To Our Valued Clients…

We at Steinberg Enterprises are pleased to provide you with our newly revised Tax Newsletter. We appreciate your business during this tax filing season. It has been a challenging time with the new legislation and changes to tax provisions in place as a result of the coronavirus. The staffing at the IRS campuses has been limited, which created long wait times for calls to the Service; responses to correspondence; and the review of certain tax returns This resulted in an extended wait for refunds.

In this issue we touch on the provisions of the American Rescue Plan and the temporary tax benefits for individuals. We know that waiting for refunds or response to correspondence can be challenging at best and frustrating at any time, and we are sharing some information from the National Taxpayer Advocate on the status of the IRS in handling the backlog. For those planning for retirement, this issue also includes an informative article comparing Roth to traditional IRAs.

We look forward to working with you throughout the year on your tax planning needs. Our office is open throughout the year to assist you and your business.

Key Provisions of the American Rescue Plan Act of 2021

These are the key provisions of the American Rescue Plan Act of 2021, signed into law March 11, 2021, which affect individual taxpayers.

Unemployment Benefit Exclusion for 2020. Effective for 2020 only, the first $10,200 of unemployment compensation, per person, is excluded from taxable income if modified adjusted gross income is $150,000 or less.

Premium Tax Credit. Effective for 2020 only, any advance payment that exceeds the Premium Tax Credit allowed is disregarded and does not increase tax liability on the return. This suspension applies to all taxpayers regardless of income level as a percentage of the federal poverty level.

Recovery Rebate and Round 3 Stimulus Payment. Eligible individuals may qualify for a 2021 rebate amount of up to $1,400 per taxpayer ($2,800 MFJ), plus $1,400 per dependent. This stimulus payment for dependents is not limited to dependents who are under age 17. The payment starts to phase out when AGI exceeds $75,000 (Single, MFS), $150,000 (MFJ, QW), and $112,500 (HOH) and is fully phased out at $80,000 (Single, MFS), $160,000 (MFJ, QW), and $120,000 (HOH).

Unemployment Benefits Extended. The enhanced $300 per week of Pandemic Unemployment Assistance and Pandemic Emergency Unemployment Compensation is extended to September 6, 2021 (subject to state conformity).

Child Tax Credit. Effective for 2021 only, the Child Tax Credit (CTC):

- Is increased to $3,000 per qualifying child,
- Is $3,600 in the case of a qualifying child age five or younger as of December 31, 2021,
- Age limitation is increased from age 16 to age 17, and
- Is fully refundable.

The increased CTC (over the $2,000 prior amount) phases out when modified AGI exceeds $75,000 (Single, MFS), $150,000 (MFJ, QW), and $112,500 (HOH). Once the increased CTC is phased-out, the $2,000 per qualifying child still applies until modified AGI reaches the previous thresholds.

Contact our office to discuss your eligibility for these benefits as a result of the new legislation.

Advance Payment of the Child Tax Credit. The IRS is instructed to establish a program for making periodic payments to taxpayers for the advance payment of the Child Tax Credit. The advance amount will be estimated by the IRS. The IRS will establish an on-line portal which allows taxpayers to elect not to receive advance payments, or to update relevant information to calculate the advance payment. These payments are scheduled to start July 15, 2021 and will continue through December 31, 2021.

Earned Income Credit. Effective for 2021 only, the Earned Income Credit for individuals without a qualifying child is expanded. The investment income limitation for 2021 is increased from $3,650 to $10,000 and indexed for inflation in future years. Effective for 2021 only, if earned income for 2021 is less than 2019 earned income, the taxpayer may elect to used 2019 earned in-come when calculating the 2021 EIC.

Dependent Care Expense Credit. Effective for 2021 only, the Child and Dependent Care Expense Credit is refundable. The dollar limitation on expenses paid for a qualifying person is increased from $3,000 to $8,000 for one qualifying person and from $6,000 to $16,000 for two or more qualifying persons. The maximum of 35% is increased to 50% for AGI up to $125,000 with the credit percentage phasing out and reduced to zero when AGI reaches $438,000.

Dependent Care Assistance Program. Effective for 2021 only, the $5,000 maximum exclusion in increased to $10,500 ($5,250 MFS).

Student Loan Forgiveness Exclusion. For tax years 2021 - 2025, any discharge of student loan debt for any reason, including private student loans, may be excluded from taxable income, as long as there is no provision for the student to provide services to the discharging lender.

Are You Waiting for a Refund?

According to data from the National Taxpayer Advocate, only about two of every 100 phone calls to (800) 829-1040 are getting through. Even then, the IRS staff person often will not be able to answer the question, especially if it is about a refund. So, calling the IRS is likely to be a waste of effort.

There is a key exception to this advice for taxpayers who get a notice from the IRS asserting taxes due or requesting specific information. These letters usually give a number to call that is different from the main 800 number, and the chances of getting through are far higher—especially for calls made early or late in the day and not on Monday, according to an IRS spokesman. However, in all likelihood they also will not be able to tell you the status of your current year refund.

Backlog of paper returns

Recently the IRS was still processing about one million individual returns filed last year, many of them on paper. These have to be keyed in by individuals, and the IRS is moving returns to different offices to get through the backlog.

The agency is also holding about 16 million individual returns filed in 2021—and refunds due on them. It must review each one to make sure filers correctly claimed recovery rebate credits if they got (or did not get) stimulus payments. It must also double-check child tax credits and earned-income tax credits for 2020.

The IRS will also begin issuing refunds to filers eligible for an exemption of up to $10,200 per recipient of 2020 unemployment pay that Congress enacted in March after many people had already filed returns. According to a spokesman, the process will begin with simpler returns before proceeding to more complex ones, such as for married couples. It is expected to take several months to complete.

A challenging year

For its part, the IRS has had to do more with less, including 15% fewer employees in 2020 than in 2010. Since the beginning of the pandemic, the agency has had to delay two annual filing deadlines; coordinate a total of 470 million stimulus payments to individuals, many of whom were not in its system; and apply tax-law changes for 2020 that Congress enacted in March 2021, after millions of filers had already submitted returns. That is in addition to common staffing and logistical challenges faced by many large organizations since the start of last year.

So, what does all this mean for taxpayers waiting for a refund?

The IRS is requesting patience on the part of the taxpayer. “This has been a challenging year,” IRS Commissioner Chuck Rettig said in testimony before Congress in April. “We greatly appreciate the patience and understanding of others.” He noted that the IRS’s call volume has more than doubled, to more than 1,500 calls per second at times.

We will do what we can to verify the status of your return, however, once the return has been accepted by the IRS all we can do is wait for processing. If your return contains any of the items noted in this article, it must go to the desk of a live person for review and then released for continued processing. As the IRS staff is still on mandatory stay-at-home rules, the number of IRS staff people allowed in the offices is limited which has slowed down all processes.

Roth vs Traditional IRAs

When making the decision of how to invest your retirement funds, you should consider several factors. Say, for example, your tax rate is 32% and you plan to invest $5,000 in an IRA earning 6% interest. And, further, neither you or your spouse has a qualified plan through work so the full amount would be deductible. Do you take advantage of the current year reduction in taxable income or plan for the tax-free distribution of earnings at retirement?

Traditional IRAs

- If you invest in the traditional IRA, you will have tax deferred income of $5,000 at 32% or $1,600. This would be taxable income when there is a distribution from the IRA.
- Your tax bracket is key – do you have a crystal ball on where your income will fall at retirement? Both the original investment and earnings will be fully taxable as ordinary income when distributed.
- The ideal situation is to be in a high tax bracket at the time the funds are contributed and a low tax rate when distributions are taken.
- The traditional IRA has a required minimum distribution at age 72 (under current tax law).
- Do you have other retirement funds that also have a required minimum distribution (RMD) such as a 401(k)? Required distributions from several qualified plans or IRAs could place you in a higher income bracket which may subject you to the Net Investment Income Tax (NIIT) or your social security benefits may be taxable.

- Traditional IRAs allow for the qualified charitable distribution – funds donated directly from your IRA to a qualified charity would satisfy the RMD and bypass your individual income tax return.

Roth IRAs

- Contributions to a Roth are not deductible, so taxes are paid at your current tax rate.
- When the Roth funds are distributed, your tax rate is immaterial as the principal has already been taxed, and the earnings are tax-free.
- You would need to satisfy a five-year waiting period to receive the funds penalty free.
- The length of time that you keep the investment favors the Roth IRA with the tax-free growth of the earnings.
- There is no required minimum distribution (RMD) of the Roth. The amount of any distributions is discretionary and can remain in there to pass onto your heirs.

Planning for your retirement

While an immediate tax deduction may seem like a good idea, planning for retirement and weighing the different options is important. However, the most important factor is to have a retirement savings plan.

For taxpayers older than 65 years, retirement accounts begin to decline as these individuals leave the workforce and begin spending their savings.

You are always most welcome to contact our office to discuss your options for saving for retirement. Social security will not be enough to secure a comfortable retirement and will require additional action on your part to enhance your retirement income.

We are committed to improving our clients' financial well-being. Steinberg Enterprises provides confidential, convenient services based on over 27 years of practical financial management and tax experience.

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