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**COVID-19**

# Important Information for Parents Regarding the American Rescue Plan Act

The recent aid package included new stimulus payment amounts including an increased amount for each dependent. Additionally, there is relief for families facing unemployment by allowing an exclusion for unemployment income claimed on your tax return.

Mar. 17, 2021



In March 2021 President Biden signed into law the American Rescue Plan Act that included assistance to both businesses and individuals. Below are a few things parents should know in regards to this recent legislation.

### **Third Round of Stimulus Payments**

This package includes a third round of stimulus payments for taxpayers who meet income thresholds. Payments are based on income from 2020 unless you have not filed your 2020 tax return, which in that case would be based on 2019 income. Eligible individuals must not exceed income of \$75,000 or if filing jointly, \$150,000, to receive the full payment.

Each eligible individual receives \$1,400 including qualifying dependents. These amounts are different from the previous round of stimulus payments and do include an increase per dependent, which is helpful for parents with multiple children.

If you are unsure how much you should receive, refer to this [calculator](#). By answering the questions indicated, you can calculate the amount of the stimulus payment your family is eligible for.

### **Unemployment Compensation**

Many families are facing job loss and with this aid package comes additional unemployment benefits. Unemployment compensation up to \$10,200 can be excluded from taxable income if modified adjusted gross income is less than \$150,000. For married taxpayers, you and your spouse can each exclude up to \$10,200 of unemployment compensation. If you filed your tax return prior to the passage of this act, you will need to file an amended tax return in order to exclude this income.

### **Child Tax Credit**

This aid package includes multiple changes to the child tax credit. Previously, this credit was \$2,000 per qualifying child and partially refundable with phase out starting at \$400,000 if filing jointly. Under the American Rescue Plan Act, the credit increases to \$3,000 per qualifying child under 18 or \$3,600 for children under age 6 by the end of 2021. The child tax credit is now also fully refundable. The income phase out for the additional credit amount over \$2,000 per child starts at \$75,000 for single filers and \$150,000 for joint filers.

Taxpayers will also have the option to receive temporary, monthly advanced payments equal to 50% of the eligible 2021 child tax credit. These payments are

scheduled to start around July 2021 and are based on income from tax year 2020, if filed. If you receive an excess amount of the allowable credit, then you must generally repay the excess when you file our 2021 tax return.

## **Child and Dependent Care Credit**

One of the most expensive costs for parents is childcare while they work or look for work. With the passage of this act, the child and dependent care credit has increased. Previously, the child care expense limit was \$3,000 for one qualifying child or \$6,000 for more than one qualifying child. The new expense limit is now \$8,000 for one qualifying child and \$16,000 for more than one qualifying child. The credit is based on 50% of the expense amount when your adjusted gross income is less than \$125,000. There is a max credit of \$4,000 for one qualifying child and \$8,000 for more than one qualifying child. The credit is completely phased out for joint filers who have adjusted gross income over \$440,000.

Unlike in previous years, the child and dependent care credit is now refundable as well.

## **Summary**

The recent aid package included new stimulus payment amounts including an increased amount for each dependent. Additionally, there is relief for families facing unemployment by allowing an exclusion for unemployment income claimed on your tax return. The biggest changes in this act that affect families include the increase in the child tax credit and child and dependent care credit. Both credits can help alleviate some of the burden of living and child care expenses. If you are unsure of your eligibility regarding the recent changes, consult a tax expert or financial advisor to ensure that you are getting the correct stimulus payment and credit amounts.

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