

2021 Tax Law Changes

This is just a highlight of the changes that affect the greatest number of Taxpayers, the list is quite extensive, if you have a question about a specific tax issue please contact our office

The American Rescue Plan, which was enacted in March 2021, provides a dramatic, one-year expansion of the child tax credit for the 2021 tax year. One of the biggest changes is to the amount of the credit. For 2021, it jumps from \$2,000 to \$3,000 for most children – but to \$3,600 for children 5 years old and younger. The extra amount (\$1,000 or \$1,600) is reduced – potentially to zero – for families with higher incomes, though. For people filing their tax return as a single person, the extra amount starts to phase-out if their adjusted gross income is above \$75,000. The phase-out begins at \$112,500 for head-of-household filers and \$150,000 for married couples filing a joint return. The credit amount is further reduced under the pre-existing \$200,000/\$400,000 phase-out rules.

Another important change is that the 2021 credit is fully refundable. The \$2,500-of-earned-income required is dropped for 2021, too. Children who are 17 years old also qualify for the 2021 credit.

For 2021, the child and dependent care credit is fully refundable. The maximum credit percentage also jumps to 35% to 50%. More of your care expenses are available for the credit, too. For 2021, the credit is allowed for up to \$8,000 in expenses for one child/disabled person and \$16,000 for more than one. When the 50% maximum credit percentage is applied, that puts the top credit for the 2021 tax year at \$4,000 if you have just one child/disabled person in your family and \$8,000 if you have more.

In addition, the full child and dependent care credit will be allowed for families making less than \$125,000 a year (instead of \$15,000 per year). After that, the credit starts to phase-out. However, all families making between \$125,000 and \$438,000 will receive at least a partial credit.

The American Rescue Plan expanded the 2021 EITC for childless workers in a few ways. First, it generally lowers the minimum age from 25 to 19 (except for certain full-time students). It also eliminates the maximum age limit (65), so older people without qualifying children can claim the 2021 credit, too. The maximum credit available for childless workers is also increased from \$543 to \$1,502 for the 2021 tax year. Expanded eligibility rules for former foster youth and homeless youth apply as well.

Normally, if a **student loan** is canceled, forgiven, or otherwise discharged for less than the amount you owe, the amount of canceled debt is considered taxable income. However, starting in 2021, this rule is suspended for most canceled student loan debt that was incurred for a post-secondary education. The change is only temporary, though. In 2026, forgiven student loan debt will once again be taxed

For the 2020 tax year, a new "above-the-line" deduction was allowed for up to \$300 of charitable *cash* contributions. Only people who claimed the [standard deduction](#) on their tax return (rather than claiming itemized deductions on Schedule A) could take this deduction. The write-off was originally scheduled to expire after 2020, but it was later extended to 2021 – with one important enhancement. For 2020, one deduction was allowed per return, meaning married couples who filed jointly could only deduct \$300, not \$600. However, for 2021, one deduction is allowed per person, which means married couples can deduct up to \$600 on a joint 2021 tax return.

.Required minimum distributions (RMDs) are back for 2021. Seniors were allowed to skip their RMDs in 2020 without having to pay a penalty. But the RMD suspension only applied for one year. So, anyone who is at least 72 years old by the end the year is required to take an RMD for 2021.

The American Rescue Plan Act made up to \$10,200 of unemployment compensation exempt from federal income tax for households with an adjusted gross income less than \$150,000. Unfortunately, the exemption only applied to unemployment compensation received in 2020. So, for 2021, Uncle Sam will once again fully tax unemployment compensation as if it were wages.

The lifetime learning credit were permanently increased. For the 2020 tax year, the credit was gradually reduced to zero for joint filers with a modified AGI from \$118,000 to \$138,000 and single filers with a modified AGI between \$59,000 and \$69,000. Beginning in 2021, the phase-out range for married couples filing a joint return is \$160,000 to \$180,000, and it's \$80,000 to \$90,000 for single filers. (The same phase-out ranges apply to the American Opportunity tax credit.)

The 2021 standard mileage rate for business driving fell from 57.5¢ to 56¢ a mile. The mileage allowance for medical travel and military moves also declined from 17¢ to 16¢ a mile in 2021. However, the charitable driving rate stayed put at 14¢ a mile — it's fixed by law.

The American Rescue Plan suspended the repayment of excess advanced payments of the premium tax credit...but only for the 2020 tax year. So, advance payments in 2021 that exceed the credit amount on your 2021 tax return will have to be repaid.

The standard deduction amounts were increased for 2021 to account for inflation. Married couples get \$25,100 (\$24,800 for 2020), plus \$1,350 for each spouse age 65 or older (\$1,300 for 2020). Singles can claim a \$12,550 standard deduction (\$12,400 for 2020) — \$14,250 if they're at least 65 years old (\$14,050 for 2020). Head-of-household filers get \$18,800 for their standard deduction (\$18,650 for 2020), plus an additional \$1,700 once they reach age 65. Blind people can tack on an extra \$1,350 to their standard deduction (\$1,700 if they're unmarried and not a surviving spouse).

Tax Rate	Taxable Income (Single)	Taxable Income (Married Filing Jointly)	Taxable Income (Head of Household)
10%	Up to \$9,950	Up to \$19,900	Up to \$14,200
12%	\$9,951 to \$40,525	\$19,901 to \$81,050	\$14,201 to \$54,200
22%	\$40,526 to \$86,375	\$81,051 to \$172,750	\$54,201 to \$86,350
24%	\$86,376 to \$164,925	\$172,751 to \$329,850	\$86,351 to \$164,900
32%	\$164,926 to \$209,425	\$329,851 to \$418,850	\$164,901 to \$209,400
35%	\$209,426 to \$523,600	\$418,851 to \$628,300	\$209,401 to \$523,600
37%	Over \$523,600	Over \$628,300	Over \$523,600

Credit: Kiplinger Tax Changes and Key Amounts for the 2021 Tax Year