



## Happy New Year 2022!

We hope that your 2021 year began a time of rebound and normalcy compared to the pandemic year and that your family is well and safe. We have seen many businesses utilize the financial benefits of various government assistance to stay afloat and stimulus payments for individuals helped steady finances for individuals who qualified. We are still not out of the woods yet but are beginning to see signs of recovery and adaptability to the current situation. The government continues to stir the pot as always with changes that affect your income tax filings, and we strive to make every effort to stay on top of these moves.

## TOPICS

### THIRD STIMULUS PAYMENT

As you may recall in 2020, the federal government rolled out 2 rounds of economic impact payments (EIP). A third round of this stimulus was issued in the beginning of 2021 for a maximum **\$1,400** for each person listed on the tax return. Unlike the prior rounds of Economic Impact Payments, families will get a payment for all their dependents claimed on a tax return, not just their qualifying children under 17. **We will be asking you for this information once again this year** and it will be treated as a reconciling item and not taxable. As was the case in 2020, if you did NOT receive the appropriate amount, you will receive it in the 2021 tax filing. Not everyone received exactly \$1,400 so it is important that you confirm exactly what you received to avoid receiving letters from the IRS "correcting" your tax return. We saw many letters from the IRS this past summer that were mailed to taxpayers for "errors" due to incorrect stimulus payments being listed on the 2020 tax filing. The IRS will begin issuing **Letter 6475, Your Third Economic Impact Payment**, to EIP recipients in late January 2022. This letter will help Economic Impact Payment recipients determine if they are entitled to and should claim the recovery rebate credit on their 2021 tax returns when they file in 2022.

## **CHILD TAX CREDIT**

One notable change that we have made you aware of in past communications is the expanded child tax credit for individuals and families that have dependent children. As part of the American Rescue Plan, the credit was increased from \$2,000 to \$3,000 per child (\$3,600 for ages 5 and under) and expanded to cover children 17 years and younger as opposed to 16 (if you qualify due to income limits). Furthermore, in the late summer, half of the new credit was *advanced* monthly to qualifying households to assist families in need, rather than waiting for the entire credit at the time of tax filing. You should **expect to receive a Form 6419 that summarizes the credits you were advanced in late December 2021 and will continue into January 2022.**

The letter contains important information that can make preparing your tax returns easier. People who received the advance payments can also check the amount of their payments by using the CTC Update Portal available on IRS.gov.

Eligible families who did not receive any advance child tax credit payments can claim the full amount of the child tax credit on their 2021 federal tax return. This includes families who don't normally need to file a tax return.

## **REQUIRED MINIMUM DISTRIBUTIONS**

After a year absence, the Required Minimum Distribution (RMD) rule for eligible taxpayers for amounts that must be withdrawn from retirement accounts by a certain age returned. It must have been taken by December 31 to avoid substantial penalties of up to 50% on the RMD.

A RMD must be taken by seniors who turn 72 by the end of 2021. Those that did, have until April 2022 to make that first RMD. Furthermore, beneficiaries of retirement accounts do not have as much time and flexibility to withdraw RMDs as in the past and are subject to the 10-yr rule of withdrawal of the death benefit. Lastly, even in the year of passing, an RMD must be taken that year and should be initiated by a qualifying beneficiary to avoid penalty.

## **EARNED INCOME CREDIT**

The maximum Earned Income Credit for low-income earners has been increased to keep up with inflation. The credit for single filers and a dependent child phase out at \$25,470 and \$57,414 for married filers. The credit is disallowed for those with investment income of \$10,000 or more. Additionally, The American Rescue Plan expands the EIC so people without children can claim the credit as of age 19, instead of 25, except for certain full-time students.

## **BUSINESS EMPLOYEE RETENTION CREDIT**

For businesses, one of the highlights that the American Rescue Plan provided was to extend the availability of the Employee Retention Credit for small businesses through the end of 2021. It allowed businesses to offset their current payroll tax liabilities by up to \$7,000 per employee per quarter. The Plan also extends availability of Paid Leave Credits for small and midsize businesses that offer paid leave to employees who may take leave due to corona virus illness, quarantine, or caregiving. Businesses can take dollar-for-dollar tax credits equal to wages of up to \$5,000 if they offer paid leave to employees who are sick or quarantining. Paid Leave Credits are a powerful incentive to encourage the offer of paid sick and family leave, by ensuring sick employees can stay home.

## **UNEMPLOYMENT COMPENSATION**

In early 2021, the government made a mid-tax season change of waiving income taxes on the first \$10,200 of unemployment benefits received in 2020. This will not carry over to 2021 unemployment benefits page for the tax filing year. There have been a number of inquiries about this, but as far as we know, there is no plan for another exemption like that.

## **CHARITABLE CONTRIBUTIONS**

When the TCJA of 2017 was enacted for years 2018 and forward, many taxpayers lost the ability to itemize their deductions such as charity because the Standard Deduction was nearly doubled for all filing statuses. Beginning with the tax filing for 2020, a small allowance of \$300 for cash donations was allowed for ALL taxpayers on the front page. For 2021, the allowance is now

\$300 for Single Filers and \$600 for Married, a small, but continued relief measure for coronavirus.

## MEDICAL EXPENSE THRESHOLD

If you qualify to itemize your deductions (mortgage interest, state and local taxes, contributions etc.), you may also be able to include medical expenses to the extent that they exceed 7.5% of Adjusted Gross Income. This percentage has flip-flopped between 7.5% and 10% in the past few years but now appears to be fixed at 7.5%.

## TAX BRACKET AND RATE TWEAKS

As is customary, each year the IRS does tweak the marginal tax rates for all brackets, the standard deduction amounts, EIC amounts, Foreign Income exclusion, qualified adoption credit and other items unless a law change eliminates or changes something.

Below are the new 2021 Tax Brackets

### 2021 Tax Brackets

Rate	Married Joint Return	Single filer	Head of Household	Married Separate
10%	\$19,900 or less	\$9,950 or less	\$14,200 or less	\$9,950 or less
12%	Over \$ 19,900	Over \$9,950	Over \$14,200	Over \$9,950
22%	Over \$ 81,050	Over \$40,525	Over \$54,200	Over \$40,525
24%	Over \$172,750	Over \$86,375	Over \$86,350	Over \$ 86,375
32%	Over \$329,850	Over \$164,925	Over \$164,900	Over \$164,925
35%	Over \$418,850	Over \$209,425	Over \$209,400	Over \$209,425
37%	Over \$628,300	Over \$523,600	Over \$523,600	Over \$314,150

### 2021 Standard Deductions

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The new standard deduction set by the IRS is as follows:

**\$12,550** for single filers

**\$12,550** for married couples filing separately  
**\$18,800** for heads of households  
**\$25,100** for married couples filing jointly  
**\$25,100** for surviving spouses

In addition, if you are aged 65 or over, there is an additional standard deduction of **\$1,350** per person on a married filing joint tax return or **\$1,700** for head of household or single filer.

## OFFICE UPDATES

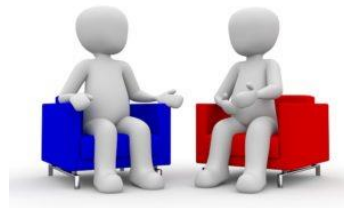
**Staffing Updates** – As we continue to grow, we have added more expertise and staff to manage our increased workload. Your primary tax contact for individual tax returns will still be Pete or Stacey. For business tax returns it will be Pam. We have added more hands to get more tax returns filed timely and less extensions so you may be hearing from Chris as well. We are excited that we continue to grow but recognize more help is needed.

**Appointments** – as mentioned in our prior communication, for those with appointments, we are now seeing clients face-to-face this year and still providing the remote option to those who prefer that. You should have received an appointment card which asks which method you prefer. Additionally, we have our text reminder service that will send a text message to your cell phones reminding you of your appointment 24 hours beforehand. Please make every effort to keep your appointment as our schedule is very tight and rescheduling options are limited.

- **REMOTE APPOINTMENTS** – like last year, please provide your materials at least 2 days prior your appointment time either by portal upload, email, USPS or drop off. This is critical so that our remote session is used efficiently. Please be ready at the time of your meeting and we will call you.



- **IN PERSON APPOINTMENTS** – we welcome you back to the office, but please come prepared with as much of your materials as possible. Check our website for tools to help you organize and prepare your tax documents. Review last year's packet for documents that you provided. **Most importantly if you have been exposed to COVID-19 or are having symptoms, please do NOT come to the office at all. We will make other accommodations to get your taxes processed.**



**Portal Update** – We continue to encourage those that wish to use the portal to do so and upload your documents there. Keep in mind that we can also put documents such as a copy of your tax return if you wish. If you have not accessed in a while, please try to do so soon. If you have any problems, please let us know. Again, this storage solution will continue to be used in the coming years as the primary secure information exchange utility **for absolutely no charge**. If you are not a user of the portal, and would like to access it, simply call our office, or email us so that we can email you an activation link!

[CLIENT PORTAL](#)

**Website-** on our website you can find helpful tools such as Tax Appointment Reminder List, a Data Organizer and various guides to help with your document assembly. We can also provide a personally tailored Client Organizer based on prior year's data that can be emailed to you and is fillable right online.

**Fees** – we have kept fees consistent and fair for the last few years while still providing the best service possible. To that, we do require payment of your fee **BEFORE** your tax return is electronically submitted. We cannot and will not file your tax return without payment.

We accept several forms of payment including cash, check and credit card, Apple and Android pay and **new for this year, pay on our website** [www.innovative-tax.com](http://www.innovative-tax.com).



**Forms** – both the annual engagement letter (which gives us permission to prepare your tax return) and the electronic filing form(s) (which authorizes us to file your return) must be signed and returned to us **BEFORE** your tax return is electronically submitted.

**Extensions** – a \$50 fee will apply to any client who requests that we file an extension on their behalf. Extensions MUST BE REQUESTED via e-Mail or phone – we will not file one automatically on your behalf. Remember, an extension gives extra time to file the return but any tax that you owe is still due by the deadline and will be subject to penalties and interest if paid late.

### **Important Dates-**

- January 24, 2022 – the IRS begins accepting e-filed Individual Income Tax Returns
- March 15, 2022 – Partnership and S-Corp Tax Returns due
- April 15, 2022 – Individual Income Tax Returns due
- May 15, 2022 – Non-Profit Income Tax Returns due

If you have any questions, please feel free to call or email us and we will be happy to answer them.

Our email addresses are as follows:

**Pete** – [pete@innovative-tax.com](mailto:pete@innovative-tax.com)  
**Stacey** – [stacey@innovative-tax.com](mailto:stacey@innovative-tax.com)  
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As always, we thank you for your business and wish you a healthy and prosperous new year.

**INNOVATIVE TAX & ACCOUNTING GROUP, INC.**