



American Rescue Plan Act of 2021: Federal Tax Provisions

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[The American Rescue Plan Act of 2021](#), H. R. 1319, Public Law No: 117-2. ("Act") was passed by Congress and signed by the President on March 11, 2021. The Act provides additional relief to address the continued impact of COVID-19 on the economy, public health, state and local governments, individuals, and businesses.

This summary lists and briefly describes some of the federal tax provisions in the Act.

The tax provisions enacted include: providing a maximum recovery tax credit rebate of \$1,400 per eligible individual; providing student loan forgiveness shall be tax-free through 2025; expanding and modifying tax credits, including the child tax credit and the earned income tax credit; making unemployment compensation nontaxable; and certain other tax law changes.

2021 Recovery Rebates to Individuals

The Act provides in 2021 individuals who meet specified eligibility requirements will receive an income tax credit of \$1,400 (and \$2,800 for eligible individuals filing a joint return), and \$1,400 for each dependent of the individual taxpayer. The credit allowed is a refundable credit, with a rebate paid to individuals in 2021. The credit is phased out above certain income levels. Act Sec. 9601.

COBRA Premium Assistance

The Act provides for payment to individuals of amounts to subsidize COBRA continuation coverage premiums for health plan continuation coverage for up to six months. The premium assistance amount received is not included in gross income for federal income tax purposes. Act Sec. 9501.

Child Tax Credit Improvements for 2021

The Act increases the child tax credit and amends and broadens eligibility for the credit for 2021. Act Sec. 9611

Strengthening the Earned Income Tax Credit for Individuals with No Qualifying Children

The Act provides for 2021 the earned income tax credit (EITC) eligibility is expanded, and the amount of the credit is increased. The applicable minimum age is reduced from 25 to 19 for individuals who do not have qualifying children. Act Sec. 9621.

Taxpayer Eligible for Earned Income Credit Irrespective of Certain Identification Requirements

The Act provides an individual who has qualifying children and cannot provide proper identification for them may qualify for the earned income tax credit for individuals having no children. Act Sec. 9622.

Credit Allowed in Case of Certain Separated Spouses

The earned income tax credit is allowed by the Act for a separated spouse, who will be treated as not married for tax purposes, if specified requirements are met. Act Sec. 9623.

Modification of Disqualified Investment Income Test

The Act modifies and increases the allowable amount of disqualified investment income for purposes of eligibility for the earned income tax credit. Act Sec. 9624.

Temporary Special Rule for Determining Earned Income for Purposes of Earned Income Credit

The Act allows an individual to use prior year 2019 earned income for purposes of determining the earned income credit rather than the individual's 2021 earned income. Act Sec. 9626.

Refundability and Enhancement of Child and Dependent Care Tax Credit

The Act modifies and expands the federal income tax child and dependent care tax credit for 2021. The credit is made a refundable credit for 2021, and computation and amount of the credit is made more favorable for individual taxpayers. Act Sec. 9631.

Increase in Exclusion for Employer-Provided Dependent Care Assistance

The Act temporarily increases the amount of employer provided dependent care assistance an individual may exclude from income for tax purposes in 2021 to \$10,500 (\$5,250 for separate return filed by a married individual). Act Sec. 9632.

Suspension of Tax on Portion of 2020 Unemployment Compensation

For the taxable year 2020, the Act excludes from gross income of an individual unemployment compensation received not exceeding \$10,200. Act Sec. 9042.

Payroll Credits

The Act provides employer payroll tax credits which are allowed for paid sick and paid family leave wages paid during the period April 1, 2021 through September 30, 2021. The credit applies to payments voluntarily made (not required) by employers. The eligible wages amount used for calculating the credit is increased subject to specified requirements. Definitions applicable to family leave credits are amended. Act Sec. 9641.

Extension of Sick and Family Leave Credits

The Act extends the refundable paid sick time and paid family leave credits enacted by the Families First Coronavirus Response Act through September 30, 2021. Eligibility for the credit is provided for self-employed individuals. Act Secs. 9642, 9643.

Extension of employee retention credit

The employee retention credit enacted pursuant to the Coronavirus Aid, Relief, and Economic Security (CARES) Act, is extended by the Act through December 31, 2021. Act Sec. 9651.

Improving affordability by expanding premium assistance for consumers.

The Act provides for expanded allowance of a premium tax credit for lower-income individuals who enroll in a qualified health plan offered through a public health insurance exchange. Act Secs. 9661-9663.

Tax Treatment of Targeted EIDL Advances

The Act provides for the exclusion from income of amounts received as a targeted economic injury disaster loan (EIDL) advance, and income tax deductions are allowed for deductible expenses paid with excluded amounts received. Act Sec. 9672.

Tax Treatment of Restaurant Revitalization Grants

The Act provides amounts received as certain restaurant revitalization grants are excluded from income for tax purposes and deductions are allowed for otherwise deductible expenses paid with the amount received from a grant. Act Sec. 9673.

Extension of Limitation on Excess Business Losses

The limitation on excess business losses of noncorporate taxpayers was extended for a year to now apply to losses incurred during the period prior to January 1, 2027. Act Sec. 9041.

Modification of Treatment of Student Loan Forgiveness

The Act provides for exclusion from gross income of the discharge of any loan for postsecondary education made by specified lenders (United States, State, eligible educational institution) after December 31, 2020, and before January 1, 2026. Act Sec. 9675.

Extended Amortization for Single Employer Pension Plans

The Act provides for extension of the period during which underfunded single-employer pension plans may amortize underfunding. Act Sec. 9705.

Extension of Pension Funding Stabilization Percentages for Single Employer Plans

The Act provides for extension of the calculation of pension plan benefit liabilities using certain specified interest rates. Act Sec. 9706.

Expansion of Publicly Held Corporations' Executive Compensation Deduction Limit

The Act amended the provisions of Internal Revenue Code section 162 (m) for taxable years beginning after December 31, 2026 to expand the covered group of employees of publicly held corporations to which a \$1,000,000 compensation deduction limit will apply. The covered group of employees will be the chief executive officer, chief financial officer, the three highest compensated other officers whose compensation is required to be reported under the Securities Exchange Act of 1934, and the other five highest compensated employees for the taxable year. Act Sec. 9708.

If you would like to discuss the American Rescue Plan Act of 2021, or any other federal tax matters, please contact your GableGotwals attorney, or a member of our [Tax Law Practice Group](#) which includes:

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