



Special Alert

President to sign *American Rescue Plan Act of 2021*

The House and Senate have just passed the *American Rescue Plan Act* (ARP) and shortly the president is expected to sign it into law. This bill includes many provisions that have major tax impacts for 2020 and 2021 tax returns.

2020 tax-free unemployment benefits

Initially the bill did not include retroactive tax provisions, but during the Senate's voting session, a compromise was made on unemployment benefits that will affect 2020 tax returns. The bill provides a \$300 weekly federal unemployment benefit through Sept. 6 and also makes the first \$10,200 of unemployment payments nontaxable (\$20,400 in the case of a joint return, but only \$10,200 per spouse) in 2020 for households earning less than \$150,000.

NATP reached out to our contacts at the IRS to find out if the IRS will process refunds for returns already filed, or if taxpayers will need to amend. The IRS responded, "We do not have any information or guidance to share regarding unemployment and the American Rescue Plan." When the IRS provides guidance, we will immediately pass it along.

Retroactive advanced premium tax credit

An individual can receive an advanced premium tax credit (APTC) to lower their monthly health insurance payment (premium). If at the end of the year they have received more APTC than the credit allowed based on final household income, the taxpayer does not have to pay back the excess when filing their 2020 federal tax return. For those who have already filed their 2020 return, we are waiting for guidance as to how to get the refund.

Recovery rebates to individuals

Single taxpayers with AGI under \$75,000 will receive a \$1,400 refundable tax credit, while joint filers with AGI under \$150,000 will receive \$2,800. In addition, taxpayers will receive \$1,400 for each qualifying dependent (including adult dependents). The credit will completely phase out at an income threshold of \$80,000 for single filers and \$160,000 for joint.

The Treasury is directed to issue this credit as an advance payment based on the information on 2019 or 2020 tax returns. This credit will be reconciled on the 2021 tax return. Taxpayers who are married to undocumented residents will be able to receive the stimulus payments. If your client has changes to income, dependencies, or filing status, it may be advantageous to file before/after these payments are issued.

Child tax credit

Special rules for 2021 include an expansion of the credit from \$2,000 to \$3,000 per eligible child under age 18 (\$3,600 per child under age 6). The fully refundable credit, with 50% of the credit issued as advance periodic payments starting in July, will be reconciled on the 2021 tax return. For 2021, the increased credit amount (additional \$1,000 or \$1,600 per-child in excess of the present-law \$2,000 per-child) begins to be phased-out at \$75,000 (\$150,000 for MFJ and surviving spouse and \$112,500 for head of household). Once the increased credit amount is reduced, the credit plateaus at \$2,000, and the phaseout begins at \$200,000 (\$400,000 for MFJ).

Starting in July, the Treasury will issue advance payments of the child tax credit based on 2019 or 2020 tax return information. The Treasury is tasked with establishing an online portal to allow taxpayers to opt out of receiving advanced payments and provide information regarding changes in income, marital status and the number of qualifying children for purposes of determining each taxpayer's maximum eligible credit.

Earned income credit

For 2021 only, the bill expands the eligibility and the amount of the earned income credit (EIC) for taxpayers with no qualifying children. The maximum credit amount for childless people will increase from \$543 to \$1,502. For 2021, taxpayers can use their 2019 income if it was higher than 2021.

The bill also includes permanent changes, allowing a married but separated individual to be treated as not married for purposes of the EIC if a joint return is not filed and the individual lives with a qualifying child for more than half the year. Individuals who otherwise would be eligible for EIC, but whose children do not have Social Security numbers, are now permitted to claim the childless

credit. The disqualified investment income limit has increased from \$3,650 (2020) to \$10,000 and will be adjusted for inflation.

Other provisions

The act includes other tax changes, such as:

- Refundability and enhancement of child and dependent care tax credit
- Increase in exclusion for employer-provided dependent care assistance
- Extension and expansion of the Families First Coronavirus Response Act (FFCRA) paid sick leave and paid family leave credits
- Extension of employee retention credit
- Modification of the premium tax credit
- Change to the tax treatment of targeted economic injury disaster loan (EIDL) advances
- Exemption of student loan forgiveness from federal taxation through 2026
- Expanded COBRA continuation coverage premium assistance credit

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Please keep in mind that these changes were made by Congress not the IRS. The IRS now needs to determine how to implement this for the taxpayers. We believe, but do not know at this point if these changes will be handled through amended returns if you have already filed or some other way the IRS sees fit. Patriot Tax & Accounting will let you know more as we know more.