

Hello Ms. Downs, thank you for seeing me on short notice.

You're welcome, Mr. Duggan. I trust you had a nice Thanksgiving with your family.

Thanksgiving is quite a big production for our family. You see, the wife and I have 19 children and 10 grandchildren.

(In shock) Did you say NINETEEN?

I did indeed. The oldest is 26 and the youngest is 4.

That is quite a unique family!

Well, the TV networks sure thought so! We've been doing reality shows for years about how we handle all those kids.

Oh, come to think of it, I think I've seen that show advertised. I didn't make the connection! So what can I do for you? Not going to be able to help you in that kitchen.

Well, I don't normally get too involved in our taxes, but our previous accountant fired us because we brought TV crews into his office and accidentally broadcast some important people's tax information on cable television! Lesson learned – I left the cameras at home this time. Anyway, I have a few questions for you about our tax situation.

I'm happy to help – off-camera, of course!

So the first thing is that I started getting these checks from the IRS in July, and I don't know why. They're pretty big checks, too!

Those are a big deal for most families with children. There was a new law in 2021 called the American Rescue Plan Act. You might know that in the past, you've received a tax credit for each of your children of \$2000 per child under the age of 17. The ARPA expanded this tax credit significantly. For starters, do you have a child who is 17 this year?

Well, yes I do! In fact I have a set of twins that turned 17 this year.

Well those twins will qualify for the child tax credit this year where they wouldn't have under the old rules. Not only that, but the credit has been expanded. For all of your children ages 6 - 17 to \$3,000 per child and \$3600 per child for your kids under 6 so those twins will qualify you for an additional \$6,000 credit. Now, those monthly checks you've been receiving? Congress decided it would help you out a lot of they gave you ½ of the child tax credit in advance so they've been sending monthly checks since July in anticipation of the amount of child tax credit you be eligible for based on your 2020 tax return. The last monthly check is this month.

Well that's pretty cool! Is that in addition to the credit I normally take on my tax return?

No, it's really an advance on the anticipated credit for 2021. If you meet the income requirements this year, you'll get the other half when you file your tax return. So for instance, as long as you qualify in full, you should have already received \$1500 for each of your twins this year and you'll get the other 1500 when you file your return. There are income limits that apply to the credit; it's reduced gradually if your income is over \$150,000, but we'll take care of

all that. Just be warned that if it turns out your income was over the phase out range, then you may have to repay some of the credit you've already received.

What if my tax isn't as much as all those child tax credits added together? Do I have to give back the extra amount?

No you don't; not this year. For 2021 the child tax credit is what we call refundable meaning that you can get credit as a refund even if you don't owe any tax. But I don't want you to get too used to this big refundable credit; it only applies to 2021 unless Congress acts to extend it.

Do I still get credits for my kids who are too old for the child tax credit, but still haven't moved out of my house?

The Credit for Other Dependents hasn't changed, so you'll be eligible for a \$500 credit for your dependents 18 and older. As with most credits, this one phases out for taxpayers in higher income brackets (over \$400K) By the way, this credit is not refundable like the Child tax credit. So if you don't have a tax liability you're not going to get this one refunded.

Speaking of checks from the government, I got a REALLY big check back in March. Do I have to pay THAT back?

That was the third "stimulus" or Economic Impact Payment brought to you by Congress and your new president. It was based on your 2020 income and the maximum was \$1400 for each of you and your wife and your qualifying dependents which would have included all your children under 18 and your kids over 18 who are full time students. I'll bet that's a lot of people in your case!

Any chance I might have to pay some of THAT back?

No. You'll get to keep all of that money even if your income in 2021 makes you ineligible for the payments. The rebate income phase out starts at \$150K for couples filing jointly, just like the CTC but in this case, you don't have to repay if your income ends up being higher than expected.

A couple of my older kids have had babies of their own this year – will they get \$1,400 for them, too? They didn't get it in March.

In fact, yes, they might. When they prepare their 2021 tax return they'll reconcile the amount they already received for their family and if they're entitled to more because they had a birth in 2021 or their income was lower than expected, they'll get a refund. And the income limits for this third payment are more liberal than for the first two.

As you may imagine, my wife and I lead very busy lives. I pay my sister to watch my two littlest ones when we need to work on the show. Can I get a credit for that?

Yes, there's a credit for that too! And it's been doubled for 2021, but only for 2021. Previously the credit was allowed on up to 3,000 of expenses for childcare while you & your wife are working for up to two children but now it's for up to \$8,000 for up to two children – a total of \$16,000 for two or more children. You get a credit for up to 50% of those expenses depending on your income. The most you could get back as a credit is \$8,000 which is a lot more than the \$2100 you could get back last year. Again, there are income limits on who can take the credit and of course you have to be working or looking for work. If your income is between \$125,000 and \$440,000, you wouldn't get the full credit, but you would get some. One thing that's important though is that to get the most out of the credit, you need to have paid the maximum of \$16,000 by the end of the year, so don't wait until after the new year to pay that December bill.

What if I don't actually owe \$8,000 in tax, will the credit just reduce my tax to nothing? What if my tax is only \$5,000?

While the credit amount is increased only for 2021, the credit is now permanently a refundable credit, so from now on you'll get the difference back as a refund just like the child tax credit. Adding all these refundable credits together, you could be eligible for quite a significant amount of refund this year.

My oldest daughter has been out of work for a while and is struggling financially. Are there any benefits she can get on her taxes?

If she doesn't have any children, she won't qualify for the credits we've already discussed, but she might qualify for a different credit as a low income taxpayer. The Earned Income Credit has long supported some of the country's most financially vulnerable taxpayers and it was expanded under the ARPA. Now your daughter may be eligible for this credit, which in the past was very limited for adults without children. If she's over 19 years old and her earned income is less than \$11,600, she could qualify for a credit of up to \$1500. The other thing that's new is that she can base the EIC on her 2019 income if it's more favorable than what she earned in 2021. These new rules are just for 2021 though. The age limit requirement of over 25 and the lower credit amount return in 2022.

Does it matter that she has an investment account that I've helped her build over the years?

The ARPA expanded eligibility for the EIC for people with investment income so she'd still qualify even if she has up to \$10,000 of income from investments. By the way, this provision is permanent; not just for 2021.

You sure have told me about a lot of credits! Are there any others?

That depends – have you added any energy efficient property to your home?

We put up solar panels, and got a new hot water heater. When you do as much laundry as we do, you go through a LOT of hot water.

Thanks to the 2020 CARES Act, you'll be eligible for a \$500 credit for your hot water heater which prior to COVID wouldn't have been available. You're in luck too with the solar panels because prior to the CARES Act, the solar tax credit would have been reduced to 22% but now the 26% credit has been extended to 2022 and then the reduction to 22% begins. This isn't a refundable credit but you can carry any unused amount forward to future years.

Anything I can do BESIDES credits to lower my taxes?

Well, do you have any charities you'd like to support?

There are a few pregnancy and childbirth-related charities that I'm partial to.

That makes sense.

If you and your wife don't itemize deductions, you'll be allowed to take a special deduction, what we call above the line, of up to \$600 for charitable contributions. That's double what it had been in 2020 for a married couple. If you're feel really generous (thanks to all those tax credits) you could even give away 100% of your income and get a tax deduction as long as you your gifts by cash or check. These are extensions of provisions in the CARES Act of 2020 that were extended under the ARPA to apply in 2021.

Very interesting. So my deal with the TV company is that my wife and I are contractors, and the money they pay goes on....schedule C, I think? And last year we saved a lot of taxes by making some sort of deferral. Do you know what that's about?

Yes, that was a one time opportunity to pay your self employment tax for 2020 in three installments. If you elected to do that last year, you'll need to make the first installment payment by December 31, 2021 and the last one a year later. It won't affect your 2021 tax returns though.

Any other changes with regard to my business?

Now that restaurants are open again, you could take advantage of an increase in the deduction for business meals. For 2021 and 2022, you can deduct 100% of the cost of business meals at restaurants. Just be sure your meals have a business purpose and you'll be able to write them off 100%. The restaurants will appreciate your support. I can highly recommend a place across town owned by Madame Darroze.

One of my older sons decided to go to a fancy college and took out a bunch of student loans. He ended up becoming a teacher, and some of his loans were forgiven. Will he have to pay tax on that?

The ARPA gives taxpayers with loan forgiveness a break for the years 2021 – 2025. In most cases, the loan forgiveness won't be taxable during these years.

What about health insurance – seems like that's the only thing going up as fast as college tuition! Ours went up a lot again this year. We get our coverage through the exchange, and have gotten a tax credit in the past to help with the premiums. Is that still the case?

Here we go with credits again! The ARPA expanded eligibility for the premium tax credit and it also increased the amount of the credit. All taxpayers, regardless of income will be potentially

eligible for the tax credit and a greater one at that. This applies to 2021 and 2022. The bottom line is that the most a family will have to pay is 8.5% of their household income for health insurance premiums. There's no upper limit on earnings for the premium subsidy this year. This contrasts with prior years where you could be required to pay the entire amount of the marketplace premiums if your income was over the upper limit, which was about \$70,000 for a family of two. So it's expanded quite a bit. Furthermore if you happened to underestimate your income for 2021 and you aren't actually eligible for as much as you received in advance, you won't have to repay the advance credit when you file your return.

This new law might apply to your adult children also. Were any of them collecting unemployment during 2021?

Yes, one of my sons was laid off his job this summer and he's been looking for work ever since. Poor guy; the health insurance premiums are terrible. But he was earning about \$150,000 a year. Would he still be eligible?

Yes, for 2021 only, anyone who collected unemployment during the year is subject to much lower income restrictions for the PTC. He'll probably qualify for at least some assistance in the form of a refund.

One last thing. We've been very blessed financially. Who knew having a ton of kids could be a SMART financial decision? So we've accumulated some assets, and we've been giving money to our kids and grandkids each year for a while now, and we've done a little bit of estate tax planning. Any changes to any of that stuff for this year?

It's never too early to start planning for the future! Your children will be happy to know that next year you and your wife can each give them each up to \$16,000 a year without reporting your gifts to the IRS. That's a \$1000 increase over the limit that's been in place since 2017.

And if you're thinking really big, you might want to know that the estate tax exclusion is going up to \$12,070,000 per person in 2022. But that's a whole different conversation.

Well you sure have been helpful, Ms. Downs. Now if you don't mind, I've got to go to Costco, and I've only rented the U-Haul for a few more hours, so I have to get moving! Thank you for your time!

You're very welcome, Mr. Duggan. Good luck!

CODE WORD: QUIVER

1. Julia (after CCB introduction)
2. Child (after Scenario 1)
3. Quiver (after Scenario 2)
4. Laboratory (after Scenario 3)
5. Reefer (after Scenario 4)
6. Madness (after questions and song)