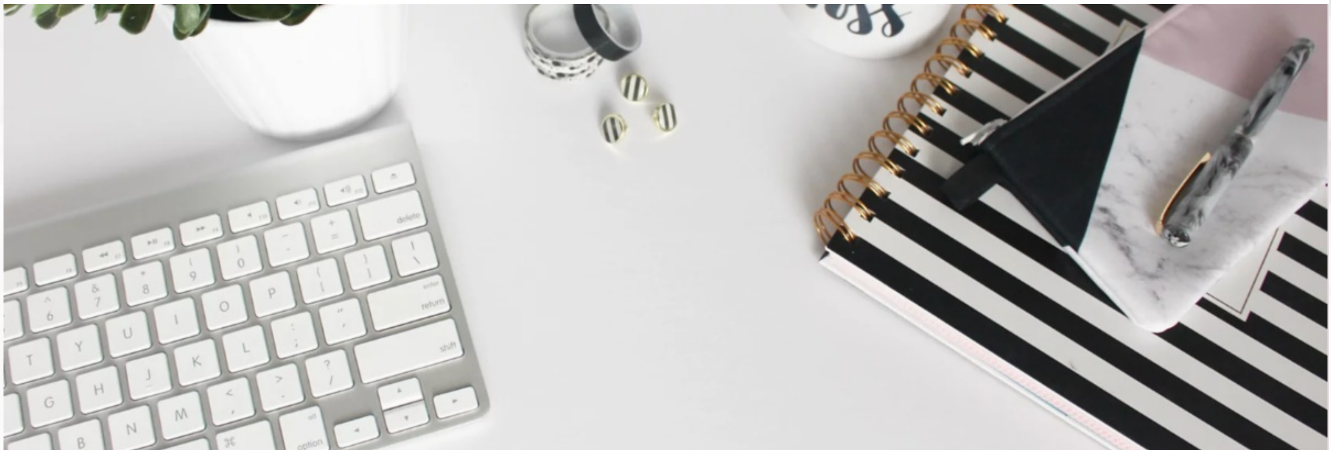
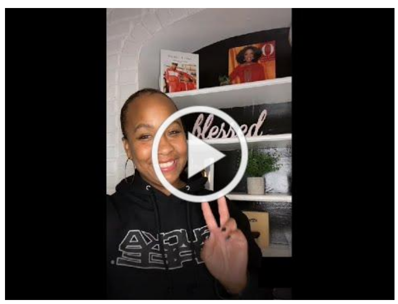
Tax Tip #3

My Services



TAX CREDITS – PART I



Earned Income Tax Credit

The Earned Income Tax Credit is a refundable tax credit that reduces the amount of taxes owed for low- to moderate-income workers and families. You can check eligibility with the EITC Assistant (**https://apps.irs.gov/app/eitc/**). How much would you qualify for?

- **No Child - $1,502**
- **1 Child - $3,618**
- **2 Children - $5,980**
- **3 + Children- $6,728**

There is a threshold on the max you can make

- **No Child - $21,430 (Joint $27,380)**
- **1 Child - $42,158 (Joint $48,108)**
- **2 Children - $47,915 (Joint $53,865)**
- **3 + Children - $51,454 (Joint $57,414)**

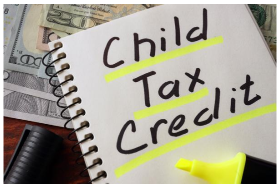
You can't claim the earned income tax credit if you're married filing separately.

Child must be under 19 at the end of the year and younger than you or your spouse if you're filing jointly, OR the child must be under 24 if he or she was a full-time student.

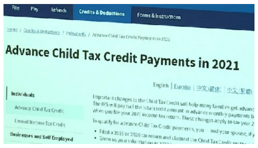
There's no age limit for kids who are permanently and totally disabled.

If you claim the EITC, the IRS cannot issue your refund until mid-February by law.

Child Tax Credit



- The new child tax credit was made fully refundable in 2021 and increased to up to $3,600 per year per child through age 5, and up to $3,000 per year for children ages 6 to 17.
- Parents of newborns born in 2021 can also claim this credit in 2022.
- Eligible families automatically received half the total of the payments in advance monthly installments in July through December 2021, unless they unenrolled.
- When families file their taxes in 2022, they'll get the remainder of the benefit they didn't get through the 2021 advance monthly installments. Even if a parent makes little to no income, they are still eligible for the expanded child tax credit, but payment amounts do phase out with higher incomes.
- Dependents who are 18 years old can qualify for $500 each. (Dependents between the ages of 19 and 24 may qualify as well, but they must be enrolled in college full time.)



ADVANCE Child Tax Credit Payments

Families who received advance payments this year will need to keep an eye out IRS letter 6419, the official documentation that has the details to be reported for a taxpayer's advance Child Tax Credit (CTC) payments. This letter will provide:

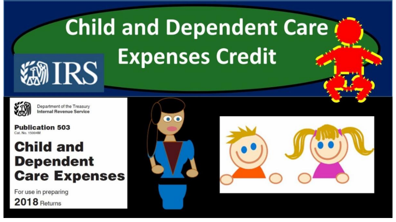
- Total amount of advance CTC payments received for 2021; this information goes on Schedule 8812
- Number of qualifying children counted in determining the advance CTC
- Taxpayers who received less than the amount for which they're eligible will claim a credit for the remaining amount of child tax credit on their 2021 tax return.
- Eligible families who did not get monthly advance payments in 2021 can still get a lump-sum payment by claiming the child tax credit when they file a 2021 federal income tax return next year. This includes families who don't normally need to file a return.

Failure to use the amounts referenced in the IRS Letter 6419 on a customer's return could trigger a manual review thus possibly delaying the refund by 6-8 weeks.

To view your Advance payments visit: **https://www.irs.gov/credits-deductions/child-tax-credit-update-portal**

**** NOTE **** The IRS has announced again there will likely be tax refund payment delays. In particular for those claiming the **Earned Income Tax Credit (EITC) or the Additional Child Tax Credit (ACTC)** refunds may not be processed until mid to late February in order to perform further identity verification checks.

Child and Dependent Care Credit



If you care for a child or another dependent in your household, you may be able to receive up to 50% back as a tax break or refund for your child care-related expenses in 2021. The American Rescue Plan Act of 2021, was enacted on March 11, 2021, making the Child and Dependent Care credit substantially more generous and potentially refundable.

- Up to $4,000 for one qualifying person and $8,000 for two or more qualifying persons
- You could be eligible to receive up to 50% back as a tax break or refund for 2021 childcare-related expenses. The amount you'll be able to claim maxes out at $8,000 for one dependent and $16,000 for two or more.
- It's limited to the earned income of the parent with the lowest income, i.e. both parents have to earn at least $16,000 to get the maximum credit of $8,000.

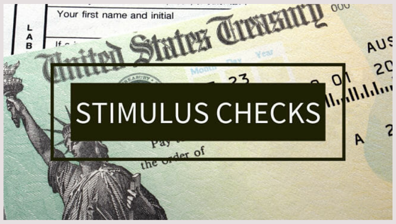
Whose eligible:

- Be under the age of 13, or
- Be unable to care for themselves if 13 or older (for example, if you have a spouse or older dependent who is impaired and incapable of caring for themselves, and has lived with you for more than half the year, or
- Be physically or mentally incapable of self-care -- even if their income was $4,300 or more.

What counts as a qualifying expense for the credit?

- Daycare expenses
- Before and after school care programs
- Day camp
- Transportation
- Babysitters, nannies, housekeepers.

Note of Caution: Parents who pay their babysitter's cash "under the table" can't claim the child care tax credits since the income may not be claimed or documented by the provider.



Economic Impact (Stimulus) Payments and claiming the Recovery Rebate Credit

Individuals who didn't qualify for the third **Economic Impact Payment** or did not receive the full amount may be eligible for the **Recovery Rebate Credit** based on their 2021 tax information. They'll need to file a 2021 tax return, even if they don't usually file, to claim the credit.

Individuals will also need the amount of their third Economic Impact Payment and any Plus-Up Payments received to calculate their correct 2021 Recovery Rebate Credit amount when they file their tax return. Ensuring they use the correct payment amounts will help them avoid a processing delay that may slow their refund. The IRS letter 6475 is the official documentation that contains the total amount of the **third Economic Impact Payment and any Plus-Up Payments** received. Taxpayers should keep this and any other IRS letters about their stimulus payments with other tax records.

Taxpayers who didn't qualify for EIP-3 or did not receive the full amount may be eligible for the Recovery Rebate Credit (RRC) based on their 2021 tax information. They'll need to file a 2021 tax return, even if they don't usually file, to claim the credit.

Individuals can also log in to their **IRS.gov Online Account** to securely access their Economic Impact Payment amounts.

Missing first and second payments can only be claimed on your **2020** tax return.

Premium Tax Credit

The premium tax credit is a refundable tax credit that can help lower your insurance premium costs when you enroll in a health plan through the Health Insurance Marketplace. The amount of credit you receive depends on your estimated income and your household information, which you'll report on any application you file with the Marketplace.

- For the 2021 tax year, you must repay the difference between the amount of premium tax credit you received and the amount you were eligible for.

Adoption Tax Credit

Adoptions finalized in 2021, there is a federal adoption tax credit of up to $14,440 per child. The 2021 adoption tax credit is NOT refundable, which means taxpayers can only use the credit if they have federal income tax liability. However, the adoption tax credit covers adoption fees, court costs, attorney fees, traveling expenses and other expenses that are directly related to adoption.

The credit applies one time for each adopted child and should be claimed when taxpayers file taxes for 2021.

To be eligible for the credit, parents must:

- Have adopted a child other than a stepchild — A child must be either under 18 or be physically or mentally unable to take care of him or herself.
- Be within the income limits — Income affects how much of the credit parents can claim. In 2021, families with a modified adjusted gross income below $216,660 can claim full credit. Those with incomes from $216,660 to $256,660 can claim partial credit, and those with incomes above $256,660 cannot claim the credit.

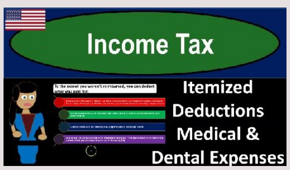
Residential Energy Credit

For the energy-efficient homeowner, you could claim a **residential energy credit**. The credit includes:

- Energy-efficient windows and doors
- Roofs
- Insulation
- Energy-efficient heating and AC systems
- Water heaters
- Biomass stoves
- Qualifying solar electric property and solar water heaters

Saver's credit

If you make contributions to an individual retirement account or employer-sponsored retirement plan, such as a 401(k), you may qualify for the saver's credit. You must be at least 18 years of age, you can't be a full-time student and no one else can claim you as a dependent on their tax return. The amount of the credit depends on your AGI, but can be between 50%, 20% or 10% (the maximum you could receive is $1,000 if filing alone or $2,000 if filing jointly).



Medical and Dental Expenses

Even with insurance, you might have to pay for medical expenses out of pocket. You can **deduct these expenses** for you, your spouse or any of your dependents, as long as the total amount exceeds 7.5% of your AGI. Possible expenses include:

- Fees to doctors, dentists, specialists, mental health professionals, and even nontraditional medical practitioners
- Hospital care, residential nursing home care, and acupuncture treatments
- Treatment for alcohol, drug addiction, smoking-cessation programs, and prescription drugs for nicotine withdrawal and related addiction needs
- Payments for insulin, eyeglasses, contact lenses, hearing aids, crutches, wheelchairs, guide dogs, and other service animals

Unfortunately, funeral expenses, over-the-counter medications, and most cosmetic surgery can't be deducted.

Charitable Contribution Deductions

Charitable contributions are one of the most common ways to get a tax deduction. You can deduct contributions of money or property you donated to qualified

Health Savings Account Contribution

If you have a health savings account, contributions made to your HSA are not subject to federal income tax. You can also claim a tax deduction for making organizations, but you'll need to itemize your deductions.

In most cases, you can deduct up to 100% of your AGI, but there are some cases where you might be limited to 20% or 30%.

contributions to your HSA. Contribution limits vary by your high-deductible health plan, your age and the date you become eligible.

A little Q & A to better determine who can be claimed as a dependent/qualifying child.

Claiming Dependents

There are two types of dependents, each subject to different rules:

- A qualifying child
- A qualifying relative

For both types of dependents, you'll need to answer the following questions to determine if you can claim them.

Are they a citizen or residents? The person must be a U.S. citizen, a U.S. national, U.S. resident, or a resident of Canada or Mexico. Many people wonder if they can claim a foreign-exchange student who temporarily lives with them. The answer is maybe, but only if they meet this requirement.

Are you the only person claiming them as a dependent? You can't claim someone who takes a personal exemption for himself or claims another dependent on his own tax form.

Are they filing a joint return? You cannot claim someone who is married and files a joint tax return. Say you support your married teenaged son: If he files a joint return with his spouse, you can't claim him as a dependent.

Qualifying Child

In addition to the qualifications above, to claim an exemption for your child, you must be able to answer "yes" to all of the following questions.

Are they related to you? The child can be your son, daughter, stepchild, eligible foster child, brother, sister, half brother, half-sister, stepbrother, stepsister, adopted child or an offspring of any of them.

Do they meet the age requirement? Your child must be under age 19 or, if a full-time student, under age 24. There is no age limit if your child is permanently and totally disabled.

Do they live with you? Your child must live with you for more than half the year, but several exceptions apply.

Do you financially support them? Your child may have a job, but that job cannot provide more than half of her support.

Are you the only person claiming them? This requirement commonly applies to children of divorced parents. Here you must use the "tie-breaker rules," which are found in IRS Publication 501. These rules establish income, parentage, and residency requirements for claiming a child.

Qualifying Relative

Many people provide support to their aging parents. But just because you mail your 78-year-old mother a check every once in a while doesn't mean you can claim her as a dependent. Here is a checklist for determining whether your mom (or another relative) qualifies.

Do they live with you? Your relative must live at your residence all year or be on the list of "relatives who do not live with you" in Publication 501. About 30 types of relatives are on this list.

Do they make less than $4,300 in 2021? Your relative cannot have a gross income of more than $4,300 in 2019 and be claimed by you as a dependent.

Do you financially support them? You must provide more than half of your relative's total support each year.

Are you the only person claiming them? This means you can't claim the same person twice, once as a qualifying relative and again as a qualifying child. It also means you can't claim a relative—say a cousin—if someone else, such as his parents, also claim him.

If you have questions, don't hesitate to call or email me.

In the meantime, have a blessed day!!

Xo,

Syreeta~

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