

**RECENT AND NEW LEGISLATION**

The American Rescue Plan Act of 2021, (ARP) was enacted on March 11, 2021. The Act provides expanded child tax credits, paid sick and family leave credits, certain COBRA relief and other individual and business provisions.

The Coronavirus Aid, Relief, and Economic Security (CARES) Act signed on March 27, 2020, included several tax provisions for 2020 and 2021. Some provisions were modified by subsequent legislation including the Consolidated Appropriations Act and The American Rescue Plan Act. Certain provisions provide benefits for 2021. The following are some highlights.

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**Individuals:**

- Recovery rebate credit – Eligible taxpayers and their dependents received a third, nontaxable economic impact payment in early 2021.
- Expanded child and dependent care tax credits for 2021.
- Deduction of mortgage insurance premiums extended through 2021.
- Above the line charitable contribution deduction for non-itemizers of up to \$300 for singles and \$600 for a joint return through 2021.
- Allowance of charitable contributions up to 100% of adjusted gross income through 2021.
- The required beginning date for required minimum distributions is April 1 following the calendar year that the IRA owner attains age 72.

**Business:**

- Employers are eligible to claim an Employee Retention Credit against taxes paid on qualified wages through September 30, 2021.
- Temporary allowance of 100% deduction for certain business meals purchased from a restaurant through 2022
- Deduction for cash contributions up to 25% of net income for 2021.

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**2021 Depreciation Limits**

- Bonus depreciation remains at 100% for new, used, and qualified improvement property.
- Section 179 deduction –The deduction for qualified property is increased to \$1,050,000 and the phase-out threshold is increased to \$2,620,000.

**Other Miscellaneous Updates****Retirement Plans**

**IRA Contribution:** For 2021 and 2022, the maximum that can be contributed to an IRA or Roth IRA is \$6,000. For persons 50 and over, an additional “catch-up” contribution up to \$1,000 may be made for both 2021 and 2022.

***Retirement Plan Contribution Limits:***

	<u>2021</u>	<u>2022</u>
Maximum 401(k) and 403(b) employee contribution	\$19,500	\$20,500
Maximum SIMPLE employee contribution	\$13,500	\$14,500

**“Catch-up” Contribution Limits:** Taxpayers who are at least age 50 before the end of the respective year can increase their contribution limits by the following amounts:

401(k), 403(b), salary reduction SEP plans and 457 plans	\$6,500	\$6,500
SIMPLE plans	\$3,000	\$3,000

### **Affordable Care Act**

If you or a family member enrolled in health insurance through the Marketplace and advance payments of the premium tax credit were made to your insurance company, you will receive Form 1095-A. A copy of this form is required to prepare your tax return. Please provide this form to us.

### **Estate & Gift Tax**

For 2021 the applicable federal estate and gift tax exemption for individuals is \$11,700,000 and \$23,400,000 for a married couple. For 2022, the estimated exemption is \$12,060,000 per individual. The annual gift tax exclusion amount is \$15,000 per recipient in 2021 and projected to be \$16,000 in 2022.

### **Miscellaneous**

***Kiddie Tax:*** In 2021, the “kiddie tax” applies to children up to age 18, and full-time students aged 19-23, whereby a child’s investment income greater than \$2,200 is taxed at the parent’s marginal rate.

***Standard Mileage Rates:*** The business mileage rate for 2021 is .56 cents per mile. Business related costs for parking, tolls, auto loan interest, and auto excise tax may be deducted in addition to the standard mileage rate. The standard mileage rate for medical purposes in 2021 is .16 cents.

***Social Security Retirement Earnings Test:*** For persons who are at least age 62, but under their full retirement age, the maximum income that can be earned while drawing Social Security without losing benefits for 2021 is \$18,960 and rises to \$19,560 for 2022. For persons who reach full retirement age in 2021 or 2022, the limit of earnings for the period prior to this date are \$50,520 and \$51,960, respectively. Full retirement age is determined based on the individual’s date of birth and gradually increases from age 65 to age 67.

As a rule, Massachusetts does not adopt any federal personal income tax law changes made to the Internal Revenue Code after January 1, 2005. However, certain specific Massachusetts personal income tax provisions automatically conform to the current Internal Revenue Code.

**Tax Rate:** The 2021 tax rate for income (other than short-term capital gains, long-term gains on collectibles and short-term gains on the sale of trade or business property used in a trade or business) is 5%.

**New Optional Pass-Through Entity Excise:** For taxable years beginning on or after January 1, 2021, pass through entities may elect to pay an optional 5% excise tax on the income that flows through to individuals. These individuals may claim a refundable credit equal to 90% of their allocable share of the entity's excise due.

**Unemployment Compensation:** Up to \$10,200 of unemployment compensation of certain individuals is treated as nontaxable income for Massachusetts purposes.

**Senior Circuit Breaker Tax Credit - Real estate tax credit for persons aged 65 and older:** The maximum credit is increased to \$1,170 for 2021. The 2021 limitations on income are \$62,000, for single, \$78,000 for head of household and \$93,000 for married filing jointly. The assessed value of the real estate on January 1, 2021, cannot exceed \$884,000 to qualify for this credit. For properties with greater than 1 acre of land, the assessed value and real estate taxes must be pro-rated.

**Estate Tax:** The Massachusetts filing threshold and exempt amount remains at \$1,000,000 with a top rate of 16%. There is no gift tax in Massachusetts.

**Prepaid Tuition or College Savings Program Deduction:** A deduction is available for contributions to a pre-paid tuition program, or a college savings program established by the Commonwealth. The deduction is capped at \$1,000 for a single person or head of household and \$2,000 for a married couple filing jointly.

**Please feel free to contact us for additional information on any tax matter or to discuss how the 2021 tax law changes will affect you.**

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