

# Summary of the American Rescue Plan Act of 2021

## Key Provisions for Individuals

### **Extension of Unemployment Benefits**

The ARPA extends unemployment benefits which were set to expire on March 14, 2021. Those benefits have now been extended through September 6, 2021. The extra federal assistance of \$300 per week is also extended through September 6, 2021.

### **Unemployment Received in 2020 Partially Excluded from Income for Some Taxpayers**

Generally, an individual's gross income includes unemployment compensation. However, under the ARPA the first \$10,200 of 2020 unemployment benefits will be excluded from taxable income. In the case of a joint return, the \$10,200 exclusion applies separately to each spouse. The act limits this tax-free benefit to households with adjusted gross income (AGI) of less than \$150,000. The \$150,000 limit applies to returns filed jointly, as head of household, or with single status. Some taxpayers may have already filed their 2020 returns before the passage of ARPA. If the taxpayers included unemployment compensation in their gross income, they should file amended 2020 Federal returns if they qualify for the exclusion. At this point, it is unclear which states if any will allow the \$10,200 exclusion.

### **2021 Individual Recovery Rebates/Economic Stimulus Payments**

A third round of economic stimulus payments will be paid out to individuals over the next few weeks or so. The \$1,400 payments are essentially credits against 2021 taxes, but fully refundable and payable in advance (similar to the prior payments). The amount of the payment phases out ratably for single filers with adjusted gross income (AGI) over \$75,000 (\$112,500 for head of household filers and \$150,000 for joint filers). The stimulus amount phases down to \$0 for single filers with \$80,000 of AGI (\$120,000 for heads of households and \$160,000 for joint filers). Adjusted gross income will be based on 2020 AGI, unless the 2020 tax return has not been filed yet. If this is the case, the IRS will use the 2019 AGI. Individuals will also receive an additional \$1,400 payment for each

qualifying dependent claimed on their tax returns. Unlike prior rounds, qualifying dependents include full-time students under the age of 24 and adult dependents.

### **Child Tax Credit Expanded for 2021**

The child tax credit for 2021 is increased to \$3,000 in certain cases, and \$3,600 for children under the age of six as of the close of 2021. This is a fully refundable credit for 2021 and makes 17-year-olds (someone who has not turned 18 by the end of 2021) eligible as qualifying children. The excess of the amount of the credit over the present-law \$2,000 amount is phased out by \$50 for every \$1,000 of modified AGI in excess of the threshold amount (\$75,000 for single filers, \$112,500 for head of household filers, and \$150,000 for joint filers). Once the excess amount is eliminated, the amount of the credit remains at \$2,000 until the present law phaseout thresholds are reached (\$200,000 for all filers other than joint filers, and \$400,000 for joint filers). The IRS will issue advance monthly payments of half of the credit amount beginning on July 1, 2021. The remaining half of the credit not paid in advance is received when filing 2021 returns. The IRS will create an online portal for taxpayers to opt out of receiving advance payments, or to provide information on status changes that would impact the amount of the credit.

### **Expansion of Earned Income Credit (EIC)**

For 2021, for taxpayers with no qualifying children, the minimum age will be 19, or if “specified student”, age 24, or if qualified former foster youth or a qualified homeless youth, age 18. A “specified student” is an individual who is an eligible student during at least five calendar months during the tax year. Unlike the prior law 65-year age limit, under ARPA there will be no maximum age limit. Other items to note, the 7.65% credit percentage and phaseout percentage is increased to 15.3%. The \$4,220 earned income amount is increased to \$9,820 and the \$5,280 phaseout amount is increased to \$11,610. For taxpayers with qualifying children or without, the “disqualified” investment income limit is raised to \$10,000. Also, taxpayers may elect to substitute their earned income for 2019 if that 2019 amount is greater than the taxpayer’s earned income for 2021.

### **Child and Dependent Care Tax Credit Enhanced and Made Refundable**

For 2021, the amount of eligible expenses qualifying for the credit are increased to \$8,000 for one individual and \$16,000 for two or more individuals. The act increases the credit to 50 percent of qualified expenses and reduces the credit percentage by one point for each \$2,000 of AGI in excess of \$125,000 until AGI reaches \$185,000. The applicable percentage is 20% for taxpayers with AGI greater than \$185,000 but not greater than \$400,000. For taxpayers with AGI above \$400,000, the applicable percentage again decreases one percentage point for every \$2,000. Thus, for taxpayers with AGI greater than \$440,000, the credit is phased out completely. For taxpayers with AGI of \$125,000 or less, the maximum amount of the credit is \$4,000 (\$8,000 x 50%) for taxpayers with one qualifying individual and \$8,000 (\$16,000 x 50%) for taxpayers with two or more qualifying individuals. The credit will be fully refundable if exceeding tax liability.

### **Increase in the Exclusion for Employer-Provided Dependent Care Assistance**

For 2021, the exclusion for employer-provided dependent care assistance is increased from \$5,000 to \$10,500, and from \$2,500 to \$5,250 in the case of a separate return filed by a married individual.

### **Expansion of Premium Tax Credit for 2021 and 2022**

Under prior law, a refundable premium tax credit (PTC) was available on a sliding-scale basis for individuals and families with household income between 100% and 400% of the federal poverty (FPL) who were enrolled in the Exchange-purchased qualified health plan, and who were not eligible for other qualifying coverage or affordable employer-sponsored health insurance plans providing minimum value. Under the ARPA, for 2021 and 2022, the household income tables have been modified, and the 400 percent limit is removed. This change will have the effect of increasing the number of people who are eligible for the PTC. There is one other change for PTC which affects the 2020 year. No additional income tax is imposed for tax years beginning in 2020 where the advance credit payments exceed the taxpayer's PTC. As a result, taxpayers will not have to repay excess advance premium tax credit payments for 2020. Some taxpayers may have already filed their 2020 returns before the passage of ARPA. If any of the taxpayers repaid the excess advance credit payments, they should file amended 2020 Federal returns to obtain a refund.

### **COBRA Premium Subsidy**

Assistance-eligible individuals (AEIs) may receive a 100% subsidy for COBRA premiums for any period of COBRA coverage during the period beginning on April 1, 2021 and ending on September 30, 2021. Such individuals shall be treated for purposes of any COBRA continuation provision as having paid in full the amount of such premium. Subsidy amounts will not be included in the gross income of AEIs. An AEI is a COBRA qualified beneficiary (i.e., employee, former employee, covered spouse or covered dependent) who, with respect to a period of coverage during the period beginning on April 1, 2021, and ending on September 30, 2021, is eligible for and elects COBRA coverage due to a qualifying event of involuntary termination of employment or reduction of hours. AEIs will not be eligible for the health coverage tax credit for any period of coverage in which they receive a COBRA subsidy. The subsidy period will terminate if the AEI becomes eligible for other group health plan coverage or Medicare. There are various notice requirements of the AEI and former employer. Employers will be allowed a quarterly tax credit against the Medicare payroll tax equal to the premium amounts not paid by AEIs. If the credit amount exceeds the quarterly Medicare payroll tax, the excess will be treated as a refundable overpayment.

### **Exclusion of Student Loan Forgiveness**

For discharges in 2021 through 2025, gross income will not include any amount for any discharge of a loan provided expressly for post-secondary educational expenses, if such loan was made, insured, or guaranteed by the U.S. or an instrumentality or agency thereof, a State, or eligible educational institution, any private education loan, or various other institutions.

### **Extension of Limitation on Excess Business Losses of Noncorporate Taxpayers**

The Tax Cuts and Jobs Act (TCJA) limited the amount of excess business losses a noncorporate taxpayer could deduct in any one year for 2018 through 2025. The CARES Act suspended that provision for 2018 through 2020. Rather than extending the suspension of this loss limitation, the ARPA keeps the suspension through calendar year 2020, but extends the loss limitation for one year. The loss limitation will now apply in years 2021 through 2026.

## **Key Provisions for Businesses**

### **Modifications to Paycheck Protection Program**

The act expands PPP eligibility to additional types of nonprofit entities, and internet publishing organizations (NAICS code 519130). Also, it provides additional funding of \$7.25 billion, however, the application period has not been extended and remains March 31, 2021. The AICPA is lobbying Congress to extend the March 31, 2021 PPP application deadline.

### **Targeted Economic Injury Disaster Loan (EIDL) Advances**

The ARPA allocates \$10 billion for Targeted EIDL Advances to qualified small businesses. Targeted EIDL Advances are tax-free grants of up to \$10,000 to small businesses located in low-income areas that can demonstrate a 30% or greater economic impact. The act also includes \$5 billion to fund \$5,000 supplemental grants for businesses with ten or fewer employees that have suffered an economic impact of at least 50%.

### **Tax Treatment of Targeted EIDL Advances**

Any targeted EIDL advance amounts received will be excluded from gross income. Also, any expenses paid for with the advance amounts will be deductible and for pass-through entities a basis increase will be permitted.

### **Extension of Employee Retention Credit (ERC)**

For wages paid after June 30, 2021 and before January 1, 2022, there is a 70% credit per \$10,000 per employee per quarter. This is an extension of the prior ERC, that was scheduled to expire on July 1, 2021. The act modifies the ERC such that, beginning after June 30, 2021, the credit will be structured as a refundable payroll tax credit against the Medicare tax. In addition, startup businesses established after February 15, 2020, with annual gross receipts of up to \$1 million and that otherwise do not meet the ERC eligibility tests would now be eligible for the ERC. The startup ERC is capped at \$50,000 per quarter, per employer, and the credit would be computed under the regular ERC rules.

There is a new type of employer - severely financially distressed employers, which means an eligible employer with a gross receipts' reduction of at least 90%. If an employer meets this definition, it may treat all wages paid to employees as qualified wages, regardless of the number of full-time employees. One other provision, the statute of limitations for assessments under the credit is extended to 5 years after the date of the return claiming the credit is filed or treated as filed. Accordingly, Forms 941 filed for the third and fourth quarter of 2021 that claim the credit will be open for IRS audit until April 15, 2027, although any assessment after three years will be limited to the amount of the credit claimed.

### **Shuttered Venue Operators Grants (SVOG)**

The Consolidated Appropriations Act, 2021 developed this program. The ARPA provides an additional \$1.25 billion for 2021 to help carry out these grants. A welcome change is that SVOG applicants can also apply for the PPP loans. The amount of any PPP loans that are received on or after December 27, 2020 will be subtracted from the SVOG amount. We are still waiting for the SBA SVOG application portal to open.

### **Restaurant Revitalization Fund Grants (RRF)**

The ARPA appropriates \$28.6 billion for 2021 to struggling restaurants to be administered by the SBA. The money will be available until expended. The eligible businesses include restaurants, food stands, food carts, caterers, bars, lounges, brewpubs, tasting rooms, taprooms, and other specified food businesses. It does not include a state or local government operated business, or a company that as of March 13, 2020 operates in more than 20 locations, whether or not the locations do business under the same name. The grant amount is generally determined by subtracting 2020 gross receipts from 2019 gross receipts. The resulting amount is reduced by any PPP loan amounts received. The maximum amount given to any business who fulfills the eligibility and certification requirements is \$10 million and limited to \$5 million per physical location of the business. The grants can be used to cover allowable costs for the period from February 15, 2020 to December 31, 2021, or another date to be determined by the SBA that is not later than two years after March 11, 2021. The funds may be used for: payroll costs, mortgage payments, rent, utilities, maintenance expenses, supplies, food and beverage expenses,

covered supplier costs, operational expenses, paid sick leave, and any other expense determined to be essential to maintaining the business.

### **Tax Treatment of Restaurant Revitalization Grants**

Any restaurant revitalization grant amounts received will be excluded from gross income. Also, any expenses paid for with the advance amounts will be deductible and for pass-through entities a basis increase will be permitted.

### **Extension and Expansion of Paid Sick and Family Leave Tax Credits**

The ARPA extends the Families First Coronavirus Response Act (FFCRA) paid sick time and family leave credits from March 31, 2021 through September 30, 2021. The credits may be increased by the employer's share of Social Security tax (6.2%) and employer's share of Medicare tax (1.45%) on qualified leave wages. Also, the act increases the amount of wages for which an employer may claim the paid family credit in a year from \$10,000 to \$12,000 per employee. Paid time off for employees to obtain the COVID-19 vaccination or recovery from an illness related to the immunization will be eligible for the credit. The 10-day limitation on the maximum number of days for which an employer can claim the paid sick leave credit with respect to wages paid to an employee is reset starting on April 1, 2021. As a reminder, effective January 1, 2021, the FFCRA employer mandate to provide paid sick and family leave due to COVID-19 was not extended into 2021, but if an employer is otherwise eligible and chooses to voluntarily provide such leave in 2021, the tax credits continue to be available.

### **Relief to Failing Multiemployer Pension Plans**

The ARPA provides \$86 billion of financial assistance to underfunded multiemployer pension plans facing critical or declining financial status. The special financial assistance is designed to cover the payments of accrued pension benefits through the 2051 plan year and is not subject to any repayment obligations. There are also other relief provisions for multiemployer pension plans. The eligibility rules and details for these various relief provisions are outside the scope of this summary.



### **Repeal of Election to Allocate Interest on Worldwide Basis**

For taxable years beginning after December 31, 2020, IRC Section 864(f) is repealed. Previously, IRC Section 864(f) allowed “worldwide affiliated group” taxpayers an opportunity to make a one-time election to allocate and apportion interest expense on a worldwide basis to determine taxable income applied to foreign tax credit limitations.

### **Other Relief Provisions**

#### **Education**

There are over \$128 billion in grants to state and local educational agencies, plus \$39 billion in grants to higher education institutions. The Child Care & Development Block Grant Program will receive \$15 billion in funds to help support childcare facilities.

#### **Low-Income Families**

The act includes \$4.5 billion for the Low-Income Home Energy Assistance Program, to help families with home heating and cooling costs. There is \$1.4 billion in funding for programs authorized under the Older Americans Act, including support for nutrition programs, community-based support programs and the National Family Caregiver Support Program.

#### **Rental and Homeowner Assistance**

There is \$27 billion for emergency rental assistance, including \$5 billion for emergency housing vouchers for people experiencing homelessness, survivors of domestic violence and victims of human trafficking. There is also a newly created Homeowner Assistance Fund (\$10 billion) which will provide assistance to homeowners for the prevention of mortgage delinquencies, defaults, foreclosures, loss of utilities, or home energy services or displacement of homeowners experiencing financial hardship.



## Public Health

The Centers for Disease Control and Prevention will receive \$7.5 billion to track, administer and distribute COVID-19 vaccines. The ARPA provides \$46 billion for diagnosing and tracing coronavirus infections, and \$2 billion for buying and distributing various testing supplies and personal protective equipment.

## Transportation

The ARPA allocates nearly \$30 billion for transit costs, including payroll and personal protective equipment; \$8 billion for airports; \$3 billion for a temporary payroll support program to help support the aerospace manufacturing industry; and \$1.5 billion to recall and pay Amtrak employees who were furloughed because of the pandemic and to restore daily routes. Another \$15 billion will also be allocated to support workers in the airline industry.

Please note, the above information is subject to change and/or be clarified. It is expected additional guidance will be provided. Please reach out to your trusted Bodine Perry advisor to discuss any of the provisions.

Sincerely,

*Bodine Perry*