

Hons Tax Associates May 2021 Tax Newsletter

Thank you for choosing Hons Tax Associates to do your taxes!

I hope you had a good experience and the new office location was easy to find. This year, Covid and its related issues, the stimulus money received, the new tax law, and the change in taxation of unemployment benefits made the process a bit harder. I think we all hope most of Covid is behind us and we can talk to each other without masks next time. I am available if needed for questions, tax consulting or IRS/state(s) letters.

Please be aware that next year we will have to input in your 2021 tax returns the 3rd stimulus money you received (up to \$1,400 per person received usually in April of this year). It is an advance of a credit in your 2021 return. When the amounts of 1st and 2nd stimulus received were not correct in their tax return (and sometimes when there were not fully received), some of my clients experienced delays in their 2020 return refund.

Paycheck Protection Program (PPP) loans

Many of you, small business owners, were able to take advantage of the PPP loans. In summary, there has been 2 rounds of the loans: the first one in 2020 and second one with application for it expiring **May 31**. The general condition for this second round is that revenue in any quarter of 2020 decreased by more than 25% from the comparable quarter in 2019 (of full year revenue). General information & forms are [here](#)

Forgiven PPP loans **are not** taxable income **and** the qualified expenses they paid for **are** deductible. This is the best case for small businesses. General instructions to ask for forgiveness are [here](#)

Additional refund for first \$10,200 of unemployment benefits not taxable

IRS received approximately 12 million returns including unemployment benefits before the law was retroactively enacted. They have started recomputing these returns and issuing the additional refunds. The only thing you can do if you are in this case is patiently wait.

Please note that all states I know which considered unemployment benefits taxable, including Colorado, still fully taxed it, so there are no additional refunds from the state(s).

IRAs and Required Minimum Distributions (RMDs)

- Age that triggers RMDs was pushed from 70^{1/2} to 72 (RMDs were not required in 2020)
- There is no IRA contribution age cap anymore (used to be 70^{1/2}), one can contribute to an IRA at any age. Maximum deductible contribution for 2021 is \$7,000 when over 50 years old.

Child Tax Credit (CTC)

For 2021 (we do not know for after) the child tax credit is expanded:

- The credit for qualifying children is fully refundable, which means that taxpayers can benefit from the credit even if they have no earned income or owe no income taxes (before, a computation was reducing the refundable part of it depending on the income).
- The credit will include children who turn age 17 in 2021 (instead of under 17)
- Taxpayers are to receive monthly half of their credit in 2021 before filing their 2021 tax return.

For tax year 2021, families claiming the CTC will receive up to \$3,000 per qualifying child from age 6 to 17 (as of 12/31/2021) and \$3,600 per qualifying child under age 6. 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 tax year.

The increase in the amount (i.e. \$1,000 or \$1,600) will be phased out for income over \$150,000 when filing jointly, \$112,500 for heads of household, and \$75,000 singles. The old rules will remain for the remaining CTC (no credit if over \$400,00 AGI when filing jointly, \$200,000 other filers)

Advance payments of the 2021 Child Tax Credit are to be made monthly by the IRS starting in July for half of the amount (i.e. for one child under 6 years old: six monthly payments of \$300 each = \$1,800 which is half of \$3,600). IRS will use the latest tax return information for this (2019 or 2020). This will need to be reconciled in your 2021 return, so to avoid a delay in your refund, know how much you got when ready to file your 2021 taxes.