



March 16, 2021

Dear valued clients:

The American Rescue Plan, 2021 (ARPA, 2021) was signed into law on March 11, 2021 to address the continuing economic impact on employers and employees that the coronavirus (COVID-19) pandemic has posed. The legislation extends and expands provisions found in the Families First Coronavirus Relief Act (FFCRA), Coronavirus Aid, Relief and Economic Security (CARES) Act, and the Consolidated Appropriations Act, 2021 (CAA, 2021).

**Please note that several of these changes affect 2020 tax returns. If you are impacted by one of the items outlined below, your tax return delivery will be delayed until our tax preparation tools are updated to reflect these changes. The IRS strongly urges taxpayers to not file amended returns related to the new legislative provisions or to take other unnecessary steps at this time.**

### ***Changes for Individuals***

#### **Unemployment Received in 2020 Partially Excluded from Income for Some Taxpayers**

An individual's gross income usually includes unemployment compensation. Under ARPA, in the case of any tax year beginning in 2020, if the adjusted gross income (AGI) of the taxpayer for the tax year is less than \$150,000, taxpayers can excluded up to \$10,200 of unemployment benefits received (in the case of a joint return, received by each spouse). If you have already filed your 2020 tax return reporting your unemployment benefits as 100% taxable and your AGI is less than \$150,000 you should file an amended tax return to receive the benefit of excluding this unemployment income.

If you qualify for this benefit and your tax return is already in progress, we will wait until the necessary changes are made to our tax preparation tools before sending your tax return for review.

#### **2021 Individual Recovery Rebate/Credit (aka Stimulus Payment)**

Similar to the two stimulus payments that were granted in 2020, a 2021 advanced tax credit of \$1,400 is being offered per individual claimed on a tax return. That means \$2,800 will be given to individuals filing a joint return. Children claimed on their parent's tax returns also qualify for the \$1,400 at any age (2020 credits were only for children 17 and younger). The amount of the credit is ratably reduced for taxpayers with adjusted gross income (AGI) of over:

- \$150,000 for a joint return;
- \$112,500 for a head of household; and
- \$75,000 for all other taxpayers.



The credit is completely phased out for taxpayers with AGI of over:

- \$160,000 for a joint return;
- \$120,000 for a head of household; and
- \$80,000 for all other taxpayers.

The AGI used for this calculation is the taxpayer's 2020 or 2019 AGI, whichever return has been filed most recently. If your 2019 income is below these thresholds, but your 2020 will not be, we advise waiting to file your 2020 tax return until your 2021 stimulus payment is received. This may result in needing to file an extension for your 2020 tax return. An extension gives you an additional 6 months to file, but any 2020 taxes due are due on the original due date even if an extension is filed.

If you qualify for the 2021 rebate, but do not receive the additional stimulus this year, you can claim it as a credit on next year's income tax return. Please keep the letter you received regarding the payment with your current year tax documents, as we will need to report it on your 2021 tax return.

### **Child Tax Credit Expanded for 2021**

Before ARPA, the child tax credit (CTC) was \$2,000 per "qualifying child". A qualifying child was defined as an under-age-17 child, whom the taxpayer could claim as a dependent, and who was a US citizen or a US resident. The \$2,000 CTC is phased out for taxpayers with modified adjusted gross income (AGI) of over \$400,000 for joint filers and \$200,000 for all other filings.

Under ARPA the definition of a qualifying child is broadened to include a child who hasn't turned 18 by the end of 2021 and the CTC is increased to \$3,000 per child (\$3,600 for children under age 6 as of the close of 2021). But the increased credit amounts are phased out at modified AGI of over \$75,000 for single filers, \$112,500 for head-of-households, and \$150,000 for joint filers and surviving spouses, at a rate of \$50 for each \$1,000 (or fraction thereof) of modified AGI over the applicable threshold. The phase out is limited so that it only applies to the temporarily increased amounts for 2021 (i.e., to \$1,6000 per child under age six, and \$1,000 per child age six or older), and doesn't apply to the \$2,000 of CTC permitted under existing law.

The ARPA has instructed the IRS to establish a program to make advance payments of the CTC and create an online portal to allow taxpayers to update information or opt out of the advanced payments. We will communicate more information about these programs as they are developed by the IRS.

### **Taxpayers Don't Have to Repay Excess Advanced Premium Tax Credit Payments for 2020**

The premium tax credit (PTC) allowed to taxpayers enrolled in the marketplace health insurance is payable in advance directly to the insurer. The advance payments are based on income estimated from tax returns for prior years. The advanced payments reduce the amount of the taxpayer's PTC. Taxpayers must reconcile the amounts of the PTC, based on the taxpayer's

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actual household income, family size and premiums, with the amount of the advanced payments.

A taxpayer whose PTC for the tax year exceeds the taxpayer's advance payments may receive the excess as an income tax refund. A taxpayer whose advance payments for the tax year exceed the taxpayer's PTC owes the excess as additional income tax. Under ARPA, no additional income tax is imposed for tax years beginning in 2020 where the advanced credit payments exceed the taxpayer's PTC.

If you qualify for this benefit and your tax return is already in progress, we will wait until the necessary changes are made to our tax preparation tools before sending your tax return for review.

### ***Changes for Businesses***

#### **Targeted Economic Injury Disaster Loan Advances**

Under ARPA, eligible small businesses may receive targeted Economic Injury Disaster Loan (EIDL) advances from the Small Business Administration. Similar to the 2020 advancements, the 2021 advances will not be taxable income.

#### **Restaurant Revitalization Grants**

Under ARPA, eligible restaurants, food trucks, and similar businesses may receive restaurant revitalization grants from the Small Business Administration. Amounts received for these grants are not included in gross income or taxable income for the business.

### ***Disclaimer***

The information contained in this communication is for general guidance only. The application and impact of laws can vary widely based on the specific facts involved. As such, it should not be used as a substitute for consultation with professional accounting, tax, legal or other competent advisors. Before making any decision or taking any action, you should consult a Lomness CPA Services professional.

Please contact the office at [info@lomnesscpa.com](mailto:info@lomnesscpa.com) if you have questions about the information provided above.

Sincerely,

Katie Lomness

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