Tax Guide 2021

Make the Most of Deductions

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While tax deductions are like exemptions, the factors that qualify under each category differ. The purpose of both is to lower your taxable income to lessen how much you owe at tax time or increase the return.

If you're filing your forms at home, you may be missing out on significant reductions.

Hiring a CPA will cost more than a DIY online program, but it may surprise you how their impact can improve your bottom line. An expert will analyze your yearly income and spending habits to find qualifying deductions that you probably missed. Entrusting your federal and state documents to a qualified professional, also ensures that you're protected from mistakes that may cause delays or raise red flags by the Internal Revenue Service.

Check out how an expert can efficiently lessen your taxable income by maximizing deductions that are often forgotten.

HEALTH CARE PREMIUMS

As medical insurance costs increase, the IRS assists taxpayers by allowing for deductions for a portion of the expenses. For instance, in 2020, Americans may deduct the total qualified unreimbursed medical care fees that exceed 10% of their adjusted gross income. This is an increase from last year when the threshold was only 7.5% of an AGI. Self-employed workers who are solely responsible for their health care costs may be eligible for a 100% deduction of the premium cost.

CHILD CARE

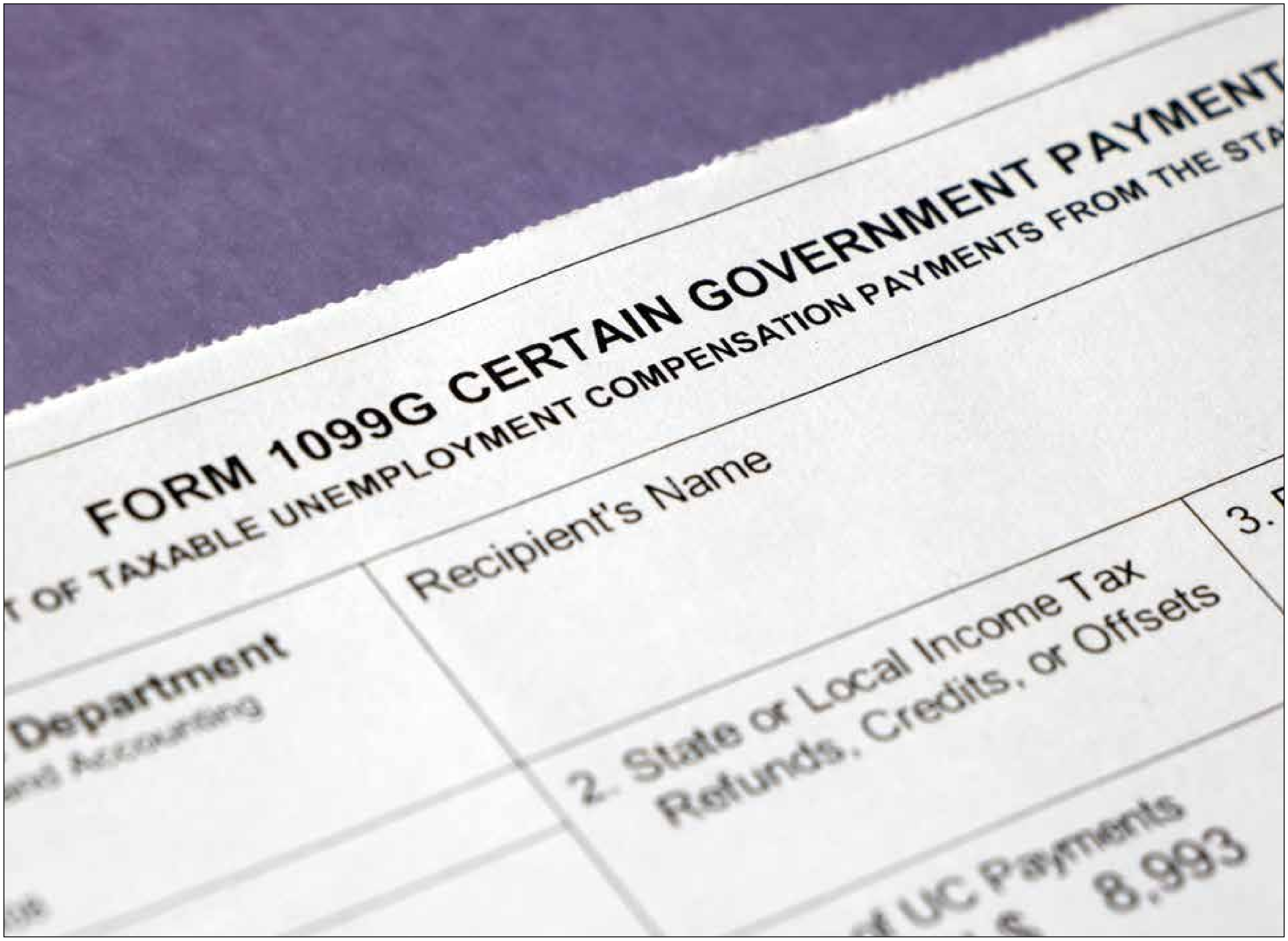
If you have children, the year 2020 likely through a wrench in your budget regarding child care. As schools closed around the country for the COVID-19 pandemic, parents were rushed to rethink their plans to remain at work. Fortunately, the fees you paid for a babysitter are partially deductible on your taxes. A CPA will understand your state's child care tax laws' intricacies, but many require a tax ID number, name, and address of the home or facility. Sometimes, the allowable deduction can place you in a more beneficial bracket, rather than itemizing.

LIFETIME LEARNING

The United States tax code includes a lifetime learning credit for qualified tuition and related expenses paid for students enrolled in an eligible educational institution. Taxpayers can claim it to help pay for undergraduate, graduate and professional degree courses. There is no limit on the number of years the $2,000 credit can be used.

Unemployment Tax

The 2020 pandemic left millions of Americans unable to work as businesses around the country paused their operations or permanently closed.



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Fortunately, the government assisted those without a job with the CARES Act's Federal Pandemic Unemployment Compensation program. However, if you accepted the benefits and live in a state that collects income tax, the additional funds may lead to an increased liability when taxes are due.

Check out these statistics from the United States Bureau of Labor Statistics to discover how Americans were affected by the coronavirus pandemic-related closures.

- In June, 40 million people reported that they had been unable to work at some point during the month.
- People who typically worked part-time were twice as likely as full-time employees to be without work.
- Only 15% of those who couldn't work received some payment from their employer.
- June showed 16% of employed people could not work for at least four weeks because their employer closed or lost business.

Since state laws vary by location, your financial responsibility may be difficult to track if you received unemployment benefits. Follow the advice offered by the National Foundation for Credit Counseling to avoid problems during the tax season.

WHY IS UNEMPLOYMENT TAXED?

Because the money you received while unemployed is considered income, it is usually subject to the same tax requirements as regular wages. However, the revenue differs from a salary by avoiding payroll taxes, which typically pay towards Social Security and Medicare. Your state's laws will determine whether you are required to pay taxes on your unemployment benefits. For instance, local governments that do not charge residents an income tax can avoid the fees.

HOW TO PAY

The easiest way to avoid a surprise expenditure at tax time is to have your state's unemployment office withhold your check's expense. This should have been discussed when you first applied for the benefits. Another option is to pay in estimated quarterly payments. It's an excellent strategy to avoid penalties for failing to pay enough during the year. You may also wait until the fees are due and cover them in full. The NFCC suggests this option if you only expect to receive the benefits for a short period.

Avoid a Tax Audit

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Becoming the focus of an IRS tax audit can lead to expensive penalties and sometimes legal problems. The easiest way to ensure you're safe from an investigation is to file your taxes correctly. Numerous things on your return can raise red flags within the bureau's system.

If you are faced with an audit, it's crucial to avoid scams by understanding how you will be contacted. The Internal Revenue Service says they will never initiate the process through text message or email. However, an agent may reach out through the following avenues:

• Phone call. You may receive a phone call after a letter has been sent. The conversation will usually notify you of the incoming document and set an appointment for an in-person meeting.

• Unannounced visits. In some cases, an agent will arrive at your property to discuss tax delinquency without notice.

When you are approached by someone claiming to be with the IRS, you must ask for credentials. The Official Guide to Government Information and Services states that imposter scams are commonly conducted to cheat people out of false tax payments.

Protect yourself and limit your risks of an audit by understanding how red flags are raised.

UNREPORTED INCOME

Taxpayers who work a single job can easily avoid unreported income because an employer provides their W-2. However, those employed as contractors or hold multiple positions may be required to turn in numerous documents.

As an independent worker, you should receive a 1099 form that shows the earned income through the position. An employer will turn in the same information to the IRS, so the totals must match to avoid receiving a bill for the difference. Keep track of your salary in case the company doesn't send a 1099 document.

FALSE BUSINESS EXPENSES

Claiming business deductions is best left to a professional tax expert. For instance, if you claim expenses like unreimbursed employee travel costs and a business travel deduction, the IRS will likely flag your return and contact you. If the compensations you assert as part of your company are considered a hobby rather than an actual expense, they may ask some questions.

DEPENDENCY ISSUES

Another way to wind up under scrutiny for your tax return is to claim a dependent who is being claimed on someone else's return. It's also an issue if you have an adult child on your return who files as an independent on their own taxes.

Penalties and Interest

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The Internal Revenue Service holds taxpayers responsible for ensuring their taxes are filed correctly.

When an issue is noticed, expect to be contacted by an agent to resolve the delinquency. Failure to file or missing deadlines will result in increased payments after penalties and interest are applied.

Here are a few reasons you may be imposed with higher fees, according to the IRS.

• Failure to file: when you don't file your return by the due date, April 15, or extended due date if an extension to file is requested and approved.

• Failure to pay: when you do not pay the taxes reported on your return in full by the due date, April 15. An extension to file does not extend the time to pay.

• Failure to pay proper estimated tax: when you don't pay enough taxes due for the year with your quarterly estimated tax payments, or through withholding, when required.

• Dishonored check: when your bank doesn't honor your check or other form of payment.

THE COSTS OF PENALTIES

The IRS sticks to a set of guidelines when charging individuals interest and penalties for late or improper tax returns. Take a quick look at the Internal Revenue Code §6651(a)(1) to discover how they calculate fees for failure to file returns.

• Five percent of the unpaid tax is required to be reported.

• Charged each month or part of a month that the return is late, up to five months.

• Applies for a full month, even if the return is filed less than 30 days late.

If you are responsible for paying penalties on unreported income, the IRS demands that the costs are paid in full within 21 days of the notice. Or, if the balance equals or exceeds $100,000, the due date is only 10 days. Missing the deadline for payment will result in an interest charge of 0.5% of the unpaid balance.

DISAGREEING WITH PENALTIES

If you feel that the penalties or interest costs have been reached in error, you can discuss the terms by calling the toll-free phone number listed on a notice.

You may even qualify for relief from some penalties if you tried to comply with the law but could not meet the tax obligations.

Invest your Tax Return

When you're expecting a significant chunk of change from Uncle Sam, it's wise to invest your newfound fortune in future investments.

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If you don't need the funds for immediate emergencies, there are numerous ventures you can take to make it grow your portfolio or pad a retirement account.

If you're new to investing, working with a financial planner can give you exceptional advantages. They can guide you on optimistic stocks or show you the benefits of purchasing real estate and flipping it for a profit. Or an expert can recommend you save your money until an investment presents a lucrative opportunity.

When looking for wise ways to spend your return, consider a few ideas to strengthen your financial position.

PAY DOWN DEBTS

Carrying around high-interest debts on things like credit cards or personal loans can be stressful and make it challenging to save money. If your return doesn't cover the total amount owed, consider rolling the remaining balance over to one account. This will limit your financial responsibility to a single bill per month while eliminating a compound of interest from multiple debts.

When you purchase your monetary freedom with a tax return, you can focus your future capital on investment prospects.

SEED YOUR FUTURE

While this year's tax return may not be significant enough to pad your entire future, committing to investing each season can substantially account for growth. Consider using the annual funds to contribute to purchasing high-earning stocks or an aggressive interest-paying savings account.

Try to only use the growing nest egg as funding for other money-growing investments. You should keep this fund separate from your regular savings fund that covers emergencies and necessities.

MAKE HOME RENOVATIONS

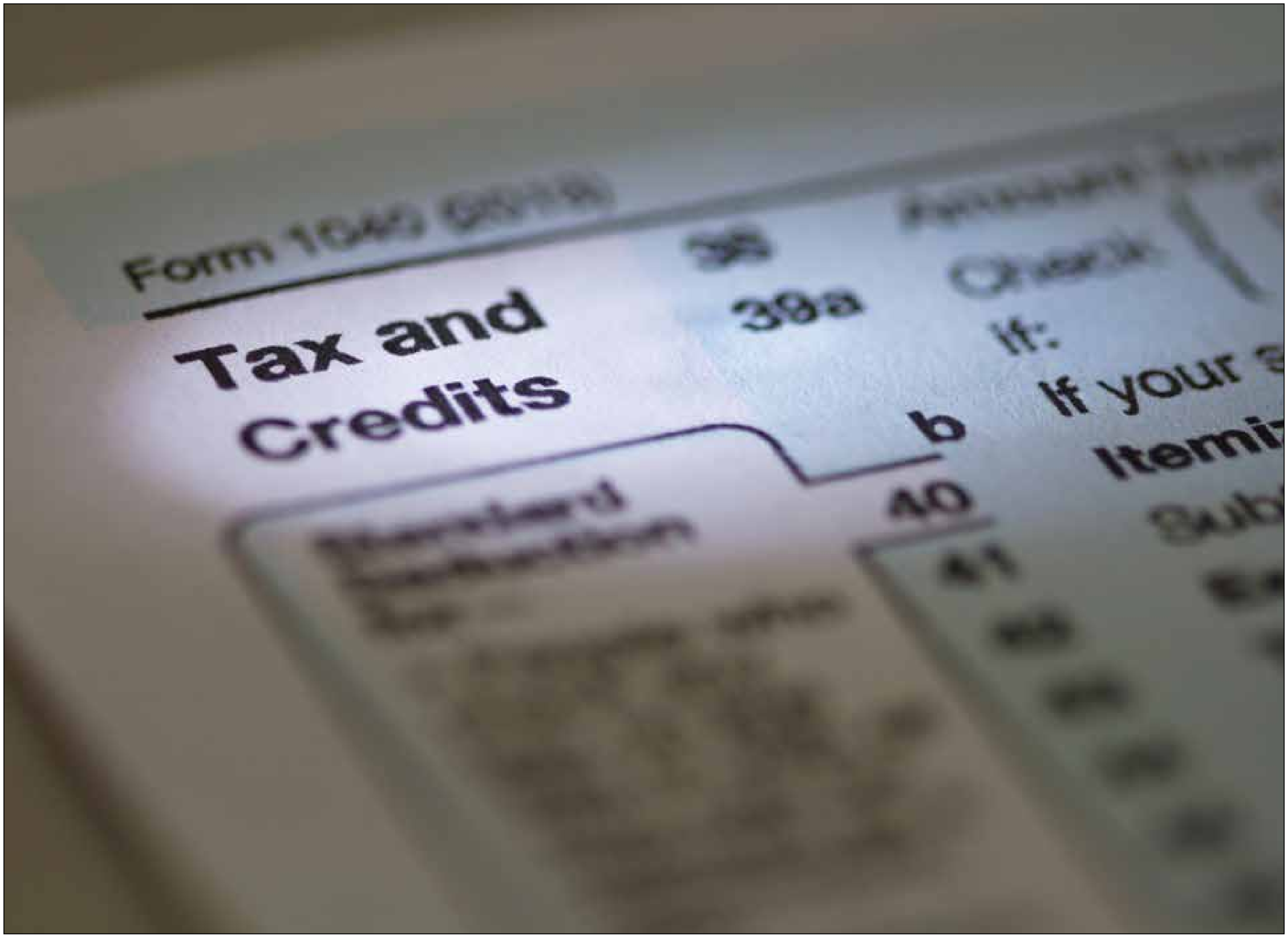
If you're planning to sell your home, think about making valuable upgrades or renovations to boost your asking price. Here are some projects that add value, as suggested by Home Advisor.

- Increase light and space.
- Landscape and curb appeal.
- Consider adding a deck.
- Finish a basement.
- Update the kitchen and bathroom.

During a real estate transaction, it's good practice to work with an expert Realtor who can recommend the popular updates in your local region.

Tax Changes

As the year nears to a close, it's time to start thinking about filing taxes again. While tax laws regularly make minor alterations each season, your 2020 return includes significant changes.



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Find out how the coronavirus pandemic is impacting the requirements established by the Internal Revenue Service.

WAIVED RMDS

The IRS defines a required minimum distribution as the minimum amount you must withdraw from your retirement plan each year. Generally, taxpayers begin pulling funds from an IRA, SEP IRA or simple IRA at the age of 72. This year, the Coronavirus Aid, Relief and Economic Security Act of 2020 waives these minimum distributions.

Since an RMD typically counts as taxable income, this one-time exoneration means that many retirees will have a lower responsibility, leading to less federal income taxes.

HIGHER STANDARD DEDUCTIONS

A standard deduction reduces the amount of your income that qualifies for federal taxes. Each year, these deductions usually increase to catch up with inflation. For 2020, the IRS reports these amounts for tax-filing statuses.

- Married filing jointly: $24,800, an increase of $400 from 2019.
- Married filing separately: $12,400, an increase of $200.
- Head of household: $18,650, an increase of $300
- Single: $12,400, an increase of $200.

Make sure you file with the correct status to avoid delays on your return.

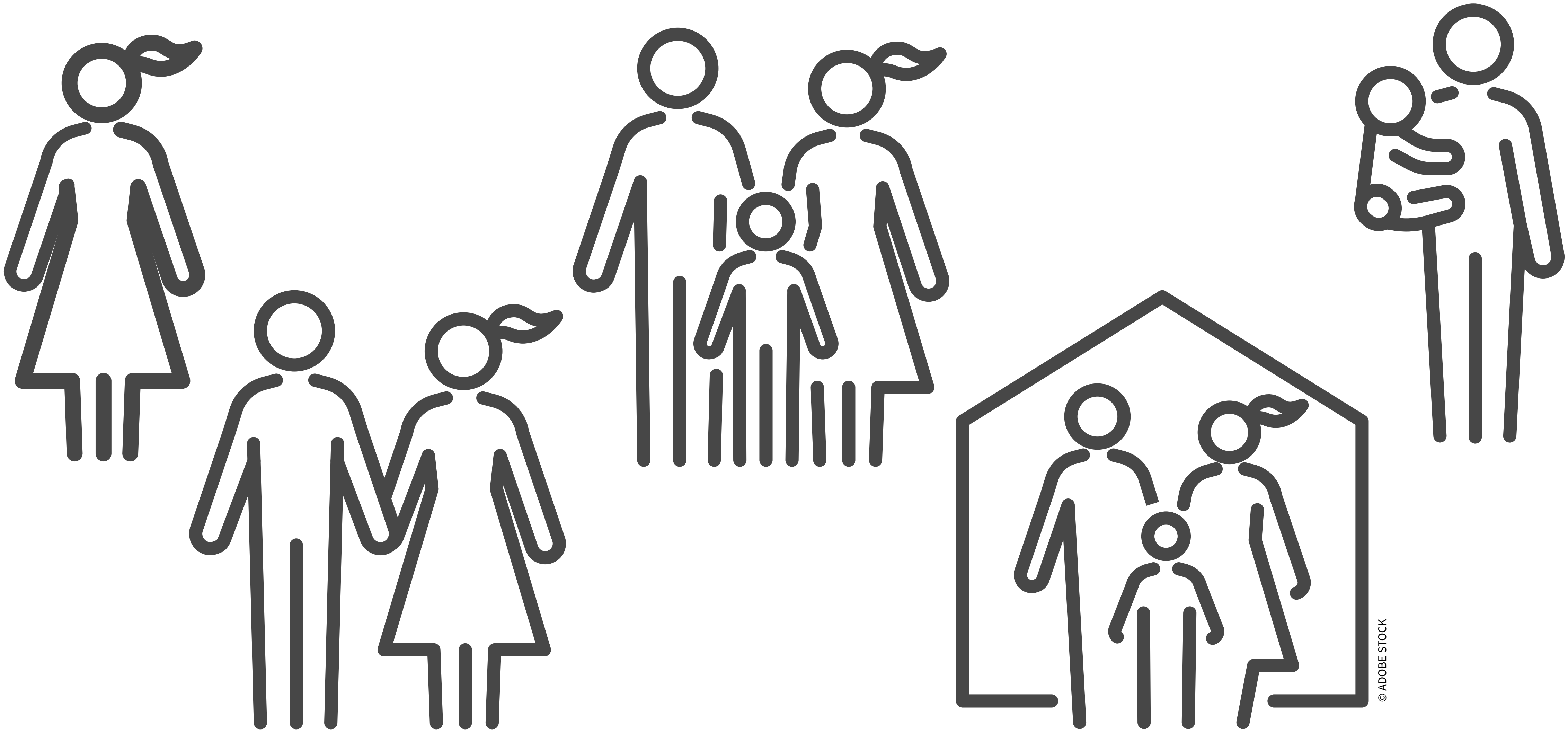
CHARITY DEDUCTION GUIDELINES

Tax-deductible donations to charity are commonly used to itemize deductions rather than taking the standard course. This year, as a way to ask Americans to donate to causes affected by the coronavirus, the CAREs Act enables taxpayers to deduct up to $300 in monetary contributions during 2020, even when taking the standard deduction.

MORE VALUABLE CREDITS

For 2020 filings, the tax credit for qualified adoption expenses increases to $14,300. That's up from $14,080 from the previous year. You will also be granted upturns for both the income limits and the Earned Income Tax Credit's maximum credit amount. Here are the eligibility qualifications if your adjusted gross income is not more than:

- Married filing jointly: $56,844, up from $55,952.
- Other filing statuses: $50,594, up from $50,162.



Know your Filing Status

The Internal Revenue Service allows taxpayers to file under five different statuses. Choosing the right one determines the amount due, your standard deduction total and your eligibility for credits.

Since the correct status can change throughout the year, it's essential to understand the varying ways to file.

Generally, the status you need to select depends on if you were single or married on Dec. 31. When your relationship standing changes before New Year's Eve, that determines how you file for the entire year. These guidelines from the IRS will help you find out more about the different options for filing and how life changes can alter your status.

SINGLE

If you are unmarried or legally separated from your spouse under a divorce or separate maintenance decree on the last day of the year, you qualify as single.

MARRIED

There are two statuses to choose between for couples who are legally wed by the end of the year. First, married filing jointly creates a joint return where you report your combined income and deduct the collective allowable expenses.

When married filing separately, you are only responsible for your individual income, which is beneficial when the method results in less tax than a joint return.

HEAD OF HOUSEHOLD

To qualify for this status, there are several requirements you must meet:

1. You are unmarried or considered unmarried on the last day of the year.
2. You paid more than half the cost of keeping up a home for the year.
3. A qualifying person lived with you in the home for more than half the year, except for temporary absences (a dependent parent is not required to live with you.)

Filing as head of household has certain advantages over choosing the single status. If you qualify, you should expect lower tax rates and a higher standard deduction.

QUALIFYING WIDOW(ER) WITH DEPENDENT CHILD

If your spouse dies, you can use married filing jointly as your status, but only during the death year. However, some may be eligible to use a qualifying widow(er) with a dependent child as your filing status for two years following your significant other's death.