



# IRS Makes Annual Inflation Adjustments for 2021

## *Adjustments for deductions, tax rate schedules and 60 other tax provisions*

The Internal Revenue Service announced annual inflation adjustments for the 2021 tax year for more than 60 tax provisions, including standard deductions and the tax rate schedules.

More details can be found at “Revenue Procedure 2020-45” on the IRS website, but that document is dense and spans almost 30 pages. Here are the changes taken directly from IRS press release from October 26<sup>th</sup> instead.

### Standard Deduction

The standard deduction for married couples filing jointly for tax year 2021 rises to \$25,100, up \$300 from the prior year. For single taxpayers and married individuals filing separately, the standard deduction rises to \$12,550 for 2021, up \$150, and for heads of households, the standard deduction will be \$18,800 for tax year 2021, up \$150.

The personal exemption for tax year 2021 remains at 0, as it was for 2020; this elimination of the personal exemption was a provision in the Tax Cuts and Jobs Act.

### Marginal Rates

Taxpayers still fall into one of seven brackets: 10%, 12%, 22%, 24%, 32%, 35% and 37%. While those rates will remain unchanged in 2021, the tax brackets

have been indexed to keep pace with cost-of-living adjustments.

Keep in mind that these rates are in effect for 2021 and will be used to prepare your tax returns in 2022:

- 37% for incomes over \$523,600 (\$628,300 for married couples filing jointly);
- 35%, for incomes over \$209,425 (\$418,850 for married couples filing jointly);
- 32% for incomes over \$164,925 (\$329,850 for married couples filing jointly);
- 24% for incomes over \$86,375 (\$172,750 for married couples filing jointly);
- 22% for incomes over \$40,525 (\$81,050 for married couples filing jointly);
- 12% for incomes over \$9,950 (\$19,900 for married couples filing jointly).
- The lowest rate is 10% for incomes of single individuals with incomes of \$9,950 or less (\$19,900 for married couples filing jointly).

For 2021, as in 2020, 2019 and 2018, there is no limitation on itemized deductions, as that limitation was eliminated by the Tax Cuts and Jobs Act.

## More Adjustments from the IRS

- The Alternative Minimum Tax exemption amount for tax year 2021 is \$73,600 and begins to phase out at \$523,600 (\$114,600 for married couples filing jointly for whom the exemption begins to phase out at \$1,047,200). The 2020 exemption amount was \$72,900 and began to phase out at \$518,400 (\$113,400 for married couples filing jointly for whom the exemption began to phase out at \$1,036,800).
- The tax year 2021 maximum Earned Income Credit amount is \$6,728 for qualifying taxpayers who have three or more qualifying children, up from a total of \$6,660 for tax year 2020. The revenue procedure contains a table providing maximum Earned Income Credit amount for other categories, income thresholds and phase-outs.
- For tax year 2021, the monthly limitation for the qualified transportation fringe benefit remains \$270, as is the monthly limitation for qualified parking.
- For the taxable years beginning in 2021, the dollar limitation for employee salary reductions for contributions to health flexible spending arrangements remains \$2,750. For cafeteria plans that permit the carryover of unused amounts, the maximum carryover amount is \$550, an increase of \$50 from taxable years beginning in 2020.
- For tax year 2021, participants who have self-only coverage in a Medical Savings Account, the plan must have an annual deductible that is not less than \$2,400, up \$50 from tax year 2020; but not more than \$3,600, an increase of \$50 from tax year 2020. For self-only coverage, the maximum out-of-pocket expense amount is \$4,800, up \$50 from 2020. For tax year 2021, participants with family coverage, the floor for the annual deductible is \$4,800, up from \$4,750 in 2020; however, the deductible cannot be more than \$7,150, up \$50 from the limit for tax year 2020. For family coverage, the out-of-pocket expense limit is

\$8,750 for tax year 2021, an increase of \$100 from tax year 2020.

- For tax year 2021, the adjusted gross income amount used by joint filers to determine the reduction in the Lifetime Learning Credit is \$119,000, up from \$118,000 for tax year 2020.
- For tax year 2021, the foreign earned income exclusion is \$108,700 up from \$107,600 for tax year 2020.
- Estates of decedents who die during 2021 have a basic exclusion amount of \$11,700,000, up from a total of \$11,580,000 for estates of decedents who died in 2020.
- The annual exclusion for gifts is \$15,000 for calendar year 2021, as it was for calendar year 2020.
- The maximum credit allowed for adoptions for tax year 2021 is the amount of qualified adoption expenses up to \$14,440, up from \$14,300 for 2020.

## What Should You Do?

Taxes are complicated enough and when you layer on the latest notice from the IRS (as well as previous notices), the thought of devising and implementing tax strategies that are most appropriate for you can be a daunting task.

Make sure you talk to your financial advisor as you are considering certain tax strategies. If nothing else, your financial advisor will confirm that the tax decisions you make are consistent with your overall financial plan.