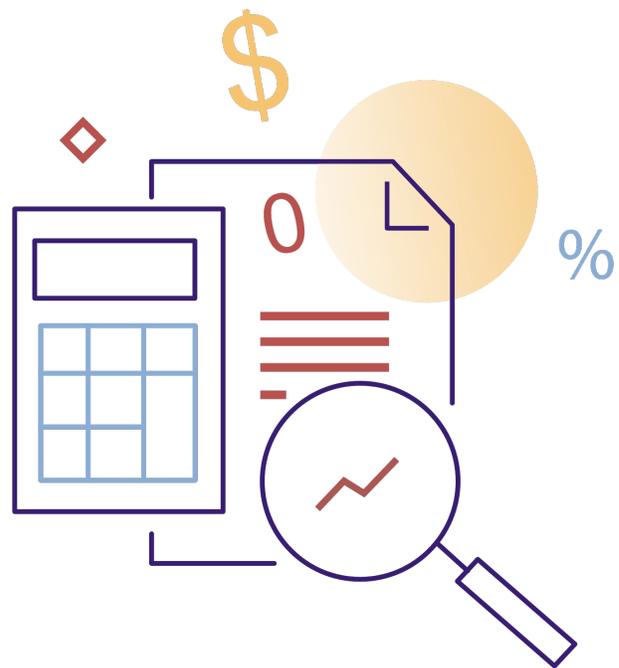


American Rescue Plan Act of 2021

Explanation and Analysis

After months of discussion and review, the American Rescue Plan Act of 2021 (Act) was signed into law by President Biden on March 11, 2021. In general, its provisions—which encompass more than 600 pages—become effective for 2021 with varying implementation dates. This Act builds on some of the earlier legislation. A note should be made that some provisions are permanent, while others will expire.

The following analysis seeks to capture the most salient provisions of the Act that may affect the financial planning and interests of clients. Many provisions make amendments to current Internal Revenue Code sections, while others create new code sections. It must be emphasized that the implementation of these provisions will be subject to further Treasury Regulations, which will afford greater clarity to many of the Act's provisions.



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Individuals

Rebates for Recovery

The Act provides for a third round of stimulus payments, which are not subject to income tax. A \$1,400 stimulus payment is available to those at certain income levels, subject to being phased out at higher income levels. It begins to be phased out with Modified Adjusted Gross Income (MAGI) for joint filers of \$150,000, heads of household at \$112,500 and single filers at \$75,000. It phases down to zero at \$160,000, \$120,000 and \$80,000, respectively. Information from 2019 tax returns will be used unless a 2020 return has already been filed.

For those affected, it may be best to hold off filing the 2020 tax return if their expected MAGI is higher for 2020.

Child Tax Credit

Prior to the Act, a Child Tax Credit of \$2,000 per child under age 17 was available for those joint filers with less than \$400,000 MAGI and all others with less than \$200,000 MAGI. The Act makes significant changes for the 2021 tax year. The credit is increased to \$3,000 per child for children under 18 (\$3,600 for children under age 6). The Act actually maintains the \$2,000 credit (with increased age to under 18) with the MAGI levels above. Additionally, it adds an additional \$1,000 (\$3,000 or \$3,600 in total) in some cases. The excess of the credit over the present \$2,000 is phased out at \$50 for every \$1,000 of MAGI in excess of \$150,000 for joint filers, \$112,500 for heads of household and \$75,000 for single filers.

Some individuals may not receive the excess of the basic \$2,000 threshold because of their income levels, since there are two sets of phaseout levels used. It should be emphasized that the child age criterion has now been raised to under age 18, not 17 as before.

The Act directs the Treasury Department to issue advance payments of 50% of the credit starting July 1, 2021 on a schedule of equal payments for the balance of 2021. The remaining 50% can be claimed as a refundable credit on 2021 taxes to be filed next year.

Earned Income Credit

For 2021 only, the credit is increased for those without children, to \$1,502 from \$543. The credit is maximized at income levels of \$9,820 up from the present \$7,100. In addition, now those married but filing separate returns can be eligible for the credit.

Individuals (continued)

Dependent Care Relief

For 2021 only, credit for dependent care expenses incurred is dramatically enhanced. Presently the credit is equal to 35% of qualified expenses up to \$3,000 for one qualifying individual or \$6,000 for more than one. This credit is reduced 1% for every \$2,000 of AGI that exceeds \$15,000. Once it reaches 20%, the credit is no longer reduced. This Act increases the credit to 50%.

Additionally, the credit reduction as above is operative but with income in excess of \$125,000 rather than \$15,000. The credit is not further reduced below 20% until income levels reach \$400,000. The Act increases eligible expenses to \$8,000 for one child and \$16,000 more than one qualifying child.

For 2021 the maximum exclusion from income for employer-provided care assistance is increased to \$10,500 (married filing separately \$5,250).

Student Loan Forgiveness

Student loans forgiven between 2021 through 2026 have an enhanced exclusion from income. Currently student loans discharged are not deemed taxable only if conditions such as death or disability of the borrower are present.

The Act now allows exclusion for any reason.

Unemployment Tax Benefits

The Act affords an extension of the \$300 per week unemployment benefit that was part of 2020 earlier legislation. Present law would have had this benefit expire in March, but now it is extended through September 2021. The first \$10,200 in benefits received in 2020 are exempt from tax for those with household income of less than \$150,000.

Typically these benefits are taxable to the recipient. For those who have already filed their 2020 tax return, they may seek to amend it as appropriate.

Employer Provisions

Payroll Tax Credits

In early 2020, special relief measures afforded a payroll tax credit for those employers who offered family and sick leave to employees. Initially this credit was to expire December 31, 2020 but earlier had been extended through March 31, 2021. The Act now extends that date through September 30, 2021.

Starting March 31, 2021, the employer can take into account up to \$12,000 of payments made to an employee. Prior law only allowed taking into account the sum of \$10,000. Earlier legislation also recognized only a maximum of 10 days' leave. Now a new 10-day term is available effective March 31, 2021.

Tax Credit for Employee Retention

Special employee tax credits made available to employers in earlier legislation were set to expire on June 30, 2021. The Act now extends those credits through 2021.

This should be a great benefit in helping businesses continue to operate in this pandemic environment.

Retirement Provisions

Special Retirement Provisions

The Act creates a freeze starting 2030 for inflation adjustments to the annual contribution limit for defined contribution plans, along with the annual defined benefit limit as well as the maximum limit on compensation to be taken into account.

For 2021 the annual defined contribution limit is \$58,000 the defined benefit limit is \$230,000 and the maximum compensation taken into account is \$290,000.

These will continue to rise with inflation until 2030 when they will be frozen.

COVID-19 Relief Special Treatment for SBA Grants and Loans

The Act also includes recognition that there is no income tax recognition for both Targeted Economic Injury Disaster Loans and Revitalization Grants received from the Small Business Administration.

Summary

The above is presented as an educational overview of some of the key features of the recent tax legislation and its effect upon financial planning. Certainly, it is not meant to be an exhaustive explanation of this broad and technical area. Registered Representatives should not be rendering tax advice to clients, but rather, such advice should be left to the clients' tax professionals. This review should afford greater familiarity with some of the tax issues to better assist clients in their financial planning.

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