



Overseas Tax Services

US Income Tax Preparation for Americans Living Abroad

Mid-Season Updates

March 18, 2021

Dear {First Name},

Greetings from Maple and Mud Season in Vermont. And Tax Season. This is a quick update since once again the rules are changing midstream. As you're likely aware, another relief bill was passed last week, with lots of tax "goodies" included. And yesterday the IRS announced a postponement of the filing deadline. Here's a rundown on some of the most interesting changes...

AMERICAN RESCUE PLAN ACT OF 2021 (ARPA)

Fine print: This is where things stand as of March 18. The IRS has not yet issued instructions for how to handle some of the 2020 changes so we may need to hold off on filing certain returns until they update their systems.

Third Economic Impact Payment (EIP3): A third round of payments is going out this week. These are \$1400 per person, including dependents of any age. (Previous rounds were limited to dependents under age 17.) Single filers with Adjusted Gross Income under \$75K and Married Filing Joint filers with AGI under \$150K qualify for the full amounts. Phase-outs are faster than previous rounds and stop at \$80K and \$160K respectively. These are 2021 credits, but will be issued based on your 2019 or 2020 income, depending on whether your 2020 return has been processed yet. If you file your 2020 return later and are eligible for a higher payment, the IRS will send top-up payments by September 1. If you are eligible for still more when you file your 2021 tax return next year, it will be adjusted then, though any excess you've received will not have to be repaid.

Tax-Free Unemployment Benefits: For tax year 2020, if your AGI is less than \$150,000, regardless of filing status, your first \$10,200 of unemployment benefits (if you received any) are tax-free for federal purposes. If you claim the Foreign Earned Income Exclusion, AGI for this purpose allows that exclusion.

Tax Planning Alert #1: States have varying rules on taxing unemployment. We'll need to watch and see if any of them make changes to conform with the federal change.

Tax Planning Alert #2: Married filers whose AGI is above \$150K, especially those with children, may in some cases benefit from filing separately for 2020 if one spouse will then qualify for the EIP3, a larger EIP1 and 2, and/or the break on unemployment. Your 2020 tax (and tax prep!) might end up higher, but the EIP's could more than make up for it. I'll be reviewing this and discussing it with you where relevant.

Tax Planning Alert #3: If your income is too high to qualify for the EIP3, single filers, married filers in community property states, and married filers for whom the numbers don't work out even if filing separately, may want to try to max out 401(k) or other pre-tax deductions. If this can bring your 2021 income below the \$75K/\$150K threshold, you'll qualify for the EIP3 on your 2021 tax return.

Premium Tax Credit: For tax year 2020, if you received a subsidy on Marketplace health insurance and received too much advance payment, you do not need to pay it back.

Child Tax Credit: For tax year 2021 only, the Child Tax Credit is fully refundable for taxpayers living in the US, and increased to \$3,600 per child age 0 to 5 and \$3,000 per child age 6-17. The amount over \$2,000 phases out at \$75K single/\$150K joint AGI, and the \$2,000 phases out at \$200K single/\$400K joint AGI. Generally, 50% of the credit will be advanced via monthly payments from July-December 2021.

Tax Planning Alert #4: Any child tax credit amounts you receive through the advance payment process will need to be reconciled on your 2021 tax return and any excess will have to be repaid. The IRS is tasked with creating a portal before July where you're supposed to be able to update your information and/or opt out of the monthly payments. We'll see...

Child and Dependent Care Credit: For tax year 2021 only, this credit is fully refundable and available for qualifying expenses up to \$8,000 for one child and \$16,000 for two or more children.

COBRA Subsidy: If you become eligible for COBRA health coverage between April 1 and September 30, 2021 due to a reduction in hours or involuntary termination, your employer may be required to cover 100% of the cost. You are not eligible for this benefit if you leave your job voluntarily.

TAX DEADLINES

- **If you have already sent me your paperwork,** THANK YOU! Please be aware that **the IRS just postponed the April 15 deadline to May 17.** As best I can tell so far, this does not further postpone the June 15 deadline for those of you who are overseas.
- **If you have not yet sent me your paperwork,** "there's nothing to see here!" Please ignore the deadline change and get me your paperwork just as you would have anyway. (Or earlier is always nice!).
- **State deadlines?** Last year when the federal deadline changed, nearly all states eventually followed suit. But we'll need to watch and see if they all do so again.

HOMEWORK ASSIGNMENTS (Reminder from last newsletter)

- **Everyone,** please dig through your records and verify how much you received in each round of stimulus payments.
- **Overseas clients, and anyone else who was on the move,** be prepared to provide detailed information about what dates you worked in what locations, if COVID (or anything else) caused you to work in multiple places.

Happy Almost-Spring, everyone!

Warm regards,

Kim



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