

Bisbee Income Tax Service

Est. 1993

Providing Excellent Service at Reasonable Rates

Year-End 2021 Tax Letter

115 S. Broad St Stacyville, IA 641-737-2428	33 1 st St NE Mason City, IA 641-424-4865	411 12 th St SE Rochester, MN 507-529-0520	613 Main St Osage, IA 641-732-3445	320 West Main St Adams, MN 507-582-3600
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Changes are Happening

I am proud to announce that my son, Brian, will be taking over Bisbee Income Tax. Mary and I will still be doing tax returns and there will be no change in the other employees. His sister, Lisa, will still be working hard to keep everything in order

Appointments

This year we are giving you the choice on how you want to do your tax return. It can be face-to-face interviews with or without masks **OR** you can drop off or mail in your information **OR** you can upload your documents to our Portal. If we sent you an appointment and you want to change to a drop off or Portal, just give us a call.

Portal

We are launched a Portal last year to help us in these challenging times. We had a good response. A Portal is a safe on-line site in which you will be able to upload documents such as your W-2, retrieve your tax return and pay us for our services. Call the office to get an email for instructions on how to log on..

SECURE ACT

This bill was passed in December of 2019 with most changes effective with the 2020 tax return.

Retirement Savings

There is no longer an age limit to be able to contribute to your traditional IRA. IRA contributions are now

permitted at any age. This is a change from the previous maximum age of 70.

The age to start a required minimum distribution (RMD) changes from age 70 ½ to 72.

529 Plans (College Savings Plans)

Section 529 Plans can now cover fees, books, supplies and equipment required to participate in Registered Apprenticeship Programs. Also tax-free distributions from a 529 Plan can be used to pay principle and interest of an Education Loan up to a lifetime limit of \$10,000.

Mortgage Insurance

The deduction for Mortgage Insurance is again allowed.

Consolidated Act 2021

This bill was passed into law in late December 2020

Medical Expenses Beginning in 2021 medical expenses in excess of 7.5% of adjusted gross income is made permanent.

Flexible Spending Accounts (FSA)

Unused balance in Flexible Spending Accounts can now be rolled over from 2020 into 2021 and again from 2021 to 2022.

Charitable Contributions

Beginning in 2021 the deduction for charitable contributions without itemizing will be \$300 for single and \$600 for married joint. This contribution needs to be cash and cannot be non-cash items such as

clothes to Goodwill. Remember if you live in Minnesota you can have a deduction if you have more than \$500 of charity and not be required to itemize.

Personal Residence Indebtedness

The maximum amount for discharge of Personal Residence Indebtedness is reduced to \$750,000 (was \$2 Million) through 2025.

Tuition Deduction Beginning in 2021 the Act repeals the Tuition Deduction and in its place increases the income phase out for Lifetime Learning and American Opportunity Credits.

Student Loans The tax free employer payments for student loans is extended through 2025.

American Rescue Plan

This bill was passed into law in March of 2021.

The **third stimulus** checks were sent out in March/April 2021 in the amount of \$1400 (\$2800 MFJ) and \$1400 for each dependent. **Make sure you bring us your Notice 1444.** This notice will state the amount of stimulus that you received.

Child Tax Credit (changes only for 2021)

The credit was increased from \$2000 to \$3000 for children under 18 (\$3600 per child under 6). The credit is now fully refundable. 50% of the projected credit was an advance payment that was paid monthly July to December. The full credit will be

calculated on the tax return and your refund of the credit will subtract the advance payments made July – Dec. **Bring us the IRS Letter 6419** that shows the amount of advance payments you received.

Dependent Daycare Credit (changes only for 2021) This credit is also fully refundable. The eligible expenses will increase from \$3000 to \$8000 for one child and from \$6000 to \$16000 for two or more children. The **maximum credit rate** is increased from 35% to 50% and the AGI limitation increases from \$15,000 to \$125,000. An example: A family with one child spent \$8,000 for daycare and had income of \$125,000 their credit was \$600 in 2020 and their credit in 2021 will be \$4,000.

Earned Income Credit (changes only for 2021) For individuals without children EIC the minimum age to claim EIC is reduced from 25 to 19 (except full time students). The maximum age of 65 has been eliminated.

State vs Federal Laws

Both Minnesota and Iowa now allow the same Section 179 deduction as the Federal, which is \$1 million and the 100% Bonus Depreciation. Both states have gone along with the Federal rules in which the PPP loans are not taxable.

Educators (Teachers) Expenses

Along with books, supplies, equipment and Etc, qualifying expenses now include personal protective equipment, disinfectant and other supplies to prevent the spread of COVID-19.

Student Qualified Emergency Grant The Grant is not income and the grant does not reduce the amount of tuition and related expenses for the purpose of American Opportunity Credit and Lifetime Learning Credit.

Timeless Articles

The “Backdoor” ROTH
The back door ROTH is becoming very popular. This works well for a

high income taxpayer. First money is put into a traditional IRA which is non-deductible because of their income is too high and they have a pension at work. They then immediately roll the money into a ROTH. There is no income on the return.

IRA Contributed to Charity

If you are at least 70 ½ you can make a tax free distribution from your IRA directly to a charitable organization, such as a church. You do not report the income of the IRA nor do you get a charitable deduction on your Schedule A. This strategy will satisfy your RMD requirements. This is helpful for individuals that do not have enough to itemize their deductions on Sch. A. **One of the best tax strategies available.**

College Credits

There are two credits available for college costs.

Lifetime Learning Credit

The maximum Lifetime Learning Credit is \$2,000 per year per taxpayer for **any** post high-school education (including graduate-level courses and courses to acquire or improve job skills) at an eligible education institution. You cannot take both credits for the same student in one tax year, but you can take both credits if there are two or more students.

American Opportunity Credit

The credit is 100% of the first \$2,000 of education expenses plus 25% of the next \$2,000 with a maximum of \$2,500. Education expenses are tuition, fees and books. The student must carry at least a half time load and is for post-secondary education in a degree program.

Donate Stock to Your Charity

You can help out your favorite charity and at the same time give yourself a tax break. To get these benefits, donate stock that has appreciated in value since you purchased it. You get to deduct the fair market value of the stock, but do

not have to pay the tax on the capital gains of that stock.

2021 Tax Brackets & Rates

	Single	--	Married
10% ends at \$	9,950		19,900
12% ends at	40,525		81,050
22% ends at	86,375		172,750
24% ends at	164,925		329,850
32% ends at	209,425		418,850
35% ends at	523,600		628,300
37% for everything else.			

Remember these amounts are your taxable income not your Adjusted Gross Income.

Tax Finder

The Tax Finder that we usually include with your appointment mailing can be found at our web site, www.bisbeetax.com If you do not have a printer, call the office and we will mail you one.

QUICK TIP\$

- The annual gift tax exclusion will be \$16,000 in 2022 which is up from \$15,000 in 2021.
- The amount you can earn before you reach your full retirement age before you have to pay back your Social Security benefits for 2022 is \$19,560.
- The standard business mileage rate for 2021 is 56 cents. The rate for 2022 will be 58 1/2 cents.
- The amount that can be contributed to an IRA is \$6,000 with an additional \$1,000 if age 50 or older. There are no age restrictions.

CAUTION

Most of the deductions and credits listed in this newsletter are subject to limitations and phase-outs for higher income taxpayers. Tax planning is *essential*.

Closing Comments

I hope that this newsletter has been beneficial to you. I would appreciate any feedback. If the topics addressed here in this newsletter brought any questions to mind, please feel free to give me a call.