

# WHAT INDIVIDUALS NEED TO KNOW ABOUT THE AMERICAN RESCUE PLAN ACT

The [American Rescue Plan Act of 2021](#) (ARPA), signed into law by President Biden on March 11, 2021, provides additional major relief to individuals and businesses that continue to be impacted by the COVID-19 pandemic. The ARPA includes the following provisions related to individual taxpayers:

- Additional recovery rebate credit
- Unemployment compensation received in 2020 partially excluded from gross income
- Child tax credit expanded for 2021
- Child and dependent care credit enhanced and refundable
- Student loan discharges excluded from gross income

## **Additional Recovery/Rebate Credit**

Two rounds of economic impact payments have already been sent to individual taxpayers.

The [Coronavirus Aid, Relief, and Economic Security Act](#) (CARES Act) enacted on March 27, 2020 granted eligible individuals a recovery rebate credit of \$1,200 for single filers and \$2,400 for joint filers (plus \$500 per qualifying child). The rebate amount was advanced based on 2018 or 2019 income, but the credit is determined based on 2020 income. The Covid-Related Tax Relief Act of 2020 (CRTRA), enacted as part of the [Consolidated Appropriations Act](#) on December 27, 2020, granted eligible individuals a second refundable tax credit against their 2020 taxable income equal to \$600 for single filers and \$1,200 for joint filers (plus \$600 per qualifying child). The CRTRA rebate amount is determined based on 2020 income, but the credit was advanced to taxpayers based on their 2019 income tax return.

The ARPA grants eligible individuals a third refundable tax credit equal to \$1,400 for single filers and \$2,800 for joint filers, plus \$1,400 for each dependent of the taxpayer. The credit is for the 2021 tax year; however, the rebate amount is advanced based on 2019 income, or 2020 income if the 2020 tax return has been filed. Similar to the CARES Act and CRTRA, the ARPA credit begins to phase out when the single filer's adjusted gross income (AGI) exceeds \$75,000 (\$150,000 for joint filers and \$112,500 for head of household filers). The credit completely phases out when a single filer's AGI exceeds \$80,000 (\$160,000 for joint filers and \$120,000 for head of household filers).

Individuals eligible for the third economic impact payment do not include nonresident aliens, individuals who may be claimed as a dependent on another person's return, estates or trusts. Children who are or can be claimed as dependents by their parents are not eligible individuals, even if the parent chooses not to claim the child as a dependent.

A dependent of the taxpayer includes a qualifying child and a qualifying relative. A qualifying child includes a child, stepchild, eligible foster child, brother, sister, stepbrother or stepsister, or a descendent of any of them (i) who is under age 19 or a student under age 24 at the end of the year, (ii) who has not

provided more than half of their own support, (iii) who has lived with the taxpayer for more than half of the year and (iv) who has not filed a joint return (other than only for a refund claim) with the individual's spouse. For a qualifying child who is permanently and totally disabled at any time during the tax year, all of the foregoing requirements apply except for age—age is irrelevant. A qualifying relative includes a child, stepchild, eligible foster child, brother, sister, stepbrother or stepsister, father or mother, grandparent, stepfather or stepmother, or an individual with the same place of abode as taxpayer (i) whose gross income is less than \$4,300 (excluding social security benefits), (ii) who has not provided more than half of their own support, and (iii) who is not a qualifying child. For a qualifying relative who is permanently and totally disabled at any time during the tax year, gross income does not include income for services performed at a school that provides special instruction or training designed to alleviate the disability of the individual and that is operated as a non-profit organization. The availability of medical care at the school must be the principal reason for the individual's presence there, and the income must arise solely from activities at the school that are incidental to the medical care.

The ARPA provides that no advance refund amount will be made if the taxpayer was deceased before January 1, 2021, nor will any amount be determined for a qualifying dependent of a taxpayer if the taxpayer (both taxpayers on a joint return) was deceased before January 1, 2021. Further, in the case of a joint return where only one spouse has a valid Social Security number (SSN), that spouse is eligible to receive the \$1,400 rebate if he or she meets all other requirements of joint filers (i.e., AGI limitations). However, for military service members, **both** spouses are eligible for the economic income payment if at least one spouse was a member of the U.S. armed forces at any time during the tax year and at least one spouse's SSN is included on the joint return. If a dependent is considered when calculating the credit, the dependent must have a valid SSN.

Individuals who did not file a tax return in 2019 or 2020 may still receive an automatic advance based on the individual's status as a beneficiary of social security, railroad retirement benefits or VA (Veteran's Administration) benefits. Individuals who otherwise are not required to file and are not receiving social security benefits are still eligible for the rebate but will be required to file a tax return to claim the benefit.

### **Unemployment Income**

For tax year 2020, if a taxpayer's adjusted gross income is less than \$150,000, the taxpayer may exclude up to \$10,200 of unemployment compensation from gross income. There is no phaseout, and the \$150,000 limit applies to single filers, joint filers and head of household filers. In the case of joint filers, the \$10,200 exclusion amount applies separately to each filer. If the taxpayer has filed his or her 2020 tax return, the he or she will need to file an amended return to receive the tax benefit. The act also extends the federal unemployment compensation benefits in the amount of \$300 per week through September 6, 2021.

### **Child Tax Credit**

The ARPA expands the child tax credit amounts and eligibility requirements for tax year 2021. The credit is increased from \$2,000 to \$3,000 per qualifying child (\$3,600 for children under age 6). The definition

of a qualifying child is expanded to include a child who has not turned 18 by the end of 2021. The credit is fully refundable for a taxpayer with a principal place of abode in the U.S. for more than one-half the tax year, or for a taxpayer who is a bona fide resident of Puerto Rico for the tax year.

The additional \$1,000 credit amount per qualifying child (\$1,600 per qualifying child under age 6) begins to phase out at a rate of \$50 for each \$1,000 when a single filer's modified adjusted gross income (MAGI) exceeds \$75,000 (\$150,000 for joint filers and \$112,500 for head of household filers). A single filer with one qualifying child over age 6 will phase out of the increased credit amount if the taxpayer's MAGI exceeds \$95,000. Similarly situated joint filers will phase out of the increased credit amount if their MAGI exceeds \$170,000.

After application of the phase-out rules for the temporarily increased credit amount, the remaining \$2,000 of credit is subject to the phaseout rules under existing law (\$400,000 for joint filers and \$200,000 for all other filers). A single filer with one qualifying child will phase out of the remaining credit if his or her MAGI exceeds \$240,000, while joint filers with one qualifying child will phase out of the remaining credit if their MAGI exceeds \$440,000.

The ARPA directs the IRS to establish a program in which monthly advance payments equal to 1/12th of the estimated 2021 Child Tax Credit amount will be paid to the taxpayer during the period July 2021 through December 2021. The remaining 50% of the annual estimated amount will be claimed on the 2021 tax return. Initially, the advanced amount will be determined based on a taxpayer's 2019 or 2020 tax filing. However, upon receipt of a more recent tax filing or other taxpayer-provided eligibility information, the IRS may modify the advance amount.

The IRS [announced](#) on March 12, 2021 that it is reviewing implementation plans for the ARPA and that it will be issuing guidance on relevant provisions.

### **Child and Dependent Care Credit**

The child and dependent care credit also is expanded for tax year 2021. The limitation for employment-related expenses considered in determining the credit is increased from \$3,000 to \$8,000 for one qualifying individual and from \$6,000 to \$16,000 for two or more qualifying individuals. Further, the applicable percentage of employment-related expenses that are allowed as a credit against tax is increased from 35% to 50%. As a result, for taxpayers with one qualifying individual, the maximum credit is increased from \$1,050 to \$4,000. For taxpayers with two or more qualifying individuals, the maximum credit is increased from \$2,100 to \$8,000.

The credit begins to phase out when the taxpayer's AGI exceeds \$125,000. The applicable percentage is reduced by 1 percentage point for each \$2,000 (or fraction thereof) by which the taxpayer's AGI exceeds \$125,000. However, the applicable percentage is not reduced below 20% except for taxpayers with AGI in excess of \$400,000. Consequently, the applicable percentage is 50% for taxpayers with AGI of \$125,000 or less, 20% for taxpayers with AGI greater than \$185,000 but not greater than \$400,000, and phases out completely for taxpayers with AGI greater than \$440,000.

The credit is refundable for taxpayers that have a principal place of abode in the U.S. for more than one-

half of the tax year.

### **Student Loan Discharges**

For tax years 2021 through 2025, partial or full discharge of an eligible student loan may be excluded from gross income. The types of eligible student loans include (1) loans for post-secondary educational if made, insured or guaranteed by a federal, state or local government; (2) certain private education loans; and (3) original or refinanced loans made by an educational institution, charitable contributions to which would be limited to 50% of an individual taxpayer's AGI if the loan is made with federal, state or local government or with certain private education lenders pursuant to a program designed to encourage students to serve in occupations, or areas, with unmet needs under the supervision of a tax-exempt governmental unit or organization described in Internal Revenue Code section 501(c)(3).

If the discharge of a loan made by an educational organization or a private education lender is in exchange for services performed for that organization or private lender, these rules do not exclude the discharge of the loan from gross income.