

# 2021 TAX ESSENTIALS LETTER

## IT'S TAX TIME AGAIN...

Once again, it's time to file and pay your taxes. Your mailbox should be filling up with the information you will need to get the job done.

This letter is full of information designed to help you prepare your tax documents so you will pay only the tax that you rightfully owe.



## Time to get organized

The following checklist will help you collect the documents needed to file your tax return.

- Your last 3 years' tax returns (*new clients*).
- Social Security numbers and dates of birth for taxpayers, spouses and dependents.
- Copy of Driver's License for taxpayer and spouse.
- W-2 Forms.
- 3<sup>rd</sup> Economic Impact Payment ('stimulus'). Bring IRS Letter 6475 and/or 1444-C.
- Advance payments of the Child Tax Credit received in 2021 (bring IRS Letter 6419).
- Your last paycheck stub of the year (for each job).
- 1099 Forms for interest, dividends, sales, retirement, Social Security, self-employment, and unemployment. « Remember to download and print statements from online accounts that don't send paper tax forms.
- Property tax statements.
- Forms 1098 for mortgage interest.
- Foreign accounts. Bring statements. Such assets must be disclosed even if they do not generate income.
- Purchase and sale information, including dates, relating to anything sold.
- Stock options. Form 1099-B and 'supplemental' brokerage statements showing amounts already reported as income on form W-2.
- Cryptocurrency. Bring details including dates, proceeds, and original cost.
- Child care provider information (name, address, SS#, amount paid). Required even

if you have a daycare flex account at work.

- Names, addresses, and Social Security numbers from whom you received interest, or to whom you paid interest.
  - Bankruptcy or divorce papers (if applicable).
  - If you paid an individual \$600 or more for services in connection with your business, please provide their name, address, and tax ID#.
  - Records showing income and expense for business and/or rental property you own. Records of business and personal mileage are required for automobile deductions.
  - Form K-1 if you have an interest in a Partnership, S-Corporation, Estate or Trust.
  - IRA year-end statements.
  - Bring details for **all other income**, whether you think it's taxable or not. Examples may include foreign income, barter, hobby, settlements, awards/prizes, gambling, etc.
  - Forms 1098-T for post-secondary tuition payments are sent to the student. If the student is your dependent you must get it from them.
  - Forms 1099-Q for education savings plan distributions.
  - Estimated taxes paid (including amount and date of each separate payment).
  - Student loan interest forms 1098-E.
  - Adoption costs if applicable. Also bring the legal adoption documents.
  - Form 1098-C for donations of automobiles or boats.
  - Details for charitable donations. Bring receipts. For noncash donations totaling
- over \$500 include date, place, fair market value, and original cost.
- If you purchased a new electric plug-in vehicle, bring the year, make and purchase date.
  - If you installed solar or geothermal systems for your home or cabin bring receipts.
  - Noncustodial parents claiming children need a signed IRS Form 8332 to claim the child.
  - If debts were forgiven, bring Form 1099-C or 1099-A.
  - If you bought, sold, or refinanced a home bring the closing papers.
  - Forms 1099-K for internet or credit card sales.
  - Health Savings Account (HSA) contributions and distributions. Bring forms 5498-SA and 1099-SA.
  - Form(s) 1095 for health insurance.
  - Out of pocket medical expenses may be deductible (if large). Bring details.
  - Form 1099-LTC for long-term care policy benefits paid.
  - Pandemic related business assistance. Bring details related to PPP loans and/or Employee Retention Credits.
  - Bring a voided check for direct deposit of any refunds you expect to receive.



# WHAT'S NEW FOR 2021?

It's been a big year for tax changes, mostly due to the American Rescue Plan Act (ARPA).

## Did you get the 3rd Economic Impact Payment?

The EIP (a.k.a. "stimulus") is not taxable income, but you still need to remember how much you got. That's because if your stimulus was too small you can claim the balance as a 2021 tax credit. However, don't worry about having to pay-back the stimulus. The IRS says you can keep it even if you don't qualify based on 2021 income.

## Did you get advance payments of the Child Tax Credit (CTC)?

In short, ARPA enhanced the CTC by:

- Increasing the CTC for low/middle income taxpayers.
- Expanding eligibility to children age 17 (previously the CTC was for ages 0-16).
- Allowing taxpayers to receive 50% of their CTC in advance monthly payments.
- Low income taxpayers can claim the CTC regardless of income level or tax liability (a.k.a. "fully refundable").

The CTC is not taxable income, but you still need to remember how much you got. In January 2022 the IRS will send letters (Letter 6419) to the millions of taxpayers that received advance CTC payments. Save this letter. It reports the total received and you will need that for your 2021 tax return.

Most taxpayers will not have to pay-back the CTC on their 2021 tax return. This is especially true for folks whose 2021 situation (income, filing status, dependents, etc.) is similar to 2020. Those whose situation changed (significantly increased income, fewer dependents, etc.) might have to pay-back some (or all) of the advance payments. Taxpayers with 2021 income (AGI) less than \$40,000/\$50,000/\$60,000 (single/HH/MFJ) are exempted from paying-back the advance regardless of situation changes.

## Did you have kids in daycare?

ARPA also made bold enhancements to the Child and Dependent Care Credit (CDCC). In short, ARPA:

- Increased the maximum amount of qualifying daycare expenses from \$3000 to \$8000 per child under 13 years of age (maximum of 2 qualifying children).

- Increased the percentage of qualifying expenses that count for the credit (if your AGI is under \$183,000).
- Decreased the percentage of qualifying expenses that count for the credit (if your AGI is over \$400,000).
- Increased the maximum amount that you can contribute to pre-tax dependent care flexible spending accounts from \$5000 up to \$10,500.
- Allows low income taxpayers to claim the CDCC regardless of income level or tax liability (a.k.a. "fully refundable").

Combined together, the increased expense limit and credit percentage makes a BIG difference for low/middle income taxpayers with kids in daycare. For example, the credit jumps from \$1200 to \$8000 if you make less than \$125,000 with two qualifying kids in daycare at a combined cost of over \$16,000 (with no pre-tax daycare flex spending contributions).

## Did you buy Affordable Care Act (ACA) health insurance?

The Premium Tax Credit (PTC), a type of health insurance subsidy, was also enhanced for tax year 2021. The amount of the credit was increased and taxpayers that make greater than 400% of the federal poverty level can now claim the PTC. As always, those that purchased ACA insurance will receive form 1095-A (you will need this form for your taxes).

The enhanced PTC is also available for 2022. Open enrollment for 2022 plans begins Nov. 1st, 2021. Visit [www.healthcare.gov](http://www.healthcare.gov) to get started (you may be redirected to your state's website if they manage their ACA marketplace).

## Are you age 72 or older?

Don't forget to take your Required Minimum Distributions (RMDs) from retirement accounts. The IRS let taxpayers skip RMDs for 2020. However, RMDs are back for 2021.

## Did you give to charity?

Even if you don't itemize you can deduct up to \$300 (\$600 for married filing jointly) in charitable contributions. This rule applies to monetary contributions only (not goods).

## Did you receive unemployment compensation?

Unemployment compensation is taxable income for 2021. The ability to exclude up to \$10,200 of unemployment compensation

from taxable income was for tax year 2020 only.

## Were you pursuing a graduate degree in 2021?

Unfortunately, the Tuition and Fees deduction was eliminated. However, the Lifetime Learning Credit still exists and more middle-income taxpayers can qualify due to increased income phase-out thresholds. Now you can make up to \$90,000/\$180,000 (single/MFJ) and claim the credit. Previously, it phased out completely once modified AGI exceeded \$69,000/\$138,000 (Single/MFJ). The amount of the credit did not change. It remains 20% of out-of-pocket tuition paid (max tuition \$10,000).

## Did you have student loan debt forgiven in 2021?

Good news! Student loans forgiven in 2021 are no longer taxable income. This provision will expire on 12/31/25. Student loans forgiven after that will go back to being taxable.

## Did you have principal residence mortgage debt forgiven?

The amount of forgiven mortgage debt that can be excluded from taxable income went down from \$2,000,000 to \$750,000. You can still exclude the higher amount if you entered into a written agreement to forgive the debt during 2020.

## Are you a business owner?

Business meals from restaurants are 100% deductible for 2021 and 2022. They go back to 50% deductible in 2023.

## More taxpayers will get the Earned Income Tax Credit

ARPA reduced the age where 'childless' taxpayers can claim the EITC (from age 25 down to 19). ARPA also eliminated the upper age limit for 'childless' EITC claimants.

ARPA also allows some legally married taxpayers that file separately to claim the EITC. This is allowed only in the case where the married couple lives apart for the last half of the year and the qualifying child lives with the taxpayer claiming the EITC for greater than half the year.

Lastly, ARPA increases the investment income threshold for the EITC to \$10,000. Previously, if your investment income was greater than \$3650 you could not claim the EITC.



*2021 was a year of bold tax changes, especially for low/middle income taxpayers with dependent children.*

*All of the following were enhanced for 2021:*

- Child Tax Credit
- Child and Dependent Care Credit
- Earned Income Tax Credit
- Premium Tax Credit

*These are only the highlights of the new laws affecting tax year 2021. Ask for help to determine how these (and other tax rules) apply to your specific situation.*

