



Newsletter

APRIL 2021

Freddi Eberhart & Associates Inc. would like to thank you for selecting our firm for your tax and accounting needs. We appreciate the confidence you have shown in us, and we remain ready to assist you at any time. Also, thank you for recommending us to your family, friends, and associates. We truly appreciate your referrals.

This Month:

Upcoming dates:

April 15

- First quarter 2021 estimated tax payments are due - NOTE: This has not been extended to May 17.

May 17

- Individual income tax returns & payments for 2020 are due
- 2020 IRA/HSA contributions are due

Welcome to the craziness that is the 2020 tax filing season!

Because the IRS is still playing catch-up from last year, in addition to new tax laws passed in the middle of this year's tax filing season, the April 15 individual tax return deadline was moved to May 17. Read about how these new tax laws affect both your 2020 and 2021 tax returns.

Also read about extended tax breaks for businesses.

Please call if you would like to discuss how this information could impact your situation. If you know someone who can benefit from this newsletter, feel free to send it to them.

ALERT! Late Tax Legislation Creating Havoc

Individual tax return deadline moved to May 17

Congress' recent move to retroactively make a portion of 2020 unemployment income tax-free is creating havoc during this year's tax filing season. Here is what you need to know.

Background

Unemployment compensation was received by millions of Americans during 2020 because of the pandemic. While unemployment income was necessary for many who lost a job, it's also normally classified as taxable income to be reported on your tax return. Recently-passed legislation now makes the first \$10,200 of 2020 unemployment compensation tax-free on your tax return (on up to \$150,000 in AGI).

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ALERT! Late Tax Legislation Creating Havoc (Cont'd)

The problem

The new legislation which contains this tax break didn't become law until March of 2021, a full three months after the end of the tax year and after millions of Americans had already filed their 2020 tax return!

Understanding your situation

- **If you've already filed your 2020 tax return:** Wait for further instructions. The IRS is trying to figure out a way to automatically apply this tax break for taxpayers who have already filed their 2020 tax return. This will avoid the need to file an amended tax return. There is no need to call at this time as the IRS has not provided final guidance.
- **If you HAVE NOT filed your 2020 tax return:** The IRS has issued guidance on how to report this tax break on your 2020 tax return if you have not already filed. You will be notified once your tax return has been prepared.
- **Tax deadline moved to May 17.** Because of all this havoc, the April 15 deadline for individual tax returns is now May 17. This extension applies only to Form 1040s. First quarter estimated tax payments for the 2021 tax year are still due by April 15.

Be assured you will be informed once the IRS issues further instruction on how to claim your tax break. In the meantime, enjoy the extra tax savings you may receive sometime in the near future!

New Tax Breaks Benefit Millions

What you need to know

The recently-passed American Rescue Plan Act contains several tax breaks for you and your family. Here are the major provisions of the bill that could mean more money in your pocket during the 2021 tax year.

Child tax credit (CTC)

- The CTC for 2021 increases from \$2,000 to \$3,000 for kids ages 6 to 17 and \$3,600 for kids ages 5 and under.
- To receive the full tax credit your adjusted gross income must be under \$75,000 (Single); \$150,000 (Joint); or \$112,500 (Head of Household).

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New Tax Breaks Benefit Millions (Cont'd)

- If your income is above the aforementioned thresholds, you can still receive \$2,000 per child if your income is less than \$200,000 (Single, Head of Household); or \$400,000 (Joint).
- You can receive up to 50% of your 2021 child tax credit in 6 monthly payments starting July 2021. The IRS is warning, however, that this July start date may be delayed because a computer system still has to be built to handle these monthly payments.

Child and dependent care credit (DCC)

If you and your spouse work and have children in daycare, or have an adult that you care for, you may be eligible for a larger tax credit in 2021.

- You can now spend up to \$8,000 in dependent care expenses for one qualifying dependent and get a 50% tax credit. This results in a maximum credit of \$4,000 (up from \$1,050).
- If you have more than one qualifying dependent, you can spend up to \$16,000 in dependent care expenses and get a 50% credit. This results in a maximum credit of \$8,000 (up from \$2,100).
- To receive the full tax credit, your adjusted gross income must not exceed \$125,000.
- Dependents can include people of all ages, not just kids, as long as they meet the dependent qualifications.

Earned income tax credit

- If you're a household with no kids, the maximum earned income tax credit increases from \$543 to \$1,502.
- More taxpayers qualify for the credit. The lower age limit for receiving the credit decreases from age 25 to age 19. The upper limit of 65 for receiving the credit is eliminated. There is no upper age limit for 2021.
- You may use either your 2019 income or your 2021 income when calculating your credit to obtain the maximum credit.

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New Tax Breaks Benefit Millions (Cont'd)

Stimulus checks

- A third round of stimulus payments in the amount of \$1,400 is being sent to qualified taxpayers.
- The payment phases out for income over \$75,000 for single taxpayers, \$112,500 for head of household taxpayers and \$150,000 for married couples.

Action to take

- **Look for updates on the advance payments for the child tax credit.** The IRS is sorting out how to get half of your child tax credit to you in 2021. Stay tuned for updates as to whether the payments will begin in July or if they will be delayed. You may also opt out of this early payment, but will need to wait for instructions on how to do so.
- **Consider increasing dependent care expenses.** Look ahead to the rest of 2021 and be sure to capture your dependent care expenses to take advantage of the significant increase in this credit. Remember, you won't be able to use these expenses when calculating your credit in 2022, as this tax credit increase is currently for 2021 only.
- **Conduct a tax forecast.** With the dramatic increase in these credits, you may want to estimate next year's tax bill. It may make sense to adjust your withholdings to account for a lower tax obligation.
- **Be conservative when forecasting your earned income tax credit.** It is uncertain how the expanded earned income tax credit will impact those over 65 when you have no children. For example, are Social Security benefits considered earned income when calculating the earned income tax credit? Does the larger standard deduction for those over 65 affect the earned income tax credit calculation? Until clarification is issued by the IRS, you may wish to be conservative about the credit amount you'll receive.

Businesses Get More Time to Apply For PPP Loans

Legislation provides other business relief provisions

Here's what you need to know about the Paycheck Protection Program (PPP) loans and other business relief provisions of the recently-passed American Rescue Plan Act.

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Businesses Get More Time to Apply For PPP Loans (Cont'd)

PPP loan application deadline extended. The deadline to apply for PPP loans is now May 31, 2021.

Sick leave extended. If your business provides sick leave for COVID-related reasons, you might get reimbursed for the sick pay through a tax credit.

- Businesses which voluntarily provide sick leave through September 30, 2021 qualify for the credit. There are limits for each employee. However, for employees who took 10 days of sick leave in 2020 using this same provision, they can take another 10 days beginning April 1, 2021.
- Refundable tax credits are available through September 30, 2021.
- Covered reasons to get the tax credit now include sick leave taken to get COVID testing and vaccination, and to recover from the vaccination.
- These benefits are also extended to self-employed workers.

Family Medical Leave Act Provisions extended.

- Additional coverage is now available through September 30, 2021.
- Qualified wages for this provision move to \$12,000 (up from \$10,000) however the credit was not increased.
- The Family Medical Leave Act also applies to the self-employed.

Big increase in Employee Retention Credit.

- Businesses can get up to a \$28,000 tax credit per employee in 2021, up from a \$5,000 maximum credit in 2020. This credit can be claimed through Dec. 31, 2021.

There are many more provisions in the close to \$2 trillion dollar spending package, including money given to states. As everyone digests this new 500-plus page piece of legislation, more clarifications will be forthcoming from the IRS and other sources.

As always, should you have any questions or concerns regarding your tax situation please feel free to call.

This newsletter provides business, financial, and tax information to clients and friends of our firm. This general information should not be acted upon without first determining its application to your specific situation. For further details on any article, please contact us.