Tax Update

2021 Year End Newsletter

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Seasons Greetings

New and Updated Tax Laws for 2021

Charitable Contributions. For 2021 only, a $300 charitable deduction is available for single filers who don't itemize deductions on their tax return. This charitable deduction can be up to $600 for married filers. The limit for charitable contributions in 2021 is 100 percent of your income. This limit for noncash contributions is 50 percent of your income.

Lifetime learning credit. The tuition and fees deduction was replaced with an expanded income limit for the lifetime learning credit. The credit is worth up to $2,000 per tax return and covers many of the same costs as the now obsolete deduction.

Flexible spending accounts. Your employer may permit a 12-month grace period (up from 2 ½ months) for unused balances as of December 31, 2021. This means that you could potentially roll over your entire unused FSA balance from 2021 to 2022.

Unemployment compensation is fully taxable. **On your 2020 tax return, you could exclude up to $10,200 ($20,400 married) of unemployment compensation benefits. As of press time, this exclusion is not available for your 2021 tax return.**

Get More Money for These Tax Credits in 2021

Here are three popular tax credits that could net you significantly more money when you file your 2021 tax return:

Child tax credit (CTC)

You can get up to $3,000 for kids ages 6 to 17 and $3,600 for kids ages 5 and under, up from $2,000 for kids of all ages.

- To receive the full tax credit, your adjusted gross income must be under $75,000 (Single); $150,000 (Joint); or $112,500 (Head of Household).
- If your income is above the aforementioned thresholds, you can still receive $2,000 per child if your income is less than $200,000 (Single, Head of Household); or $400,000 (Joint).
- **Be sure to add up any advance payments you received between July and December for the CTC so you can report it on your tax return.**

Child and dependent care credit (DCC)

Cut your tax bill by up to $4,000 if you have one child or up to $8,000 if you have 2 or more kids with the DCC. These amounts are up from $1,050 and $2,100, respectively.

- You can claim up to $8,000 of dependent care expenses for one qualifying dependent and get a 50% tax credit, resulting in a maximum credit of $4,000.
- If you have more than one qualifying dependent, you can claim up to $16,000 in dependent care expenses and get a 50% credit, resulting in a maximum credit for $8,000.
- You can only receive this credit if both you and your spouse are working and have adjusted gross incomes that doesn't exceed $125,000.
- Dependents can include people of all ages, not just kids, as long as they meet the dependent qualifications.

Earned income tax credit

You can get an earned income tax credit of up to $1,502, an increase from $543 last year, if you're a household with no kids. You must be at least age 19 to claim the credit. You can also use either your 2019 income or your 2021 income when calculating your credit to obtain the maximum credit.

How to Thwart IRS Identity Thieves

Each year thieves try to steal billions in federal withholdings by stealing your identity. As the IRS focuses more attention on this quickly growing problem, now is the time to learn how to protect your identity during the 2021 tax season that begins in January 2022.

Early tax filing season is the worst time

Thieves will try to file a fraudulent tax return before you have time to submit your own at the start of the 2021 filing season. If you have a tax refund coming, the thieves can steal your money and be long gone by the time you file your own tax return. So what can you do?

1. **File early.** The sooner you file your tax return, the less likely a thief will beat you to your refund.
2. **Consider an Identity Protection PIN**. Taxpayers who can verify their identity can get an Identity Protection PIN (IP PIN) from the IRS. The IP PIN is a six-digit code known only to you and the IRS that helps prevent identity thieves from filing fraudulent tax returns.
3. **Check your credit reports.** See if there is any suspicious activity on your accounts and on your credit reports prior to filing your taxes.
4. **Protect your ID.** Be suspicious. Never give out your Social Security number, do not leave your credit card unattended, never give ID information to someone who calls you, use the password function on your phone, be aware of strange mail, and shred important documents. Your best defense to IRS ID theft is to use best practices to protect your information.