

Tips for filing your 2021 individual income tax return

BY ROGER NAGEL

January 15, 2022

COVID Relief legislation affected nearly all taxpayers in one form or another in 2021.

What are the implications for preparing your tax return?

The American Rescue Plan Act (ARPA, April 2021) extended 2020 provisions or provided for certain new direct “advance” payments to taxpayers.

Most common were the child tax credits for dependent children under age 16. Advance payments began after July 1 and varied per child based on their ages in 2020.



Roger Nagel

The amounts received will be reportable, so you must know what you received. Check your bank statements to confirm the amount.

Under certain circumstances, part of what you received may increase your tax liability. Because you received what you were entitled to in advance of the year end, the amounts refundable this year will be smaller.

The third round of “stimulus payments” occurred in the first half of 2021. These, too, are reportable and may or may not affect your tax liability based on circumstances for the year.

Since most eligible taxpayers had their payments directly deposited in their bank accounts, you will need to confirm the amount to prepare an accurate return.

Unreported advance payments are known by the IRS and traceable into your tax return. A mistake in reporting will generate a love letter from Uncle Sam that could include additional tax, penalty and interest.

Taxpayers who were entitled to received stimulus payments but did not due to circumstances of 2019 or 2020 will claim their credit on their 2021 tax return. These credits are known as Economic Recovery Rebates and will be determined when preparing your 2021 tax return.

If you forgot what you received and report nothing, you, too, will receive a love letter from Washington, D.C.

Just recently, we have had two (rather happy business) clients asking about the payments they received from the IRS for “withholding tax credits.” Neither taxpayer knew what caused these payments to be received; they just “showed up” unexpectedly.

Upon further inquiry, we learned these taxpayers had innocently hired third-party providers to apply for Employee Rebate Credits. This was a COVID relief program that allowed certain employers to reduce the amount of payroll tax deposits according to a pre-approved formula or receive direct payments for amounts paid in excess of the entitled reduction.

Due to the chaos of IRS quarantines and working from home, the delay between application and receipt of approved advance payments was in both cases greater than six months. Both taxpayers simply forgot what they had done, and the amount and timing of what they were due.

In hindsight, this is understandable under the circumstances we all faced in 2021.

Fortunately, these wise taxpayers alerted us for inclusion with the 2021 tax preparation.

These benefits, unlike forgiven PPP loan proceeds are fully included in determining taxable income. Failure to report will generate penalty and interest.

On a brighter note, the proposed changes to raise tax revenue that we had been warning you about since April have not yet passed both houses of Congress. We get a little reprieve this year.

(Roger Nagel, CPA/PFS, CMA, CGMA, is the managing director of Nagel CPAs, LLC – Accountants and Advisors, serving the middle Rio Grande Valley and beyond. Learn more at nagelcpa.us.)