

## Tax Notes

### 2021 Available Federal Tax Credits and Deductions

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Throughout the pandemic, Congress introduced several stimulus packages to help taxpayers and relieve some of the economic burden caused by the coronavirus, many of which were still applicable in 2021. As we enter the 2021 tax filing season, this article provides an overview of many of the available credits. Some of the credits are even fully refundable, meaning the taxpayer can take full advantage even if the credit exceeds their tax liability. However, taxpayers should also be aware that several of the credits have not been extended and are coming to an end.

#### Child Tax Credit and Letter 6419

The Child Tax Credit (CTC) is a tax benefit granted to U.S. taxpayers for each qualifying child, reducing the taxpayer's liability dollar-for-dollar. It was originally passed in 1997 and has had several iterations. The American Rescue Plan Act of 2021 (ARPA) provided a one-year significant expansion of the child tax credit for the 2021 tax year. This credit was likely top of mind for many taxpayers, as for the first time, eligible taxpayers received monthly advance payments of [this credit](#). Taxpayers received half of the credit, starting July 15, 2021 and ending December 2021. The remaining credit is available when the 2021 income tax return is filed.

Here are some other key points about the changes to the CTC for tax year 2021:

- No earned income requirement. Non-filers with low to zero income are eligible.
- Increase in the maximum age for an eligible child from 16 to 17.
- The credit amount increased from \$2,000 per child to \$3,000 (children 6-17 years old) and \$3,600 (up to 5 years old).
- The phase-out range for the credit begins at \$150,000 for married filing jointly, \$112,500 for head-of-household filers and \$75,000 for all other filers.
- The credit will decrease by \$50 for every \$1,000 the taxpayer is above the phase-out range threshold. The top threshold is \$400,000 for married filing jointly, \$250,500 for the head of household, and \$200,000 for other filers.

In **January 2022**, the IRS sent **Letter 6419** with the total advance child tax credit payments received in 2021. All taxpayers **must** retain the letter for their 2021 income tax return and provide it to their CPAs for accurate credit calculations. Individuals who received less than they were eligible will receive the remaining amount with their return. Individuals who earned more than they are eligible will repay the excess with their return. A copy of the Letter 6419 will be available online. All taxpayers can create an account or log into IRS.gov [Online Account](#) to securely access their child tax credit payment. Confirming the information on their Letter 6419 is especially important if a taxpayer has moved or changed bank accounts, rendering their advance checks or direct deposit payments undeliverable.

An extension of the more generous Child Tax Credit has been debated, but as of this publication has not yet been adopted by Congress.

## Child and Dependent Care Credit

The Child and Dependent Care Credit is provided to cover child and dependent care expenses paid for either (1) a dependent child under age 13 or (2) a qualifying disabled dependent or spouse of any age who lived with the taxpayer. ARPA provides the following significant changes to the child and dependent care credit for 2021.

- Child and dependent care credit is fully refundable for the tax year **2021 only**.
- Additionally, for 2021 only, ARPA increased the qualifying dependent care expenses up to \$8,000 (from \$3,000) for one child/disabled person and \$16,000 (from \$6,000) for two or more children/disabled persons.
- The maximum credit in 2021 increased to 50% (up from 20-35%) of the taxpayer's employment-related expenses, which equals \$4,000 for one qualifying individual or \$8,000 for two or more qualifying individuals. A taxpayer must subtract employer-provided dependent care benefits, such as those provided through a flexible spending account, from total employment-related expenses when calculating the credit.
- Full child and dependent care credit is allowable for families making less than \$125,000 a year (instead of \$15,000 annually in prior years). All families making between \$125,000 and \$438,000 will receive at least a partial credit.
- Taxpayers must reside in the United States for at least half of the 2021 year to receive the full refund.

## Employee Retention Credit

The Employee Retention Credit (ERC) is a refundable tax credit included in the CARES Act, incentivizing employers to continue paying employees despite the adverse impact on the business revenue due to COVID-19. When originally introduced under the 2020 CARES Act, the ERC was only available to businesses that did not receive a PPP loan. However, that limitation was retroactively removed in the [Consolidated Appropriations Act](#), which also extended the credit into 2021 and significantly expanded it.

The credit is only available for businesses – it is not available for household employees or self-employed individual themselves. It's also not claimed on an income tax return – claiming the credit requires an amended payroll tax return. Eligible employers that were not able to claim the ERC credit originally can still claim it retroactively for qualified wages paid back until March 27, 2020 on Form 941-X.

Businesses need to have been shut down by a government order or experience a significant decline in gross receipts to qualify. For most businesses, the [last potential date of eligibility](#) is September 30, 2021. Qualifying businesses must also [consider](#) that the same wages cannot be used for the [ERC and PPP forgiveness](#).

A FAQ (frequently asked questions) about the ERC is available [here](#), along with discussions of [additional IRS guidance](#).

## Recovery Rebate Credit and Letter 6475

The economic impact payments, also known as the stimulus payments, are a provision of the CARES Act, and later the Consolidated Appropriations Act and ARPA, that provided advance payments of the temporary 2020 and 2021 Recovery Rebate Credit. Eligible individuals and their qualifying dependents started receiving the third stimulus check of \$1,400 starting March 2021, and by law, all remaining checks were issued by December 31, 2021.

Throughout 2021, the IRS also sent out plus-up payments to individuals who initially received their third economic impact payment based on their 2019 return and were eligible for a higher amount based on their 2020 return.

Starting in January 2022, the IRS mailed **Letter 6475** that contains the total amount of the third economic impact payment and any plus-up payments received. Taxpayers **must** retain and submit a copy of the letter to their accountant to calculate the correct 2021 recovery rebate credit amount. Individuals can also go to the IRS website to look up the amounts they received in 2021.

Individuals who did not receive the third stimulus payment but are qualified will have to file their 2021 tax return to receive the credit. Taxpayers who received a higher stimulus payment than what they are eligible for, as determined by their 2021 return, will not have to return any excess amount they received.

### **Charitable Contribution Deduction**

Under the Consolidated Appropriations Act passed in December 2020, for the tax year 2021, individuals who do not take the itemized deduction will be able to still deduct a charitable deduction in addition to the standard deduction. The maximum amounts are \$300 if filing Single and \$600 if Married Filing Jointly. The donation must be paid in cash, check or credit card and to a public charity.

Individuals taking the itemized deduction can deduct 100% of their cash contributions up to the amount of their adjusted gross income, up from a 60% adjusted gross income cap in years prior to 2020.

### **Contact Us**

For assistance with calculating, reconciling, and claiming the credits for your 2021 tax return or consultation on whether applying for a particular credit applies to your situation, contact your tax client service team or:

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