

# Accounting AidSociety SINCE 1972

We use taxes to build relationships. And relationships to build futures.

Tax Law Updates

# 2021 Changes

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Standard Deduction  
Third EIP Payment  
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Premium Tax Credit  
Self - Employment Expenses  
Standard Mileage Rate  
Required Minimum Distributions  
Michigan Disability Exemption  
Michigan THR Auto PIP (Personal Injury Protection)

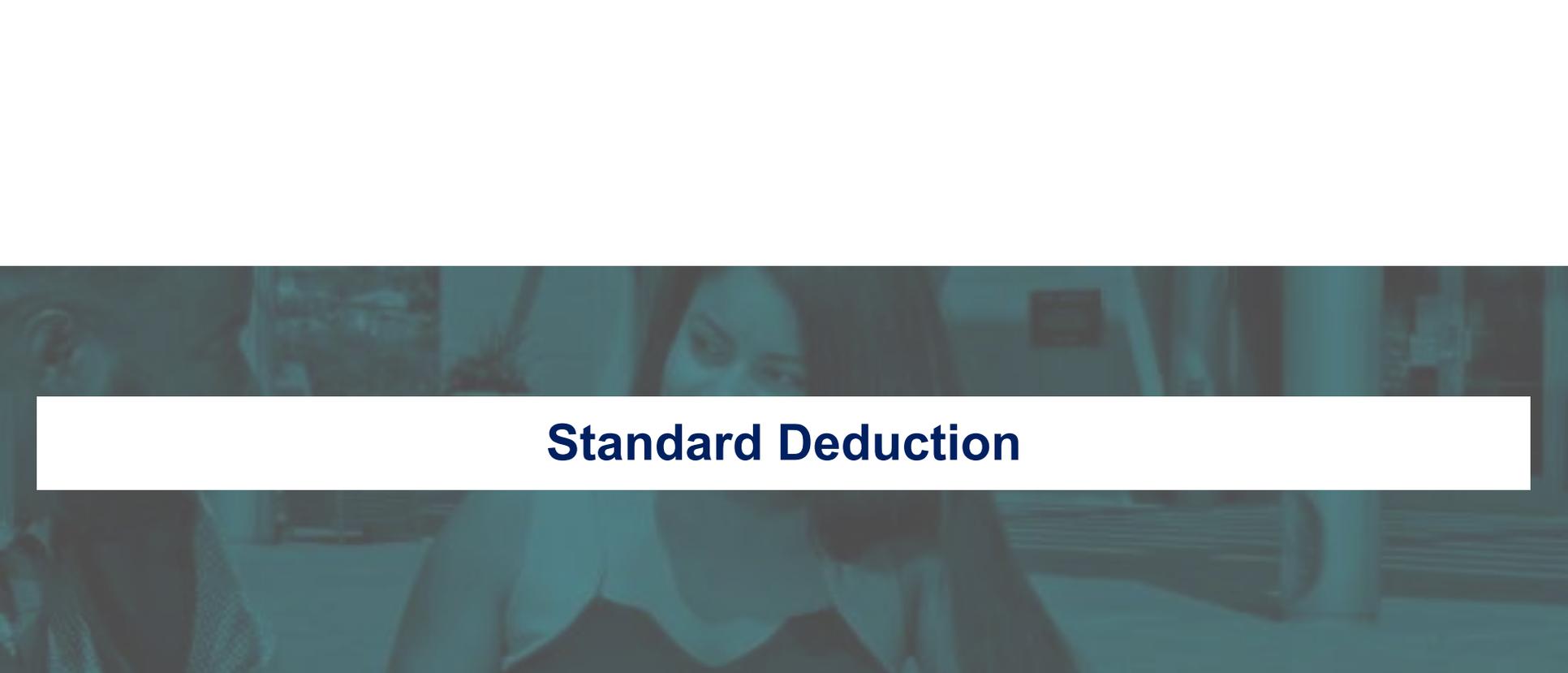


# Unemployment Compensation

# Unemployment Compensation

\$10,200 unemployment compensation exclusion was **only** for tax year 2020

- All unemployment compensation earned in 2021 must be claimed on 2021 tax return



## Standard Deduction

# Standard Deduction

2021 Standard Deduction Amounts	
Single / Married Filing Separately	\$12,550
Married Filing Jointly / Qualifying Widow(er)	\$25,100
Head of Household	\$18,800

Taxpayers who are 65 and Older or are Blind

- \$1,700 for Single or Head of Household
- \$1,350 for married taxpayers or Qualifying Widow(er)



## **Third Economic Impact Payment**

# Third Economic Impact Payment

**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

# Third Economic Impact Payment

**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**

# Third Economic Impact Payment

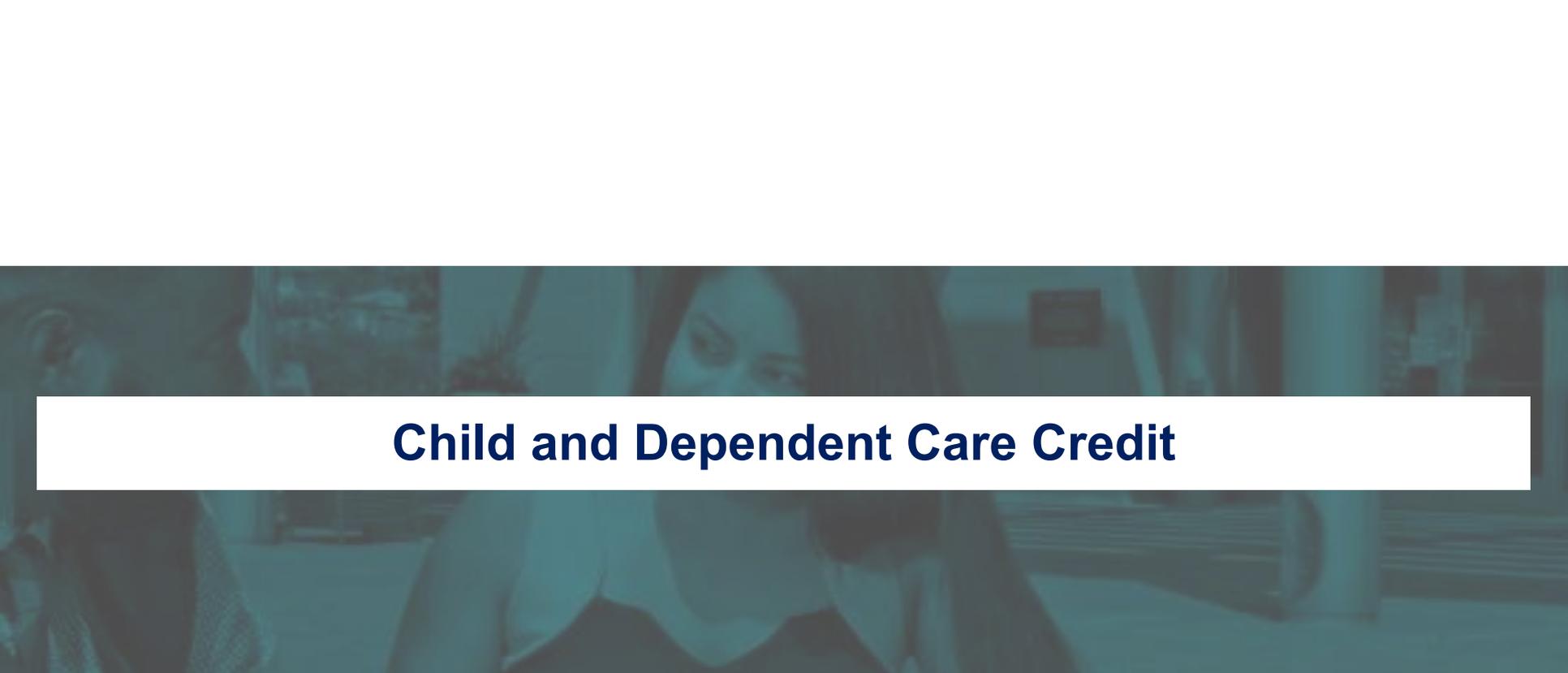
## Married Filing Jointly Filers:

- 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

# Third Economic Impact Payment

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**



## **Child and Dependent Care Credit**

# Child and Dependent Care Credit

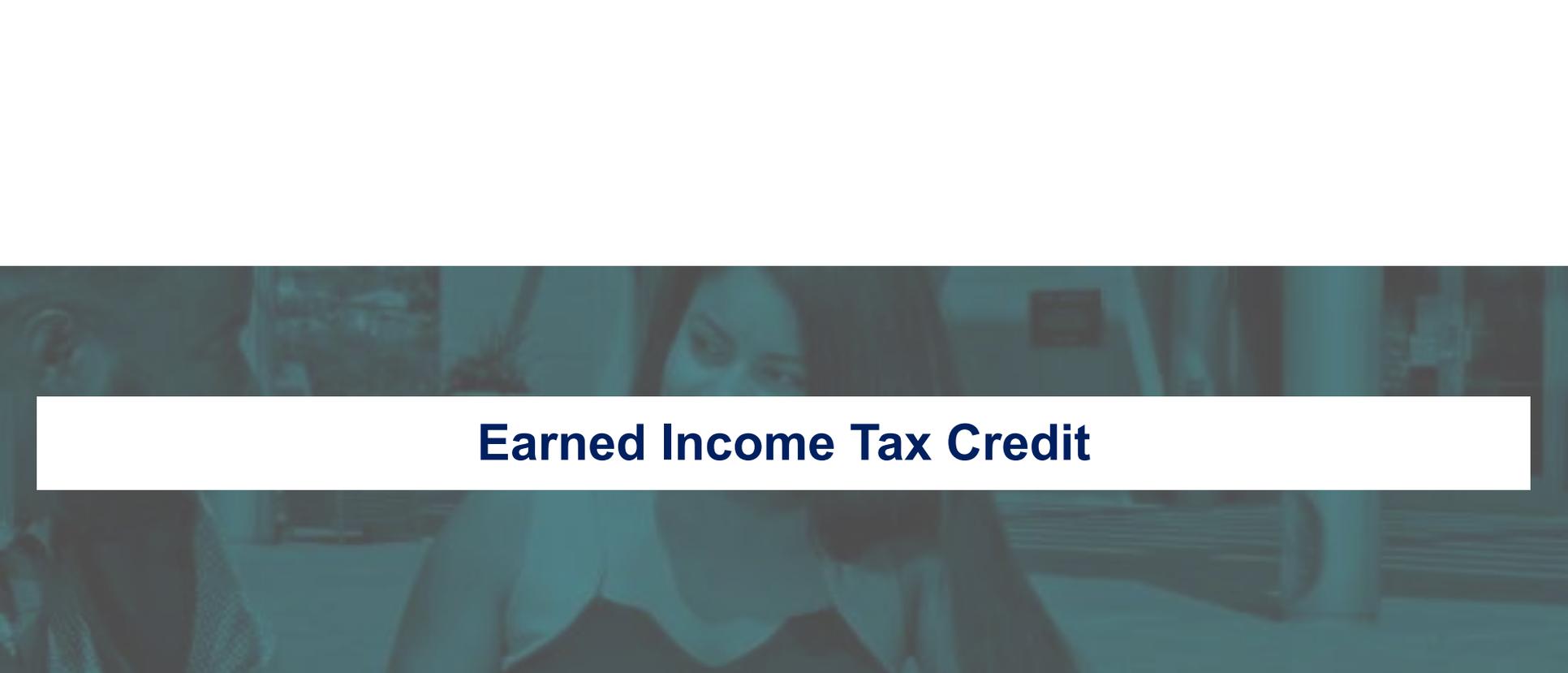
- May be claimed by taxpayers who, in order to work or look for work, pay someone to take care of their qualifying person
- A qualifying person is a:
  - Qualifying child under age 13
  - Spouse who is incapable of self-care
  - Dependent who is incapable of self-care
- Claimed on Form 2441, Child and 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

- 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



## Earned Income Tax Credit

# Earned Income Tax Credit

## 2021 Changes:

- Age requirements
- Exceptions to married filing separate status

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 Tax Credit

## Age Requirements:

- Minimum age is 19 (unless a specified student or qualified former foster youth or qualified homeless youth); maximum age is eliminated
- Minimum age is 24 if a specified student
  - “Specified student” means, with respect to any taxable year, an individual who is an eligible student (within the meaning of the American opportunity tax credit (AOTC) rules) for at least 5 months during the year. For purposes of this requirement, both full months and partial months count towards meeting this 5-month requirement.
- Minimum age is 18 for any qualified former foster youth or qualified homeless youth
  - “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.
  - “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

# Earned Income Tax Credit

MFS taxpayers who are not qualified for HOH status because they did not pay over half the cost of maintaining the home for the dependents, can get the EIC in 2021 regardless of their filing status.

**SCHEDULE EIC**  
(Form 1040)

**Earned Income Credit**  
Qualifying Child Information

Department of the Treasury  
Internal Revenue Service (99)

► **Complete and attach to Form 1040 or 1040-SR only if you have a qualifying child.**  
► **Go to [www.irs.gov/ScheduleEIC](http://www.irs.gov/ScheduleEIC) for the latest information.**

OMB No. 1545-0074

**2021**  
Attachment Sequence No. **43**

Name(s) shown on return \_\_\_\_\_ Your social security number \_\_\_\_\_

If you are separated from your spouse, filing a separate return and meet the requirements to claim the EIC (see instructions), check here

**Before you begin:**

- See the instructions for Form 1040, lines 27a, 27b, and 27c, to make sure that (a) you can take the EIC, and (b) you have a qualifying child.
- Be sure the child's name on line 1 and social security number (SSN) on line 2 agree with the child's social security card. Otherwise, at the time we process your return, we may reduce your EIC. If the name or SSN on the child's social security card is not correct, call the Social Security Administration at 1-800-772-1213.

**CAUTION**

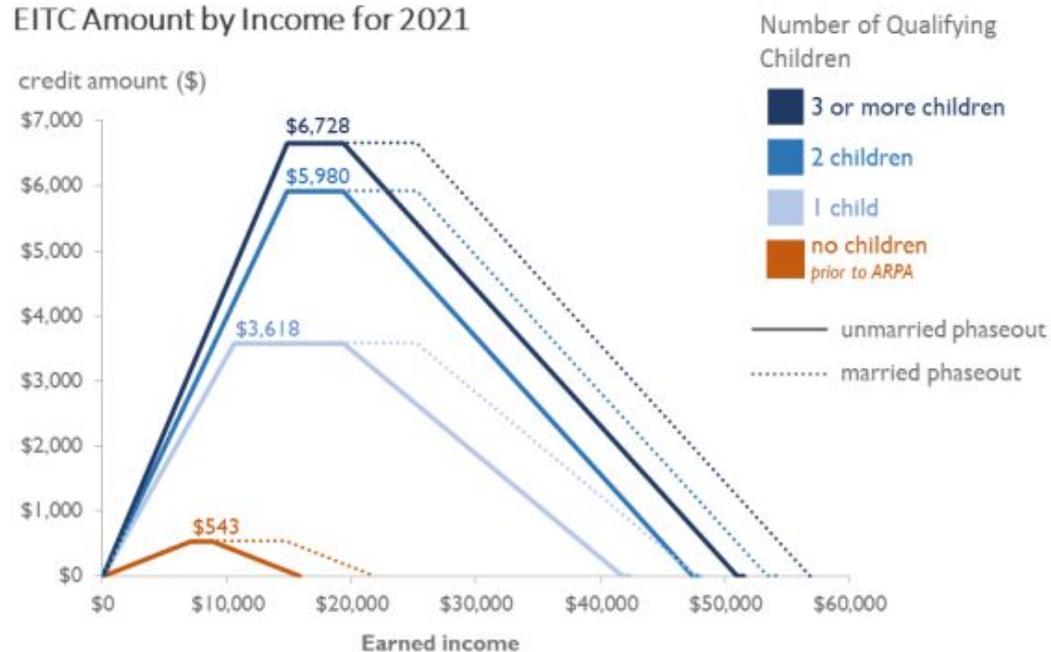
- You can't claim the EIC for a child who didn't live with you for more than half of the year.
- If you take the EIC even though you are not eligible, you may not be allowed to take the credit for up to 10 years. See the instructions for details.
- It will take us longer to process your return and issue your refund if you do not fill in all lines that apply for each qualifying child.

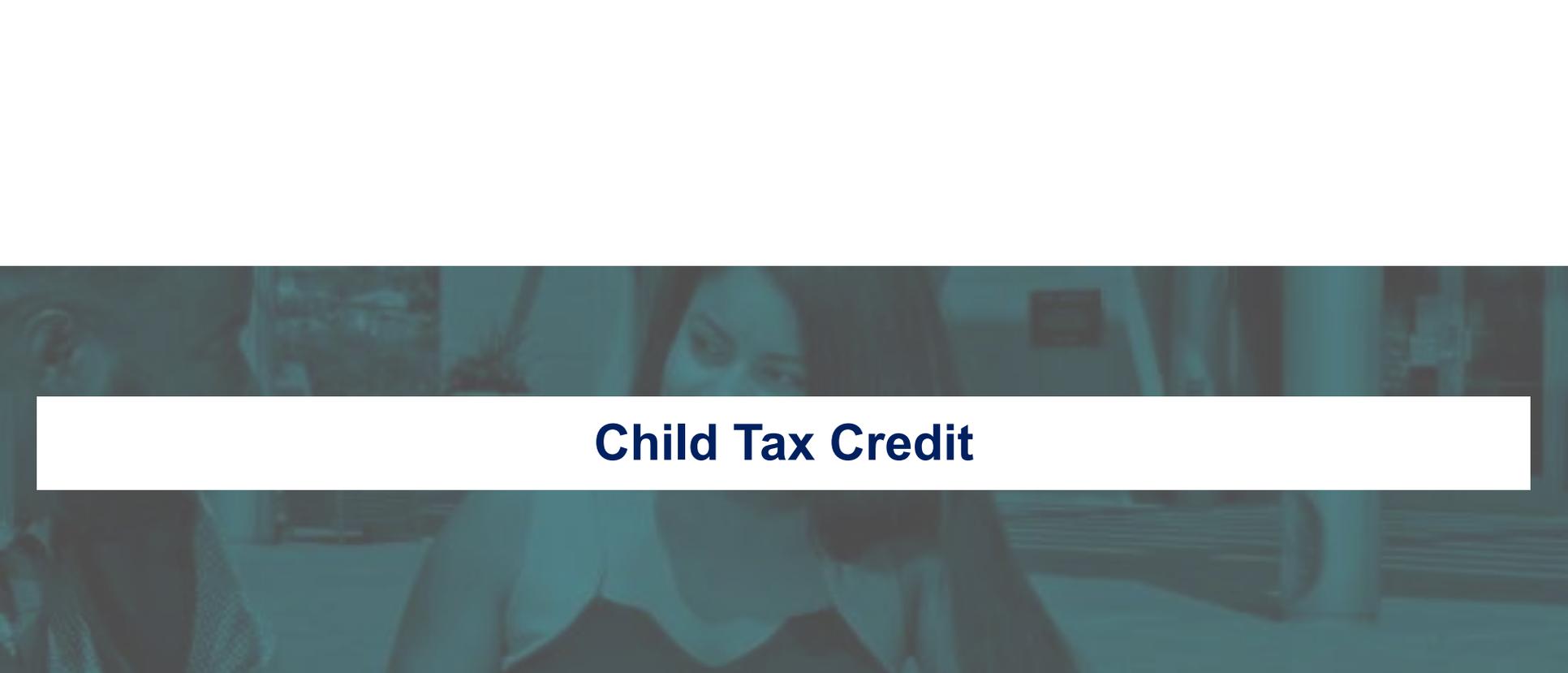
**Qualifying Child Information**

	Child 1	Child 2	Child 3
1. Child's name (last, first, and middle initial)			
2. Child's social security number			
3. Child's age on 12/31/2021			
4. Child's relationship to you			
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# New Numbers – EITC

Here's a graphic representation of the 2021 parameters. Graph taken from Congressional Research Service Report "The Earned Income Tax Credit (EITC): How It Works and Who Receives It" (October 2021)





## Child Tax Credit

# 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

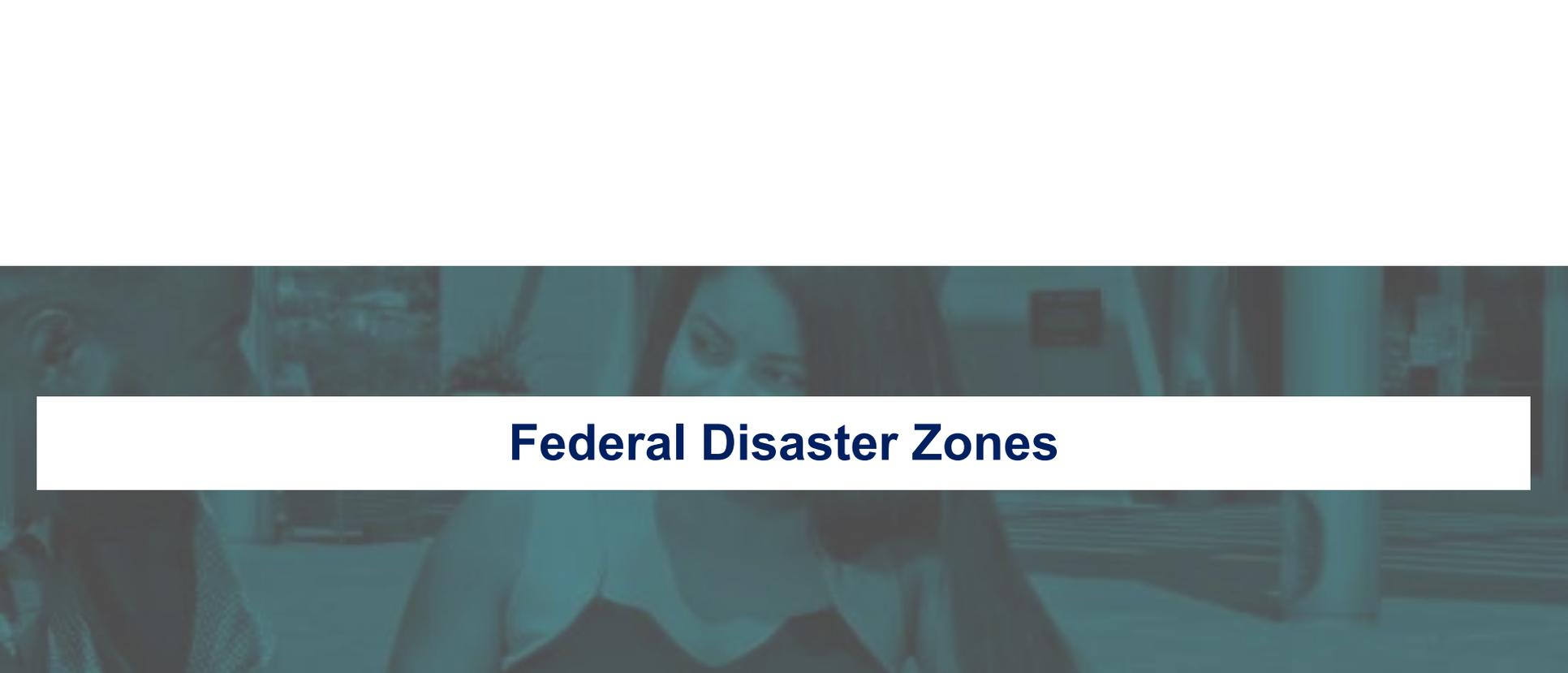
- Eligibility for refundable child tax credit:
  - Taxpayer (or the spouse if filing jointly) lived in the United States for more than half of 2021 or is a bona fide resident of Puerto Rico for 2021
  - If the taxpayer (and spouse if filing jointly) do not meet either of these residency requirements, 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

- 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

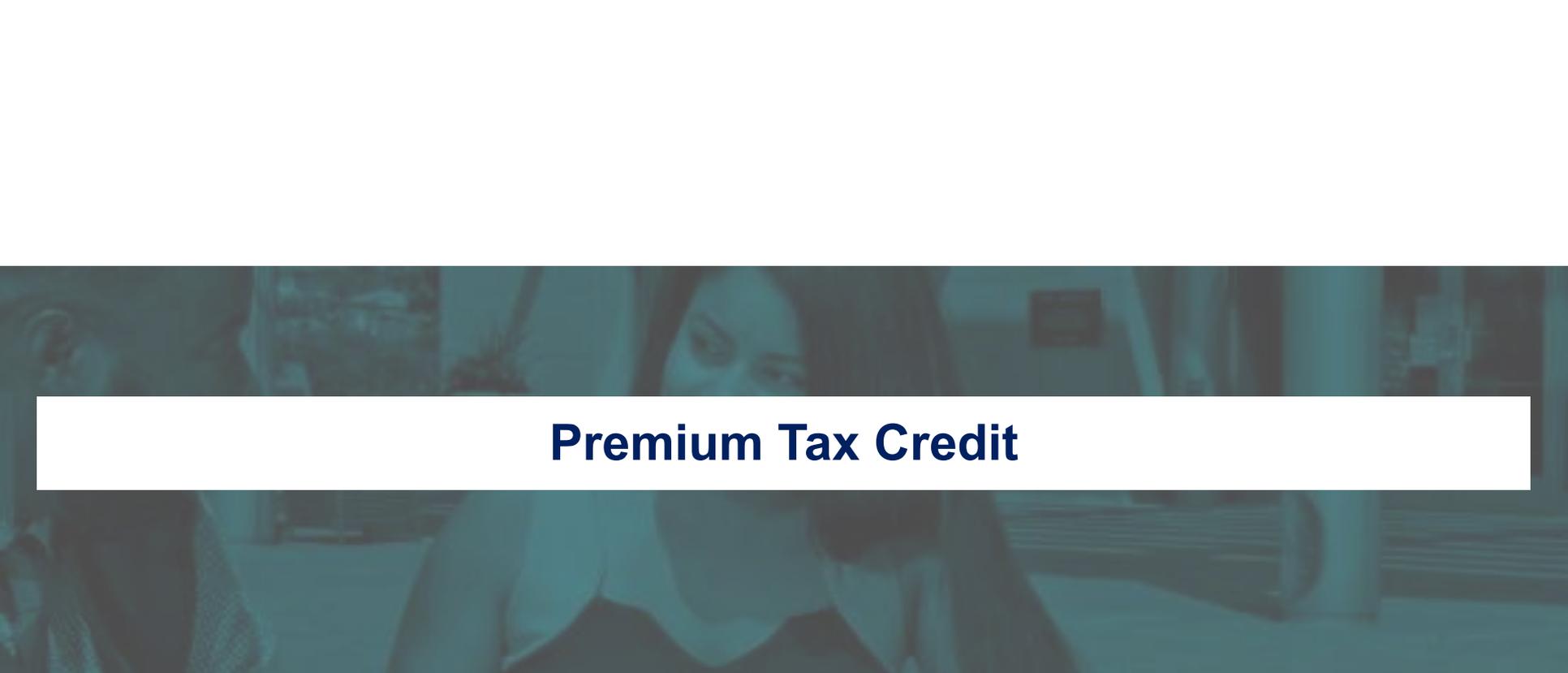


## Federal Disaster Zones

# Federal Disaster Zones

## Michigan's federally declared disaster area:

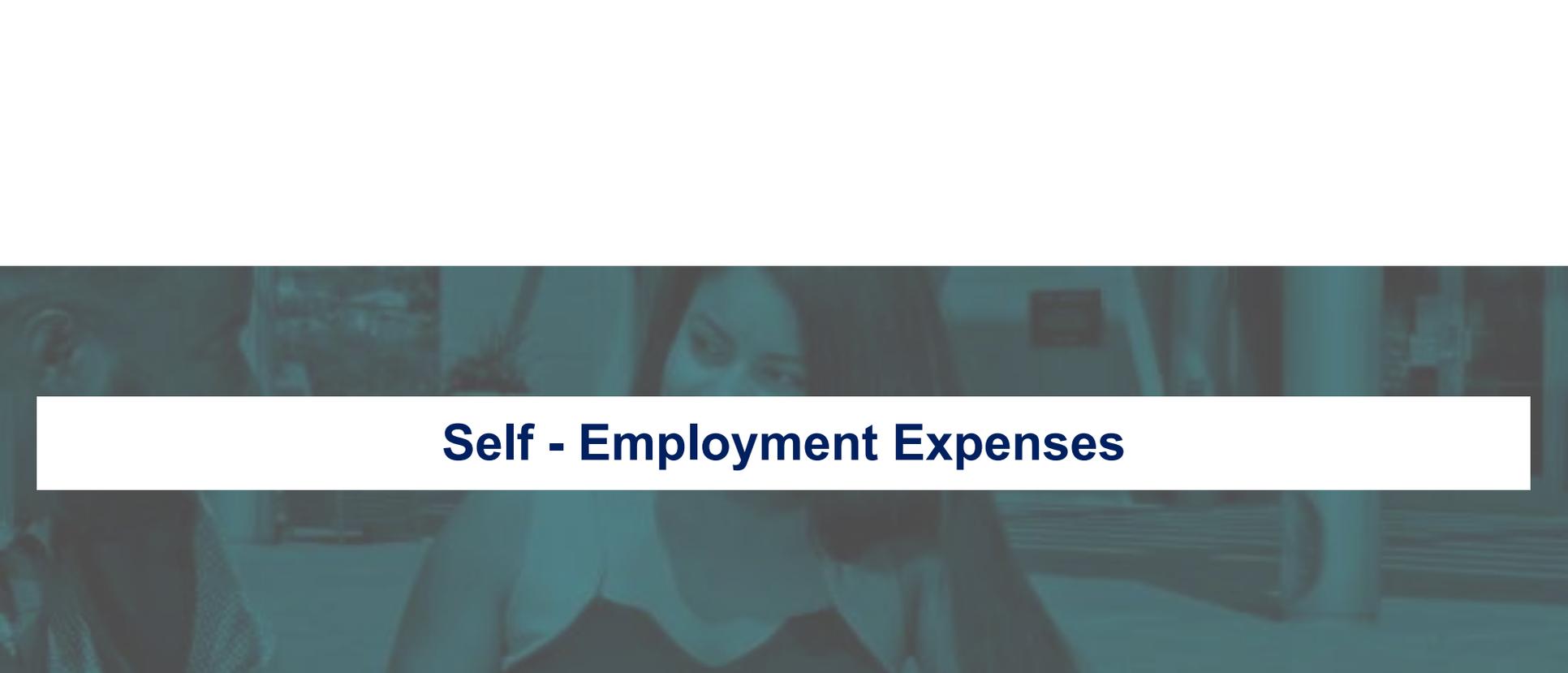
- Individuals and households affected by severe storms, flooding, and tornadoes that reside in Macomb, Oakland, Washtenaw and Wayne counties have the option of claiming disaster-related casualty losses on their federal income tax return for either the year in which the event occurred, or the prior year.
- **Note: Casualty and theft losses are beyond the scope of VITA/TCE. The return will be in scope if the taxpayer is not itemizing or chooses not to claim the deduction. It is generally more beneficial for client's to take the standard deduction versus itemizing anyway.**



## Premium Tax Credit

# Premium Tax Credit

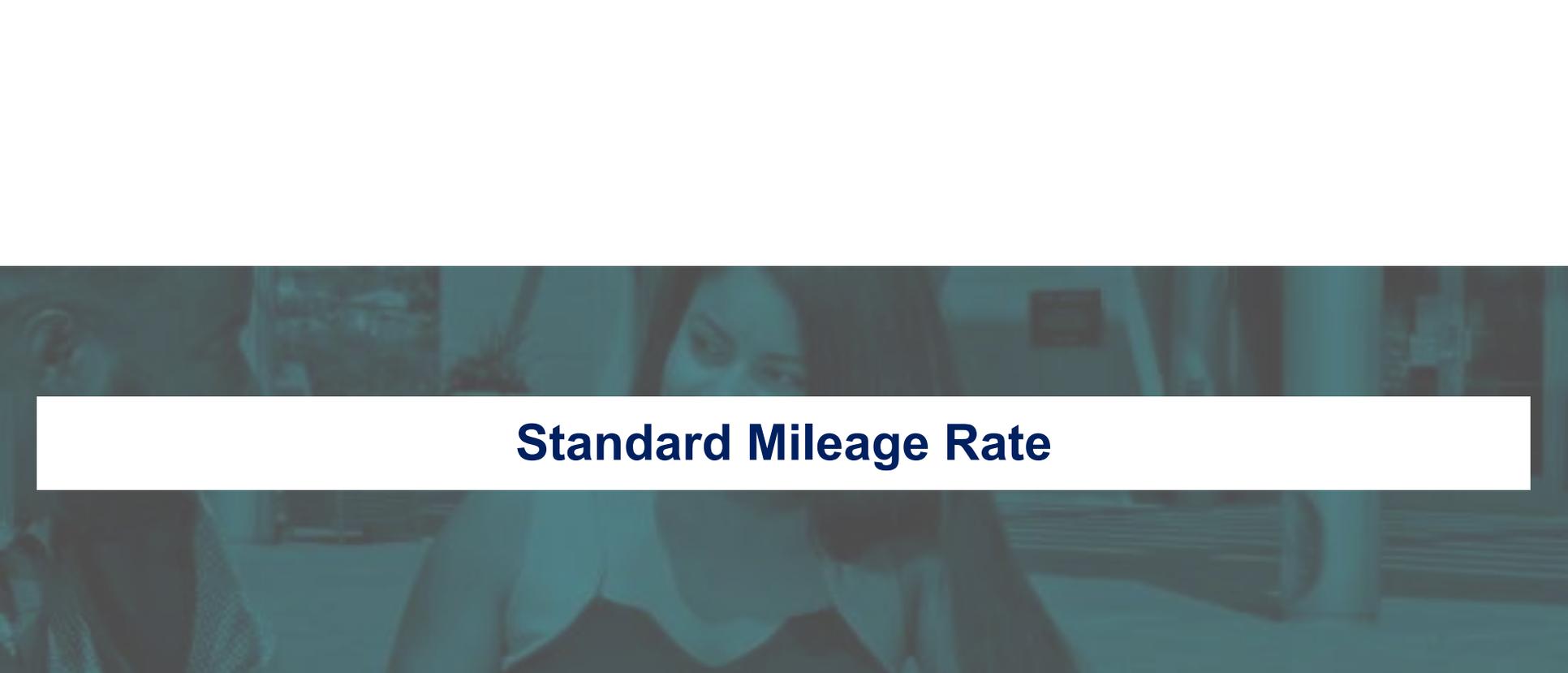
- For tax year 2021 only, if a taxpayer (or the taxpayer's spouse if filing a joint return) receives, or is approved to receive, unemployment compensation for any week during 2021, the taxpayer's household income is considered to be no greater than 133% of the FPL. Therefore, a taxpayer who receives, or is approved to receive, unemployment compensation for any week during 2021 has a contribution amount of \$0 for 2021.



## **Self - Employment Expenses**

# Self - Employment Expenses

- There is a temporary exception to the 50% limit on the amount that businesses may deduct for food or beverages. The temporary exception allows a 100% deduction for food or beverages from restaurants. Beginning January 1, 2021, through December 31, 2022, businesses can claim 100% of their food or beverage expenses paid to restaurants as long as the business owner is present when food or beverages are provided and the expense is not lavish or extravagant under the circumstances.



## Standard Mileage Rate

# Standard Mileage Rate

- For 2021, the following rates are in effect:
  - 56 cents per mile for business miles driven
  - 16 cents per mile driven for medical or moving purposes
  - 14 cents per mile driven in service of charitable organizations (no change)



## Required Minimum Distributions (RMDs)

# Required Minimum Distributions (RMDs)

Required minimum distributions (RMDs) generally are minimum amounts that retirement plan account owners must withdraw annually starting with the year they reach 72 or, if later, the year they retire.

- Individuals who reached 70 ½ in 2019, (70th birthday was June 30, 2019 or earlier) did not have an RMD due for 2020, but will have to take one by Dec. 31, 2021.
- Individuals who reach 72 in 2021 (and their 70th birthday was July 1, 2019 or later) have their first RMD due by April 1, 2022.



## Michigan Disability Exemption

# Michigan Disability Exemption

## **Totally and Permanently Disabled**

An individual who is disabled as defined under Social Security Guidelines 42 U.S.Code § 416

- Unable to engage in any substantial gainful activity because of a medically determined physical or mental impairment which can be expected to result in death, or which has lasted or can be expected to last continuously for 12 months or more
- Generally receives Social Security Disability benefits (SSDI), Supplemental Security Income (SSI), or Veterans' Administration (VA) disability retirement payments

# Michigan Disability Exemption

## Totally and Permanently Disabled

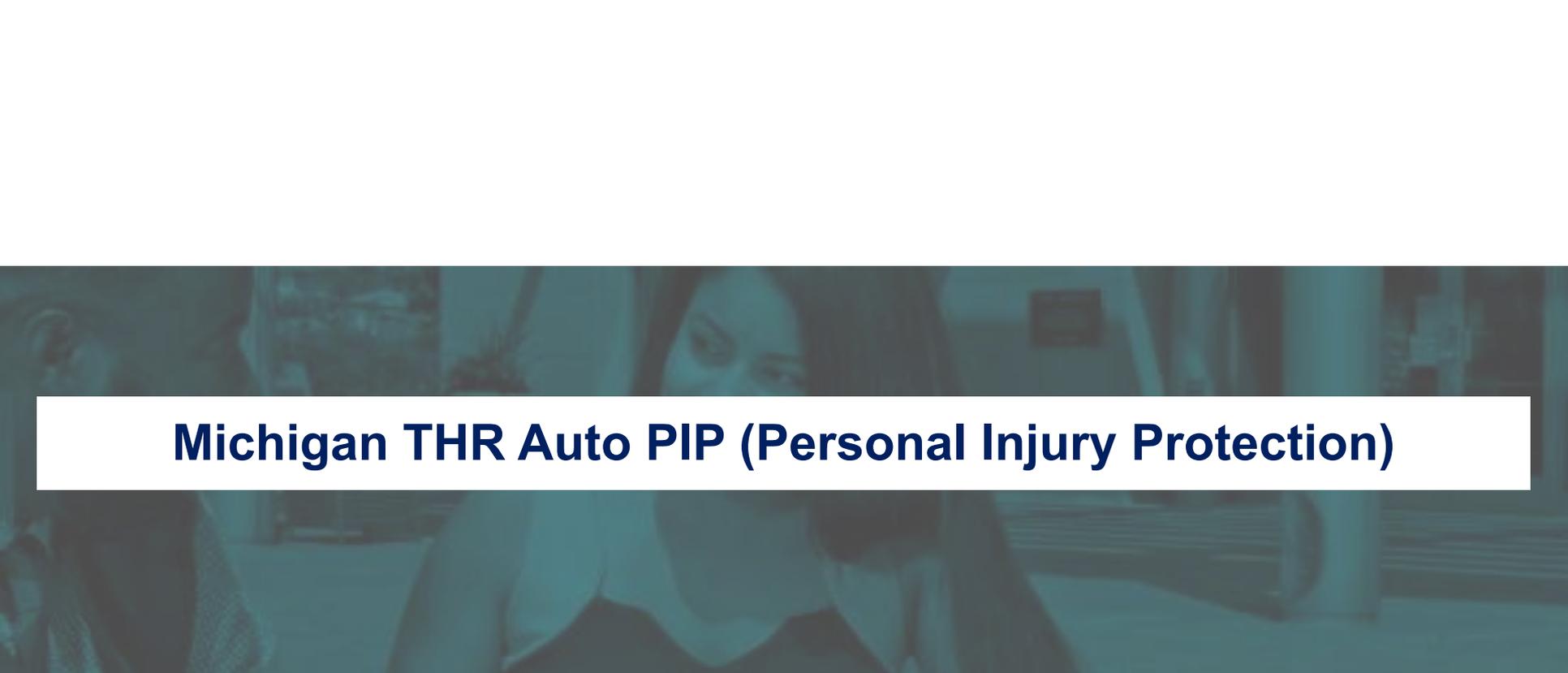
- The change is due to changes in the Social Security act and retirement ages set by the act (See 42 U.S.Code § 416)
- The age that someone is considered “retired” and no longer totally and permanently disabled is now age 66 **as of October 31, 2021.**
- The age and date will evolve for the next few years until it builds to the new retirement age of 67 (For 2022, the age and date should be 66 at August 31 for the retirement age.)
  - This is good for taxpayers that are totally and permanently disabled

Note: For tax years prior to 2021, and within the four-year filing statute, totally and permanently disabled may not be claimed if taxpayer was age 66 by December 31 of the tax year

# Michigan Disability Exemption

## Summary:

- Individuals ***born in January through October of 1955, cannot claim exemption*** for totally and permanently disabled
- Individuals ***born in November and December of 1955, can claim the exemption*** for totally and permanently disabled



## **Michigan THR Auto PIP (Personal Injury Protection)**

# Michigan THR Auto PIP (Personal Injury Protection)

Due to the recent law changes effective July 1, 2020, where an insured person can reduce coverage or opt out of Auto PIP,  
Michigan Department of Treasury:

- Is not providing an allowable medical insurance deduction amount for those with auto PIP (**\$130 is no longer allowed**)
- Taxpayers have to provide the amount for the medical care portion of their PIP

Note: \$130 is still allowed for tax years prior to 2021.

## **Thank you for your participation in this presentation!**

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