# **CenterPoint Financial, Inc.**

# Registered Investment Adviser

# **Stimulus and Tax Update – March 2021**

Dear Clients,

With tax filing season under way, but now extended, and the newest round of stimulus payments in the mail, I thought you might appreciate a summary of these issues to ensure that you are staying abreast of the most salient details. As always, please be in touch with any questions or concerns.

Warmly,

Priscilla

**2020 Tax Filing:**

**Filing Extension:**

The original filing date for 2020 taxes has been extended from April 15 to May 17. This extension was needed for filers, tax preparers, and the IRS itself as the latest COVID relief package and its effect on 2020 taxes is processed. Though the extension may be a welcome relief for some, not all elements of the 2020 tax filing have been extended. Here are a few details that merit your attention:

* Unless you file for an extension, you must file and pay any remaining federal income taxes you own for 2020 by May 17, 2021. Failure to make timely payments will result in late filing and late payment penalties.
* If your Federal tax payments are for estimated taxes, however, your usual April 15 payment is still due on April 15.
* Most states have not yet ruled if they will extend their own tax deadlines.
  + If your state does not extend its deadline you will either need to file your Federal return by April 15 or at least calculate what income you will declare on your Federal return so that you can complete a timely filing of your state return.
  + As of this writing, California, Georgia, Illinois, Kentucky, Maine, Nebraska, New Mexico, New York, North Dakota, Oregon, Pennsylvania, South Carolina, Virginia, West Virginia and Wisconsin have extended their filing deadlines to May 17 to align with the new federal deadline. Prior to the federal extension, Maryland had already extended its deadline to July 15.
* You can still file for an automatic five-month extension to file your 2020 federal income taxes so that they will not be due until October 15. Your request for extension is due to the IRS by May 17, 2021.
  + Please note that filing for an extension is NOT an extension to pay what you owe. Even if you file for extension, you still must pay any remaining federal taxes by May 17.
  + If you are owed a refund, taking longer to file your taxes means you will wait longer to get your refund.

**Stimulus Payments:**

* If you received stimulus payments for COVID relief you will not owe taxes on those payments.
* If you were eligible for stimulus payments but did not receive the first two rounds of payments – this mostly applies to filers whose 2019 income was higher than their 2020 income, or who did not file tax returns for 2018 or 2019 – you will be able to receive the money you should have received IF you claim the refundable [Recovery Rebate Credit](https://www.irs.gov/newsroom/recovery-rebate-credit). The credit will reduce your income tax liability dollar for dollar. If the credit exceeds your tax liability you will receive the balance as a refund.

**Unemployment Benefits:**

Unemployment is taxable though a recent piece of legislation allows for some benefits to be tax-free. The latest COVID relief package signed into law by President Biden allowed for the first $10,200 in benefits to be exempt from federal income tax for households with income below $150,000 in 2020.

Other than this exemption, however, unemployment compensation is treated as taxable income both at the Federal and state level with a few state exceptions. If you did not elect to have income tax withheld from your unemployment benefits, please be prepared that the full tax will be assessed when you file your return. States that currently do not tax unemployment benefits are as follows: Alabama, Alaska, California, Florida, Montana, Nevada, New Hampshire, New Jersey, Pennsylvania, South Dakota, Tennessee, Texas, Virginia, Washington, Wisconsin, and Wyoming.

Other pandemic-related tax changes:

* Small business owners who received a tax-free loan from the Paycheck Protection Program may still deduct the business expenses they paid for with their loan funds. In addition, unlike most conventional loans, if the PPP loan is forgiven, it will be treated as tax-free to the small business owner.
* Filers who claim the standard deduction instead of itemizing may also claim a one-time deduction for 2020 for us to $300 of cash contributions. Please note that this does not apply to non-monetary contributions such as clothing or food.
* You may be eligible for a refundable Earned Income Tax Credit which is geared toward rewarding work for low- and moderate-income filers. This credit is based on thresholds at specific income levels and household size. Though most of our clients will not qualify for the EITC, we mention this so you understand the stimulus benefits.

**Stimulus Payments:**

On March 22, 2021, the IRS announced that the next batch of Economic Impact Payments (EIPs) will be issued to taxpayers this week. Some of you may have already received your payments via direct deposit. If you have not yet received your payment yet, watch the mail carefully in the coming weeks for a paper check or a prepaid debit card. Please note that no action is needed to obtain this round of payments unless you meet specific criteria or limitations as detailed below:

* In general, most people will receive $1,400 (or $2,800 if filing joint returns) and $1,400 for each qualifying dependent claimed on your tax return. Please remember that a qualifying dependent includes minors as well as college students, adults with disabilities, parents and grandparents if you pay for more than 50% of their care.
* The amount of your EIP will be passed on your latest processed tax return from either 2020 or 2019.
* If your payments are less than the full amount based on your 2019 return, you may qualify for a supplemental payment after you file your 2020 return. The IRS will automatically reevaluate your eligibility.
* The income limitations in this new round of stimulus payments have changed. This means that you may you received the first or second payment but will not be eligible for this third payment. Payments will be reduced for individuals making $75,000 or above in Adjusted Gross Income ($150,000 if Married Filing Jointly). The payments will be phased out completely for individuals with AGIs of $80,000 or more ($160,000 for Married Filing Jointly).
* If you have questions about your eligibility or when your payment will come, please visit the [Get My Payment](https://www.irs.gov/coronavirus/get-my-payment) tool at IRS.gov.
* If you would like more details about this third round of stimulus, please visit the [IRS detail page](https://www.irs.gov/newsroom/updated-details-about-the-third-round-of-economic-impact-payments).