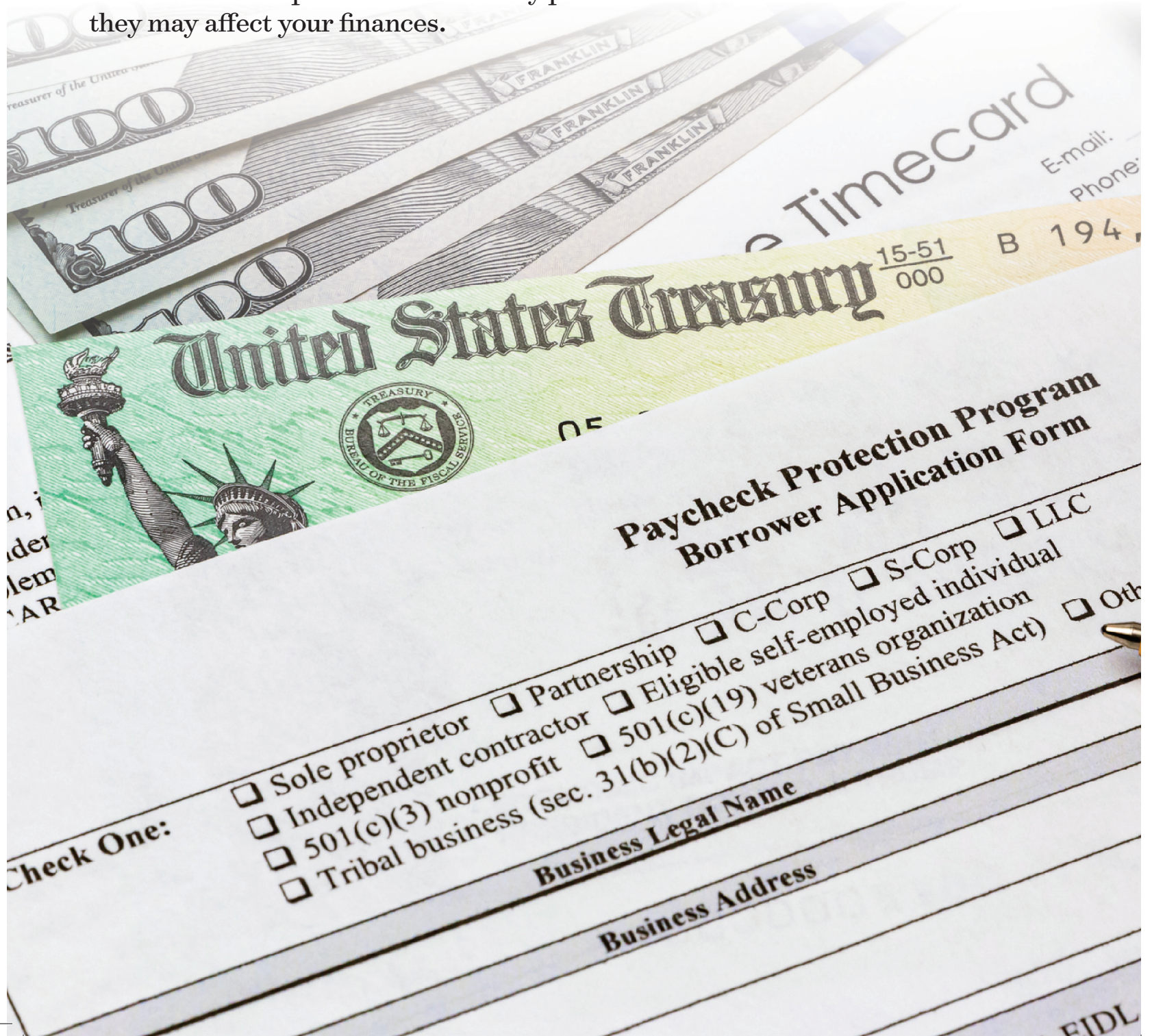


# Understanding the American Rescue Plan Act of 2021

The American Rescue Plan Act of 2021, H.R. 1319 was signed into law on March 11, 2021. It was designed to expedite the United States' recovery from the overwhelming economic and health effects of the COVID-19 pandemic. In this article we will explain some of the key provisions contained in the act and how they may affect your finances.



- **Recovery rebates or stimulus checks** will be issued to qualifying taxpayers in the form of \$1,400 direct payments to individuals, \$2,800 to married taxpayers filing jointly, plus \$1,400 for each dependent for 2021 including college students and qualifying relatives who are claimed as dependents. 2019 Adjusted Gross Income (AGI) was used to determine eligibility unless the taxpayer filed a 2020 return before the determination date. Rebates will begin to phase out at an AGI of \$75,000 for single taxpayers; at an AGI of \$150,000 for married taxpayers who file jointly and at an AGI of \$112,500 for single parents. Taxpayers making more than \$80,000 for individuals, \$120,000 for single parents, and \$160,000 for households will not receive any payment.

- **Extending expanded unemployment benefits** with a \$300 weekly supplement through Labor Day (September 6, 2021). Benefits were set to expire on March 31, 2021. The act makes the first \$10,200 in unemployment benefits for 2020 not taxable if the AGI of the taxpayer is below \$150,000, thus avoiding the risk of many workers incurring surprise federal tax liability.

- **Emergency paid leave for over 100 million Americans.** The Act provides a tax credit, through October 1, 2021, to employers who choose to offer paid sick leave and paid family leave benefits. However, the Act does not require employers to provide the benefit.

- **COBRA continuation coverage.** The act subsidizes 100% of premiums for COBRA recipients from April 1 to September 30, 2021. Due to these subsidies, unemployed workers can remain on their employer healthcare plans through the end of September.

**The act also includes specific tax provisions affecting both individuals and families.**

- **Expands the child tax credit** by allowing qualifying families to offset, for the 2021 tax year, \$3,000 per child up to age 17 and \$3,600 per child under age 6.

The increased credit amount phases out for single filers with an AGI of \$75,000 per year, or married couples with an AGI of \$150,000 a year. Additionally, this credit is now fully refundable, and half of the benefit can be paid periodically in advance to eligible households in 2021.

- **Expands the child and dependent care credit** by making the credit fully refundable and increasing the maximum benefit to \$4,000 for one qualifying individual and \$8,000 for two or more qualifying individuals. Additionally, the value of this credit will now be based on 50% of the value of eligible expenses up to a limit based on income. The income limit for receiving this credit is also increased to \$125,000 for households. These changes are for 2021 only.

- **Expands the earned income tax credit.** It introduces special rules for individuals with no children. The applicable minimum age is decreased from 25 to 19 except for students (24) and other qualified individuals (18). The maximum age is eliminated. A permanent change was made to raise the limit on investment income to \$10,000, indexed by inflation.

- **Student loan tax forgiveness.** While the plan does not include student loan forgiveness, it does include a provision that any student loan forgiveness passed between Dec. 30, 2020 and Jan. 1, 2026, will be tax free. Normally, loan forgiveness counts as taxable income.

**For complete details of the American Rescue Plan Act of 2021, please visit:**

<https://www.congress.gov/bill/117th-congress/house-bill/1319>. If you have questions about how this legislation affects you, the MMBB staff of financial planners is available, at no-cost to assist our members. Contact us at **800.986.6222** or **financialplanning@mmbb.org**.

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