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IRS Issues 2021 Inflation Adjustments

BY SCOTT C. CASHMAN • NOVEMBER 17, 2020

The IRS recently issued the 2021 annual adjustments for numerous tax provisions that are by law to be adjusted annually. These adjustments include changes to tax brackets and standard deductions. Popular provisions that were adjusted include:

- 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.
- Marginal Rates: For tax year 2021, the top tax rate remains 37% for individual single taxpayers with incomes greater than \$523,600 (\$628,300 for married couples filing jointly). The other rates are:
 - 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.
- 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 the taxable years beginning in 2021, the dollar limitation for employee salary reductions for contributions to health flexible spending arrangements remains \$2,750.
- 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.

[See IRS Rev Proc 2020-45 for more details.](#)