The Shobe Financial Group

Planning for Your Wealth

4th Quarter 2021

Life-Changing Events Change Your Taxes, Too

Tax Planning

Review how six major life events can impact your federal return.

Legislation and life – two things guaranteed to change your federal tax situation. Here are a few major milestones you'll need to tell your tax pro and your advisor about as soon as possible. The former can find credits you qualify for and dig up deductions, while the latter can help you come up with flexible solutions, like lines of credit, to pay an unexpected tax bill from the IRS.

In This Issue:

- Life-Changing Events Change Your Taxes, Too
- The 2021 Child Tax Credit: An Overview
- Shobe Current News
- Shobe Tech Corner

You say "I do"

For married couples, filing jointly tends to yield lower taxes and higher deductions, but not always. Make sure the name you use to file matches your Social Security card, and update your W-4s.

… or "I don't anymore"

The end of a marriage means your filing status will change to single or head of household. If your divorce is finalized in 2022, then you'd file as married filing single or married filing jointly for 2021 even though you'll be divorced come tax day. Dependents can only be claimed by one of you; if you have two children, each spouse could claim one, for example. If you have an odd number of children or can't agree how to claim dependents, the IRS tends to favor the custodial parent. Plus, only the custodial parent can claim the child tax credit.

You welcome a bundle of joy

Kids – whether adopted, biological, step or foster children – come with a bundle of tax breaks for qualifying

care costs, education and the child tax credit. Single parents can file as head of household, which offers better tax rates and a higher standard deduction. New parents may want to consider a 529 college-savings plan as well; savings grow tax-deferred and many states offer deductions or credits.

You upsize or downsize

A house purchase opens up potential deductions on paid points, mortgage interest and property taxes if you itemize. In some cases, there are credits or deductions for home improvements and energy-efficient upgrades. Selling? If you meet certain conditions, you may exclude the first $250,000 of gain from the sale of your home from your income and avoid paying taxes on it. The exclusion is increased to $500,000 for a married couple filing jointly.

You lose a loved one

The dearly departed still need someone to file a final tax return (perhaps also an estate tax return) on their behalf. Money left to heirs generally is income-tax-free at the federal level, with the exception of money withdrawn from an inherited IRA or 401(k) plan account (distributions from qualified accounts have their own rules).

Heirs may also have to pay taxes on gains earned after selling bequeathed stocks and other property. When you inherit property, you get the benefit of what's called a "stepped-up basis," which means if you sell the asset, you'll be taxed only on the gain since the deceased's date of death, not the gain from the original purchase price. Note: Surviving spouses may still be able to file jointly up to two years afterward, provided they haven't remarried and meet the other requirements.

Your job changes

New gig? Rethink your W-4. Lose an old one? Unemployment benefits are taxable. Promoted? A raise may mean a higher tax bracket and a chance to adjust your withholdings, as well as dial up your contributions to tax-advantaged retirement accounts. Double-check that the higher income didn't phase you out of Roth contributions or out of the ability to deduct contributions to a traditional IRA, which changes based on your modified adjusted gross income. Retiring? Distributions from qualified accounts are taxable, so talk to your finance professionals before you make any distribution decisions.

SOURCES:
tldraccounting.com; turbotax.intuit.com; irs.gov; creditkarma.com; fool.com; debt.com; cnbc.com; thebalance.com; alllaw.com; 1040.com

While familiar with the tax provisions of the issues presented herein, Raymond James financial advisors are not qualified to render advice on tax or legal matters. You should discuss tax or legal matters with the appropriate professional.

The 2021 Child Tax Credit: An Overview

The tax give-back for parents of young children is different in 2021.

Every year, the Child Tax Credit reduces the tax liability of American parents. If it lowers their tax burden below zero, it can even put money in their pockets. The credit's size increased following the Tax Cuts and Jobs Act of 2017. And now, thanks to the American Rescue Plan Act of 2021, it's even bigger—and slightly more complicated—for the 2021 tax year. Here's what you need to know.

Child Tax Credit Basics

Before the American Rescue Plan Act, American parents, who met certain income thresholds, could claim a $2,000 tax credit per dependent child younger than 17. As a tax *credit*, it directly reduces income taxes owed,

dollar for dollar. That means someone who owed $3,000 in federal income taxes before claiming the old credit (for one dependent child) would owe only $1,000 afterward. Tax deductions, on the other hand, reduce your taxable income and may have a smaller effect on your ultimate tax bill.

The old Child Tax Credit was partially refundable. If claiming the Child Tax Credit lowered your tax liability below zero, the IRS would cut you a check for the difference, maxing out at $1,400 per dependent child.

How 2021 is Different

The American Rescue Plan Act changed the tax credit for just one year. Taxpayers can now claim a credit of $3,000 for every dependent child between the ages of 6 and 17 (inclusive) and $3,600 for every dependent child 5 or younger. The credit is now fully refundable — which means if your tax burden is low enough you could receive the entire credit as cash — and there is no lower income limit. The additional $1,000 or $1,600 of each credit and the original $2,000 phase out at higher incomes levels.

Rather than wait for Americans to file their 2021 tax returns, the government is distributing half the credit ahead of time in the form of monthly checks. The program covers roughly 39 million households and about 88 percent of the children in the United States.

How Monthly Payments Work

Families began receiving advance monthly payments on their estimated 2021 Child Tax Credit in July 2021. Checks are typically $250 or $300 per child and will continue through December. The balance will be disbursed with your 2021 tax refund.

Because the advance payments are based on previous tax information, some families receiving checks won't end up qualifying for the credit when they file for 2021. In that case, taxpayers will be responsible for returning the payments. If your income increased in 2021, threatening your eligibility for the Child Tax Credit, it may make sense to wait to spend the money or opt-out of advance payments.

Setting Expectations and Managing Monthly Payments

The Advance Child Tax Credit Eligibility Assistant on the IRS website can help you determine whether you qualify. By answering a few questions, you can see how much you should expect to receive for 2021. If you'd rather not receive advance payments, you can use the online Child Tax Credit Update Portal to opt-out.

Shobe Current News

Zainab "Zee" Gandhi Attends the Financial Planning Association of Houston Annual Symposium

Zee Gandhi participated in the FPA of Houston's 2021 Symposium last month, an annual event for industry experts to discuss trending topics and best practices. This year's event included discussions on cryptocurrencies, estate tax exemptions, and innovations in financial planning.

This one-year increase to the Child Tax Credit will be a boon to parents of young children, but it comes with caveats that could leave some taxpayers unexpectedly owing money when they file their return. It's important to understand how it will affect you specifically so you can know whether to spend those checks. Keep in mind that unless Congress passes a law extending the Child Tax Credit increase, the value of the credit reverts to a partially refundable $2,000 credit per child for 2022.

SOURCES:
https://www.irs.gov/credits-deductions/advance-child-tax-credit-eligibility-assistant https://www.irs.gov/tax-professionals/accessibility-guide-for-child-tax-credit-update-portal
https://home.treasury.gov/news/press-releases/jy0177 https://home.treasury.gov/news/press-releases/jy0177
https://www.fool.com/taxes/2018/01/09/the-2018-child-tax-credit-changes-what-you-need-to.aspx

Material provided by Oechsli Institute, an independent third party not affiliated with Raymond James. Opinions expressed are those of the authors and not necessary those of Raymond James. The information has been obtained from sources considered to be reliable, but we do not guarantee that the foregoing material is accurate or complete. Raymond James and its advisors do not offer tax or legal advice. You should discuss any tax or legal matters with the appropriate professional.

Shobe Tech Corner

Share Files with Vault

Raymond James Vault, a part of Client Center, is a great resource for collaboration between you, your planner, and other authorized individuals. Vault allows you to securely share and store your important documents digitally, giving you easy access to your information.

If you have specific questions about your account, please contact your planner.

Scan the QR code to learn more.

The Shobe Financial Group and **Shobe & Associates, Inc.** are not registered broker/dealers and are independent of Raymond James Financial Services. Investment advisory services offered through Shobe & Associates, Inc. Securities are offered through **Raymond James Financial Services, Inc.** Member FINRA/SIPC.