

Dear Clients,

As many of you are aware, the President signed the American Rescue Plan Act of 2021. The enrolled bill is 242 pages and provides 1.88 trillion in federal investments. There are many individual tax provisions within this bill and we will highlight the key provisions related to taxes.

Please be patient as early comments indicated it may take the IRS 30-45 days to reprogram the individual tax software. This may be an indication that the individual tax deadline will be shifted from April 15th to a later date. However, the deadline is still April 15, 2021 until we hear otherwise. States such as Texas and Oklahoma that were affected by the winter storms have been extended by the IRS to June 15, 2021. The state filings have also been extended to June 15, 2021. Maryland has moved its state filing deadline to June 15, 2021.

Individual Benefits:

1) Direct Payments – Section 6428B

- a. Individuals earning up to \$75,000 (Head of Household \$112,500, Married filing Joint (\$150,000) in adjusted gross income will get direct payments of \$1,400 each. Eligible recipients also will receive \$1,400 for each of their dependents, including college students and other dependents this time around. Under this bill the phase out of receiving any payments is \$80,000 for individuals, \$120,000 for Head of Household, and \$160,000 for Married filing jointly.

2) Child Tax Credit – Section 9611, 9612

- a. The bill increases the child tax credit to \$3,000 (age 6 to 17 in 2021) per child and \$3,600 (age 0 to 5 in 2021) up from \$2,000 per child and temporarily increases the age from under 17 years old to under 18 years old.
- b. The increased credit amounts are phased out at modified AGI of over \$75,000 for singles, \$112,500 for heads-of-households, and \$150,000 for joint filers and surviving spouses, at a rate of \$50 for each \$1,000 (or fraction thereof) of modified AGI over the applicable threshold.
- c. Advance payment of child tax credit
 - i. Payments of \$250 per child (\$300 if under 6) will be made in advanced from July 1, 2021 through December 31, 2021 and reconciled on your 2021 tax return
 - ii. The IRS must set up an online portal to allow taxpayers to opt out of advance payments or provide information that would be relevant to modifying the amount.
 - iii. If you receive the payments, please consult your tax advisor about changing the withholding by filing a new W-4 with your employer.

3) Child and Dependent Tax Credit – Section 9631

- a. The act makes various changes to the Sec. 21 child and dependent care credit, effective for 2021 only, including making it refundable. 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 reduction will start at household income levels over \$125,000. For households with income over \$400,000, the credit can be reduced below 20%.

- b. The act also increases the exclusion for employer-provided dependent care assistance to \$10,500 for 2021 up from \$5,000.

4) Unemployment benefits – Section 2902

- a. The bill extends the \$300 unemployment weekly supplemental benefit through Sept. 6, 2021. It also makes the first \$10,200 of unemployment benefits tax-free for people with incomes of less than \$150,000 for 2020 only.
- b. If you received unemployment benefits in 2020 and your income is less than \$150,000 you will need to wait to file your return or amend your return when the applicable software is updated.

5) Student Loan Forgiveness – Section 9675

- a. The bill does not forgive student loans, but amends IRC Sec. 108(f) to specify that gross income does not include any amount that would otherwise be included in income due to the discharge of any student loans after Dec. 31, 2020, and before Jan. 1, 2026.
- b. This lays the groundwork for possible future student loan forgiveness.

6) Minimum Wage

- a. The \$15 minimum wage provision was removed from the relief bill completely. Therefore, there are no changes to the current minimum wage.

7) Emergency Rental Assistance – Section 3201

- a. e \$21.55 billion in Emergency Rental Assistance

8) Earned income tax Credit – Section 9621

- a. The act also makes several changes to the Sec. 32 earned income tax credit. It introduces special rules for individuals with no children: For 2021, the applicable minimum age is decreased to 19, except for students (24) and qualified former foster youth or homeless youth (18). The maximum age is eliminated.
- b. The credit's phase out percentage is increased to 15.3%, and the phase out amounts are increased.
- c. The credit would be allowed for certain separated spouses.
- d. The threshold for disqualifying investment income would be raised from \$2,200 to \$10,000.
- e. Temporarily, taxpayers would be allowed to use their 2019 income instead of 2021 income in figuring the credit amount

9) Premium Tax Credit – Section 9661, 9663

- a. The act expands the Sec. 36B premium tax credit for 2021 and 2022 by changing the applicable percentage amounts in Sec. 36B(b)(3)(A). Taxpayers who received too much in advance premium tax credits in 2020 will not have to repay the excess amount.

Reasons to hold off on filing:

- 1) If you received Unemployment compensation in 2020 and your 2020 AGI is below \$150,000
- 2) If you received the advance premium tax credit
 - a. Taxpayers who received too much in advance premium tax credits in 2020 will not have to repay the excess amount.
 - b. To reiterate, a special rule is added that treats a taxpayer who has received, or has been approved to receive, unemployment compensation for any week beginning during 2021 as an applicable taxpayer.
- 3) Economic impact payment quick phase-out
 - a. If your 2019 income was less than 2020 it may be beneficial to wait to file 2020 until you receive the economic impact payment.
 - b. As a reminder, the phase out of receiving any payments is \$80,000 for individuals, \$120,000 for Head of Household, and \$160,000 for Married filing jointly, which is significantly lower than the previous two economic impact payments.

If you have any additional questions, please do not hesitate to contact us.

Be safe and stay well,

TBL, Inc.

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