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What to Know About the American Rescue Plan

Less than a month after taking office, President Joe Biden unveiled a proposal intended to mitigate some of the effects Americans are experiencing as a result of the COVID-19 pandemic. This American Rescue Plan will cost $1.9 trillion and contains several provisions for aid, including tax provisions. Michael D'Addio, a tax and business services principal from the firm of Marcum LLP, explains what accountants need to know.

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President Biden has released the details of his COVID-19 "American Rescue Plan" (ARP), which has an estimated cost of $1.9 trillion. This plan is apparently a first step in providing immediate relief and is expected to be followed by a stimulus bill that will focus on improving the economy.

The ARP contains many tax provisions, including the following:

An Expansion of Individual Stimulus Checks

Through the payment of an additional $1,400 per qualifying individual. When added to the $600 amount paid under the Consolidated Appropriations Acts (CAA) of 2021, this is a combined $2,000 payment per individual. In addition, the proposal would allow payments to a taxpayer for any dependent (not just for a qualifying dependent child under age 17).

As under prior law, the cash payment is based on a prior year's income tax return and is actually an advance on a credit that will be calculated on a current year tax return. The amount of the advance payment and the ultimate credit permitted is phased out depending upon a filer's income, at a rate of $5 per $100 of income above certain thresholds ($75,000 for single and $150,000 for joint filers). With the larger credit, this rate of phase-out would permit more higher earners to receive a stimulus check or credit than under the original provisions of the Coronavirus, Aid, Relief & Economic Security (CARES) Act, as amended by the CAA. It is unclear whether this phase-out rate will be adjusted under the ARP to ensure that higher earners will not be eligible.

An Increase in the Child Tax Credit

The law currently provides for a $2,000 credit per qualifying child under age 17 with up to $1,400 being eligible to be received as a refund. The refund is subject to phase-out at certain income levels. The ARP would increase the credit to $3,600 for each qualifying child under age 6 and $3,000 for children between ages 6-16. The entire credit in excess of tax owed would be eligible for refund.

An Expansion of the Earned Income Tax Credit

The ARP would make a number of changes to the Earned Income Tax Credit (EITC) solely for the 2021 tax year, by:

Increasing both:

The credit amount (e.g., for adults without children from $543 to $1,500); and

The income limit at which the credit is adjusted. For a single filer, the increase would be from $16,000 to about $21,000.

Permitting workers over age 65 to be eligible to claim the credit.

The President also suggests that an adjustment should be made to the computation of the EITC, since earnings for 2021 may lower due to the COVID-19 pandemic.

An Expansion of the Child and Dependent Care Tax Credit

The ARP increases the Child and Dependent Care Tax Credit from its current maximum 35 percent rate to 50 percent. Additionally, the credit will cover $4,000 of qualifying costs for one child and $8,000 of costs for two or more children for 2021 (up from the current $3,000 and $6,000 amounts, respectively). The credit would be fully refundable for families making less than $125,000 and partially for those whose earnings are between $125,000 and $400,000.

The ARP also proposes an additional $15 billion in funding to the Child Care and Development Block Grant program (which received $10 billion under the CAA).

A Continuation of Federal Unemployment Insurance Benefit Assistance

An increase of Federal Pandemic Unemployment Compensation from $300 a week to $400, and

An extension of the period during which workers can qualify for the expanded federally assisted benefits through September 2021.

A Mandatory Continuation of Employer-Provided Sick Pay and Family Leave Pay

The ARP would extend the Family First Coronavirus Response Act (FFCRA) requiring employers to provide sick pay and emergency family and medical leave pay. This mandatory provision ended in 2020, though the CAA permits an employer to elect to continue this program through March 31, 2021. The ARP would provide for payment to a qualified employee, subject to a maximum of $1,400 per week. The plan extends the refundable dollar-for-dollar federal payroll tax credit for employers with fewer than 500 employees, and this would be extended to state and local governments. The plan would also eliminate the exemptions provided for the FFCRA provisions for employers with more than 500 employees or less than 50 employees.

An Increase in the Minimum Wage

The ARP proposes an increase in the federal minimum wage from $7.25 per hour to $15. It is not clear whether the change would be immediate or phased in. Additionally, the plan includes significant changes to minimum wage rules by eliminating the tipped employee minimum wage and special rules for persons with disabilities.

Provide Rental Assistance

The ARP would provide assistance to the rental segment in a couple of ways. Renters and small landlords would be eligible for $30 billion of support. Additionally, the moratorium on evictions and foreclosures of federally guaranteed mortgages is extended through September 30, 2021.

The ARP does not contain many of the tax increases that were part of the Biden tax plan outlined on the President's campaign website. Some of these proposals may be part of a future economic stimulus package. However, if there is not sufficient Republican support for the ARP, the Democrats may look to go forward using the reconciliation process. This may require the inclusion of tax increases to balance out the package to satisfy the budget reconciliation rules.

Marcum will be monitoring any proposed changes in this plan or alternative plans submitted. If you have any questions concerning the application of these rules to your situation, do not hesitate to contact your Marcum tax professional.

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