

The American Rescue Plan Act of 2021



Wealth Management

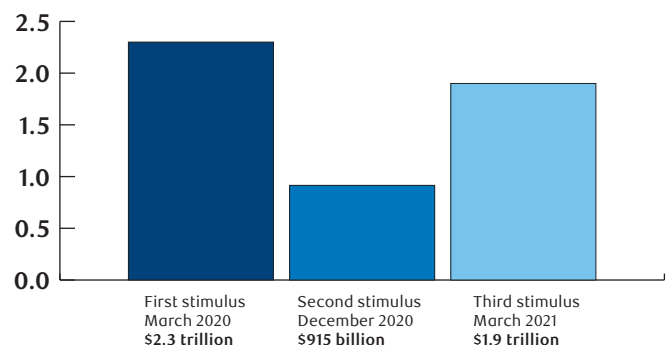
On March 11, President Biden signed the \$1.9 trillion American Rescue Plan Act of 2021 just as the nation emerges from a year-long pandemic. The Act follows in the wake of the \$2.3 trillion Coronavirus Aid, Relief, and Economic Security (CARES) Act of 2020 and the nearly \$915 billion stimulus included in the Consolidated Appropriations Act of 2021, which passed in December 2020. The Act was passed under budget reconciliation, which required a simple majority in the Senate.

The American Rescue Plan Act aligns with the framework put forth by President Biden before his inauguration on January 20. The major pieces of the Act include another round of stimulus checks to Americans, extensions of enhanced unemployment relief, increased funding for COVID-19 testing and vaccination programs, aid to state and local governments and the most significant changes to the Affordable Care Act since 2010. Most of the new provisions under the Act are for 2021 only, making them only temporary relief.

However, one much-discussed proposal that didn't make the final cut was the proposed increase to the minimum wage. Following a ruling by the Senate parliamentarian that the minimum wage hike to \$15 an hour could not be included in the legislation under budget reconciliation, the measure was removed. The current minimum wage is \$7.25 an hour.

Many components of the American Rescue Plan Act continue or build on aid measures Congress approved last year. As in previous packages, direct payments will go to individuals making as much as \$75,000 and married couples making as much as \$150,000. In addition, the \$300 weekly jobless-aid supplement lawmakers approved in December will continue through September 6.

How the \$1.9 trillion American Rescue Plan Act compares to previous COVID-19 aid packages



Understanding the American Rescue Plan Act

Help for individuals

Stimulus payments and extended unemployment benefits

The Act includes a third round of direct stimulus payments of \$1,400 to all eligible Americans. Individuals with adjusted gross incomes (AGIs) of \$75,000 or less—and couples with AGIs of \$150,000 or less—will receive the full amount. So will each of their dependents, regardless of age, including children in the later years of high school or in college who are still claimed as dependents. Payments to individuals with AGIs over \$75,000 will be reduced in a near cliff-style phase-out until it disappears entirely.

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at \$80,000 (\$160,000 for married couples). The phase out is more aggressive than in the previous relief bills to better ensure that those who need the checks the most receive them.

If you do not qualify for a stimulus payment based on your 2020 AGI, but will qualify based on your 2021 AGI, you should receive that tax benefit when you file your 2021 tax returns in April 2022.

The Act also extends additional federal unemployment benefits through September 6, 2021 at a weekly amount of \$300. The first \$10,200 in 2020 benefits is tax free for families making \$150,000 or less. Those who had taxes withheld from their 2020 unemployment benefits and who have already filed their 2020 tax returns should receive a refund of those taxes directly from the IRS without needing to file an amended return. This change was recently announced by the IRS, and details will follow.

Eviction and foreclosure moratoriums

The current moratoriums, which end March 31, will likely not change under the plan. Additional funding will provide relief to those behind on mortgages, rent, and utility bills. The legislation includes \$30 billion in emergency rental assistance and \$10 billion for mortgage assistance.

Food aid

The American Rescue Plan Act provides extended emergency nutritional assistance to food-stamp recipients, including a 15% increase in benefits that will continue through September, instead of expiring at the end of June. The bill includes over \$5 billion in the Pandemic-EBT program that provides schoolchildren with emergency nutrition benefits and also includes \$800 million in additional funding for the WIC program for low-income women and infants.

Expanded child tax credit

The Act includes some important changes to existing tax policy to help families with children who have been struggling to care for them as the pandemic closed schools. It calls for a maximum amount of tax credit of \$3,000 (up from \$2,000) for each child age 6 to 17, and \$3,600 for each child under age 6. As with the stimulus payments, the expanded credit will phase out for individuals making more than \$75,000 and married couples earning more than \$150,000. The original \$2,000 base amount of the Child Care Credit still phases out at the higher income thresholds of \$200,000 and \$400,000, respectively.

A family with children under age 6 would receive \$300 per month and \$250 per month for children ages 6–17. As written, the bill provides for one year of credit payments.

This is to directly help families pay for ongoing costs now instead of claiming a credit when they file their taxes. The credit is refundable, meaning that those who pay little or no taxes will still fully benefit from credit.

Tax credits to subsidize child care

The legislation also bolsters the tax credits that parents receive to subsidize the cost of child care this year. The current credit is worth 20% to 35% of eligible expenses with a maximum value of \$2,100 for two or more qualifying individuals. The stimulus bill increases that amount to \$4,000 for one qualifying individual or \$8,000 for two or more people.

The value of the credit will be calculated by taking up to 50% of the value of eligible expenses, up to certain limits, depending on household income. The law would begin to reduce the credit below 20% for households with income of more than \$400,000.

Earned income

The earned income credit for lower income taxpayers has also been expanded. The amount has nearly tripled and the minimum age to claim the credit is reduced from 25 to 19. No upper age limit is imposed under the new bill.

COBRA assistance

The Act provides for a 100% COBRA premium subsidy effective April 1 through September 2021 for those who were involuntarily terminated and want to remain on their employer's health insurance. The employer would pass along the subsidy so that qualifying individuals would pay nothing for their COBRA coverage during this period.

Student loan forgiveness tax free

While the plan does not include student loan forgiveness, it does include a provision that any student loan forgiveness granted between December 30, 2020 and January 1, 2026, will be tax free. Normally, loan forgiveness counts as taxable income.

Rental assistance

There is \$25 billion for emergency rental assistance, including \$5 billion for emergency housing vouchers for people experiencing homelessness, survivors of domestic violence and victims of human trafficking.

Schools and childcare block grants

The Act sets aside \$130 billion for K-12 education. This money will be used to reduce class sizes, improve ventilation, purchase personal protective equipment, and fund other steps to help schools reopen safely.

Almost \$40 billion will go to colleges and universities to provide emergency financial aid grants for students. An additional \$40 billion will go to childcare providers through the Child Care and Development Block Grant program. The Act also includes \$1 billion for the Head Start program.

Affordable Care Act health plans and Medicaid

After years of being on life support, the Affordable Care Act (ACA) is expanding, a development that will largely reward middle-income individuals and families, since those on the lower end of the income spectrum generally qualify for Medicaid. The legislation would increase subsidies to people who buy Affordable Care Act health plans, marking the biggest changes to the health law since its passage in 2010. The subsidy changes would be temporary and expire after two years, but would mean much lower payments for almost 14 million people now insured on the individual market.

The package also includes funding aimed at enticing states that didn't expand their Medicaid programs earlier to do so now, and subsidies to cover the cost of health insurance for people who lose their jobs. Currently under the ACA, people who earn 400% of the federal poverty level aren't eligible for the tax credits (subsidies) that help offset the cost of buying health plans. Therefore, a single person who earns more than about \$51,000 isn't eligible, nor is a family of three that makes about \$87,000. The legislation would eliminate an income cap that limits who is eligible for ACA tax credits to reduce monthly insurance premiums. It would also limit the amount households pay on health care to only 8.5% of their income, and boost subsidies to lower-income consumers.

Required Minimum Distributions

Also notable are popular provisions of the CARES Act that were not included in the American Rescue Plan Act. Required Minimum Distributions (RMDs) from retirement accounts were permanently waived for 2020 only. Many account holders had hoped for a similar waiver in 2021, but that feature was not included in the Act. For 2021, Individuals who are required to take their RMDs must do so in this calendar year. Individuals who took those distributions early in 2020 were permitted to return the funds received to their retirement accounts, but that opportunity expired on December 30, 2020. Finally, those impacted by the coronavirus were permitted to take penalty-free (but not tax-free) distributions of up to \$100,000 from retirement accounts in 2020, but that opportunity also expired at the end of 2020.

Help for businesses

Assistance for restaurants and bars

The legislation provides additional funding for small businesses, with a focused effort on those in hard-hit

industries. The Act provides \$25 billion for a new Small Business Administration program focused on supporting restaurants and other food and drinking establishments. These grants are available for up to \$10 million for those eligible and can be used to pay expenses like payroll, mortgage, rent, utilities, and food and beverages.

Paycheck Protection Program

The Act includes \$7.25 billion in new money for the small-business loan program known as PPP and would allow more nonprofits to apply, including those groups that engage in advocacy and some limited lobbying. It also allows larger nonprofits to be eligible.

Employee retention tax credit

The Act extends the employee retention tax credit through December 31, 2021, and allows the hardest hit organizations to count all wages paid as qualifying wages, not just those wages paid to employees that are not providing services.

Pandemic response

About \$50 billion will pay for additional COVID-19 testing and contact tracing, and \$19 billion will help increase the size of the public health workforce. About \$16 billion will fund vaccine distribution and supply chains.

The Act provides \$46 billion to expand federal, state, and local testing for COVID-19 and to enhance contract-tracing capabilities with new investments to expand laboratory capacity and set up mobile testing units. It also contains about \$14 billion to speed up the distribution and administration of COVID-19 vaccines across the country.

State and local government

The Act includes \$350 billion slated for states, cities, tribal governments, and U.S. territories to help replace tax revenue lost due to the pandemic. Analysis by the Washington Post found that a majority (26) of states experienced revenue declines between December 2019 and December 2020.

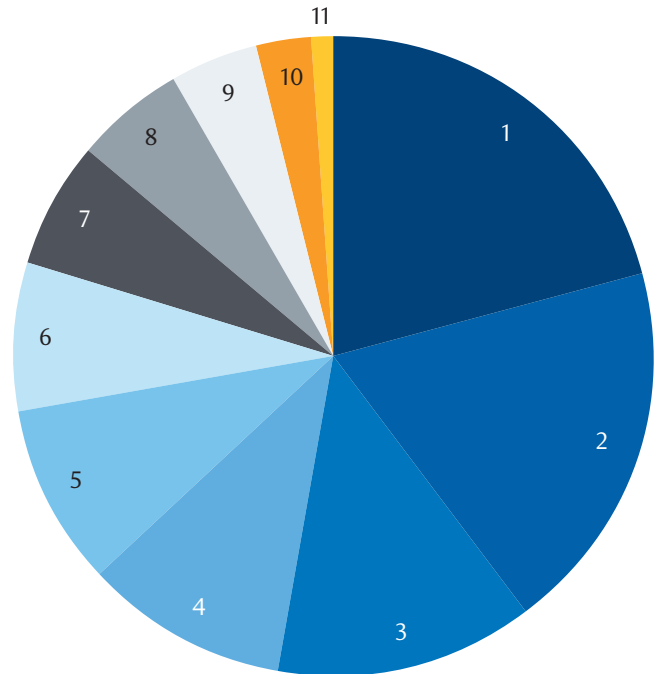
Minimum wage struck

One much-discussed proposal that didn't make the final cut is an increase in the minimum wage. Following a ruling by the Senate parliamentarian that the minimum wage hike to \$15 an hour could not be included in the legislation under budget reconciliation, that measure was removed from the bill. The current minimum wage is \$7.25 an hour.

What's in the American Rescue Plan Act?

The \$1.9 trillion legislation known as the American Rescue Plan Act includes a range of measures, from stimulus checks to child tax credits, jobless benefits, vaccine distribution funds, health care subsidies and restaurant aid. The Act marks President Biden's first major legislative achievement and represents one of the largest aid bills in U.S. history.

The Act is sure to benefit many individuals, businesses and private foundations. Consult your tax advisor to determine how your particular situation may be impacted.



■ 1. Stimulus checks	\$400B
■ 2. State and local government	\$360B
■ 3. Extend unemployment programs (extend through September 6 with a \$300/week supplement)	\$246B
■ 4. Other (includes grants for child care providers and Head Start)	\$194B
■ 5. Education	\$176B
■ 6. Expand tax credits (child tax credit, child care tax credit, earned income tax credit)	\$143B
■ 7. COVID-19 related (distribution of vaccine and medical supplies, testing and contact tracing)	\$123B
■ 8. Health	\$105B
■ 9. Small business and grants to restaurants, bars that lost revenue due to the pandemic	\$84B
■ 10. Transportation	\$56B
■ 11. Agriculture	\$16B

Sources

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- The New York Times, March 10, 2021: With House passage, Congress clears the nearly \$1.9 trillion stimulus plan for President Biden's signature
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