

Tax Provisions from the American Rescue Plan Act

On March 11, 2021, President Biden signed the American Rescue Plan Act of 2021 (the “Act”). Below is a summary of the relevant tax provisions from the Act.

- **Employee Retention Credit (ERC)**

- The credit for 2021 is generally equal to 70% of the first \$10,000 of qualified wages per employee, per quarter, if certain conditions are met.
- The Act extends the ERC through the end of 2021, with the amendments below applicable to only Q3 and Q4 of 2021:
 - Eligibility for the credit is expanded to “recovery startup businesses” (credit capped at \$50,000 per quarter) that were established after February 15, 2020, and that have annual gross receipts of \$1 million or less, even if the startup business does not otherwise meet the general ERC requirements (reduction in gross receipts, suspension by government order, etc.).
 - In addition, a new category of eligibility is created: “severely financially distressed employers,” which are companies experiencing a reduction of gross receipts of more than 90% vs. the same quarter in 2019. A severely financially distressed employer is able to treat all wages paid to employees as qualified wages, even if the employer exceeds 500 full-time employees.

- **Paycheck Protection Program (PPP)**

- The Act allocates additional funding for the PPP, expands eligibility to cover more tax-exempt groups, and expands loan forgiveness to include payments made for premiums on behalf of individuals who qualify for COBRA continuation coverage.

- **Other Highlights of the Act**

- **Recovery Rebate Credits (Economic Stimulus Payments)** - The Act creates a new round of economic impact payments (\$1,400 per individual/dependent) to be sent out by the IRS. The phaseouts are not as generous as in previous stimulus rounds, ranging in this round from \$75,000-\$80,000 for single filers and \$150,000-\$160,000 for married taxpayers filing jointly.
- **Unemployment Benefits** - The Act makes the first \$10,200 in unemployment benefits tax-free in 2020 for taxpayers making less than \$150,000 per year. There is no phaseout, and the \$150,000 applies to all filing statuses. In the case of a joint return, the \$10,200 exclusion applies separately to each spouse. In addition, the \$300/week supplemental Federal unemployment benefit is extended through September 6, 2021.
- **Child Tax Credit** - The Act temporarily expands the credit to \$3,000 per child (\$3,600 for children under 6) for 2021. It also makes the credit fully refundable. Phaseouts begin at \$75,000 for single filers, and \$150,000 for married taxpayers filing jointly. Those not eligible for the expanded credit can still claim the existing child tax credit of \$2,000 which is subject to more generous phaseout limits.

(\$200,000 for single filers, \$400,000 for married taxpayers filing jointly). Treasury is instructed to establish a program to make monthly advance payments of the child tax credit.

- **Child and Dependent Care Credit/Exclusion** - The Act increases the maximum allowable expenses to \$4,000 for one dependent and \$8,000 for two or more dependents. The credit will be worth 50% of eligible expenses, with a phaseout that begins at \$125,000 of AGI. The Act also increases the exclusion for employer-provided dependent care for 2021 to \$5,250 for single filers and \$10,500 for married filing jointly filers.
- **Family and Sick Leave Credits** - The Act extends the credits for sick and family leave originally enacted by the Families First Coronavirus Response Act (FFCRA) through Sept. 30, 2021. These fully refundable credits compensate employers and self-employed people for coronavirus-related paid sick leave and family and medical leave. The Act also expands the leave provisions to include leave for obtaining a COVID vaccination or leave for recovering from a COVID vaccination.
- **Premium Tax Credit** - The Act expands the premium tax credit for 2021 and 2022. Taxpayers who received too much in advance premium tax credits in 2020 will not have to repay the excess amount.
- **COBRA Continuation Coverage** - The Act subsidizes COBRA continuation coverage premium assistance for individuals between April 1, 2021 and Sept. 30, 2021.
- **Business Loss Limitation** - The Act extends the limitation on excess business losses of noncorporate taxpayers for one year, through December 31, 2026.
- **Economic Injury Disaster Loan (EIDL)** - The Act provides that targeted EIDL grants received are not included in gross income and that this exclusion from gross income will not result in a denial of a deduction, reduction of tax attributes, or denial of basis increase. Similar treatment is afforded SBA restaurant revitalization grants.
- **Restaurants** - The Act provides significant funding for restaurant relief.
- **Student Loan Discharges** - The Act excludes from taxable income any student loans discharged between December 31, 2020 and January 1, 2026.

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