

## **WESTFIELD CPAs LLC**

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*Please appreciate we are compromising some grammar and editing time to get this to you as quickly as possible.*

Dear Clients,

Quick newsletter with two important topics: Our ability to prepare your tax return this season and tax law changes that we expect the President to sign as we write this.

It's March 11. We are 70 days into tax season with only 35 days remaining and they just changed the rules for last year. It will take at least two more weeks for the law to be interpreted and our software vendor to update our program. And that's not even near the top of our list of problems we face to complete tax returns.

As we write this, the American Rescue Plan Act (ARPA) is on its way to President Biden for his signature.

Following are highlights of selected individual tax provisions. Please appreciate that this is right off the press. It would take a week to read the 600+ pages of the law. Typically laws like this take months to interpret and then corrections are made. Many of the laws signed during the pandemic were not just reinterpreted, but intentionally changed. There is no reason to think this will not be the case again. We do not have most of the answers, and some of what we have quickly interpreted may be wrong. We also do not know yet how these will be implemented but with patience we will get there.

### **2020 Unemployment Benefits**

ARPA retroactively makes the first \$10,200 in unemployment benefits tax-free for 2020 for taxpayers with income of less than \$150,000. We do not know what happens to returns that have already been filed based on the law at the time. The IRS may adjust them automatically, or they may need to be amended. The unemployment income counts toward the income limit in determining any exclusion. The \$150,000 income limit is a cliff with no phase out, so if you are \$1 over the limit, you can miss out on up to \$2,400 in savings. The \$150,000 limit applies to single as well as joint returns. We do not expect to be able to complete those tax returns with tax free unemployment for a while as states need to decide if they go along with this and our software is updated.

## **Recovery Rebate #3**

ARPA creates a new round of stimulus payments to qualifying individuals. Like last year's two rounds of stimulus payments, they are advances. Advances 1 & 2 were reconciled on your 2020 return and this round will be reconciled on your 2021 return, but you get to keep any excess if you received too much.

The new payment can be as much as \$1,400 per person plus \$1,400 for each dependent. Stimulus 1 & 2 limited this to dependents under age 17. This round appears to include all dependents regardless of age. The IRS will send out the advance payments as they did in the previous rounds.

For single taxpayers, the payment will begin to phase out at an adjusted gross income (AGI) of \$75,000, and will be completely phased out with an AGI of \$80,000. For married taxpayers who file jointly, the phaseout will begin at an AGI of \$150,000 and end at AGI of \$160,000. The Act uses your latest AGI on file to determine eligibility, then some people will get a second check to "top off" their stimulus if they subsequently file 2020 and would have received more.

*This means you have three chances to win round 3 based on your 2019, 2020 or 2021 return.*

## **Child Tax Credit**

For 2020, the child tax credit provided a \$2,000 tax credit to parents with dependent children under 17 with AGI below \$200,000 single or \$400,000 married. This act expands the benefit in several ways:

Now the credit is fully refundable if it exceeds the tax.

They increased the age cut off for qualified children from under 17 to under 18 years old.

The amount of the credit was increased to \$3,600 per child under age 6 and \$3,000 for other dependents.

Just for fun there's even more to figure out...

The increased portion of the credit phases out for taxpayers with income over \$150,000 for married taxpayers filing jointly and \$75,000 for others, while the credit based on 2020 law will maintain the old phase out ranges of \$200,000 & \$400,000.

The IRS will estimate each taxpayers' child tax credit amounts and pay it monthly, in advance, from July through December 2021. This will have to be tracked and reconciled, along with stimulus 3, when you file your 2021 tax return.

## **Earned Income Tax Credit (EITC)**

The Act also makes it easier to get more free money through EITC. In the past, a single person had to be 25 years old. For 2021 the age is decreased to 19 except if you are a full-time student.

There are higher income limits allowed and many more people will begin to collect this. They even increased the disqualifying investment income limit from \$2,200 to \$10,000. Not sure how this will work, but taxpayers would be allowed to use their 2019 income instead of 2021 income in figuring the credit amount.

## **Child and Dependent Care Credit**

Interestingly, this was the biggest part of Trump's 2016 election tax policy, yet never passed. For decades the limit for eligible expenses through your employer dependent care plan has been \$5,000. This Act raised that limit to \$10,500. Also, for decades the dependent care credit available on your individual return was 20% to 50% of eligible expenses but limited to \$3,000 per child or \$6,000 per family. The 50% income limit is being expanded while higher earners will no longer be entitled to this credit. Also, the eligible care amount is increased to \$8,000 per child and \$16,000 per family. Guidance will come out to update employer plans.

## **Miscellaneous Provisions**

There are increased subsidies for healthcare through the Affordable Healthcare Act (ACA) which is clearly designed to expand the program.

They also eliminated any tax due to forgiveness of student loan debt which seems a preamble to the campaign promise of forgiving student loans.

***The hard part is how these changes, and other issues, impact our ability to prepare your tax return***

We are clearly suffering from an accumulation of the Federal and State governments inability to keep up with everything that's going on. In a normal year, if everything goes right, no big law changes, no significant illness or loss of snow days, we get through tax season fairly well.

This year, the accumulation of pandemic related issues has snowballed and will prevent us from our typical success. The IRS has not yet completed processing 2019 returns. They issued most forms late with some still on their way. They even started accepting tax return several weeks late. Many forms remain unavailable. New Jersey changed many of the business tax laws before the pandemic and have yet to approve forms and rules for us to prepare and they are due in four days!

In addition to retroactive changes in individual rules, the majority of changes are on the business side. Small businesses are suffering, and we are deeply involved in helping many of our clients simply survive. Between two rounds of PPP loans and a maze of payroll related tax credits (that also just changed in this Act) we have been overwhelmed.

In a typical year, we work on businesses from January 2 through February 15 and then transition over to individual returns. Here we are a month later and we have barely been able to complete any business and individual returns because of the seemingly endless tax law changes that result in the IRS & states not being able to approve forms. We are certainly well behind normal expectations.

With the broad changes the pandemic brought on, we have new systems in place to connect with clients such as SmartVault and e-signing. While they are going to be great in the future, we are still feeling our way through them and understand there is refining needed.

We are also people with families and have our own pandemic related issues. Fortunately, our firm is still well ahead of our peers that we connect with. The best evidence of this is that we have turned down around 100 potential clients in the last two weeks and feel their desperation as they have shared stories of other firms simply giving up and shutting down.

This all results in tax return preparation being delayed. We care about you, are working around the clock, and trying to do returns as they arrive, but appreciate that certain situations need to be prioritized.

We expect the government to delay the filing date. It would be unconscionable for the government to not extend. Last year, New Jersey rudely waited until April 14 to extend their due date. In the meantime, we are doing our best and need your patience. We expect it could be a few weeks to complete returns coming in now assuming the return can be completed. We will be in touch as we begin your return.

You have our promise that we are trying our best, will get through this, and be even stronger next year.

Sincerely,

The entire staff at Westfield CPAs