NELSON FINANCIAL PLANNING

423 Country Club Drive | Winter Park, FL 32789-2968
407.629.6477 | FAX 407.628.3249
www.NelsonFinancialPlanning.com

Top 10 Tax Changes for 2021

The Coronavirus pandemic took a toll on mental health and economic well-being around the country. As a result, Congress created new tax provisions and revised existing legislation to help people and businesses through these uncertain and tough times. On March 25, 2020, a bipartisan agreement for the Coronavirus Aid, Relief, and Economic Security (CARES) Act provided fast and direct economic assistance to Americans. If you have any questions about the effect of these tax changes on your personal situation, please contact us at 407-629-6477.

1. **Stimulus Check (Recovery Rebate Credit).** If you received a stimulus check, it will have no tax implications on your 2020 tax return. Your 2019 tax return determined your eligibility using adjusted gross income (AGI) of up to $75,000 for single filers or up to $150,000 for married filing jointly filers. However, if your 2020 tax return income is above those amounts, you do not have to give it back. Eligible individuals with AGI up to $75,000 for single filers and up to $150,000 for married filing jointly filers who did not already get a stimulus check of $1,200 per tax filer and $500 for each dependent (generally received in April or May of 2020) or $600 per tax filer and $600 for each dependent (generally received in January of 2021) can claim a recovery rebate credit on their 2020 tax return. This credit may increase the amount of your tax refund or lower the amount of the tax you owe.

2. **Coronavirus-Related Distribution (CRD).** The CARES Act provides that qualified individuals may treat as coronavirus-related distributions (CRD) up to $100,000 in distributions made from their eligible retirement plans (including IRAs) between January 1 and December 30, 2020. CRDs are not subject to the 10% additional tax that otherwise generally applies to distributions made before an individual reaches age 59 ½. CRDs are included in income ratably over three years, which spreads out the income taxes over your 2020, 2021, and 2022 tax returns. You must elect to opt-out on your 2020 tax return if you do not want to spread the income over three years, in which case, the full amount would be reported as income on your 2020 tax return. You may repay all or part of your CRD back to your retirement plan within three years of the date the distribution was received. If you choose to repay an amount after 2020 (during 2021 or 2022), you may file an amended tax return for the prior tax years (2020 or 2021) to claim a refund of tax attributable to the amount of the distribution that you included in income for those years.

3. **Charitable Contribution Deduction - For Standard Deduction.** Nearly 90% of taxpayers take the standard deduction, which means most taxpayers do not receive any direct tax savings from making charitable contributions. The CARES Act created a provision allowing individuals who take the standard deduction to claim an "above-the-line" deduction of up to $300 for cash contributions made to qualifying charities. For 2020, single and married filing jointly filers may take up to a $300 deduction. For 2021, single filers may take up to a $300 deduction and married filing jointly filers may take up to a $600 deduction.

4. **Charitable Contribution Deduction - For Itemized Deduction.** The CARES Act adjusted the charitable contribution limitation from 60% of Adjusted Gross Income (AGI) to 100% of AGI for cash contributions made in 2020 and 2021. The normal 60% of AGI limitation still exists for non-cash

contributions. This means taxpayers can claim a larger deduction for cash charitable contributions if they donate the majority of their income to charity.

5. **Required Minimum Distribution (RMD) Resumes in 2021.** The CARES Act suspended the required minimum distribution (RMD) requirement for 2020 but it will return for 2021. The suspension was intended to help individuals avoid withdrawing from their retirement accounts during times of market volatility. Additionally, the SECURE Act increased the RMD age from 70 ½ to 72, effective January 1, 2020. This means any IRA owner who reached age 70 ½ by December 31, 2019 was required to take their first RMD by April 1, 2020. For this specific group of people, the CARES Act waived the portion of their RMD that was not taken by December 31, 2019 and that would have been taken in 2020. Those who reached age 70 ½ by December 31, 2019 must resume their RMDs in 2021. Beneficiary IRA owners must also resume their RMDs in 2021. IRA owners who reach age 70 ½ after December 31, 2019, must begin taking their RMD in the year they reach age 72.

6. **50% Limit on Business Meals Deduction Suspended.** Under the prior law, taxpayers could only deduct 50% of meal expenses that were ordinary and necessary expenses of the business. Expenses for food or beverages provided by a restaurant (including dine-in or takeout) during 2021 and 2022 will now be 100% deductible. These meals must be provided by a restaurant (i.e., not a supermarket) and must still be considered ordinary and necessary expenses of the business.

7. **Educator Expense Deduction.** Eligible educators (kindergarten through grade 12 teachers, instructors, etc.) are allowed a $250 above-the-line deduction for certain business expenses paid by them. The IRS clarified that personal protective equipment (PPE), disinfectant, and other supplies used for the prevention of the spread of COVID-19 can be treated as Educator Expenses.

8. **No Contribution Limit Changes for 401(k)s, 403(b)s, 457s, Simple IRAs, IRAs, But HSAs Increase.** To promote economic recovery (spending instead of saving), Congress kept the contribution limits for retirement plans the same as 2020. The Health Savings Account limits increased from $3,550 in 2020 to $3,600 in 2021 for individual plans while family plan contribution limits increased from $7,100 to $7,200. In addition, HSA account holders age 55 and older may contribute an extra $1,000 annually.

9. **Paycheck Protection Loan (PPP).** Under the CARES Act, qualified small businesses were provided the opportunity to receive government loans to cover payroll costs and other necessary business expenses. The PPP loans are administered by the Small Business Administration (SBA). PPP loans were eligible for full or partial forgiveness if businesses met certain requirements such as utilizing at least 75% of the loan amount on payroll costs and not reducing employee salaries by more than 25%. Businesses can exclude the loan proceeds from their taxable income and take deductions for the payroll costs and other necessary business expenses. This double deduction is a powerful way for businesses to reduce taxes in 2020. Additionally, the SBA expanded their Economic Injury Disaster Loans (EIDL) and provided borrowers with a $10,000 emergency advance. The $10,000 advance is not required to be repaid and is excluded from taxable income.

10. **Virtual Currencies.** The IRS is cracking down on buying and selling of virtual currencies, such as Bitcoin (BTC), Bitcoin Cash (BCH), Ethereum (ETH), and other cryptocurrency. The IRS has already issued multiple letters to taxpayers who may have failed to report or misreported transactions involving virtual currency. To emphasize the importance of this issue, the IRS has added the following question to the first page of Form 1040, requiring taxpayers to answer it: At any time during 2020, did you receive, sell, send, exchange, or otherwise acquire any financial interest in any virtual currency?