

TaxBrief

Keeping you informed January 2022



As 2021 has ended, the 2021 income tax preparation season begins. In this issue of the Brooks Tax Service (BTS) newsletter, we are highlighting a few key income tax changes and sharing information that may affect you as you gather your documents and prepare to have your 2021 tax returns prepared.

Tax News

Please be informed that the Internal Revenue Service (IRS) is severely understaffed and behind schedule. They are still processing last year's returns.

Although the IRS website states that refunds with no issues will be processed within 21 days, delays are highly likely.

Note that IRS tax return processing and IRS refund processing are two distinct operations. Once your return has been processed and a refund is approved, it is processed for sending via direct deposit or mailing. Once it is sent via direct deposit, it can still take days to be processed by your bank.



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Taxpayers can check their refund status 24 hours after filing electronically or 4 weeks after paper filing using the [Where's My Refund?](#) tool. The tool is updated once a day at night. For more information, see [IRS Refunds FAQ](#).

Beware of Scams

The IRS has released a list to inform taxpayers, tax professionals and financial institutions of 12 reprehensible scams and schemes.

The IRS has separated the scams into four categories

- **Pandemic-related scams** like Economic Impact Payment theft
- **Personal information cons** including phishing, ransomware and phone "vishing"
- **Ruses focusing on unsuspecting victims** like fake charities and senior/immigrant fraud
- **Unscrupulous tax preparation or advocacy services** that claim to be able to reduce tax amounts owed for a cost, such as [OIC Mills](#).

If you, or anyone you know, has been the victim of a scam, they should report it to the IRS and the Federal Trade Commission. Use these links to get detailed descriptions of [known scams](#) and [how to report them](#).

The IRS is constantly working to secure your information and reduce the effects of scammers. This year the IRS has implemented a new identity verification process through [ID.me](#). The IRS is making many self-help tools for taxpayers available online. The new identification process will verify your identity when you logon to keep your information safe. For more information on this process go to: [New IRS identity verification process](#).

Child and Dependent Care Credit

For 2021 only, the child and dependent care credit increased significantly and is fully refundable even if you have no tax liability, so don't forget to keep track of your work-related child and dependent care expenses.

The dollar limit for eligible expenses is \$8,000 for one qualifying person and \$16,000 for two or more. If your adjusted gross income is \$125,000 or less, you can claim the maximum 50% credit rate. If your adjusted gross income is more than \$125,000, the 50% rate decreases as your income rises. The credit becomes unavailable when your adjusted gross income exceeds \$438,000.

In addition, you may be eligible to exclude up to \$10,500, or \$5,250 if Married Filing Separate (MFS), of employer-provided dependent care benefits from gross income for 2021.

Child Tax Credit

For the 2021 tax year the Child Tax Credit (CTC) increased from \$2,000 to \$3,000 for each child 6 to 17 years of age, or \$3,600 for each child 5 and under. Unfortunately, the extra amount (\$1,000 or \$1,600, respectively) is reduced when income exceeds:

- \$150,000 for married taxpayers filing a joint return (MFJ) and qualifying widow(er)s (QW),
- \$112,500 for heads of household (HOH) and
- \$75,000 for single or MFS taxpayers.

The normal \$2,000 credit amount phases out as usual at adjusted gross incomes of \$400,000 for MFJ and \$200,000 for all others. Thus, higher income taxpayers may lose some of the credit, but not all of it. The credit is fully refundable if you have no tax liability.

You probably noticed that advance CTC payments were made monthly from July through December 2021. These payments were estimates of your 2021 CTC, generally based on your 2020 tax return.

If you received advance payments in excess

of the CTC allowed on your 2021 return due to a change in circumstances, you may have to repay some, or all, of the excess amount. For example, you may have a 2021 repayment in a shared custody arrangement if you claim your child only in even-numbered years.



There is some repayment protection depending on your income level. However, if your income equals or exceeds \$120,000 for MFJ or QW, \$100,000 for HOH or \$80,000 for single or MFS, plan on repaying the entire excess amount as additional income tax on your 2021 return.

In January 2022, the IRS will send Letter 6419, which provides the total amount of advance CTC payments that were disbursed to you during 2021. Please give us a copy of this letter with the documents we use to prepare your 2021 tax return. Learn more at [CTC](#).

Education Tax Benefits

For 2021, the tuition and fees deduction is gone. You might benefit from the [Lifetime Learning Credit](#) (LLC) if your income is below \$90,000, or \$180,000 if MFJ, which matches the income limitations for the [American Opportunity Tax Credit](#) (AOTC). **Note:** You cannot claim the AOTC and LLC for the same student in the same tax year.

COVID-19 emergency financial aid grants under the CARES Act are excluded from gross income. Bring in your tuition statements at tax time so we can claim the maximum credit using all eligible expenses.

Be sure to include all education-related documents so we can determine if you qualify for any credits or income exclusions.

Premium Tax Credit

In general, the amount of the Premium Tax Credit you qualify for is determined using a sliding scale. The lower the income, the greater the credit amount. For 2021 and 2022, if your household income is between 100% and 400% of the Federal Poverty Line (FPL), you may be eligible to claim the Premium Tax Credit (PTC) and you will not pay more than 8.5% of your income for coverage.

If you were unemployed and received, or were approved to receive, unemployment compensation for any week during 2021, you may be eligible for the PTC as if your household income was only 133% of the FPL. This results in more premium assistance regardless of the level of your household income. If this special rule applies to you, be prepared to provide self-attestation and documentation that demonstrates the receipt of your unemployment compensation or approval.

Earned Income Credit

If your 2019 earned income was more than your 2021 earned income, you can use your 2019 earned income to determine the Earned Income Credit (EIC) on your 2021 tax return. You may benefit from this provision if your income decreased after 2019 due to the pandemic, or any other reason, and you are eligible for the EIC. **Be sure to include the documentation of your 2019 earned income with this year's tax documents.**

Finally, for 2021, the minimum age to claim the EIC without any children decreased from age 25 to age 19 for most taxpayers, or age 24 for certain students. The maximum age limit was eliminated. Thus, if you are a recent high school graduate or retirement age, you might qualify for the childless EIC for 2021, assuming you meet all the other requirements. You can learn more [here](#).

From Your Tax Preparers

As we prepare for the quickly approaching 2021 tax season, please take the time to gather all necessary documents.

REMINDER: Please do not send personal information or tax documents via text or email.



The IRS requires tax preparers to meet strict guidelines to secure taxpayer personal and financial information. However, when you text or email your information to us, it is not protected, and can be stolen by hackers.

Please help us keep your information secure by uploading your documents using the personal secure portal we provide to you each year. This **does not** apply to those of you that have special arrangements to meet and exchange your documents with your tax preparer.

Due to Covid-19, appointments will continue to be held via phone or video call. If you have a special need for an in-person appointment, please contact us.

Finally, a reminder. We provide one free copy of each tax return per year. Each additional copy is subject to an additional \$50 dollar fee. For those of you that eSign your returns, **be sure to save a copy of your returns** from the link that is sent to your email once both you and your tax preparer have signed. **The IRS requires you to save 3 years of your tax returns.**

We hope you find the information in this newsletter useful. If you have comments or topics you would like us to report on, please email us at support@brookstaxservice.org.

We truly appreciate you!