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IRS will recalculate taxes on 2020 unemployment benefits and start issuing refunds in May

April 12, 2021

Normally, any unemployment compensation someone receives is taxable. However, a recent law change allows some recipients to not pay tax on some 2020 unemployment compensation.

The IRS will automatically refund money to eligible people who filed their tax return reporting unemployment compensation before the recent changes made by the American Rescue Plan. These refunds are expected to begin in May and continue into the summer.

Under the new law, taxpayers who earned less than \$150,000 in modified adjusted gross income can exclude some unemployment compensation from their income. This means they don't have to pay tax on some of it. People who are married filing jointly can exclude up to \$20,400 – up to \$10,200 for each spouse who received unemployment compensation. All other eligible taxpayers can exclude up to \$10,200 from their income.

Information for people who already filed their 2020 tax return

This law change occurred after some people filed their 2020 taxes. For taxpayers who already have filed and figured their 2020 tax based on the full amount of unemployment compensation, the IRS will determine the correct taxable amount of unemployment compensation. Any resulting overpayment of tax will be either refunded or applied to other taxes owed.

The agency will do these recalculations in two phases.

- First, taxpayers who are eligible to exclude up to \$10,200.
- Second, those married filing jointly who are eligible to exclude up to \$20,400, and others with more complex returns.

Taxpayers only need to file an amended return if the recalculations make them newly eligible for additional federal tax credits or deductions not already included on their original tax return.

For example, the IRS can adjust returns for taxpayers who claimed the earned income tax credit and, because the exclusion changed their income level, may now be eligible for an increase in the EITC amount.

However, taxpayers would have to file an amended return if they did not originally claim the EITC or other credits but are now eligible to claim them following the change in the tax law. Taxpayers can use the [EITC Assistant](#) to see if they qualify for this credit based upon their new taxable income amount. If they now qualify, they should consider filing an amended return to claim this money.

These taxpayers may want to review their state tax returns as well.

Information for people who haven't filed their 2020 tax return

Tax preparation software has been updated to reflect these changes. People who haven't yet filed and choose to file electronically, simply need to respond to the related questions when preparing their tax returns. These taxpayers should read [New Exclusion of up to \\$10,200 of Unemployment Compensation](#) for information and examples. For those who choose to file a paper return, [instructions and an updated worksheet](#) about the exclusion are available on [IRS.gov](#).

IF YOU HAVE ANY QUESTIONS IN REGARD TO THIS EMAIL, OR ANY CONCERNS, PLEASE REACH OUT TO YOUR ACCOUNTANT AT: 845.336.7183.
