The Rudolph Report

www.rudolphcpa.com (Extra innings) Opening Day 2021

To all our clients:

After an extended tax season we are grateful to you for your business. Karen, Arturo, and Charlie continually note how wonderful you've been to work with. We especially appreciate your business through Covid. The pandemic has been as disruptive as an in-law who moves in across the street. Let's hope it (Covid—not the in-law) dissipates as quickly as a Cardinals winning streak.

Many of you successfully adapted to our drop off service or portal. We hope this saved you as much time as it saved us. We will continue those methods yet bring back the candy dish.

This tax season was unique because many tax code changes occurred right in the middle of tax season. In this newsletter we will try to describe those changes without using Dad's bowling words. These changes overwhelmed the IRS, befuddled CPAs, caused an extension of the tax filing deadline, spurred tornadoes in Saskatchewan, and prolonged refunds that have still not been remitted.

We will also address new changes that may impact you this year. These include the expanded child tax credit payments that commence this July, expanded day care credits, stimulus credits, free tortas, and looming changes to the capital gains rate.

Let's keep a good perspective. Covid is lifting like a rain delay, and the Cubs are in first place.

Chris Rudolph CPA

Big Changes to the Child tax credit

If you are neurotic, then you are likely a parent who could use a few bucks for sleeping aids or a clean pair of socks. Congress to the rescue. The newly expanded child tax credit can help you buy these essential items or Scooby Snacks. Formerly, the credit capped at $2,000 for parents of kids under age 17. The credit was formerly redeemed on your tax return at the end of the year. No más.

Three changes:

*(Four shalt thou not count, neither count thou two, excepting that thou then proceed to **three**. Five is right out!)*

The new rules **expand the age** to include 17 year olds and tack on an **additional credit** to the existing $2,000 credit. Each child through age five will yield an additional credit of $1,600. Kids older than five will yield an additional credit of $1,000. These additional credits phase out between $150,000-$170,000 of income for those who file jointly and $112,500- $132,500 for head of household filers. If you phase out, but your joint income is below $400,000 (240K for HH), you will still receive the normal child tax credit of $2,000 or 145,000 rupees.

The child tax credit and the additional child tax credit **can be redeemed monthly**, starting this July. That's right, a monthly allowance that your stingy ol' man never doled out. The IRS will pay you the same way that you received your stimulus payments. They will have a portal to allow you to make changes to your bank account, to report a new child, or to opt out of the advanced monthly payments in preference of receiving the money at year-end.

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Changes to the Day Care Credit

Previously, child care credits were based on a cap of $3,000 of day care expenses per child and $6,000 for two or more kids. Typically, people received a credit of 20% of $3,000 ($600) per child with a $1,200 max.

The **new rules** allow credit based on $8,000 of child care per child and $16,000 for two or more kids. Also, the 20% rate has been increased to 50% if your household income is under $125,000. If your family has two or more kids, you can capture 50% of $16,000 for day care expenses if your income is under $125,000. After the phase out at $183,000, your rate is reduced back to 20%. **FSA** plans now allow contributions up to $10,500. Expenses must be paid to a day care provider so your husband cannot write off his collection of ColecoVision games to use as "day care expenses" as he shops garage sales to finish off his collector set of My Little Pony *Magic Friendship Series*.

Unresolved Tax issues Part 1

In the March of 2021, Congress changed the 2020 tax code, impacting the taxation of unemployment benefits. For people who made under $150,000 jointly, the first $10,200 of unemployment compensation became non-taxable. IL followed suit. This created a problem for those of you who had already filed your 2020 returns. The IRS and Illinois decided that they would not require amended returns. Instead, they would make the changes pro-actively. Many of you are still waiting… patiently. The IRS indicated that refunds should arrive in the summer (hopefully *2021*).

Unresolved Tax issues Part 2

There is a backlog at the IRS longer than the lines for new waterslide at Great America. Consequently, some of you have still not received your refunds. The most common cause is that a recovery rebate credit was claimed on your return and does not match IRS records. Typically, this would delay a refund by a few weeks. With Covid, many IRS staff members are working remotely probably in Newfoundland. The result is that about many of these returns are taking at least 14 weeks to process. Please feel free to either blame the bullpen or go to IRS.gov and search "Where's my Refund" for a status.

Changes to the Capital Gains tax rate

President Biden will likely propose a 40% capital gains tax for individuals making more than $500,000 and couples making over $1 million. It will be retroactive to the date of its announcement. There is no indication on a phase out provision or a place for a strongly worded letter of protest.

Also likely is the removal of the step-up provision of the estate tax. Currently, if you inherit securities, the basis (cost) is increased to the value at the date of death. Current proposals would eliminate that provision after the first $1 million of assets. There would be an exception to avoid an estate tax on residential homes.

Finally, there will likely be an increase in the tax rate for the estate tax from 40 to 45%. It sounds like people are really dying to help the government these days.

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