



COVID-19 UPDATE | MARCH 19, 2021

TAX PROVISIONS IN THE AMERICAN RESCUE PLAN ACT

On March 11, 2021, President Biden signed into law the American Rescue Plan Act, a \$1.9 Trillion COVID Relief package.

The act provides \$128.6 billion to help K-12 schools reopen; \$19 billion in emergency rental assistance; \$25 billion to help restaurants; \$46 billion for COVID-19 testing and tracing; \$5.2 billion to support the research and development of vaccines; and \$7.25 billion for Paycheck Protection Program loans.

The act also includes many significant tax and other relief provisions for Americans. Some of the most significant changes are outlined below.

For Individuals:

- **Tax-free unemployment benefits**

The ARPA extends the extra \$300 per week in unemployment benefits, over and above state unemployment benefits, through September 6, 2021. It also increases the maximum period of benefits from 50 weeks to 79 weeks. For taxpayers making less than \$150,000 per year, the first \$10,200 in unemployment benefits collected in 2020 will be tax-free. The IRS has announced that it will provide taxpayers with additional guidance on those provisions that could impact their 2020 tax return, including the retroactive provision that makes the first \$10,200 of 2020 unemployment benefits nontaxable. As a result, the IRS has asked individuals who received unemployment benefits in 2020 and have already filed their 2020 tax return, not to file an amended return until IRS issues additional guidance. The IRS has stated that they will provide additional worksheets and will work with tax software vendors to determine how to report their unemployment income on their 2020 tax returns.

- **Economic stimulus impact payments - round 3 (EIP3)**

The first round of payments were sent by direct deposit this past weekend and additional payments will be sent in the coming weeks via direct deposit, or via the mail as a check or debit card. You can check the IRS Get My Payment Tool to see the payment status of your EIP3 payment. Qualifying individuals will receive a new round of economic impact payments of \$1,400 for individuals (\$2,800 for married taxpayers filing jointly) plus \$1,400 for each dependent, including college students and qualifying relatives who are claimed as dependents. Unlike the first two stimulus payments, EIP3 is not restricted to dependents under the age of 17. For individual taxpayers, the payments will begin to phase out at an adjusted gross income (AGI) of \$75,000, and will be completely phased out at an AGI of \$80,000. For those married filing jointly, the payments will begin to phase out at an AGI of \$150,000 and end at an AGI of \$160,000. For heads of household, the payments will begin to phase out at an AGI of \$112,500, and end at an AGI of \$120,000. Taxpayers' 2019 AGI will be used to determine eligibility. The payments will be based on your 2019 or 2020 income, depending on whether you've filed your 2020 tax return. If you haven't filed and expect your 2020 AGI to be at or near the applicable phaseout threshold, you might want to consider the

the timing of your 2020 filing. Payments will then be reconciled on your 2021 tax return. If you qualify for a rebate based on your 2020 income but didn't receive a check because the government based your eligibility on your 2019 tax return, you can claim a credit on your 2021 return. But, if you receive a payment based on your 2019 AGI even though you don't qualify based on your 2020 AGI, you won't be required to return it.

- **Child tax credit (CTC)**

The act makes several changes to the child tax credit, including allowing taxpayers to receive the credit in advance of filing a return, and making the credit fully refundable for 2021. The act increases the child tax credit to \$3,000 per child (\$3,600 for children under age 6 at the close of the year), and allows 17 year-olds to be eligible as qualifying children. The increased credit amount phases out for taxpayers with incomes over \$150,000 for married taxpayers filing jointly, \$112,500 for heads of household, and \$75,000 for others. Taxpayers' 2019 AGI will be used to determine eligibility, unless the taxpayer has already filed their 2020 tax return. The IRS is directed to estimate taxpayers' child tax credit amounts and pay monthly in advance one-twelfth of the annual estimated amount, with payments running from July through December 2021. Taxpayers who are not eligible to claim an increased CTC in 2021, can claim a regular CTC of up to \$2,000, subject to the existing phaseout rules.

- **Earned income tax credit**

The act also makes several changes to the earned income tax credit, including allowing certain separated spouses to be eligible, and introducing special rules for individuals with no children. For 2021, the applicable minimum age is decreased to 19, except for students (24) and qualified former foster youth or homeless youth (18). The maximum age is eliminated. The credit's phaseout amounts are increased, and the phaseout percentage is increased to 15.3%. Taxpayers will temporarily be allowed to use their 2019 income in calculating their credit amount.

- **Child and dependent care credit**

Effective for 2021 only, the child and dependent care credit will be refundable. The credit will be worth 50% of eligible expenses, up to a limit based on income, making the credit worth up to \$4,000 for one qualifying individual and up to \$8,000 for two or more. The credit will be reduced below 20% for households with income over \$400,000. For comparison, the 2020 expense limits were \$3,000 and \$6,000, and the credit topped out at 35% of the expenses. The phaseout began when household income exceeded \$15,000, though the credit is no less than 20% of the allowable expenses regardless of household income. The ARPA also increases the limit on tax-free employer-provided dependent care assistance for 2021 to \$10,500 (50% for married couples filing separately). That's more than double the current limit of \$5,000.

- **Family and sick leave credits**

The act extends credits for coronavirus-related sick and family leave (including leave that is due to a COVID-19 vaccination) to September 30, 2021, and now extends to governmental organizations. In addition, the act increases the limit on the credit for paid family leave to \$12,000, and increases the number of days a self-employed individual can take into account in calculating the qualified family leave from 50 to 60. The limit on overall number of days for paid sick leave will reset after March 31, 2021.

- **Student loan forgiveness**

The ARPA doesn't forgive student loan debt, but it anticipates a possible development may occur in the near future. For now, it ensures the tax-free treatment of student loan debt for given between December 31, 2020, and January 1, 2026. Forgiven debt typically is treated as taxable income.

For Businesses:

- **Employee retention tax credit (ERTC)**

The ERTC has been extended through the end of 2021.

- **Restaurant Revitalization Grants**

The act provides \$28.6 million for fiscal year 2021 to struggling restaurants to be administered by the SBA. The money will be available until expended. Businesses that have a pending application for, or have received, a grant under the Economic Aid to Hard-Hit Small Businesses, Non-Profits and Venues Act, are not eligible. Businesses must fulfill certain eligibility and certification requirements. Grant funds may be used for (1) payroll costs; (2) mortgage payments; (3) rent; (4) utilities; (5) maintenance expenses; (6) supplies; (7) food and beverage expenses; (8) covered supplier costs; (9) operational expenses; (10) paid sick leave; and (11) any other expense determined to be essential to maintaining the business.

- **Small Business Administration grants**

The act provides that Economic Injury Disaster Loan (EIDL) grants are not included in gross income, and will not result in denial of a deduction, reduction of tax attributes, or denial of basis increase. Similar treatment applies to Small Business Administration restaurant revitalization grants.

- **COBRA premium subsidy**

The act provides COBRA continuation coverage premium assistance for eligible individuals until September 30, 2021. The act also provides a COBRA continuation coverage premium assistance refundable credit against Medicare tax, to which the IRS may make advance payments, applying to premiums and wages paid after April 1, 2021 and through September 30, 2021. A penalty will be imposed for failure to notify a health plan of cessation of eligibility for the continuation coverage premium assistance.

- **Pension provision**

The act temporarily delays the designation of multiemployer pension plans as in endangered, critical, or critical and declining status, and makes other changes for multiemployer plans in critical or endangered status.

- **Payroll provisions**

The act includes several additional payroll provisions, including paid sick and family leave credits; unemployment provisions; PPP loan modifications; relief provisions such as restaurant grants and shuttered venue grants; earned income tax credits; and dependent care assistance.

These and other tax and relief measures presented in the American Rescue Plan Act are complex and designed to help American taxpayers and businesses as we continue to face the challenges of a pandemic economy. CRR's team is ready to assist you in navigating these changes, please don't hesitate to contact us at info@crrcpa.com with any questions you may have.