



## Important Changes for 2021



### Due Date of Return

Taxpayers will have until April 18, 2022 to file their 2021 return because of the Emancipation Day holiday in Washington, D.C. Taxpayers in Maine and Massachusetts will have until April 19, 2022 because of the Patriots' Day holiday in those states.

### Tax Form Changes

- Form 1040, U.S. Individual Income Tax Return, includes a new question and checkbox added beneath line 27a: "Check here if you had not reached the age of 19 by December 31, 2021, and satisfy all other requirements for claiming the EIC (see instructions)." This question allows qualified former foster youth and qualified homeless youth to self identify. Line 27c is added for taxpayers to include their 2019 earned income if they elect to use that amount when figuring their earned income credit.
- Form 2441, Child and Dependent Care Expenses, contains two new checkboxes.
  - Checkbox A: You can't claim a credit for child and dependent care expenses if your filing status is married filing separately unless you meet the requirements listed in the instructions under "Married Persons Filing Separately." If you meet these requirements, check this box.
  - Checkbox B: For 2021, your credit for child and dependent care expenses is refundable if you, or your spouse if married filing jointly, had a principal place of abode in the United States for more than one-half of 2021. If you meet these requirements, check this box.
- Schedule 1 (Form 1040), Additional Income and Adjustments to Income, includes additional lines 8a through 8z to accommodate specific items of other income and new lines 24a-24z are added for listing other adjustments.
- Schedule 2 (Form 1040), Additional Taxes, has several changes. Former lines 5 and 8 are revised so that, to the extent possible, each additional tax has a separate line and entry space, rather than a checkbox. New lines were added to minimize write-ins. Line 19 was added for additional tax from Schedule 8812.
- Schedule 3 (Form 1040), Additional Credits and Payments, includes additional lines to replace checkboxes and space for write-in credits. New line 13g added for the refundable portion of the child and dependent care credit expenses from Form 2441, line 10. Line 13b was revised by adding text to clarify that it is to be used to report qualified sick and family leave credits from Schedule(s) H and Form(s)s 7202 for leave taken before April 1, 2021. New line 13h added to report qualified sick and family leave credits from Form(s) 7202 for leave taken after March 31, 2021.
- Schedule EIC, Earned Income Credit, added a checkbox for taxpayers to self-certify that they qualify for the EIC when married filing separately. The form also includes the requirements for taxpayers who are married filing separately to qualify for the EIC on page two, under the heading Purpose of Schedule.
- Form 8379, Injured Spouse Allocation, was revised to remove the line for exemptions and to create separate lines for nonrefundable and refundable credits.
- Schedule 8812, Credits for Qualifying Children and Other Dependents, will now be used as a single source, replacing Publication 972, Child Tax Credit and the child tax credit worksheet in the Form 1040 Instructions. Schedule 8812 will be used to claim the Child Tax Credit (CTC), Credit for Other Dependents, Additional Child Tax Credit, and to reconcile advance payments of the CTC.

- Form 8888, Allocation of Refund (Including Savings Bond Purchases), is changed to a continuous-use product.
- Form 1099-MISC has been renamed Miscellaneous Information.
- Schedule K-1 (Form 1065), Partner's Share of Income, Deductions, Credits, etc., has a new box 21 for reporting foreign taxes paid or accrued. Box 16 will no longer be used for foreign taxes. Schedule K-1 (Form 1120-S), Shareholder's Share of Income, Deductions, Credits, etc., Box 14, Foreign transactions has been removed and new code F will be included for Box 16, reporting foreign taxes paid or accrued.
- Form 8915-F, Qualified Disaster Retirement Plan Distributions and Repayments, will be used in lieu of Form 8915-E, Qualified 2020 Disaster Retirement Plan Distributions and Repayments, which was introduced in 2020, and is being retired beginning with 2021. Form 8915-F will also be used for qualified 2021 and later disasters, if any. Forms 8915-B, 8915-C, and 8915-D will not be incorporated into the new form, and 2020 was the last year for Form 8915-A.

## Future Changes

- For tax year 2022, Form W-4P will be split into two forms.
  - Form W-4P, Withholding Certificate for Periodic Pension or Annuity Payments, which is to be used only for periodic pension and annuity payments that are treated similarly to wages.
  - New Form W-4R, Withholding Certificate for Nonperiodic Payments and Eligible Rollover Distributions, which is to be used only for nonperiodic payments and eligible rollover distributions.
- For 2022, the following forms change from annual to continuous use:
  - Form 1099-A, Acquisition or Abandonment of Secured Property;
  - Form 1099-C, Cancellation of Debt;
  - Form 1099-S, Proceeds From Real Estate Transactions;
  - Form 1099-DIV, Dividends and Distributions;
  - Form 1098, Mortgage Interest Statement;

## Tax Law Changes

There are several temporary and permanent changes included within the scope of VITA/TCE. These changes are summarized below. This is an overview only. For additional details on temporary changes, review the Temporary Provisions lesson in this publication. For permanent changes, review the applicable lesson in this publication.

## Retroactive Changes for 2020

- Unemployment compensation: For tax year 2020 only, the first \$10,200 of unemployment compensation is not taxable for most households. This tax benefit is only available to those whose modified adjusted gross income is below \$150,000 during 2020. The same income cap applies to all filing statuses. There is no need for taxpayers to file an amended return unless the calculations make the taxpayer newly eligible for additional federal credits and deductions not already included on the original tax return. For details see **IR-2021-151**
- Excess Advance Premium Tax Credit: The requirement to repay 2020 excess APTC was suspended. Taxpayers with excess APTC for 2020 did not need to report the excess APTC or file Form 8962. The IRS automatically reduced the repayment amount to zero. In addition, the agency automatically reimbursed anyone who had already repaid their 2020 excess APTC. Taxpayers do not need to file an amended return.

## 2021 Changes

- **Recovery Rebate Credit: The Third Economic Impact Payment** was authorized by the American Rescue Plan Act of 2021 as an advance payment of the 2021 Recovery Rebate Credit. Eligible individuals who filed a joint tax return will receive up to \$2,800, and all other eligible individuals will receive up to \$1,400. Those with qualifying dependents on their tax return will receive up to \$1,400 per qualifying dependent. For details on who is eligible to claim this credit, see the Payments and Miscellaneous Refundable Credits lesson in this publication.
- **Child and Dependent Care Credit:** The new law increases the amount of the credit and eligible expenses for child and dependent care, modifies the phase-out of the credit for higher earners and makes it refundable. See the Temporary Provisions lesson for details.
- **Earned Income Tax Credit:** For 2021 only, more taxpayers without qualifying children and couples can qualify for the Earned Income Tax Credit (EITC). That's because the maximum credit is nearly tripled for these taxpayers and is, for the first time, made available to both younger workers and senior citizens. Another change is available to both taxpayers without qualifying children and families with qualifying children. For 2021, taxpayers may choose to figure the EITC using their 2019 income, as long as it was higher than their 2021 income. In some instances, this option will give them a larger credit. See the Temporary Provisions lesson for details on these changes.
- **Changes expanding the EITC for 2021 and future years include:**
  - Singles and couples who have Social Security numbers can claim the credit, even if their children don't have SSNs. In this instance, they would get the smaller credit available to taxpayers without qualifying children. In the past, these filers didn't qualify for the credit.
  - More taxpayers who also have investment income can get the credit. Starting in 2021, the limit on investment income is increased to \$10,000. After 2021, the \$10,000 limit is indexed for inflation. The previous limit was \$3,650.
  - **Special rule for separated spouses.** Taxpayers can claim the EIC if they are married, not filing a joint return, had a qualifying child who lived with them for more than half of 2021 and either:
    - lived apart from their spouse for the last 6 months of 2021, or
    - are legally separated according to state law under a written separation agreement or a decree of separate maintenance and didn't live in the same household as their spouse at the end of 2021.
- **Child Tax Credit:** For 2021, the new law increases the amount of the Child Tax Credit, makes it available for qualifying children age 17 (rather than 16), makes it fully refundable for eligible taxpayers, and makes it possible for families to receive half of it in advance during the last half of 2021. Moreover, families can get the credit, even if they have little or no income from a job, business or other source.

Prior to taxable year 2021, the credit was worth up to \$2,000 per eligible child. The new law increases it to as much as \$3,000 per qualifying child ages 6 through 17, and \$3,600 for qualifying children ages 5 and under. For eligible taxpayers the credit is fully refundable for 2021. Previously, the refundable portion was limited to \$1,400 per child. For additional details, refer to the Temporary Provisions lesson, later.
- **Credit for Sick Leave and Credit for Family Leave for Certain Self-Employed Individuals:** These credits were modified and extended for 2021. See the Payments and Miscellaneous Refundable Credits lesson for details.
- **Premium Tax Credit:** Refer to the Premium Tax Credit lesson for the changes for 2021.
- **Self-Employment Expenses:** There is a temporary exception to the 50% limit on the amount that businesses may deduct for food or beverages. The temporary exception allows a 100% deduction for food or beverages from restaurants. See details in the Temporary Provisions lesson.

- Paycheck Protection Plan (PPP) loan forgiveness: Taxpayers may exclude from gross income any covered loan forgiveness. See the Temporary Provisions lesson.

## Individual Taxpayer Identification Numbers (ITINs)

**ITINs not used in the last three consecutive tax years:** Any ITIN that is not used on a federal tax return for at least three consecutive tax years will expire on December 31 of the third consecutive tax year of non-use. ITINs with middle digits (the fourth and fifth positions) “70,” “71,” “72,” “73,” “74,” “75,” “76,” “77,” “78,” “79,” “80,” “81,” “82,” “83,” “84,” “85,” “86,” “87” or “88” have expired. In addition, ITINs with middle digits “90,” “91,” “92,” “94,” “95,” “96,” “97,” “98,” “99” **if assigned before 2013**, have expired. See **Publication 5259, Fact Sheet – Expiring ITINs** for additional information.

## Personal Exemption Amount

The deduction for all personal exemptions is suspended (reduced to zero), effective for tax years 2018 through 2025. For 2021, the gross income limitation for a qualifying relative is \$4,300 (no change).

## Certain Expenses of Elementary and Secondary School Teachers

The amount of the deduction allowed that consists of expenses paid or incurred by an eligible educator in connection with books, supplies (other than nonathletic supplies for courses of instruction in health or physical education), computer equipment (including related software and services) and other equipment, and supplementary materials used by the eligible educator in the classroom is \$250 (no change).

Qualified expenses include amounts paid or incurred after March 12, 2021, for personal protective equipment, disinfectant, and other supplies used for the prevention of the spread of coronavirus.

## Standard Deduction

The standard deduction for taxpayers who do not itemize deductions on Schedule A (Form 1040) has increased. The standard deduction amounts for 2021 are:

- \$25,100 – Married Filing Jointly or Qualifying Widow(er) (increase of \$300)
- \$18,800 – Head of Household (increase of \$150)
- \$12,550 – Single or Married Filing Separately (increase of \$150)

### *Taxpayers who are 65 and Older or are Blind*

For 2021, the additional standard deduction amounts for taxpayers who are 65 and older or blind are:

- \$1,700 for Single or Head of Household (increase of \$50)
- \$1,350 for married taxpayers or Qualifying Widow(er) (increase of \$50)

## Standard Mileage Rate

For 2021, the following rates are in effect:

- 56 cents per mile for business miles driven
- 16 cents per mile driven for medical or moving purposes
- 14 cents per mile driven in service of charitable organizations (no change)

The standard mileage rate for business cannot be used to claim an itemized deduction for unreimbursed employee travel expenses during the suspension of miscellaneous itemized deductions that are subject to the 2% of AGI floor.

The moving expense deduction is not allowed through 2025 and the exclusion from income of moving expense reimbursements from an employer is also suspended. The only exception is for active military



service members who move pursuant to a military order to a new permanent duty station.

### **Deduction for Qualified Business Income**

For 2021, the threshold amount is \$329,800 for married filing joint returns, \$164,925 for married filing separate returns, and \$164,900 for all other returns.

### **Retirement Savings Contribution Credit**

To claim this credit, the taxpayer's modified adjusted gross income (MAGI) must not be more than \$33,000 for Single, Married Filing Separately, or Qualifying Widower (increase of \$500). MAGI must not be more than \$49,500 (increase of \$750) for Head of Household, and \$66,000 (increase of \$1,000) for Married Filing Jointly.

### **Earned Income Credit (EIC)**

For 2021, the maximum credit increased to:

- \$6,728 with three or more children
- \$5,980 with two children
- \$3,618 with one child
- \$1,502 with no children

### ***Earned Income Amount Increased***

Taxpayers may be able to elect to use their 2019 earned income to figure the EIC if their 2019 earned income is more than their 2021 earned income. To be eligible for a full or partial credit, the taxpayer must have earned income of at least \$1 but less than:

- \$51,464 (\$57,414 if Married Filing Jointly) with three or more qualifying children
- \$47,915 (\$53,865 if Married Filing Jointly) with two qualifying children
- \$42,158 (\$48,108 if Married Filing Jointly) with one qualifying child
- \$21,430 (\$27,380 if Married Filing Jointly) with no qualifying child

### ***Investment Income***

Taxpayers whose investment income is more than \$10,000 cannot claim the EIC.

### **Education Benefits**

**American opportunity credit** for 2021 is gradually reduced (phased out) if taxpayers' MAGI is between \$80,000 and \$90,000 (\$160,000 and \$180,000 if Married Filing Jointly). Taxpayers cannot claim a credit if their MAGI is \$90,000 or more (\$180,000 or more if Married Filing Jointly).

**Tuition and fees deduction** was repealed by the Taxpayer Certainty and Disaster Tax Relief Act of 2020 for tax years beginning after 2020. Income limitations for the lifetime learning credit were increased to help filers transition to the lifetime learning credit.

**Lifetime learning credit** for 2021 is gradually reduced (phased out) if taxpayers' MAGI is between \$80,000 and \$90,000 (\$160,000 and \$180,000 if Married Filing Jointly). Taxpayers cannot claim a credit if their MAGI is \$90,000 or more (\$180,000 or more if Married Filing Jointly).

**Student loan interest deduction** begins to phase out for taxpayers with MAGI in excess of \$70,000 (\$140,000 for joint returns) and is completely phased out for taxpayers with MAGI of \$85,000 or more (\$170,000 or more for joint returns).

## Eligible Long-Term Care Premium Limits

For 2021, the maximum amount of qualified long-term care premiums includible as medical expenses has increased. Qualified long-term care premiums up to the amounts shown below can be included as medical expenses on Schedule A (Form 1040), Itemized Deductions, or in calculating the self-employed health insurance deduction.

- Age 40 or under: \$450
- Age 41 to 50: \$850
- Age 51 to 60: \$1,690
- Age 61 to 70: \$4,520
- Age 71 and over: \$5,640



The limit on premiums is for each person.

## Foreign Earned Income Exclusion

For 2021, the maximum foreign earned income exclusion is \$108,700.

## Deduction Amount and Modified AGI Limit for Traditional IRA Contributions

For 2021, the maximum IRA deduction is \$6,000 (\$7,000 if age 50 or older). For taxpayers who are covered by a retirement plan at work, the deduction for contributions to a traditional IRA is reduced (phased out) if the modified AGI is:

- More than \$105,000 but less than \$125,000 for a married couple filing a joint return or a qualifying widow(er) if both spouses are covered by a retirement plan,
- More than \$66,000 but less than \$76,000 for a single individual or head of household, or
- Less than \$10,000 for a married individual filing a separate return

For an IRA contributor who is **not** covered by a workplace retirement plan and is married to someone who is covered, the deduction is phased out if the couple's income is between \$198,000 and \$208,000.

## 2021 Repayment Caps for Advance Premium Tax Credit (APTC)

Income (as % of federal poverty line)	Taxpayers filing as Single	Taxpayers using other filing statuses
Under 200%	\$325	\$650
200%-299%	\$800	\$1,600
300%-399%	\$1,350	\$2,700
400% and above	No cap (full repayment)	No cap (full repayment)

- Filing thresholds and federal poverty line tables have been adjusted for inflation.
- The individual Shared Responsibility Payment (SRP) is reduced to zero. Taxpayers who do not have health insurance coverage during 2019 or later do not require an exemption to avoid the SRP.
- Details about these and other updates can be found in the Premium Tax Credit lesson and in the Volunteer Resource Guide, Tab H, Other Taxes, Payments, and Premium Tax Credit.

## Health Savings Account (HSA) Deduction

For 2021, the annual contribution limits on deductions for HSAs for individuals with self-only coverage is \$3,600 (increase of \$50) and \$7,200 for family coverage (increase of \$100). There is an additional contribution amount of \$1,000 for taxpayers who are age 55 or older.

## Scope Changes

Added to scope:

- Military certification only: Non-cash charitable contributions over \$500.

## Extended and Expired Legislation

The following were one-year provisions for tax year 2020 and are now expired:

- Deferred payment of the employer's share of Social Security tax for self-employed individuals.
- Coronavirus-related withdrawals up to \$100,000 from IRAs or workplace retirement plans.
- Waiver of required minimum distribution rules for certain defined contribution plans and IRAs for calendar year 2020.

The Taxpayer Certainty and Disaster Tax Relief Act of 2020 made the following changes:

- The reduction in the medical expense deduction floor is made permanent at 7.5%.
- The exclusion for qualified state and local tax benefits and qualified reimbursement payments provided to members of qualified volunteer emergency response organizations is made permanent.
- Deduction for qualified tuition & fees is repealed.
- The exclusion from gross income for a discharge of qualified principal residence indebtedness is extended through December 31, 2025. The provision reduces the maximum amount that may be excluded from \$2,000,000 to \$750,000 (\$375,000 in the case of a married individual filing a separate return). This applies to discharges of indebtedness after December 31, 2020.
- Extends for 5 years (through December 31, 2025) the allowance for employers to provide a student loan repayment benefit to employees on a tax-free basis.
- The treatment of mortgage insurance premiums as qualified residence interest is extended for 1 year (through December 31, 2021).
- The credit for purchases of nonbusiness energy property is extended for 1 year (through December 31, 2021).
- The deduction for charitable contributions for taxpayers who do not itemize is extended and modified. See the Itemized Deductions and Standard Deduction and Tax Computation lessons.
- The increased limit on deductible charitable contributions for taxpayers who itemize is extended.



Congress may enact additional legislation that will affect taxpayers after this publication goes to print. Any changes will be reflected in Publication 4491-X, VITA/TCE Training Supplement, available in mid-January on [www.irs.gov](http://www.irs.gov)