

March 11, 2021

American Rescue Plan Act of 2021 Individual Tax Provisions

Changes Impacting 2020 Taxable Income – Unemployment Compensation

Unemployment compensation received during the tax year beginning in 2020, may not be taxable income. To qualify for the exclusion, the adjusted gross income for the taxpayer must be less than \$150,000. The exclusion does not apply to those taxpayers with adjusted gross incomes of \$150,000 or more, and, therefore, all of the unemployment income would be taxable. **If the taxpayer has already filed their 2020 tax return and included the income as taxable, an amended tax return may need to be filed to obtain a refund. Taxpayers should wait for the Internal Revenue Service to issue additional guidance.**

2020 Taxable Income - Unemployment		
Adjusted Gross Income	Unemployment Exclusion - Single Taxpayer or Head of Household	Unemployment Exclusion - Married Taxpayers
\$0 - \$149,999	Up to \$10,200	Up to \$10,200 for each taxpayer, for a possible exclusion of \$20,400 if both taxpayers have unemployment compensation
\$150,000+	\$0	\$0

Changes Impacting 2021 – Recovery Rebate Credit

Similar to earlier stimulus payments which were advanced payments on the Recovery Rebate Credit, the American Rescue Plan Act created a Recovery Rebate Credit for 2021. Advanced payments will be made electronically if appropriate.

If the taxpayer has not filed the 2020 tax return, the Adjusted Gross Income (AGI) noted in the following table, would be the taxpayer's 2019 AGI. If the taxpayer has filed the 2020 tax return, the AGI listed would be the taxpayer's 2020 AGI. Similarly, the last tax return filed would determine the filing status and number of dependents. Note: The return will not be considered filed until the IRS has processed the return. Taxpayers who are not required to file a return, but believe they qualify for the payment, will be able to request the payment via the Internal Revenue Service website.

2021 Recovery Rebate Credit	
Amount of credit	\$1,400 per eligible individual (\$2,800 for eligible individuals filing a joint return) \$1,400 for each dependent
Definition of dependent	Qualifying Child or Qualifying Relative* * The 2021 credit includes college students claimed by parents as a qualifying relative
Full amount of credit issued	Single / Married Filing Separately AGI of < \$75,000 Head of Household AGI of < \$112,500 Married Filing Jointly AGI < \$150,000
Credit completely phased out	Single / Married Filing Separately AGI of > \$80,000 Head of Household AGI of > \$120,000 Married Filing Jointly AGI > \$160,000
Taxability of payments	The payments are not taxable income
Impact on 2021 tax return	The payments are an advance of a credit available on the 2021 tax return and will be a reduction of a potential credit available on the 2021 tax return

Changes Impacting 2021 – Child Tax Credit

For tax year 2021, the child tax credit was expanded for some taxpayers.

The Internal Revenue Service must establish a program to make monthly advanced payments from July 2021 through December 2021. Similar to the advanced payments made for the Recovery Rebate Credit, these advanced payments reduce the amount of credit available on the 2021 tax return.

American Rescue Plan Act of 2021 Individual Tax Provisions continued

Expanded Child Tax Credit	
Amount of credit	\$3,600 per qualifying child under age 6 as of December 31, 2021 \$3,000 per qualifying child age 6 or older but under age 18 as of December 31, 2021 The credit is fully refundable
Definition of qualifying child	Qualifying Child definition broadened to include a child who has not turned 18 by December 31, 2021
Full amount of credit issued	Single / Married Filing Separately AGI of < \$75,000 Head of Household AGI of < \$112,500 Married Filing Jointly AGI < \$150,000
Reduced amount of credit issued	Credit is phased out at a rate of \$50 for each \$1,000 (or fraction thereof) of modified AGI over the threshold noted above
Advanced payments	50% of eligible taxpayer's 2021 Child Tax Credit payable from July 2021 to December 2021
Refundability	The credit is fully refundable
Taxability of payments	The payments are not taxable income
Impact on 2021 tax return	Advance payments reduce amount of credit available on the 2021 tax return * Advance payments received in excess of child tax credit allowable on the 2021 tax return must, generally, be repaid by increasing the taxpayer's tax liability reported on their 2021 return * Taxpayers will be able to opt out of receiving the advanced credit by visiting the IRS website. * A safe harbor provision protecting taxpayers from having to pay back overpayments up to \$2,000 per child is available for taxpayers with modified AGI of: Single \$ 80,000 or less Married Filing Jointly \$120,000 or less Head of Household \$100,000 or less

Regular Child Tax Credit Available to taxpayers whose AGI does not allow them to qualify for the Expanded Child Tax Credit	
Amount of credit	\$2,000 per qualifying child
Definition of qualifying child	Qualifying Child definition broadened to include a child who hasn't turned 18 by December 31, 2021
Full amount of credit issued	Single / Married Filing Separately AGI of < \$200,000 Head of Household AGI of < \$200,000 Married Filing Jointly AGI < \$400,000
Reduced amount of credit issued	Credit is phased out at a rate of \$50 for each \$1,000 (or fraction thereof) of modified AGI over the threshold noted above
Advanced payments	50% of eligible taxpayer's 2021 Child Tax Credit payable from July 2021 to December 2021
Refundability	The credit is fully refundable
Taxability of payments	The payments are not taxable income
Impact on 2021 tax return	Advance payments reduce amount of credit available on the 2021 tax return. * Advance payments received in excess of child tax credit allowable on the 2021 tax return must, generally, be repaid by increasing the taxpayer's tax liability reported on their 2021 return * Taxpayers will be able to opt out of receiving the advanced credit by visiting the IRS website * A safe harbor provision protecting taxpayers from having to pay back overpayments up to \$2,000 per child is available for taxpayers with modified AGI of: Single \$ 80,000 or less Married Filing Jointly \$120,000 or less Head of Household \$100,000 or less

Contact your Arnett Carbis Toothman advisor to discuss how the limitations impact your specific situation.



actcpas.com

