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# CARES Act 2021: More relief for struggling Americans

The original Coronavirus Aid, Relief and Economic Security Act (**CARES Act of 2020**) was passed on March 27, 2020. That initial relief legislation offered close to \$2.2 trillion in stimulus. What followed was a string of subsequent laws, and acronyms, including the Paycheck Protection Program and Health Care Enhancement Act (PPP&HCA), the Paycheck Protection Program Flexibility Act (PPPFA), the Economic Injury Disaster Loan (EIDL) and other relief measures. **These programs injected additional trillions of dollars into the U.S. economy.**

As another wave of Coronavirus cases mount, negotiations for a second major round of stimulus dragged on through the second half of 2020. On December 27, 2020, President Trump signed the Consolidated Appropriations Act 2021 (CAA or the “Act”), which had the effect of keeping the government funded until late 2021. Within that act was the Covid-Related Tax Relief Act of 2020, and a host of other relief measures intended to help sustain the economy.

## CARES Act Extension

# \$600

The extended provisions of the CARES Act provide for another round of direct payments of \$600 to qualifying Americans

## Direct relief payments

As with the original provisions of the CARES Act, the relief payments phase out based on an individual’s level of income. However, under the CAA 2021, the income thresholds for a complete phase-out have been lowered as shown in the chart. Still, the checks will inject billions of dollars into the economy and will help people who have kept jobs, but lost hours or income.

## \$600 second stimulus check income limits

	AGI to receive full amount	AGI to phase out of payment	Income limit for first check
Single tax filer	Under \$75,000	\$87,000	\$99,000
Head of a household	Under \$112,500	\$124,500	\$146,000
Married, filing jointly	Under \$150,000	\$174,000	\$198,000

### Employer deferral of an employee's share of Paycheck taxes

This relief had been heavily promoted in the summer of 2020 by President Trump as a means to boost employer cash flows by deferring Social Security contributions. The CAA allows these deferrals to extend to December 31, 2021.

### Additional unemployment benefits

The Act makes available to the states an additional \$300 weekly supplement to unemployment benefits – which was half the size of what Congress provided last spring. This will replenish existing unemployment benefits for some and could be used for Pandemic Unemployment Assistance, which was designed for gig workers and other self-employed individuals who are regularly not able to get unemployment benefits. The legislation also extends federal jobless benefits for millions of unemployed Americans at a level of \$300 per week, covering up to 11 weeks of unemployment through March 14, 2021.

### Renter's relief

The legislation provides approximately \$25 billion in emergency assistance to renters, although it remained unclear how that money would be disbursed. The Act includes a 1-month extension to the eviction moratorium.

### Life insurance-related provisions affecting §7702

The new law, which was heavily lobbied for by the life industry, includes an overhaul to interest rate assumptions for determining the premiums that can be used to fund life insurance policies. Tax Code Section 7702 has long set rules constraining maximum premium funding, as well as how large cash values can be in relationship to available death benefits. Under these provisions, a life insurance policy must meet one of two tests in order to qualify as life insurance – a Cash Value Accumulation Test (often called CVAT) or a Guideline Premium/Cash Value Corridor Test. Built into each of these tests were fixed interest rates of 4% and 6% that were thought to be reasonable at the time the law was enacted (1984). In addition, under Tax Code Section 7702A, a policy must meet a 7-pay test in order to avoid being designated as a “modified endowment contract” (often called a MEC) and thereby receive less favorable tax treatment of lifetime distributions than non-MECs. Similar to the CVAT, built into this 7-pay test was a fixed interest rate of 4%.

However, over the decades, interest rates have declined significantly. The change will allow lower “floating rates” to be used for the CVAT, Guideline Premium Test and 7-pay test determinations. The use of floating rates is expected to allow policies to be more adequately funded during times of sustained low interest rates, while still

qualifying for preferential tax treatment. The new rates apply to contracts issued beginning in January 2021. Under the new law's "transition rule," the currently applicable 4% and 6% rates will become 2% and 4%, respectively, for issues of 2021.

The impact and timing of these changes on product offerings may vary considerably from carrier to carrier based on their current and anticipated product lines, but the changes are ultimately expected to impact the product landscape for the entire industry over the next several years.

### Clarification of tax benefits from Paycheck Protection Program loans

The new Act offers some clarifications on relief of taxation for business PPP and other loans if they are forgiven. The law also resolves the disputes over whether businesses that received PPP loans, and had them forgiven, will be allowed to deduct the costs covered by those loans on their federal tax returns. Those costs ARE NOW deductible under a final agreement, so long as a PPP recipient can demonstrate a loss in revenue in 2020 when compared to prior years. The IRS released Revenue Ruling 2021-02, which obsoletes Notice 2020-32 and allows for deductibility of PPP reimbursed expenses. The definition of reimbursable expenses now includes expenses, such as deductible premiums paid for group employee supplemental benefits. A specific targeted program for Emergency Disaster Injury Loans (EIDL) was approved. EIDL loans were not forgivable and carried a 3.75% interest rate for 30 years.

## Paycheck Protection Program-related provisions

**\$325** billion in business relief

The single-biggest expenditure in the legislation is about \$325 billion in business relief, including about \$275 billion for another round of Paycheck Protection Program funding.

### Additional provisions

The legislation also includes \$45 billion for transportation needs such as state transportation departments and Amtrak, \$82 billion for schools, \$20 billion for vaccine distribution and \$13 billion for a major expansion in food stamps. The Act also continued allowing non-itemizers the ability to take charitable contributions on their 2021 tax filing (\$300 for individuals and \$600 for married filing jointly).

Notably, the Act did not extend relief for required minimum distributions into 2021. Nor were the expanded retirement plan distribution and loan provisions under the CARES Act extended beyond their respective December, 2020 expiration dates.

## CARES Act 2021 summary

The chart is a summary of the pertinent provisions in place prior to the new law compared to the new law.

Item	CARES Act 2020	PPP&FA 2020	CAA 2021
<b>Individual payments</b>	\$1,200 per individual \$2,400 joint filers plus \$500 for dependent children	No change	\$600 per individual \$1,200 joint filers plus \$600 for dependent children
<b>Income phase outs for individual payments</b>	\$75,000 - \$99,000 for individuals \$112,500 - \$146,500 for Head of Households (HOH) \$150,000 - \$198,000 for married, filing joint (MFJ) <i>(based on 2018/2019)</i>	No change	\$75,000 - \$87,000 for individuals \$112,500-\$124,500 for HOH \$150,000 - \$174,000 for MFJ <i>(based on 2020)</i>

## CARES Act 2021 summary *continued*

Item	CARES Act 2020	PPP&FA 2020	CAA 2021
Supplemental unemployment benefits	\$600 for 13 weeks plus state	No change	\$300 for 11 weeks through March 14, 2021
Pandemic unemployment assistance benefits	\$600 for 13 weeks plus state	No change	\$300 for 11 weeks through March 14, 2021
<b>Paycheck Protection Program (PPP)</b>			
Number of employees	500 or less	500 or less	300 or less
Covered period of time during which PPP loans may be spent	8 weeks from receipt of funds	The earlier of 24 weeks from loan origination or by December 31, 2020	Any consecutive 12-week (any 96 consecutive days) period
Eligible paycheck cost percentage to Paycheck	75% or more	60% or more	60% or more
Loan maturity date	2 years (existing loans may be extended)	Up to 5 years	Up to 5 years
Interest rate	1%	1%	1%
Payment deferral period	6 months from date of disbursement	Until date when lender receives loan forgiveness amount	Same
Deadline to file for loan forgiveness	October 31, 2020	Must file within 10 months from last day of the covered period	Same
Deadline to rehire laid-off workers, restore paycheck to February 15, 2020 full-time employee (FTE) status	On or before June 30, 2020	On or before December 31, 2020	On or before December 31, 2021
Simplified loan application limit	Not available	\$150,000	\$150,000

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