



January 2022

Dear Tax Clients,

Hello! It's hard to believe tax time is upon us again, and we are now in our third year of navigating all the changes COVID-19 has brought. There is much ground to cover regarding this year's tax law changes so let's jump right in.

The IRS will begin accepting e-filed returns on January 24th. However, the IRS will not have all required forms finalized by that date. The IRS will not start issuing any refunds that contain a refundable credit until March, at the earliest. As of right now the filing deadline is April 19th for residents of Massachusetts & Maine, April 18th for all other states. The filing deadline and tax laws could change at any time after the season begins. When our annual letter went out last year the IRS had not yet made clear that the process for processing tax returns with certain credits, specifically regarding the stimulus checks, would be tedious and result in a significantly longer turnaround time than the previous average of 10-14 days. This year we know going into the tax season that there will be extreme delays in the processing of tax returns. Specifically, any tax refunds that include a credit regarding dependents, education, stimulus checks, repayment of qualified COVID-19 distribution, or the Earned Income Credit. The wait could be anywhere from 3-12 months. There is nothing you can do to speed up the process as there are millions of taxpayers in the same unfortunate predicament. Please do not spend your refund money before you receive it as the new normal is a very long wait for the refund to reach your bank account.

The last three tax seasons have progressively gotten more complex, convoluted, and compounded into what will be another intense and slow-moving tax season. The IRS is entering this tax season with six million tax returns left to process, when they typically have one million unresolved tax returns. They simply did not have the resources in place to handle Congress passing four sets of legislation in the last 16 months, three rounds of Economic Impact Payments, mid-season tax law changes, and many, many other changes. The IRS workforce is now the same size as it was in 1970, even though the U.S. population has grown by 60 percent since that time. The agency also had fewer than 15,000 people tasked with handling more than 240 million calls, which translates into roughly 16,000 calls per employee. Both the IRS and treasury have warned of a "frustrating season" with enormous challenges we are not yet aware of.

Like most professions over the last three years, the tax preparation industry nationwide has felt the enormous weight of on-the-fly changes and COVID related complications. Even for taxpayers with no major changes there is additional reporting, due diligence, expanded forms, and much more time needed overall per return. We typically process tax returns on a first in, first out basis but there are many reasons your tax return could take additional time. There will be an additional communication fee for portal usage, reconciling the advance payments, or as deemed necessary as we adjust to the additional demands.

Child Tax Credit (CTC)- The qualifying age has increased a year to include dependents under 18 yrs on Dec 31st. The maximum credit amount has also increased from a flat \$2,000 to \$3,600 for children under 6yrs old and \$3,000 for all other qualified dependents. **Although these changes are beneficial you may not see it reflected on the bottom line of your tax return if you received half of the credit throughout the year, or if you need to repay the amount received in advance.**

Advanced Child Tax Credit- If you received any amount of the CTC in advance, even for just one month, it is vital that we receive accurate information to properly complete your tax return. The IRS is sending out a Letter 6419 for tax reporting. This letter contains **important** information and will be required to prepare your tax. The IRS may send out two letters splitting the amount received between spouses, in which case we will need both letters. We also need to know if you opted out of the advanced payments so you can receive the maximum amount you qualify for. If the IRS decides to verify this credit in the same manner they did stimulus amounts, the entire refund will take **much** longer to receive than average.

Child Tax Credit Repayment- Unlike the reconciling of stimulus checks through the Recovery Rebate Credit, the advance CTC will be required to be repaid if the taxpayer does not qualify for the credit on their 2021 tax return. Repayment could be in full or partial depending on if the taxpayer qualifies for the repayment protection guidelines set by the IRS and calculated on Form 8812. The advance checks were sent out based on 2020 tax returns but are technically an advancement of the 2021 CTC. A few reasons for repayment include: if a dependent turned 18 during 2021, if taxpayer's income exceeded the threshold, if you did not live in the US for over half the year, or if your dependent is no longer on your tax return. **Parents who alternate dependency will need to pay back a portion or entirety of the amount received if it is not their year and they do not qualify for repayment protection.**

Dependent Care Credit- For 2021 the Dependent Care Credit is fully refundable and the dollar limit for eligible expenses has increased from \$3,000 to \$8,000 for one eligible child and \$16,000 for two or more children. The income qualifications have also been raised to allow for more taxpayers to qualify. Similar changes have been made on the MA Dependent Credit. The Federal & MA changes are currently for tax year 2021 only.

Dependent Care FSA- The maximum pre-tax contribution allowed has increased from \$5,000 to \$10,500.

Earned Income Credit (EIC)- The CARES Act expanded the 2021 EIC for taxpayers without dependents. There is no longer a maximum age, previously 65 yrs. old. The minimum age is now 19 yrs. old for those not a specified student as defined by the IRS. The EIC look-back rule introduced last year is still in affect and will still use earned income from 2019 to calculate, not 2020.

2021 Stimulus & Recovery Rebate Credit- The IRS will begin issuing Letter 6475, Your Third Economic Impact Payment, to individuals who received the third payment in 2021. This letter will help determine if the taxpayer is eligible to claim the Recovery Rebate Credit for missing stimulus payments and is vital. **If no information is provided regarding the stimulus check we will assume you received the \$1,400 in full.**

100% Meal Deduction for Self-Employed- The IRS has temporarily suspended the 50% limit on the amount that businesses may deduct for food or meals. The exclusion allows for a 100% deduction for food or beverages purchased from restaurants. This exclusion does not apply to food or meals purchased at a location that predominately sells prepackaged food such as delis, markets, or gas stations.

Charitable Donation Deduction- For the second year the IRS is allowing a deduction for charitable contributions even if you do not itemize. The maximum amount has expanded to \$300 for an individual and \$600 for married taxpayers.

Unemployment Compensation- Unemployment is once again taxable as ordinary income for tax year 2021. The \$10,200 Unemployment Exclusion that was passed mid-season last year was only for tax year 2020. As we saw last year, there is now a possibility of tax laws changing after the season has started but as of now there are no plans for another exclusion.

Emergency Grants to Students- Payments made directly to college students from their institution of higher education are non-taxable to the student and do not reduce the base for educational credits.

Marketplace Health Insurance & Premium Tax Credit- Last year the repayment requirement regarding health insurance acquired through the federal marketplace was suspended mid-season. There are no plans for it to be waived for tax year 2021. However, changes were made to reduce the payback liability and additional provisions for taxpayers who received unemployment compensation in 2021.

I very much look forward to seeing each and every one of you over the coming months and hope we all have a healthy and fulfilling 2022.

Bernice S. Begley