

## 2021 TAX HIGHLIGHTS AND REMINDERS

**Bank Account Verification:** As a reminder, if you choose to have direct deposit of refunds, you must **ANNUALLY** verify the name of the financial institution, routing transit number, account number, and type of account. **Please complete the Bank Account Verification Form. Your return will not be filed with the IRS until the signed Bank Account Verification Form has been received by this office.**

### Tax Brackets and Rates:

Tax Rate	Single	Married Filing Jointly	Married Filing Separate	Head of Household
10%	Up to \$9,950	Up to \$19,900	Up to \$9,950	Up to \$14,200
12%	\$9,951 to \$40,525	\$19,901 to \$81,050	\$9,951 to \$40,525	\$14,201 to \$54,200
22%	\$40,526 to \$86,375	\$81,051 to \$172,750	\$40,526 to \$86,375	\$54,201 to \$86,350
24%	\$86,376 to \$164,925	\$172,751 to \$329,850	\$86,376 to \$164,925	\$86,351 to 164,900
32%	\$164,926 to \$209,425	\$329,851 to \$418,850	\$164,926 to \$209,425	\$164,901 to \$209,400
35%	\$209,426 to \$523,600	\$418,851 to \$628,300	\$209,426 to \$314,150	\$209,401 to \$523,600
37%	\$523,601 +	\$628,301 +	\$314,151+	\$523,601 +

**Standard Deduction:** The standard deduction is \$25,100 for married filing joint filers, \$18,800 for head of household filers, and \$12,550 for all other filers. The additional standard deduction for the elderly and blind amounts are \$1,700 for single filers and \$1,350 for married filing joint filers. The standard deduction for a dependent is the greater of \$1,100 or the amount of earned income plus \$350 (not to exceed \$12,550).

**Child and Family Credits:** For tax year 2021, the Child Tax Credit is increased from \$2,000 per qualifying child to \$3,000 (\$3,600 if under 6 at 12/31/2021) for children under age 18 as of 12/31/2021. The full amount is refundable. The credit phases out in two different steps based on your Modified AGI. The first phaseout can reduce the credit to \$2,000 per child when modified AGI exceeds \$150,000 MFJ, \$112,500 HOH, and \$75,000 for all others. The credit begins to be reduced below \$2,000 per child when modified AGI exceeds \$400,000 MFJ or \$200,000 for all others. In addition, there is a \$500 nonrefundable credit for certain non-child dependents (i.e. children age 18 and full-time students ages 19 to 23).

**Advanced Child Tax Credit:** The American Rescue Plan Act (ARPA) required the IRS to pay ½ of the child tax credit in advance in 6 monthly payments beginning in July 2021 for individuals maintaining a principle residence in the United States for over ½ the year. This advance payment was estimated based on 2020 returns (2019 if not filed as of processing date). The advance credit will then be reconciled when filing the 2021 return. Any additional credits due will be refunded with the return. **Any excess payments must be paid back with the 2021 return as additional tax.**

**Medical:** The threshold for deducting medical expenses remains at 7.5% of Adjusted Gross Income.

**State and Local Tax Deduction:** The itemized deduction for Income (or sales tax, if higher) and property taxes are still deductible, but are limited to \$10,000 (\$5,000 for married filing separately) total deduction per year. Foreign real property taxes are not deductible.

**Mortgage Interest Deduction:** **No interest deduction will be allowed for interest on home equity loans (unless the loan is used to improve your home).** If a taxpayer refinances a home loan or has a home equity loan it is important to keep track of the use of the funds. The deduction for mortgage insurance premiums has been extended through 2021.

**Charity:** IRS regulations state that ALL deductions of any amount must have a receipt and/or cancelled check. Any individual contribution over \$250 must also have an acknowledgement letter (dated before the filing date of the return) from the charity. The letter should show the date and amount of any individual contribution over \$250, and also state that no goods or services were received in return for the contribution. **NOTE: Standard deduction filers are allowed an "above the line" charitable income tax deduction equal to the amount of charitable cash gifts, but only up to \$600 for MFJ and \$300 for all others.**

**Inherited IRAs:** IRAs inherited from people (other than your spouse and a few other exceptions) who passed away after 2019 must now be distributed within 10 years of death.

**Required Minimum Distributions (RMDs):** The mandatory age to begin distributions from your traditional IRAs is 72. The distributions must begin no later than April 1 of the year following the year in which you attain age 72. Regardless of whether it's your first distribution or not, the RMD is based on the balance in each account at the end of the prior year (i.e. the 2022 RMD is calculated on the December 31, 2021 account value). If you provide these values for each account with your tax papers, we can calculate the RMDs for you.

**IRA Contributions:** Anyone of any age may now deposit money to an IRA if they have earned income such as wages or self-employment. The contribution limit for 2021 is the lesser of earned income or \$6,000 (plus an additional \$1,000 if age 50 or older at the end of the tax year).

**Virtual Currency:** The IRS and Congress are beginning steps to regulate Crypto-currency such as Bitcoin. Therefore, you **must** be certain to report any of these transactions. Note that any award of new currency is taxable as ordinary income. There is a question that must be answered on every tax return.

**Alternative Minimum Tax (AMT):** The AMT exemption amount is increased to \$114,600 for married filing joint returns (up from \$113,400) and \$73,600 for all other taxpayers (up from \$72,900). [For married filing separately the limit is increased from \$56,700 to \$57,300]. The phase-out thresholds are increased to \$1,047,200 for married taxpayers filing a joint return and \$523,600 for all other taxpayers.

**Kiddie Tax:** The taxable income of a child attributable to unearned income is taxed at their parent's tax rates. This applies to unearned income greater than \$2,200.

**Estate and Gift Taxes:** A federal lifetime exemption of \$11,700,000 and a 40% gift tax rate on taxable gifts is available to all decedents dying after December 31, 2020 and for gifts made after December 31, 2020. If any individual makes gifts of more than the limit, gift tax is incurred. Remember: A gift tax return is still required to be filed if the gift is greater than the annual exclusion - \$15,000 for 2021 and \$16,000 for 2022.

**Moving Expenses:** Except for military moves, the moving expense deduction was repealed for years beginning after December 31, 2017, and any employer payment or reimbursement will be taxable.

**20% Qualified Business Income Deduction (QBID):** In its simplest terms, the deduction is 20% of the lesser of qualified business income or taxable income (reduced by net capital gains). If taxable income exceeds certain thresholds additional tests apply such as W-2 wages paid by the business; type of business; and the business' investment in tangible, depreciable personal or real property.

**Meals and Entertainment:** In general, no deduction is allowed. There are several exceptions for some DOT qualified transportation employees, other non-DOT employee business travel meals and certain other meal expenses.

**2021 Stimulus Payments:** 2021 stimulus payments of \$1,400 per eligible individual under ARPA will be reconciled with the filing of 2021 returns in 2022. ***Excess payments have no provision for repayment.*** Eligible individuals include the taxpayer, spouse and dependents with SSN's. Phaseouts begin at AGI of \$75,000 single, \$150,000 MFJ.

**Dependent Care Credit:** ARPA increased the dependent care credit for 2021 only to \$8,000 of expenses for 1 child and \$16,000 for 2 or more children, while also increasing the credit rate to 50% and raising the AGI phaseout limits. It made the credit refundable for people who live in the US for more than ½ of the year.

**Identity Theft:** Identity theft is one of the fastest growing crimes nationwide, and refund fraud caused by identity theft is one of the biggest challenges facing the IRS. Taxpayers should be alert to possible identity theft if 1) they receive an IRS notice saying more than one tax return was filed for them, 2) they have a balance due, refund offset or collection actions taken against them for a year they did not file a tax return, or 3) IRS records indicate they received wages from an employer they do not know. Don't give personal information over the phone, through the mail or the Internet unless you have either initiated the contact or are sure you know who is asking. **The IRS does not initiate contact with taxpayers by email to request personal or financial information. This includes any type of electronic communication, such as text messages and social media channels.**