

NEWS ALERT

TAX GROUP



A Summary of the Key Individual and Business Tax Provisions of the American Rescue Plan Act

By Marc T. Finer | March 17, 2021

On March 11, 2021, President Biden signed the American Rescue Plan Act (the “Act”) into law. The Act provides \$1.9 trillion in COVID-19-related stimulus and relief to individuals and businesses struggling from the challenges created or exacerbated by the coronavirus pandemic. The following summary highlights the individual and business tax provisions included in the Act:

Individuals

- *Cash Rebates:* Eligible individuals will receive a \$1,400 cash payment (\$2,800 for married persons filing jointly) with an additional \$1,400 cash payment for each dependent. The payments are phased out for single filers with adjusted gross incomes (AGI) between \$75,000 and \$80,000 (between \$150,000 and \$160,000 for married persons filing jointly). The individual’s 2019 tax return (or 2020 tax return if already filed when the IRS determines the amount of the rebate) will be used to determine eligibility.
- *Extension of Unemployment Benefits:* An additional \$300/week in federal unemployment benefits (in addition to state-provided benefits) will be available through September 6, 2021. In addition, for individuals with AGI of less than \$150,000, the first \$10,200 of unemployment compensation received in 2020 will not be subject to federal income tax. In the case of a joint return which reflects AGI under the \$150,000 limit, the \$10,200 exclusion applies to each spouse.
- *Increased Child Tax Credit:* The purpose of the Child Tax Credit is to provide tax relief for parents who have qualifying children under a certain age. For the year 2021, the Child Tax Credit is increased from \$2,000 to \$3,000 per child (\$3,600 for children under 6 years old by the end of 2021) and expanded to include 17 year old children. The credit is also fully refundable meaning that it can generate a tax refund if it exceeds the amount of tax owed. The increased credit amount begins to be phased out for individuals with modified AGI above \$75,000 and for married persons filing jointly with modified AGI above \$150,000.
- *Increased Child and Dependent Care Credit:* The Child and Dependent Care Credit offers relief to working parents who must pay someone to care for their children or other dependents. For the year 2021, the Child and Dependent Care Credit is raised to a maximum of \$4,000 for one qualifying child and \$8,000 for two or more children. The increases begin to phase out for taxpayers with AGIs above a certain threshold.
- *Tax-Free Student Debt Forgiveness:* The partial or full cancellation of certain student loans that occurs between 2021 and 2025 will not be included in the borrower’s gross income. The provision applies to student loans insured or guaranteed by the federal government, state governments, and eligible educational institutions, as well as certain private education loans as defined in the Truth in Lending Act.
- *Rental Assistance:* Financial assistance is provided to assist eligible low-income households affected by COVID-19 with the payment of rent, rent arrearages, utilities and other specified expenses relating to housing.

Businesses

- ***Expanded Paycheck Protection Program Eligibility:*** The categories of eligible borrowers under the Paycheck Protection Program (“PPP”) are expanded to include additional categories of nonprofit organizations and digital (i.e. internet-only) news and periodical services. An additional nonprofit organization is now PPP loan-eligible if (1) it employs no more than 300 employees; (2) does not receive more than 15% of its receipts from lobbying activities; (3) lobbying activities do not comprise more than 15% of the organization’s total activities; and (4) the cost of lobbying activities does not exceed \$1,000,000 during the most recent tax year that ended prior to February 15, 2020. In addition, the Act eliminates the affiliation rules for nonprofits, allowing organizations with 500 or fewer employees per physical location to be eligible.
- ***Changes to Paid Sick and Family Leave Credits:*** The Act makes paid sick and family leave credits available through September 30, 2021 and permits the credits to be claimed by employers who provide paid time off to enable employees to receive COVID-19 testing or receive or recover from a COVID-19 vaccination. In addition, the amount of wages for which an employer may claim the paid family leave credit is increased from \$10,000 to \$12,000 per employee and allows a credit against the 1.45% employer share of Medicare tax (in addition to the Social Security tax).
- ***Extension of the Employee Retention Tax Credit:*** The Act makes the employee retention credit available through December 31, 2021 and allows a credit against the 1.45% employer share of Medicare tax (in addition to the Social Security tax). In addition, “recovery start-up businesses” (businesses that began after February 15, 2020 and have annual gross receipts of \$1 million or less) are eligible for the credit (capped at \$50,000 per quarter).
- ***Targeted Economic Injury Disaster Loan Advances:*** Amounts received as a targeted economic disaster loan advance will not be included in gross income and deductions are permitted for otherwise deductible expenses paid with the amounts excluded from income.
- ***Restaurant Revitalization Grants:*** The Act creates a \$25 billion Restaurant Revitalization Fund to provide non-taxable grants to restaurants, food trucks, caterers and other businesses “in which the public or patrons assemble for the primary purpose of being served food or drink” that have been economically affected by the pandemic. Grants of up to \$10 million per entity (or \$5 million per physical location) are available. Amounts received as a grant will be excluded from gross income and deductions are permitted for otherwise deductible expenses paid with the amounts excluded from income.
- ***Shuttered Venue Operator Grants:*** The Act provides an additional \$1.25 billion for shuttered venues such as live venue operators, theatrical productions, live performance art organizations, museum operators and motion picture theater operators. An entity that receives a Shuttered Venue Operator grant cannot also receive a grant from the Restaurant Revitalization Fund but can request a PPP loan.
- ***Expansion of Executive Pay Deduction Limits:*** The Act expands the prohibition on a public company’s ability to deduct executive compensation in excess of \$1 million to the next eight (rather than next five) highest paid employees, plus the chief executive officer and chief financial officer, starting in 2027.
- ***Extension of Excess Business Loss Limitation:*** The excess business loss limitation of \$250,000 (\$500,000 for married persons filing jointly) that prevents noncorporate taxpayers from deducting losses in excess of business income, and which was set to expire on December 31, 2025, is extended through December 31, 2026.

If you have any questions regarding the American Rescue Plan Act or how it might affect you or your business, please contact: Marc T. Finer, Tax Partner, at 860-240-6096 or mfiner@murthallaw.com.

With offices throughout Connecticut, Massachusetts and New York, Murtha Cullina LLP offers a full range of legal services to meet the local, regional and national needs of our clients. Our practice encompasses litigation, regulatory and transactional representation of businesses, governmental units, non-profit organizations and individuals.

