

April 30, 2021

*“The hardest thing in the world to understand is the income tax.”
– Albert Einstein*

On March 11, 2021, the American Rescue Plan Act of 2021 (“ARPA”) was signed into law. Among other things, ARPA includes many provisions intended to assist Americans who have been financially impacted by the pandemic and to help spur the economy; however, ARPA also contains a number of tax related provisions that add additional complexity to some filers’ situations. In particular, adjustments have been made to deadlines, credits, and phaseouts, and these changes may warrant more than a cursory conversation with ones CPA or financial advisor this tax season. Below are some highlights of the changes resulting from ARPA:

Recovery Rebate – this is the cash payment (or stimulus) provision of ARPA. Unlike the prior direct stimulus payments issued to individuals, the 3rd payment authorized under ARPA significantly narrowed the adjusted gross income (“AGI”) phaseout criteria to \$75,000-80,000 for individual filers and \$150,000-160,000 if

married filing joint. In other words, if you made less than the lowest end range of the applicable band, you should receive 100% of the benefit authorized by ARPA; whereas if your AGI is between the amounts of the applicable range, you would receive a reduced amount; and if your AGI is beyond the upper threshold of the applicable range, you would receive no stimulus payment (see Figure 1).

With respect to all three stimulus payment programs authorized since the start of the pandemic, the determination as to whether a taxpayer is eligible for a benefit is based on the most recent tax return on file with the IRS at the time the stimulus payment is processed (presently, either your 2019 or 2020 return). Any stimulus payment issued to you based upon the 2019 return will not be clawed back if your 2020 AGI is higher.

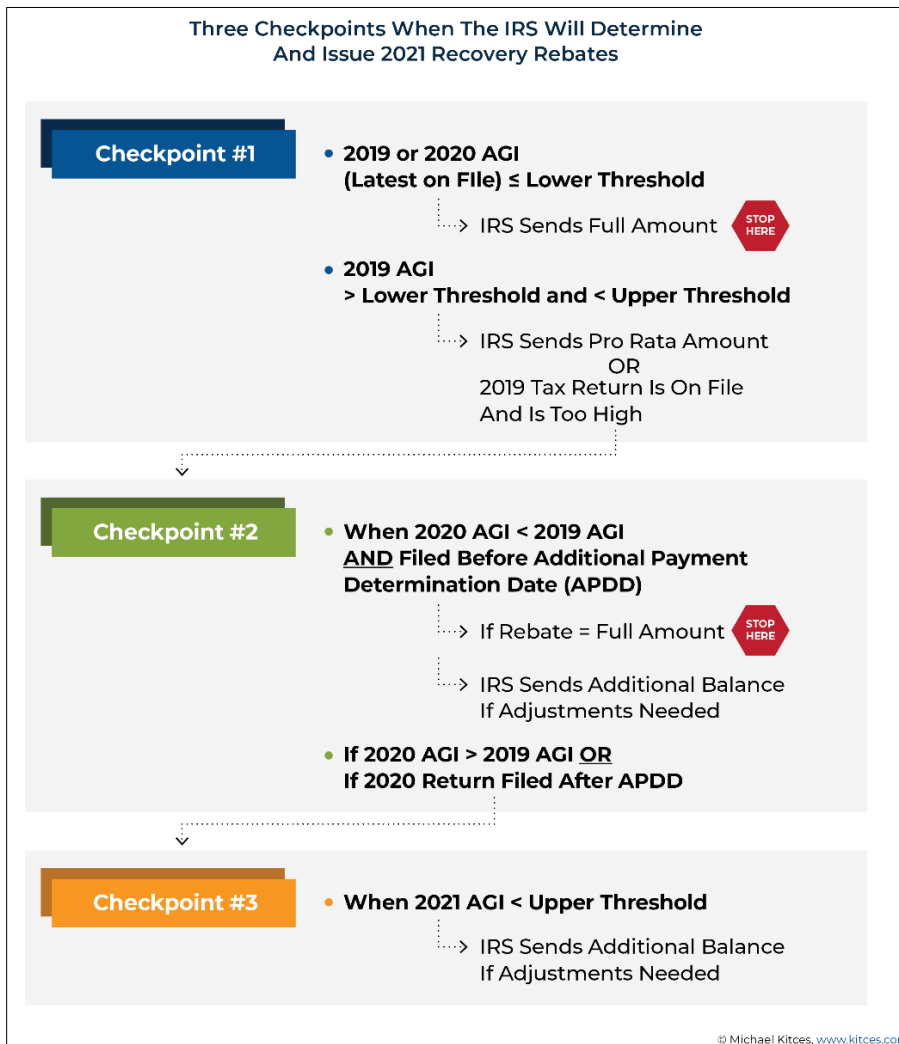


Figure 1. Source: www.kitces.com. As of April 2021.

However, under ARPA, eligibility for the stimulus payment is to be calculated based on the taxpayer's 2020 return; this means that if you were not eligible for the payment based on your 2019 AGI, your 2020 return will be evaluated once filed and, if you are determined to be eligible, a stimulus payment is to be calculated based on the 2020 return and issued to you.

2021 Child Tax Credits – the child tax credit has been adjusted in the ARPA. These are extra amounts of \$1,600 per child over the usual amount of child tax credit. Though the traditional child tax credit is the same, the phaseouts for the extra credit amount has been reduced, \$75,000 single/\$150,000 joint. Figure 2 summarizes these new rules. If eligible, this credit may be paid out in advance, starting in July. It is important to note that this credit may be clawed back if the taxpayer's 2021 earnings are over the threshold values for the additional credit. The IRS will be releasing a portal to opt out of the advanced payments.



Figure 2. Source: www.Congress.gov. As of April 2021.

Dependent Care Credit – ARPA has made the dependent care credit fully refundable and has increased the amount of eligible expenses, adjusting the maximum credit amount from \$1,050 for 1 child in 2020 to \$4,000 in 2021 (see Figure 3).

Changes To The Child and Dependent Care Tax Credit in 2021
Include Increased Eligible Expenses and Applicable Percentage Values

		Maximum Eligible Expenses	Maximum Applicable Percentage	Maximum Credit
2020	1 Qualifying Child	\$3,000	35%	\$1,050
	2 or More Qualifying Children	\$6,000	35%	\$2,100
2021	1 Qualifying Child	\$8,000	50%	\$4,000
	2 or More Qualifying Children	\$16,000	50%	\$8,000

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Figure 3. Source: www.kitces.com. As of April 2021.

Other Items –

- Unemployment benefits, including for self-employed, were extended through September 6, 2021 with \$300 of benefits in addition to any provided by the applicable state.
- COBRA for those laid off due to the pandemic is included in the plan through the end of September 2021 at no charge to the employee.
- The employee retention credit is extended through the end of the year.

Summary

The American Rescue Plan Act contained many provisions that impact both individual as well as business taxpayers. Along with the direct provisions there are other changes due to the complexity and need for additional time to update systems in response to this policy. Please reach out to your advisor if you have questions.

- Tax filing deadline, including payments – May 17th (including for Colorado) (June 15th for Texas, Oklahoma and Louisiana).
- September 1st – deadline for 2020 return to qualify for full stimulus reevaluation.
- IRA/Roth IRA/HSA contributions extended to May 17th.

Sincerely,
The Private Capital Management Team

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