American Rescue Plan provides tax relief to families and extends enhanced unemployment benefits

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On March 11, 2021, President Joe Biden signed into law the $1.9 trillion U.S. coronavirus relief package, the American Rescue Plan Act of 2021 (ARPA). The ARPA contains several tax provisions, the majority of which focus on providing relief to families earning less than $150,000 per year, and also extends enhanced unemployment benefits that were set to expire on March 14, 2021.

Recovery rebates

The ARPA provides for a third round of direct stimulus payments set at $1,400 per eligible individual. Individuals with up to $75,000 of adjusted gross income (AGI) will get the full amount but payment will phase out completely at $80,000 of AGI. Couples making up to $150,000 will get $2,800 (i.e., $1,400 per person) with the payments declining at higher incomes. For married taxpayers who file jointly, the phaseout will begin at $150,000 of AGI and end at $160,000 of AGI. For a head of household, the phaseout will begin at $112,500 of AGI and be complete at $120,000 of AGI. Taxpayers also received $1,400 for each children and adult dependents in the household. Eligibility is determined using 2019 AGI unless the taxpayer has already filed a 2020 return, in which case 2020 AGI is used.

Credits for paid family and sick leave

The Families First Coronavirus Response Act (FFCRA), as previously amended by the COVID-related Tax Relief Act of 2020, provides refundable tax credits to reimburse certain employers, dollar-for-dollar, for the cost of providing paid sick and family leave wages to employees for leave related to COVID-19 paid between April 1, 2020 and March 31, 2021. The ARPA extends these credits for qualifying leave wages paid made through Sept. 30, 2021 and:

- Increases the limit on the credit for paid family leave to $12,000.
- Permits credits for paid leave that is due to a COVID-19 vaccination.
- Increases the number of days (from 50 to 60) a self-employed individual can take into account in calculating the qualified family leave equivalent amount for self-employed individuals.
- Provides that the limitation on the overall number of days taken into account for paid sick leave will reset after March 31, 2021.
- Expands eligibility to allow 501(c)(1) governmental organizations to take the credits.

Extension of limitation on excess business losses of noncorporate tax-payers

Under the Tax Cuts and Jobs Act of 2017 (TCJA), Congress limited the amount of business losses a non-corporate taxpayer can deduct in a tax year to $250,000 ($500,000 for joint filers). Disallowed excess business losses can be carried forward as a net operating loss to the following taxable year. This limitation originally applied to tax years 2018 through 2025. The CARES Act suspended the limitation until the 2021 tax year, but the APRA now extends the expiration date to December 31, 2026. Accordingly, the excess business loss limitation will apply to tax years 2021 through 2026.

Suspension of tax on portion of unemployment compensation

The ARPA allows households earning up to $150,000 to exclude the first $10,200 of unemployment insurance received in 2020 from taxable income. This change is retroactive to December 31, 2019, so the change that may impact taxpayers that have already filed 2020 returns. Taxpayers that already filed may be required to file amended 2020 tax returns to claim this deduction absent further guidance. The plain language of the ARPA suggests that the $150,000 threshold operates as a cliff (i.e., there is no gradual phase out) and that the threshold applies equally to both single and married taxpayers (i.e., the amount is per household, not per person).

Child tax credit

The ARPA temporarily expands the Child Tax Credit. Under current law, the Child Tax Credit grants a credit against income taxes for each qualifying child under the age of 17. However, under the ARPA, for 2021 only, children under the age of 18 will qualify, and the amount of the credit will increase from $2,000 to $3,000 ($3,600 for children under 6). The credit begins to phase out at $75,000 of AGI for individuals, $112,500 for a head of household and $150,000 for married filing jointly and fully phases out at $95,000 of AGI, $132,500 and $170,000 of AGI, respectively.

The credit will be fully refundable, and half will be paid in advance. The IRS is directed to estimate taxpayers' child tax credit amounts and pay monthly in advance one-twelfth of the annual estimated amount. Payments will run from July through December 2021. In order to distribute the monthly estimated child tax credit payments, the IRS will create an online portal where taxpayers can opt out of advance payments and provide information that modifies the amount of their payments.

Earned income tax credit

For 2021 only, the ARPA enhances the earned income tax credit for workers without children by increasing the maximum credit amount to $1,502, from $543. It also extends eligibility to more people by permitting workers to claim the credit beginning at age 19 instead of 25 (with the exception of certain full-time students) and eliminating the upper age limit of 65. Taxpayers are allowed to use their 2019 income instead of 2021 income in computing the credit amount.

The credit's phaseout percentage is increased from 7.65 percent to 15.3 percent, and the designated amounts for earned income and phaseout are also increased: to $9,820, from $4,220 (for earned income); and from $5,280, to $11,610 (for the phaseout amount).

Finally, the threshold for disqualifying investment income would be raised from $2,200 to $10,000. This change would be permanent, with the $10,000 threshold indexed to inflation.

Child and dependent care credit

This credit, which helps families offset the cost of care for children under 13 and other dependents, has been expanded for 2021. The ARPA provides a credit up to $4,000 for one qualifying individual or $8,000 for two or more. The credit will be calculated by taking up to 50 percent of the value of eligible expenses, up to certain limits, depending on income level. Prior to the ARPA, the credit covered between 20 and 35 percent of eligible expenses with a maximum value of $2,100 for two or more qualifying individuals. The ARPA makes the credit fully refundable and increases the exclusion for employer-provided dependent care assistance to $10,500 for 2021. Finally, for 2021 individuals are able to set aside $10,500 in a dependent care account instead of the normal $5,000. However, employers will have to amend their dependent care benefit plans in order to implement this increase.

Extension of Employee Retention Credit

The Employee Retention Credit (ERC) is a refundable tax credit against certain employment taxes equal to 50 percent of the qualified wages an eligible employer pays to employees from March 12, 2020 through December 31, 2020 (capped at a $5,000 per employee for the year) and 70 percent of qualified wages starting January 1, 2021 (capped at $7,000 per employee per quarter). Eligible employers can get immediate access to the credit by reducing employment tax deposits they are otherwise required to make. In addition, if the employer's employment tax deposits are not sufficient to cover the credit, the employer may get an advance payment from the IRS. The ERC was initially set to expire on June 30, 2021, but the ARPA extends the credit through the end of 2021. It also expands the credit for start-up companies and other businesses affected by the COVID-19 pandemic.

Tax treatment of targeted EIDL advances and restaurant revitalization grants

The Economic Aid to Hard-Hit Small Businesses, Nonprofits and Venues Act of 2021 (provides for Economic Injury Disaster Loans (EIDL) targeted at small businesses in low-income communities, and allows for up to $10,000 to be advanced as an EIDL grant. The ARPA creates a new program targeted at struggling food services businesses called Restaurant Revitalization Grants that provides grants equal to the reduction in the business’s gross receipts in 2020 compared to 2019, capped at $10 million. The ARPA clarifies that grants under both of these programs are not includable in gross income, and that this exclusion from gross income will not result in a denial of deduction, reduction of tax attributes, or denial of basis increase.

Modification of treatment of student loan forgiveness

The ARPA provides that gross income does not include any amount that would otherwise be included in income due to the discharge of any student loan after Dec. 31, 2020, and before Jan. 1, 2026. Accordingly, individuals who receive student loan debt forgiveness will not have to pay income tax on that benefit. The

ARPA does not forgive student loan debt, but it creates a pathway for forgiveness in the future.

Conclusion

Now that the ARPA has become law, taxpayers should consider the implications of the tax changes discussed above and consult with a tax professional to determine how they might benefit from the $1.9 trillion relief package.

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