TAX CHANGES FOR 2021 RETURNS

STANDARD DEDUCTION INCREASED

Single	**$ 12,550**
Married Joint	**$ 25,100**
Married Separate	**$ 12,550**
Head of Household	**$ 18,800**

DEDUCTION FOR CASH CHARITABLE DONATIONS

Single taxpayers who take the standard deduction instead of itemizing, can once again deduct up to $300 of documented charitable cash contributions. New this year, couples filing joint returns can deduct up to $600.

INCREASED CHILD TAX CREDIT

The American Rescue Plan increased the Child Tax Credit from $2,000 per child to $3,000 per child for children over the age of six and from $2,000 to $3,600 for children under the age of six, The Plan also raised the upper age limit from 16 to 17. Taxpayers will get the full credit if they make up to $150,000 if they file married jointly, up to $112,500 if they file as head of household, and up to $75,000 if they file as single.

As of July 15, 2021, many families have automatically received monthly advance payments of this credit of $250 or $300 per child. In January 2022, the IRS will send out Letter 6419 documenting any advance payments issued and the number of qualifying children used to calculate the advance payments. Please save this important document to give to us when we prepare your tax return.

If you are eligible for the Child Tax Credit but weren't issued advance monthly payments, you can still claim the full credit of up to $3,600 on your 2021 tax return. The $500 nonrefundable Credit for Other Dependents has not changed.

SUBSTANTIAL INCREASE IN THE CHILD AND DEPENDENT CARE CREDIT

This credit is intended to allow parents to get a tax reduction for childcare expenses they pay allowing them to work, look for work or attend school. It not only reduces taxes owed but it is in part refundable even if no tax is owed. The dollar amount of this credit is based on 50% of the eligible expenses. It can be up to $4,000 for one child and up to $8,000 for two or more children. The credit begins to phase out when AGI is more than $125,000 and is completely phased out when AGI is more than $438,000. This change is for 2021 only.

STIMULUS PAYMENTS

Your third stimulus payment is an advance refundable tax credit of 2021 taxes. The IRS started sending this payment to eligible individuals on March 12, 2021. Since the stimulus payment you received was based on your AGI for 2019 or 2020, but technically applies to your 2021 AGI, you may be entitled to an additional credit when we file your 2021 return. There is no pay back to the government if your income in 2021 was higher than 2019 or 2020 and you were overpaid the credit. Therefore, when we prepare your tax return this year, it is very important that you provide us with the exact amount of the third stimulus payment. This amount was reported to you on notice 1444-C.

FOREIGN EARNED INCOME EXCLUSION
The foreign earned income exclusion amount is increased from $107,600 to $108,700.

ANNUAL GIFT EXCLUSION
For gift tax purposes, the annual exclusion of gifts made during the 2021 calendar year remains at $15,000. One can give away even more than this by paying someone's tuition or medical bills, as long as those payments go directly to the educational or medical service provider.

FEWER TAXPAYERS WILL BE SUBJECT TO THE ALTERNATIVE MINIMUM TAX (AMT)
The exemption amount for the AMT for tax year 2021 has been increased to adjust for inflation. Exemption amounts are $73,600 (individuals) and $114,600 (married filing jointly). The AMT exemption begins to phase out for single taxpayers at $523,600 of income and at $1,047,200 of income for married filing jointly.

EMPLOYEE SOCIAL SECURITY TAX
During 2021 both the employee portion and the employer portion of the Social Security tax rates are 6.2%. This applies to the first $142,800 of W-2 or Self Employment income earned. The Medicare tax remains at 1.45% on wages and Self Employment income without limit. An additional .9 % Medicare tax is levied on earned income over $200,000 for single taxpayers and over $250,000 for married couples.

NEW RULES FOR BENEFICIARIES
Fewer beneficiaries who inherit of IRAs and workplace retirement plans such as 401(k) and 403(b) plans will qualify to receive distributions over their lifetime. Many will need to withdraw all assets within 10 years after the death of the IRA owner or retirement plan participant. Exceptions to the 10-year rule apple to surviving spouses, minor children, people who are disabled or chronically ill, and those who are not more than 10 years younger than the decedent.

THE NEW MILEAGE RATES
The per-mile allowance for business use of an auto is 56 cents for all of 2021, down from 57.5 cents for 2020. The allowance for auto use for medical and military moving purposes is decreased from 17 to 16 cents per-mile. The per-mile allowance for charitable is unchanged at 14 cents.

BUSINESS EXPENSING OF NEW EQUIPMENT
The amount of investment in machinery and equipment that may be immediately expensed in 2021 and beyond has been made permanent at $1,000,000. The bonus depreciation remains at 100% of the cost of new equipment through 12/31/2022 and has been expanded to include used equipment.

EXTRA TAX ON INVESTMENT INCOME OF HIGH-INCOME TAXPAYERS CONTINUES
Single taxpayers with adjusted gross income (AGI) over $200,000, and married couples with AGI over $250,000, will be required to pay a 3.8% income tax on investment income. Investment income includes interest, dividends, capital gains, annuities, rental and royalty income. Also included are incomes from investments in partnerships and S corporations which are not actively operated by the taxpayer(s).

LONG-TERM CAPITAL GAINS AND QUALIFIED DIVIDENDS
The 2020 capital gains tax rates are holding steady through 2021, but the income thresholds required for each rate have changed. Individuals whose income is at or above $445,851 ($501,601 married filing jointly) will see that the rate of tax they pay on capital gains and qualified dividends will be 20%. Individuals with income below these limits will pay no higher than 15%.

HEALTH INSURANCE
For 2021, the penalty for not having minimum essential health care coverage for part or all of the year does not apply for Federal returns.

However, if you or a family member enrolled in health insurance through the Health Insurance Marketplace and advance payments of the premium tax credit were made to your insurance company to reduce your monthly premium payment, you still must attach Form 8962 to your return to reconcile (compare) the advance payments with your premium tax credit for the year. This information will be provided to you by January 31, 2022 on Form 1095-A. We will need this form to complete your return.

Rhode Island residents must continue to maintain healthcare coverage. Failure to have health coverage or qualify for an exemption will result in a penalty when a taxpayer files their 2021 Rhode Island personal income tax return.

TAX CREDIT SUPPORTING HIGHER EDUCATION
The American Opportunity Credit stays the same in 2021 and beyond. The credit can be up to $2,500 per eligible student and is available for the first four years of post-secondary education. Forty percent of this credit is refundable, which means that taxpayers can receive up to a $1,000 refund even if they owe no taxes. Qualifying expenses include required course-related books, supplies and equipment. The credit is gradually reduced (or "phased out") for income from $80,000 to $90,000 (or $160,000 to $180,000 for joint filers). The tax credit is not available for people with incomes above the phase out range.

RESIDENTIAL AND COMMERCIAL ENERGY EFFICIENT PROPERTY CREDITS
Homeowners going green should check out a tax credit designed to spur investment in major alternative energy equipment such as solar electric equipment, solar water heating property, small wind energy property and geothermal heat pumps. In the case of property placed in service during 2021 the credit equals 26% of the cost of qualifying property. This credit will decrease to 22% in 2023 and expire starting in 2024 unless Congress renews it.

REQUIRED MINIMUM DISTRIBUTIONS REQUIRED FOR 2021

The Cares Act waived RMD's from traditional IRAs and various workplace retirement plans, including 401(k), 403(b) and 457(b) plans for 2020 only. For all subsequent years, the RMD must be made by December 31st. If you turn 72 in 2021, you must take your first RMD by April 1, 2022, with subsequent RMDs on December 31st annually thereafter. Individuals who don't take the required minimum distributions (RMDs), may pay an additional 50% penalty on the amount not distributed as required.

CHARITABLE DONATIONS FROM IRA'S

Taxpayers over 70 1/2 can make qualified transfers to charities (QCDs) directly from their traditional IRAs. Amounts transfered can count towards the required minimum distribution for the year. If you qualify, you need to contact your IRA holder and provide the name, address and the amount you want to transfer (up to $100,000). They will transfer the funds to the charity on your behalf and the amounts paid will represent tax-free withdrawals from your IRAs. Unfortunately the 1099R form showing your withdrawals from the IRA doesn't break out the QCD amounts. Please make sure you tell us the amounts you paid out this way so we can exclude them as nontaxable when we prepare your return.

ROTH IRA CONVERSIONS IN 2021

During 2021, anyone, regardless of income, is once again free to convert traditional IRAs to Roth IRAs. Conversions are fully taxable at regular tax rates and the tax must be paid on the tax return for the year the conversion takes place.

Whether or not you should make the conversion is a complicated decision. We have special software and expertise that can help you in deciding what you need to do. As a quick test here are some preliminary questions. If you answer yes to all three of the following questions, you should make the switch. If you answer yes to two out of three, you should contact us.

1. **Do you have at least ten years until retirement?**
2. **Will your tax rate at retirement be the same, or not much lower than it is now?**
3. **Do you have money outside your IRA to pay the tax on the amount you convert?**

Making these transfers, especially after a big market decline, enables you to transfer shares at a reduced tax cost. It is good to keep this in mind when a stock market correction occurs.

CONSIDER CONTRIBUTING TO A ROTH IRA

Even if you qualify for a deductible retirement plan, you may also want to start or continue to contribute to the extremely attractive Roth IRA. Distributions from Roth IRAs are tax-free as long as you have owned any Roth IRA for more than five tax years and as long as the person making the withdrawal is over age 59½.

If you are eligible, you really should consider the Roth IRA as a means of saving for your retirement. Other advantages of the Roth IRA are that you don't have to begin withdrawing from the Roth when you reach age 72 and you can make contributions to a Roth IRA at any age as long as you have earned income.

CONSIDER RHODE ISLAND'S SECTION 529 EDUCATION SAVINGS PLAN

For years the State of Rhode Island has offered a long-term tax-free plan to help families save for the cost of a child's college education. The plan is available to residents and non-residents of Rhode Island and allows the money to grow and be withdrawn completely free of federal and state taxes as long as it is spent on qualifying education. Qualifying expenses apply to post-secondary education and up to $10,000 per year per student for K-12 tuition. Funds can be used to pay for fees, books, supplies and equipment for certain apprenticeship programs. In addition, up to $10,000 in total (not annually) can be withdrawn to pay off student loans.

There is no income limit on those desiring to participate in 529 plans and a small state tax deduction is permitted Rhode Island residents who contribute to the state plan. You can call us for details. We can also help you establish one if you need help.

CONSIDER FILING A REQUEST FOR AN EXTENSION

Every year a number of clients request additional time for filing their 1040s. I am always glad to prepare extensions on their behalf. Years ago, I began to notice that few or none of these clients ever got audited. That seemed strange to me since conventional wisdom holds that an extension would increase the chances of audit. Studies of the frequency of audit now show that a lower percentage of extended returns are eventually audited. It is believed this is the case because the IRS has the return for less time.

If you elect to file an extension, remember that you have more time to file your forms but not more time to pay the tax. To avoid the substantial penalties for paying late, you need to estimate whether or not you owe. If you owe, you need to mail a check with the extension. I can e-file extensions on your behalf without your signature and can help you in person or by phone make the estimate to determine whether you owe any tax.

FILING DUE DATE FOR 2021 FORM 1099-NEC

All business clients should be sure to mail out Form 1099-NEC to all non-corporate payees who received non-employee compensation of more than $600 per year. Both paper and electronically filed Forms 1099-NEC must be filed with the IRS by January 31, 2022. You will need to get tax identification numbers from such payees and mail 1096 transmittals and 1099 copies to the government. The forms may be obtained from the IRS at 1-800-829-3676. We also can prepare them for you for a nominal charge.

SOCIAL SECURITY PLANNING STRATEGIES

Remember, Social Security is a government guaranteed inflation adjusted lifetime annuity. Make sure you are maximizing your benefits and the benefits of your family members. If you are approaching the age when you may qualify for Social Security benefits you need to consider your options carefully. Do you want to start these benefits now or work a while longer and start them later?

We'll be glad to help you with your decisions about claiming Social Security. If you are planning to begin taking Social Security benefits in the near future, you should call us for a consultation. If you are already collecting benefits, these provisions have no effect and you need not call us.

PROTECT YOURSELF AGAINST SCAMS THAT IMPERSONATE THE IRS

The IRS does not ever initiate contact with taxpayers by e-mail or text messages to request personal or financial information. They also never initiate contact with you by phone and will never call you threatening a lawsuit. Scams that impersonate the IRS are identity theft or extortion scams. If you receive calls like this just hang up.

The IRS, the states, and the private-sector tax industry are initiating new safeguards to protect taxpayers and fight identity theft. Resource information on identity theft is available at www.irs.gov/identitytheft.

IF YOU EXPECT LOWER INCOME TAX RATES NEXT YEAR, DEFER INCOME INTO 2022 AND ACCELERATE DEDUCTIONS

Consider slowing down the billing of customers or clients, or arranging with your employer to pay some of your 2021 salary in 2022. Accelerate deductions into 2021 by prepaying deductible expenses.

IF YOU EXPECT HIGHER INCOME TAX RATES NEXT YEAR, ACCELERATE INCOME INTO 2021 AND DEFER DEDUCTIONS

In this case, you will want to do the opposite of what I have advised above. Bill clients and customers on a very timely basis and try to delay making tax-deductible expenditures until 2022. You may also want to forego making deductible IRA contributions.

REGARDLESS OF YOUR EXPECTATIONS ABOUT FUTURE TAX RATES, TAKE YEAR-END ACTION TO REDUCE CAPITAL GAINS

Maximize deductible losses and minimize taxable gains. If you're expecting significant capital gains this year, it may be good idea to sell investments that have decreased in value. Such capital losses are deductible to the extent of your capital gains, plus an additional $3,000. Any unused capital losses can be carried forward and deducted in future years. In dumping shares to take tax losses, remember that you may not deduct the loss if you purchase the same security within 30 days before or after you sell it.