

American Rescue Plan Act of 2021



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The following is a brief summary of key tax provisions included in the American Rescue Plan Act of 2021, signed into law March 11, 2021, affecting 2021.

Recovery Rebate and Round 3 Stimulus Payment

Eligible individuals may qualify for a 2021 rebate amount of up to \$1,400 per taxpayer (\$2,800 MFJ), plus \$1,400 per dependent. This is treated as a Recovery Rebate Credit on your 2021 tax return. Any stimulus payment received now reduces the Recovery Rebate (but not below zero) that may be claimed on your 2021 tax return. This stimulus payment for dependents is not limited to dependents who are under age 17. This stimulus payment may not be paid, per individual, more than once. The payment starts to phase out when AGI exceeds \$75,000 (Single, MFS), \$150,000 (MFJ, QW), and \$112,500 (HOH) and is fully phased out at \$80,000 (Single, MFS), \$160,000 (MFJ, QW), and \$120,000 (HOH).

Child Tax Credit

Effective for 2021 only, the Child Tax Credit (CTC):

- Is increased to \$3,000 per qualifying child,
- Is \$3,600 in the case of a qualifying child age five or younger as of December 31, 2021,
- Age limitation is increased from age 16 to age 17,
- Is fully refundable.

Phase-out. The increased CTC (over the \$2,000 prior amount) phases out when modified AGI exceeds \$75,000 (Single, MFS), \$150,000 (MFJ, QW), and \$112,500 (HOH).

The key to minimizing taxes and maximizing your individual or business financial goals is through knowledge. Knowing how tax laws and regulations apply to you or your business is just the beginning. SKDO professionals continually monitor federal and state regulatory environments for developments that will impact our clients in order to provide education and awareness on these issues all while being there to help you navigate through any complex situations that arise. For more information visit our website at skdocpa.com

Once the increased CTC is phased-out, the \$2,000 per qualifying child still applies until modified AGI reaches the previous thresholds.

Advance Payment of the Child Tax Credit

The IRS is instructed to establish a program for making periodic payments to taxpayers for the advance payment of the CTC. The advance amount will be estimated by the IRS as being equal to 50% of the CTC which would be treated as refundable for 2021. Prior year tax information will be used to determine the advance payment amount.

The IRS will establish an on-line portal which allows taxpayers to elect not to receive advance payments, or to update relevant information to calculate the advance payment. Advance payments will be made during the period July 1, 2021 through December 31, 2021.

The CTC claimed on the 2021 return will be reduced by any advance payments received. If the advance payments received exceed the credit allowed, the excess will be added to your 2021 tax liability and repaid.

Earned Income Credit (EIC)

- For 2021, individuals without a qualifying child may qualify for the EIC at:
 - Age 19 if you are not a specified student, qualified former foster youth, or a qualified homeless youth,
 - Age 24 if you are a specified student, but not a qualified former foster youth or a qualified homeless youth, and
 - Age 18 if you are a qualified former foster youth or a qualified homeless youth.
- The age 65 limitation is eliminated for 2021.

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- The 2021 phase-out percentage and phase-out amounts are increased for individuals without a qualifying child.
- Beginning in tax year 2021, if you file as Married Filing Separately and meet certain conditions, you may qualify for the EIC.
- The 2021 investment income limit is increased from \$3,650 to \$10,000 and indexed for inflation after 2021.
- If earned income for 2021 is less than 2019 earned income, you may elect to use 2019 earned income when calculating the 2021 EIC.

Dependent Care Expense Credit

Effective for 2021 only, the Child and Dependent Care Expense Credit is refundable. The dollar limitation on expenses paid for a qualifying person is increased from \$3,000 to \$8,000 for one qualifying person and from \$6,000 to \$16,000 for two or more qualifying persons. The maximum percentage of 35% is increased to 50% for AGI up to \$125,000 with the credit percentage phasing out and reduced to zero when AGI reaches \$438,000.

Dependent Care Assistance Program

Effective for 2021 only, the \$5,000 maximum exclusion is increased to \$10,500 (\$5,250 MFS).

Student Loan Forgiveness Exclusion

Student loan debt forgiveness may be excluded from taxable income if you work in a certain profession for a certain period of time in some type of public service. It also may be excludable in the case of death or disability of the borrower.

For tax years 2021 through 2025, any discharge of student loan debt for any reason, including private student loans, may be excluded from taxable income, as long as there is no provision for the student to provide services to the discharging lender.

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Payroll Tax Credits

The new law reinstates the \$511/\$200 per day 100% refundable payroll tax credit for employees who receive paid sick leave or paid family leave for reasons related to COVID-19. The new law modifies the reasons for these payments.

Paid Sick Leave Credit. This credit is available for the period beginning on April 1, 2021 and ending on September 30, 2021.

Paid Family Leave Credit. The new law extends the period for this credit for the period beginning on April 1, 2021 and ending on September 30, 2021. This credit is limited to \$12,000 in the aggregate for all calendar quarters, including the quarters prior to April 1, 2021.

Self-employed individuals. The self-employed qualified sick leave equivalent amounts and qualified family leave equivalent amounts are also extended for the same time periods. A self-employed person who qualified for the credit in 2020 may also qualify in 2021 based on the days during the period April 1, 2021 through September 30, 2021.

Employee Retention Credit

The new law extends the Employee Retention Credit to wages paid after June 30, 2021 and before January 1, 2022 and generally follows the same rules that are in effect for the first half of 2021.

Contact Us

There are many events that occur during the year that can affect your tax situation. Preparation of your tax return involves summarizing transactions and events that occurred during the prior year. In most situations, treatment is firmly established at the time the transaction occurs. However, negative tax effects can be avoided by proper planning. Please contact us in advance if you have questions about the tax effects of a transaction or event, including the following:

- Pension or IRA distributions.
- Significant change in income or deductions.
- Job change.
- Marriage.
- Attainment of age 59½ or 72.
- Sale or purchase of a business.
- Sale or purchase of a residence or other real estate.
- Retirement.
- Notice from IRS or other revenue department.
- Divorce or separation.
- Self-employment.
- Charitable contributions of property in excess of \$5,000.