Tax News and Industry Updates

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2021 Tax Highlights

The year 2021 continued to bring many challenges and tax changes. In late 2020, an emergency COVID-19 law was passed which included additional economic impact payments, an extension of federal pandemic unemployment compensation, and an extension of pandemic related payroll tax credits. In March 2021, the American Rescue Plan of 2021 (ARP) was passed which addressed the continued impact of COVID-19 on the economy, public health, individuals, and businesses. This letter provides an update on some changes that might affect you and other things to be aware of.

If you have questions or want to know how any of this impacts you, please do not hesitate to contact us.

Stimulus payments. The laws provided for two additional direct payments (economic impact payments) based on your filing status and AGI. The second payment was made late December 2020 or early January 2021 and provided up to $600 per eligible family member. This advance payment was reconciled on your 2020 income tax return.

The payment of the third economic impact payment began in March 2021 and continues through December 31, 2021. Payments are $1,400 for individuals, $2,800 for married couples, and $1,400 for each dependent. The economic impact payment is considered an advance credit. The third payment will be reconciled on your 2021 tax return. The payment will not reduce your refund or increase any amount owed on your 2021 return. You will receive an additional credit on your return if your filing status and income level in 2021 qualifies you for a larger payment.

Unemployment compensation. ARP excluded the first $10,200 of unemployment compensation from income for 2020 only. For 2021, unemployment income is fully taxable.

Child Tax Credit. For 2021 only, ARP increased the Child Tax Credit to $3,000 per qualifying child, increased the credit to $3,600 for children under the age of 6, increased the qualifying age from 16 to 17, and made the credit fully refundable for most taxpayers.

The law also directed the IRS to make advance payments of the Child Tax Credit. Payments were made monthly beginning on July 15, 2021. The advance payments will be reconciled and reduce the amount of Child Tax Credit you will receive on your 2021 tax return. In January 2022, the IRS will send you Letter 6419 to provide the total amount of the advance Child Tax Credit payments that were sent to you during 2021. We will need this letter when preparing your return.

Child and Dependent Care Expense Credit. Also effective to 2021 only, ARP significantly increased the Child and Dependent Care Expense Credit and made the credit fully refundable.

Charitable contributions. The charitable contribution deduction for individuals who do not itemize deductions was extended to 2021. The deduction is $600 on a married filing joint return or $300 for all other returns. The deduction is limited to cash contributions.

Things to do in 2022 that can affect 2021 taxes. There is very little that you can do to impact your 2021 taxes after December 31, 2021. However, two things that can be done, if you qualify, is making a contribution to your traditional IRA and/or your health savings account (HSA).

IRA deduction. For 2021, you may be able to contribute up to $6,000 ($7,000 if you are at least 50 years old) to an IRA. Contributions for 2021 can be made up until April 18, 2022. If the contribution is made to a traditional IRA, you may qualify for a deduction on your 2021 return. There is no age limit on making a contribution to traditional IRA or Roth IRA. In addition, contributions to any type of IRA (traditional or ROTH), might qualify you for the Retirement Savings Contribution Credit.

HSA deduction. Similar to the IRA, you can make 2021 contributions to your HSA up until April 18, 2022. The total amount that can be contributed by you and your employer ranges from $3,600 to $9,200 based on whether you have self-only or family HSA qualifying coverage and your age.

IRS hot items. There always seems to be a number of items that the IRS is focusing on. Some of the current topics the IRS is focused on are foreign assets, cryptocurrency transactions, and unreported income.

Foreign assets. The IRS has been focused on the reporting of foreign assets for some time now and the penalties for not reporting can be severe. There are enhanced reporting requirements if you have any type of foreign asset, be it a foreign bank account, pension plan, rental property, ownership of a foreign company, etc. The income derived from these assets is includable on your U.S. tax return and the value of each of these assets might need to be reported, either with your tax return and/or separately to the IRS or Treasury Department.

Cryptocurrency transactions. Cryptocurrency (i.e. Bitcoin, Ethereum, etc.) is becoming more and more common. Transactions involving cryptocurrency have tax implications. The IRS requires anyone filing a tax return to answer the following question. "At any time during 2021, did you receive, sell, exchange, or other acquire any financial interest in any virtual currency?"

Unreported income. If you are making extra money by doing side jobs, be it driving for a ridesharing company such as Uber or Lyft, selling crafts on Etsy, delivering meals with Grubhub or DoorDash, renting out a room in your house via Airbnb, or any other way, it needs to be included on your tax return. Unless specifically excluded under the Internal Revenue Code, all income is taxable. This includes income that is not reported to you on one of the various Forms 1099, foreign income, and barter income.

Federal and state differences. When it comes to taxes, most of what you read and hear from the media has to do with federal tax law. Remember that each state has its own tax law and just because something is not allowed for federal taxes (or you do not qualify) does not mean that you are not able to include it on your state tax return.