
A Publication of Tax News & Tips™ Fall 2021

# The Tax Man

If You Want to Pay Too Much in Taxes,
That's Your Business.
If you Don't, That's Our Business

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## Where's My Refund?

The 2020 Individual Income Tax filing deadline was May 17, 2021, but many taxpayers that filed timely are still waiting on their refunds!

When these taxpayers check the IRS's "Where's My Refund" web tool, it says that their return is still being processed and that a refund date will be provided when available. Additionally, these taxpayers may have received an IRS 4464C Letter. The purpose of the IRS Letter 4464C is simple. It mainly informs the taxpayer of two things. First, the IRS has received the income tax return. Second, the taxpayer cannot expect to receive their tax refund anytime soon (usually 60 days) because it is still under review.

The delays have been caused in part by the IRS review of taxpayers correctly reporting the recovery rebate payments by validating that the taxpayer did or did not get correct stimulus payments. They are also checking for child tax credits and earned-income tax credits. On top of that, the IRS just began issuing refunds to filers eligible for an exemption of up to $10,200 per recipient of unemployment benefits that Congress enacted in March after many taxpayers had already filed their returns. Finally, the delay may be further compounded by the IRS starting to send advance child tax credit payments to eligible taxpayers beginning July 15. Taxpayers waiting on refunds will need to show patience a little longer.

**Taxpayers Waiting On Refunds Need Patience**

## $10,200 Unemployment Benefits Exemption Update

As mentioned earlier, the IRS began sending refunds in May to taxpayers that qualified for the $10,200 Unemployment Benefit exemption. These recalculated refunds started with single filers and will progress to married couples filing jointly. This process is expected to continue through September.

As a reminder, to qualify your 2020 Adjusted Gross Income (AGI) must be less than $150,000 then up to $10,200 (per taxpayer for married couples filing jointly) of those benefits are non-taxable. Since this provision was enacted after some taxpayers had already filed their returns, the IRS will automatically recalculate the refund (without the need to amend the tax return) and send it to the taxpayer.

## Child Tax Credit Update Portal

Important changes to the Child Tax Credit helped many families get advance payments of the Child Tax Credit starting in July 2021.

Up to half of the total credit amount will be paid in advance monthly payments, and you will claim the other half when you file your 2021 income tax return. The IRS began issuing the first advance payment on July 15, 2021. It is extremely important that you keep track of all amounts received as Advanced Child Tax Credit payments. These amounts will determine the correct remaining Child Tax Credit that we will claim on your 2021 Federal Income Tax Return.

Go to the IRS's website at **www.irs.gov/credits-deductions/advance-child-tax-credit-update-portal** for a full schedule of payments, to see If you are eligible to receive advance Child Tax Credit payments, when will you start receiving payments and what happens if you do not have a bank account for direct deposit. This site will also allow you to unenroll (opt-out) to stop getting advance payments. It is important to note that advance payments received may exceed the total child tax credit allowed. This situation could happen if you experience a large increase in your Adjusted Gross Income in 2021 compared to 2020 (or 2019 in some cases). Other filing situations could also limit your credit for 2021. We will not know the specifics until we prepare your 2021 Tax Return. Any overpayment of the Child Tax Credit will need to be repaid through a reduction of your refund. A balance due could result.


## 2020 COVID Related Distributions

If you took a COVID related distribution from your 401k, 403b or IRA and elected to prorate the distribution over three years on your 2020 Tax Return, do not forget that one-third of that distribution will be included in your 2021 taxable income.

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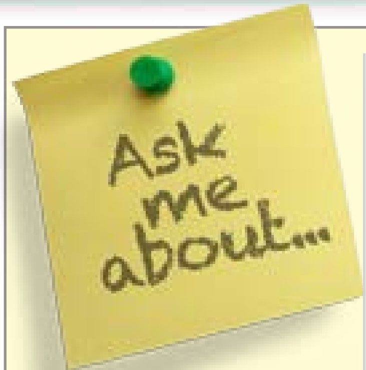



✔ Are you thinking of taking a distribution from an IRA or 401k? Are you older than 59 ½?

✔ Do you have stocks or mutual funds that you are planning to sell that have greatly increased in value? Have you owned those assets longer than one year?

✔ Are you planning on retiring and collecting Social Security before the current full retirement age of 66 (for those born 1943-1954)?

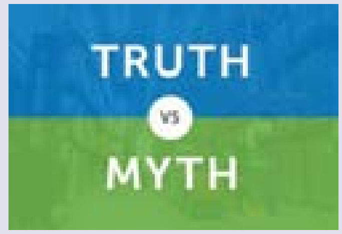
✔ Starting distributions from a retirement plan? Lump-sum distribution possibilities? What are the tax consequences?

✔ Questions about Required Minimum Distributions (RMDs)? Are you age 72?

## 2021 Social Security Earnings Test Limits

The Social Security Administration allows seniors to work and receive Social Security benefits at the same time. But whether working will impact your benefits will depend on how old you are and how much you earn.

- You are entitled to collect Social Security starting at age 62, but you will not get your full monthly benefit until you reach full retirement age, or FRA. Once you reach FRA (currently 66 if you were born between 1943-1954), you can earn as much money as you would like without having it impact your benefits. But if you work and collect benefits prior to FRA, you will be subject to the Social Security's earnings test.
- The amount of money you can earn before losing benefits will depend on how old you are. If you are collecting Social Security but have not yet reached FRA and will not be reaching FRA in 2021, then you can earn up to $18,960 without having benefits withheld.
- Once your earnings exceed $18,960, you will have $1 in benefits withheld for every $2 you make. That money is not lost -- rather, whatever amount you have withheld (not yet FRA) will be added back into your benefits once you reach FRA. If you earn $20,960 in 2021 and you are 62 years old, you will forego $1,000 in benefits for being $2,000 above the earnings test limit -- but you will get it back later.
- The rules work differently if you will be reaching FRA in 2021. In that case, the earnings test limit is $50,520. Once your earnings exceed $50,520 in 2021, you will have $1 in benefits withheld for every $3 you make.




### *Various Non-Deductible Expenses*

***Myth:*** My travel expenses that are unreimbursed by my employer can be deducted as an itemized expense. I can also deduct the cost of working from home for my employer.

***Truth:*** No, not deductible for Federal Income Tax Purposes however, some of these expenses may continue to be deductible on certain State & Local Income Tax Returns. Taxpayers should continue to retain documentation on these expenses so that we can determine the deductibility on your State & Local Returns. These are work-related expenses an employee pays out of his or her own pocket and are not deductible through 2025. Included are work-related travel, transportation, and meal expenses, union dues, business liability insurance premiums, depreciation on a computer or cellular telephone your employer requires you to use in your work, dues to professional societies, home office expenses for part of your home used regularly and exclusively in your work, expenses of looking for a new job in your present occupation, legal fees related to your job, subscriptions to professional journals and trade magazines related to your work, tools and supplies used in your work, and work clothes and uniforms (if required and not suitable for everyday use).

***Myth:*** I suffered a casualty loss when my house caught fire. I can deduct the loss as an itemized expense.
***Truth:*** Maybe. A personal casualty loss is deductible (subject to limitations) only if the loss is attributable to a federally declared disaster. A federally declared disaster is any disaster determined by the President of the United States to warrant assistance by the federal government. For areas that have been determined to be federally declared disaster areas, go to **www.fema.gov/disasters**.

***Myth:*** I can deduct the costs of moving to a new city because of my job change.
***Truth:*** No unless you are active-duty military and moved pursuant to a permanent change of station or if you are a self-employed business owner and moved as part of the process of starting a new business.

***Myth:*** The fees my investment adviser charges to manage my investments and IRA account are deductible.
***Truth:*** No, expenses you pay for personal investing are not deductible on your Federal Income Tax Return as personal itemized

deductions through 2025. Some of these expenses may be deductible on your State Income Tax Return. These include investment advisory and management fees, charges for legal and tax advice related to your investments, trustee fees to manage IRAs and other investment accounts, and rental fees for a safe deposit box.

***Myth:*** My real estate taxes are $15,000 a year. I can fully deduct these as an itemized deduction on Schedule A.
***Truth:*** Partially false. Taxes paid are deductible up to a cap. The cap for deducting State and Local Taxes as itemized deductions on Schedule A has been limited to $10,000 since 2017. This change eliminated the ability for many taxpayers (especially those in high-tax states) to fully claim their deductions.

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until April 18, 2022; however, in those cases two distributions are required in 2022. Also, taxpayers that work past age 72 can delay RMDs from their current employer's 401k until they retire.

### ✔ *Child and Dependent Care Credit Enhancements*

Allowable expenses have increased from $3,000 to $8,000 for one child or other dependent. For two or more children or other dependents, the amount has jumped from $6,000 to $16,000. Additionally, the reimbursement percentage for employment-related child and dependent care expenses has increased from 35 percent to 50 percent, making the maximum tax credit $4,000 for one dependent or $8,000 for two or more.

For 2021, the child and dependent care tax credit is also fully refundable. This means that families with little to no tax liability will see larger tax refunds next year. The tax credit does phase down for families with income levels above $125,000 (previously phaseout started at $15,000). If you earn between $125,000 and $185,000, the credit is reduced by 1 percent for every $2,000 over $125,000 to a minimum of 20 percent. Those earning between $185,000 and $400,000 receive a flat 20 percent credit. For income levels greater than $400,000, the credit is gradually reduced from 20 percent to zero. If you earn more than $440,000, you do not qualify for the tax credit.

Employer provided dependent care assistance also increases to $10,500.

**The Tuition and Fees Deduction Is Eliminated Beginning In The 2021 Tax Year**

### ✔ *Charitable Contribution Deduction For Non-Itemizing Taxpayers Extended and Increased*

For the 2020 tax year, a new adjustment from income was allowed for up to $300 of charitable cash contributions. Only people who claimed the standard deduction on their tax return (rather than claiming itemized deductions on Schedule A) could take this adjustment.

The write-off was originally scheduled to expire after 2020, but it is now extended to 2021 – with one important enhancement. For 2020, one adjustment was allowed per return, meaning married couples who filed jointly could only deduct $300, not $600. However, for 2021, one adjustment is allowed per person, which means married couples can deduct up to $600 on a joint 2021 tax return. Taxpayers that itemize their deductions can continue to deduct charitable contributions on Schedule A.

### ✔ *Tuition & Fees Deduction Eliminated for 2021*

The tuition and fees deduction is eliminated beginning with the 2021 tax year. That write-off was worth up to $4,000 for eligible taxpayers.

To partially offset the loss of the tuition and fees deduction, the phase-out thresholds for the American Opportunity Tax Credit was permanently increased. For the 2020 tax year, the credit was gradually reduced to zero for joint filers with a modified adjusted gross income (MAGI) from $118,000 to $138,000 and single filers with a MAGI between $59,000 and $69,000. Starting in 2021, the phase-out range for married couples filing a joint return is $160,000 to $180,000, and it is $80,000 to $90,000 for single filers. (These same phase-out ranges also apply to the Lifetime Learning Tax Credit.)

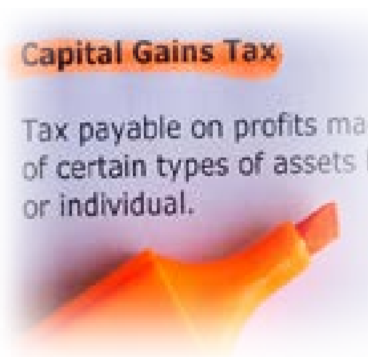
## Third Stimulus Payment *(Economic Impact Payment)*

The Third Stimulus Payment was sent to eligible taxpayers beginning in March and are continuing. We will need the amount you received from the 3rd Stimulus when we prepare your 2021 Federal Income Tax Return in early 2022. This 3rd Payment will be reconciled on your 2021 Tax Return in a similar process as the First two Stimulus Payments were accounted for on your 2020 Tax Return. None of the Stimulus Payments are considered as taxable income.

## Capital Gains Taxes

Current capital gains tax rates are at historic lows…0%, 15% and 20%.

These rates are based upon the taxpayer's taxable income levels. For 2021, the 0% rate applies to individual taxpayers with taxable income up to $40,400, for filings as heads of households up to $54,100 and $80,800 for those that are married filing jointly. The 15% rate applies at these limits and up to $445,851, $473,751, and $501,601, respectively. The 20% rate begins at the 15% ending levels. In addition, there is a 3.8% surcharge on single filers with taxable incomes above $200,000 and $250,000 for joint filers.






## Cryptocurrency… Still a Mystery To Most

You may recall a question on your 2020 Tax Return asking, "At any time during the year did you receive, sell, send, exchange, or otherwise acquire any financial interest in any virtual currency?" (Cryptocurrency question).

This question requires you to check "yes" even if you are just holding crypto in an exchange or wallet. If you mark "yes", it will signal the IRS to check various forms & schedules of the return for cryptocurrency gains & losses. However, everyone who marks "yes" may not have a reportable taxable event.

Cryptocurrencies are treated similarly to other forms of property like stocks, bonds, and real-estate. You incur capital gains and capital losses on your cryptocurrency investments when you sell, trade, or otherwise dispose of your holdings.

During any tax year, if you have more than $20,000 proceeds and 200 transactions in a crypto exchange, you will get a Form 1099-K indicating proceeds for each month. Exchanges are required to create these forms for the users who meet the criteria. A copy of this form is provided to the account holder, and another copy goes to the IRS. You will need to provide a copy of the 1099-K to me when I prepare your tax return.

Therefore, if you receive a tax form from an exchange, the IRS already has a copy, and you should report it to avoid tax notices and penalties.




## Extensions Expire October 15, 2021

A few of you may not have filed for 2020 even with the extended original filing date of May 17, 2021. Please make every effort to find remaining missing forms or information. We have little time remaining to file your return.

***Contact me as soon as possible.***

## Mileage Deductions For 2021

For 2021, the standard mileage rate decreases to 56 cents per mile, down from 57.5 cents for 2020. The rate for medical and moving mileage decreases to 16 cents per mile, down from 17 cents. The charitable mileage rate remains at 14 cents per mile. It is important to note that under the Tax Cuts and Jobs Act, taxpayers generally cannot claim a miscellaneous itemized deduction for unreimbursed employee travel expenses on the federal return (these expenses may be deductible on your State and/or Local Income Tax Returns). Taxpayers also cannot claim a deduction for moving mileage expenses, except members of the Armed Forces on active duty moving under orders to a permanent change of station.


The Tax Man

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RETURN SERVICE REQUESTED

## Your Tax Calendar

| | |
|---|---|
| **Sep 15** | 3rd quarter estimated tax payments due. |
| **Oct 1** | Deadline to establish a Simple IRA for self-employed or small businesses. |
| **Oct 15** | Extended Individual Tax Returns for 2020 due. |
| **Jan 15 2022** | 4th quarter estimated tax payment due. |

*Call anytime if you have questions.*

# Tax Tips For You... *Now!*

✔ ***Child Tax Credit***

One of the most significant tax provisions change for 2021 is the Child Tax Credit.

The improved credit increases from $2,000 per child to $3,000 and increases the age for eligible children to under 18 years old from under 17 years old. Additionally, children under age 6 are eligible for $3,600.

This credit will pay half of the credit in advance in monthly payments beginning in July and continue through the end of 2021. Upper income taxpayers will not be eligible for the higher credit. Those with adjusted gross incomes (AGI) of greater than $75,000 for single filers, $112,500 for heads of household and $150,000 for married joint filers will see the credit reduce by $50 for each $1,000 of AGI over these thresholds. These higher income families will only have their credits reduced to $2,000. For those families, joint returns with AGIs above $400,000 or single returns above $200,000, the credit (starting at $2,000) will reduce by $50 for each $1,000 of AGI over these higher threshold AGIs ($400,000 and $200,000).

**Significant Tax Provision Changes For The Child Tax Credit**

✔ ***Required Minimum Distributions (RMDs)***

Taxpayers aged 72 and older in 2021 must take Required Minimum Distributions (RMDs) for 2021 by December 31, 2021. The accounts that are required to take RMDs are Traditional IRAs and Qualified Retirement Accounts. There are two exceptions. Taxpayers turning 72 in 2021 can delay distributions

***See "Tax Tips" on Page 3 >***