

The 2021 Tax Filing Season

The 2021 tax filing season is expected to be unusually busy for taxpayers and the IRS. The coronavirus pandemic and multiple pandemic-related relief packages passed last year will make this tax season unique.

The IRS will start processing tax returns on Feb. 12th. Typically, the IRS starts processing tax returns in late January, but has been delayed due to the IRS backlog from last year; the service is still catching up on paper correspondence and filings from 2020.

Although the 2020 tax season was significantly impacted by the Covid-19 pandemic and Tax Day was pushed back to July 15th, the IRS says there will not be a delay in this year's 2021 tax season; tax returns will be due April 15th, unless you file for an extension. With that in mind, here are a few of the major tax changes that could impact you.

Stimulus Payments

The IRS and Treasury Department sent two rounds of economic impact payments to individuals in 2020 as part of broader coronavirus relief packages. The payments are tax credits advanced to individuals based on their 2018 or 2019 adjusted gross income (AGI).

Individuals may receive an additional payment (in the form of a refundable tax credit on their 2020 individual income tax return) in one of two ways. First, filers who did not receive either of the payments due to processing delays or errors may claim it on their return.

Second, filers will use 2020 AGI when calculating any credit they are owed. If a filer received a partial payment (or no payment at all) because the filer had a 2018 or 2019 AGI above the phase out threshold, the filer may claim a refundable credit if they had a lower 2020 AGI that would make them eligible for an additional payment. Filers who did not receive a payment for an eligible dependent may also receive the credit on their tax return.

Adjustments are only made if the taxpayer is owed additional credit, so they will not see any increase in their tax liability related to the payments. The payments are credits and are not taxable income.

Charitable Donation Deductions

This year, you can deduct up to \$300 in donations to qualifying charities, whether you itemize or not. A temporary provision of the CARES Act designed to encourage giving, this deduction cannot be carried forward into future years. Be sure to provide your charitable receipts to your tax advisor, even if you don't typically itemize.

IRAs and Retirement Plans

The CARES Act waived required minimum distributions for IRAs and retirement plans for 2020, so your tax bill may be lower this year if you waived your RMD. As of now, there is no extension of that waiver to 2021.

Medical Expenses

The Tax Cuts and Jobs Act (TCJA) set the threshold for itemized medical expense deductions at 7.5% of adjusted gross income (AGI). The threshold was scheduled to increase to 10% of AGI for 2021 and beyond. The December relief package made the 7.5% of AGI threshold permanent for 2021 and beyond. You will only be able to utilize this benefit, however if you itemize.

Tax season will be compressed this year due to the delay in opening filing season, so be sure to start gathering your tax data sooner rather than later. As always, reach out to your MAI advisor if you have any questions about how the above changes could impact you.

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