

Prepare for this year's tax return filing season



Tax return filing season usually gets a little crazy, but this year will be more turbulent than most. Due to new tax legislation and guidance from the IRS, you will have to cope with a wide variety of tax changes, some of which relate to the pandemic. Here are several tips for making some order out of the chaos.

Economic impact payments

Congress handed out three rounds of Economic Impact Payments (stimulus) to individuals in 2020 and 2021. The third payment which came out in 2021 provided a maximum of \$1,400 per person, including dependents, subject to a phaseout. For single filers, the phaseout begins at \$75,000 of AGI; \$150,000 for joint filers. So review your records and be very clear what payments you received in 2021, because the total of your stimulus payment **MUST** be entered on your 2021 tax return. Only then can you use your 2021 tax return to ensure you receive credit for your full stimulus payments.

Child tax credit and Advanced Child tax credit

Many families will benefit from an enhanced Child Tax Credit (CTC) on their 2021 tax return. The new rules provide a credit of up to \$3,000 per qualifying child ages 6 through 17 (\$3,600 per qualifying child under age six), subject to a phaseout beginning at \$75,000 of AGI for single filers and \$150,000 for joint filers. What will complicate this year's tax filing are any **advance payments** you received from the IRS during the second half of 2021. It is important that you accurately identify all the payments you received. The total of **Advanced Child tax credit payments** **MUST** be entered on your tax return. Only then can correct adjustments be made on your tax return to ensure you receive the full Child Tax Credit amount.

Dependent care credit

The available dependent care credit for qualified expenses incurred in 2021 is much higher than 2020, with a corresponding increase in phaseout levels. The maximum credit for households with an AGI up to \$125,000 is \$4,000 for one under-age-13 child and \$8,000 for two or more children. The credit is gradually reduced, then disappears completely if your AGI exceeds \$440,000.

Charitable Contributions

You can now deduct up to \$600 in charitable donations (monetary only), without itemizing, on a Married Filing Jointly tax return, (\$300 for unmarried).

Unemployment benefits

Unemployment benefits are taxable once again in 2021. In 2020, the first \$10,200 of benefits received by taxpayers with an adjusted gross income (AGI) of less than \$150,000 were exempt from tax. Unfortunately the tax-free nature of unemployment benefits in 2020 was made long after many of you filed your tax return. If this pertains to you, and you haven't received a refund from a tax overpayment yet, you might need to file an amended 2020 tax return.

Small business loans

To kick start the economy during the pandemic, Congress created a loan program called the Paycheck Protection Program (PPP). Similarly, your small business might have received an Economic Injury Disaster Loan (EIDL) or grant. These loans may be forgiven in 2021 without any adverse tax consequences if certain conditions were met. So gather your records—including what you received and when—for optimal tax protection.