



Tax Tips

Keeping You Informed • Winter 2021

Your Trusted Advisors

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Our mission is to partner with businesses and families to achieve financial success through Biblical principles in order to further God's kingdom.

Bonus Depreciation: Planning Pro-Tip

Bonus Depreciation allows immediate deductions for equipment and improvements that normally stretch over several years. This ability to claim deductions immediately lowers small business taxes and provides greater cash flow to the business. Unfortunately, it begins to phase out after 2022. Savvy businesses will complete these improvements before **December 31, 2022**:

- Agricultural structures (barns)
- Paving and sidewalks
- Wells
- Improvements to the interior of commercial buildings

Internal Revenue Code section 179 allows immediate deductions similar to Bonus, but there are some key differences. The above mentioned items are not eligible for section 179, however commercial roofs can be deducted. Section 179 deductions are currently limited to the lower of earned income or \$1,050,000. The section 179 limit is “permanent” and increases for inflation each year.

Due Dates for 2021 Filing:

**Individual
Returns:**

April 18, 2022

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**Partnership
&
S-Corp
Returns:**

March 15, 2022

Child Tax Credit

For 2021 only, the Child Tax Credit (CTC) increased from \$2,000 to \$3,000 for each child under age 18, or \$3,600 for each child under the age of 6. Unfortunately, the extra amount (\$1,000 or \$1,600, respectively) is reduced when income exceeds \$150,000 for married taxpayers filing a joint return (MFJ) and qualifying widow(er)s (QW), \$112,500 for heads of household (HOH) and \$75,000 for single taxpayers. The good news is the normal \$2,000 credit amount phases out as usual at \$400,000 for MFJ and \$200,000 for all others. Thus, higher income taxpayers may lose some of the credit, but not all of it. It is also fully refundable if you have no tax liability.

You also probably noticed that the advance CTC payments were made monthly from July through December 2021. These payments were estimates of your 2021 CTC, generally based on your 2020 tax return. If you received advance payments in excess of the CTC allowed on your 2021 return due to change in circumstances, you may have to repay some or all of the excess amount. For example, you may have a 2021 repayment in a shared custody arrangement if you claim your child only in even-numbered years. There is some repayment protection depending on your income level. However, if your income equals or exceeds \$120,000 for MFJ or QW, \$100,000 for HOH or \$80,000 for single or MFS, plan on repaying the entire excess amount as additional income tax on your 2021 return.

In January of 2022, the IRS will send Letter 6419, which provides the total amount of advance CTC payments that were disbursed to you during 2021. Keep this letter to give to us when we prepare your 2021 tax return.

Child & Dependent Care Credit

For 2021 only, the Child and Dependent Care Credit increased significantly and is fully refundable even if you have no tax liability, so keep track of your work-related child care expenses. The dollar limit for eligible expenses is \$8,000 for one child and \$16,000 for two or more qualifying children. If your income is \$125,000 or less, you get the maximum 50% credit rate. If your income is more than \$125,000, the 50% rate decreases as your income rises. The credit becomes unavailable when your income exceeds \$438,000. Remember day camps and preschool may qualify.

In addition, you might be eligible to exclude up to \$10,500 (\$5,250 if MFS) of employer-provided dependent care benefits from gross income for 2021. However, you cannot use any child care expenses paid with these tax-free benefits for the Child and Dependent Care Credit. Check with your employer if you can roll unused dependent care benefits to next year. It could be more beneficial to take the credit in 2021 and use pre-tax deferral in 2022.



Education Tax Benefits

The tuition and fees deduction is gone for 2021, but you might benefit from the Lifetime Learning Credit if your income is below \$90,000 (\$180,000 if MFJ), which matches the income limitations for the American Opportunity Tax Credit. Furthermore, COVID-19 emergency financial aid grants under the CARES Act are excluded from gross income, but qualified education expenses paid with these tax-free grants can still be used to claim an education credit. Bring in your tuition statements at tax time so we can claim the maximum credit using all eligible expenses.

There is also a special rule for student loans discharged in 2021 through 2025. For certain types of loans, you can exclude the debt discharge from gross income.

Educator Expense Deduction

An eligible educator can take an above-the-line deduction for out-of-pocket classroom-related expenses up to \$250.00. COVIDTRA provides an expansion of qualified educator expenses to include personal protective equipment (PPE), disinfectant and other supplies used for the prevention of the spread of COVID-19.

Charitable Contributions

Ordinarily, if you choose to claim the standard deduction, you cannot deduct your charitable contributions. However, if you do not itemize deductions for 2021, you may deduct up to \$300 (\$600 if MFJ) on your 2021 tax return for cash contributions made to most charitable organizations.

If it is better for you to itemize deductions, you can elect to apply a 100%-of-AGI deduction limit for a cash contribution made to most charitable organizations during 2021. Without this election, the usual percentage limit applies (normally 60%), and the nondeductible amount carries over up to five years.

Remember to obtain an acknowledgment letter from the charity before filing your return and retain a canceled check or credit card receipt for contributions of cash.

Required Minimum Distributions

Required Minimum Distributions (RMDs) were waived for tax year 2020 only, so take your RMD for 2021 by December 31, 2021.

If you were at least 72 in 2021, you must begin taking RMDs from your traditional IRA. If you are 70 1/2 or older, you can make a qualified charitable deduction right from your IRA, thus lowering your income.

If you fail to take your RMD, you are subject to 50% excise tax on the amount not distributed. There is no need to panic. We can ask the IRS to waive the tax due to reasonable error if you take the steps to remedy the shortfall.

Premium Tax Credit

In general, if you purchase health insurance through the Marketplace (in PA, enrollment is through Pennie), you do not qualify for any premium assistance when your income is too high. However, for 2021 and 2022, if your household income is more than 400% of the federal poverty line (FPL), you may be eligible to claim the premium tax credit (PTC) and will not pay more than 8.5% of your income for coverage.

If you were unemployed and received, or were approved to receive, unemployment compensation for any week during 2021, you may be eligible for the PTC as if your household income was only 133% of the FPL. This means more premium assistance regardless of the level of your household income. If this special rule applies to you, be prepared to provide self-attestation and documentation that demonstrates the receipt of such unemployment compensation or approval.

Important Portals

Pennsylvania: MyPATH

MyPATH is designed to help you! You can do many of the functions on MyPATH without even creating an account. What can you do without creating an account? Make a payment, track payments and credits, respond to your notice, retrieve 1099-G forms, retrieve 1099-INT forms, retrieve W2 G forms, review refund status, verify tax refund for processing, and view previously submitted items.

To gain even more access, set up your account on MyPATH and you can request a payment plan, verify credits and payments, request a statement of account, view letters, view and send messages, update names and addresses and opt-in to email notifications.



Internal Revenue Service

Log into IRS.gov and choose “View your Account”, then log in to your account or create your own online account to securely access your individual account information. Note, taxpayer and spouse will each need to create his or her own account.

With an IRS portal account, you can view balance details by year, payment history and any scheduled or pending

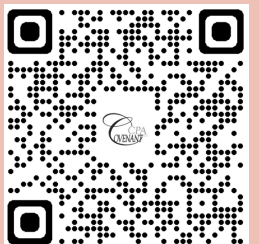
payments, information from your most recent tax return, payment plan details (if applicable), copies of IRS notices, economic impact payments, your address on file, authorization requests from tax professionals, make online payments, request an online payment agreement, and access your tax records.

To set up your account, you will need to enter your full name, email, birthdate, social security number, tax filing status and current address. They will also ask you to verify your identity by asking you to provide one of your financial accounts (credit card, student loan, mortgage, home equity LOC or loan, auto loan) and you will need a cell phone associated with your name.



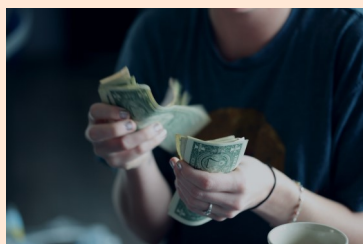
Covenant CPA LLC Client Portal

To create an account, contact our office at 717-464-2951 and we will create your account. If you already have a login, go to our homepage and login on the left side where it says “Client Login”. You can reset your password there if needed. With a client portal, you will be able to view past tax returns, upload documents to send to our office securely, and new this year is the ability to pay your invoices with credit card or ACH.



Earned Income Credit

If your 2019 earned income was more than your 2021 earned income, you can use your 2019 earned income to determine the Earned Income Credit (EIC) on your 2021 tax return. You may benefit from this provision if your income went down after 2019 due to the pandemic, or any other reason. Be prepared to provide the amount of your 2019 earned income at tax time if we do not already have it.



For 2021 only, the minimum age to claim the EIC without any children decreased from age 25 to age 19 for most taxpayers (age 24 for certain students), and the maximum age limit was eliminated. Thus, if you are a recent high school graduate or retirement age, you might qualify for the childless EIC for 2021, assuming you meet all the other requirements.

Business Meal Deductions

For January 1, 2021 through December 31, 2022, businesses can claim 100% of their food and beverage expenses paid to restaurants as long as the business owner (or an employee of the business) and client are present when food and beverages are provided and the expense is not lavish or extravagant under the circumstances. All other meals still remain at 50%. Holiday parties for your employees are still considered a 100% deduction. Remember to keep documentation of the date, client and business discussed.



Mileage Rates for 2021

- 56 cents for business use
- 16 cents for medical
- 14 cents for charitable organizations

IRA Contribution Limit

- IRA contribution limit = \$6,000
- Catch-up provision for ages 50 & up = \$1,000
- HSA max deductible contribution for individuals = \$3,600
- HSA max deductible contribution for families = \$7,200

Medical Expense Deduction

- 7.5% of AGI limitation regardless of age

Economic Impact Payment #3

Please include the amount of your third Economic Impact Payment with your tax information. The payment went out in the Spring/Summer 2021. Individuals could have received \$1400 (\$2800 for married filing jointly and \$1400 for each qualifying dependent). The IRS sent out Notice 1444-C with the amount of your payment. You can go into the IRS portal to view the amount received.



Employee Retention Credit

Did you pay employees in 2020 or 2021? If so, there could be significant cash available to you—up to \$40,000 per employee.

In response to the challenges caused by the COVID-19 pandemic, the federal government put several programs in place to help struggling businesses. The Employee Retention Credit, or ERC, offers tax refunds to employers who were subject to a government shutdown order or saw a significant reduction in revenue. Between March 10, 2020 and December 31, 2020, a 50% credit was made available to be claimed on up to \$10,000 of wages per employee each quarter. For all of 2021, eligible employers can claim a 70% credit on up to \$10,000 of wages per employee per quarter. These credits must be claimed on the employer's quarterly form 941 filing. If you have already filed a 941 for the quarter in which you were eligible for the credit, you can amend your return within three years of the original 941 filing. Please keep in mind that the Employee Retention Credit cannot be claimed on wages that have already been used to secure forgiveness on a Paycheck Protection Program Loan. If you would like assistance in determining your eligibility for the Employee Retention Credit, please contact our office.

Save a Tree, Use Your Portal!

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