

2021 SELECTIVE TAX LAW CHANGES

This list was compiled from various Kiplinger publications and in most, if not all, cases do not list all the details. In addition, this list does not cover all the 2021 tax law changes, only those most relevant to current clients.

[1] Child Tax Credit: These changes are temporary for 2021 only. Additional limits apply. The credit is 3,600 for children five and under and 3,000 for Children from 6 to 17. The previous child tax credit was 2,000.

The extra amount (\$1,000 or \$1,600) is reduced – potentially to zero – for families with higher incomes, though. For people filing their tax return as a single person, the extra amount starts to phase-out if their adjusted gross income is above \$75,000. The phase-out begins at \$112,500 for head-of-household filers and \$150,000 for married couples filing a joint return. The credit amount is further reduced under the pre-existing \$200,000/\$400,000 phase-out rules.

The 2021 credit is fully refundable. The \$2,500-of-earned-income required is dropped for 2021. Half of the 2021 credit amount will be paid in advance through monthly payments starting on July 15. You will claim the other half of the credit on your 2021 tax return. You have the option to opt out of the advance payments (irs.gov/childtaxcredit2021).

[2] Child and Dependent Care Tax Credit: For 2021, the child and dependent care credit is fully refundable. The maximum credit percentage also jumps to 35% to 50%. For 2021, the credit is allowed for up to \$8,000 in expenses for one child/disabled person and \$16,000 for more than one. When the 50% maximum credit percentage is applied, that puts the top credit for the 2021 tax year at \$4,000 if you have just one child/disabled person in your family and \$8,000 if you have more. In addition, the full child and dependent care credit will be allowed for families making less than \$125,000 a year. After that, the credit starts to phase-out. However, all families making between \$125,000 and \$438,000 will receive at least a partial credit. Currently, these changes only apply to the 2021 tax year.

[3] Tax Bracket Ranges: Although the tax rates didn't change, the income tax brackets for 2021 are slightly wider than for 2020. The difference is due to inflation during the 12-month period from September 2019 to August 2020, which is used to figure the adjustments. The 12%/22% taxable income cutoff is 40,525 for Single, 81,050 for MFJ and 54,200 for Head of Household.

[4] Recovery Rebate Credit: The third round of stimulus checks (1,400) will be handled on the 2021 tax return similarly to how the first two stimulus payments were handles on the 2020 tax return.

[5] Retirement Plans: Required minimum distributions (RMDs) are back for 2021. So, anyone who is at least 72 years old by the end the year is required to take an RMD for 2021. Many key dollar limits on retirement plans and IRAs remain the same for 2021.

[6] Earned Income Tax Credit: The American Rescue Plan expanded the 2021 EITC for childless workers in a few ways. First, it generally lowers the minimum age from 25 to 19 (except for certain full-time students). It also eliminates the maximum age limit (65), so older people without qualifying children can claim the 2021 credit, too. The enhancements are only for the 2021 tax year.

[7] Long-Term Capital Gains Tax Rates: Tax rates on long-term capital gains (i.e., gains from the sale of capital assets held for at least one year) and qualified dividends did not change for 2021. However, the income thresholds to qualify for the various rates were adjusted for inflation. In 2021, the 0% rate applies for taxable income up to \$40,400 for Single, \$54,100 for HH and \$80,800 for MFJ.

[8] Standard Deduction: The standard deduction amounts were increased for 2021 to account for inflation. They are 25,100 for MFJ, 12,550 for Single and 18,800 for HH. The additional amounts for 65 and over is 1,300 if filing MFJ and 1,700 otherwise.

[9] Unemployment Compensation: This income will be taxed again as if it were wages. Up to 10,200 was exempt in 2020 with an AGI of less than 150K.

[10] Charitable Gift Deductions: For the 2020 tax year, a new "above-the-line" deduction 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 deduction. For 2021, one deduction is allowed per person, which means married couples can deduct up to \$600 on a joint 2021 tax return. RG: The tax savings could be between 36 and 66 for each 300 for taxpayers in the 12% and/or 22% marginal tax bracket.

[13] Estate & Gift Taxes: The lifetime estate and gift tax exemption is now \$11.7 million — \$23.4 million for couples if portability is elected by timely filing IRS Form 706 after the death of the first-to-die spouse. The estate tax rate remains steady at 40%. (COMMENT: Apologies for not listing this first!!!).

[14] Education Tax Breaks: The tuition and fees deduction was repealed beginning with the 2021 tax year. That "above-the-line" write-off was worth up to \$4,000. However, to balance out the loss of the tuition and fees deduction, the phase-out thresholds for the lifetime learning credit were permanently increased. Beginning in 2021, the phase-out range for married couples filing a joint return is \$160,000 to \$180,000, and it's \$80,000 to \$90,000 for single filers. (The same phase-out ranges apply to the American Opportunity tax credit.)

[17] Standard Mileage Rates: The 2021 standard mileage rate for business driving fell from 57.5¢ to 56¢ a mile. The mileage allowance for medical travel and military moves also declined from 17¢ to 16¢ a mile in 2021. However, the charitable driving rate stayed put at 14¢ a mile — it is fixed by law.

[23] Tax "Extenders": There's a group of tax breaks that are constantly scheduled to expire, but that keep getting extended by Congress for another year or two. These tax breaks are collectively referred to as "tax extenders."

- (a) Mortgage insurance premium deduction;
- (b) Nonbusiness energy property credit for certain energy-saving improvements to your home (e.g., new energy-efficient windows and skylights, exterior doors, roofs, insulation, heating and air conditioning systems, water heaters, etc.);
- (c) The exclusion for forgiven mortgage debt was also renewed through 2025 (although the maximum amount that can be excluded is reduced from \$2 million to \$750,000).
- (d) The 26% rate for the residential energy efficient property credit was extended through 2022.
- (e) The 7.5%-of-AGI threshold for deducting medical expenses won't be raised.

[24] Self-Employed People:

- (a) Self-employed people and owners of LLCs, S corporations and other pass-through entities can still deduct 20% of their qualified business income. The taxable income limitations have been increased.
- (b) The deduction for business meals is increased from 50% to 100% for 2021 and 2022;
- (c) The \$250,000 cap on deductible business losses (\$500,000 for joint filers) is back in play after being suspended for the 2018 to 2020 tax years.