

# IRS to Recalculate Taxes on Unemployment Benefits

## Cross References

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The IRS has provided additional information on how it will recalculate taxes on unemployment benefits. The IRS 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 Act of 2021.

The legislation, signed into law on March 11, 2021, 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 exclusion only applies to 2020 unemployment benefits.

Because the change occurred after some people filed their 2020 tax return, 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 U.S. Department of Labor, Office of Employment and Training (ETA), 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. See our news article: *Exclusion of Unemployment Compensation*, posted on 3/24/2021, for details on how to calculate the exclusion for taxpayers who have not yet filed their 2020 tax return.

**Author's Comment**

This update indicates that the IRS will not be able to properly recalculate all tax returns that were filed reporting unemployment benefits prior to the tax law change. It is our advice that tax preparers wait to see how the IRS recalculates the return, and then file amended returns where applicable to take advantage of additional provisions that were not included in the IRS recalculation.