

American Rescue Plan Act of 2021 Summary

The following is a brief summary of key provisions included in the American Rescue Plan Act of 2021, signed into law March 11, 2021.

Unemployment Benefit Exclusion for 2020

Effective for 2020 only, the first \$10,200 of unemployment compensation, per person, is excluded from taxable income if modified adjusted gross income is \$150,000 or less.

Premium Tax Credit

Effective for 2020 only, any advance payment that exceeds the Premium Tax Credit allowed is disregarded and does not increase tax liability on the return. This suspension applies to all taxpayers regardless of income level as a percentage of the federal poverty level.

Recovery Rebate and Round 3 Stimulus Payment

Eligible individuals may qualify for a 2021 rebate amount of up to \$1,400 per taxpayer (\$2,800 MFJ), plus \$1,400 per dependent. This stimulus payment for dependents is not limited to dependents who are under age 17. The payment starts to phase out when AGI exceeds \$75,000 (Single, MFS), \$150,000 (MFJ, QW), and \$112,500 (HOH) and is fully phased out at \$80,000 (Single, MFS), \$160,000 (MFJ, QW), and \$120,000 (HOH).

Unemployment Benefits Extended

The enhanced \$300 per week of Pandemic Unemployment Assistance and Pandemic Emergency Unemployment Compensation is extended to September 6, 2021.

Child Tax Credit

Effective for 2021 only, the Child Tax Credit (CTC):

- Is increased to \$3,000 per qualifying child,
- Is \$3,600 in the case of a qualifying child age five or younger as of December 31, 2021,
- Age limitation is increased from age 16 to age 17, and
- Is fully refundable.

Phase-out. The increased CTC (over the \$2,000 prior amount) phases out when modified AGI exceeds \$75,000 (Single, MFS), \$150,000 (MFJ, QW), and \$112,500 (HOH).

Once the increased CTC is phased-out, the \$2,000 per qualifying child still applies until modified AGI reaches the previous thresholds.

Advance Payment of the Child Tax Credit

The IRS is instructed to establish a program for making periodic payments to taxpayers for the advance payment of the Child Tax Credit. The advance amount will be estimated by the IRS. The IRS will establish an on-line portal which allows taxpayers to elect not to receive advance payments, or to update relevant information to calculate the advance payment. Advance payments will be made during the period July 1, 2021 through December 31, 2021.

Earned Income Credit

Effective for 2021 only, the Earned Income Credit for individuals without a qualifying child is expanded. The investment income limitation for 2021 is increased from \$3,650 to \$10,000 and indexed for inflation in future years. Effective for 2021 only, if earned income for 2021 is less than 2019 earned income, the taxpayer may elect to use 2019 earned income when calculating the 2021 EIC.

Dependent Care Expense Credit

Effective for 2021 only, the Child and Dependent Care Expense Credit is refundable. The dollar limitation on expenses paid for a qualifying person is increased from \$3,000 to \$8,000 for one qualifying person and from \$6,000 to \$16,000 for two or more qualifying persons. The maximum percentage of 35% is increased to 50% for AGI up to \$125,000 with the credit percentage phasing out and reduced to zero when AGI reaches \$438,000.

Dependent Care Assistance Program

Effective for 2021 only, the \$5,000 maximum exclusion is increased to \$10,500 (\$5,250 MFS).

Student Loan Forgiveness Exclusion

For tax years 2021 through 2025, any discharge of student loan debt for any reason, including private student loans, may be excluded from taxable income, as long as there is no provision for the student to provide services to the discharging lender.

Payroll Tax Credits

The new law reinstates the \$511/\$200 per day 100% refundable payroll tax credit for employees who receive paid sick leave or paid family leave for reasons related to COVID-19. The new law also modifies the reasons for these payments.

Paid Sick Leave Credit. This credit is available for the period beginning on April 1, 2021 and ending on September 30, 2021.

Paid Family Leave Credit. The new law extends the period for this credit for the period beginning on April 1, 2021 and ending on September 30, 2021. This credit is limited to \$12,000 in the aggregate for all calendar quarters, including the quarters prior to April 1, 2021.

Self-employed individuals. The self-employed qualified sick leave equivalent amounts and qualified family leave equivalent amounts are also extended for the same time periods.

Employee Retention Credit

The new law extends the Employee Retention Credit to wages paid after June 30, 2021 and before January 1, 2022 and generally follows the same rules that are in effect for the first half of 2021.

COBRA Coverage Assistance

The new law provides funding to help pay premiums for COBRA continuation coverage.

Paycheck Protection Program (PPP)

The new law appropriates additional funds for the PPP and makes some minor modifications.

SBA Loans and Grants

The new law includes provisions that excludes additional SBA grants from income.

Limitation on Excess Business Losses of Non-Corporate Taxpayers

The limitation on excess business losses is extended to tax years beginning before January 1, 2027.

Pensions

Financial assistance is provided to eligible underfunded multiemployer pension plans for plan years 2020 through 2022. Shortfall funding for single employer plans may be amortized over a longer time frame.