

2021 SUMMARY OF TAX CHANGES AND GUIDELINES

Tax Rates

There have been no changes to the tax brackets for the tax year 2021. The seven tax brackets and the tax rates remain the same. It also changes the income thresholds at which the rates apply.

- The 2020 brackets were: 10%, 12%, 22%, 24%, 32%, 35% and 37%
- The new 2021 brackets will be: 10%, 12%, 22%, 24%, 32%, 35% and 37%

Alternative Minimum Tax Exemptions Increased

The bill also eases the burden of the individual alternative minimum tax (AMT) by raising the income exempted from \$113,400 (adjusted for inflation) to \$114,600 married filing jointly and from \$72,900 (adjusted for inflation) to \$73,600 for single taxpayers, so fewer taxpayers will pay it.

Tax Relief for Individuals and Families

Increased standard deduction:

Single taxpayers will see their standard deductions jump from \$12,400 for 2020 taxes to \$12,550 for 2021 taxes (the ones you file in 2022).

Married couples filing jointly will see their standard deductions jump from \$24,800 for 2020 taxes to \$25,100 for 2021 taxes (the ones you file in 2022).

Taxpayers filing as heads of households will see their standard deductions jump from \$18,650 for 2020 taxes to \$18,800 for 2021 taxes (the ones you file in 2022).

Increased Child Tax Credit:

the American Rescue Plan Act expanded the 2021 Child Tax Credit so that more people qualify. For, families with qualified children under the age of 6, the Child Tax Credit is \$3,600 per child. For, families with qualified children between the ages of 6 and 17, the Child Tax Credit is \$3,000 per child. Some people received Advance Child Tax Credit payments, which are early payments from the IRS of 50 percent of the estimated amount of the Child Tax Credit that you may properly claim on your 2021 tax return during the 2022 tax filing season. These monthly payments started in July and will be made through December 2021.

If you received Advance Child Tax Credit payments, you should be receiving Form 6419 which will state the amount of the Advance Child Tax Credit payments that you received in 2021.

In addition, the Child Tax Credit was made fully refundable for 2021. The Child Tax Credit begins to phaseout at \$75,000 for single filers, \$112,500 for HOH filers, and \$150,000 for married filing jointly and qualifying widows and widowers.

Lifetime Learning Credit

For tax year 2021, the adjusted gross income amount used by joint filers to determine the reduction in the Lifetime Learning Credit is \$119,000, up from \$118,000 for tax year 2020.

Estate Tax Exclusion Increase

Estates of decedents who die during 2021 have a basic exclusion amount of \$11,700,000, up from a total of \$11,580,000 for estates of decedents who died in 2020.

Gift Tax Exclusion

The annual exclusion for gifts is \$15,000 for calendar year 2021, as it was for calendar year 2020.

Earned Income Credit

The tax year 2021 maximum Earned Income Credit amount is \$6,728 for qualifying taxpayers who have three or more qualifying children, up from a total of \$6,660 for tax year 2020.

Recovery Rebates

The tax year 2021 sees just one recovery rebate credit (stimulus payments) as opposed to the two received in the tax year 2020. We will need to know the amount of the third recovery rebate credit (stimulus payment) that you received. Let us know if you did not receive the payment, as you may be eligible to claim the credit on your 2021 tax return.

Waiver of early-withdrawal penalty

The CARES Act of 2020 waved the 10% penalty on an early withdrawal from a retirement account, up to \$100,000, on distributions for coronavirus-related purposes made on or after January 1, 2020. For tax year 2021, the waiver of early-withdrawal penalties has been rescinded. Taxpayers who have an early withdrawal from a retirement account will be subject to a 10% penalty.

Waiver of required minimum distributions (RMDs) for 2021

The CARES Act of 2020 waved the required minimum distribution rules for certain defined contribution plans and IRAs during 2020. For the tax year 2021, the waiver no longer applies, and taxpayers are required to take the required minimum distributions for tax year 2021.

Federal Student Loan Repayment

The CARES Act of 2020 suspended the interest and repayment of federal student loans. The pause on payments to federal student loans is set to expire on January 31, 2022. Taxpayers with federal student loans should be aware that your student loan payments will start back up after January 31, 2022.

Charitable Contributions up to \$600.00

For tax year 2021, the IRS is allowing taxpayers who have charitable contributions in the tax year 2021 to take a charitable contribution deduction of up to \$600 in addition to the standard deduction, up from \$300 in 2020.

Self-employed (contractors, freelancers, sole proprietors) and small businesses remain the same:

A 20% deduction for incomes from certain type of “pass-through” entities (partnerships, S Corps, sole proprietorships), limits on expensing of interest from borrowing, small business can expense Section 179 amount of \$1,000,000, and eliminated the corporate alternative minimum tax (AMT).