



December 29, 2021

**Tax Law Changes and
Form 1099 Filing Requirement Reminder**

Dear Client:

As usual, we do have new tax legislation effective for tax year 2021, but it was much more limited in scope than normal. Thankfully, there have been no last minute year end changes (so far) that will delay filing of the 2021 tax returns. After COVID extensions of the past two years, the tax filing due date will be April 18, 2022 for 2021 returns.

In addition to providing a third round of Economic Impact Payments, and many recovery provisions, the **American Rescue Plan** passed this spring did contain several provisions that may affect your 2021 return:

- The retroactive change to exclude some unemployment benefits from tax was for 2020 only.
- The suspension of repayment of the Advance Premium Tax Credit for those purchasing health insurance through the Marketplace was also retroactive to 2020 only.
- The **Child and Dependent Care Credit** was expanded to include dependent care expenses (daycare) up to \$8,000 for one qualifying child (up from \$3,000) or \$16,000 for two or more qualifying individuals (up from \$6,000). For the first time, this credit is fully refundable—meaning the family can receive the money even if there is no federal income tax due. This increase is for 2021 only.
- There was an expansion of the **Earned Income Credit** for low income taxpayers without children and an increase in allowable investment income.
- Also, for 2021 only, the **Child Tax Credit** has been increased for some taxpayers. The new law increases the tax credit to \$3,000 (up from \$2,000) per child ages 6 through 17 (was 6 through 16) and \$3,600 for children age 5 and under, with the increase in the credit subject to phase out at lower adjusted gross incomes (\$75,000 single and \$150,000 joint) than the “basic” credit, which phases out for joint filers over \$400,000 and \$200,000 for other taxpayers. This credit is also fully refundable for 2021.
- In connection with the increased Child Tax Credit above, the IRS began making **Advance Child Tax Credit** payments in July of 2021. These advances reduce the amount of credit available on your 2021 return and except for low income taxpayers, must be repaid if taxpayers do not fully qualify for the Child Tax Credit. In order to prepare your 2021 tax return, we must know the amount of the advance payments you received. As noted below, the IRS will mail you Letter 6419 in January, 2022.
- Finally, taxpayers who did not received the full \$1,400 of the third round of **Economic Impact Payments (EIP)** may qualify to receive the balance with the filing of their 2021 tax returns. We must know the amount of EIP you did receive to obtain any additional credit. Please include your IRS Letter 6475 with your tax documents.

Kansas Standard & Itemized Deduction changes

Senate Bill 50 included a small raise in the Kansas standard deduction for tax year 2021. More significantly, this bill also expanded the ability to claim itemized deductions on the Kansas Income tax return even if taxpayers claimed the standard deduction on their federal Form 1040. To take advantage of this change, you will need to provide information for us to itemize deductions for Kansas, even if you take the federal standard deduction.

Additional information to bring

Taxpayers who received an Advance Child Tax Credit (ACTC) and/or Premium Tax Credit (PTC) or who received an Economic Impact Payment should bring the following documents with their tax information:

- Letter 6419, 2021 Total Advance Child Tax Credit Payments, to reconcile advance Child Tax Credit payments,
- Form 1095-A, Health Insurance Marketplace Statement, to reconcile advance Premium Tax Credits for Marketplace coverage, and
- Letter 6475, Your 2021 Economic Impact Payment, to determine eligibility to claim the Recovery Rebate Credit.

The IRS will mail Letters 6419, 6475 and Form 1095-A to taxpayers, so taxpayers should be sure to notify the IRS of any change of address. Taxpayers who don't receive, or can't find their Letters 6419, 6475 or Form 1095-A, can retrieve the information on these letters using their online account.

Form 1099 Filing Information

This letter is also to remind you of Form 1099 filing requirements. Generally, if in the course of your BUSINESS you pay \$600 or more for rent or services to someone who is not your employee, you are required to file 1099 forms with the IRS. There are questions on Schedules C, E, F, and on all business returns that ask the taxpayer "Did you make any payments that would require you to file Form(s) 1099?", and "if 'Yes', did you or will you file all required forms 1099?" The IRS can impose a penalty for each late filed or non-filed 1099 form, depending on how late, between \$50 and \$280, or \$560 per form for intentional disregard of the filing requirements.

For 2021, payments for nonemployee compensation (contract labor) are reported on the new Form 1099-NEC and must be filed by January 31, 2022. Form 1099-MISC and 1099-NEC for all payments must be provided to the recipients by February 1, 2022; therefore, you should either file these forms by then or timely provide the required information to us in order to meet this deadline. The documents section of our web site www.KLCoopercpa.com has forms you may use to organize your data for submission to us. If you wish us to prepare your 1099's, please submit the information to us as soon as possible so that the January 31st filing deadline can be met. You must have the recipient's name, address and federal identification number to file a 1099. These may be requested from the payee using Form W-9, also available on our web site.

You are responsible for determining the correctness of any employment relationship which you have deemed to be that of an independent contractor. Payroll tax withholding and related employer payroll tax implications result from this determination. Issuing Form 1099-NEC to such individuals does not prevent the IRS from challenging your classification but is required to meet safe harbor reporting exceptions to certain penalties.

Tax Changes for Businesses

During 2018, the Supreme Court drastically changed existing law for when businesses must collect and pay sales taxes on sales to out of state customers (*Wayfair* decision). If this could apply to your business, you should be thoroughly familiar with this new sales tax landscape and what your business needs to do to comply with other states' sales tax laws. In addition, some states have been aggressive in their attempts to collect income tax from businesses doing business in their state, even if only through internet sales. Please be aware of these developments and consider whether they may apply to your business.

Thank you for your past and continued business. We look forward to serving you this coming year!

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