

1 **Preparing & Filing 2021
U.S. Income Taxes
(w/ Focus on Newly Single)**

**Gary Koenig, BS CSC, MBA,
IRS-Certified Tax-Aide Volunteer**

2 **Topics**

- ▶ Questions & Expectations
- ▶ Filing Status Explanation
- ▶ 2021 Tax Law Changes
 - ▶ Inflation adjustments
 - ▶ Tax law changes
 - ▶ Other issues

4 **Filing Status Explanation**

- ▶ MFJ – Married Filing Jointly
- ▶ QW – Qualifying Widow/er* (w/ dependent children)
- ▶ HoH – Head of Household (w/ dependents**)
- ▶ Single – No dependents
- ▶ MFS – Married Filing Separately (not recommended)

*Spouse died in 2019 or 2020

**If dependents are parents, they do not need to be living with you

5 **Filing Threshold – Income Based**

- ▶ Filing thresholds for most taxpayers is their standard deduction (except MFS: \$5)
- ▶ Filing threshold increased by additional standard deduction amount due to age 65 or older
- ▶ However, Filing threshold is not increased by additional amount for blindness
- ▶ Include all non-SS income plus 50% of SS income

6 **Who Should File**

- ▶ Claiming refund of withheld taxes or estimated tax payments
- ▶ Claiming any refundable credit
(credit independent of taxes owed)
- ▶ Earned Income Credit
- ▶ Additional Child Tax Credit
- ▶ Education Credits
- ▶ Desire to help prevent identity theft

7 **2021 Tax Law Changes:
Inflation Adjustments**

8 **Standard Deduction Inflation Adjustments**

- ▶ Standard deduction increased to
 - ▶ \$25,100 MFJ and QW
 - ▶ \$18,800 HoH (Head of Household (Single w/ dependents))
 - ▶ \$12,550 Single and MFS
- ▶ Additional standard deduction amount for age 65 and older and/or blind increased

- ▶ \$1,700 S, HoH
- ▶ \$1,350 MFJ (each), MFS, QW

9 **Standard Deduction Single Dependent Under 65**

- ▶ Dependent standard deduction is the greater of
 - ▶ \$1,100 or
 - ▶ Earned income plus \$350 not to exceed standard deduction for filing status

10 **Standard Mileage Rates**

- ▶ Standard mileage rates per mile 2021
 - ▶ Business mileage 56¢
 - ▶ Medical mileage 16¢
 - ▶ Moving mileage for active-duty military 16¢
 - ▶ Charitable mileage 14¢ (never changes, inflation not in law)

11 **Other Inflation Adjustments**

- ▶ Earned income credit – now available to those >65
 - ▶ Max investment income \$10,000
- ▶ Student loan interest deduction income phase out
- ▶ Retirement savings contribution credit income brackets
- ▶ Education credits income phase out
- ▶ Foreign earned income exclusion

12 **Other Inflation Adjustments**

- ▶ Qualified business income (QBI) deduction thresholds
 - ▶ \$329,800 for MFJ
 - ▶ \$164,925 for MFS
 - ▶ \$164,900 for all others
- ▶ Income limits for IRA deductions and Roth IRA contributions

13 **Roth IRA Income Limits 2021**

14 **Other Inflation Adjustments**

- ▶ HSA (Health Savings Account) contribution limits
- ▶ Limit on long term care insurance deduction
- ▶ PTC (Premium Tax Credit)
 - ▶ Federal poverty lines updated for premium tax credit purposes
 - ▶ Repayment of Advanced PTC caps

15 **No Inflation Adjustment**

- ▶ IRA maximum contribution
 - ▶ Stays at \$6,000; catch-up \$1,000 (age >50)
- ▶ Refundable portion of child tax credit (CTC)
 - ▶ Stays at \$1,400 for taxpayers not eligible for 2021 refundable CTC
- ▶ Educator deduction
 - ▶ Eligible educator unreimbursed classroom expense adjustment stays at \$250 per individual (includes PPE)

16 **Tax Law Changes 2021**

17 **Tax Law Changes 2021**18 **Forgiveness of Student Debt 2021 - 2025**

- ▶ Exclusion from gross income for student debt forgiven
 - ▶ Through the educational institution or directly to the borrower
 - ▶ If made, insured, or guaranteed by
 - ▶ The U.S., or instrumentality or agency thereof
 - ▶ A State, territory, possession, or the District of Columbia, or any political subdivision thereof
 - ▶ An eligible educational institution (as defined for AOC)
 - ▶ Any private education loan or by an educational organization*, as defined
- *Education organization loan not forgiven if in exchange for services

19 **Discharge of Main Home Debt
2021 - 2025**

- ▶ Exclusion for discharge of main home debt
 - ▶ Maximum reduced to \$750,000 (down from \$2,000,000)
 - ▶ Applies to discharges after December 31, 2020
 - ▶ Effective TY2021 through TY2025

20 **Higher Education Emergency Financial Aid Grants**

- ▶ School grant under the CARES Act for unexpected expenses, unmet financial need, or expenses related to the disruption of campus operations on account of the COVID-19 pandemic
 - ▶ Food, housing, course materials, technology, health care, or childcare
- ▶ Not includible in gross income
- ▶ Does not reduce expenses for either education credit
- Need to analyze student's financial account

21 **Emergency Rental/Housing Assistance**

- ▶ Assistance to pay rent, utilities, home energy expenses and other related expenses
- ▶ Assistance payments are not taxable
 - ▶ Does not matter whether paid to the taxpayer or the billing party
- ▶ Receipt by the billing party is taxable (as normal)
- ▶ Home mortgage interest or taxes paid with tax-free assistance are not deductible

22 **Education Benefits**

- ▶ Tuition and fees deduction repealed after 2020
- ▶ Lifetime Learning Credit has increased income limits (same as American Opportunity Credit)

23 **Business Meals on Sch C 2021-2022**

- ▶ Business meal deduction for self-employed is 100% deductible for 2021-2022
 - ▶ Must be provided by a restaurant (dine-in or take-out)
 - ▶ Taxpayer must be present
 - ▶ Meal may not be lavish or extravagant
 - ▶ Reverts to 50% for 2023
- ▶ Remains 50% if not provided by restaurant (e.g. grocery store, convenience store, kiosk)

24 **Residential Energy Credits**

- ▶ Residential energy credit

- ▶ Extended for 2021 only

25 **Medical Itemized Deductions**

- ▶ 7.5% of AGI for itemized medical
- ▶ Change is now permanent

26 **PMI**

- ▶ PMI (private mortgage insurance) treated as interest
 - ▶ Extended for 2021 only
- Note: If you are still paying PMI, get your mortgage lender to drop it if you owe less than 80% LTV on your mortgage.

27 **Charitable Contribution Deduction**

- ▶ Add-on to standard deduction for cash contributions of up to \$300 (\$600 for MFJ) for 2021 only
 - ▶ That is, for those who do not itemize deductions
 - ▶ Does not decrease AGI for 2021
 - ▶ Includes out-of-pocket expenses
- ▶ Most cash contributions allowed up to 100% of AGI
 - ▶ TY2020 and TY2021 only
 - ▶ Taxpayer can choose 60% limit instead
 - ▶ Reverts to 60% for 2022 – 2025, then back to 50% in 2026 and thereafter

28 **EIP 3 / Recovery Rebate Credit 2021**

- ▶ \$1,400 per individual (\$2,800 for MFJ)
 - ▶ Each individual must have SSN
 - ▶ \$2,800 for MFJ if either taxpayer or spouse has SSN when either is in military
- ▶ \$1,400 per dependent (no age limit this time!)
 - ▶ Dependent must have SSN or ATIN
- ▶ Decedents who died prior to January 1, 2021, ineligible

29 **EIP 3 / Recovery Rebate Credit 2021**

- ▶ Income phaseout
 - ▶ Begins at AGI over:
 - MFJ: \$150,000
 - HoH: \$112,500
 - Other: \$75,000

30 **EIP 3**

- ▶ Advance payments of recovery rebates
 - ▶ Based on 2019 return if 2020 return not yet filed and processed by IRS
 - ▶ Plus-up payment when 2020 return processed
 - ▶ Based on data available if no return filed
- ▶ IRS to issue rules to avoid abuses / double payments

31 **Refundable Child Tax Credit (RCTC) for 2021**

- ▶ Credit increased to \$3,000; \$3,600 if child under 6
 - ▶ Was \$2,000 for Child Tax Credit / Additional Child Tax Credit
- ▶ Qualifying children under age 18 are eligible

- ▶ Was children *under age 17*
 - ▶ Fully refundable for 2021 if *principal place of abode is in the U.S.* more than half of 2021 (either spouse if MFJ)
 - ▶ Applies to 2021 returns only
- 32 **Principal Place of Abode**
- ▶ Same definition as for head of household status and dependency purposes
 - ▶ Temporary absences are ignored
 - ▶ Under case law, a factor to consider in determining whether an absence is temporary is whether the individual intends to establish a new principal place of abode
- 33 **Refundable Child Tax Credit (RCTC) for 2021**
- ▶ The *increased amount* of CTC phases out starting at MAGI (Modified Adjusted Gross Income) above:
 - ▶ MFJ \$150,000
 - ▶ HoH \$112,500
 - ▶ Others \$75,000
 - ▶ That is, the additional \$1,000 (\$3,000-\$2,000) or \$1,600 (\$3,600-\$2,000) if under age 6
- 34 **Refundable Child Tax Credit (RCTC) for 2021**
- ▶ The remaining CTC is subject to the old high-income phase-out starting at MAGI above
 - ▶ MFJ \$400,000
 - ▶ Others \$200,000
 - ▶ This can reduce the RCTC below \$2,000 per child
- 35 **Child Tax Credit/ACTC for 2021**
- ▶ Taxpayers not eligible for RCTC can claim nonrefundable CTC and refundable ACTC (Advance CTC)
 - ▶ Taxpayers who did not have a principal place of abode in the U.S. more than half the year
 - ▶ ACTC is subject to regular ACTC rules (including earned income requirement and maximum \$1,400 per child)
- 36 **Advance Payments of RCTC for 2021**
- ▶ Monthly* advance payment of 1/12 of annual estimated amount in July through December 2021
 - ▶ Based on 2020 tax return, or 2019 until 2020 is filed
 - ▶ No payment for child dying prior to January 1, 2021
 - ▶ Taxpayers could have opted out of advance on [irs.gov](https://www.irs.gov)
- 37 **Advance Payments of RCTC for 2021**
- ▶ Taxpayers to reconcile advance payments with actual credit allowed on 2021 return
 - ▶ Excess advance payments treated as additional tax
 - ▶ The additional tax may be reduced if
 - ▶ MAGI does not exceed twice the threshold
 - ▶ Thresholds are MFJ \$60,000, HoH \$50,000, Other \$40,000
 - and
 - ▶ More children were included in the Adv. RCTC compared to the final number of qualified children on the return
- 38 **RCTC/CTC/ACTC for 2021**
- ▶ Should have IRS Letter 6419 sent to taxpayers in January 2022 showing amount of AdvCTC

(advance CTC) payments and number of qualifying children taken into account

- ▶ IRS will issue Letter 6419 to each spouse if filed MFJ in the applicable prior year
- ▶ 2021 Schedule 8812 is 3 pages long!

39 **Earned Income Credit**

- ▶ Taxpayer with a qualifying child who does not have SSN can claim EIC
 - ▶ Will receive amount of EIC available to childless worker
- ▶ Certain separated spouses now eligible for credit
- ▶ Disqualifying investment income increased to \$10,000
 - ▶ Was \$3,650 for 2020

40 **Earned Income Credit**

- ▶ Can use 2019 earned income (but not 2020) instead of 2021 earned income if 2019 earned income is higher
 - ▶ Even if 2021 earned income is zero!
- ▶ Special rule for 2021 only
- ▶ Will need to review 2019 return

41 **Earned Income Credit for 2021**

- ▶ For 2021 taxpayers with “no qualifying children”
 - ▶ Minimum age decreased to age 19 (was 25)
 - ▶ Except to age 24 for specified students (definition same as AOC)
 - ▶ Except to age 18 for qualified former foster youth or homeless youth
 - ▶ Those born January 1st treated as being born the previous year
 - ▶ Maximum age removed (was 65)
 - ▶ Credit and income phase-out percentages increased to 15.3% (were 7.65%)
 - ▶ Phase-out amounts are increased

42 **Child and Dependent Care Credit for 2021**

- ▶ Maximum expenses eligible increased to \$8,000 (\$16,000 for more than one qualifying person)
 - ▶ Was \$3,000 (\$6,000 for more than one)
- ▶ Maximum credit is now 50% of expenses (was 35%)
 - ▶ Income phase-down of percentage begins at AGI of \$125,000 (was \$15,000)
- ▶ New high income phaseout begins at \$400,000
- ▶ These rules apply to any filing status

43 **Child and Dependent Care Credit for 2021**

- ▶ Refundable (was nonrefundable) for taxpayers who have a principal place of abode in the U.S. for more than half of 2021
 - ▶ Taxpayer or spouse, if MFJ
- ▶ Remains nonrefundable if abode is outside U.S.
- ▶ Special rules for residents of possessions

44 **Child and Dependent Care Assistance for 2021**

- ▶ Exclusion for employer-provided dependent care benefits increased to \$10,500 (\$5,250 if MFS)
 - ▶ Was \$5,000
 - ▶ Should be on W-2 in box 10

45 **Sick and Family Leave Credits for Self-Employed**

- ▶ Two rounds created:
 - ▶ 4/1/2020 – 3/31/2021
 - ▶ 4/1/2021 – 9/30/21
- ▶ Family leave second round increased to 60 days or max \$12,000 (was 50 days or \$10,000)
- ▶ Sick leave second round remains at 10 days or max \$5,110
- ▶ Can elect to use prior year's net earnings from self-employment

46 **Sick and Family Leave Credits for Self-Employed**

- ▶ Second round for sick leave (part 1 and part 2) and family leave are enhanced to cover more reasons
 - ▶ [#108](https://www.irs.gov/newsroom/tax-credits-for-paid-leave-under-the-american-rescue-plan-act-of-2021-specific-provisions-related-to-self-employed-individuals)
- ▶ Must list the dates that the person could not work for the sick leave credit

47 **Sick and Family Leave Credits for Self-Employed**

- ▶ Special rules for U.S. possessions
- ▶ Documentation as per IRS guidelines
 - ▶ See p. 2 of Self-Employed COVID Worksheet
- ▶ 2021 Form 7202 has 4 parts to cover both rounds for both credits
- ▶ Cannot claim same days for both credits
- ▶ The credit limit is reduced for employer-paid leave wages
 - ▶ Not for certain federal government employees

48 **Premium Tax Credits (PTC) for 2021 and 2022**

- ▶ Reduces the "applicable figure" – the required contribution expressed as a percentage of MAGI (Modified AGI)
 - (this is the part of the premium the taxpayer is expected to pay)
 - ▶ More folks will get more PTC!
- ▶ Taxpayers with MAGI >400% FPL (Federal Poverty Line)
 - ▶ Are applicable taxpayers, so can get PTC
 - ▶ Still must repay all excess APTC (no repayment cap)
 - ▶ 2021 and 2022 only

49 **Premium Tax Credits for Unemployed for 2021**

- ▶ Taxpayer receiving or approved to receive unemployment for any week *beginning* in 2021
 - ▶ Treated as an applicable taxpayer
 - ▶ Must still file MFJ if married
 - ▶ Household income in excess of 133% of FPL is not considered for purposes of computing PTC
 - ▶ This special rule does not apply to the determination of affordability of employer coverage

50 **3rd Party Network Transactions Reporting**

- ▶ Requires Form 1099-K to be issued when
 - ▶ Total amount exceeds \$600
 - ▶ \$20,000 for 2021
 - ▶ Total number of transactions not a factor
 - ▶ More than 200 for 2021

- ▶ More gig workers will see Forms 1099-K
- ▶ Applies to 1099-Ks filed for 2022 onward

51 **Other issues for 2021**

52 **Other Issues for TY 2021**

- 1 ▶ RMD ages
 - ▶ 2020 Coronavirus Related Distributions
 - ▶ Recontribution of retirement distributions
 - ▶ IRA contribution after age 70½ and QCD
- 2 ▶ Deferred self-employment tax
 - ▶ "Taxpayer"
 - ▶ To amend 2020 return or not amend
 - ▶ IP PIN update
 - ▶ Due Dates

53 **Required Minimum Distribution Age**

- ▶ Age for beginning required minimum distributions (RMD) from defined contribution plan or IRA increased to 72 from 70½ for individuals who reach age 70½ after December 31, 2019 (born after 6/30/1949)
- ▶ Taxpayers born July 1, 1949, through December 31, 1949, will turn 72 in 2021 and must take RMD by April 1, 2022

54 **2020 Coronavirus Related Distributions**

- ▶ For taxpayers who used the 3-year spread on Form 8915-E in 2020
- ▶ Need to complete and file Form 8915-F for 2021
 - ▶ To report amount taxable in 2021
 - ▶ To report repayments that reduce amount taxable in 2021
- ▶ Need 2020 return to properly prepare 2021 return

55 **Recontribute Retirement Distributions**

Amended returns may be needed for repayments:

- ▶ Qualified birth or adoption distributions
 - ▶ Max \$5,000 per child
 - ▶ No time limit specified in the law for repayment
- ▶ Qualified Coronavirus-related distributions
 - ▶ Max \$100,000 and distribution must have been during 2020
 - ▶ Repayment must be within 3 years from the day after the date of distribution
 - ▶ An excess repayment carried back to 2020 will need a 1040X

56 **IRA Contribution After Age 70½ and QCD**

- ▶ Qualified Charitable Distribution (QCD) is reduced for deductible IRA contributions
- ▶ Cumulative for tax years 2020 onward
- ▶ Treat each spouse separately on MFJ returns
- One more thing to look for in the 2020 return

57 **Partial Self-Employed Tax Deferral**

- ▶ Taxpayers may have deferred the 2020 employer portion of Social Security tax
 - ▶ Refer to the 2020 Deferral Worksheet for Schedule H or Schedule SE filers for exact amounts
- ▶ IRS sending letters, vouchers, and envelopes for payments due by December 31, 2021
- ▶ Likely, nothing to do on 2021 tax return

58 **“Taxpayer”**

- ▶ A “dependent” is not a dependent if the person that could claim the dependent is not a “taxpayer”
- ▶ Individuals that receive EIP*, used the Non-filer tool to get EIP, or having not received their EIP filed a return solely to claim the RRC* are not treated as “taxpayers”
 - ▶ Individuals that could have been their dependent are not dependents and can claim tax benefits
- ▶ When filing for RRC only, do not show any dependents

* EIP – Economic Impact Payment, RRC – Recovery Rebate Credit

59 **To Amend 2020 Returns or Not Amend**

- ▶ IRS reprocessed simple returns
 - ▶ Exclusion for unemployment benefits (UCE)
 - ▶ Application of community property law for the UCE
 - ▶ Excess PTC forgiven
 - ▶ A new RRC, EIC with no children, APTC
- Need to review all IRS correspondence that the taxpayer received

60 **To Amend 2020 Returns or Not Amend**

Need to amend for

- ▶ A new credit or deduction (if IRS did not reprocess correctly)
- ▶ Impacts on the state return (only if moved to TX recently)
 - ▶ State only amendment to report federal changes
- ▶ Missed look-back provisions (a.k.a. boo-boos):
 - ▶ EIC / ACTC earned income look back to 2019
 - ▶ Sick/family-leave credit net self-employment earnings look back to 2019

61 **To Amend 2020 Returns or Not Amend**

- ▶ If amending 2020 federal, need to include all known corrections
- ▶ Include forgiveness of excess PTC if itemizing deductions, if not already corrected by IRS
 - ▶ Reduces health insurance deductible on Schedule A

62 **IP PIN program**

- ▶ Taxpayers who received an IP PIN through the Get an IP PIN tool on irs.gov will need to access their account to get their new IP PIN
- ▶ If can't access their account, can call IRS and be mailed their IP PIN
- ▶ Others will receive CP01A with their new IP PIN

63 **Due Dates**

- ▶ Tax Returns: Monday, April 18, 2022
 - ▶ Except in Maine and Massachusetts it's Tuesday, April 19, 2022
- ▶ Estimated payment dates:
 - ▶ April 15, 2022

- ▶ June 15, 2022
- ▶ September 15, 2022
- ▶ January 18, 2023

64 **Income Documents You Need to Collect**

- 1 ▶ Employment
 - ▶ Social Security
 - ▶ Pensions, IRA distributions
 - ▶ Interest, dividends, capital gains
 - ▶ Unemployment compensation
 - ▶ Gambling winnings
- 2 ▶ W-2
 - ▶ SSA 1099, RRB 1099
 - ▶ 1099-R, RRB 1099-R
 - ▶ 1099-INT, 1099-DIV, 1099-B (Broker Statement), K-1, self
 - ▶ 1099-G
 - ▶ W-2G

65 **Expenses You Need to Document if Itemizing Deductions**

- 1 ▶ Medical
 - ▶ Premiums: Insurance (self-paid, Medicare Part B, C, D, & Medicare supplement, dental, vision)
 - ▶ Payments: Doctors, Dentists, etc.
 - ▶ Prescriptions
 - ▶ Medical Aids (e.g., Glasses, CPAP, hearing aids, etc.)
 - ▶ LTC Insurance premiums (each)
 - ▶ Mileage to doctors, pharmacies, etc.
 - ▶ Travel expenses, if out-of-town
- 2 ▶ Real estate taxes paid
 - ▶ Sales taxes, actual or IRS table
 - ▶ Mortgage Interest, Points, PMI (Private Mortgage Insurance)
 - ▶ 1st & 2nd Home
 - ▶ Charitable Contributions
 - ▶ Total for all "cash" contributions
 - ▶ Total for all donated items <\$500
 - ▶ Breakout of donated items >\$500
 - ▶ Mileage for volunteer activities

66 **Preparing & Filing 2021 U.S. Income Taxes**

Questions

Comments

Please come to my OLLI class on April 26th: [Appealing Your Denton County Property Appraisal](#)