

American Rescue Plan Act of 2021

On March 10, 2021, Congress passed the American Rescue Plan (ARP) Act of 2021 after the House approved the measure by a 220-211 vote. This bill was signed into law on March 12 by President Biden.

The bill includes a number of tax provisions, including a third round of direct stimulus payments, enhancements of many personal credits meant to benefit people with lower incomes and children, extensions of highly popular payroll tax credits for employers first instituted at the beginning of the pandemic, and changes related to retirement plan funding.

Recovery Rebates / Stimulus Payment

The ARP Act of 2021 provides a third round of \$1,400 direct stimulus payments per individual taxpayer. These are essentially credits against 2021 taxes but fully refundable and payable in advance. As with previous stimulus payments, this third round is subject to income limits. The payment phases out ratably for single filers with adjusted gross income over \$75,000 (\$112,500 for heads of households and \$150,000 for joint filers). The stimulus amount phases down to \$0 for single filers with \$80,000 of adjusted gross income (\$120,000 for heads of households and \$160,000 for joint filers).

COMMENT



The bill became law on March 12. Taxpayers who have an increase in adjusted gross income in 2020 as compared to 2019 may want to hold off filing 2020 returns until the filing deadline. This will maximize the amount of stimulus payments received because their stimulus payment will not be potentially reduced by the higher 2020 adjusted gross income.

The \$1,400 is available for all persons for whom a Social Security Number is associated, and is \$1,400 for taxpayers, children, and non-child dependents.

Unemployment Relief

The bill includes an extension of an enhanced \$300 weekly unemployment relief first made available in the early pandemic relief bills. The extension would run through early September under the bill, but with some changes. The notable change for tax purposes makes the first \$10,200 of unemployment relief received in 2020 exempt from tax for households with up to \$150,000 of income.

COMMENT



The IRS will handle this change in treatment of unemployment compensation for taxpayers who have already filed their 2020 returns. If you haven't already filed for your 2020 taxes, be sure to account for this retroactive tax law change.

Premium Tax Credits

Changes will be made to the premium tax credit. For 2021 and 2022, the bill modifies affordability percentages used in calculating the premium tax credit to make credits available for individuals with incomes above 400% of the federal poverty line and increases credit amounts for those already qualified.

Child Tax Credit

The bill includes a significant overhaul of the child tax credit, but only for the 2021 tax year.

Currently, the amount of the child tax credit is equal to \$2,000 per child, but only \$1,400 is refundable.

The bill increases the amount to \$3,000 per child (or \$3,600 for a child under the age of six) and makes the credit amount fully refundable. The bill also increases the maximum age of qualifying children to include 17-year old children.

COMMENT



Provisions within the ARP instruct the treasury to make ADVANCED payments up to \$1,500 in equal installments on this tax credit beginning July 1, 2021. Ensure that information such as dependents, banking, and other key data is accurate on your 2020 tax return, as this will likely be the basis for these advanced payments.

Earned Income Tax Credit

The bill includes enhancements to the earned income tax credit (EITC). Under the bill, for 2021 only, the amount of the credit is increased for filers without children. The changes cause the childless EITC amount for 2021 to increase from \$543 to \$1,502, increase the amount of income at which the credit is maximized to \$9,820 (currently set at \$7,100) and increase the threshold for the phaseout of the credit for non-joint filers to \$11,610 (currently set at \$8,880). The minimum age for childless claimants of the EITC is also reduced from 25 to 19 (except in the case of full-time students).

Dependent Care Assistance

The amount of the child and dependent care credit is significantly enhanced under the bill for 2021 only. Currently, the credit is equal to 35 % of qualified expenses for care of a qualifying individual up to \$3,000 for one qualifying individual or \$6,000 for two or more qualifying individuals. However, the credit percentage is reduced by one point for every \$2,000 of adjusted gross income in excess of \$15,000, until reaching 20%, at which point it is no longer reduced.

In addition to the changes to the credit, the maximum exclusion of employer-provided dependent care assistance is also increased for 2021 to \$10,500, or \$5,250 in the case of a married taxpayer filing separately.

Exclusion of Forgiven Student Loans

The bill includes an expanded exclusion of forgiven student loan amounts applicable to loans discharged after 2020 and before 2026. Under current law, forgiven student loans are only exclusionary given certain conditions (such as the death or disability of the borrower). However, this expansion allows for the exclusion to apply to any discharge of student loans for any reason during the period.

Employer Tax Relief Paid Sick and Family Leave Credits

One of the first relief measures in the early days of the pandemic was the payroll tax credit for employers providing paid sick and family leave, as well as a similar credit for self-employed workers. The period for which the credit could be claimed was set to expire on December 31, 2020, but was extended to March 31, 2021. The bill extends the applicable period to September 30, 2021.



COMMENT

If your revenue in 1st quarter 2021 decreased by 20% or more, there may be tax relief for your business.

It's not just 1st quarter, it is all quarters now.

Employee Retention Tax Credits

Another expansion within the COVID-19 relief legislation is the extension of the employee retention credit. The bill extends the credit through the end of 2021 (previously only went through June 30, 2021). The credit allows for 70% of qualified wages up to \$10,000 per employee PER quarter if your business qualifies. There are strict revenue reduction requirements to qualify. However, if your business qualifies, this can be a significant tax credit for your business.

Tax Treatment of COVID-19 Relief

The bill provides that Targeted Economic Injury Disaster Loans (EIDL) and Restaurant Revitalization Grants received from the Small Business Administration will not be subject to income tax, and the exclusion will not result in the denial of a deduction reduction of tax attributes, or denial of increase in basis.