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**HOLIDAYS: Prepare early to make tax filing easier**

By Rebekah Hall  
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**Fast Facts:**

* File early, electronically, and use direct deposit for fastest refund
* Charitable contributions must be made by Dec. 31 to be deducted
* Preparing early helps to maximize retirement contributions

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LITTLE ROCK — As the year winds down, taxpayers can prepare early for the 2022 tax filing season.

Laura Hendrix, associate professor of family and consumer science for the University of Arkansas Division of Agriculture, said getting a head start on the process offers several advantages.

“The main advantages of preparing for taxes before January 2022 are planning ahead to maximize retirement contributions and estimating taxes to plan ahead if payments will be needed,” Hendrix said.

**Charitable contributions**

Preparing for tax season is also important for charitable contributions, which may be tax-deductible and must be made by Dec. 31, 2021 to count as an itemized deduction for the 2021 tax year. Hendrix advised that taxpayers keep good records of charitable donations and contributions to help ease the filing process.

“Special recordkeeping rules apply to any taxpayer claiming a charitable contribution deduction,” Hendrix said. “Usually, this includes obtaining an acknowledgment letter from the charity before filing a return and retaining a canceled check or credit card receipt for contributions of cash.”

For details on recordkeeping rules for substantiating gifts to charity, see Publication 526, Charitable Contributions, available at [www.IRS.gov](http://www.IRS.gov).

**Standard vs. itemized deductions**

Organized recordkeeping is also critical for individuals planning to itemize deductions on their federal tax income return. Taxpayers can either itemize deductions or use the standard deduction, although itemization requires documentation for each of the items, Hendrix said.

“Deductions reduce the amount of your taxable income,” Hendrix said. “The standard deduction amount varies depending on your income, age, and filing status, and it changes each year. You should itemize deductions if your allowable itemized deductions are greater than your standard deduction, or if you must itemize deductions because you can’t use the standard deduction.”

Both standard and itemized deductions require acknowledgment of charitable contributions. To determine standard deductions, use the online form at [www.irs.gov/help/ita/how-much-is-my-standard-deduction](http://www.irs.gov/help/ita/how-much-is-my-standard-deduction).

**Retirement contributions**

The end of the year is also an opportune time to plan how to maximize retirement contributions. Hendrix said there are limits to how much employers and employees can contribute to an individual retirement plan (IRA) each year.

“The plan must specifically state that contributions or benefits cannot exceed certain limits, and the limits differ depending on the type of plan,” Hendrix said. “The basic limit on elective deferrals is $20,500 in 2022, $19,500 in 2020 and 2021. Catch-up contributions may also be allowed if the employee is age 50 or older. You can make 2021 IRA contributions until April 15, 2022.”

There are several different types of employee contributions:

* Salary reduction/elective deferral contributions are pre-tax employee contributions that are generally a percentage of the employee's compensation. Some plans permit the employee to contribute a specific dollar amount each pay period. 401(k), 403(b) or SIMPLE (Savings Incentive Match Plan for Employees) IRA plans may permit elective deferral contributions.
* Designated Roth contributions are a type of elective contribution that, unlike pre-tax elective contributions, are currently includible in gross income but tax-free when distributed. 401(k), 403(b) and governmental 457(b) plans can allow them. If a plan permits designated Roth contributions, it must also offer pre-tax elective deferral contributions.
* After-tax contributions are contributions from compensation (other than Roth contributions) that an employee must include in income on his or her tax return. If a plan allows after-tax contributions, they are not excluded from income and an employee cannot deduct them on his or her tax return.
* Catch-up contributions if permitted by a 401(k), 403(b), governmental 457(b), SARSEP or SIMPLE IRA plan. Participants who are age 50 or over at the end of the calendar year can also make catch-up elective deferral contributions beyond the basic limit on elective deferrals.

**Tax credits**

Tax credits, including the Earned Income Tax Credit (EITC), can increase a taxpayer’s refund or lower the amount owed.

“If you or your child are in college, you may qualify for the American Opportunity Tax Credit or the Lifetime Learning Credit,” Hendrix said. “Parents may qualify for the Child Tax Credit. Most qualifying parents received half the total credit amount in advance monthly payments. Advance payments were sent automatically to eligible people who did not opt out. The other half will be claimed upon filing the 2021 income tax return.”

Letter 6419, sent by the IRS to those receiving the Child Tax Credit, lists the total amount of advance payments that were sent in 2021. Hendrix said taxpayers should keep this letter for their tax records and to claim the remainder of the credit. If an individual’s income or family situation has changed, the IRS will reconcile the difference in Child Tax Credit payments on the tax return form for higher income earners.

**Paid preparation and online filing**

For complicated tax returns, a paid tax preparation service or accountant may be the best option, but paid tax preparation can be expensive, although there are low-cost and no-cost options available.

“If you are fairly computer savvy and your taxes are straightforward, you may want to file your taxes online with a purchased software,” Hendrix said. “If your adjusted gross income is $72,000 or less, you qualify to file for free using IRS Free File.”

Individuals who make $57,000 or less qualify for free in-person filing with Volunteer Income Tax Assistance (VITA), Hendrix said.

“Free tax volunteers are trained and certified each year by the IRS to ensure accuracy,” she said.

Hendrix said an additional advantage to preparing to file taxes before the end of the year is a swifter refund.

“The fastest way to receive your refund is to file early, file electronically, and direct deposit,” Hendrix said. “By having all of your records in order before January, you will be ready to file as soon as the IRS allows.”

Visit [www.IRS.gov](http://www.IRS.gov) for more details on IRS Free File and VITA, and visit the [UAEX Money Blog](https://www.uaex.uada.edu/life-skills-wellness/personal-finance/uaex-money-blog/taxes/free-tax-preparation-options.aspx) to learn more about online resources and tax aid.

To learn about extension programs in Arkansas, contact your local Cooperative Extension Service agent or visit [www.uaex.uada.edu](http://www.uaex.uada.edu/). Follow us on Twitter and Instagram at @AR\_Extension. To learn more about Division of Agriculture research, visit the Arkansas Agricultural Experiment Station website: [https://aaes.uark.edu](https://aaes.uark.edu/). Follow on Twitter at @ArkAgResearch. To learn more about the Division of Agriculture, visit <https://uada.edu/>. Follow us on Twitter at @AgInArk.

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The University of Arkansas System Division of Agriculture’s mission is to strengthen agriculture, communities, and families by connecting trusted research to the adoption of best practices. Through the Agricultural Experiment Station and the Cooperative Extension Service, the Division of Agriculture conducts research and extension work within the nation’s historic land grant education system.

The Division of Agriculture is one of 20 entities within the University of Arkansas System. It has offices in all 75 counties in Arkansas and faculty on five system campuses.

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