Key Tax Implications of the American Rescue Plan Act

The American Rescue Plan Act of 2021 (ARPA), enacted on March 11, 2021, contains several provisions that have tax implications for 2020 and 2021. Key tax provisions impacting businesses and individuals are summarized below.

Provisions Impacting Taxes on Individuals

- ***Recovery Rebates –*** A refundable tax credit for 2021 ($1,400 for individuals, $2,800 for joint filers, $1,400 for each eligible dependent) will be paid in advance based on 2019 tax return (or 2020 if already filed). The credit will be phased out for taxpayers with adjusted gross income (AGI) over certain thresholds ($75,000 - $80,000 for individuals; $112,500 - $120,000 for heads of household; $150,000 - $160,000 for joint filers). *If the rebate would be higher based on the taxpayer's 2021 tax return, the additional amount will be taken on the 2021 tax return. If it would be less based on 2021, the difference does not need to be repaid to the IRS.*

- ***Child Tax Credit*** - For 2021 only, the child tax credit will increase to $3,600 for children under 6, and to $3,000 for children ages 6 to 17 (the definition of "qualifying child" was expanded to include 17-year-olds), and the credit will be fully refundable. Half of the expected credit will be paid in advance in monthly installments from July 2021 – December 2021, with the remaining amount claimed on the 2021 tax return. The additional credit amounts ($1,600 per child under 6 and $1,000 per child 6 or older) are phased out by $50 per $1,000 in AGI over thresholds ($75,000 for individuals; $112,500 for heads of household; $150,000 for joint filers). Once the additional amounts have been fully eliminated, existing rules apply (i.e., phasing out the $2,000 credit per child for AGI in excess of $400,000 for joint filers or $200,000 for other filers).

- ***Dependent Care Assistance –*** For 2021 only, the maximum credit increases to $8,000 for one qualified dependent or $16,000 for 2 or more, and the credit is fully refundable. Phase-out of the credit begins for taxpayers with AGI in excess of $125,000. The amount that may be excluded from income for dependent care services provided by an employer is increased to $10,500 (or $5,250 for married filing separately).

- ***Earned Income Tax Credit –*** For 2021 only, the definition of "eligible individual" (without qualifying children) is modified by decreasing the minimum age to 19 (24 for eligible students, 18 for homeless/former foster youth) and eliminating the maximum age limit. The credit phase-out percentage increases to 15.3% and the earned income and phase-out amounts increase to $9,820 and $11,610, respectively. A separated spouse may be eligible despite not filing jointly if he/she lives with qualifying child for over half the year and either does not live with the other spouse during the last 6 months of the year or has a separation instrument and does not live with the spouse by the end of the year. Taxpayers may elect to determine the EITC using 2019 earned income if the credit would be higher than if it were calculated based on 2021 earned income.

- ***Unemployment Benefits*** – Enhanced benefit of $300 per week is extended to September 6, 2021, and the maximum number of weeks the enhanced benefit may be received was increased from 50 weeks to 79 weeks. Up to $10,200 of unemployment benefits are excluded from 2020 taxable income for individuals with AGI below $150,000. If both spouses received unemployment benefits, each may exclude up to $10,200. *The IRS has indicated that taxpayers who have already filed their 2020 tax return should not file an amended return. The IRS will refigure your taxes and send any refund amounts directly to you.*

- ***Extension of Suspension of Limitations on Excess Business Losses*** – *The Coronavirus Aid, Relief, and Economic Security Act of 2020* (CARES Act) suspended the limitation of farming losses and the denial of deduction for business losses of a noncorporate taxpayer (to the extent the losses exceed business income plus a threshold amount) for 2018, 2019 and 2020. However, these loss limitation provisions became effective for 2021. These provisions were originally set to expire at the end of 2026, but they have been extended for an additional year and will now expire at the end of 2027.

Provisions Impacting Taxes on Businesses

- ***Payroll Credits for Paid Sick and Family Leave*** –Extends the paid leave provisions originally established in the Families First Coronavirus Response Act (FFCRA), which expired March 31, 2021, to include wages paid from April 1, 2021 to September 30, 2021, and increases eligible wages from $10,000 to $12,000. ARPA expanded paid sick time and family leave to include time associated with obtaining an immunization or immunization related condition. The limits on the maximum number of days for which an employer may take the credit will be reset as of April 1, 2021.
- ***Employee Retention Credit*** – Extends the credit established in the CARES Act and modified in the Consolidated Appropriations Act, 2021 to include qualified wages from July 1, 2021 through December 31, 2021. Special rules apply to startup and “severely financially distressed employers,” defined as those whose gross receipts in a calendar quarter are less than 10% of the gross receipts in the corresponding quarter of 2019.
- ***EIDL Advances and Restaurant Revitalization Grants*** – Excludes from gross income amounts received under these programs and allows deductions for expenses paid with the non-taxable amounts without reducing tax basis (i.e., similar tax treatment as forgiven Paycheck Protection Program (PPP) loans). *For partnerships or S-Corps, this effectively allows the excluded amounts to increase partners’ or shareholders’ bases in their ownership interests.*
- ***Continuation Coverage Premium Assistance*** – Provides fully subsidized COBRA continuation coverage premiums for eligible individuals, from April 1, 2021, through September 30, 2021. The person to whom premiums are payable for continuation coverage (e.g., the employer maintaining the plan or the insurer) may take a credit against the employer’s portion of Medicare tax equal to the amount of premiums not paid by the former employee. The credit is refundable and can be advanced under rules to be set by the Treasury Department.
- ***Limitation on Excessive Employee Remuneration*** – The limit on deductions publicly held corporations can take for its CEO, CFO, and the next 3 highest paid individuals is extended to include the next 5 highest paid employees (i.e., the top 10 highest-paid employees would be subject to the limitation). This provision has a delayed effective date, for tax years beginning after December 31, 2026.

Other Updates

Additionally, as you may be aware, the IRS announced that the 2020 tax filing deadline for individuals will be extended from April 15, 2021, to May 17, 2021. The due date for tax payments associated with the 2020 tax year were also delayed; however, the deadlines for other types of returns, as well as estimated tax payments due on April 15, were NOT extended. **Most Texas taxpayers had already received an extension until June 15, 2021 for various individual and business tax returns as well as estimated tax payments due to the disaster declaration following the winter storms.** That extension was not impacted by the recent national deadline extension.

Should you have questions about how the provisions contained in the recent legislation may impact you or your business, please contact your JTaylor tax advisor.