2021 TAX UPDATE - The New Rules
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Learning Objectives

• Update 2021 factors and legislative changes.

• Review 2021 and 2020 tax rate table comparison.

• Highlight Useful Tax Facts and Materials.

• Consider the 2020 Tax Changes that apply, or have been modified, for 2021.
Standard Deductions

- Standard Deductions:
  - Singles - $12,550.
  - Head of Household - $18,800.
  - Married Filing Jointly - $25,100.
- Singles and HOH 65 or older add $1,700.
- Married Filing Jointly 65 or older add $1,350.
Kiddie Tax Returns

• 2021 Kid’s Return goes back to the old rules.
  • Less than $1,100 in investment income $0 tax.
  • $1,100 to $2,200 in investment income @ 10%.
  • More than $2,200 goes to parent’s rate using Form 8615 (Form 8814 to opt to parents return).
• Child with wages and total income below $12,551 with investment income ≤$350 will pay no tax. The exception is S/E income.
OASDI and SECA tax of 6.2% from Jan 1st – April 30, 2021 can be deferred (repay by 2021/2022).

Even if PPP is received you can defer the tax amount accumulated up to that point.

Employee tax credit ($7,000@/quarter) for employer with less than 500 employees.
  • Based on wages paid between Jan 1st – Dec 31st.
  • Must reconcile credits with Form 941s.
  • Can Fax Form 7200/7202 to 855-248-0552 to expedite.
• PPP and EIDL Grants are both loans (non-taxable).
  • Forgiveness of debt is non-taxable.
  • Expenses related to forgiven debt are now deductible.

• Individual Stimulus Payments (not taxable) aka Recovery Rebate Credits 2020/2021.
  • Those qualifying can claim their credit on the 2020 or 2021 Return.
  • No “claw-back” provision on erroneous credits paid.
  • Non-filers can file an EIP Return to receive the credit (Economic Impact Payment) by check or direct deposit (Remember 1095-A).
Appropriations Act

• Individual Stimulus Payments (who qualifies) aka Recovery Rebate Credits 2020/2021.
  • Single filers with AGI to $75k (phaseout to $99k for first 2)
  • MFJ filers with AGI to $150k (phaseout to $198k for first 2)
  • Head of Household with AGI to $112,500 (phaseout to $136,500 for first 2)

• Unemployment and PUA (Pandemic Unemployment Assistance) are generally taxable. We hope withholding was done!
CARES Act – Withdrawals

• Special treatment of withdrawals (≤$100k) from IRAs, SEPs, 401(k), 403(b), 457, and other related accts.
  • 10% Penalty assessment is suspended.
  • Treat as a ‘rollover’ and pay back within 3 years.
  • Treat as a distribution and pay the tax equally over 3 years (2020, 2021, and 2022).

• Use Form 8915-E for the 3-year election.
Superseding Return – Fixing Return

• Ever wish for a do-over? You were in luck. If you filed the 2021 return and wanted to change something, you could file by April 15th a paper ‘Superseding Return’ (list this wording at the top of 1040).

• In effect, it overrides the original e-filed return, as if it was never filed.
CARES Act – NOLs

• Temporarily returned to pre-2018 standards
  
  
  • Allowed to use the 5-year carryback rules (COVID).
  
  • The 80% restriction rule is back for 2021 (IDA).
  
  • Can use Form 1045 (fax 844-249-6237) or Form 1139 (fax 844-249-6236) for faster processing.
  
  • Refer to IRS Notice 2020-26 for more details.
  
  • 2021 has returned to carry-forwards (IDA 3yr back).

* Time limitations for filing may apply
Appropriations Act – Charities

• 2021 Charity Contributions get more special treatment.
  • Non-Itemizers are allowed to deduct up to $300@ per return in contributions (1040 above-the-line).
  • Itemizers will find that the 60% limitation rule has been temporarily suspended allowing 100% of AGI be contributed to a 501(c)(3) charity. This will not apply to prior year carryforwards.
  • Remember that COVID-19 or the shut-downs must have impacted your taxpayer in some way.
Appropriations Act – Student Loans

• Student Loan Payments are suspended for 2021.

• Employers can pay employee student loan principal and interest up to $5,250/year thru 2025.

• Employer payments must be in a written plan and meet nondiscrimination requirements. These payments “will not” be taxable or treated as compensation.
Qualified Dividends and LTCG

• There are still three separate rates for this category based on tax brackets:
  • 10% and 12%* brackets receive a zero LTCG rate.
  • 22%, 24%, 32%, and 35%* receive a 15% LTCG rate.
  • 37% bracket goes to the highest 20% LTCG rate.

* changes to the next rate near the top of the bracket.

• In addition there is a 3.8% rate on investment income that applies to Singles after $200k and Marrieds after $250k ($125k MFS).

• Investment income includes cap gains, interest, dividends, annuities, rental income, and royalties.
Funding Bill Changes

- Tuition and Fees Deduction (ended in 2020).
- $2 million exclusion on cancellation of debt for mortgage on residence reduced to $750,000 (through 2025).
- Medical Expense Deductible at 7.5% (through 2025).
2021 Advance Child Tax Credit

• MAGI Thresholds $150,000/112,500/75,000.

• Advance Payments from July-Dec 2021.

• Child and other dependent tax credits:
  • Children 6 and under - $3,600 credit (-$300/month).
  • Children above 6 - $3,000 credit (-$250/month).
  • Other dependents - $0 credit.
  • If over AGI you can opt-out of the monthly pmt.
  • Phaseout drops $50 per $1,000 above MAGI.
2021 Child Tax Credits

• Remain at AGI Thresholds of $200k/S & $400k/MFJ.

• $1,400 of each $2,000 credit is refundable.

• Child and other dependent tax credits:
  • Children under 17 - $2,000 credit.
  • Children above 16 - $500 credit.
  • Other dependents - $500 credit.
The mileage rates have gone down due to the cost of fuel:

- Business mileage rates are at $.56/mile.
- Moving and medical mileage rate are at $.16/mile.
- Charity mileage rate is unchanged at $.14/mile.
Updated Changes and Additions

• These listed items are either the same, updated, or additions to the TCJA:
  • American Opportunity Credit (tuition and books).
  • Excess Deductions on final estate return to K-1s.
  • Teacher’s Expenses incl. COVID gear (up to $250).
  • §179 Depreciation Expense ($1,050,000/$2,620,000 Phase-down).
  • Qualified Charitable Donations (QCDs) transfers from IRAs to Charities ($100k max. for age 70-1/2).
Updated Changes and Additions

- The RMD age is now 72 for IRAs.
- Business/Travel Meals now at 100% (2021/22).
- 2021 Enhanced deductions for businesses donating food inventory to Charities (125% of basis).
- C Corporations allowed to deduct cash contributions at 25% of Adjusted Taxable Income.
- The tax on the 2020 IRA Withdrawal which is spread over 3-years is shown on Form 8915-E.
- Form 5695 on insulation and storm windows (2021).
New and Other Changes

• First Year Bonus Depreciation increased to 100% from 9/27/2017 to 12/31/2022. Covers most new or used assets with life of 20 years or less.

• Listed Property under §280F and §168(k) first-year limitation is increased to $18,000 for cars and $18,000 for trucks, and vans placed in service on or after 2018. 2nd year will max-out at $16,000, 3rd year at $9,600, and future years at $7,560.
New and Other Changes (continued)

• 179 Election limited to $26,200/SUV.

• New or Used SUVs or 6’ bed trucks over 6,000 lbs. for business will qualify for 100% bonus depreciation.

• Work Opportunity Tax Credit on Form 8850 (extended through 2025).

• New Markets Tax Credit (extended thru 2025).

• Energy Efficient Improvements to Commercial Buildings continues to be deductible thru 2025.

• Home Builder’s Energy Efficient Credit thru 2021.
New and Other Changes (continued)

• 26% Wind and Solar Energy Credit extended through 2021 & 2022. Drop to 22% in 2023.

• Expanded use of 529 Plan funds to include Kindergarten through 12th grade = $10k/year. $15,000/year from 529 ABLE Account.

• Money earned from a college work-learning-service program (W-4 write in ‘Exempt’ on 4c).

• Form 1023 for EOs now filed on-line with $600 user fee paid at www.pay.gov.
New and Other Changes (continued)

• Student Loan forgiveness due to death or disability not taxed.

• Foreign Earned Income Exclusion is $108,700. If returned to USA due to COVID (timing exclusion).

• Maximum FSA Deduction for employees is $2,750.

• Employer tax-free parking and mass-transit passes stays at $270/month.

• Increase in Estate and Gift Tax Exemption to $11.7 million/taxpayer and $15,000/year in gifting. Can pre-load 529 Plan up to $150k/MFJ couple.
New and Other Changes (continued)

• Stepped-up Basis of estate assets for heirs will remain intact.

• Employers providing medical or family leave pay for more than half the employee’s normal wage are eligible for up to a 12.5% credit on the leave pay.

• New 30% cap of ATI (Adjusted Taxable Income) on business debt interest for firms above $26 million.

• AMT Exemption threshold has been increased to $114,600/MFJ or $73,600/S, HOH.

• AMT on Businesses has been repealed.
New and Other Changes (continued)

• Late submission penalty on W-2 or 1099 is $50/return 30 days after January 31st and $100/return beyond 30 days.

• COBRA Premium Assistance Credit for Employers extending coverage to unemployed workers between April – September 2021.

• Employer Payroll Credit for allowing employees time off to get COVID-19 vaccination between April 1st – September 30, 2021.
New and Other Changes (continued)

• Private Letter Ruling Cost is going up to $2,800 for Taxpayers under $250,000 AGI; $7,600 for AGI between $250,001 - $1,000,000; and $30,000 for AGI over $1 million.

• The federal poverty level increases for 2021 to $12,880/single and $26,500/family+4. ACA 400% top-off at $51,520/single and $106,000/family+4.
New and Other Changes (continued)

• 2021 annual long-term care premiums max-out at:
  • $450 for taxpayers under 40.
  • $850 from 41-50.
  • $1,690 from 51-60.
  • $4,520 from 61-70.
  • $5,640 if over 71 year of age.

Why would we care? S/E Health Insurance is 100% deductible on Sch C/F earnings (1040 above the line).
New and Other Changes (continued)

• FBAR Return (foreign bank account reporting) – Form 114 FinCEN is extended to October 15th.

• Unemployment Compensation Exclusion (UCE) was $10,200 for the 2020 tax return. We are hopeful it will be extended into 2021 - nothing yet.

• The filing threshold for Form 1099-K has been reduced from $20,000 in income down to $600. Number of transactions has not been addressed.
New and Other Changes (continued)

• Inherited IRAs/Employee Retirement Plans must be cashed out within 10 years unless one of the following applies:
  • Beneficiary is the spouse of the Deceased Owner.
  • Beneficiary is the child (under 18) of the Deceased Owner.
  • Beneficiary is Permanently Disabled or has a Chronic Illness.
  • Beneficiary is within 10 years of the age of the Deceased Owner.
Form 2106 is Still Alive

- Form 2106 normally feeds info to Line 24 of the 1040 Form, Schedule 1.

- Must be in a specified group of employees:
  - FBOs – State or local government ‘fee basis officials’ that are paid on a W-2 for fee basis work, like serving summons, or police warrants.
  - QPAs – Qualified performing artists that are paid on W-2:
    - Must have at least 2 Employers paying $200+/annually.
    - Expenses must exceed 10% of performing artist income.
    - AGI cannot exceed $16,000/annually (before deducting expenses).
Form 2106 is Still Alive (continued)

• Must be in a specified group of employees:
  • Armed Forces Reservists – National Guard or Armed Forces Reservists who travel for training or service commitments.
  • Must be 100+ miles away from home.
    • Must stay overnight.
    • Can deduct transportation, lodging, and 50% of meal/per diem.
    • Cannot deduct uniform maintenance and other related expenses; this portion of Schedule A is gone.
Form 2106 is Still Alive (continued)

• Must be in a specified group of employees:
  
  • Disabled Employees
    
    • Impairment-related aids used for work.
    
    • Must deduct cost on Form 2106.
    
    • Expenses feed back to Schedule A without a 2% Deductible.
    
    • See special drop-down list on Schedule A.
Statutory Employees

• Must meet the guidelines of §3121(d)(3).

• Can write off unreimbursed business expenses on Schedule C even though paid on a W-2.

• Must be in a specified group of employees:
  • Truck drivers that distribute beverages, meat, vegetables, fruit, bakery products, and laundry/dry cleaning as employer’s agent or on commission (not milk delivery).
  • Full-time life insurance agents selling life insurance or annuities primarily for one employer.
Statutory Employees (continued)

• Must be in a specified group of employees:
  • Individuals working from home using the employer’s materials and goods to produce items which meet their employer’s specifications.
  • Full-time traveling or city salespersons filling orders from wholesalers, retailers, contractors, or from operators of hotels, restaurants, and similar establishments. Must be resale merchandise or for use in the customer’s business operation. Sales must be employee’s principal job.
• Employer must check the statutory employee box on Line 13 of the W-2 Form.

• No Schedule SE since FICA is already paid.

• Must be a separate Schedule C for each W-2 showing statutory employee.

• W-2 Entry Screen is the key to successful filing.

• Employee is able to write-off unreimbursed business expenses without a 2% deductible.
Medical Deductions for Caregiving

• Can Caregiver expenses be deducted as medical deductions?

• If deficiency in two ADL Activities along with a doctor’s statement.

• The six activities include eating, hygiene, transference, bathing, dressing, and continence.

• With the doctor’s diagnosis, stand-by unlicensed care is deductible.

• This is a huge deduction even if we are losing 7.5% of AGI.
Impact on Medicare Premiums

• Over $176k/MFJ AGI increases premium ($88,000/Single).

• Look over Chart for other increases to the Medicare Premium.

• Highest is $750,000 AGI with a monthly premium of $504.90 (2021). $500k for Single.

• Affects premiums 2 years later (2019 AGI effects 2021 Medicare Premiums).

• Be leery of large taxable withdrawals like IRAs.
Fees for Installment Agreements

- Installment Agreements went to $225.
- If you set it up online the fee is only $149.
- Reinstating or restructuring an existing plan is now $89.
- Direct debit plans can reduce your filing cost to $107.
- Low income filers can still qualify for a $43 fee.
• For 2021, the Social Security Wage Base maximum will be $142,800.

• Medicare premiums will continue at 1.45% until reaching the ACA thresholds of $200k (single) and $250k (married) when an additional .9% will be added.

• FICA taxes on domestic employees do not apply if the employee is paid less than $2,300 in 2021.
HSA Now Allows OTC Items

• The CARES Act has taken away the ban on OTC Items like pain relievers, non-prescription drugs, and menstrual supplies.

• Employers must amend their plans to qualify. FSAs and HRAs also qualify.

• These changes are permanent, but telehealth coverage is only covered through the end of 2021.
The HSA contribution limits go to $3,600 self-only and $7,200 family coverage.

Individuals over 55 years of age can add $1,000/year as a catch-up provision.

Individuals reaching 65 years of age can no longer contribute to the HSA even if they are still employed.
HSA Higher Limits (continued)

• Minimum deductibles remain at $1,400 self and $2,800 family.

• Maximum deductibles increase to $7,000 self and $14,000 family.
2021 Adoption Credit

• Adoption Credit has been increased to $14,440 for individuals and company-paid plans. Any excess credit is non-refundable but does carry-over.

• Credit begins to taper-off as the AGI reaches $216,660 and is no longer available to those with an AGI of $256,660.

• Special needs adoptions allow the full amount of the credit, even if expenditures were less expensive.

• Drawing $5,000 from an IRA for having a baby or adopting allowed without penalty.
2021 Retirement Savings Plan Limits

- Retirement accounts have always had an income limit or needed to reach a threshold for the maximum contribution.

- The following are the most common retirement programs:
  - The §401k, §457, and §403b limit stays at $19,500 for those under 50 and allows an additional $6,500 for those age 50 or above.
  - The Simple IRA allows $13,500 annually with an additional $3,000 at age 50 or above.
2021 Retirement Savings Plan Limits

• Traditional IRAs and ROTH IRAs stay at $6,000 with an additional $1,000 starting at age 50. If covered by another plan the AGI threshold for phasing out begins at $105k and is gone by $125k (MFJ) or $66k to $76k (Single). If taxpayers are not covered by another plan it matches the ROTH thresholds of $198k to $208k (MFJ) and $125k to $140k (Single).

• The Retirement Savers Credit phases out at $66,000 for MFJ, $49,500 for HOH, and $33,000 Single.
The estate and gift tax exemption for 2021 is $11,700,000 and all, or part of it, is eligible for portability to the surviving spouse.

Executor or Executrix required to file Form 706 must also disclose the value of property and certain assets being transferred to the beneficiaries on Form 8971.
2021 Trusts and Estates (continued)

• Form 8971 must be filed within 30 days of filing the 706 Estate return.

• The Trust strategy to distribute the maximum amount of income to the beneficiaries is a wise choice. The 37% tax rate for the trust begins at $13,050.

• At this rate the 3.8% Net Investment Income Tax also applies with 20% LTCG.
• Gifting between Spouses is “Unlimited”. A non-citizen spouse limited to $159,000.

• A gift to an individual is limited annually to $15,000.

• Gifting from parents to married children gives us more options:
  • Each parent can gift $15k to each member of the couple (increases to $60k potential).
  • Throw in some grandchildren (better scenario).
2021 Education Credits and Deductions

• 2021 credits and deduction have not changed, but the income thresholds are higher:
  • AOC maximum credit is still $2,500 with a 40% refundable credit. The AGI phase-out runs from $160k to $180k (MFJ) and $80k to $90k (Single).
  • The maximum Lifetime Learning Credit is $2,000 or 20% of tuition and fees if lower. The AGI phase-out runs from $160k to $180k (MFJ) and $80k to $90k (Single).
• The maximum deduction for Student Loan Interest is $2,500. The AGI phase-out runs from $140k to $170k (MFJ) and $70k to $85k (Single).

• EE Savings Bond Interest for higher education is exempt from tax. MAGI Phase-out thresholds for MFJ is $124,800 - $154,800 and Single is $83,200 - $98,200.
2021 Federally Declared Disasters-FDD

• Federally declared disasters (like Ida #4611) get reported on Form 4684 (no itemizing required).

• Form 4684 can no longer be used for ordinary thefts or non-declared disasters.

• A 2021 FDD can be claimed on either the 2020 return or the 2021 return.

• Net losses under $20,000 only need two repair estimates. Then choose the lesser one to establish the loss.

• All FDD returns/payments are pushed to 1/3/22.
Identity Theft Protective Measures

• New requirement for Drivers License Information.

• W-2 Forms will only require the last four numbers of the taxpayers SSN.

• Taxpayers may still request a transcript by mail within 10 days. Can call 800-908-9946 or order on the website www.irs.gov.

• New IRS procedure: If your address changes, they send a verification letter to you at the old address to confirm filing.
Charity Donation Issues

- Pub 78 is used to verify §501(c)(3) organizations.
- Remember that donations given to §501(c)(4) through §501(c)(29) tax exempt organizations are not tax deductible.
Charity Donation Strategies

• A new strategy being considered for generous taxpayers is “bunching”.

• Another idea circulating is utilizing your stock broker’s Donor Advised Fund. Must select 501(c)(3) organizations for disbursements.

• Section 181 Film Credits can provide some tax relief.
COVID-19 Presidentially Declared Disaster

• This was declared in 2020 for all 50 states, but could be extended into 2021. Stay tuned.

• Losses filed on Form 4684 became an additional standard deduction on Line 9, Form 1040 (2020).

• COVID-19 retirement account withdrawals could use Form 8915-E to extend the tax over three years (2020, 2021, & 2022). 10% penalty in 2020 was suspended for these withdrawals.

• Disaster-affected companies that continue to pay workers despite suspended business operations can claim a 40% credit up to $6,000/employee.
The Tax Burden

So, who pays the tax burden in our tax system?

• The Bottom 50% of filers pay 3.11% of the US Tax Burden.

• The Next 40% of the filers pay 26.81% of the US Tax Burden.

• The Highest 10% with AGIs of $145,135 or higher pay 70.08% of the US Tax Burden.
  • The Top 5% with AGIs of $208,053 or higher pay 59.14% of the Tax Burden.
  • The Top 1% with AGIs of $515,371 or higher pay 38.47% of the Tax Burden.
The Tax Burden – The Top 1%

So, what is the marginal tax rate for the top 1%?

- The .1% group paid a marginal rate of 25.96%.
- The .01% group paid a marginal rate of 24.46%.
- The Highest .001% group which only includes 1,443 taxpayers paid a marginal rate of 22.92%. The minimum AGI required each year to join this elite group required you to be making at least $68,900,000 per year.
Tax Pro New Digital Option (POA)

- Tax Pros with a CAF Number can initiate a 2848 or 8821 in their IRS Account and have IRS forward that form to the taxpayer’s IRS account for approval and electronic signature.

- The taxpayer can open an account with IRS by going to www.irs.gov/account.

- After taxpayer approval the document is automatically transmitted for processing.
• COVID-19 PPE can be deducted as a business expense. Individuals use medical expense on Schedule A. Can also qualify for reimbursement on HSA, MRA, or FSA.

• All businesses can deduct 100% of travel and business meals from a “restaurant”.

• Employer dining facilities still only get 50%.
Thank You !