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PRODUCT & SERVICE GUIDE

8 Tax Tips for 2021

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Jan. 28, 2021



Following an unpredictable year with many changes and challenges, the IRS has shared several important reminders for taxpayers who are about to file their 2020 federal tax returns. If you have questions as to if some of these credits or deductions apply to you, check with a tax professional.

Choose direct deposit

The safest, most accurate and fastest way to get a refund is to electronically file and choose direct deposit. Direct deposit means any tax refund is electronically deposited for free into a taxpayer's financial account.

Eight out of 10 taxpayers get their refunds by using direct deposit. It is simple, safe and secure. This is the same electronic transfer system used to deposit nearly 98% of all Social Security and Veterans Affairs benefits into millions of accounts.

Earned Income Tax Credit

The [Earned Income Tax Credit](#) (EITC) can give qualifying workers with low-to-moderate income a substantial financial boost. EITC not only reduces the amount of tax someone owes but may give them a refund even if they don't owe any taxes or aren't required to file a return.

People must meet [certain requirements](#) and file a federal tax return in order to receive this credit. The [EITC assistant](#) on IRS.gov can help people determine if they qualify.

The IRS reminds taxpayers that they may elect to use their 2019 earned income to figure the EITC if their 2019 earned income is more than their 2020 earned income. For details, see [Publication 596](#), Earned Income Credit. Taxpayers also have the option of using their 2019 income to figure the [Additional Child Tax Credit](#) for 2020.

Taxable unemployment compensation

Millions of Americans received unemployment compensation in 2020, many of them for the first time. This compensation is taxable and must be included as gross income on their tax return.

Taxpayers can elect to have federal taxes withheld from their unemployment benefits or make estimated tax payments, but many do not take these options. In that case, taxes on those benefits will be paid when the 2020 tax return is filed. Taxes can be paid throughout the year. For safe and secure ways to pay taxes electronically go to [IRS.gov/payments](#). Taxpayers can find more details on taxable unemployment

compensation in [Tax Topic 418](#), Unemployment Compensation, or in [Publication 525](#), Taxable and Nontaxable Income, on IRS.gov.

Interest is taxable income

Many individual taxpayers who received a refund on their 2019 tax returns also received interest from the IRS. The interest payments were largely the result of the postponed filing deadline of July 15 due to the COVID-19 pandemic.

The 2019 refund interest payments are taxable, and taxpayers must report the interest on their 2020 federal income tax return.

The IRS will send a [Form 1099-INT](#) to anyone who receives interest totaling at least \$10. The average refund interest amount is \$18, but the amount for each taxpayer varies based on the tax refund that the taxpayer received. Form 1099-INT will be issued no later than Feb. 1, 2021.

Home office deduction

The [home office deduction](#) is available to qualifying self-employed taxpayers, independent contractors and those working in the gig economy.

However, the Tax Cuts and Jobs Act suspended the business-use-of-home deduction from 2018 through 2025 for employees. Employees who receive a paycheck or a W-2 exclusively from an employer are not eligible for the deduction, even if they are currently working from home. IRS [Publication 587](#), Business Use of Your Home, provides more on the home office deduction.

Workers moving into the gig economy

Many people found different employment in 2020, including jobs in the gig economy. Taxpayers must report income earned in the gig economy on their tax return. However, gig-economy workers generally do not have taxes withheld from their pay as salaried workers normally do. The IRS encourages people [earning income in the gig economy](#) to consider making quarterly estimated tax payments to stay current with their federal tax obligations.

Charitable donation deduction for people who don't itemize

Individuals who take the standard deduction generally cannot claim a deduction for their charitable contributions. However, the [CARES Act permits these individuals to claim a limited deduction](#) on their 2020 federal income tax returns for cash

contributions made to certain qualifying charitable organizations and still claim the standard deduction. Nearly nine in 10 taxpayers now take the standard deduction and could potentially qualify.

Before making a donation, the IRS reminds people they can check the special [Tax Exempt Organization Search \(TEOS\) tool](#) on IRS.gov to make sure the organization is eligible for tax-deductible donations.

Under this change, individuals can claim a deduction of up to \$300 for cash contributions made to qualifying charities during 2020. This deduction does not apply to donated property. The maximum deduction is \$150 for married individuals filing separate returns. More information is available in [Publication 526](#), Charitable Contributions, on IRS.gov.

Disasters such as wildfires, flooding or hurricanes

Special tax law provisions may help taxpayers and businesses recover financially from the impact of a disaster, especially when the [federal government declares their location to be a major disaster area](#). Some 2020 tax deadlines in certain counties have been extended into 2021 due to recent wildfires, hurricanes or flooding.

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