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Tax Masters Training
Federal Tax Law Updates for Tax Year 2021
October 21, 2021

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TAX FORM CHANGES

Tax Form Changes

- Form 1040, U.S. Individual Income Tax Return
- Schedules 1 – 3 (Form 1040)
- Form 2441, Child and Dependent Care Expenses
- Schedule EIC, Earned Income Credit
- Form 8379, Injured Spouse Allocation
 - Line for exemptions was removed and lines for nonrefundable and refundable credits were added
- Schedule 8812, Credits for Qualifying Children and Other Dependents
- Form 1099-MISC
 - Has been renamed to Miscellaneous Information (from Miscellaneous Income)

Tax Form Changes (continued)

- Included in the handouts are some of the 2021 draft tax forms
- Draft tax forms available at www.irs.gov/draftforms
- As of 10/19/21, the instructions for most of the 2021 draft forms we will be discussing were not available

2021 Tax Form Changes – Form 1040

- **Line 12b – Deduction for charitable contributions for those who take the standard deduction was modified**
 - Now a below-the-line deduction; it does not reduce adjusted gross income (as it did in 2020)
 - For taxpayers who don't itemize and who make cash contributions in 2021:
 - Married couples filing a joint return may deduct up to \$600. All other filers are limited to \$300.
 - This amount is in addition to their standard deduction
 - Contributions must be made to a qualified organization; see Publication 526
 - (Note: For tax year 2020, the deduction is up to \$300 for Single, Head of Household, Married Filing Jointly, and Qualifying Widow(er) filers. Married Filing Separately 2020 filers are limited to \$150.)

2021 Tax Form Changes – Form 1040

- **Line 27a**, Earned income credit – New question and new lines 27b and 27c (These will be covered later in the presentation.)
 - New question and checkbox under **Line 27a**: “Check here if you had not reached the age of 19 by December 31, 2021, and satisfy all other requirements for claiming the EIC (see instructions).” This question allows qualified former foster youth and qualified homeless youth to self identify.
 - **Line 27b**, Nontaxable combat pay election
 - **Line 27c**, Prior year (2019) earned income

2021 Tax Form Changes

Schedules 1 through 3 (Form 1040)

Schedules 1 through 3 have all been revised to two pages:

- **Schedule 1, Additional Income and Adjustments to Income**

- Includes additional lines 8a through 8z to accommodate specific items of other income
- New lines 24a-24z are added for listing other adjustments
- The total from total from Part I, Additional Income, flows to line 8 of Form 1040
- The total from Part II, Adjustments to Income, flows to line 10 of Form 1040

2021 Tax Form Changes

Schedules 1 through 3 (Form 1040)

Schedules 1 through 3 have all been **revised to two pages** (continued):

- **Schedule 2, Additional Taxes**

- Former lines 5 and 8 are revised so that, to the extent possible, each additional tax has a separate line and entry space rather than a checkbox
- New lines were added to minimize write-ins (see page 2)
- Line 19 was added for additional tax from Schedule 8812, Credits for Qualifying Children and Other Dependents
- Amounts from Schedule 2 flow to line 17 and to line 23 of Form 1040

2021 Tax Form Changes

Schedules 1 through 3 (Form 1040)

Schedules 1 through 3 have all been revised to two pages (continued):

■ **Schedule 3, Additional Credits and Payments**

- Includes additional lines to replace checkboxes and space for write-in credits
- New line 13g added for the refundable portion of the child and dependent care credit expenses from Form 2441, line 10
- Line 13b was revised by adding text to clarify that it is to be used to report qualified sick and family leave credits from Schedule(s) H and Form(s)s 7202 for leave taken before April 1, 2021
- New line 13h added to report qualified sick and family leave credits from Form(s) 7202 for leave taken after March 31, 2021
- The total from Part I, Nonrefundable Credits, flows to line 20 of Form 1040
- The total from Part II, Other Payments and Refundable Credits, flows to line 31 of Form 1040

2021 Tax Form Changes

Form 2441, Child and Dependent Care Expenses

- **Form 2441, Child and Dependent Care Expenses, contains two new checkboxes located at the top of page 1**
 - **Checkbox A:** You can't claim a credit for child and dependent care expenses if your filing status is married filing separately unless you meet the requirements listed in the instructions under "Married Persons Filing Separately." If you meet these requirements, check this box
 - **Checkbox B:** For 2021, your credit for child and dependent care expenses is refundable if you, or your spouse if married filing jointly, had a principal place of abode in the United States for more than one-half of 2021. If you meet these requirements, check this box

NOTE: We'll go over the tax law changes as they apply to Checkbox B later in the presentation.

2021 Tax Form Changes

Schedule EIC, Earned Income Credit

- **Schedule EIC, Earned Income Credit:**
 - Added a checkbox (at the top of the schedule) for taxpayers to self-certify that they qualify for the EIC when married filing separately
 - The form also includes the requirements for taxpayers who are married filing separately to qualify for the EIC on page two, under the heading Purpose of Schedule

NOTE: We'll go over the tax law changes for the 2021 earned income credit later in the presentation.

2021 Tax Form Changes

Schedule 8812, Credits for Qualifying Children and Other Dependents

■ Schedule 8812

- The title has been revised to “*Credits for Qualifying Children and Other Dependents*” from “*Additional Child Tax Credit*”
- Will now be used as a single source, replacing Publication 972, Child Tax Credit, and the child tax credit worksheet in the Form 1040 Instructions
- Will be used to claim the Child Tax Credit (CTC), Credit for Other Dependents, Additional Child Tax Credit, and to reconcile advance payments of the CTC

NOTE: We'll go over the tax law changes for these credits later in the presentation.

ECONOMIC IMPACT PAYMENT and RECOVERY REBATE CREDIT

Reference Materials used in this section:

- Publication 4491, VITA/TCE Volunteer Training Guide
- Publication 4012, VITA/TCE Volunteer Resource Guide
- FAQs about the Third Economic Impact Payment
 - <https://www.irs.gov/newsroom/questions-and-answers-about-the-third-economic-impact-payment>
- Publication 5514, What's different about the third Economic Impact Payment

Economic Impact Payment and Recovery Rebate Credit

- **Third Economic Impact Payment (EIP)** – An advance payment of the 2021 Recovery Rebate Credit
 - Payment is based on the latest processed return for either 2020 or 2019
 - Up to \$1,400 per eligible individual
 - Plus up to \$1,400 for each qualifying dependent
 - Payments and plus-up payments will continue through the end of 2021

- **Notice 1444-C, Your third Economic Impact Payment** – Mailed to those who received a third EIP at the address the IRS has on file for the taxpayer

Economic Impact Payment and Recovery Rebate Credit Eligibility

- **Who is Eligible?** Generally, taxpayers who are:
 - U.S. citizens or U.S. resident aliens, if
 - The taxpayer (and spouse if filing a joint return) aren't a dependent of another taxpayer,
 - Have Social Security numbers (SSNs) valid for employment and issued by the due date of the tax return (including an extension to October 15 if taxpayer requested it), and
 - Adjusted gross income (AGI) amounts under the threshold amounts
- **An individual who may be claimed as a dependent on another taxpayer's tax return is not eligible for a payment**

Economic Impact Payment and Recovery Rebate Credit Eligibility (continued)

■ Married Filing Jointly Filers

- If only one individual has a valid SSN, they will receive payment for the spouse with a valid SSN and payment for each qualifying dependent claimed on the return
- If neither spouse has a valid SSN, taxpayers will only receive payment for each qualifying dependent claimed on the return
- If either spouse is an active member of the U.S. Armed Forces at any time during the taxable year, only one spouse needs to have a valid SSN for the couple to receive up to \$2,800 for themselves

Economic Impact Payment and Recovery Rebate Credit

Qualifying Dependents

Qualifying Dependents are:

- Qualifying Children and Qualifying Relatives claimed on the tax return
 - Unlike the first two EIP payments, the third EIP is not limited to children under 17
- Must have an SSN valid for employment or an adoption taxpayer identification number (ATIN)
- A child who has an ITIN is not a qualifying child for this payment

Economic Impact Payment and Recovery Rebate Credit Conclusion

- FAQs about the Third Economic Impact Payment
 - <https://www.irs.gov/newsroom/questions-and-answers-about-the-third-economic-impact-payment>
- Eligible individuals who did not receive a third Economic Impact Payment or did not receive the maximum amount may be eligible to claim the 2021 Recovery Rebate Credit on their 2021 tax return
- Recovery Rebate Credit is a refundable credit claimed on line 30 of the draft 2021 Form 1040

CHILD AND DEPENDENT CARE CREDIT

Child and Dependent Care Credit

- May be claimed by taxpayers who, in order to work or look for work, pay someone to take care of their qualifying person
- A qualifying person is a:
 - Qualifying child under age 13
 - Spouse who is incapable of self-care
 - Dependent who is incapable of self-care
- Claimed on Form 2441, Child and Dependent Care Expenses
- Only the custodial parent may claim the child and dependent care credit even if the child is being claimed as a dependent by the noncustodial parent under the rules for divorced or separated parents

Child and Dependent Care Credit

- The new law:
 - Increases the amount of the credit and eligible expenses for child and dependent care,
 - Modifies the phase-out of the credit for higher earners, and
 - Makes it refundable.
 - Is a temporary provision for 2021 only
- Eligible families can claim qualifying child and dependent care expenses of:
 - Up to \$8,000 for one qualifying person (up from \$3,000 in prior years), or
 - Up to \$16,000 for two or more qualifying persons (up from \$6,000 before 2021)

Child and Dependent Care Credit

- Eligible families can claim qualifying child and dependent care expenses of:
 - Up to \$8,000 for one qualifying person (up from \$3,000 in prior years), or
 - Up to \$16,000 for two or more qualifying persons (up from \$6,000 before 2021)
- The credit ranges from 20% to 50% of the taxpayer's expenses (maximum range was 35% in prior years)

Child and Dependent Care Credit

- For 2021, the child and dependent care credit is fully refundable
 - To be eligible for refundability, a taxpayer, or spouse if filing jointly, must have had a main home in the United States for more than half of the year
 - New Checkbox B at the top of Form 2441 for taxpayers to indicate they meet these requirements

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 - To be eligible for refundability, a taxpayer, or spouse if filing jointly, must have had a main home in the United States for more than half of the year
 - New Checkbox B at the top of Form 2441 for taxpayers to indicate they meet these requirements

Earned Income Credit

Earned Income Credit

- Temporary provisions for 2021 only:
 - EITC can be claimed by eligible workers who are at least 19 years of age enrolled in school
 - Students under age 24 who were enrolled in a post-secondary educational institution at least half-time and for a period of at least five months don't qualify
 - The upper age limit is eliminated
 - Taxpayers may be able to elect to use their 2019 earned income to figure the EIC if their 2019 earned income is more than their 2021 earned income.

Earned Income Credit

- Temporary provisions for 2021 only (continued):
 - The minimum age for a qualified former foster youth or a qualified homeless youth is 18 years of age

What is a qualified former foster youth or a qualified homeless youth?

The term 'qualified former foster youth' means an individual who was in foster care on or after the date that he or she turned 14 years old.

The term 'qualified homeless youth' refers to an individual who certifies that he or she is either an unaccompanied youth who is a homeless child or youth, or is unaccompanied, at risk of homelessness, and self-supporting.

An individual who meets either of these definitions and qualifies to claim the EITC without a qualifying child under age 19 must check a box on Form 1040 to certify that they meet these requirements.

Earned Income Credit

- For 2021, the maximum credit increased to:
 - \$6,728 with three or more children
 - \$5,980 with two children
 - \$3,618 with one child
 - \$1,502 with no children

- Earned Income Amount Increased
 - \$51,464 (\$57,414 if Married Filing Jointly) with three or more qualifying children
 - \$47,915 (\$53,865 if Married Filing Jointly) with two qualifying children
 - \$42,158 (\$48,108 if Married Filing Jointly) with one qualifying child
 - \$21,430 (\$27,380 if Married Filing Jointly) with no qualifying child

Child Tax Credit and Credit for Other Dependents

Child Tax Credit

- Expanded credit for 2021 only means:
 - The amounts of the credit for qualifying children increase for many taxpayers
 - For eligible taxpayers, the credit is fully refundable, which means that taxpayers can benefit from the credit even if they don't have earned income or don't owe any income taxes
 - Taxpayers can receive the credit for qualifying children who turn age 17 (rather than 16) in 2021
 - Eligible taxpayers may receive part of their estimated credit in 2021 before filing their 2021 tax return

Child Tax Credit

- Credit amounts:
 - Up to \$3,000 per qualifying child between the ages of 6 and 17 at the end of 2021
 - \$3,600 per qualifying child under age 6 at the end of 2021
 - Under the prior law, the amount of the CTC was up to \$2,000 per qualifying child under the age of 17 at the end of the year

Child Tax Credit

- Eligibility for refundable child tax credit:
 - Taxpayer (or the spouse if filing jointly) lived in the United States for more than half of 2021 or is a bona fide resident of Puerto Rico for 2021
 - If the taxpayer (and spouse if filing jointly) do not meet either of these residency requirements, the taxpayer will still be able to figure and claim a nonrefundable CTC and figure an additional child tax credit instead of the new refundable child tax credit

Child Tax Credit

- Advance payments of the 2021 CTC were made regularly from July through December
- Total of the advance payments was 50 percent of the CTC estimated to be allowable for 2021
- By the end of January 2022, taxpayers will receive Letter 6419 from the IRS showing the amount of advance payments for 2021

Child Tax Credit

- Taxpayers will reconcile the advance payments on their 2021 income tax return and claim any additional credit to which they are entitled
- Some taxpayers may be eligible for repayment protection that will excuse them from repaying some or all of the excess amount
- Advanced payments will be reconciled on Form 8812, Credits for Qualifying Children and Other Dependents

Other Updates

Other Updates

- Unemployment Compensation
 - The exclusion of \$10,200 of unemployment compensation was for tax year 2020 only
- Excess Advance Premium Tax Credit

Other Updates

- Tuition and fees deduction
 - Not deductible for tax years beginning after 2020
 - Income limitations for the lifetime learning credit were increased to help filers transition to the lifetime learning credit
- Educator Expenses of Elementary and Secondary School Teachers
 - The deduction is \$250 (no change)
 - Qualified expenses include amounts paid or incurred after March 12, 2021, for personal protective equipment, disinfectant, and other supplies used for the prevention of the spread of coronavirus

Other Updates

- Expired Legislation – The following were one-year provisions for tax year 2020 and are now expired:
 - Deferred payment of the employer's share of Social Security tax for self-employed individuals
 - Coronavirus-related withdrawals up to \$100,000 from IRAs or workplace retirement plans
 - Waiver of required minimum distribution rules for certain defined contribution plans and IRAs for calendar year 2020.

Other Updates

- The Taxpayer Certainty and Disaster Tax Relief Act of 2020 made the following changes (noninclusive list):
 - The reduction in the medical expense deduction floor is made permanent at 7.5%
 - Deduction for qualified tuition & fees is repealed
 - The exclusion from gross income for a discharge of qualified principal residence indebtedness is extended through December 31, 2025. The provision reduces the maximum amount that may be excluded from \$2,000,000 to \$750,000 (\$375,000 in the case of a married individual filing a separate return). This applies to discharges of indebtedness after December 31, 2020.

Other Updates

- The Taxpayer Certainty and Disaster Tax Relief Act of 2020 made the following changes (noninclusive list), continued:
 - The treatment of mortgage insurance premiums as qualified residence interest is extended for 1 year (through December 31, 2021)
 - The credit for purchases of nonbusiness energy property is extended for 1 year (through December 31, 2021)
 - The deduction for charitable contributions for taxpayers who do not itemize is extended and modified
 - The increased limit on deductible charitable contributions for taxpayers who itemize is extended

Other Updates

- Gross income limitation for a qualifying relative is \$4,300 (no change)
- Standard deduction:
 - \$12,550 – Single or Married Filing Separately (increase of \$150)
 - \$18,800 – Head of Household (increase of \$150)
 - \$25,100 – Married Filing Jointly or Qualifying Widow(er) (increase of \$300)
- Additional standard deduction amounts for taxpayers who are 65 and older or blind:
 - \$1,700 for Single or Head of Household (increase of \$50)
 - \$1,350 for married taxpayers or Qualifying Widow(er) (increase of \$50)
- April 18, 2022 – Due date for 2021 federal individual income tax return

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in this presentation!**

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