

TaxUpdate

2021 YEAR END NEWSLETTER



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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

You can receive a credit of \$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 credit payments you received between July and December so you can report it on your tax return.

Child and dependent care credit

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 children. 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 of \$8,000.
- You can only receive this credit if both you and your spouse are working and have adjusted gross income that doesn't exceed \$125,000.
- Dependents can include people of all ages, not just children, as long as they meet the dependent qualifications.

Earned income tax credit

You can receive an earned income tax credit of up to \$1,502, an increase from \$543 last year, if you're a household with no children. 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.



New and Updated Tax Laws for 2021

Charitable contributions. The limit for charitable contributions in 2021 is 100 percent of your income (up from 60%). The limit for noncash contributions is 50 percent of your income. In 2021, a \$300 charitable deduction is available for single filers who don't itemize deductions on their tax return. This deduction can be up to \$600 for married filers.

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 2½ 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 presstime, this exclusion is not available for your 2021 tax return.

Income Brackets for 2021 Tax Rates

Tax Rate	Single	Married Filing Joint/Widow	Head of Household	Married Filing Separate
10%	\$1 - 9,950	\$1 - 19,900	\$1 - 14,200	\$1 - 9,950
12%	9,951 - 40,525	19,901 - 81,050	14,201 - 54,200	9,951 - 40,525
22%	40,526 - 86,375	81,051 - 172,750	54,201 - 86,350	40,526 - 86,375
24%	86,376 - 164,925	172,751 - 329,850	86,351 - 164,900	86,376 - 164,925
32%	164,926 - 209,425	329,851 - 418,850	164,901 - 209,400	164,926 - 209,425
35%	209,426 - 523,600	418,851 - 628,300	209,401 - 523,600	209,426 - 314,150
37%	Over \$523,600	Over \$628,300	Over \$523,600	Over \$314,150

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 receive 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 against IRS ID theft is to use best practices to protect your information.

Review Your Social Security Earnings Report

Most of us go through life without being concerned with, or ever checking on, our Social Security earnings report. However, the Social Security Administration (SSA) can and does make errors and omissions. The only way these problems are caught is if YOU notice them. Waiting until retirement may be too late to correct an error made 10 to 20 years back. Common problems and their impact are:

Incorrect amounts. If the SSA does not receive a W-2 wage statement from an employer, you will not see credit for these earnings. If you have earnings that are missing or incorrect, your retirement check will be permanently lower!

Missing earnings. In addition to receiving credit for earnings, you also need to work a certain number of quarters to be eligible for retirement benefits. These missing earnings reports reduce your number of working quarters. Mess up here and you may not qualify for benefits at all!

The three-year correction time limit. Per the SSA, an earnings record can be corrected at any time up to three years, three months, and 15 days after the year in which the wages were paid or the self-employment income was derived. While there are exceptions for fraud and obvious clerical errors, why risk the hassle by not finding errors and fixing them when they happen?

Action to take

Thankfully, it is now easier to confirm the accuracy of your account as the SSA has a tool that allows you to review your historic earnings statements online at www.ssa.gov.

To use the tool, you will need to go through an online signup process that includes many safety measures to ensure your identity is protected.

If you see an error on your statement, you should immediately correct it. You can do this by contacting the SSA:

- **Telephone:** 1.800.772.1213
- **By mail:** Social Security Administration Office of Earnings Operations, PO Box 33026, Baltimore, MD 21290-3026

Since you are receiving a new W-2 for 2021, make reviewing your Social Security retirement account part of your annual tax filing experience.

Standard Deductions			
Item	2021	2020	Change
Single	\$12,550	\$12,400	+\$150
Married Joint/Widow	25,100	24,800	+\$300
Head of Household	18,800	18,650	+\$150
Married Filing Separate	12,550	12,400	+\$150
Elderly/Blind: Married	+\$1,350	+\$1,300	+\$50
Elderly/Blind: Unmarried	+\$1,700	+\$1,650	+\$50

Mileage Rates			
Item	2021	2020	Change
Business	56.0¢/mi	57.5¢/mi	-1.5¢
Medical/Moving	16.0¢/mi	17.0¢/mi	-1.0¢
Charitable	14.0¢/mi	14.0¢/mi	—

Section 179 Maximums			
Limits	2021	2020	Change
Section 179	\$1.05 million	\$1.04 million	+\$10,000
Property Limit	\$2.62 million	\$2.59 million	+\$30,000

Maximum Earned Income Tax Credit			
	2021	2020	Change
No Child	\$1,502	\$538	+\$964
1 Child	3,618	3,584	+\$34
2 Children	5,980	5,920	+\$60
3+ Children	6,728	6,660	+\$68

Key Retirement Plan Limits

Retirement Plan	2021	2020	Change	Age 50 or older catch-up
401(k), 403(b), 457 plans	\$19,500	\$19,500	—	Add \$6,500
IRA: Roth	\$6,000	\$6,000	—	Add \$1,000
IRA: SIMPLE	\$13,500	\$13,500	—	Add \$3,000
IRA: Traditional	\$6,000	\$6,000	—	Add \$1,000

Income the IRS Can't Touch

Some forms of income can escape getting taxed by the IRS. Here are several common examples of federal tax-free income.

- 1 Tax-free interest.** The federal government does not tax municipal bond interest. This includes bonds issued by a state or municipality. But caution must be taken to ensure the underlying municipality is not in dire financial condition.
- 2 Health insurance premiums.** Most health insurance premiums are currently tax free. This could change in

the future to help pay for health care reform, but for most people this benefit can be paid using pre-tax dollars.

- 3 Income from Roth IRA and Roth 401(k) accounts.** While the amounts contributed into these retirement savings accounts are taxed, any earnings made on the contributions are tax free for federal income tax purposes as long as holding period and distribution rules are followed.
- 4 Health savings accounts (HSA).** Contributions are deductible while earnings are tax free as long as disburse-

ments from the account are used to pay for qualified health care expenses.

- 5 Child support received.** Child support income you receive is free from federal tax.
- 6 Car pool revenue.** While commuting expenses are not generally deductible, any reimbursement of your commuting expenses by fellow passengers is not reportable as income.
- 7 Home sale gains.** Up to \$250,000 (\$500,000 for married filing jointly) of capital gains on a sale of your principal residence can be tax free.

This publication provides summary information regarding the subject matter at time of printing. Please call with any questions on how this information may impact your situation.