



American Rescue Plan Act

The recently passed *American Rescue Plan Act* (ARP) of 2021 provides additional relief to taxpayers impacted by the COVID-19 pandemic. The 2020 individual filing and tax payment deadline has been moved from April 15 to May 17, 2021. This relief does not apply to estimated tax payments that are due on April 15, 2021. Victims of February winter storms in Texas, Oklahoma and Louisiana have until June 15, 2021, to file and make payments. Following is a brief overview of some of the key provisions of ARP.

Stimulus payment rebate (EIP3)

The ARP provides for a 2021 advance recovery rebate credit based on either your 2020 or 2019 Form 1040, *U.S. Individual Income Tax Return*. The economic stimulus payment for individuals is \$1,400.

Spouses filing a joint tax return together are entitled to a \$2,800 stimulus payment and treated as if each received half (\$1,400) of the recovery rebate credit. Additionally, all qualifying dependents on your tax return, including college kids, now qualify for a \$1,400 economic stimulus payment.

Unfortunately, those who passed away before 2021 will not be eligible for the third stimulus payment because they no longer have a valid Social Security number in 2021. The EIP3 is projected to be issued by the end of March 2021.

If your third economic stimulus payment is based on your 2019 tax return and you were subject to the phaseout during 2019, and if you are no longer subject to the income phaseout requirements in 2020, you may be receiving an additional EIP3 payment once your 2020 return is filed. This payment is scheduled to be paid the earlier of 90 days after the 2020 calendar year filing deadline or Sept. 1, 2021.

Exclusions from income

The following items are excluded from income:

Unemployment: Unemployment benefits have been extended from March 14, 2021, through Sept. 6, 2021. The new weekly amount is \$300. The first \$10,200 per taxpayer — \$20,400 if filing married filing jointly with a spouse who also received \$10,200 in unemployment — is not taxable on the 2020 Form 1040 as long as your adjusted gross income is below \$150,000. If your adjusted gross income is \$150,000 or greater, the entire amount of unemployment benefits becomes 100% taxable income. on the 2020 Form 1040 as long as your adjusted gross income is below \$150,000. If your adjusted gross income is \$150,000 or greater, the entire amount of unemployment benefits becomes 100% taxable income.

Advance premium tax credit (APTC): The repayment of the APTC has been temporarily suspended, meaning if you received too much in 2020, you do not have to pay it back.

Modification of treatment of student loan forgiveness: A special rule applies in 2021 through 2025 in which certain discharges of student loans as cancellation debt are not included in gross income.

COBRA

The legislation included an extended period of time to elect COBRA coverage. The federal government will fully subsidize the cost of health insurance premiums through Sept. 30, 2021, for employees who have lost their jobs — and the cost of coverage for their relatives — so they can stay on their company's sponsored health insurance plan. Notices are required to be sent to these individuals making them aware of the premium assistance availability, the enrollment coverage options and notice of expiration.

Tax Credits

Take note of the following updates on these popular credits:

Child tax credit: For 2021, there is an expansion of the credit, which increased from \$2,000 to \$3,000 per eligible child for children ages 6-17, and \$3,600 for children under age 6. This credit is fully refundable, and periodic payments are scheduled to start in July 2021. The IRS will be setting up a portal so taxpayers can update their tax return information including filing status, dependents and income. By Jan. 31, 2022, the IRS will send out a notice of payments issued during 2021, which should be used to reconcile these advance payments on the 2021 tax return. Taxpayers who received too much of the advanced credit in error will be required to pay back any over payments.

Earned income credit (EIC): Taxpayers age 19 (if eligible student, age 24) or older with no children may qualify for the fully refundable earned income credit. With decreases in phaseout restrictions and an increase in the investment income limitation, taxpayers may be entitled to a maximum credit of \$1,502. Those who are married, but separated, can be treated as unmarried if they do not file a tax return together with their spouse; live with a qualifying child for more than half of the year; and during the last six months of the year, do not reside in the same house and are not a member of the spouse's household at the end of the year.

For tax year 2021 only, if a taxpayer's earned income in 2021 was less than their earned income in 2019, they can use their 2019 earned income to receive a higher EIC in 2021.

Child and dependent care credit: For tax years beginning after Dec. 31, 2020, and before Jan. 1, 2022, this nonrefundable credit is temporarily refundable. The qualifying expenses for one child increased from \$3,000 to \$8,000, and for two or more children, from \$6,000 to \$16,000. The maximum amount of the tax credit also increased from 35% to 50% along with an increase in the beginning of the phaseout from \$15,000 to \$125,000.

Also, the employer-provided dependent care assistance increased from \$5,000 to \$10,500. For those filing as married filing separately, the dependent care assistance is \$5,250.

Paid sick and family leave credit: The paid leave credits have been extended through Sept. 30, 2021. After March 31, 2021, paid leave credits can be used to obtain a COVID-19 vaccine. Also, the clock restarts with respect to the 10-day limit for qualified sick leave wages. The qualified family leave wages limit increases from \$10,000 to \$12,000 in total, and the number of days a self-employed individual can use to claim the family leave credit also increases from 50 to 60.

Employee retention credit (ERC): The ARP extended the ERC through Dec. 31, 2021, for wages paid after June 30, 2021, and before Jan. 1, 2022. After June 30, 2021, the ERC offsets the employer's share of Medicare tax. Eligible employers can continue to keep employees on payroll longer while dealing with the COVID-19 pandemic.

Important note

As always, we here for you during these trying and often confusing times. COVID-19 is affecting each of us in a unique way, and we are proud to be a reliable, knowledgeable and a sympathetic resource for you as we continue to move forward.

Please stay safe and healthy!

Numeric Strategies

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