

MARCH 12, 2021

# NEW PRESIDENT, NEW REFORM

## AMERICAN RESCUE PLAN ACT OF 2021

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President Biden signed the American Rescue Plan Act of 2021 into law on Thursday which provides additional tax and economic relief in 2021.

First up are stimulus checks. With daylight savings this weekend, you may lose an extra hour of sleep, but you may wake up to an extra direct deposit. A third round of stimulus checks are expected to be issued as soon as this weekend up to \$1,400 per taxpayer plus \$1,400 per dependent claimed on your most recently filed tax return. Payments are phased out with adjusted gross income (AGI) of \$75,000-\$80,000 Single; \$150,000-\$160,000 Married Filing Joint. If your AGI is above the top threshold, you won't receive payment. The IRS is looking at AGI from your most recently filed tax return to determine eligibility. Since we're in the midst of the 2020 tax filing season, that is 2019 AGI for many.

If your 2020 income dropped compared to 2019, do not panic to rush your 2020 return out the door! Your eligibility will be determined again this summer on what the IRS is calling the "redetermination date". If you're eligible for more stimulus monies on the redetermination date based on 2020 AGI, then the excess funds will be issued to you at that time. Your eligibility for the \$1,400 per person will be redetermined for a third and final time based on 2021 AGI around this time next year when your 2021 tax return is filed. Note if it's redetermined on any date that you're eligible for less stimulus than you've received, you are not required to repay the government. Stimulus checks are still not taxable income.

They say third time is a charm, and that is true for college aged dependents. This time dependents age 17-23 are eligible for a stimulus check. Another college perk: student loan forgiveness is now tax free.

The Act provides numerous changes to both the Child Tax Credit and the Dependent Care Credit for 2021. The Child Tax Credit is increased from \$2,000 to \$3,000 per child up to age 17 (\$3,600 for children under age 6). The credit phases out \$50 for each \$1,000 the taxpayer's income is over \$150,000 married filing joint; \$75,000 for single filers. The IRS will estimate taxpayers 2021 credits and prepay them monthly starting in July 2021. The IRS must set up an online portal to allow taxpayers to opt out of the prepayment or provide information to modify the amount. This advance

will be reconciled on the 2021 tax return. In this case, if your advanced payments shake out to be more than you're eligible to receive based on your 2021 tax return, you will be required to repay the excess via your 2021 tax liability.

The Dependent Care Credit for eligible childcare costs is now refundable for 2021 and is increased to up to \$4,000 for one child, \$8,000 for two or more children. The credit is worth 50% of eligible childcare expenses and will start to phase out with income over \$125,000. The credit is reduced to 20% for households with income over \$400,000.

The first \$10,200 of unemployment benefits received in 2020 are not taxable if AGI is under \$150,000 (all filing statuses). Unemployment benefits are extended at \$300 a week for an additional 25 weeks through September 6, 2021.

The Paid Family Leave Credit is increased to \$12,000 and is extended through September 30, 2021. The number of days taken into account for self-employed individuals is 60, increased from 50. Additionally, the overall number of days to be taken into account for the credit resets after March 31, 2021.

The Employee Retention Credit has been extended through the end of 2021. The credit will be allowed against Medicare.

The Health Insurance Premium Tax Credit has been expanded. The applicable percentage amounts are adjusted for 2021 and 2022. Taxpayers who received too much in advance premium credits in 2020 will not have to repay the excess amount; this is new from prior years. If a client has already filed 2020 and repaid some of the credit, we recommend waiting to amend the return until the IRS has issued more guidance.

While the Act signed this week provides much relief for tax years 2020 and 2021, pay heed that most of the provisions are temporary. Additional tax legislation in the coming months is a very real possibility and in some sense is inevitable given nearly all provisions enacted by the 2017 Tax Cuts & Jobs Acts sunset on January 1, 2026. Creative Planning will continue to assess each client's unique personal situation relative to these and future legislative changes.

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