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Branch Office:  
8606 North NC Highway 109  
Winston-Salem, NC 27107  
(336) 769-4644

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Branch Offices:  
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Winston-Salem, NC 27107 (336) 769-4644  
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Winston-Salem, NC 27107  
(336) 769-4644

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# TAX NEWS & TIPS

MIDYEAR 2021

## The 2020 Tax Season Is Not Over Yet!

Even though the filing deadline (without extension) for 2020 Federal Tax Returns will have passed (May 17, 2021) by the time you are reading this Newsletter, there could be some unresolved issues that remain.

The American Rescue Plan enacts the following provisions affecting your 2020 Federal Tax Return.

**Unemployment Benefits**  
If you received Unemployment Benefits in 2020 and your Adjusted Gross Income (AGI) is less than \$150,000, then up to \$10,200 (per taxpayer for married couples filing jointly) of those benefits are non-taxable. Since this provision was enacted after some taxpayers had already filed their returns, the IRS will automatically calculate the refund amount (without the need to amend the tax return) and send it to the taxpayer. These refunds are expected to begin in late May and continue through the summer.

**Excess Healthcare Premium Tax Credit**  
Another tax provision enacted part way through the filing period this year was for the Excess Healthcare Premium Tax Credit. This is the credit that is available to those taxpayers that elected to purchase healthcare through the Government Website.

The American Rescue Plan Act of 2021 suspends the requirement that taxpayers increase their tax liability by all or a portion of their excess Advance Payments of the Premium Tax Credit (excess APTC) for tax year 2020. A taxpayer's excess APTC is the amount by which the taxpayer's advance payments of the Premium Tax Credit (APTC) exceed his or her Premium Tax Credit (PTC).

Taxpayers with excess APTC for 2020 are not required to file Form 8962, Premium Tax Credit, or report an excess advance Premium Tax Credit repayment on their 2020 Form 1040 or Form 1040-SR.

Taxpayers who have already filed their 2020 tax return and who have excess APTC for 2020 do not need to file an amended tax return or contact the IRS. The IRS will reduce the excess APTC repayment amount to zero with no further action needed by the taxpayer. The IRS will reimburse

people who have already repaid any excess advance Premium Tax Credit on their 2020 tax return. Taxpayers who received a letter about a missing Form 8962 should disregard the letter if they have excess APTC for 2020. The IRS will process tax returns without Form 8962 for tax year 2020 by reducing the excess advance premium tax credit repayment amount to zero.

*As a reminder, this change applies only to reconciling tax year 2020 APTC.*

### Third Stimulus Payment Requirements

The Treasury has issued requirements for the third stimulus payment which started arriving in March 2021 to the following:

The maximum amount for the third round of stimulus checks will be \$1,400 for any eligible individual or \$2,800 per eligible couple filing taxes jointly. Each eligible dependent – including adult dependents – also will qualify for a payment of \$1,400. That means a family of four could receive as much as \$5,600 in total.

Under the bill, single adults who reported \$75,000 or less in adjusted gross income (AGI) on their 2019 or 2020 tax return will receive the full \$1,400 payments, as will heads of household who reported \$112,500 or less. Couples filing jointly who earned \$150,000 or less in AGI will receive the full \$2,800. The size of the payment will gradually decrease for those who earned more than those amounts, until it disappeared entirely for higher-income households. Single filers with more than \$80,000 in AGI, heads of household with more than

\$120,000, and couples filing jointly with more than \$160,000 in AGI will not receive stimulus payments in the third round.

The increase in the amount dependents can receive is one big change with this third round of stimulus payments. For the first round of payments, checks were \$500 per eligible dependent younger than 17. The amount was \$600 per eligible child dependent for the second round. But this time around, for the first time, adult dependents will be eligible to receive stimulus payments. That change could be a big financial boost to families who serve as caregivers for their loved ones or who have students older than 16 in college or pursuing other educational opportunities.

### Inside This Issue

- Tax Season Is Not Over
- Third Stimulus Payments
- Tax Tips for You... *Now!*
- Myth vs. Truth
- Your Tax Calendar

# Tax Tips For You.. Now!

The American Rescue Plan of 2021 was executed in March and created major changes in tax provisions that affected federal tax returns for 2020 as well as for 2021 returns. Most of the Plan's provisions provide for putting more money into taxpayer's hands now...when it's needed most due to the devastating economic effects of the COVID19 pandemic.

One of the most significant changes centered around the child tax credit.

The new credit for 2021 increases the credit from \$2,000 per child to \$3,000 and increases the age for eligible children to under 18 years old from under 17 years old. Additionally, children under age 6 are eligible for \$3,600.

This child tax credit is required to pay half of the credit in advance, delivering monthly payments of up to \$300 per child directly into parents' bank accounts, through the end of 2021. Upper income taxpayers will not be eligible for the higher credit. Those with AGIs of greater than \$75,000 for single filers, \$112,500 for heads of household and \$150,000 for married joint filers will see the credit reduce by \$50 for each \$1,000 of AGI over these thresholds. These higher income families will only have their credits reduced to \$2,000. This is also a change since previously, the credit completely phased out on joint returns above \$400,000 AGI and single returns above \$200,000.

Taxpayers 72 and older must take Required Minimum Distributions (RMDs) for 2021 by year-end.

There are two exceptions. First, individuals who turn 72 this year

can postpone taking their RMD until April 1, 2022. Second, taxpayers who work past age 72 can delay RMDs from their current employer's 401(k) Plan until they retire, provided they do not own more than 5% of the firm that employs them.

Still awaiting a Stimulus payment from the IRS? You may get paid by a paper check or you may get a prepaid debit card. The debit cards will be sent in plain white envelopes and will have "Visa" on the front of the card and "Metabank" imprinted on the back.

Do not forget that certain Coronavirus related distributions from 401(k), 403(b) and IRAs to qualified individuals can escape the 10% penalty for early withdrawal for taxpayers under age 59 ½. Additionally, the distributions generally can be included in income ratably over a three-year period, starting with the year in which you receive your distribution. For example, if you receive a \$15,000 coronavirus-related distribution in 2020, you will report \$5,000 in income on your federal income tax return for each of 2020, 2021, and 2022. However, you have the option of including the entire distribution in your income for the year of the distribution.

## ✓ *This Provision Is Available For 2020 Only*

The CARES Act allows a charitable cash contributions deduction of up to \$300 for taxpayers that do not itemize.

## ✓ *This Provision Is Available For 2020 Only*

## **Earned Income Tax Credit**

Several changes have been made to the earned income tax credit. It introduces special rules for individuals with no children: For 2021, the applicable minimum age is decreased to 19, except for students (24) and qualified former foster youth or homeless youth (18). The maximum age is eliminated. The credit's phaseout percentage is increased to 15.3%, and the phaseout amounts are increased. The credit would be allowed for certain separated spouses.

The threshold for disqualifying investment income would be raised from \$2,200 to \$10,000.

Temporarily, taxpayers would be allowed to use their 2019 income instead of 2021 income in figuring the credit amount.

## **Child and Dependent Care Credit**

Various changes have been enacted to the child and dependent care credit, effective for 2021 only, including making it refundable. The credit will be worth 50% of eligible expenses, up to a limit based on income, making the credit worth up to \$4,000 for one qualifying individual and up to \$8,000 for two or more. Credit reduction will start at household income levels over \$125,000. For households with income over \$400,000, the credit can be reduced below 20%.

The act also increases the exclusion for employer-provided dependent care assistance to \$10,500 for 2021.

## **Student Loans**

Amended Sec. 108(f) specifies that gross income does not include any amount that would otherwise be included in income due to the discharge of any student loan after December 31, 2020, and before January 1, 2026.

## **Amended Return?**

If you forgot some key information, I could file an amended return for you. You have 3 years after the filing deadline to change your return. Most

2017 returns have a deadline of May 17, 2021. Call me if you have discovered tax documents or information that you originally omitted from a previously filed Tax Return. Even though the tax filing deadline for 2020 tax returns was extended from April 15 to May 17, any extension of time to file beyond May 17 still has an October 15, 2021 due date.

# Myth vs. Truth

## Myth:

You must file a tax return to get a stimulus payment.

## Truth:

No! The IRS used your most recent filed tax return to determine your eligibility to receive a stimulus check. The IRS also went to great lengths to ensure that those not required to file tax returns also got their checks. The IRS worked closely with the Social Security Administration (SSA) and the Department of Veterans Affairs (VA) to make sure that non-filers who received benefits from SSA – including benefits for survivors, the disabled (SSDI) and Supplemental Security Income (SSI) recipients – or the VA got a check.

## Myth:

You owe income tax on your stimulus payment.

## Truth:

Nope. The payment is not income and taxpayers will not owe tax on it. The payment will not reduce a taxpayer's refund or increase the amount they owe when they filed their 2020 tax return. A payment also will not affect income for purposes of determining eligibility for federal government assistance or benefit programs.

## Myth:

It is too late to get a stimulus check.

## Truth:

The IRS has already pushed out millions of stimulus payments, either

by paper check, direct deposit, or prepaid debit card. Nevertheless, some people who were entitled to a stimulus payment have not gotten one. If you didn't receive either or both of the first two stimulus payments, you may have been eligible (income limits applied) to claim the missing money when your 2020 tax return was filed.

The third round of coronavirus stimulus checks in the American Rescue Plan were approved in mid-March, but there is already a lot of confusion around the \$1,400 payments.

Partially because it was approved during the tax-filing time for 2020 Tax Returns, one of the biggest misconceptions is that the funds will get added to taxpayers' tax refunds for 2020. That is not true.

The third economic impact payment (EIP) is an advance on a tax credit for 2021, and the taxes you filed this spring – as well as the refund you are probably getting – are for 2020.

So, while it is possible your coming refund may be larger because you claimed the first two recovery rebate credits, it is not related to this new law for the \$1,400 stimulus payment.

Any extra stimulus money you get in your 2020 refund is from the CARES Act and the Consolidated Appropriations Act (which created the first and second stimulus payments last March-September and December-March, respectively).

At this point, the \$1,400 stimulus check is separate. It will either be direct deposited into your bank account or show up in the mail as a paper check

or debit card. If you don't receive the full amount of your third stimulus check because the IRS does not have updated information, you may not get your money until next year. You might have to submit your 2021 tax return to get your stimulus money. The IRS will not begin accepting 2021 returns until late January or early February 2022.

## Myth:

College students are not eligible for stimulus payments.

## Truth:

For the first two rounds of stimulus checks, if you were 17 or older and were not claimed as a dependent on someone else's tax return, you were eligible for a stimulus check. Whether or not you were in school did not matter. You also had to meet the income requirements. To receive a full stimulus payment, your adjusted gross income (AGI) had to be at or below \$75,000 for individuals and \$150,000 for married couples filing joint returns.

Most college students did not have to worry about the income requirements. What they did have to worry about is being claimed as a dependent by their parents. That negated their eligibility to receive a first or second stimulus check. The third stimulus payment removed the age restriction, so if your parents claim you as a dependent and you are 20 years old, they could get extra stimulus money because of you. The same applies to elderly dependents – the \$1,400 goes to the person who claimed the elderly dependent, not directly to the dependent.

## “Stimulus” from page 4

Your second Economic Impact Payment was \$600 (\$1,200 if married filing jointly) plus \$600 for each qualifying child.

If you either did not receive any Economic Impact Payments or received less than these full amounts, you may be eligible to claim the Recovery Rebate Credit based on your 2020 tax information and must file a 2020 Federal tax return.

Generally, if you were a U.S. citizen or U.S. resident alien in 2020, were not a dependent of another taxpayer and have a Social Security number that is valid for employment, you are eligible for the Recovery Rebate Credit. Your

credit amount will be reduced if your adjusted gross income (AGI) is more than:

\$150,000 if married and filing a joint return or filing as a qualifying widow or widower,

\$112,500 if filing as head of household or,

\$75,000 for eligible individuals filing as a single or as married filing separately.

Your payment will be reduced by 5% of the amount by which your AGI exceeds the applicable threshold above.

You are not eligible for the Recovery Rebate Credit if any of the following applies:

- You may be claimed as a dependent

on another taxpayer's 2020 return (for example, a child or student who may be claimed on a parent's return or a dependent parent who may be claimed on an adult child's return).

- You do not have a Social Security number that is valid for employment issued before the due date of your 2020 tax return (including extensions). Some exceptions apply for those who file married filing jointly where only one spouse must have a valid Social Security number to claim RRC.
- You are a nonresident alien.
- You are an estate or trust.
- Also, individuals who died prior to January 1, 2020 are not eligible for the Recovery Rebate Credit.

# This Will Blow Your Mind!

There are many specific tax provisions that address ordinary situations. Being able to have many ordinary tax occurrences all take place in the same year (in this case some tax laws pertain to 2020 only) would really be unlikely. The key in this example is to have all the "tax" stars align... possible, but not probable!

A married couple each over 65 years old can have an income of \$146,415 for 2020 and owe only \$3 in federal income taxes! How can that be?

**1.** Each taxpayer collected \$10,200 of

Unemployment Benefits in 2020. Since their total income was under \$150,000, they can exclude the Unemployment Benefits that they received under The American Rescue Plan. Their income is \$0 at this point.

**2.** The couple has \$31,765 in Social Security Benefits for 2020. 85% of these benefits will be income. That amount is \$27,000. Their Standard Deduction for 2020 is \$27,000 reducing this income to \$0.

**3.** The couple did not receive either

of the first two stimulus checks (\$2,400 + \$1,200) because their income in 2019 was over \$200,000. This \$3,600 will show on their 2020 tax return as a credit.

**4.** The couple had \$78,750 of long-term capital gains for 2020. This is the amount that a couple can have in capital gains in 2020 and pay \$0 tax.

**5.** The couple has \$15,500 of interest income. The tax on this income is \$3,603 and uses the credit in #3 above to result in a \$3 tax due balance.

## WISER FINANCIAL

P.O. Box 530  
Wallburg, NC 27373

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### Your Tax Calendar

**Apr 15** - 1Q 2021 Federal Tax Estimates due.

**May 17** - 2020 Tax Returns due without extensions.

**June 15** - 2Q 2021 Federal Tax Estimates due.

**Sept 15** - 3Q 2021 Federal Tax Estimates due.

**Oct 15** - 2020 Tax Returns due with extensions.

*Call anytime if you have questions.*

## 2 Stimulus Payments, Same Eligibility Requirements, Different Rebate Amounts

The eligibility requirements are the same for the Recovery Rebate Credit as they were for the Economic Impact Payments except that the credit eligibility and the credit amount are based on your 2020 tax year information. The Economic Impact Payments were based on your 2018 or 2019 tax year information.

Individuals who did not qualify for the Economic Impact Payments or did not receive the full amount of the recovery rebates as Economic Impact

Payments may be eligible for the Recovery Rebate Credit based on their 2020 tax situation. If you received the full amount for each Economic Impact Payment, you would not need to include any information about either when you filed your 2020 tax return. You received the full amount if:

Your first Economic Impact Payment was \$1,200 (\$2,400 if married filing jointly) plus \$500 for each qualifying child; **and**

*See "Stimulus" on page 3*