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## American Rescue Plan Act Provides Sweeping Relief Measures for Eligible Families and Businesses

**President Biden signed the American Rescue Plan Act (ARPA) into law on March 11, 2021. The \$1.9 trillion package is intended to provide far-reaching relief from the economic and other repercussions of the ongoing COVID-19 pandemic. In addition to funding for testing, contact tracing, vaccinations, education, and state and local governments, the ARPA includes extensive relief that could directly impact your finances.**

### Recovery Rebates

Under the ARPA, many people will receive a third round of direct payments, which the law calls “recovery rebates.” It provides for direct payments of \$1,400 (plus \$1,400 per dependent) for the following income brackets:

- Single tax filers with adjusted gross income (AGI) up to \$75,000 per year
- Heads of households with AGI up to \$112,500
- Married couples with AGI up to \$150,000

The rebates phase out when AGI exceeds \$80,000, \$120,000, and \$160,000, respectively. Dependents include adult dependents such as college students and qualifying family members. 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 you expect your 2020 AGI to be at or near the applicable phaseout threshold, you might want to consider the timing of your 2020 filing.

Payments will 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 actually qualify based on your 2020 AGI, you won’t be required to return it.

*Note for California taxpayers: The recovery rebates are not taxable on the California return. California provides Golden State Stimulus payments of up to \$600 to qualified lower-income taxpayers.*

## 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. In addition, the law makes the first \$10,200 in unemployment benefits received in 2020 nontaxable for households with incomes less than \$150,000. If you qualify for this tax break and have already filed your 2020 returns, the IRS will issue you a refund. The first refunds are expected in May and will continue through the summer.

*Note for California taxpayers: California does not tax unemployment compensation.*

## Child Tax Credits

The new law temporarily expands the \$2,000 Child Tax Credit (CTC) significantly. For 2021 only, eligible taxpayers will receive a \$3,000 credit for each child ages 6 to 17 and a \$3,600 credit for each child under age 6.

The \$2,000 credit is subject to a phaseout when income exceeds \$400,000 for joint filers and \$200,000 for other filers. The ARPA continues this treatment for the first \$2,000 of the credit in 2021, but it applies a separate phaseout for the increased amount—\$75,000 for single filers, \$112,500 for heads of household, and \$150,000 for joint filers. In other words, the 2021 credit is subject to two sets of phaseout rules.

The ARPA directs the U.S. Treasury Department to create a program to make monthly advance payments for the increased CTC beginning in July, based on taxpayers' most recently filed tax returns. That means eligible taxpayers will receive half of the credit before year-end.

Unlike the recovery rebates, if the advance payments end up exceeding the amount of the credit due on the 2021 tax return, the excess amount must be repaid. The IRS will establish an online portal where you can opt out of advance payments or enter information that modifies the amount of your monthly payments, if you're eligible.

*Note for California taxpayers: California does not have a Child Tax Credit.*

## Child and Dependent Care Tax Credit

The ARPA expands the child and dependent care tax credit substantially, although temporarily. For 2021, taxpayers can claim a refundable 50% credit for up to \$8,000 in care expenses for one child or dependent and up to \$16,000 in expenses for two or more children or dependents. Ultimately, the credit is worth up to \$4,000 or \$8,000. It begins phasing out when household income levels exceed \$125,000; for households with income over \$440,000, the credit is phased out completely.

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.

*Note for California taxpayers: California does not conform to the federal child and dependent care credit but has its own credit.*

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.

*Note for California taxpayers: California does not conform to the increase in employer-provided dependent care assistance exclusion.*

## Student Loan Forgiveness

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

*Note for California taxpayers: California does not conform to the student loan forgiveness exclusion.*

## Health Care Insurance

Health insurance will become more affordable for some insured individuals in 2021 and 2022 because of two provisions in the ARPA. The provisions relate to the Affordable Care Act (ACA) and continuation coverage that may be available under the Consolidated Omnibus Budget Reconciliation Act, better known as COBRA.

The law increases both the availability and the amount of ACA subsidies, retroactive to January 1, 2021. It extends cost-sharing support to anyone who receives, or was approved to receive, unemployment benefits in 2021. It also limits the amount that anyone who obtains insurance through the federal or state marketplaces must pay for premiums to 8.5% of their modified adjusted gross income—regardless of their income.

Additionally, the ARPA provides a 100% premium subsidy for qualified beneficiaries who are:

- Currently enrolled in COBRA, or
- Either eligible but didn't enroll previously, or enrolled but dropped out

The subsidy is available only to employees who lost group coverage because they were involuntarily terminated or their hours were reduced. It covers the period from April 2021 through September 2021.

## Housing Relief

Like the CARES Act and the Consolidated Appropriations Act (CAA) before it, the ARPA includes assistance for those struggling to keep their homes due to the pandemic. For example, it provides rental assistance that eligible families can use for past-due rent, future rent, and utility and energy bills.

The law also provides additional funding to the Homeowner Assistance Fund. This fund is intended to prevent mortgage delinquencies, defaults, foreclosures, the loss of utility or home energy services, and the displacement of homeowners experiencing financial hardship after January 21, 2020.

## Business-Related Provisions

The ARPA contains numerous provisions affecting businesses, too. For example, it provides an additional \$7.25 billion in funding for the Paycheck Protection Program (PPP). Subsequent legislation (the PPP Extension Act of 2021), signed by the President on March 29, extends the application deadline from March 31 to May 31.

The ARPA also provides another \$15 billion for Economic Injury Disaster Loan (EIDL) Advance Grants. Small businesses in low-income communities are eligible for EIDL grants of up to \$10,000; \$5 billion is reserved for \$5,000 grants to businesses that experienced a revenue loss of more than 50% and have no more than 10 employees.

The law also includes targeted relief for some of the industries hit hardest by the COVID-19 pandemic. It establishes a \$28.6 billion fund for businesses that primarily serve food or drinks, with \$5 billion earmarked for restaurants with 2019 gross receipts under \$500,000. In addition, the ARPA directs an additional \$1.25 billion to the “shuttered venue operators” grant program that was created by the CAA, and expands eligibility to include operators that received a PPP loan after December 27, 2020. These operators include live performing arts organizations and movie theaters.

## Additional Guidance to Come

The ARPA is a sweeping piece of legislation, with substantial implementation guidance on certain provisions sure to come from regulators. Seiler’s COVID-19 Relief Advisory Service Team is available to answer your questions about these reforms and help you make the most of the changes. For more information, please contact your Seiler tax advisor, or Advisory & Assurance partners Debbie McCall or Erin Hastings, at 650.365.4646.

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