The 2021/2022 tax season is approaching.

It has been a BIG year for tax law changes. Were you affected?

Did you get the 3rd Economic Impact Payment?

The EIP (a.k.a. "stimulus") is not taxable income, but you still need to remember how much you got. That's because if your stimulus was too small you can claim the balance as a 2021 tax credit. However, don't worry about having to pay-back the stimulus. The IRS says you can keep it even if you don't qualify based on 2021 income.

Did you get advance payments of the Child Tax Credit (CTC)?

In short, ARPA enhanced the CTC by:

- Increasing the CTC for low/middle income taxpayers.
- Expanding eligibility to children age 17 (previously the CTC was for ages 0-16).
- Allowing taxpayers to receive 50% of their CTC in advance monthly payments.
- Low income taxpayers can claim the CTC regardless of income level or tax liability (a.k.a. "fully refundable").

The CTC is not taxable income, but you still need to remember how much you got. In January 2022 the IRS will send letters (Letter 6419) to the millions of taxpayers that received advance CTC payments. Save this letter. It reports the total received and you will need that for your 2021 tax return.

Most taxpayers will not have to pay-back the CTC on their 2021 tax return. This is especially true for folks whose 2021 situation (income, filing status, dependents, etc.) is similar to 2020. Those whose situation changed (significantly increased income, fewer dependents, etc.) might have to pay-back some (or all) of the advance payments. Taxpayers with 2021 income (AGI) less than $40,000/$50,000/$60,000 (single/HH/MFJ) are exempted from paying-back the advance regardless of situation changes.

Did you have kids in daycare?

ARPA also made bold enhancements to the Child and Dependent Care Credit (CDCC). In short, ARPA:

- Increased the maximum amount of qualifying daycare expenses from $3000 to $8000 per child under 13 years of age (maximum of 2 qualifying children).
- Increased the percentage of qualifying expenses that count for the credit (if your AGI is under $183,000).
- Decreased the percentage of qualifying expenses that count for the credit (if your AGI is over $400,000).
- Increased the maximum amount that you can contribute to pre-tax dependent care flexible spending accounts from $5000 up to $10,500.
- Allows low income taxpayers to claim the CDCC regardless of income level or tax liability (a.k.a. "fully refundable").

Combined together, the increased expense limit and credit percentage makes a BIG difference for low/middle income taxpayers with kids in daycare. For example, the credit jumps from $1200 to $8000 if you make less than $125,000 with two qualifying kids in daycare at a combined cost of over $16,000 (with no pre-tax daycare flex spending contributions).

Did you buy Affordable Care Act (ACA) health insurance?

The Premium Tax Credit (PTC), a type of health insurance subsidy, was also enhanced for tax year 2021. The amount of the credit was increased and taxpayers that make greater than 400% of the federal poverty level can now claim the PTC. As always, those that purchased ACA insurance will receive form 1095-A (you will need this form for your taxes).

The enhanced PTC is also available for 2022. Open enrollment for 2022 plans begins Nov. 1st, 2021. Visit www.healthcare.gov to get started (you may be redirected to your state's website if they manage their ACA marketplace).

Are you age 72 or older?

Don't forget to take your Required Minimum Distributions (RMDs) from retirement accounts. The IRS let taxpayers skip RMDs for 2020. However, RMDs are back for 2021.

Did you give to charity?

Even if you don't itemize you can deduct up to $300 ($600 for married filing jointly) in charitable contributions. This rule applies to monetary contributions only (not goods).

Did you receive unemployment compensation?

Unemployment compensation is taxable income for 2021. The ability to exclude up to $10,200 of unemployment compensation from taxable income was for tax year 2020 only.

Were you pursuing a graduate degree in 2021?

The **Tuition and Fees** deduction was eliminated. However, the **Lifetime Learning Credit** still exists and more middle-income taxpayers can qualify due to increased income phase-out thresholds. Now you can make up to $90,000/$180,000 (single/MFJ) and claim the credit. Previously, it phased out completely once modified AGI exceeded $69,000/$138,000 (Single/MFJ). The amount of the credit did not change. It remains 20% of out-of-pocket tuition paid (max tuition $10,000).

Did you have student loan debt forgiven in 2021?

Good news! Student loans forgiven in 2021 are no longer taxable income. This provision will expire on 12/31/25. Student loans forgiven after that will go back to being taxable.

Did you have principal residence mortgage debt forgiven?

The amount of forgiven mortgage debt that can be excluded from taxable income went down from $2,000,000 to $750,000. You can still exclude the higher amount if you entered into a written agreement to forgive the debt during 2020.

Are you a business owner?

Business meals from restaurants are 100% deductible for 2021 and 2022. They go back to 50% deductible in 2023.

More taxpayers will get the Earned Income Tax Credit

ARPA reduced the age where 'childless' taxpayers can claim the EITC (from age 25 down to 19). ARPA also eliminated the upper age limit for 'childless' EITC claimants.

ARPA also allows some legally married taxpayers that file separately to claim the EITC. This is allowed only in the case where the married couple lives apart for the last half of the year and the qualifying child lives with the taxpayer claiming the EITC for greater than half the year.

Lastly, ARPA increases the investment income threshold for the EITC to $10,000. Previously, if your investment income was greater than $3650 you could not claim the EITC.