



Business Tax Impacts of the American Rescue Plan Act of 2021


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3


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Agenda

1. Pandemic Response Bills
 - Responses in 2020
 - Continued Response in 2021
2. Tax Credit Updates
 - Employee Retention Credit
 - FFCRA
3. Other Tax Updates
 - Employee Benefits Updates
 - Individual Tax Effects





Overview

- Three large pandemic response stimulus bills
 - CARES Act of 2020
 - Consolidated Appropriations Act of 2020
 - American Rescue Plan Act of 2021
- Major changes and economic incentives created or updated each of these bills
 - Business side stimulus (PPP, ERTC)
 - Individual side stimulus (Stimulus payments)





Background

- Created in CARES Act, expanded in CAA
- How it works
 - Eligible Employers can receive a credit for wages paid to employees
 - An employer is eligible if:
 - Their business was fully or partially suspended due to governmental order related to COVID-19, OR
 - In a period of significant decline in gross receipts
 - Exact requirements and credit availability vary based on whether the credit is for 2020 or for 2021 and number of employees
- Originally set to expire in 2020, but extended through first two quarters of 2021 by CAA



ARPA Expansion

- Created eligibility for “Recovery Startup Businesses”
 - Business began after February 15, 2020
 - Has \$1 million or less in annual gross receipts
 - Does not otherwise meet eligibility requirements related to suspension of business or decline in receipts
- “Severely Financially Distressed Businesses”
 - Businesses who meet a 90% decline in gross receipts
 - Can claim credit for all wages paid, regardless of employer size



9

ARPA Expansion

- Expanded time period to claim credit
 - Credit extended through all quarters of 2021
 - Continued qualification is required
- Expanded audit period
 - Specifically expanded audit period from 3 years to 5 years for ERC credits claimed
 - Taxpayers should ensure adequate records throughout the period for assessment



10



Background

- FFCRA mandated Emergency Paid Sick Leave and Emergency Family Leave for 2020
- A payroll tax credit was granted for the amounts paid for qualifying leave
- Combined amount of leave was 12 weeks
 - 2 weeks of Emergency Paid Sick Leave
 - 10 weeks of Emergency Family Leave

Background – Qualifying Reasons

- Qualifying reasons for Emergency Paid Sick Leave
 - Employee subject to quarantine order;
 - Employee advised by health provider to self-quarantine;
 - Employee is experiencing COVID-19 symptoms and seeking diagnosis;
 - Employees is caring for an individual who is under a governmental or healthcare provider quarantine
 - Caring for a child when childcare is unavailable due to COVID-19 precautions
- Qualifying reasons for Emergency Family Leave

13



Background – Credit Amount

- Credit for Emergency Paid Sick Leave is up to \$511 day when the employee is subject to quarantine or seeking medical care for COVID-19
- Emergency Paid Sick Leave credit for any other reason is limited to \$200/day
- Emergency Family Leave credit is limited to \$200/day

14



ARPA Expansion

- Expanded credit availability to second and third quarter of 2021 (previously expanded to 1st quarter through CAA)
- Like expansion in CAA, leave is no longer mandatory, but credit available if offered
- Expanded qualifying reason to include:
 - Receiving a vaccine or recovering from side effects from a vaccine
 - Awaiting test results if employee has been exposed to COVID-19
 - Employer has requested employee be tested for COVID-19
- Expanded max credit for Emergency Family Leave to \$12,000 per employee
- Expanded time for assessment similar to ERTC



15

Employee Benefit Changes



COBRA Expansion

- Creates a 100% COBRA subsidy for eligible individuals
- Qualifying individuals will receive coverage cost-free for the period April 1, 2021 to September 30, 2021.
- Employers with employer-sponsored group plans (or full-insured plans subject to mini-COBRA) are required to provide the subsidized COBRA coverage
- Employers may recover this cost by claiming a refundable credit against Medicare taxes
- Election period for COBRA is also extended



17

COBRA Expansion – Eligible Individual

- Individuals are eligible for the subsidy if:
 - Eligible for COBRA continuation covered due to an involuntary termination or reduction in hours
 - Incurs a termination of employment or reduction in hours during the subsidy period (or, in some instances, prior to the period)
 - Elects continuation coverage for some or all of the subsidy period.
- Employers are required to provide notice eligible individuals
- New notice provisions may apply related to subsidy



18

Pension Funding Stabilization

- ARPA creates several way to stabilize funding
- Examples:
 - Implementing 15-year amortization periods;
 - Fresh start rules;
 - Increase in interest rates used for minimum funding determinations
- Employers who wish to review potential options to stabilize any pension funding should consult with relevant plan actuaries



19

Individual Tax Updates



Unemployment Compensation

- I.R.C. § 85 generally provides that gross income includes unemployment compensation
- ARPA modifies I.R.C. § 85 for 2020
- If adjusted gross income is less than \$150,000, the gross income excludes unemployment income up to \$10,200
- Louisiana has conformed to this provision

21



Expansion of Child Tax Credit

- Expands “qualifying child” to include children up to 17
- Increases child tax credit to \$3,600 for children under six
- Increases credit for children from six to 17 to \$3,000
- Additional amount phases amount at higher income levels
- Advance payments will be made based on the 2019 or 2020 return

22



Increase in Dependent Care Assistance

- I.R.C. § 129 generally provides that gross income of employee does not include amounts paid by an employer for dependent care assistance
- Exclusion is generally limited to \$5,000 (\$2,500 for MFS)
- ARPA expands this exclusion for tax year 2021 to \$10,500 (\$5,250 for MFS)
- Note that if employers sponsor such plans, they may need to amend plans in order to allow employees to take advantage of the increase



23

Expansion of Premium Tax Credit

- Expands availability by removing upper income limit on potentially eligible to receive the credit for tax years 2021 and 2022
- Reduced cost of coverage contribution for higher end qualifiers
- Advance premium tax credit for 2020 that is in excess of the eligible amount as determined at filing will not be required to be repaid



24

Expansion of Premium Tax Credit

- Creates a provision where anyone who receives or is approved for unemployment compensation for at least one week in 2021 will not be required to be pay for any coverage obtained through marketplace in 2020
- Employers should review employer mandate as a result of this change as well

25




Stimulus Payments

- ARPA created Economic Impact Payments of up to \$1400 per individual (\$2800 for married couples, with \$1400 for each dependent)
- Eligibility based on income
 - Up to \$150,000 (MFJ/qualifying widow/er)
 - Up to \$112,500 (HOH)
 - \$75,000 (Single/MFS)
- Benefit will be full phased out
 - Up to \$150,000 (MFJ/qualifying widow/er)
 - Up to \$120,000 (HOH)
 - \$80,000 (Single/MFS)

26



Questions?





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