

Understanding the American Rescue Plan Act of 2021

©2021 SWC | Stees, Walker & Company, LLP | All rights reserved. | No portion of this singlet may be used without the express and written permission of Laura Stees

On March 11, 2021, the President signed into law the American Rescue Plan Act of 2021 (ARPA) – a \$1.9 trillion stimulus package aimed at helping the nation rebound from the economic impact of the COVID-19 pandemic. The Act itself contains more than 600 pages and includes provisions addressing stimulus payments, unemployment benefits, healthcare, state and local funding, along with several tax law changes.

Most of the tax changes are geared toward individual taxpayers, but some affect businesses. In this SWC Singlette, we cover some of the highlights to help you gain a better understanding of the major tax provisions and answer questions you may have.



Getting the Maximum Qualified Stimulus Payment

The big news is the third round of stimulus payments – tax-free money from the federal government. Eligible taxpayers and their qualifying dependents may receive up to \$1,400 each. Married couples could receive up to \$2,800.

Fewer of us are likely to qualify for the stimulus payment this time around. That's because the adjusted gross income (AGI) thresholds start at the same amounts, but the phase-out range is much narrower than with prior stimulus payments:

- \$150,000 to \$160,000 AGI for joint filers, meaning stimulus payments are gradually reduced for joint filers earning a combined \$150,000 AGI or more and are not granted to those earning more than \$160,000.
- \$112,500 to \$120,000 AGI for head of household.
- \$75,000 to \$80,000 AGI for everyone else.

Unlike the prior two stimulus payments, eligible recipients may receive up to \$1,400 for *all* qualifying dependents, including those age 17 and older at year-end.

Tip: The IRS will use the most recently filed tax return to determine these amounts, so do the following to increase your odds of getting a stimulus payment:

- If your 2020 income decreased (from 2019) and is below or within one of the ranges

Continued onto next page

above, file your 2020 return as soon as possible, so that your lower 2020 income will be used to determine whether you get a stimulus payment and how much it will be.

- If your 2020 income increased (from 2019) to a point that disqualifies you from receiving a stimulus check or reduces the amount, consider waiting to file your 2020 tax return until you receive your stimulus payment.

Taking Advantage of the Extension to Unemployment Insurance

The American Rescue Plan Act of 2021 extends federal supplemental unemployment benefits that were set to expire on March 14, 2021. The new law extends the period eligible individuals may receive an additional \$300 of benefits until Sept. 6, 2021. Self-employed and gig economy workers (*i.e., independent contractors, online platform workers, contract firm workers, on-call workers, and temporary workers who enter into formal agreements with on-demand companies to provide services to the company's clients*) are eligible as well.

If you received unemployment benefits in 2020 and had a *modified AGI* of less than \$150,000 in 2020, listen up. You can exclude up to \$10,200 of those unemployment benefits from your income or up to \$20,400 if your spouse also received benefits. *Modified AGI* for this purpose is determined after:

- Including taxable Social Security and railroad retirement benefits
- Excluding U.S. savings bond interest and the nontaxable portion of qualified adoption assistance
- Deducting qualified retirement plan contributions, student loan interest, and qualified tuition and related expenses

Note: This provision has no phase out. If your modified AGI exceeds \$150,000, you're not eligible for this tax break.

If you're eligible for this tax break and have already filed your 2020 tax return, resist the temptation to file an amended return. Wait for further guidance from the IRS or your tax advisor.

If you're eligible for this tax break and haven't yet filed your 2020 tax return, take the following steps when completing your return:

1. Report all unemployment compensation on Schedule 1, line 7.
2. Complete the Unemployment Compensation Exclusion Worksheet to calculate the excludable portion of the unemployment benefits you received.
3. Report the excludable portion on Schedule 1, line 8, with a code of "UCE" to identify the unemployment compensation exclusion amount.

Got Kids? Take Advantage of Expanded Child Tax Credits

The American Rescue Plan Act of 2021 also increases the Child Tax Credit (CTC) for

Continued onto next page

qualifying children from \$2,000 in 2020 to the following for 2021:

- \$3,600 for children under the age of 6 years
- \$3,000 for children 6 through 17 years old

The increased credit amounts are subject to their own set of phase-out limits, starting at:

- \$150,000 AGI for married couples filing jointly
- \$112,500 AGI for heads of household
- \$75,000 AGI for single taxpayers and those who are married and file separately

The credit phases out at a rate of \$50 for every \$1,000, or portion thereof, the AGI exceeds the threshold. For example, if you're married and file jointly and together you earn \$175,000 AGI in 2021, you will have earned \$25,000 more than the threshold, so your total CTC would be reduced by \$1,250 ($25 \times \50).

The new law also contains a provision to get these refundable credits to taxpayers before they even file their 2021 return. You'll receive any advance payment you qualify for between July and Dec. 2021. You can then claim the remaining 50 percent of the credit when you file your 2021 return.

Tip: Because CTC eligibility is determined using information from the most recently filed return, you may want to accelerate or extend the filing of your 2020 return, depending how your 2020 AGI compares with your 2019 adjusted gross income.

Expanded Child and Dependent Care Tax Credits

The Child and Dependent Care Tax Credit (CDCTC) is available to taxpayers who must pay for childcare to allow them to work. ARPA makes this credit fully refundable for eligible taxpayers in 2021 and increases the credit:

- From \$3,000 to \$8,000 for one child
- From \$6,000 to \$16,000 for two or more children

The applicable percentage begins at 50 percent and doesn't begin to phase out until AGI reaches \$125,000:

- For taxpayers with an AGI of \$125,000 or less and one child, the maximum credit is \$4,000 ($\$8,000 \times 50$ percent); for those with two or more children, the maximum is \$8,000 ($\$16,000 \times 50$ percent).
- For taxpayers with an AGI between \$125,000 and \$185,000, the percentage is reduced by 1 percent for each \$2,000 above \$125,000 until AGI reaches \$185,000.
- For taxpayers with an AGI between \$185,001 and \$400,000, the applicable percentage is 20 percent. For those with one child, the maximum credit is \$1,600 ($\$8,000 \times 20$ percent); for those with two or more children, the maximum credit is \$3,200 ($\$16,000 \times 20$ percent).

Continued onto next page

- For taxpayers with an AGI above \$400,000, the percentage is reduced by 1 percent for each \$2,000 above \$400,00, so it's completely phased out at \$440,000.

Excluding Forgiven Student Loan Debt from Income

While the American Rescue Plan Act of 2021 doesn't contain a provision for forgiving student loan debt, it does allow taxpayers to exclude from their reported income *qualified student loan debt* forgiven after Dec. 31, 2020 and before Jan. 1, 2026. Loans eligible for the student loan discharge exclusion include the following:

- Loans provided expressly for post-secondary educational expenses if the loan was made, insured, or guaranteed by a federal, state, or local governmental entity or an eligible educational institution
- Private education loans
- Certain loans made by an educational institution qualifying as a 50 percent charity
- Certain loans made by an educational organization qualifying as a 50 percent charity or by a tax-exempt organization to refinance a loan

Maximizing the Earned Income Tax Credit

Prior to passage of the new law, eligible taxpayers had to be between age 25 and 65 to qualify for the credit. For 2021, the American Rescue Plan Act removes the upper limit and decreases the lower limit to taxpayers as young as 19 years old (age 18 for a qualified former foster youth or a qualified homeless youth). Taxpayers also have the option to use their 2019 earned income rather than their 2021 earned income if doing so results in a larger credit.

Taking Advantage of COBRA Subsidies

If you lost work or had your hours reduced involuntarily during the pandemic, your employer may be willing to subsidize the cost of any COBRA premiums you're having to pay to keep your health insurance. For the period beginning on April 1, 2021, and ending on Sept. 30, 2021, your employer can subsidize your COBRA payments and claim a credit to offset the cost. Any payments your employer makes will not be included as part of your income.

As soon as other health insurance is available to you, you must notify your employer.

Taking Advantage of the Increased Exclusion for Employer-Provided Dependent Care Assistance

If you have a Dependent Care Assistance Program (DCAP) under a cafeteria plan as a DCAP Flexible Spending Arrangement (FSA), ARPA allows you to exclude from income up to \$10,500 in employer-provided assistance, or up to \$5,250 for employees who are married filing separately. This is up from \$5,000 and \$2,500 under prior law.

Getting a Tax Break on Targeted Economic Injury Disaster Loan Advances

Under ARPA, eligible small businesses may receive targeted Economic Injury Disaster Loan (EIDL) advances from the Small Business Administration (SBA). If you received a targeted

Continued onto next page

EIDL advance, you'll be happy to know that under ARPA, the advance isn't treated as gross income. If the business is structured as a partnership or S corporation, the advance is treated as tax-exempt income.

Getting a Tax Break on Restaurant Revitalization Grants

Under the American Rescue Plan Act of 2021, eligible restaurants, food trucks, and similar businesses may receive restaurant revitalization grants from the SBA. If you received such a grant, it isn't treated as gross income. If the business is structured as a partnership or S corporation, the grant is treated as tax-exempt income.

Take Advantage of Credit Extensions for Paid Sick and Family Leave

The American Rescue Plan Act of 2021 also extends the tax credits that originated in the Families First Coronavirus Response Act (FFCRA) as a way to reimburse small and mid-sized employers for making required payments for pandemic-related sick or family leave. The FFCRA requirement to provide paid leave expired at the end of 2020, but for employers voluntarily continuing to provide it, credits have been extended through March 31, 2021. ARPA further extends the credits to leave provided through Sept. 30, 2021.

As a taxpayer, you've had to deal with more changes in tax law in the past few years than anyone could ever have imagined. And if you're a business owner, the changes in government rules and regulations add considerably to that burden. The good news is that you don't have to carry that burden alone. You can outsource much of the work and worry to people who specialize in the field, like we here at SWC.

If you don't have a tax advisor yet, we strongly urge you to seek one out now. The challenges you face now may be the impetus you need to discover the value of having a professional tax advisor on your team.

Disclaimer: *The information in this singlette about the American Rescue Plan Act of 2021 is provided for general informational purposes only and may not reflect current financial thinking or practices. No information contained in this singlette should be construed as financial advice from the staff at Stees, Walker & Company, LLP (SWC) nor is this the information contained in this singlette intended to be a substitute for financial counsel on any subject matter or intended to take the place of hiring a Certified Public Accountant in your jurisdiction. No reader of this singlette should act or refrain from acting on the basis of any information included in, or accessible through, this singlette without seeking the appropriate financial planning advice on the particular facts and circumstances at issue from a licensed financial professional in the recipient's state, country or other appropriate licensing jurisdiction.*



Keep in touch.

16875 W. Bernardo Drive, Suite. 290
San Diego, CA 92127
p: (858) 487-4580 | **f:** (858) 487-8033
w: www.SteesWalker.com
b: blog.SteesWalker.com

Laura A. Stees, CPA

Partner & Business Strategist
Laura@steeswalker.com

Marni L. Walker, CPA

Partner
Marni@steeswalker.com