



Ridge View Accounting & Tax, CPA, P.C.

IMPORTANT TAX SEASON UPDATE

March 12, 2021

President Biden signed HR1319 – the American Rescue Plan Act (the Act) into law on Thursday, March 11, 2021.

Legislation affecting 2020 tax returns

During an already challenging tax season, including a late start to tax filing in mid-February, frequently changing laws, lack of guidance, difficulty in obtaining information and communicating with the IRS, along with PPP loan forgiveness and PPP loan round two, we find ourselves faced with additional changes. All of this amidst multiple challenges with Employee Retention Tax Credits and changes to the Family and Medical Leave Act, which now includes self-employed individuals affected by COVID-19. One thing is certain, whether or not they extend the tax filing due date for this year, tax season will not be over by April 15th. **Your patience is greatly appreciated as it is our goal to provide you with the most accurate tax return possible.** With all the change around us, we must tackle each challenge one-at-a-time.

Each heading below notes the year affected by the change, some of which will be realized at next year's tax filing, while others are more immediate. Please feel free to scan for those headings of interest or that may affect your unique individual situation.

A summary of the Act's key tax provisions follows:

Direct Stimulus Payments (2021)

The IRS will begin on or near March 15, 2021 sending \$1,400 stimulus checks for individuals (\$2,800 in the case of joint returns and \$1,400 for dependents) to be phased out for individuals exceeding adjusted gross income thresholds of \$75,000-\$80,000 for single filers; \$150,000-\$160,000 for married filing jointly and \$112,500-\$120,000 for head of household. Direct deposit will be used where information is available to the IRS, but they will not collect it at this point, but rather send checks or debit cards to those not having banking information on file. Tax returns already filed for 2020 will be used to determine eligibility. In other cases, the 2019 tax filing information will be used.

Extension of Unemployment Benefits (2021)

The Act extends two COVID-19 related unemployment insurance programs to allow unemployed individuals to receive, or continue receiving, \$300 per week of unemployment insurance payments. These payments, which were scheduled to expire on March 14, 2021, will continue until September 6, 2021, and are in addition to any state unemployment benefits for which an individual may qualify.

*******Portion of Unemployment Insurance May Be Excludible from Income (2020)*******

For 2020 only, up to \$10,200 (or \$20,400 in the case of a joint return where each spouse receives unemployment compensation) may be excludible from income to the extent an individual's adjusted gross income is less than \$150,000.

Expansion of Child Tax Credit (2021 only)

Under the Act, the child tax credit is increased from \$2,000 to \$3,000 or, for children under 6, to \$3,600. The maximum age at which a child is eligible for the child tax credit is increased from 16 years old to 17 years old. In addition, the refundable amount of the credit is increased so that it equals the entire credit amount, rather than having the taxpayer calculate the refundable amount based on an earned income formula. Lastly, monthly payments of the credit are available for the last six months of 2021. We expect details on how to obtain these funds to be forthcoming.

Increase in Earned Income Tax Credit (EITC) (2021)

The Act nearly triples the amount of the EITC available for workers without qualifying children; it expands the eligible age range for individuals who qualify for the EITC; it increases the amount of investment income an individual can have before



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being ineligible for the EITC; and a special rule for 2021 expands the eligibility and amount of the EITC for taxpayers with no qualifying children.

Dependent Care Tax Credit (2021)

The Act makes the child and dependent care tax credit refundable; increases the amount of expenses eligible for the credit; increases the maximum rate of the credit; increases the applicable percentage of expenses eligible for the credit; and increases the amount one can exclude from income for employer-provided dependent care assistance (flexible spending accounts offered by some employers).

Expansion of the Affordable Care Act Subsidies (2021)

The Act provides a two-year temporary subsidy to individuals who buy health insurance under the Patient Protection and Affordable Care Act (PPACA) resulting in drastic reductions in health care costs for such individuals. The Act also eliminates the income cap on who is eligible for PPACA healthcare subsidies and reduces the cost of health insurance by limiting premiums to, at most, 8.5 percent of income.

*******Temporary Modification to Reconciliation of Advance Payments (Premium Tax Credits – 1095A) (2020)*******

Section 9662 of the Act provides that, for tax years **beginning in 2020**, the increase in income tax for taxpayers reconciling any advance payment of the premium tax credit with the amount of the credit allowed under Code Sec. 36b based on the taxpayer's income **does not apply!**

Assistance with COBRA Premiums (2021)

The Act assists individuals with COBRA premiums (i.e., premiums paid to continue insurance coverage after leaving employment with an employer that had been providing health insurance coverage) by providing that the government will pay for COBRA premiums through September of 2021.

Modification of Student Loan Forgiveness (2021-2025)

The Act excludes certain discharges of student loan debt occurring in years 2021 through 2025 from gross income.

Extension of Refundable Payroll Tax Credits for Employers and Self-Employed Individuals (2020-2021)

The Act extends the refundable payroll tax credits for paid sick time and paid family leave through September 2021.

Extension of Employee Retention Credit for Employers Subject to Closure due to COVID-19 (2020-2021)

The Act allows as a credit against applicable employment taxes for each calendar quarter an amount equal to 70 percent of qualified wages of up to \$10,000 for each calendar quarter. Additionally, a credit of up to \$50,000 is available for a recovery startup business for any calendar quarter. A recovery startup business is one which was started after February 15, 2020, had receipts of less than \$1 million and meets certain other requirements.

Extension of Deductibility of Excess Farm Losses and Excess Business Losses (thru-2027)

The Act allows taxpayers other than corporations to deduct excess farm losses and excess business losses through 2027, instead of through 2026.

To reiterate one more time, **we are extremely grateful to all of you for your patience and understanding** during this challenging time. We are very fortunate to have a uniquely wonderful group of clients.