

Congress Passes the American Rescue Plan Act Of 2021



March 16, 2021 | **CLIENT ALERTS**

On March 11, 2021, the President signed the American Rescue Plan Act of 2021 (the “ARPA”) into law, providing an additional estimated \$1.9 trillion in stimulus to aid in the COVID-19 pandemic. Below is a summary of the provisions of the ARPA that apply to businesses and individual taxpayers:

Employee Retention Credit. The ARPA extends the employee retention credit created by the CARES Act through Dec. 31, 2021. If an employer had their operations fully or partially suspended due to a government order, or experienced a significant decline in their gross receipts due to the pandemic, they will be eligible for a payroll tax credit of up to 50% of their qualified wages in 2020 and 70% in 2021. In addition, the ARPA also expands eligibility to new startups that were established by February 15, 2020, and also for severely financially distressed employers whose gross receipts are less than 10% of what they were in the same calendar quarter for 2019. The credit is capped at \$50,000 per calendar quarter for startups.

FFCRA Paid Leave Credits. The ARPA also extends tax credits for employer-provided paid sick leave created under the FFCRA through September 30, 2021. This also increases the wages covered by the paid family leave credit to \$12,000 per worker (up from \$10,000), covers as many as 60 days of paid family leave for self-employed individuals (up from 50 days) and prevents employers from receiving credits if their paid leave favors highly compensated employees, full-time workers, or employees based on tenure.

PPP Expansion. The ARPA provides additional \$7.25 billion in funding for the Paycheck Protection Program and generally expands eligibility to more categories of businesses. Large nonprofits that have multiple locations, but no more than 500 employees per location are now eligible, as are 501(c)(5) labor organizations, 501(c)(7) social and recreational clubs and 501(c)(8) fraternal benefit societies. These changes are currently in effect.

EIDL Loans. Additional funding will also be allocated to the Economic Injury Disaster Loan advances, with one-third of the new funding dedicated to businesses that suffered more than a 50% revenue loss and employ less than 10 people.

Restaurant Revitalization Fund. The Restaurant Revitalization Fund will provide grants to restaurants, food trucks, bars, caterers and other similar operations. Eligibility for the grants is largely based on the size of the restaurant. Publicly traded companies, government operated businesses and restaurants with over 20 locations will be ineligible. These grants may be used to cover a multitude of business-related expenses, including payroll, rent, maintenance, supplies and other costs and will not be treated as taxable income.

Recovery Rebate Checks. Another round of checks will be sent out to individual taxpayers. Up to \$1,400 per individual and \$2,800 for taxpayers married filing jointly ("MFJ"), plus \$1,400 for each qualifying dependent (includes full-time students younger than 24 and adult dependents). The payments will begin to phase out for individuals with an adjusted gross income of \$75,000 (\$150,000 MFJ) and will completely phase out for taxpayers with an adjusted gross income of at least \$80,000 (\$160,000 MFJ). These income amounts will be based on 2020 income tax filings, or if the taxpayer has not yet filed then the IRS will rely on 2019.

Changes to Certain Tax Credits. The ARPA increased the amount of the Earned Income Tax Credit for adults without children from \$543 to \$1,502, increased the Child Tax Credit maximum amount to \$3,000 per child and \$3,600 for children under age 6 and temporarily increased the value of the Dependent Care Tax Credit up to \$3,000 for one dependent and \$6,000 for two or more dependents for 2021. The ARPA also takes step that loosens the eligibility requirements for these credits and makes them refundable.

Excess Business Losses Limitation. The excess business loss limitation is extended through December 31, 2026 (it was previously set to sunset in 2025).

Unemployment Benefits. For households with an adjusted gross income of less than \$150,000 (for both single and married taxpayers), the first \$10,200 of 2020 unemployment benefits are not subject to federal income tax. If taxpayers received unemployment benefits in 2020 and already filed their 2020 tax return, additional guidance is expected regarding this provision.

Student Loans. Any discharge of student loan debt between December 2020 and January 2026 will not result in discharge of indebtedness income to the borrower.

For any questions about this update, please contact either of our tax attorneys below or the attorney whom you work with at Lippes Mathias.

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