

Updated 03/15/2021

Summary of American Rescue Plan Act of 2021 for Individuals

Below is a summary of the American Rescue Plan Act of 2021 (H.R. 1319) for individuals. The bill was signed into law on 3/11/2021.

Special information that may impact individuals who received unemployment in 2020:

For taxpayers who received unemployment in 2020 and have an Adjusted Gross Income of \$150,000 or less, the first \$10,200 of unemployment received is considered non-taxable. Adjusted Gross Income determination is made without including the unemployment received.

****Our firm will provide future guidance to our clients that may be impacted.****

****This is only in effect for 2020. This does not impact your unemployment benefits received in 2021.****

Individual tax provisions in 2021

Many of these tax provisions are for Tax Year 2021 only. Continuation of these items will require congress to extend these provisions.

2021 Recovery Rebates

As many individuals received Economic Impact Payments (stimulus checks) in 2020 and early 2021, another round of rebates will be distributed in the coming weeks. The eligible credit is \$1,400 for single taxpayers and \$2,800 for married filing joint filers. A credit of \$1,400 is also available for eligible dependents. The income limits and phaseout for the recovery rebates will be determined by your 2020 tax return (if it has been filed), otherwise will default to income on your 2019 tax return.

There are a number of online calculators that can be used to determine the projected amount of the third stimulus check. If your 2020 return has been filed, you will need your Adjusted Gross Income amount, which can be found on line 11 of Form 1040. Otherwise, you will need your 2019 Adjusted Gross Income, which can be found on line 8b of Form 1040.

Here is a link to a calculator to calculate your recovery rebate:

<https://www.forbes.com/advisor/personal-finance/third-stimulus-check-calculator/>

Child Tax Credit (currently in place for 2021 only)

The Child Tax Credit has been increased to \$3,000 per child (\$3,600 for certain children under 6). The child tax credit is now applicable to children under 18. The child tax credit in 2020 was \$2,000 and applicable for children under 17.

Advance Payments of the Child Tax Credit

Along with changes increasing the Child Tax Credit, the Department of Treasury will also begin sending advance payments of the credit. This means you will get a monthly amount during the year instead of getting the full credit when doing your tax return.

****This means your traditional tax refund may be lower starting in 2021 or the amount you traditionally owe may be more than usual.****

****The IRS will send you a tax form reporting all advance payments you received. This form will be required to complete your return.****

****For children born during the tax year, you will not receive an Advance Payment in the first year, you will receive the credit with your tax return.****

Dependent Care Benefits (currently in place for 2021 only)

The Dependent Care Credit has multiple changes in place for 2021.

1. The calculation of the credit is now 50 percent of the eligible expenses.
 - a. The calculation traditionally has been 35 percent of eligible expenses.
2. The amount of eligible expenses is now \$8,000 for one qualifying child or \$16,000 for two or more qualifying children.
 - a. The amount of eligible expenses was \$3,000 for one qualifying child or \$6,000 for two or more qualifying children.
3. There is still an income phaseout for the credit. It was increased from starting to phase out at \$15,000, to beginning to phase out at \$125,000.
4. Starting in 2021, the credit is now a refundable credit. The credit traditionally was only allowed if the taxpayer had sufficient tax liability. Starting in 2021, the amount in excess of the tax liability will be included in the tax refund.

****Example of how this impacts an individual. The credit now goes from a max of \$1,050 for one qualifying child (35 percent of \$3,000) or \$2,100 for two or more qualifying children (35 percent of \$6,000) to \$4,000 for one qualifying child (50 percent of \$8,000) and \$8,000 (50 percent of \$16,000).****

Employer Provided Dependent Care Benefits (currently in place for 2021 only)

Dependent care benefits offered through an employer (reducing taxable income) have been increased for 2021. The amount of dependent care benefits that can be excluded has been increased from \$5,000 to \$10,500 per family.

Earned Income Tax Credit Expanded (currently in place for 2021 only)

The Earned Income Tax Credit has been expanded to most individuals 19 and over instead of 25 and older and will no longer have a maximum age of 65.

Updated 03/15/2021

The credit income limits and phaseout have also been increased. The credit has also been expanded to certain married filing separate filers.

Premium Tax Credit

The premium tax credit increases credits for individuals eligible for health insurance premium assistance under current law and provides credits for taxpayers with income below 400% of the federal poverty line. It removes restrictions for taxpayers receiving unemployment compensation anytime in 2021. Under these changes, no additional income tax is imposed for tax years beginning in 2020 where the advance credit payments exceed the taxpayer's Premium Tax Credit (PTC).

Student Loan Forgiveness (for Tax Years 2021-2025 currently)

Certain student loan debt forgiven between in 2021 through 2025 can be excluded from gross income. Currently, the amount of student loan forgiveness is considered taxable income.