



Majestic Oak Financial
A Registered Investment Advisor

Anna M. Popke, CFP®, RICP®
4411 Pasada Lane
Round Rock, Texas 78681
(512) 291-3546
anna@majesticoakfinancial.com
www.majesticoakfinancial.com

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It's been a tough 12 months in this country but hopefully, we're seeing some light. Continue to do what you need to in order to stay healthy but find happiness!

The Potentially Nasty Surprise Inside the Tax Treat

One of the many provisions of the latest stimulus package passed in March included a big, generous change to the child tax credit for 2021. And although the actual mechanisms for enacting the changes are still unclear, one subsection of this particular part of the package may result in a rather nasty surprise for taxpayers with children. Let me explain...

Prior to the most recent stimulus package, taxpayers with minor children ages 16 and younger received a child tax credit on their tax return. This credit was worth \$2,000 per child and had a phase out provision for higher earners that started at \$200k for singles and \$400k for married filing joint. It was pretty straight forward.

Of course, we can't keep anything uncomplicated when it comes to the tax code, so let's shake it up a whole bunch and figure out the damage later, right? Well, here's goes:

For 2021, the child tax credit for each youngster up to 5 years of age increases to \$3,600. For minors age 6 – 17, it increases to \$3,000. So note, not only has the amount increased, but it's tiered by age and now 17 year olds are included. (By the way, age is determined as the age of the child as of 12/31/2021.) The credit is fully-refundable so even if you don't owe a dollar of taxes, you can get this full amount back as a refund.

Ready to complicate this more? This new law can accommodate that. The phase out levels for the new, higher amounts have decreased. They are \$75k for single filers, \$112,500 for head of household, and \$150k for married filing joint. It appears that the phase out is equal to \$50 for every \$1,000 over the income limit. According to this math, if you have one 10-year old child and you are single, the entire amount is eliminated at an income of \$135k. But wait... that's not so. Because at \$95k, the phase out amount under the new plan would put you at a \$2,000 credit from the old system so you switch to that phaseout until you hit the old limitation of \$200k. If you have several kids, the \$50/\$1,000 of income still applies and it takes much longer to phase out. If you want to calculate what you might be receiving, use an online calculator. They're not difficult to find but take them with a grain of salt because I couldn't find the actual formula anywhere online.

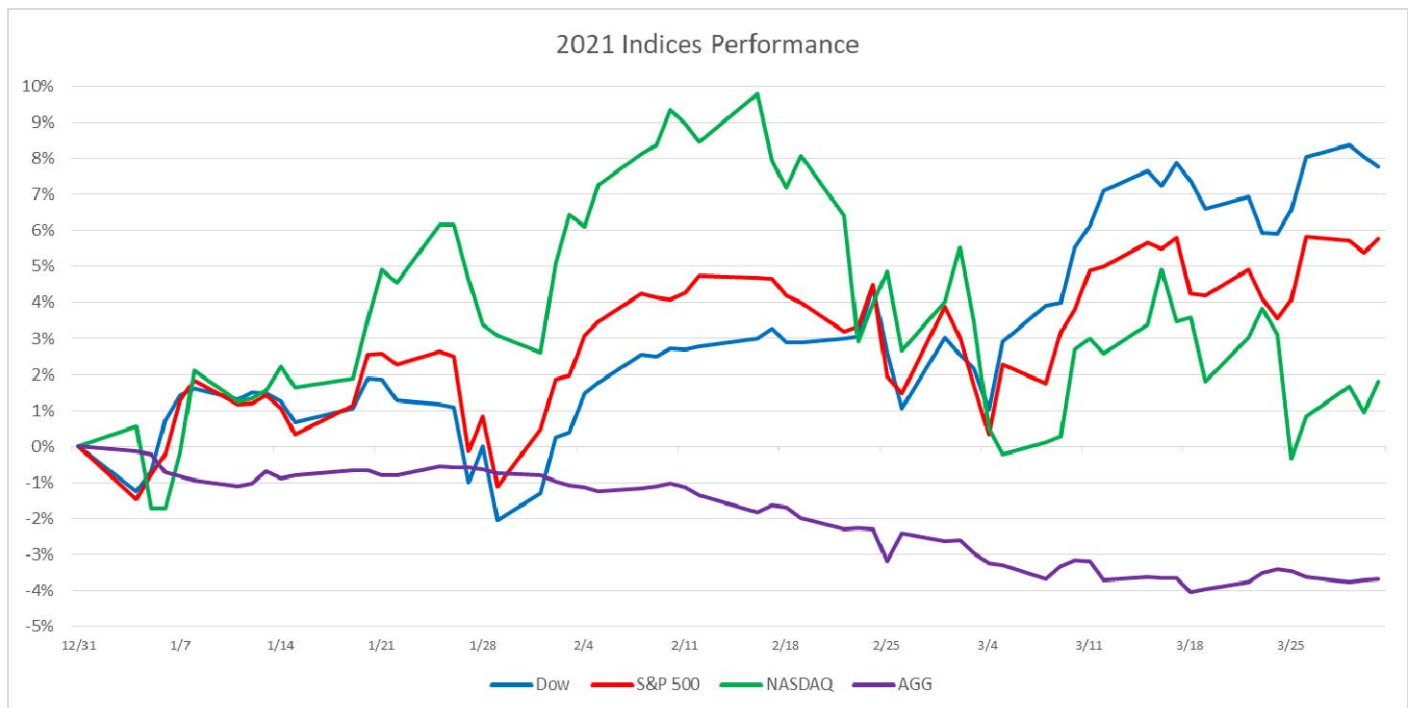
OK so what we have here is a lot of families receiving a lot of tax credits. Where's the downside to that? Oh ye of little faith, we're not done yet! In an effort to get these funds into the hands of parents now instead of next filing season, the law incorporates a rather fuzzy plan in which, instead of claiming these funds on tax returns next April, families will start receiving payments of up to \$250/month for each school-aged child *in advance*. Payment calculations will be based on either 2019 or 2020 returns. The hope is that the IRS will create the necessary system to get these payments out starting in July. The aim is for monthly payments but the idea of quarterly payments is on the table. If you take the early payments based on your 2019 or 2020 return and end up not qualifying when you

file in 2021, you'll have to pay it back. Lastly, it appears the intention is that all taxpayers who qualify will receive payments UNLESS they opt out.

What could go wrong here? If you have a 17-year old in 2020 and the refund is based on 2020 returns, that 17-year old will be 18 in 2021 and will no longer qualify. Yet, taxpayers would have received monthly/quarterly advance amounts as if that child still qualified. And so it will have to be repaid. If 2020 was not a great income year but 2021 was, then one might receive more refund than normal which will have to be repaid. And let's be honest... in most instances, once those dollars are received, they are spent and taxpayers will have to figure out how to come up with money to pay it back. Even in the best situations, many taxpayers adjust withholdings with the idea of receiving a target amount of refund each April. If refunds are paid in advance, those anticipated April refunds may be non-existent. On top of that, to avoid this issue altogether, taxpayers will have to OPT OUT, probably online? If we can't navigate signing up online for a vaccination shot or health insurance, how will people figure this out? And oh wait! One more thing... this mess, as of right now, is only for 2021. Can't wait to see what 2022 will bring!

1st Quarter 2021 Market Performance

<i>Index</i>	<i>03/31/2021 Ending Value</i>	<i>1Q 2021 Performance</i>
Dow Jones	32,981.55	7.76%
S&P 500	3,972.89	5.77%
NASDAQ	13,122.57	1.82%
Lehman Aggregate Bond	113.83	<3.69%>



Your Individual Investment Reports

The following reports for 1st Quarter 2021 are provided for your review:

- ✦ **1st Quarter 2021 Portfolio Performance** – Compares the 1st Quarter 2021 percentage performances of the S&P 500 & Lehman Aggregate Bond Index with your portfolio performance.
- ✦ **1st Quarter 2021 Portfolio Performance vs. Inflation** – Performance of your investment portfolio compared to the rate of inflation as measured by the Consumer Price Index (CPI) for both the since inception period of your accounts and 1st Quarter 2021.
- ✦ **Account Summary** – Current market value of each asset within your accounts as of 03/31/2021
- ✦ **Investment Billing Statement** for the 2nd Quarter 2021^{**}: Investment advisory fees for the period of 04/01/2021 through 07/31/2021 (based on 03/31/2021 values). *This is an informational billing only.* Your account is automatically debited unless other arrangements have been made.

Please remember that this investment reporting is for informational purposes only. You should also refer to the monthly account statements you receive from TD Ameritrade Institutional.

If you happen to know anyone who might benefit from the services I provide in assisting you in managing your investment portfolio and reaching your financial goals, I would enjoy speaking with them. Don't keep me a secret! ☺ And as always, please do not hesitate to contact me if you have any questions about your reports or wish to discuss any other financial matters.

Sincerely,



Anna M. Popke, CFP[®], RICP[®]

*Index performance is provided as a benchmark only. The performance of your individual investment portfolio will vary from that of any one index. Past performance of an index is never a guarantee of future results.

****PLEASE NOTE:** Clients who hold “cash reserves” within their brokerage accounts will have slightly different portfolio balances depicted on the Statement of Assets Summary and the Billing Statement. This is because “cash reserves” are excluded from the advisory fee. However, cash held awaiting investment in the upcoming quarter *will* be subject to the normal quarterly fee.

Investment Advisory Fee Calculations:

Fees are paid in advance on the 7th (or prior closest business day) of the month following the end of the quarter. The amount due is calculated by applying the prorated annual fee percentage to the previous quarter-end account value(s). Fees are further prorated for accounts opened after the beginning of a new quarter. Fees may be paid directly from the investment account(s) or consolidated and paid from a specified account. Money market/cash reserves are excluded from totals. Statements have been prepared by Majestic Oak Financial from information provided by TDAmeritrade and while deemed reliable, are not guaranteed.