

2021 Income Tax Update

February 8, 2022



Basic terms and acronyms

- IRC – Internal Revenue Code
- Gross income – Sec 61(a) of the IRC defines gross income as income from whatever source derived.
- Adjusted gross income (AGI) – gross income less certain adjustments; e.g. IRA contribution.
- Modified adjusted gross income (MAGI) – AGI plus items like tax-exempt income.
- Taxable income – AGI less allowable deductions or standard deduction.
- Tax credits – dollar for dollar subtractions from income taxes. Non-refundable credits can't exceed tax amount; refundable can exceed tax amount and result in a refund.
- Alternative minimum tax (AMT) – limits deductions for higher income taxpayers and imposes a minimum tax rate.
- Net investment income tax (NIIT) – imposes a 3.8% tax on investment income for single taxpayers who make more than \$200,000 or \$250,000 for married couples.

Tax filing News for 2021 returns

- 2021 Federal returns are due on or before April 18, 2022 (without extension)
- 2021 Virginia individual tax return is due May 1, 2022
- 2021 North Carolina individual income tax return is due April 18, 2022
- Federal income tax brackets have been adjusted for inflation
- Federal standard deduction for 2021 returns is \$12,550 for single or married filing separately; \$18,800 for head of household; and \$25,100 for married filing jointly.
- 2021 charitable donation deduction - up to 100% of AGI (if you itemize) or up to \$300 for single filers who don't itemize and up to \$600 for joint filers who don't itemize.
- Stimulus checks are not taxable
- 2021 Unemployment benefits are taxable
- Forgiven student loans are not taxable for 2021.

To Itemize or not to Itemize

- Generally, the right answer is whichever method results in the lowest tax.
- The allowable itemized deductions are medical, taxes, interest, gifts to charity, casualty & theft losses, and "other".
- Medical - the amount allowed as a deduction is the amount that exceeds 7.5% of AGI.
- Taxes - state and local income or sales, real estate & personal property - limited to \$10,000 plus foreign taxes and generation skipping taxes
- Interest - mortgage interest and points, mortgage insurance premiums, and investment interest.
- Gifts to Charity - deduction amount is limited to 100% of AGI; any excess is carried forward for up to 5 years.
- Casualty & Theft losses from a federally declared disaster.
- Other itemized- certain other types of casualty losses, gambling losses, etc.

Tax credits

- American Opportunity Tax Credit for 1st 4 years of undergraduate study- \$2500 maximum and refundable for up to 40% or \$1000.
- Lifetime Learning Credit - up to \$2000 for qualified educational expense but nonrefundable
- Increased child tax credit for 2021 with advance payments available from July 2021 through December 2021. The advance payments will be reconciled on the 2021 tax return for this non-refundable credit.
- Increased child and dependent care credit in 2021 is refundable if you lived in the U.S. for more than 6 months; the maximum percentage increased from 35% to 50% or up to \$4000 for one child and \$8000 for 2 or more children.
- The Earned Income Tax Credit was expanded to cover more taxpayers and the maximum credit was increased. This is a refundable credit.

Retirement Accounts

- Minimum distributions were required in 2021. The penalty for not taking the required minimum distribution (RMD) is 50% of the amount you should have taken. The IRS will generally abate the penalty for reasonable cause.
- The SECURE Act changed the age one must begin taking RMDs from 70 ½ to 72. The Act delayed the RMD for anyone born on or after July 1, 1949. It did not apply to anyone who had already started taking the RMD.
- Also, thanks to the SECURE Act there is no longer a maximum age one can contribute to an Individual Retirement Account (IRA). You are still required to have earned income from paid work for the year you want to contribute to the IRA. The maximum contribution for 2021 is \$6000 or \$7000 if age 50 or older.

Rules for Inherited IRAs

- Distributions from Traditional IRAs are taxable income to the beneficiary
- You must withdraw the entire IRA within 10 years unless you are an “eligible designated beneficiary” which includes the spouse, a minor child, or an heir who is less than 10 years younger than the original accountholder and disabled or chronically ill,.
- It can be done in any amount and at any time during the 10 years as long as all funds are withdrawn by the end of the 10th year.
- Spouses have the option of rolling the inherited account into their own and withdrawing based on their life expectancy.

Tax Filing programs

- You can use IRS Free E-file to file your 2021 federal individual income tax return if your AGI is \$73,000 or less. It is a guided tax preparation that will ask certain questions and perform the calculations needed.
- IRS partners with 3rd party providers for these services. Visit [IRS.gov/app/freefile](https://irs.gov/app/freefile). Some providers may charge for state tax preparation or non-qualifying fees.
- You can use IRS Free Fillable Forms even if you're AGI is greater than \$73,000. There is no guidance therefore you should know how to prepare your returns if you use this service.
- You can purchase tax preparation software such as TurboTax, H&R Block, TaxSlayer, and Cash AppTaxes.
- TurboTax offers a range of options from preparing and filing yourself, getting live expert help, or having TurboTax prepare the returns for you. Pricing varies depending on the level of service and when you file. For example, TurboTax advertises that you can file for free if you file by Feb 15 even if one of their experts does your taxes.
- Visit turbotax.intuit.com/personal-taxes/online/live for information.

Tax filing programs continued

- H&RBlock, TaxAct and TaxSlayer all have similar options. Fees and reviews are comparable to TurboTax. Visit [hrblock.com](https://www.hrblock.com), [taxact.com](https://www.taxact.com), and [taxslayer.com](https://www.taxslayer.com) for more information.
- The Cash App Taxes is different in that you access it as an App on an electronic device versus using a software program. No expert tax help is provided. The website says it has limited customer support and that it's best for taxpayers who know how to file their simple returns and just need a platform.
- Most programs guarantee the maximum or the biggest possible refund and will advance refunds. Such an advance is a short-term loan and will be deducted from your actual refund once it's issued.

Other tax preparation options

- Pop-Up and year-round Stores such as H&R Block, Jackson Hewitt, and Liberty Tax. Sometimes you will find the pop-up versions in a Walmart store.

Preparers:

- Enrolled agents (EAs) have either passed a 3-part comprehensive IRS test covering individual and business tax returns or been accredited through experience as a former IRS employee.
- CPAs are similar to EAs in that they must pass an exam, meet continuing education requirements, comply with professional standards, and maintain high ethical standards. Not all CPAs specialize in taxation.
- Tax attorneys specialize in handling the legal aspects of taxation.

Other tax filing resources

- Volunteer Income Tax Assistance (VITA) is available for individuals who make \$58,000 or less, people with disabilities, and taxpayers with limited English. IRS-Certified Volunteers explain tax credits and prepare a basic tax return with electronic filing.
- Tax Counseling for the Elderly (TCE) focuses on questions about pensions and retirement-related issues. It is free to all taxpayers but particularly to those who are 60 years and older.
- Website for more information is: irs.gov/individuals/free-tax-return-preparation-for-qualifying-taxpayers
- AARP Foundation Tax-Aide provides free tax preparation advice in a variety of ways – in-person, low-contact, and contact-free – depending on what service is available in your area. Focus is on taxpayers who are over 50 or have low to moderate income. Visit taxaide.aarpfoundation.org for information about the type of taxes Tax-Aide can prepare.

State resources

- North Carolina Department of Revenue website - ncdor.gov
- phone #s 1-877-252-3252 or 1-877-252-5152

- Virginia Department of Taxation website tax.virginia.gov
- phone # 1-804-367-8031

Tax Scams

Information from IRS.gov website:

- IRS doesn't initiate contact with taxpayers by email. The first communication is almost always via a letter or a notice sent by US mail.
- IRS doesn't leave urgent or threatening voice mail messages.
- IRS doesn't threaten to send the police or other law enforcement for not paying, for deportation, or to revoke licenses.
- Demand payment via a prepaid debit card, gift card, wire transfer, or checks to 3rd parties.
- Demand payment without the opportunity to question or appeal the amount owed.

Always hang up immediately if you receive such a call. Don't give any information. Report the call to the Treasury Inspector General for Tax Administration.

Other tax scams and Identity protection

- Scammers use fake charities to steal money. Taxpayers can and should use the IRS tool: The Tax-Exempt Organization Search Tool to make sure a potential donation is going to an organization that is eligible to receive tax-deductible contributions. The tool can be found at irs.gov/charities-non-profits/search-for-tax-exempt-organizations
- Get an Identity Protection Pin (IP PIN) from the IRS as a proactive step to protect yourself from tax-related identity theft. To receive an IP PIN you will have to pass a rigorous identity verification process. Spouses and dependents are eligible if they can also pass the identity verification process. Taxpayers who have had their tax identity stolen will be issued an IP PIN. IP PINS are good for one calendar year with a new one generated each year. For more information see irs.gov/identity-theft-fraud-scams/get-an-identity-protection-pin.

Additional Takeaways

- Read the instructions for Schedule A Itemized Deductions if you are considering itemizing for more detailed information about allowable deductions & limitations. You may be surprised by what is or isn't deductible.
- Read the tax form's instructions if you are preparing your own returns.
- File electronically and use direct deposit for refunds. Most efficient, fastest, and most secure.
- Look for Letter 6745 from the IRS if you received the 3rd Economic Impact Payment. You may need the information for your 2021 tax return.
- You must file a 2021 return to claim the Recovery Rebate Credit if you're owed more money.
- Look for IRS Letter 6419 if you received the Advance Child Tax Credit. You will need the information in the letter to reconcile the payments received to the actual credit. .

Questions?