



TAX TIME

**Looking at Your 2021 Income Taxes
and Beyond**

McKONLY & ASBURY
CPAs & Business Advisors

INTRODUCTIONS



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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



Construction



Employee Benefit Plans



Family-Owned Business



Healthcare



Manufacturing & Distribution



Nonprofits

CHILD TAX CREDIT

6 Major Changes

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

Note the 2021 phase out for the \$2,000 per child is still \$200,000 and \$400,000

DEPENDENT CARE CREDIT

4 Major Changes

	Current Rules	2021 Rules
Age of Child	Under 13	Under 13
Maximum Expense	\$3,000 One Child \$6,000 More than One	\$8,000 One Child \$16,000 More than One Child
Credit %	Max - 35% Min – 20%	Max - 50% Min – 0%
Credit Phase	Begins - \$15,000 Ends – N/A	Begins - \$125,000 Ends - \$438,000
Credit Refundable	No	Yes
Credit Eligible for Physically or Mentally dependents / spouses	Yes	Yes

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

POLLING QUESTION #3



- 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

Tax Rate	2020	2021
10%	\$0-\$9,875	\$0-\$9,950
12%	\$9,876-\$40,125	\$9,951-\$40,525
22%	\$40,126-\$85,525	\$40,526-\$86,375
24%	\$85,526-\$163,300	\$86,376-\$164,925
32%	\$163,301-\$207,350	\$164,926-\$209,425
35%	\$207,351-\$518,400	\$209,426-\$523,600
37%	\$518,401+	\$523,601+

TAX BRACKETS:

Married Couples Filing Jointly

Tax Rate	2020	2021
10%	\$0-\$19,750	\$0-\$19,900
12%	\$19,751-\$80,250	\$19,901-\$81,050
22%	\$80,251-\$171,050	\$81,051-\$172,750
24%	\$171,051-\$326,600	\$172,751-\$329,850
32%	\$326,601-\$414,700	\$329,851-\$418,850
35%	\$414,701-\$622,050	\$418,851-\$628,300
37%	\$622,051+	\$628,301+

LONG TERM CAPITAL GAINS:

Single Filers

Tax Rate	2020	2021
0%	\$0-\$40,000	\$0-\$40,400
15%	\$40,001-\$441,450	\$40,401-\$445,850
20%	\$441,451+	\$445,851+

LONG TERM CAPITAL GAINS:

Married Couples Filing Jointly

Tax Rate	2020	2021
0%	Up to \$80,000	Up to \$80,800
15%	\$80,001-\$496,600	\$80,801-\$501,600
20%	\$496,601+	\$501,601+

OTHER IMPORTANT RATE CHANGES

Single Filers

Item	2020	2021
Standard Deduction	\$12,400 (\$14,050 if at least 65 years old)	\$12,550 (\$14,250 if at least 65 years old)
Gift Tax	Life Exclusion: \$11.58 million Annual: \$15,000 per recipient	Life Exclusion: \$11.7 million Annual: \$15,000 per recipient
QBI	Limitations start at \$163,300	Limitations start at \$164,900
AMT Phase Out	\$518,400	\$523,600
SS Payment	\$137,700	\$142,800

OTHER IMPORTANT RATE CHANGES

Married Couples Filing Jointly

Item	2020	2021
Standard Deduction	\$24,800 (plus \$1,300 for each spouse 65 years old)	\$25,100 (plus \$1,350 for each spouse 65 years old)
Gift Tax	Life Exclusion: \$23.16 million Annual: \$30,000 per recipient	Life Exclusion: \$23.4 million Annual: \$30,000 per recipient
QBI	Limitations start at \$326,600	Limitations start at \$329,800
AMT Phase Out	\$1,036,800	\$1,047,200
SS Payment	\$137,700 per individual	\$142,800 per individual

POLLING QUESTION #4



- What aspect of the current economy is most affecting you or your business?
 - Inflation
 - Supply Chain
 - Labor Shortage
 - Other

BUILD BACK BETTER

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

BACK TO THE FUTURE

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

LIVE Q&A

QUESTIONS?



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