



SUMMARY OF THE AMERICAN RESCUE PLAN ACT OF 2021

The American Rescue Plan Act (ARPA), passed in March 2021, included several tax changes for individuals and businesses. The ARPA made some changes for the 2020 tax year. Here are the highlights.



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INDIVIDUALS

Tax-free Unemployment Benefits

Up to \$10,200 of unemployment income received in 2020 will be non taxable for taxpayers with adjusted gross income below \$150,000. Taxpayers filing jointly are allowed an exclusion of up to \$20,400 as long as their joint adjusted gross income is less than \$150,000.

If this impacts you and you have already filed your 2020 tax return, don't file an amended return. The IRS will make appropriate changes to your return.

Additional Economic Stimulus Payments

Congress approved a third round of stimulus payments of \$1,400 for each adult and dependent. There is a narrow income phase-out window that begins with an adjusted gross income of \$75,000 for single filers (\$150,000 for married filing jointly) and payments completely phase out at \$80,000 (\$160,000 for married filing jointly).

Continued Federal Unemployment Assistance

The \$300 per week of federal unemployment benefits is extended to September 6, 2021. This subsidizes state unemployment benefits.

Child Tax Credit Expanded for 2021

The 2021 Child Tax Credit increased from \$2,000 to \$3,000 per child aged 6 to 17 on December 31, 2021. Children under age six as of December 31, 2021, can now qualify for a \$3,600 per child credit.

The \$3,000 and \$3,600 credit begins phasing out with a modified adjusted gross income of \$75,000.

However, if you earn more than this threshold, you may still be able to qualify for the credit of \$2,000. This credit maintains its \$200,000 modified adjusted gross income threshold for individuals before it begins phasing out.

Another new feature of the child tax credit in 2021 is that a portion of it will be paid to taxpayers in advance. The IRS will estimate your 2021 credit and 50% of that amount will be paid to you in monthly increments from July to December 2021.

Also, the credit is fully refundable for most taxpayers. That means the remaining amount due to you will be credited when you file your 2021 tax return and if it creates a refund, you'll receive the entire refund amount from the IRS.

However, if you file your 2021 tax return and the advance payments you received exceeded your actual credit, with a few exceptions for low and moderate-income taxpayers, you'll have to repay the excess.

Enhancement of the Child-and Dependent-Care Tax Credit

To clarify, the *Child Tax Credit* (above) is given to anyone who meets the income requirements and has a qualifying child. Whereas the *Child-and Dependent-Care Tax Credit* is available to qualified taxpayers who incurred allowable expenses to care for a child or dependent in order to work.

In 2021, the credit will be worth 50% of eligible expenses, up to a limit based on income, making the credit worth up to \$4,000 for one qualifying individual and up to \$8,000 for two or more. Credit phase out begins when adjusted gross income reaches \$125,000. For 2021, the Child-and Dependent-Care tax credit is fully refundable. That means you get a refund of the entire credit amount even if it's more than taxes owed.

ADDITIONAL IRS ANNOUNCEMENTS

Paycheck Protection Program (PPP) Application Extended

Applications for PPP loans are due to lenders by May 31, 2021.

Covid-19 Supplies Deductible

The Internal Revenue Service announced that supplies (PPE) purchased to stop the spread of COVID-19 are considered tax deductible. Taxpayers can deduct expenses for PPE if they have medical expenses that exceed 7.5% of their adjusted gross income and they itemize on their tax returns. This includes products such as masks, hand sanitizer, hand soap, disposable gloves and sanitizing wipes.

Alternatively, these purchases are eligible to be reimbursed under health flexible spending arrangements (health FSAs), Archer medical savings accounts (Archer MSAs), health reimbursement arrangements (HRAs) or health savings accounts (HSAs).

The IRS also announced that eligible teachers can include unreimbursed expenses for PPE bought after March 12, 2020, in their educator expense deduction.

Federal Tax Deadline Extended

The IRS has extended the April 15, 2021 due date for individual tax returns, contributions to IRAs, health savings accounts, Archer Medical Savings Accounts and Coverdell education savings accounts to May 17, 2021. However, taxpayers in Texas, Oklahoma and Louisiana have until June 15, 2021 to file their tax returns and make first quarter estimated payments due to the severe February winter storms that struck these states.

BUSINESSES

Employee Retention Tax Credit Extended

The Employee Retention Tax Credit is extended from June 30, 2021 to December 31, 2021. The credit amount is 70% of \$10,000 in qualified wages per employee per quarter. This credit is applied against the employer's portion of Medicare tax only.

Generally, this credit also allows "recovery start-up businesses" to claim the Employee Retention Tax Credit. These are businesses that weren't in existence on February 15, 2020.

Reduced Thresholds for Issuance of Form 1099-K

Form 1099-K provided by third-party payment processors must now be given to companies with \$600 in transactions in the year. Previously, the threshold to issue a Form 1099-K was \$20,000 in transactions and at least 200 transactions.

Family Sick Leave Credit Extended and Expanded

For employers choosing to provide paid COVID-19-related family or sick leave to employees, the tax credits set to expire on March 31, 2021 have been extended until September 30, 2021. In addition to family and sick leave, the credit now covers time off to receive a COVID-19 vaccine or recover from immunization. Also, the annual amount of wages that can be used for the credit increased from \$10,000 per employee to \$12,000.

Increase in Dependent-Care Flex Spending Account Limits

For 2021, employers have the option to amend their dependent-care flexible spending plans to allow workers to contribute up to \$10,500. The previous limit was \$5,000.

Increased Aid for Hard-hit Businesses

Hard-hit restaurants can apply for a Restaurant Revitalization Fund grant from the Small Business Administration. Additional funding was added to the Shuttered Venue Operator grants established in December 2020 under the Consolidated Appropriations Act. The program is administered by the Small Business Administration and is set to begin accepting applications on April 8, 2021.

Additional IRS Announcement

Business taxpayers in Texas, Oklahoma and Louisiana have until June 15, 2021 to file business tax returns, including first quarter payroll and excise tax returns.

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