

Accurate Tax Service Newsletter

2021 Tax Year

Happy New Years to you and your family. I hope everyone is healthy and ready to start the year off. I have included information about the new tax laws, updates to tax credits, also questions and answers for this tax year. Our company has full ability to prepare and file tax returns Online. We also can meet in-person to file tax returns and tax planning. We have an Online portal called Secure file pro for sending or receiving tax documents, which are all encrypted and secured. Clients can e-sign any documents we need to keep for our company records.

Did you get the 3rd Economic Impact Payment?

The EIP 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)?

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.

Did you have kids in daycare?

The IRS increased the maximum amount of qualifying daycare expenses from \$3000 to \$8000 per child under the age of 13 years (maximum of 2 qualifying children). The maximum amount that you can contribute to pre-tax dependent care flexible spending accounts went up from \$5000 to \$10,500. Combined together, the increased expenses 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).

Are you age 72 or older?

Don't forget to take your Required Minimum Distributions (RMDs) from retirement accounts. The IRS allowed taxpayers to skip RMDs for tax year 2020. However, RMDs are back for tax year 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 only applies to monetary contributions (Cash) only and not non-cash contributions.

Did you receive unemployment compensation?

All Unemployment compensation received 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?

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.

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.

Are the PPP & EIDL Loans taxable in 2021?

Congress has provided tax treatment in the Consolidated Appropriations Act of 2021 that the forgiveness of the PPP loans did not constitute taxable income and that the expenses paid with the borrower would still be tax-deductible. Also the EIDL (Economic Income Disaster Loan) loans are not taxable as income as well.

How do taxes work on Cryptocurrency?

Cryptocurrency is considered "property" for federal income tax purposes; The IRS treats it as a capital asset. This means the crypto taxes you pay are the same as the taxes you might owe when realizing a gain or loss on the sale or exchange of a capital asset. A short term capital gain results from the sale of an asset owned for one year or less. A long term capital gain results from a sale of an asset owned more than one year.

Did mileage rates change in 2021?

Beginning on January 1, 2021, the standard mileage rates for the use of a car (also vans, pickups or panel trucks) will be: 56 cents per mile for business miles driven, down 1.5 cents from the 2020 rate.

More taxpayers will get the Earned Income Tax Credit:

ARPA (American Rescue Plan Act) 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.

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).