

## Roundup of Ten New Law Tax Breaks

### Key provisions in stimulus law

The new stimulus law signed on March 11—the American Rescue Plan Act (ARPA)—includes a bevy of tax breaks for individuals and small businesses, including the following ten provisions.

**1. Stimulus payments:** With this third round of payments, your family may receive up to \$1,400 for each qualified individual and dependent, including college students and elderly relatives. But payments are completely phased out at \$80,000 of adjusted gross income (AGI) for single filers and \$160,000 for joint filers, lower than before. If you receive a smaller payment than you are entitled to, or are not paid at all, you may qualify for a credit on your tax return.

**2. Unemployment benefits:** The new law extends federal weekly unemployment benefits of \$300 through September 6, 2021. These payments were scheduled to end in mid-March. **Tax bonus:** The first \$10,200 of unemployment benefits received in 2020 is exempt from tax for a family with an AGI under \$150,000.

**3. Child Tax Credit:** ARPA enhances the Child Tax Credit (CTC) for 2021 by—

- Increasing the maximum CTC from \$2,000 to \$3,000 (\$3,600 for a child under age six);
- Extending the CTC to children under age 18 (up from age 17);
- Making the credit fully refundable (instead of a \$1,400 maximum); and
- Providing advance payments of the credit, beginning in July.

However, the phaseout ranges are lowered for 2021, although you can choose to claim the CTC under prior rules.

**4. Employee Retention Credits:** A business may claim the Employee Retention Credit (ERC) for keeping workers employed despite shutdowns or reductions due to the COVID-19 pandemic. First, the ERC was extended through June 30, 2021, with a maximum credit of \$14,000 per worker. Now The American Rescue Plan Act of 2021 (ARPA), extends the credit again, until December 31, 2021, with a maximum credit for the year of \$28,000 per worker.

**5. Family and medical leave credits:** Under the Family First Coronavirus Response Act (FFCRA), an eligible employer is entitled to a tax credit for providing COVID-19-related paid family and medical leaves in 2020. Initially, this credit was extended through March 31, 2021, by the Consolidated Appropriations Act (CAA). ARPA extends it once more, with certain modifications, through September 30, 2021.

**6. Dependent care credits:** For 2021, ARPA increases the maximum credit for most taxpayers for qualified childcare expenses to \$4,000 for one child or \$8,000 for two or more children (generally up from \$600 and \$1,200, respectively). However, these maximum amounts are reduced for an AGI above \$125,000. A further phase-out occurs if AGI exceeds \$400,000.

**7. Student loan debts:** Generally, if a loan is forgiven, the forgiveness is treated as a taxable event. The government previously exempted some student loan debts from this rule. Now ARPA creates a broad tax exemption for student loans made, insured or guaranteed by the federal or state governments, as well as private lenders and educational institutions, for 2021 through 2025.

**8. Flexible spending accounts:** Thanks to other recent legislation, participants in flexible spending accounts (FSAs) may benefit from enhanced rules for carryovers of unused funds or an extended year-end grace period. Another change: ARPA increases the annual contribution limit for dependent care FSAs in 2021 by more than double, from \$5,000 to \$10,500.

**9. Paycheck Protection Program:** The new law authorizes additional funding under the Paycheck Protection Program (PPP). This includes liberalized rules for nonprofit organizations, independent contractors, and sole proprietors. As before, PPP loans may be forgiven without tax consequences if certain requirements are met.

**10. COBRA assistance:** Under the Consolidated Omnibus Budget Reconciliation Act (COBRA), an ex-employee may be able to continue health insurance through the former employer for a specified time by making the premium payments. ARPA provides a 100% COBRA subsidy for most ex-employees through September 30, 2021, without any resulting tax liability. Employers may recover costs through a tax credit.

**Reminder:** This is only a general overview of ten key tax breaks in the new law. Contact your professional tax advisor for more information.