

IRS to recalculate taxes on unemployment benefits; refunds to start in May

To help taxpayers, the Internal Revenue Service announced that it will take steps to automatically refund money this spring and summer to people who filed their tax return reporting unemployment compensation before the recent changes made by the American Rescue Plan.

The legislation, signed on March 11, allows taxpayers who earned less than \$150,000 in modified adjusted gross income to exclude unemployment compensation up to \$20,400 if married filing jointly and \$10,200 for all other eligible taxpayers. The legislation excludes only 2020 unemployment benefits from taxes.

Because the change occurred after some people filed their taxes, the IRS will take steps in the spring and summer to make the appropriate change to their return, which may result in a refund. The first refunds are expected to be made in May and will continue into the summer.

For those taxpayers who already have filed and figured their tax based on the full amount of unemployment compensation, the IRS will determine the correct taxable amount of unemployment compensation and tax. Any resulting overpayment of tax will be either refunded or applied to other outstanding taxes owed.

For those who have already filed, the IRS will do these recalculations in two phases, starting with those taxpayers eligible for the up to \$10,200 exclusion. The IRS will then adjust returns for those married filing jointly taxpayers who are eligible for the up to \$20,400 exclusion and others with more complex returns.

There is no need for taxpayers to file an amended return unless the calculations make the taxpayer newly eligible for additional federal credits and deductions not already included on the original tax return.

For example, the IRS can adjust returns for those taxpayers who claimed the Earned Income Tax Credit (EITC) and, because the exclusion changed the income level, may now be eligible for an increase in the EITC amount which may result in a larger refund. However, taxpayers would have to file an amended return if they did not originally claim the EITC or other credits but now are eligible because the exclusion changed their income.

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

According to the Bureau of Labor Statistics, over 23 million U.S. workers nationwide filed for unemployment last year. For the first time, some self-employed workers qualified for unemployed benefits as well. The IRS is working to determine how many workers affected by the tax change already have filed their tax returns.

The new IRS guidance also includes details for those eligible taxpayers who have not yet filed. The IRS has worked with the tax return preparation software industry to reflect these updates so people who choose to file electronically simply need to respond to the related questions when electronically preparing their tax returns. See [New Exclusion of up to \\$10,200 of Unemployment Compensation](#) for information and examples. For others, instructions and an updated worksheet about the exclusion were available in March and posted to [IRS.gov/Form 1040](https://www.irs.gov/Form1040). These instructions can assist taxpayers who have not yet filed to prepare returns correctly.

A Closer Look: Tax volunteers support taxpayers in need

In the latest issue of “A Closer Look,” Frank Nolden, director, IRS Stakeholder Partnership, Education and Communication, discusses the benefits and history of volunteer tax preparation sites. “The Volunteer Income Tax Assistance and Tax Counseling for the Elderly programs ... help millions of low-to-moderate income taxpayers accurately prepare and file their tax returns for free with help from IRS-certified volunteers,” Nolden said.

A Closer Look: Free File can help people with no filing requirement find overlooked tax credits In this issue of “[A Closer Look](#),” Dietra Grant, director of Customer Account Services, discusses the benefits of using Free File options to get tax breaks. “So many people were adversely affected last year in the job market, and their income may be substantially different in 2020 than it was in 2019. Don’t leave money on the table, use Free File online to help,” said Grant.