

# Important Tax Law Changes That May Affect Your 2021 Tax Return

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*Last updated January 10, 2022*

In 2021, as in most years, tax laws were revised and tweaked, possibly impacting your return. Last year, many taxpayers benefited from two changes made to cushion the economic impact of the pandemic: Advance payments of the Child Tax Credit and a third economic stimulus payment authorized by the Biden Administration's American Rescue Plan Act.

“These payments from the federal government may significantly change your tax liability when you file your 2021 return,” said **Matthew Frankel**, a certified financial planner based in South Carolina. “You may get a larger or smaller refund than you were expecting, and many people might even owe money they weren't planning to pay. This is especially true if your income in 2021 was significantly higher or lower than it was in 2020.”

Taxpayers who don't itemize (90 percent of all filers) also have a one-time opportunity to get a tax break for some charitable deductions.

## **Advance Child Tax Credit Payments**

The Child Tax Credit is normally claimed on your tax return, but for 2021 the American Rescue Act expanded the Child Tax Credit for many households (up to \$3,600 per qualifying child) and the government sent out half of the eligible amount via advance monthly payments. Those payments stopped in December, and unless Congress acts, the maximum amount of the credit drops to a maximum of \$2,000 per child for tax year 2022. Families will need to claim that credit on the tax returns they file in 2023.

If you received advance Child Tax Credit payments during 2021, here's what the IRS advises:

Compare the advance **Child Tax Credit payments** you received last year with the amount of the Child Tax Credit that you can properly claim on your 2021 tax return.

The advance Child Tax Credit payments were based on your 2020 return. If you didn't file a 2020 return, the IRS used your 2019 return. Things may have changed since you filed which resulted in an overpayment. The IRS gives these examples:

- A qualifying child who lived with you changed homes during 2021 and resided more than half of the 2021 tax year with a different individual.
- Your income increased in 2021.
- Your filing status changed for 2021.
- Your main home was outside of the United States for more than half of 2021.

If you received less than the amount you were eligible for, claim a credit for the remaining amount on your 2021 tax return. If you received more than you were eligible for, you may need to repay some or all of the excess when you file.

Later this month, the IRS will send you Letter 6419, which shows the total amount of the advance Child Tax Credits payments you received.

**More Info: Reconciling Your Advance Child Tax Credit Payments on Your 2021 Tax Return**

## **Third Stimulus Payments**

The **third economic stimulus payments** (officially known as "Economic Impact Payments") authorized by the American Rescue Plan Act, were really an advance payment of the Recovery Rebate Credit authorized for the 2021 tax year.

The IRS started sending the third Economic Impact Payments to eligible individuals in March 2021 and continued sending them throughout the year as tax returns were processed. By law, these payments were required to be issued by Dec. 31, 2021.

If you did not qualify for the third Economic Impact Payment, or did not receive the full amount, you may be eligible for the **Recovery Rebate Credit** based on your 2021 tax situation. To do that, you must file a 2021 tax return, even if you don't usually file.

Note: If you did not receive the first or second stimulus payments and did not file a 2020 tax return, you can still file that return and claim a Recovery Rebate Credit.

“In late January, the IRS will be sending taxpayers Letter 6475, which you can then use to determine if you qualify for the Recovery Rebate Credit,” said Sabrina Parys, who writes about taxes for **NerdWallet**. “If you do, tax software can help you to claim the credit or reconcile the amount you're owed.”

If you received the full amount for your third Economic Impact Payment, you won't need to include any information about it when you file your 2021 tax return.

## **Charitable Deductions**

Here's something new for those who don't itemize. Normally, you can't deduct your charitable contributions if you take the standard deduction—something most taxpayers do. But thanks to the Taxpayer Certainty and Disaster Tax Relief Act of 2020, individuals, including married individuals filing separate returns, can claim deductions of up to \$300 for cash contributions made to qualifying charities during the past year on their 2021 returns. The maximum deduction is increased to \$600 for married individuals filing joint returns.

Congress also passed three more tax relief provisions for charitable contributions that extended through 2021 for individuals and corporations. **Visit the IRS website for more information.**

## **Unemployment Benefits**

If you received unemployment benefits you'll pay income taxes on them; the American Rescue Plan provided some tax relief for those who received unemployment benefits in 2020, but Congress did not extend that relief to 2021. Depending on where you live, you may also owe state income taxes on those benefits.

### **More Info: How to Handle Taxes if You Received Unemployment in 2021**

## **Deadlines**

On January 24, the IRS will start accepting and processing 2021 tax year returns.

The deadline for filing is April 18, 2022. It's later than usual because of the Emancipation Day holiday in Washington, D.C. Taxpayers in Maine and Massachusetts have until April 19, 2022, because of the Patriots' Day holiday in those states.

The quickest way to get your tax refund is to file electronically and choose direct deposit. Even so, be prepared for a longer wait than usual. In a phone call with reporters, Treasury Department officials said the IRS faces "enormous challenges" this filing season due to the pandemic, budget cuts, and changes to tax laws, and warned that refunds could be delayed.

**More Info: IRS news release on the 2022 tax filing season and what to expect prior to the April 18 deadline**

## **View Your Account Online**

You can use the **Online Account portal on the IRS website** to securely access the latest information about your federal tax account, including the Economic Impact Payments you received, advance Child Tax Credit payments, and key data from your most recent tax return.

## **File For Free**

Taxpayers who made \$73,000 or less in 2021 can prepare and file their federal tax return for free online by using the **IRS Free File program**, also available with the **IRS2Go app**. Eligible taxpayers will use brand-name tax preparation software that helps you find deductions, credits, and exemptions.

Free File will be available starting Jan. 14. Participating tax preparers have not yet been announced. Two familiar names will not be taking part: Intuit, the maker of TurboTax has pulled out of the program; and H&R Block stopped participating in 2020.

**As USA TODAY noted in a recent story**, TurboTax and H&R Block “faced much criticism back in 2019 after a ProPublica investigation detailed how the companies limited the program’s reach by making free options more difficult to find online and instead figuring out a way to steer eligible taxpayers into products that weren’t free.”

Members of the armed forces (and some veterans) can use MilTax, a free resource offered through the Department of Defense. There are no income limits. MilTax is designed to address the realities of military life, such as deployments and training pay. It includes tax preparation and electronic filing software and personalized support from tax consultants.

## **Need Help?**

At **IRS.gov** you’ll find a variety of online tools. Its **Interactive Tax Assistant (ITA)** provides answers to common questions. The IRS says ITA can help you determine if a type of income is taxable, if you’re eligible to claim certain credits, or if you can deduct expenses on your tax return. It also provides answers for general questions, such as determining your filing status, if you can claim dependents, or if you’re required to file a tax return.

## **Changes Ahead for the 2022 Tax Year**

**The IRS already announced more than 60 changes to the tax code for tax year 2022**; most to account for the effects of inflation. These include raising the standard deduction, and adjusting the income tax brackets.

“Tax bracket and standard deduction changes are intended to keep up with inflation and wage growth, so the average person’s tax liability as a percentage of their income shouldn’t change much,” Frankel told Checkbook. “However, if your income stays roughly the same in 2022, you could see your tax bill go down because of these changes.”

Some of the key changes that will affect most taxpayers for tax year 2022:

- **Standard deduction:** \$25,900 for married couples filing jointly; \$12,950 for single taxpayers and married individuals filing separately; and \$19,400 for heads of households.
- **Marginal tax rates:**
  - 37% for individual single taxpayers with incomes greater than \$539,900 (\$647,850 for married couples filing jointly);
  - 35% for incomes over \$215,950 (\$431,900 for married couples filing jointly);
  - 32% for incomes over \$170,050 (\$340,100 for married couples filing jointly);
  - 24% for incomes over \$89,075 (\$178,150 for married couples filing jointly);
  - 22% for incomes over \$41,775 (\$83,550 for married couples filing jointly);
  - 12% for incomes over \$10,275 (\$20,550 for married couples filing jointly).
  - 10% for incomes of \$10,275 or less (\$20,550 for married couples filing jointly).
- **Earned Income Tax Credit:** Maximum amount is \$6,935 for qualifying taxpayers who have three or more qualifying children, up from \$6,728 for tax year 2021.
- **Estate tax:** The basic exclusion for deaths occurring during 2022 is \$12,060,000, up from \$11,700,000 in 2021.

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