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NATP recommends taxpayers take certain actions before Dec. 31 to reduce tax liabilities and prepare for 2021 return

Max out retirement contributions, gather child tax credit info, take RMDs at the top of the list

APPLETON, Wis. (Nov. 17, 2021) – As hard as it is to believe, another tax season is right around the corner. The IRS has not yet announced details about the opening of the 2022 tax season, but it's never too early to start preparing – both taxpayers and tax preparers.

There are a series of actions taxpayers can take before Dec. 31, 2021, to reduce their tax liability on their 2021 tax return. In addition, there are plenty of actions tax preparers can take before Dec. 31 to prepare for another tax season that's expected to be full of the unexpected.

For the taxpayer:

- Max out their IRA contributions
 - Contributions to an IRA is always a good idea for those who are eligible, but they may even be beneficial for tax purposes depending on the type of account. For 2021 and 2022, there is a \$6,000 limit on contributions to traditional and Roth IRAs. Those age 50 or older can contribute another \$1,000. Contributing to a traditional IRA may also be tax deductible for those who qualify, which could reduce the amount owed in taxes. Contributions to Roth IRAs are never tax deductible, and if you make too much money, contributions cannot be made.
- Review/update beneficiary information
 - Keeping your beneficiary information up to date is crucial to ensure proper legacy planning. This is especially critical for births, marriages, divorces and deaths. Without living beneficiaries, assets are generally transferred to the estate, and state law determines who receives the estate's assets.
- Take their required minimum distributions (RMDs)
 - Taxpayers who reached age 70-and-a-half before Jan. 1, 2020, are required to take distributions (RMDs) from their individual retirement accounts. For taxpayers who reach age 70-and-a-half after Dec. 31, 2019, the RMD age is 72. Special rules apply for taxpayers turning age 72 in 2021. Taxpayers should seek assistance from an [experienced tax professional](#) with questions.
- Donate to a charity
 - Donating to a charity is a great way to help the community, but for 2021, taxpayers who are nonitemizers and make a qualifying donation can possibly claim a tax deduction of up to \$300 (\$600 for married individuals filing joint returns). For 2021, individual taxpayers who itemize deductions and contribute cash to a qualified charity may deduct up to 100 percent of their adjusted gross income (AGI) after considering other contributions subject to the charitable contribution limitations.

- Use all their FSA cash
 - FSAs are a great way to reduce taxable income, but generally, any funds in the account that aren't used by Dec. 31 each year are lost.
- Report any changes of information – address, name, banking, etc. to the IRS
 - This can help speed up the process of getting a refund if the taxpayer is entitled.
- Renew their individual taxpayer identification number (ITIN), if applicable
 - Taxpayers can visit the ITIN page on IRS.gov for more information in renewing.
- Contribute to Section 529 plans
 - Of course there's the benefit of saving for qualified education expenses and the earnings are not subject to federal tax, but contributions to Section 529 plans are also deductible in most states. Contributions to Section 529 plans are never tax deductible for federal purposes.
- Make fourth quarter state estimated tax payments
 - Even though the deadline is not until Jan. 15, 2022, making the state payment before Dec. 31, 2021, means it may be deducted on the 2021 federal return for those who itemize. This can be beneficial if the current \$10,000 SALT deduction cap has not been met.
- Gather all statements and banking information about advanced child tax credit payments
 - Gathering these now will help ensure proper reporting of any advance payments received in 2021, as these need to be reported in order to properly calculate the credit for the 2021 return. For 2021 only, the credit is completely refundable, which means some taxpayers who do not usually receive a refund may this year. Alternatively, if taxpayers were issued advance payments in excess of what they are eligible for, they may have to pay it back.
 - Taxpayers should also review and update any financial information (increased or decreased income) in the IRS's Child Tax Credit Update Portal.
 - In January 2022, the IRS will send taxpayers Letter 6419 with the total amount of advance child tax credit payments disbursed in 2021. Keep this letter with your tax records, as taxpayers may need to refer to this letter when filing their 2021 tax return.
- Find an experienced and educated tax professional
 - Although there are currently no education or accreditation requirements for someone preparing a tax return, it is ultimately the taxpayer, not the tax preparer, who is responsible for the return. That means the IRS could assess interest and penalties to the taxpayer if information reported on the return is inaccurate or fraudulent, even if the taxpayer didn't directly prepare their own return.

For the tax preparer:

- Register for and complete any remaining education courses to earn continuing professional education (CPE) credits required to maintain a designation
- If applicable, take the necessary steps to renew their preparer tax identification number (PTIN)
- Confirm all computer and tax software is installed properly and up-to-date
- Review/update information about your tax firm, if applicable, with the IRS

For more information about finding a qualified tax preparer or the National Association of Tax Professionals, please visit natptax.com. To speak with someone about federal tax topics or the 2022 tax season, please contact Nancy Kasten at nkasten@natptax.com.



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Looking for a tax expert? Rhonda Collins, EA, CPA, MBA, is the director of tax content and government relations at the National Association of Tax Professionals (NATP). Collins has a diverse background of over 25 years in the industry. As a licensed CPA and EA, Collins can represent clients before the IRS. She is available for phone or video interviews to discuss federal tax topics including tax law change and its implications, taxpayer issues, tax preparer regulation and more. To schedule an interview with Collins, contact nkasten@natptax.com.