Looking at Your 2021 Income Taxes and Beyond
INTRODUCTIONS

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- Director of Tax Services

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FIRM OVERVIEW

McKonly & Asbury is a team of CPAs and Business Advisors serving clients from our offices in Camp Hill, Lancaster, and Bloomsburg.

We provide **Advisory & Business Consulting**, **Audit & Assurance**, **Entrepreneurial Support & Client Accounting**, **Internal Audit**, **Professional Placement**, **Tax**, and **Technology** services to a variety of industries including:

- Affordable Housing
- Healthcare
- Construction
- Manufacturing & Distribution
- Employee Benefit Plans
- Nonprofits
- Family-Owned Business
### CHILD TAX CREDIT

#### 6 Major Changes

<table>
<thead>
<tr>
<th></th>
<th>Current Rules</th>
<th>2021 Rules</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Age of Child</strong></td>
<td>16 and Under Qualify</td>
<td>17 and Under Qualify</td>
</tr>
<tr>
<td><strong>Credit Amount</strong></td>
<td>$2,000 Per Child</td>
<td>$3,600 Children Under 6</td>
</tr>
<tr>
<td></td>
<td></td>
<td>$3,000 Children 6 and Over</td>
</tr>
<tr>
<td><strong>Refundable Amount</strong></td>
<td>$1,400 Per Child</td>
<td>100% Refundable</td>
</tr>
<tr>
<td><strong>Minimum Income Requirement</strong></td>
<td>$2,500</td>
<td>None</td>
</tr>
<tr>
<td><strong>Advanced Payments</strong></td>
<td>None</td>
<td>Paid out July – December</td>
</tr>
<tr>
<td><strong>Phase out Begins</strong></td>
<td>$200,000 Single</td>
<td>$75,000 – Single</td>
</tr>
<tr>
<td></td>
<td>$400,000 MFJ</td>
<td>$150,000 – MFJ</td>
</tr>
</tbody>
</table>

Note the 2021 phase out for the $2,000 per child is still $200,000 and $400,000.
### DEPENDENT CARE CREDIT

<table>
<thead>
<tr>
<th>Age of Child</th>
<th>Current Rules</th>
<th>2021 Rules</th>
</tr>
</thead>
<tbody>
<tr>
<td>Under 13</td>
<td>Under 13</td>
<td>Under 13</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Maximum Expense</th>
<th>Current Rules</th>
<th>2021 Rules</th>
</tr>
</thead>
<tbody>
<tr>
<td>$3,000 One Child</td>
<td></td>
<td>$8,000 One Child</td>
</tr>
<tr>
<td>$6,000 More than One</td>
<td></td>
<td>$16,000 More than One</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Credit %</th>
<th>Current Rules</th>
<th>2021 Rules</th>
</tr>
</thead>
<tbody>
<tr>
<td>Max - 35% Min – 20%</td>
<td></td>
<td>Max - 50% Min – 0%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Credit Phase</th>
<th>Current Rules</th>
<th>2021 Rules</th>
</tr>
</thead>
<tbody>
<tr>
<td>Begins - $15,000</td>
<td></td>
<td>Begins - $125,000</td>
</tr>
<tr>
<td>Ends – N/A</td>
<td></td>
<td>Ends - $438,000</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Credit Refundable</th>
<th>Current Rules</th>
<th>2021 Rules</th>
</tr>
</thead>
<tbody>
<tr>
<td>No</td>
<td></td>
<td>Yes</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Credit Eligible for Physically or Mentally dependents / spouses</th>
<th>Current Rules</th>
<th>2021 Rules</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td></td>
<td>Yes</td>
</tr>
</tbody>
</table>

**Note:** For 2020 when AGI reached $43,000 the credit was limited to 20% but never phased out.
POLLING QUESTION #1

Are you or your company actively hedging against potential tax increases?

- Yes
- No
- Not sure

There are potential tax increases?
SECTION 461 LOSS LIMITATIONS:

- Puts a Limit on Excess Business Losses That a Taxpayer Can Take on Their Aggregate Trade or Business Income
  - Part of Tax Cuts Jobs Act in 2017
    - CARES Act Retroactively Delayed Implementation
  - Expires Jan 1, 2026
- Loss Limitation
  - Single - $262,000
  - MFJ - $524,000

Technical Corrections/Updates
- Employee Wages are Excluded from Calculation
- NOL’s are Excluded from the Calculation
- Trade or Business Capital Gains Included
- Trade or Business Capital Losses Excluded

Questions Still Remain
- Guaranteed Payments
- Gain on Disposal of Interest in Active Business
- How this will interact with SE Tax and NI tax
CHARITABLE DONATIONS:

- Cash Donations are 100% deductible in 2021
  - Same as 2020
  - Limited to 60% of AGI in 2022
- Additional Charitable Deduction Allowed on top of the Standard Deduction
  - Single - $300
  - MFJ - $600
  - Below the Line this year
  - Going away in 2022
RECOVERY REBATE CREDIT 3RD ROUND:

- Must be reported on your 2021 tax return
  - $1,400 per Adult
  - $1,400 per Dependent – No Age Limitation
- Phase outs
  - Single - $75,000 - $80,000
  - MFJ - $150,000 - $160,000
- 1st and 2nd Recovery Credit’s were reported on 2020 Return
REQUIRED MINIMUM DISTRIBUTIONS (RMD):

- Suspended in 2020 but back in 2021
- SECURE Act Raised Age from 70 ½ to 72
- Required Withdrawal
  - April 1st of Year following when you turn 72
  - December 31st for each following year
POLLING QUESTION #2

Do you think the Build Back Better Act will be enacted into law?

- Yes
- No
- Sure hope so
- Sure hope not
IT'S PAYBACK TIME:

- SE Tax Advance
  - Deferral of Employer Portion of Self Employment Tax
    - 50% due in 2021
    - 50% due in 2022

- Retirement Withdrawal Deferral
  - The CARES Act Allowed individuals facing hardships from the pandemic to withdraw up to $100,000 from a 401(k) plan or from an individual retirement account this year
    - Removed the Early Withdrawal Penalty 10%
    - Spread out over 3 Years (2020 – 2022)
    - Can Pay Back At Anytime
EDUCATION CREDITS:

2 Types

- American Opportunity Credit
  - $2,500
  - First 4 years only of Undergrad
  - $1,000 Refundable

- Lifetime Learners Credit
  - $2,000
  - Any year
  - Not Refundable

Threshold Increase

- Single
  - 2020 - $59,001 - $69,000
  - 2021 - $80,001 - $90,000

- MFJ
  - 2020 - $118,001 - $138,000
  - 2021 - $160,001 - $180,000
ENERGY CREDIT EXTENDED:

- Nonbusiness energy property
  - Provides a nonrefundable personal tax credit, for Federal income tax purposes, for making a home more energy efficient.
  - 26% Rate Extended Through 2022
  - Both Individuals and Business

- Alternative fuel vehicle refueling property credit
  - 30% off their entire Electronic Vehicle charging hardware purchase
  - Up to $30,000 in Expenses
  - Both Individuals and Business
Which tax related law/law change do you see impacting you most?

- Build Back Better Act
- Expiration of the individual provisions of the 2018 Tax Cuts and Jobs Act
- Phaseout of Bonus Depreciation
- Don’t expect any of the tax changes to affect us
# Tax Brackets:

## Single Filers

<table>
<thead>
<tr>
<th>Tax Rate</th>
<th>2020</th>
<th>2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>10%</td>
<td>$0-$9,875</td>
<td>$0-$9,950</td>
</tr>
<tr>
<td>12%</td>
<td>$9,876-$40,125</td>
<td>$9,951-$40,525</td>
</tr>
<tr>
<td>22%</td>
<td>$40,126-$85,525</td>
<td>$40,526-$86,375</td>
</tr>
<tr>
<td>24%</td>
<td>$85,526-$163,300</td>
<td>$86,376-$164,925</td>
</tr>
<tr>
<td>32%</td>
<td>$163,301-$207,350</td>
<td>$164,926-$209,425</td>
</tr>
<tr>
<td>35%</td>
<td>$207,351-$518,400</td>
<td>$209,426-$523,600</td>
</tr>
<tr>
<td>37%</td>
<td>$518,401+</td>
<td>$523,601+</td>
</tr>
</tbody>
</table>
## TAX BRACKETS:

### Married Couples Filing Jointly

<table>
<thead>
<tr>
<th>Tax Rate</th>
<th>2020</th>
<th>2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>10%</td>
<td>$0-$19,750</td>
<td>$0-$19,900</td>
</tr>
<tr>
<td>12%</td>
<td>$19,751-$80,250</td>
<td>$19,901-$81,050</td>
</tr>
<tr>
<td>22%</td>
<td>$80,251-$171,050</td>
<td>$81,051-$172,750</td>
</tr>
<tr>
<td>24%</td>
<td>$171,051-$326,600</td>
<td>$172,751-$329,850</td>
</tr>
<tr>
<td>32%</td>
<td>$326,601-$414,700</td>
<td>$329,851-$418,850</td>
</tr>
<tr>
<td>35%</td>
<td>$414,701-$622,050</td>
<td>$418,851-$628,300</td>
</tr>
<tr>
<td>37%</td>
<td>$622,051+</td>
<td>$628,301+</td>
</tr>
<tr>
<td>Tax Rate</td>
<td>2020</td>
<td>2021</td>
</tr>
<tr>
<td>----------</td>
<td>------------</td>
<td>------------</td>
</tr>
<tr>
<td>0%</td>
<td>$0-$40,000</td>
<td>$0-$40,400</td>
</tr>
<tr>
<td>15%</td>
<td>$40,001-$441,450</td>
<td>$40,401-$445,850</td>
</tr>
<tr>
<td>20%</td>
<td>$441,451+</td>
<td>$445,851+</td>
</tr>
</tbody>
</table>
LONG TERM CAPITAL GAINS:

Married Couples Filing Jointly

<table>
<thead>
<tr>
<th>Tax Rate</th>
<th>2020</th>
<th>2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>0%</td>
<td>Up to $80,000</td>
<td>Up to $80,800</td>
</tr>
<tr>
<td>15%</td>
<td>$80,001-$496,600</td>
<td>$80,801-$501,600</td>
</tr>
<tr>
<td>20%</td>
<td>$496,601+</td>
<td>$501,601+</td>
</tr>
</tbody>
</table>
## OTHER IMPORTANT RATE CHANGES

### Single Filers

<table>
<thead>
<tr>
<th>Item</th>
<th>2020</th>
<th>2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>Standard Deduction</td>
<td>$12,400 ($14,050 if at least 65 years old)</td>
<td>$12,550 ($14,250 if at least 65 years old)</td>
</tr>
<tr>
<td>Gift Tax</td>
<td>Life Exclusion: $11.58 million Annual: $15,000 per recipient</td>
<td>Life Exclusion: $11.7 million Annual: $15,000 per recipient</td>
</tr>
<tr>
<td>QBI</td>
<td>Limitations start at $163,300</td>
<td>Limitations start at $164,900</td>
</tr>
<tr>
<td>AMT Phase Out</td>
<td>$518,400</td>
<td>$523,600</td>
</tr>
<tr>
<td>SS Payment</td>
<td>$137,700</td>
<td>$142,800</td>
</tr>
</tbody>
</table>
## Other Important Rate Changes

### Married Couples Filing Jointly

<table>
<thead>
<tr>
<th>Item</th>
<th>2020</th>
<th>2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>Standard Deduction</td>
<td>$24,800 (plus $1,300 for each spouse 65 years old)</td>
<td>$25,100 (plus $1,350 for each spouse 65 years old)</td>
</tr>
<tr>
<td>Gift Tax</td>
<td>Life Exclusion: $23.16 million Annual: $30,000 per recipient</td>
<td>Life Exclusion: $23.4 million Annual: $30,000 per recipient</td>
</tr>
<tr>
<td>QBI</td>
<td>$1,036,800</td>
<td>$1,047,200</td>
</tr>
<tr>
<td>SS Payment</td>
<td>$137,700 per individual</td>
<td>$142,800 per individual</td>
</tr>
</tbody>
</table>
What aspect of the current economy is most affecting you or your business?

- Inflation
- Supply Chain
- Labor Shortage
- Other
Fact or Fiction?
- C Corporation income tax rates
- C Corporation minimum tax
- Research and development expenses
- Individual income tax rates
- Surcharge on high income individuals
- Capital gain rates
- Net investment income tax
- QBI deduction
- Valuation discounts for estates and gifts
When 2026 is the new 2017
- Individual income tax rates
- QBI Deduction
- Estate tax limitation

Bonus Depreciation
- Phaseout beginning
PENNSYLVANIA TAX UPDATE

- **Limited Carryforward of Education Tax Credits – Restricted Tax Credit Bulletin 2021-01**
  - Educational Improvement Tax Credit (EITC) and Opportunity Scholarship Tax Credit (OSTC), may be carried forward by the entity granted the credits
  - Can not be Allocated

- **State Section 179 Expensing Limitation – Senate Bill 349**
  - Would follow Federal
  - Currently $25,000

- **Like-Kind Exchanges – Senate Bill 347**
  - Would follow Federal
  - Currently Disallowed

- **Pass Through Entity Tax for Resident Credit**
  - S Corps Allowed
  - All Other Entities Disallowed
QUESTIONS?

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