THE BOARD OF PENSIONS
OF THE PRESBYTERIAN CHURCH (U.S.A.)

American Rescue Plan Act

DETAILED ANALYSIS AND TAX UPDATE

APRIL 2021

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On March 11, 2021, President Biden signed into law the American Rescue Plan Act of 2021 (ARPA). This act builds upon and extends many provisions enacted by previous legislation, including the Coronavirus Aid, Relief, and Economic Security (CARES) Act, the Families First Coronavirus Response Act (FFCRA), and the Consolidated Appropriations Act, 2021. Because some of ARPA's provisions address the taxation of financial relief provided in the earlier COVID-related laws, the Internal Revenue Service (IRS) announced thereafter that the income tax filing deadline for tax year 2020 individual returns is extended from April 15, 2021, to May 17, 2021.

The ARPA includes a wide range of provisions that affect individual taxpayers and employers. As noted, many of the relief provisions are only available for a limited duration. The law itself is several hundred pages long. The information below covers some of the most relevant sections.

Among other things, the ARPA

- extends three unemployment assistance programs;
- ads an exclusion from tax on up to $10,200 of unemployment compensation;
- provides Refundable Recovery Rebates of $1,400 or $2,800 (also known as the third round of Economic Impact Payments);
- expands the Child Tax Credit, making it refundable in 2021;
- expands the Child and Dependent Care Credit, making it refundable for 2021;
- expands the Earned Income Tax Credit;
- enhances Consolidated Omnibus Budget Reconciliation Act (COBRA) benefits;
- provides that student loan discharge (forgiveness) is tax-free from 2021 through 2025;
- raises dependent care flexible spending account (FSA) limits;
- extends Family and Sick Leave Credits from FFCRA through September 30, 2021;
- extends the Employee Retention Credit through the end of 2021; and
- provides for additional funding and extended payment terms for the Economic Injury Disaster Loans (EIDL) program.

Many of these provisions directly affect individuals while others apply for employers. Here is more detail:

CHANGES THAT AFFECT INDIVIDUALS

Extension of unemployment assistance programs

- Extension of Pandemic Unemployment Assistance (PUA) through September 6, 2021
    - The PUA program provides unemployment benefits to individuals not eligible for regular unemployment compensation or extended benefits, including those who have exhausted all rights to such benefits. These benefits are only for individuals who are unemployed due to COVID-19 reasons; it does not cover individuals without an attachment to the labor market or individuals who are unemployed for non-COVID-19 reasons.[1]
- Extension of Federal Pandemic Unemployment Compensation (FPUC) through September 6, 2021

[1] https://www.uc.pa.gov/unemployment-benefits/file/Pages/Filing-for-PUA.aspx

    - The FPUC program provides for a temporary emergency increase in unemployment compensation (UC) benefits. This program provides an eligible individual with $300 per week on top of the weekly benefit amount they receive from certain other UC programs.[2]
- Extension of Pandemic Emergency Unemployment Compensation (PEUC) through September 6, 2021
    - The PEUC program is a temporary federal program available for individuals whose regular unemployment benefits have expired or will expire soon.[3]

Exclusion from tax on up to $10,200 of unemployment compensation

Individuals who received unemployment compensation during 2020 can exclude up to $10,200 from income for federal income tax purposes. If married, each spouse receiving unemployment compensation doesn't have to pay tax on unemployment compensation of up to $10,200. Amounts over $10,200 for each individual are still taxable. If modified adjusted gross income (AGI) is $150,000 or more, unemployment compensation can't be excluded.[4]

It's important to note that this exclusion only applies to federal income tax. Unemployment compensation may be subject to state income tax.[4]

For more information on how to report this exclusion, see the IRS website at the following link:

https://www.irs.gov/faqs/irs-procedures/forms-publications/new-exclusion-of-up-to-10200-of-unemployment-compensation

Refundable Recovery Rebates of $1,400 or $2,800 (also known as the third round of Economic Impact Payments)

The ARPA allows for a refundable tax credit called a Recovery Rebate of up to $1,400 per individual ($2,800 for joint filers), plus an additional $1,400 for each dependent for the 2021 tax year. This means that taxpayers who have reported no adjusted gross income (AGI) are still eligible to receive the full amount of the Recovery Rebate. [5]

Since the 2021 tax year is still underway, the ARPA allows for an advanced refund of the Recovery Rebate. This advanced refund effectively serves as the third round of Economic Impact Payments (stimulus) to taxpayers. Unlike the prior rounds of Economic Impact Payments, families will get a payment for all dependents claimed on a tax return, not just qualifying children under 17.[5]

Individuals who are nonresident aliens, dependents of another taxpayer, and estates/trusts are not eligible. [6]

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[2] https://www.uc.pa.gov/COVID-19/CARES-Act/Pages/FPUC-FAQs.aspx
[3] https://www.uc.pa.gov/unemployment-benefits/file/Pages/Filing-for-PEUC.aspx
[4] https://www.irs.gov/forms-pubs/new-exclusion-of-up-to-10200-of-unemployment-compensation
[5] https://www.irs.gov/newsroom/more-details-about-the-third-round-of-economic-impact-payments
[6] American Rescue Plan Act of 2021 § 9601

The full amount of the Recovery Rebate begins to phase out for those taxpayers with an AGI of over $75,000 for individuals, $150,000 for joint filers, and $112,500 for those filing as head of household. Taxpayers with AGI exceeding these limits may be eligible for a reduced amount.[7]

The IRS will use the AGI from your tax year 2019 return, or if filed, from your tax year 2020 return to determine your eligibility. Additional restrictions apply.[7]

Expansion of the Child Tax Credit

- **The credit amount has been increased**. The ARPA increased the amount of the Child Tax Credit from $2,000 to $3,600 for children under age six, and $3,000 for other children under age 18.[8]
- **The credit's scope has been expanded**. Children 17 years old and younger, as opposed to 16 years old and younger, will now be covered by the Child Tax Credit.[8]
- **Credit amounts will be made through advance payments during 2021**. Individuals eligible for a 2021 Child Tax Credit will receive advance payments of the individual's credit, which the IRS and the Bureau of the Fiscal Service will make through periodic payments from July 1, to December 31, 2021. This change will allow struggling families to receive financial assistance now, rather than waiting until the 2021 tax filing season in early 2022 to receive the Child Tax Credit benefit.[8]
- **The credit is now fully refundable**. By making the Child Tax Credit fully refundable, low-income households will be entitled to receive the full credit benefit, as significantly expanded and increased by the ARPA.[8]
- **The credit is now extended to Puerto Rico and the U.S. territories**. For the first time, low-income families residing in Puerto Rico and the U.S. territories will receive this vital financial assistance to better support their children's development and health and educational attainment.[8]

Expansion of the child and dependent care credit

For tax year 2021 only, the child and dependent care tax credit is fully refundable. The maximum credit rate has been increased to 50 percent and the phaseout threshold will begin at $125,000 instead of $15,000. In addition, the amount of child and dependent care expenses that are eligible for the credit have been increased to $8,000 for one qualifying individual and $16,000 for two or more qualifying individuals (from $4,000 and $8,000, respectively). At $125,000, the credit percentage begins to phase out and plateaus at 20 percent. This 20 percent credit rate phases out for taxpayers whose AGI is in excess of $400,000, such that taxpayers with income in excess of $500,000 are not eligible for the credit.[9]

Expansion of Earned income tax credit

Individuals with no qualifying children: For 2021, the ARPA expands the eligibility and amount of the earned income tax credit (EITC) for taxpayers with no qualifying children (the childless EITC) for 2021. Specifically, the minimum age to claim the childless EITC has been lowered from 25 to 19, except for certain full-time students. The ARPA also increases the childless EITC amount by increasing the credit

[7] https://www.irs.gov/newsroom/more-details-about-the-third-round-of-economic-impact-payments
[8] https://home.treasury.gov/news/featured-stories/fact-sheet-the-american-rescue-plan-will-deliver-immediate-economic-relief-to-families
[9] https://www.cpajournal.com/2021/03/22/a-first-look-at-the-american-rescue-plan-act-of-2021/

percentage and phaseout percentage from 7.65 percent to 15.3 percent, increasing the income at which the maximum credit amount is reached to $9,820, and increasing the income at which phaseout begins to $11,610 for non-joint filers. In addition, taxpayers are permitted to use either 2019 or 2021 income, whichever provides the greater credit. Under these parameters, the maximum credit amount in 2021 increases from $543 to $1,502. The provision contains special rules regarding the application of the credit for former foster youth and homeless youth.[10]

Individuals with qualifying children who fail to meet certain identification requirements: The legislation repeals the provision prohibiting an otherwise EITC-eligible taxpayer with qualifying children from claiming the childless EITC if he cannot claim the EITC with respect to qualifying children due to failure to meet child identification requirements (including a valid Social Security number). Accordingly, individuals who do not claim the EITC with respect to qualifying children due to failure to meet identification requirements would now be able claim the childless EITC.[10]

Certain separated spouses: The ARPA allows a married but separated individual to be treated as not married for purposes of the EITC if a joint return is not filed. Thus, the EITC may be claimed by the individual on a separate return. This rule only applies if the taxpayer lives with a qualifying child for more than one-half of the taxable year and either does not have the same principal place of abode as their spouse for the last six months of the year, or has a separation decree, instrument, or agreement and does not live with their spouse by the end of the taxable year. This change aligns the EITC eligibility requirements with present-day family law practice.[10]

Modification of the disqualified investments income test: The ARPA increases the limitation on disqualified investment income for purposes of claiming the EITC from $3,650 to $10,000, which is indexed for inflation.[10]

Temporary special rule for determining earned income: The ARPA allows taxpayers, for purposes of computing the EITC, to substitute their 2019 earned income for their 2021 earned income if 2021 earned income was less than 2019 earned.[10]

COBRA enhancements

The ARPA provides COBRA continuation coverage premium assistance for individuals who are eligible for COBRA continuation coverage between March 11, 2021, and September 21, 2021. The ARPA also allows a new COBRA continuation coverage premium assistance credit to taxpayers. The credit is refundable, and the IRS may make advance payments to taxpayers of the credit amount. The credit applies to premiums and wages paid after April 1, 2021, through September 2021. Additional restrictions apply**.**[11] **This credit is *not* available for Benefits Plan medical continuation subscription costs because those costs are not COBRA premiums.**

Student loan discharge (forgiveness) tax-free from 2021 through 2025

Effective for certain student loans forgiven after December 31, 2020, and before January 1, 2026, the income resulting from the discharge of indebtedness may be exempt from tax. The ARPA provides that student loans made, insured, or guaranteed by the federal or state governments, as well as loans from nongovernmental institutions, such as banks, other private lenders, and educational institutions, may be

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[10] https://www.cpajournal.com/2021/03/22/a-first-look-at-the-american-rescue-plan-act-of-2021/

[11] https://www.journalofaccountancy.com/news/2021/feb/tax-provisions-american-rescue-plan-act.html

nontaxable and excludible in gross income. Loans forgiven in exchange for services rendered are not covered by this provision, however, and thus are taxable and includible in gross income.[12]

Dependent care flexible spending account limits

The new dependent care flexible spending account (FSA) annual limits for pretax contributions increases to $10,500 (up from $5,000) for single taxpayers and married couples filing jointly, and to $5,250 (up from $2,500) for married individuals filing separately. The higher limits apply to the plan year beginning after December 31, 2020, and before Jan. 1, 2022.[13]

The contribution limit for healthcare FSAs remained unchanged at $2,750.[13]

To take advantage of the relief provided by the ARPA, employers must amend their dependent care FSAs by the last day of the plan year in which the amendment is effective, which would be December 31, 2021, for calendar year dependent care FSAs.[14]

CHANGES THAT AFFECT EMPLOYERS

Extension of FFCRA Family and Sick Leave Credits through September 30, 2021

Under the previously passed Families First Coronavirus Response Act (FFCRA), companies with fewer than 500 employees were required to provide paid leave under the Emergency Paid Sick Leave Act and the Emergency Family and Medical Leave Act to employees who were unable to come to work for a number of COVID-19 related reasons. The FFCRA provided employers a refundable tax credit, which would offset for employers the costs of providing the paid leaves.[15]

The requirement to provide paid leave expired for employers with fewer than 500 employees at the end of last year. But employers could still voluntarily choose to provide FFCRA paid sick or paid family leave to employees and receive refundable tax credits for costs related to providing the leave through March 31, 2021.[15]

With the passage of the ARPA, employers should note the following additions and changes:

Refundable tax credits available through September 30, 2021: Employers who choose to voluntarily provide FFCRA paid sick or paid family leave may now receive refundable tax credits through September 30, 2021.[15]

Additional covered reasons for providing paid sick leave: The ARPA also expands on the list of six reasons for paid sick leave covered under the FFCRA and now allows employers to provide leave to employees for three additional reasons: (1) obtaining a COVID-19 immunization; (2) recovering from an injury, disability, illness, or condition related to the immunization, or (3) seeking or awaiting the result of a COVID-19 test or diagnosis when the employee has either been exposed to COVID-19 or the employer has requested the test or diagnosis. Previously under the FFCRA, qualifying reasons for providing paid sick time were limited to if the employee is unable to work (or telework) because the employee: (1) is subject to a federal, state, or local quarantine or isolation related to COVID-19; (2) has been advised by a

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[12] https://www.cpajournal.com/2021/03/22/a-first-look-at-the-american-rescue-plan-act-of-2021/
[13] https://www.shrm.org/resourcesandtools/hr-topics/benefits/pages/american-rescue-plan-act-raises-dependent-care-fsa-limits-and-adjusts-tax-credits.aspx
[14] https://www.natlawreview.com/article/arpa-provides-welcome-change-participants-dependent-care-fsas
[15] https://www.mwe.com/insights/american-rescue-plan-act-of-2021-employment-law-update/

healthcare provider to self-quarantine; (3) is experiencing COVID-19 symptoms and seeking a diagnosis; (4) is caring for an individual who is subject to quarantine or is self-quarantining; (5) is caring for a child whose school or place of care is closed (or child care provider is unavailable) because of COVID-19; or (6) is experiencing any other substantially similar condition specified by the U.S. Secretary of Health and Human Services.[16]

Additional covered reasons for providing paid family leave: The scope of reasons for providing emergency family leave is now expanded. Originally, tax credits were available to employers for providing paid family leave only if the employee was unable to work (or telework) to care for a child whose school or place of care was closed or unavailable because of the public health emergency. Now, employers can claim tax credits for providing family leave which arises from any of the six qualifying reasons provided for in the FFCRA and the additional three reasons added under the ARPA (noted above).[16]

Duration of paid sick and family leave for receiving tax credits: The ARPA allows employers to receive the tax credit for providing up to 10 days of paid sick leave beginning April 1, 2021, even if the employer previously took a tax credit for providing paid sick leave to an employee for a covered reason before April 1, 2021. In addition, employers can receive a tax credit for providing up to 12 weeks of paid family leave.[16]

Amount of tax credits available for paid sick leave: Employers providing voluntary paid sick leave receive a tax credit, up to a cap of $511 a day, at the employee's regular rate of pay if the employee is on leave because of coronavirus quarantine, self-quarantine, or has symptoms. The ARPA now includes the additional covered reasons (discussed above) for receiving tax credits at the employee's regular rate of pay. For any other paid sick leave reason, the amount of tax credit available to an employer is calculated at two-thirds the employee's regular rate of pay and capped at $200 a day.[16]

Amount of tax credits available for paid family leave: Employers providing paid family leave receive a tax credit, up to a cap of $200 a day, at two-thirds the employee's regular rate of pay for leave which is due to any of the covered reasons for providing paid family leave. The ARPA also removes the two-week waiting period (during which the leave was unpaid) for taking paid emergency family leave. The act also increases the cap on the aggregate paid leave from $10,000 to $12,000, meaning employers can now take an additional $2,000 in tax credits per employee for providing qualifying leave.[16]

Addition of nondiscrimination rules: Employers who are voluntarily providing leave and receiving tax credits must also follow the new nondiscrimination rule. The anti-discrimination rule makes the tax credit available only to those employers who provide leave to all employees without discriminating against certain categories of workers. Specifically, the tax credit is not available to those employers who discriminate (1) in favor of highly compensated employees, (2) full-time employees, or (3) on the basis of the employment tenure of the employee.[16]

Note: Tax exempt organizations should refer to the link below to determine how to claim these credits. Please note that at the time of this publication, the link below as not yet been updated for the ARPA changes noted above. Organizations are encouraged to periodically check the IRS website for updates. https://www.irs.gov/newsroom/how-to-claim-the-credits

[16] https://www.mwe.com/insights/american-rescue-plan-act-of-2021-employment-law-update/

Employee Retention Credit extended through end of 2021

The Employee Retention Credit under the CARES Act encourages businesses to keep employees on their payroll. The refundable tax credit is 50 percent of up to $10,000 in wages paid by an eligible employer whose business has been financially impacted by COVID-19, including 501(c)(3) organizations.[17]

Note: Tax exempt organizations should refer to the link below to determine how to claim this credit. Please note that at the time of this publication, the link below has not yet been updated for the ARPA changes noted above. Organizations are encouraged to periodically check the IRS website for updates.

https://www.irs.gov/coronavirus/employee-retention-credit

Additional funding and extended payment terms for Economic Injury Disaster Loans

The Economic Injury Disaster Loans (EIDL) program is designed to provide economic relief to businesses that are currently experiencing a temporary loss of revenue due to COVID-19. EIDL loans are not forgivable, have a 30-year maturity, and have collateral requirements for loan amounts in excess of $25,000. The Small Business Administration (SBA) administers the EIDL program. While EIDL loans are still available, EIDL advances are not.[18]

The ARPA provides for an additional $15 billion of funding to the EIDL loan program, including $5 billion for certain businesses hardest hit by the COVID-19 pandemic.

Note: On March 15, 2021, the SBA announced extended deferment periods for all of its disaster loans, including the COVID-19 EIDL loans. The deferral details differ depending on the calendar year the disaster loan was made:[19]

- For all SBA disaster loans made in 2020, the first payment due date is 24 months, extended from 12 months, from the date of the note.
- For all SBA disaster loans made in 2021, the first payment due date is 18 months, extended from 12 months, from the date of the note.19

The SBA also granted an additional 12-month deferment of principal and interest payments for existing disaster loans approved prior to 2020 that were in regular servicing status as of March 1, 2020. This is the third deferral extension for those loans. The SBA granted an automatic deferral of principal and interest payments through December 31, 2020, and then extended the deferral period through March 31, 2021. The latest deferral means that borrowers don't have to resume their regular payment schedule until the payment immediately preceding March 31, 2022.[2019]

Borrowers may voluntarily continue to make payments during the deferment, as interest will continue to accrue on the outstanding loan balance during this period.[20]

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[17] https://www.irs.gov/newsroom/faqs-employee-retention-credit-under-the-cares-act

[18] https://www.sba.gov/funding-programs/loans/covid-19-relief-options/covid-19-economic-injury-disaster-loan

[19] https://www.sba.gov/about-sba/sba-newsroom/press-releases-media-advisories/covid-19-eidl-deferment-period-extended?interiorpage2021

[20] https://www.sba.gov/about-sba/sba-newsroom/press-releases-media-advisories/covid-19-eidl-deferment-period-extended?interiorpage2021

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