

December 11, 2020

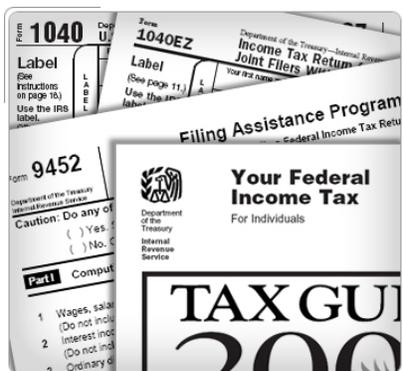
Inflation Adjustments for 2021

As the end of 2020 grows near, many Americans around the country are planning for the 2021 New Year. As of October 26th, the IRS released their annual inflation adjustments for the 2021 tax year, including tax rate schedules, tax tables and cost-of-living adjustments. With Year-End Tax Planning in full swing, understanding these key changes could provide taxpayers time to comprehend where they stand for the coming 2021 tax year and how they can make the necessary adjustments to maximize their tax saving opportunities.

Changes in Personal Income Tax Brackets & Tax Rates

The attached chart displays the new 2021 incremental income levels matched to their tax bracket. All 7 tax rate percentages remain the same.

[Click to view the Tax Rate Charts](#)



Increase in Standard Deduction

In 2021, the Standard Deduction amounts have increased for each of the following filing categories:

Single (S) and Married Filing Separately (MFS) will increase to \$12,550;
Married Filing Jointly (MFJ) & Surviving Spouses will increase to \$25,100; and Head of Household (HOH) will increase \$300 to \$18,800.

The additional standard deduction amount for the aged or the blind of \$1,350 & \$1,700 for unmarried taxpayers. The standard deduction for an individual who may be claimed as a dependent by another taxpayer remains the same.

Alternative Minimum Tax (AMT)

The AMT exemption amounts for the 2021 tax year are:

- **Single** - \$73,600, phasing out at an amount of \$523,600; **Married Filing Jointly** or **Surviving Spouses** - \$114,600, phasing out at an amount of \$1,047,200; **Married Filing Separately** - \$57,300, **Trust & Estates** - \$25,700.

Schedule A (Itemized Deductions)

There is no limitations for itemized deductions as that limitation was eliminated by the Tax Cuts and Jobs Act. Here is a breakdown of some common itemized deductions that taxpayers can claim:

- **Medical & Dental Expenses** - The “floor” for medical & dental expenses is 10%, meaning you can only deduct expenses which exceed 10% of your AGI.
- **State & Local Taxes** - Deductions for state and local sales, income, and property taxes remain the same and are limited to a combined total of \$10,000, or \$5,000 for married taxpayers filing separately.
- **Home Mortgage Interest** - You can only deduct interest on acquisition indebtedness which is your mortgage used to buy, build, or improve your home – up to \$750,000, or \$375,000 for married filing separately.
- **Charitable Donations** – The percentage limit for charitable cash donations to public charities remains at 60%. Cash contributions are any contributions paid with "cash, check, electronic fund transfer, payroll deduction, etc. (*IRS Publication 526, Charitable Contributions*).
- **Casualty & Theft Losses** – This deduction has been rescinded except for losses attributable to a federal disaster.
- **Job Expenses & Miscellaneous Deductions** – Such deductions including unreimbursed employee expenses and tax preparation expenses, which exceed 2% of your AGI have been eliminated, which also includes the home office deduction



Above-the-Line Deductions

These types of deductions are those that taxpayers can claim even if they do not itemize their deductions.

- **Student Loan Interest** - The \$2,500 deduction for interest paid on student loans will begin to phase out the modified adjusted gross income (MAGI) reaches \$70,000; or \$140,000 filing jointly; and completed phased out when the MAGI reaches \$85,000; \$170,000 filing jointly.



- **Elementary & Secondary School Teacher Expenses** – Qualifying teachers can claim \$250 for expenses paid for books, supplies, computer equipment, and supplementary materials used in the classroom.
- **Charitable Contributions** – Adjustments for the 2021 tax year are still to be determined. For the 2020 tax year, due to the establishment of the CARES Act, individuals who do not itemize their deductions can now claim charitable deductions up to \$300 for cash contributions donated to a public charity per tax return. For those who intend to itemize their charitable contributions, taxpayers can elect to deduct qualified contributions up to 100% of their AGI. Anything over that amount can be carried forward and subject to 60% limitation.

Tax Credits & Deductions

The adjusted changes for 2021 are:

- **Child Tax Credit** – The child tax credit is \$2,000 per qualifying child; up to \$1,400 refundable and subject to phase outs at \$400,000 for joint filers and \$200,000 for all other taxpayers.
- **Earned Income Credit** – The maximum amount available is \$6,728 for married taxpayers filing jointly who have three or more qualifying children. Phaseouts apply.
- **Adoption Credit** – The credit allowed for an adoption of a child with special needs is \$14,440 which begins to phase out for taxpayers with MAGI more than \$216,660 and completely phases out at \$256,660.
- **Lifetime Learning Credit** – Credit will phase out once MAGI reaches more than \$59,000; \$119,000 for married filing jointly; & completely phases out at \$69,000; \$139,000 married filing jointly.

- **Medical Savings Accounts (MSA)** - participants who have self-only coverage in a Medical Savings Account, the plan should have an annual deductible no less than \$2,400, up \$50 from tax year 2020; but no more than \$3,600, an increase of \$50 from tax year 2020. For self-only coverage, the maximum out-of-pocket expense amount is \$4,800, up \$50 from 2020. For tax year 2021, participants with family coverage, the floor for the annual deductible is \$4,800, up from \$4,750 in 2020; however, the deductible cannot be more than \$7,150, up \$50 from the limit for tax year 2020. For family coverage, the out-of-pocket expense limit is \$8,750 for tax year 2021, an increase of \$100 from tax year 2020.
- **Health Flexible Spending Arrangements** - For the taxable years beginning in 2021, the dollar limitation for employee salary reductions for contributions to health flexible spending arrangements remains \$2,750. For cafeteria plans that permit the carryover of unused amounts, the maximum carryover amount is \$550, an increase of \$50 from taxable years beginning in 2020.

Foreign Earned Income Exclusion



The amount of qualifying Foreign Earned Income excluded from income tax \$108,700.

Limits to Personal gifts



The 2021 annual exclusion for gifts is \$15,000 per person gifted. It remains the same amount as 2020.

Qualified Business Income Deduction under Section 199 (Pass-through deduction)

Sole-proprietors and owners of pass-through businesses are eligible for a deduction of up to 20% to bring the tax rate lower for qualified business income. Below are the threshold & phase-in amounts:

- Married Filing Jointly & Surviving Spouses – Threshold amount: \$329,800; phased in amounts at \$429,800;
- Married Filing Separately - \$164,925; phased in at \$214,925; &
- All other taxpayers - \$164,900; phased in at \$ 214,900

Federal Estate Tax Exemptions - Estates of decedents who die in 2021 have an increased basis which is excludable from estate income tax. The 2021 excludable amount is \$11,700,000 per person and \$23,400,000 per married couple.

Section 179 deduction for business assets – The maximum deduction has increased to \$1,050,000 with the phase-out limit threshold of \$2,620,000.

Retirement Accounts

401(K), 403(b) 457 Plans - Employees in these plans will still be able to contribute up to \$19,500 in 2021. Likewise, the catch-up contribution limit for individuals aged 50 and over will remain unchanged at \$6,500.

SIMPLE Retirement Accounts - The limitation of elective deferral limits for SIMPLE retirement accounts remains unchanged at a limit of \$13,500. The SIMPLE catch-up limit is \$3,000.

Traditional IRA – Contribution limits remain unchanged at \$6,000 per person, with an additional \$1,000 catch-up amount allowed for those aged 50 and over. Note, 2021 IRA contributions can be made until April 15, 2022.

When a taxpayer meets certain conditions, their contributions to a Traditional IRA are deductible on their tax return. These conditions fluctuate based on whether the taxpayer and/or spouse are covered by a workplace retirement plan. Based on their workplace retirement plan situation, the deductibility of the contribution is reduced until it is phased out based on specified AGI range limit. In 2021 these phase-out AGI limits were increased as follows:

Single or Head of Household - AGI limits increased \$1,000 to a phase-out range of \$66,000 - \$76,000 AGI;

Married Filing Jointly (Spouse making the contribution is covered by a workplace retirement plan) – The phase out range limits increased \$1,000 to a phase-out range of \$105,000 - \$125,000 AGI;



Married Filing Jointly (Contributor spouse is married to someone who is covered by a workplace retirement plan) - The phase-out range limits increased \$2,000 to a phase-out range of \$198,000 - \$208,000 AGI.

ROTH IRA – Contribution limits are the same as for an IRA - \$6,000 plus an additional \$1,000 for those aged 50 and over. The phase-out range for taxpayers making contributions is as follows:

- Singles and Head of Households – Phase-out range is \$1,000 higher at \$125,000 - \$140,000;
- Married Filing Jointly – Phase-out range is \$2,000 higher at \$198,000 - \$208,000; and
- Married filing Separately – The phase-out range is not subject to an annual cost-of-living adjustment and remains \$0 to \$10,000.

These adjustments are some of the many tax provisions modified for the 2021 tax year that could greatly benefit many taxpayers. With an ever-changing economy, knowing your tax options is highly important. If you would like a more in-depth discussion as to how these or any other tax provisions may affect you or your business, feel free to contact our office. We would be happy to assist you in developing the right financial tax plan for you.

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Income Tax Brackets

Tax Rate	Single	Married Filing Jointly	Married Filing Separately	Head of Household
10%	Up to \$9,950	Up to \$19,900	Up to \$9,950	Up to \$14,200
12%	\$9,951 to \$40,525	\$19,901 to \$81,050	\$9,951 to \$40,525	\$14,201 to \$54,200
22%	\$40,526 to \$86,375	\$81,051 to \$172,750	\$40,526 to \$86,375	\$54,201 to \$86,350
24%	\$86,376 to \$164,925	\$172,751 to \$329,850	\$86,376 to \$164,925	\$86,351 to \$164,900
32%	\$164,926 to \$209,425	\$329,851 to \$418,850	\$164,926 to \$209,425	\$164,901 to \$209,400
35%	\$209,426 to \$523,600	\$418,851 to \$628,300	\$209,426 to \$314,150	\$209,401 to \$523,600
37%	\$523,601 or more	\$628,301 or more	\$314,151 or more	\$523,601 or more

Estate & Trust Brackets

Tax Rate	Estate & Trusts
10%	Up to \$2,650
24%	\$2,651 to \$9,550
35%	\$9,551 to \$13,050
37%	\$13,051 or more

Estate & Trust Brackets

Tax Filing Status	Standard Deductions
Single	\$12,550
Married Filing Jointly	\$25,100
Married Filing Separately	\$12,550
Head of Household	\$18,800