

How 2021 Tax Law Changes Could Affect You

The American Rescue Plan Act (“ARPA”) made important changes to the tax code that increases tax refunds for most people. You must file a tax return to claim many of the benefits. Read below to see if you could benefit from these changes.

A third round of stimulus payments

ARPA created a third round of stimulus payments of up to \$1400 a person. Eligible taxpayers must have a social security number and make under \$80,000 if filing as single, \$120,000 for taxpayers filing as head of household, or \$160,000 for married couples who file jointly. If you have not yet received your third stimulus payment, you can claim it when you file your 2021 tax return.

Some unemployment payments are nontaxable

Unemployment payments are usually taxable. Now, the ARPA makes the first \$10,200 of unemployment nontaxable for each member of the household.

If you filed before ARPA was enacted, you do not need to do anything. The IRS will automatically correct your return. Tax forgiveness is only for 2020 returns.

If you are receiving unemployment in 2021, it is recommended that you withhold taxes from your unemployment payments.

The Child Tax Credit is increased

The Child Tax Credit was increased for tax year 2021. Children 5 and under qualify for up to \$3,600. Children age 6 to 17 qualify for up to \$3,000. While these credits technically can not be claimed until you file your 2021 tax return, the IRS will start paying half of the refund per child in advance, starting July of 2021. Because these payments will be based off your 2020 tax returns, it is recommended that you file a 2020 tax return.

The Earned Income Tax Credit is increased

The ARPA made major changes to the Earned Income Tax Credit (“EITC”). The maximum amount of EITC for single filers is tripled to \$1,500 for tax year 2021. Taxpayers can also choose to base the EITC off 2019 income, if it will increase your refund amount. The EITC will also be available to taxpayers 65 and older and, in some situations, married taxpayers who file separately.



The Child and Dependent Care Credit is increased

Taxpayers who pay for childcare while they work or look for work may be eligible for the Child and Dependent Care Credit. The ARPA increased the refundable credit to \$4,000 for one dependent and \$8,000 for two or more dependents for tax year 2021.



Affordable Care Act assistance is expanded

Premium Tax Credit overpayments are forgiven for 2020 only. For tax years 2021 and 2022, the cap on eligibility is removed, and individuals with incomes greater than 150% of the federal poverty line are eligible for zero premiums.



The ARPA makes forgiven student loan debt nontaxable

Forgiven or cancelled student loan debt is usually considered taxable income. However, the ARPA makes any federal student loan debt cancelled from 2021 through December 31, 2025 nontaxable.

If you have questions or need legal assistance, please call the
Legal Aid line at **(513) 241-9400**