

Abstract: Now's a good time for taxpayers to familiarize themselves with pertinent tax-related amounts that may or may not be changing in 2021 because of inflation. This article poses six key questions about such amounts, including those related to retirement planning and the itemized deduction.

6 key tax Q&As for 2021

Right now, you may be more concerned about your 2020 tax bill than you are about how to handle your personal finances in the new year. However, as you deal with your annual tax filing, it's a good idea to also familiarize yourself with pertinent amounts that may have changed for 2021.

Not all tax figures are adjusted for inflation and, even if they are, they may be unchanged or change only slightly each year because of low inflation. In addition, some tax amounts can only change with new tax legislation. Here are six commonly asked (and answered) Q&As about 2021 tax-related figures:

1. *How much can I contribute to an IRA for 2021?* If you're eligible, you can contribute \$6,000 a year into a traditional or Roth IRA, up to 100% of your earned income. If you're age 50 or older, you can make another \$1,000 "catch up" contribution. (These amounts are the same as they were for 2020.)

2. *I have a 401(k) plan through my job. How much can I contribute to it?* For 2021, you can contribute up to \$19,500 to a 401(k) or 403(b) plan. You can make an additional \$6,500 catch-up contribution if you're age 50 or older. (These amounts are also the same as they were for 2020.)

3. *I sometimes hire a babysitter and a cleaning person. Do I have to withhold and pay FICA tax on the amounts I pay them?* In 2021, the threshold for when a domestic employer must withhold and pay FICA for babysitters, house cleaners and other domestic employees is increasing to \$2,300 from \$2,200 for 2020.

4. *How much do I have to earn in 2021 before I can stop paying Social Security on my salary?* The Social Security tax wage base is \$142,800 for 2021, up from \$137,700 for 2020. That means that you don't owe Social Security tax on amounts earned above that. (You must pay Medicare tax on all amounts that you earn.)

5. *I didn't qualify to itemize deductions on my last tax return. Will I qualify for 2021?* The Tax Cuts and Jobs Act eliminated the tax benefit of itemizing deductions for many people by increasing the standard deduction and reducing or eliminating various deductions. For 2021, the standard deduction amount is \$25,100 for married couples filing jointly (up from \$24,800 for 2020). For single filers, the amount is \$12,550 (up from \$12,400) and, for heads of households, it's \$18,800 (up from \$18,650).

So, if the amount of your itemized deductions (such as charitable gifts and mortgage interest) are less than the applicable standard deduction amount, you won't itemize for 2021.

6. *How much can I give to one person without triggering a gift tax return in 2021?* The annual gift exclusion for 2021 is \$15,000, unchanged from last year. This amount is only adjusted in \$1,000 increments, so it typically increases only every few years.

These are only some of the tax figures that may apply to you. For more information about your tax picture, or if you have questions, don't hesitate to contact us.

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