

5 FACTORS THAT COULD IMPACT YOUR 2021 TAX FILING

Events of the last couple years have likely affected your finances. While some legislative efforts may have been helpful, there were significant tax-related events that could affect your 2021 tax returns.



1. STIMULUS PAYMENTS & CHILD TAX CREDITS

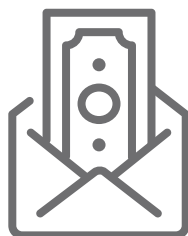
Did you receive a third round of stimulus payments in 2021? As was true in 2020, a stimulus payment is not considered income, so you won't owe taxes on it. However, you may need that information to determine whether you are eligible to claim a 2021 Recovery Rebate Credit.¹

New in 2021 was the expanded Child Tax Credit. Eligible recipients receive advance monthly payments of up to \$3,000 per qualifying child aged 6-17, and up to \$3,600 per qualifying child under age 6 from July through December 2021.² If the total is greater than the amount of Child Tax Credit you're allowed to claim, however, you may have to repay the excess amount when you file your 2021 taxes.³ Another potential benefit is the Child and Dependent Child Care Tax Credit. This allows for a credit of up to 50% of expenses incurred to help pay for the care of children under age 13 or dependents who are mentally or physically unable to care for themselves while you are working or looking for work.⁴



2. TAX-DEFERRED CONTRIBUTION LIMITS

Employee contribution limits for those who participate in a 401(k), 403(b) and some other types of plans in 2021 remain at \$19,500. Those over age 50 can contribute up to \$6,500 more as part of a catch-up contribution.⁵ Traditional IRA and Roth IRA contribution limits also remained the same in 2021 (\$6,000 plus \$1,000 for those 50 and older).⁶ Catch-up contributions rules can be complex and your limits may differ according to provisions in your specific plan, so contact your plan administrator for details.



3. REQUIRED MINIMUM DISTRIBUTIONS

You cannot keep funds in your retirement account indefinitely. Required minimum distributions (RMDs) from your qualified accounts, such as 401(k)s and 403(b)s, begin once you reach age 72 (if your 70th birthday was July 1, 2019 or later). If you don't take any distributions, or they aren't large enough, you may have to pay a 50% excise tax on the amount that wasn't distributed. If you took an RMD, those withdrawals will typically be included in your taxable income.⁷



4. UNEMPLOYMENT PAYMENTS

Thanks to the American Rescue Plan Act of 2021, unemployment compensation in 2020 included a limited exclusion from income up to \$10,200. However, that exclusion doesn't apply for 2021 unless Congress enacts another type of relief bill. That means that any unemployment compensation you receive in 2021 will be considered taxable income. Consider requesting to withhold taxes from your state agency to avoid paying in the following year. It's also important to make sure your 2020 taxes were filed correctly.⁸



5. STUDENT LOAN RELIEF

In August of 2021, the Department of Education announced an extension of the payment pause on eligible student loans until January 31, 2022. Collections on defaulted loans will be stopped until then, and borrowers receive a 0% interest rate. Most direct loans and others issued by the Department of Education are eligible with some exceptions. Private loans are ineligible. If you've defaulted on an eligible student loan, you will not have any tax refunds withheld. Repayment must resume in February 2022 unless another extension is issued.⁹

Managing your financial future can be tough enough without adding the uncertainties of global events, changing legislation and confusing tax laws. Connect with a financial professional located at your credit union to help guide you in the right direction, and consult with a tax professional to ensure you cover all the bases.

Talk with a financial professional located at your credit union today.

SOURCES:

¹ IRS.gov, Questions and Answers about the Third Economic Impact Payment – Topic H: Reconciling on Your 2021 Tax Return, April 15, 2021

² USA.gov, Advance Child Tax Credit and Economic Impact Payments - Stimulus Checks, June 15, 2021

³ IRS.gov, 2021 Child Tax Credit and Advance Child Tax Credit Payments – Topic A: General Information, Aug. 13, 2021

⁴ IRS.gov, Child and Dependent Care Tax Credit FAQs, June 14, 2021

⁵ IRS.gov, Retirement Topics - 401(k) and Profit-Sharing Plan Contribution Limits, June 26, 2021

⁶ IRS.gov, Retirement Topics - IRA Contribution Limits, Aug. 18, 2021

⁷ IRS.gov, Retirement Topics – Required Minimum Distributions (RMDs), May 3, 2021

⁸ Taxpayer Advocate Service, TAS Tax Tip: Don't wait - check your withholding now and report changes in circumstances to avoid a possible tax bill next year, July 27, 2021

⁹ Federal Student Aid, Coronavirus Info for Students, Borrowers, and Parents, no date

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