

**Standard Mileage Rate.** Taxpayers can use the standard mileage rate (in lieu of actual expenses) in computing the deductible costs of operating automobiles owned or leased by them (including vans, pickups, or panel trucks) for business purposes. This rate is also used as a benchmark by the federal government and many businesses to reimburse their employees for business travel.

The following rates apply for the 2021 tax year:

Business .56

Medical .16

Moving .16

Charitable  .14

***Year-End Planning***

Year-end planning is always complicated by the uncertainty of what the following year may bring, but this year presents an even bigger challenge. Serious questions persist over whether tax legislation will pass this year and, if so, whether it will involve sweeping tax reform, simple rate cuts, or something in between. With that in mind, here are a few steps that you might consider saving tax dollars if you act before the end of the year. Please note that all actions may not apply in your situation.

**Sell underperforming investments.** If you own investments that have been losing value and they are not likely to recover, selling them now and taking the loss could benefit you tax-wise. Capital losses offset capital gains dollar for dollar, and if your losses exceed your gains, you can use up to another $3,000 of those losses to offset your other income.

**Standard deduction versus itemizing.** Many taxpayers can no longer itemize their deductions because of the high basic standard deduction. For 2021, this amount is $12,550 for singles or married taxpayer filing separate, $25,100 for married taxpayers, or $18,800 if you qualify as head of household. This increased deduction along with the elimination of many deductions presents an opportunity for some careful planning.

Consider bunching your deductions every other year. This can include making charitable contributions and paying medical expenses in years where you can exceed the standard deduction.

**Health savings accounts.** If you become eligible in December 2021 to make health savings account (HSA) contributions, you can make a full year’s worth of deductible HSA contributions for 2021, provided you make them by April 15, 2022. For 2021, the maximum contribution you can make is $3,600 for self-only coverage, and $7,200 for family coverage. You can contribute an additional $1,000 if you are over age 50.

You are eligible to make contributions into a health savings account if you are covered under a high deductible health plan.

**Section 529 plans.** Parents with college bound children, or children who attend or will attend private school, should consider opening a 529 savings plan. With a 529 plan, your contributions grow tax-free while the money stays in the plan. In addition, you will not pay taxes on your gains or withdrawals provided you use that money for qualified education expenses.

Although there is no annual limit on contributions to a 529 plan, contributions are considered a gift to the individual for whom the account is created. This means that if you make gifts of more than $15,000 to any one individual in 2021, you may be required to file an annual gift tax return. This does not necessarily mean you will have to pay gift tax.

**Maximize your retirement plan contributions.** If you participate in your employer’s 401(k) plan, now is the time to review the contributions you made for 2021. This is one of the most important tax deductions available. Not only do your contributions grow tax-free, but you are allowed to contribute on a pre-tax basis. In many cases, your employer will match your contribution up to a certain percentage. The maximum 401(k) contribution allowed for 2021 is $19,500 (or $26,000 if you are age 50 or older).

PRIVACY POLICY

We do not disclose any non-public personal information about our clients or former clients to anyone, except as instructed to do so by such clients, or required by law. We restrict access to non-public personal information, and we maintain physical, electronic, and procedural safeguards to guard your personal non-public information.