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James Sadrianna PA - April 2021 Newsletter

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Tax deadline for most individuals:

- ***Monday, May 17, 2021***

Due Date for Federal Income Tax Returns and Payments Postponed to May 17

Due to the unusual conditions related to the coronavirus pandemic, the due date for individuals to file 2020 federal income tax returns and make tax payments has been postponed by the IRS from Thursday, April 15, 2021, to Monday, May 17, 2021. No interest, penalties, or additions to tax will be incurred by taxpayers during this approximately one-month relief period for any return or payment postponed under this relief provision.

The relief applies automatically to all taxpayers and no additional forms need to be filed to qualify for the relief. The new deadline applies to federal income tax payments for taxable year 2020, including payments of tax on self-employment income. It does not apply to estimated tax payments for 2021 that are due on April 15, 2021. There is no limit on the amount of tax that can be deferred.

Note: *Under this relief provision, no extension is provided for the payment or deposit of any other type of federal tax, or for the filing of any federal information return. The IRS urges taxpayers to check with their state tax agencies regarding state tax filing and payment deadlines.*

Note: *Earlier this year, the IRS announced that victims of the February winter storms in Texas, Oklahoma, and Louisiana have until Tuesday, June 15, 2021, to file various individual and business tax returns and make tax payments.*

Need more time?

If you're not able to file your federal income tax return by the May due date, you can file for an extension by the May due date using IRS Form 4868, Application for Automatic Extension of Time to File U.S. Individual Income Tax Return. Filing this extension gives you an additional five months (until October 15, 2021) to file your federal income tax return. You can also file for an automatic five-month extension electronically (details on how to do so can be found in the Form 4868 instructions). There may be penalties for failing to file or for filing late.

Filing for an extension using Form 4868 does not provide any additional time to pay your tax. When you file for an extension, you have to estimate the amount of tax you will owe and pay this amount by the May filing due date. If you don't pay the amount you've estimated, you may owe interest and penalties. In fact, if the IRS believes that your estimate was not reasonable, it may void your extension.

Tax refunds

The IRS encourages taxpayers seeking a tax refund to file their tax return as soon as possible, and to file electronically with direct deposit. The IRS issues most tax refunds within 21 days of the IRS receiving a tax return. However, the IRS has experienced delays in processing paper tax returns due to limited staffing during the coronavirus pandemic.

IRA contributions

Contributions to an individual retirement account (IRA) for 2020 can be made up to the due date (without regard to extensions) for filing the 2020 federal income tax return. The postponement of the 2020 tax filing due date by the IRS also generally extends the time to make IRA contributions for 2020 to May 17, 2021.

The $1.9 trillion emergency relief package represents an effort to assist individuals and businesses during the ongoing coronavirus pandemic and accompanying economic crisis.

American Rescue Plan Act Provides Relief to Individuals and Businesses

On Thursday, March 11, 2021, the American Rescue Plan Act of 2021 (ARPA 2021) was signed into law. This is a $1.9 trillion emergency relief package that includes payments to individuals and funding for federal programs, vaccines and testing, state and local governments, and schools. It is intended to assist individuals and businesses during the ongoing coronavirus pandemic and accompanying economic crisis. Major relief provisions are summarized here, including some tax provisions.

Recovery rebates (stimulus checks)

Many individuals will receive another direct payment from the federal government. Technically a 2021 refundable income tax credit, the rebate amount will be calculated based on 2019 tax returns filed (or on 2020 tax returns if filed and processed by the IRS at the time of determination) and sent automatically via check, direct deposit, or debit card to qualifying individuals. To qualify for a payment, individuals generally must have a Social Security number and must not qualify as the dependent of another individual.

The amount of the recovery rebate is $1,400 ($2,800 if married filing a joint return) plus $1,400 for each dependent. Recovery rebates start to phase out for those with an adjusted gross income (AGI) exceeding $75,000 ($150,000 if married filing a joint return, $112,500 for those filing as head of household). Recovery rebates are completely phased out for those with an AGI of $80,000 ($160,000 if married filing a joint return, $120,000 for those filing as head of household).

Rebate Amounts and Phaseout Ranges

Filing Status	Payment Amount	Phaseout Threshold	Phaseout Completed
Married Filing Jointly	$2,800	$150,000	$160,000
+ 1 Child	$4,200	$150,000	$160,000
+ 2 Children	$5,600	$150,000	$160,000
Head of Household	$1,400	$112,500	$120,000
+ 1 Child	$2,800	$112,500	$120,000
+ 2 Children	$4,200	$112,500	$120,000
All Others	$1,400	$75,000	$80,000

Unemployment provisions

The legislation extends unemployment benefit assistance:

- An additional $300 weekly benefit to those collecting unemployment benefits, through September 6, 2021
- An additional 29-week extension of federally funded unemployment benefits for individuals who exhaust their state unemployment benefits
- Targeted federal reimbursement of state unemployment compensation designed to eliminate state one-week delays in providing benefits (allowing individuals to receive a maximum 79 weeks of benefits)
- Unemployment benefits through September 6, 2021, for many who would not otherwise qualify, including independent contractors and part-time workers

For 2020, the legislation also makes the first $10,200 (per spouse for joint returns) of unemployment benefits nontaxable if the taxpayer's modified adjusted gross income is less than $150,000. If a 2020 tax return has already been filed, an amended return may be needed.

Business relief

- The employee retention tax credit has been extended through December 31, 2021. It is available to employers that were significantly impacted by the crisis and is applied to offset Social Security payroll taxes. As in the previous extension, the credit is increased to 70% of qualified wages, up to a certain maximum per quarter.
- The employer tax credits for providing emergency sick and family leave have been extended through

September 30, 2021.

- Eligible small businesses can receive targeted economic injury disaster loan advances from the Small Business Administration. The advances are not included in taxable income. Furthermore, no deduction or basis increase is denied, and no tax attribute is reduced by reason of the exclusion from income.
- Eligible restaurants can receive restaurant revitalization grants from the Small Business Administration. The grants are not included in taxable income. Furthermore, no deduction or basis increase is denied, and no tax attribute is reduced by reason of the exclusion from income.

Housing relief

- The legislation allocates additional funds to state and local governments to provide emergency rental and utility assistance through December 31, 2021.
- The legislation allocates funds to help homeowners with mortgage payments and utility bills.
- The legislation also allocates funds to help the homeless.

Health insurance relief

- For those who lost a job and qualify for health insurance under the federal COBRA continuation coverage program, the federal government will generally pay the entire COBRA premium for health insurance from April 1, 2021, through September 30, 2021.
- For 2021, if a taxpayer receives unemployment compensation, the taxpayer is treated as an applicable taxpayer for purposes of the premium tax credit, and the household income of the taxpayer is favorably treated for purposes of determining the amount of the credit.
- Persons who bought their own health insurance through a government exchange may qualify for a lower cost through December 31, 2022.

Student loan tax relief

For student loans forgiven or cancelled between January 1, 2021, and December 31, 2025, discharged amounts are not included in taxable income.

Child tax credit

- For 2021, the credit amount increases from $2,000 to $3,000 per qualifying child ($3,600 for qualifying children under age 6), subject to phaseout based on modified adjusted gross income. The legislation also makes 17-year-olds eligible as qualifying children in 2021.
- For most individuals, the credit is fully refundable for 2021 if it exceeds tax liability.
- The Treasury Department is expected to send out periodic advance payments (to be worked out by the Treasury) for up to one-half of the credit during 2021.

Child and dependent care tax credit

- For 2021, the legislation increases the maximum credit up to $4,000 for one qualifying individual and up to $8,000 for two or more (based on an increased applicable percentage of 50% of costs paid and increased dollar limits).
- Most taxpayers will not have the applicable percentage reduced (can be reduced from 50% to 20% if AGI exceeds a substantially increased $125,000) in 2021. However, the applicable percentage can now also be reduced from 20% down to 0% if the taxpayer's AGI exceeds $400,000 in 2021.
- For most individuals, the credit is fully refundable for 2021 if it exceeds tax liability.

Earned income tax credit

For 2021 only:

- The legislation generally increases the credit available for individuals with no qualifying children (bringing it closer to the amounts for individuals with one, two, or three or more children which were already much higher).
- For individuals with no qualifying children, the minimum age at which the credit can be claimed is generally lowered from 25 to 19 (24 for certain full-time students) and the maximum age limit of 64 is eliminated (there are no similar age limits for individuals with qualifying children).
- To determine the credit amount, taxpayers can elect to use their 2019 earned income if it is more than their 2021 earned income.

For 2021 and later years:

- Taxpayers otherwise eligible for the credit except that their children do not have Social Security numbers (and were previously prohibited from claiming any credit) can now claim the credit for individuals with no

qualifying children.

- The credit is now available to certain separated spouses who do not file a joint tax return.
- The level of investment income at which a taxpayer is disqualified from claiming the credit is increased from $3,650 (as previously indexed for 2021) to $10,000 in 2021 (indexed for inflation in future years).

U.S. Credit-Card Debt Levels See Record Drop in 2020

Despite the financial challenges experienced by Americans as a result of the coronavirus pandemic, U.S. credit-card debt dropped to record levels in 2020, decreasing by almost $83 billion.[1] This unprecedented drop was likely the result of individuals receiving financial assistance through the Coronavirus Aid, Relief, and Economic Security (CARES) Act and having access to more cash. Economic aid in the form of stimulus payments, suspended student loan payments, and broad state-sponsored unemployment benefits, allowed Americans to pay down their balances.[2] In fact, according to a U.S. Census Bureau survey, almost 60% of adults in households that experienced a loss in employment income during the pandemic used their second stimulus check to pay down debt.[3]

If you are still struggling to pay down your balances, here are some strategies to help eliminate your credit-card debt.

- **Pay off cards with the highest interest rates first.** If you have more than one card with an outstanding balance, one option is to pay the most to the card with the highest interest rate and continue making payments to your other cards until the card with the highest interest rate is paid off. You can then focus your repayment efforts on the card with the next-highest interest rate, and so on, until they're all paid off.
- **Apply for a balance transfer.** Many credit-card companies offer highly competitive balance transfer offers (e.g., 0% interest for 12 months). Transferring your credit-card balance to a card with a lower interest rate may enable you to reduce interest charges and pay more against your existing balance. Keep in mind that most balance transfer offers charge a fee (usually a percentage of the balance transferred), so be sure to do the calculations to make sure it's cost-effective before you apply.
- **Pay more than the minimum.** If you pay only the minimum payment due on a credit card, you'll continue to carry the bulk of your balance forward without reducing your overall balance. Instead, try to make payments that exceed the minimum amount due. For more detailed information on the impact that making just the minimum payment will have on your overall balance, refer to your monthly billing statement.
- **Look for other sources of available funds.** If you always seem to find that you don't have the extra cash available to pay down your balances, you may want to look for other sources of available funds. Are you expecting an employment bonus or other financial windfall in the near future? If so, consider using those funds to help eliminate or pay down your credit-card debt.

1) Credit Card Debt Study, WalletHub, March 2021

2) Credit Card Debt in 2020, Experian, November 2020

3) Household Pulse Survey, U.S. Census Bureau, March 2021

Medicaid Planning Basics

The best time to plan for the possibility of nursing home care is when you're still healthy. By doing so, you may be able to pay for your long-term care and preserve assets for your loved ones. How? Through Medicaid planning.

Eligibility for Medicaid depends on your state's asset and income-level requirements

Medicaid is a joint federal-state program that provides medical assistance to various low-income individuals, including those who are aged (i.e., 65 or older), disabled, or blind. It is the single largest payer of nursing home bills in America and is the last resort for people who have no other way to finance their long-term care. Although Medicaid eligibility rules vary from state to state, federal minimum standards and guidelines must be observed.

In addition to you meeting your state's medical and functional criteria for nursing home care, your assets and monthly income must each fall below certain levels if you are to qualify for Medicaid. However, several assets (which may include your family home) and a certain amount of income may be exempt or not counted.

Medicaid planning can help you meet your state's requirements

To determine whether you qualify for Medicaid, your state may count only the income and assets that are legally available to you for paying bills. That's where Medicaid planning comes in. Over the years, a number of tools and strategies have arisen that might help you qualify for Medicaid sooner.

In general, Medicaid planning seeks to accomplish the following goals:

- Exchanging countable assets for exempt assets to help you meet Medicaid eligibility requirements
- Preserving assets for your loved ones
- Providing for your healthy spouse (if you're married)

Let's look at these in turn.

You may be able to exchange countable assets for exempt assets

Countable assets are those that are not exempt by state law or otherwise made inaccessible to the state for Medicaid purposes. The total value of your countable assets (together with your countable income) will determine your eligibility for Medicaid. Under federal guidelines, each state compiles a list of exempt assets. Usually, this list includes such items as the family home (regardless of value), prepaid burial plots and contracts, one automobile, and term life insurance.

Through Medicaid planning, you may be able to rearrange your finances so that countable assets are exchanged for exempt

assets or otherwise made inaccessible to the state. For example, you may be able to pay off the mortgage on your family home, make home improvements and repairs, pay off your debts, purchase a car for your healthy spouse, and prepay burial expenses.

For more information on this topic, contact an elder law attorney who is experienced with your state's Medicaid laws.

Irrevocable trusts can help you leave something for your loved ones

Why not simply liquidate all of your assets to pay for your nursing home care? After all, Medicaid will eventually kick in (in most states) once you've exhausted your personal resources. The reason is simple: You want to assist your loved ones financially.

There are many ways to potentially preserve assets for your loved ones. One way is to use an irrevocable trust. (It's irrevocable in the sense that you can't later change its terms or decide to end it.) Property placed in an irrevocable trust will be excluded from your financial picture, for Medicaid purposes. If you name a proper beneficiary, the principal that you deposit into the trust (and possibly any income generated) will be sheltered from the state and can be preserved for your heirs. Typically, though, the trust must be in place and funded for a specific period of time for this strategy to be an effective Medicaid planning tool.

For information about Medicaid planning trusts, consult an experienced attorney.

If you're married, an annuity can help you provide for your healthy spouse

Nursing homes are expensive. If you must go to one, will your spouse have enough money to live on? With a little planning, the answer is yes. Here's how Medicaid affects a married couple. A couple's assets are pooled together when the state is considering the eligibility of one spouse for Medicaid. The healthy spouse is entitled to keep a spousal resource allowance that generally amounts to one-half of the assets. This may not amount to much money over the long term.

A healthy spouse may want to use jointly owned, countable assets to buy a single premium immediate annuity to benefit himself or herself. Converting countable assets into an income stream is a plus because each spouse is entitled to keep all of his or her own income, in contrast to the pooling of assets. By purchasing an immediate annuity in this manner, the institutionalized spouse can more easily qualify for Medicaid, and the healthy spouse can enjoy a higher standard of living.

Be aware, however, that for annuities purchased on February 8, 2006 and thereafter (the date of enactment of the Deficit Reduction Act of 2005), the state must be named as the remainder beneficiary of the annuity after your spouse or a minor or disabled child.

Beware of certain Medicaid planning risks

Medicaid planning is not without certain risks and drawbacks. In particular, you should be aware of look-back periods, possible disqualification for Medicaid, and estate recoveries.

When you apply for Medicaid, the state has the right to review, or look back, at your finances (and those of your spouse) for a period of months before the date you applied for assistance. In general, a 60-month look-back period exists for transfers of countable assets for less than fair market value. Transfers of countable assets for less than fair market value made during the look-back period will usually result in a waiting period before you can start to collect Medicaid. So, for example, if you give your house to your kids the year before you enter a nursing home, you'll be ineligible for Medicaid for quite some time. (A mathematical formula is used.)

Also, you should know that Medicaid planning is more effective in some states than in others. In addition, federal law encourages states to seek reimbursement from Medicaid recipients for Medicaid payments made on their behalf. This means that your state may be able to place a lien on your property while you are alive, or seek reimbursement from your estate after you die. Make sure to consult an attorney experienced with Medicaid planning and the laws in your state before taking any action.

Medicaid and the Principal Residence

Although your stay can be paid for by your personal savings or by your long-term care insurance policy (if you have one), many nursing home residents end up using Medicaid (a joint federal-state program for low-income individuals) to pay for their care. Unfortunately, if you're a Medicaid beneficiary, your state may be able to attach a lien to your house while you're living or after you die. To preserve the home for your family, you should plan for Medicaid well in advance of your nursing home stay. If you're like most homeowners, your principal residence is one of your most valuable assets. It may have sentimental value, and it may also represent financial security for your loved ones.

Medicaid and the treatment of your home during your lifetime

If you want to qualify for Medicaid benefits, you must generally have very limited income and few assets. But several assets, including your family home, may be exempt or not counted toward your Medicaid eligibility. Your house is exempt as long as you live in it. It's also exempt if your spouse, your minor child, or your disabled or blind child lives in your home after you become a permanent nursing home resident.

However, assets that are exempt for the purpose of determining Medicaid eligibility can still be attached to reimburse the state for its costs. The federal government encourages states to seek reimbursement from Medicaid recipients for Medicaid payments made on their behalf. To this end, federal law allows a lien to be placed on your home at the time you become a permanent resident of a nursing home. (A Medicaid lien makes it impossible for you to sell your home or refinance your mortgage without paying the state whatever may be owed.) But not all states have adopted laws providing for such liens. Even if your state has adopted such a law, a Medicaid lien can't be imposed on your home during your lifetime while specified relatives (such as your spouse) lawfully live there.

Medicaid and the treatment of your home after your death

Your state may be able to seek reimbursement for Medicaid benefits from your estate after you die. For Medicaid purposes, the word estate has traditionally meant your probate estate (i.e., the property that passes under your will, rather than by operation of law). States have the option, though, to expand the definition of estate to include all nonprobate assets as well (to the extent of a Medicaid recipient's legal interest in those assets). If you're interested in Medicaid planning, you should consult an experienced attorney to learn whether your state has adopted an expanded definition.

Your state cannot enforce a lien or attempt estate recovery procedures until after the deaths of your surviving spouse (if you have one) and certain other specified relatives. The same holds true while specified individuals lawfully live in your home.

Medicaid planning strategies can impact your eligibility for Medicaid benefits

If you want to qualify for Medicaid and also preserve your family home, consider transferring your home to family members. Be sure you do this well in advance of your nursing home entry, though. If you transfer your home for less than its fair market value within 60 months (the look-back period under federal law) of the time you apply for Medicaid as a nursing home resident, you may be ineligible to qualify for Medicaid for a period of months, based on a formula set by your state. (For transfers made prior to February 8, 2006, the look-back period is 36 months, or 60 months if the home was transferred to an irrevocable trust.)

If you have time to plan, you should consider the following ways to protect your home.

Gift the house to a loved one

While you're alive, consider making a gift of your home to your children or other loved ones. This will remove the house from your financial picture entirely, assuming the gift is completed more than 60 months (or the applicable look-back period) before you apply for Medicaid. Your state cannot place a lien or force a sale on a home that no longer belongs to you and is not part of your estate. Unfortunately, this strategy may involve gift tax consequences and has income tax repercussions. Also, you'll give up your legal right to live in the home, so you'll be affected by the decisions made by your children and their spouses.

Transfer your home into an irrevocable trust

You can transfer your home into an irrevocable income-only trust, but the effectiveness of this strategy depends on the laws of your state. An irrevocable trust cannot be altered in any way. With the income-only version, you are entitled to receive only the income (if any) that the trust generates. A transfer into this form of trust will remove the house from your probate estate. However, your state may seek reimbursement after your death if it has adopted an expanded definition of estate. Still, it will be able to collect only the present value of your income interest at the moment before your death.

Transfer the home, but reserve a life estate for yourself

Here, you'd transfer the remainder interest in your house to your loved ones but keep a life estate for yourself. This means that you'd have the legal right to live in the house during your lifetime. Only the value of the life estate is treated as a countable asset for Medicaid eligibility purposes, and any period of ineligibility is shortened. After your death, the entire value of the residence would be subject to estate taxes, but your children would own the home automatically and receive a stepped-up tax basis. (That is, the basis of the property would be its fair market value at the time of your death.) On the downside, if your state has adopted an expanded definition of estate, it may be able to force a sale of the property after your death, collecting the value of your life estate at the moment before your death.

Note: The purchase of a life estate in another's home (e.g., your child's home) is treated differently. Generally, for purchases made on or after February 8, 2006, the transfer will be countable unless you have lived in the home for at least one year after the purchase.

Transfer the home subject to a special power of appointment

With a special power of appointment, you'd transfer the ownership of your house to someone else, while reserving your right to redirect the house to a different person at a later time. You could exercise this power during your lifetime (by a deed) or at your death (by a will), subject to certain limitations. With this tool, your state would be unable to go after the house (either during your lifetime or after your death). However, you'd lose the legal right to live in the house.

Obviously, Medicaid planning is complicated. There are several other strategies available to protect your home, and you'll want to explore all of your options. For more information, be sure to consult an elder law attorney who has experience with your state's Medicaid laws.

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