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individuals respectively. In addition, payments are now available for all dependents,...

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President Biden has signed into law the new economic relief package passed by the House of Representatives and Senate on Wednesday. The American Rescue Plan (ARP) Act provides a wide array of tax-related benefits for individuals. Following is a brief summary of several key tax breaks included in the new law.

## **Economic stimulus payments:**

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As before, economic stimulus payments are phased out, based on adjusted gross income (AGI). However, the upper threshold is reduced from \$100,000 of AGI to \$80,000 for single filers and from \$200,000 down to \$160,000 for joint filers. Payments for dependents are also phased out under these thresholds. The IRS expects to begin sending out payments in March.

## **Child Tax Credit:**

The new law includes sweeping changes to the Child Tax Credit (CTC). Under the old law, the CTC is equal to \$2,000 for each qualified child under age 17 who resides with you for at least six months of the year. Up to \$1,400 of this amount is refundable, but the credit begins to phase out at \$200,000 of AGI for single filers and \$400,000 for joint filers.

The new law provides the following revisions for 2021:

- An increase in the CTC to \$3,600 per qualified child under age six and \$3,000 for a child up to age 17.
- The credit is fully refundable.
- The phaseout begins at lower levels of \$75,000 of AGI for single filers and \$150,000 for joint filers. But many higher-income families can still claim the \$2,000 credit subject to the prior phaseout rules.

Finally, the IRS will make advance payments of the credit, beginning in July. The exact logistics are still being worked out.

## **Dependent care credits:**

Perhaps the changes for the dependent care credit are being overshadowed by the CTC, but the new law substantially increases the benefits for many moderate-to-high

income taxpayers.

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households with an AGI of up to \$125,000. But the credit will be reduced below 20% for those with an AGI of more than \$400,000. Finally, the credit for 2021 is refundable.

### **Unemployment benefits:**

After much haggling, Congress extended unemployment benefits for out-of-work individuals and threw in a retroactive tax break. First, weekly unemployment benefits of \$300, which were scheduled to begin to run out in mid-March, are extended through September 6. But Congress didn't approve the increase to \$400 per week that was included in the House bill.

Second, the new law exempts from federal income tax up to \$10,200 of unemployment benefits received in 2020 by a family with an AGI under \$150,000. Normally, those benefits would be fully taxable. This tax break is intended to help taxpayers who might be blindsided by an unexpected tax bill on their 2020 returns.

### **Student loan forgiveness:**

If a debt is forgiven or cancelled, it generally results in taxable income to the debtor. However, in limited cases, debts of student loans that are forgiven may be exempt from tax,

The new law effectively creates a tax exemption for student loans made, insured or guaranteed by the federal or state governments, as well as loans from private lenders and educational institutions. This doesn't apply, however, to loans that are discharged in exchange for services rendered. The provision is effective for 2021 through 2025, but could be extended or made permanent.

These are just some of the highlights of the latest tax changes for individual taxpayers. The ARP Act includes a slew of other provisions that may help individuals,

including rent and mortgage relief, healthcare credits and assistance and higher

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