



**United Way of Tucson  
and Southern Arizona**

# **VITA Returning Volunteer Training**

# IRS Tax Updates for 2021



- **Standard Deduction and New Forms**
- **Recovery Rebate Credit**
- **CARES Act Changes**
- **Secure Act of 2019**
- **Coronavirus Relief Package**



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The due date for filing a  
2020 return is Thursday,  
April 15, 2021

# Standard Deduction

## The standard deduction amounts for 2020 have increased to:

- \$24,800 – Married Filing Jointly or Qualifying Widow(er)  
(increase of \$400)
- \$18,650 – Head of Household  
(increase of \$300)
- \$12,400 – Single or Married Filing Separately  
(increase of \$200)

# 1099-NEC



**The new form to report self-employment, non-employee compensation (NEC)**

- **This form automatically creates the Sched C in TaxSlayer**
- **Box 7 on 1099-Misc has been deleted and the remaining boxes have been renumbered and repositioned.**

# NEW 1099-NEC



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7171

VOID

CORRECTED

PAYER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone no.		OMB No. 1545-0116		<b>2021</b> Form <b>1099-NEC</b>	<b>Nonemployee Compensation</b>
PAYER'S TIN	RECIPIENT'S TIN	1 Nonemployee compensation		<b>Copy A</b> For Internal Revenue Service Center File with Form 1096.  For Privacy Act and Paperwork Reduction Act Notice, see the 2021 General Instructions for Certain Information Returns.	
		\$			
RECIPIENT'S name		2 Payer made direct sales totaling \$5,000 or more of consumer products to recipient for resale <input type="checkbox"/>			
Street address (including apt. no.)		3			
City or town, state or province, country, and ZIP or foreign postal code		4 Federal income tax withheld			
		\$			
Account number (see instructions)	2nd TIN not <input type="checkbox"/>	5 State tax withheld	6 State/Payer's state no.	7 State income	
		\$		\$	
		\$		\$	

Form **1099-NEC**

Cat. No. 72590N

[www.irs.gov/Form1099NEC](http://www.irs.gov/Form1099NEC)

Department of the Treasury - Internal Revenue Service

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# Updated 1099-Misc



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9595

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PAYER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone no.		1 Rents \$	OMB No. 1545-0115	<b>2021</b> Form 1099-MISC	<b>Miscellaneous Information</b>  <b>Copy A</b> <b>For Internal Revenue Service Center</b>  <b>File with Form 1096.</b> <b>For Privacy Act and Paperwork Reduction Act Notice, see the 2021 General Instructions for Certain Information Returns.</b>
		2 Royalties \$			
		3 Other income \$	4 Federal income tax withheld \$		
PAYER'S TIN	RECIPIENT'S TIN	5 Fishing boat proceeds \$	6 Medical and health care payments \$		
RECIPIENT'S name		7 Payer made direct sales totaling \$5,000 or more of consumer products to recipient for resale <input type="checkbox"/>	8 Substitute payments in lieu of dividends or interest \$		
Street address (including apt. no.)		9 Crop insurance proceeds \$	10 Gross proceeds paid to an attorney \$		
City or town, state or province, country, and ZIP or foreign postal code		11 Fish purchased for resale \$	12 Section 409A deferrals \$		
Account number (see instructions)	FATCA filing requirement <input type="checkbox"/>	13 Excess golden parachute payments \$	14 Nonqualified deferred compensation \$		
		15 State tax withheld \$	16 State/Payer's state no.		
			17 State income \$		

Form 1099-MISC

Cat. No. 14425J

[www.irs.gov/Form1099MISC](http://www.irs.gov/Form1099MISC)

Department of the Treasury - Internal Revenue Service

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# Qualifying Relative



**The income limitation increased  
from \$4200 to \$4300**

# Recovery Rebate Credit



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- **Economic Impact Payments are an advance payment of the Recovery Rebate Credit. Important updates include the Recovery Rebate Credit worksheet on page 59 of the 1040/1040-SR instructions.**
- **Anyone who didn't receive the full amount of both Economic Impact Payments should include the amounts they received, before any offsets, when they file.**
- **Anyone who received the full amount for both Economic Impact Payments should not include any information about the advance payments when they file their tax return.**

# Recovery Rebate Credit



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## First Stimulus:

### Economic Impact Payments (EIPs) and Recovery Rebate Credits

Eligible individuals with adjusted gross income up to:

\$ 150,000 for married filing jointly

\$112,500 for head of household filers and

\$75,000 for single filers

**Are eligible for: \$1,200 for individuals and \$2,400 married filing jointly. In addition, they are eligible for an additional \$500 per qualifying child.**

# Recovery Rebate Credit



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## Second Stimulus:

### Economic Impact Payments (EIPs) and Recovery Rebate Credits Eligible individuals with adjusted gross income up to:

\$150,000 for married filing jointly

\$112,500 for head of household filers

\$75,000 for eligible individuals using any other filing status

**Are eligible for: \$600 per individual per household.**

# Recovery Rebate Credit Eligibility



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- **All are considered a 2020 tax credit even if received in 2021.**
- **Eligible taxpayers who received a smaller-than-expected EIP may qualify to receive an additional amount when they file their 2020 federal income tax return.**
- **The EIP will not reduce a taxpayer's refund or increase the amount they owe when they file a tax return. It is also not taxable and therefore should not be included in income on a 2020 return.**
- **An individual who may be claimed as a dependent on another taxpayer's tax return is not eligible for a payment. See 4012 for full-time students.**

# Entering the Recovery Rebate Credit in TaxSlayer Step 1



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## Basic Information

Filing Status

EDIT

Personal Information

EDIT

Dependents / Qualifying Person

EDIT

IRS Identity Protection PIN

BEGIN

Recovery Rebate Credit



EDIT

BACK

CONTINUE

# Entering the Recovery Rebate Credit in TaxSlayer Step 2



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## COVID-19 Tax Relief

Did you receive an Economic Impact Payment (stimulus check) in 2020 or 2021?



**NOTE:**

This information is strictly used to ensure you have received the full amount you are entitled. It will not increase your taxable income or taxes due.

Yes

Enter the First Total Economic Impact Payment Received as Shown on Notice 1444:

Enter the Second Total Economic Impact Payment Received as Shown on Notice 1444-B:

No

CANCEL

CONTINUE



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# New Form 7202

## Credits for Sick Leave and Family Leave for Certain Self-Employed Individuals

This form can be used by certain self-employed individuals to claim refundable credits for sick and family leave needed as a result of the coronavirus.

\*The questions on the 7202 will need to be comprehensively reviewed over the phone with the taxpayer.

\*\*See Publication 4491, Payments and Miscellaneous Refundable Credits lesson and Volunteer Resource Guide, Tab H, Other Taxes, Payments, and Refundable Credits, for details.

<b>7202</b>		<b>Credits for Sick Leave and Family Leave for Certain Self-Employed Individuals</b>	OMB No. 1545-0074
Department of the Treasury Internal Revenue Service		► Attach to Form 1040 or 1040-SR. ► Go to <a href="http://www.irs.gov/Form7202">www.irs.gov/Form7202</a> for instructions and the latest information.	<b>2020</b> Attachment Sequence No. 202
Name of person with self-employment income (as shown on Form 1040 or 1040-SR)		Social security number of person with self-employment income	
<b>Part I Credit for Sick Leave for Certain Self-Employed Individuals</b>			
1	Number of days you were unable to perform services as a self-employed individual because of certain coronavirus-related care you required. See instructions.		1
2	Number of days you were unable to perform services as a self-employed individual because of certain coronavirus-related care you provided to another. (Do not include days you included in line 1.) See instructions.		2
3	If you are filing a fiscal year return, see instructions; otherwise enter 10.		3
4	Enter the smaller of line 1 or line 3.		4
5	Subtract line 4 from line 3.		5
6	Enter the smaller of line 2 or line 5.		6
7	Net earnings from self-employment (see instructions).		7
8	Divide line 7 by 260 (round to nearest whole number).		8
9	Enter the smaller of line 8 or \$511.		9
10	Multiply line 4 by line 9.		10
11	Multiply line 8 by 67% (0.67).		11
12	Enter the smaller of line 11 or \$200.		12
13	Multiply line 6 by line 12.		13
14	Add lines 10 and 13.		14
15	Amount of qualified sick leave wages subject to the \$511 per day limit you received from an employer (see instructions).		15
16	Amount of qualified sick leave wages subject to the \$200 per day limit you received from an employer (see instructions).		16
<b>If line 15 and line 16 are both zero, skip to line 24 and enter the amount from line 14.</b>			
17	Add line 13 and line 16.		17
18	Enter the smaller of line 17 or \$2,000.		18
19	Subtract line 18 from line 17.		19
20	Add lines 10, 15, and 18.		20
21	Enter the smaller of line 20 or \$5,110.		21
22	Subtract line 21 from line 20.		22
23	Add line 19 and line 22.		23
24	Subtract line 23 from line 14. If zero or less, enter -0-. Enter here and include on Schedule 3 (Form 1040), line 12b.		24
<b>Part II Credit for Family Leave for Certain Self-Employed Individuals</b>			
25	Number of days you were unable to perform services as a self-employed individual because of certain coronavirus-related care you provided to a son or daughter. (Do not enter more than 50 days.) See instructions.		25
26	Net earnings from self-employment (see instructions).		26
27	Divide line 26 by 260 (round to nearest whole number).		27
28	Multiply line 27 by 67% (0.67).		28
29	Enter the smaller of line 28 or \$200.		29
30	Multiply line 25 by line 29.		30
31	Amount of qualified family leave wages you received from an employer (see instructions).		31
<b>If line 31 is zero, skip to line 35 and enter the amount from line 30.</b>			
32	Add line 30 and line 31.		32

# SECURE Act of 2019



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## Repeal of maximum age for traditional IRA contributions

- **Starting in 2020, the new law eliminated the long-standing 70½ age limit for making contributions to traditional IRAs. There is no age limit for contributions to a Roth IRA.**
- **As a result, people over age 70½ who are still working or running a business can now choose to contribute to a traditional IRA beginning in 2020. A qualified charitable distribution (QCD) can be made by a taxpayer who is age 70½ or older (unchanged).**
- **However, the excludible portion of a QCD is reduced by IRA deductions once the taxpayer attains age 70½. This provision applies cumulatively for tax years beginning after 2019 as to both distributions and deductions.**

# SECURE Act of 2019

## Required minimum distributions (RMDs)



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- The required minimum distribution (RMD) age increased from 70 ½ to 72 for taxpayers turning 70 ½ after December 31, 2019. In other words, if a taxpayer's 70th birthday is July 1, 2019 or later, they do not have to take withdrawals until reaching age 72.
- For those who were age 70½ or younger on Jan. 1, 2020, their first RMD is not due until April 1 of the year after they turn age 72. For example, for those who turn 72 on July 1, 2021, they must take their first RMD (for 2021) by April 1, 2022, and their second RMD (for 2022) by December 31, 2022.

# **SECURE Act of 2019**

**Special rules for use of retirement funds**



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**Individuals eligible for coronavirus-related relief may be able to withdraw up to \$100,000 from IRAs or workplace retirement plans before December 31, 2020, without incurring an early withdrawal penalty.**

# SECURE Act of 2019

## Special rules for use of retirement funds



- **Individuals eligible for coronavirus-related relief may be able to withdraw up to \$100,000 from IRAs or workplace retirement plans before December 31, 2020.**
- **These coronavirus-related withdrawals:**
  - May be included in taxable income either over a three-year period (out of scope) or in the year taken (in scope).
  - Are not subject to mandatory tax withholding
  - May be repaid to an IRA or workplace retirement plan within three years. In scope if repayment is made before the due date of the 2020 return (Advanced). Otherwise, it is out of scope.

# SECURE Act of 2019



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A qualified individual is anyone who:

- is diagnosed, or whose spouse or dependent is diagnosed, with the virus SARS-CoV-2 or the coronavirus disease 2019 (collectively, “COVID-19”) by a test approved by the Centers for Disease Control
- experiences adverse financial consequences as a result of the individual, the individual’s spouse, or a member of the individual’s household (that is, someone who shares the individual’s principal residence): - being quarantined, being furloughed or laid off
- having work hours reduced due to COVID-19;
- being unable to work due to lack of childcare due to COVID-19; - closing or reducing hours of a business that they own or operate due to COVID-19;
- having pay or self-employment income reduced due to COVID-19; or
- having a job offer rescinded or start date for a job delayed due to COVID-19. These benefits are claimed on new Form 8915-E, Qualified 2020 Disaster Retirement Plan Distributions and Repayments.

# CARES Act Changes



Temporary waiver of required minimum distribution rules for certain retirement plans and accounts – waives the required minimum distribution rules for certain defined contribution plans and IRAs for calendar year 2020.

# CARES Act Changes



Allowance of partial above-the-line deduction for charitable contributions – permits taxpayers who do not itemize deductions to deduct up to \$300 of cash contributions to charitable organizations per return. This provision applies to tax year 2020.

# CARES Act Changes



The CARES Act also modifies the rules that apply to various tax-advantaged accounts (HSAs, Archer MSAs, Health FSAs, and HRAs) so that additional items are “qualified medical expenses” that may be reimbursed from those accounts. Specifically, the cost of menstrual care products is now reimbursable. In addition, over-the-counter products and medications are now reimbursable without a prescription.

The new rules apply to amounts paid after Dec. 31, 2019. Taxpayers should save receipts of their purchases for their records.

- See details on Page E-8 in your 4012

# CARES Act Changes

## Entering Charitable Contributions in TaxSlayer

DEDUCTIONS GUIDE

### Cash & Check Charitable Contributions



**You may qualify for a tax deduction if you made cash charitable contributions to a public charity in 2020.**

- If you take the standard deduction, you can deduct up to \$300.
- If you itemize, you can deduct up to 100% of your Adjusted Gross Income (AGI).

Did you make any cash or check contributions to a charity?

Yes

No

BACK

CONTINUE

# CARES Act Changes

## Higher education emergency financial aid grants

Emergency financial aid grants under the CARES Act for unexpected expenses, unmet financial need, or expenses related to the disruption of campus operations due to the COVID-19 pandemic, such as unexpected expenses for food, housing, course materials, technology, health care, or childcare, are qualified disaster relief payments under section 139 of the Internal Revenue Code.

This grant is not includible in gross income.

Because the emergency financial aid grant is not includible in gross income, taxpayers cannot claim any deduction or credit for expenses paid with the grant including the tuition and fees deduction, the American opportunity credit, or the lifetime learning credit.



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# CARES Act Changes

## Higher education emergency financial aid grants



Emergency financial aid grants under the CARES Act for unexpected expenses, unmet financial need, or expenses related to the disruption of campus operations due to the COVID-19 pandemic, such as unexpected expenses for food, housing, course materials, technology, health care, or childcare, are qualified disaster relief payments under section 139 of the Internal Revenue Code.

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# Self Employment SS Tax



Deferred payment of the employer share of the Social Security tax – allows self-employed individuals to defer payment of the employer share of Social Security tax. Half of the deferred amount is due by December 31, 2021 and the other half by December 31, 2022.

# Coronavirus Relief Package

## The special EITC and CTC lookback rule

Allows lower income individuals to use their earned income from 2019 to determine their Earned Income Tax Credit and the refundable portion of the Child Tax Credit in 2020. This provision is in TaxSlayer Pro Online within the Personal Information page, shown below.



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Taxpayer wishes to elect to use their 2019 earned income to figure their 2020 earned income credit and/or child tax credit.

Designation \*

COVID19

Was your main home or your spouse's main home (if married filing jointly) located in the federally declared disaster area and were you or your spouse displaced from your main home due to the disaster during its incident period? \*

Yes

No

Prior Year Earned Income for Disaster Victims

\$

Taxpayer's Prior Year Nontaxable Combat Pay

\$

Spouse's Prior Year Nontaxable Combat Pay

\$

# Entering in TaxSlayer

## The special EITC and CTC lookback rule



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You will indicate that the taxpayer is using this lookback rule by checking the box on the Personal Information page.



Taxpayer wishes to elect to use their 2019 earned income to figure their 2020 earned income credit and/or child tax credit.

Designation \*

COVID19

**Was your main home or your spouse's main home (if married filing jointly) located in the federally declared disaster area and were you or your spouse displaced from your main home due to the disaster during its incident period? \***

Yes

No

Prior Year Earned Income for Disaster Victims

\$

Taxpayer's Prior Year Nontaxable Combat Pay

\$

Spouse's Prior Year Nontaxable Combat Pay

\$

# Entering in TaxSlayer

## The special EITC and CTC lookback rule



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- CoVID19 will autofill in the Designation box.
- Mark “Yes” to the next question.
- Finally, enter the taxpayer’s Earned Income from 2019

Taxpayer wishes to elect to use their 2019 earned income to figure their 2020 earned income credit and/or child tax credit.

Designation \*

COVID19

**Was your main home or your spouse's main home (if married filing jointly) located in the federally declared disaster area and were you or your spouse displaced from your main home due to the disaster during its incident period? \***

Yes

No

Prior Year Earned Income for Disaster Victims

\$

Taxpayer's Prior Year Nontaxable Combat Pay

\$

Spouse's Prior Year Nontaxable Combat Pay

\$



# Entering in TaxSlayer

## The special EITC and CTC lookback rule



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**After you enter the 2019 Earned Income amount, TaxSlayer will automatically choose the Earned Income (2019 or 2020) that is most beneficial to the taxpayer.**

Taxpayer wishes to elect to use their 2019 earned income to figure their 2020 earned income credit and/or child tax credit.

Designation \*

COVID19

**Was your main home or your spouse's main home (if married filing jointly) located in the federally declared disaster area and were you or your spouse displaced from your main home due to the disaster during its incident period? \***

Yes

No

Prior Year Earned Income for Disaster Victims

\$

Taxpayer's Prior Year Nontaxable Combat Pay

\$

Spouse's Prior Year Nontaxable Combat Pay

\$

# Health Savings Account



An HSA is...

- A tax-exempt trust or custodial account, used to pay or reimburse certain medical expenses for those who are covered by a high deductible health plan.
- All HSAs are individually owned and portable.
- Employer contributions to an employee's HSA are tax-exempt and are stated on the employee's W-2, in field 12, code W.
- The employee (or anyone else on their behalf) can also contribute; contributions are tax-deductible (=tax-free).

# Health Savings Account



An HSA is...

- Contributions (employer + employee + other contributors) are limited to \$3,550 for an HSA that covers only the individual, and \$7,100 for an HSA with family coverage, plus an additional \$1,000 for anyone 55+.
- Above limit contributions are not deductible and carry an additional penalty of 6%.
- TaxSlayer will calculate this automatically.
- Total contributions are stated on form 5498-SA.

# Health Savings Account



An HSA is...

- Distributions are stated on form **1099-SA** (not to be confused with 1099-SSA!)
- Distributions must be used for unreimbursed qualified medical expenses.
- Distributions can be used to cover medical expenses of anyone on the tax return.
- Distributions used for any other purpose are not allowed and carry a 20% penalty unless the owner is 65 or older.

# Health Savings Account



An HSA is...

**Flip here:** Pub 6744, pg. 73, Janice Billings and Andrew Noble

Which expenses are eligible to be paid out of Andrew's HSA?