



# Unemployment and COVID-19 Stimulus Payments

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## Unemployment

Unemployment benefits that you receive are generally taxable income in the year that they are received. This includes both the traditional sources of unemployment and the special, temporary unemployment that was offered in 2020 in response to the COVID-19 pandemic (Federal Pandemic Unemployment Compensation [FPUC] and Lost Wages Assistance program).

You will receive a Form 1099-G, *Certain Government Payments*, from the agency paying the unemployment benefits in January of 2021 reporting the income and withholding to be included on your tax return.

**Self-employed recipients.** The FPUC includes the ability for people who are not normally eligible for unemployment to receive unemployment, including those who are self-employed and independent contractors. If you are self-employed, it is possible that you can receive FPUC benefits through December 31, 2020. These unemployment benefits should not be included in self-employment earnings.

**Withholding or paying estimates.** It is possible to have withholding taken out of unemployment benefits, similar to wages. Fill out Form W-4V, *Voluntary Withholding Request*, and provide it to the agency paying the benefits. If the payor has its own withholding request form, use it instead.

If you choose not to withhold, or do not withhold enough, you can also make quarterly estimated tax payments. For 2020, remaining federal estimates are due September 15, and January 15. Payments can be made by mail with vouchers or scheduled online.

If you return to work in 2020, you can also adjust your withholding through your Form W-4, *Employee's Withholding Certificate*, to increase the withholding through your paychecks to reduce any taxes due.

**Caution:** Some states have run into difficulties incorporating the federal unemployment payments into their systems and have not been able to offer the option for federal and state withholding on the extra unemployment benefits.

**Taxability by states.** The taxability of unemployment benefits varies by state. Unemployment benefits are fully taxable in states not listed below.

- The states with no individual income tax include Alaska, Florida, Nevada, South Dakota, Texas, Washington, and Wyoming.
- The states with individual income tax that do not tax any unemployment include Alabama, California, Montana, New Hampshire, New Jersey, Pennsylvania, Tennessee, and Virginia.
- The states with individual income tax that tax unemployment at a potentially reduced rate include Indiana, Oregon, and Wisconsin.
- Railroad unemployment benefits are not taxable in any state.

**Effect on Earned Income Credit (EIC).** Unemployment benefits are not included in earned income for calculating the Earned Income Credit (EIC) but are included in income to determine adjusted gross income, which determines your eligibility to qualify for the credit. If you have received the Earned Income Credit in the past you may not receive it this year, or it may be reduced.

## Economic Impact Payment (EIP)

The Coronavirus Aid, Relief, and Economic Security Act (CARES Act) authorized the IRS to calculate and automatically send U.S. citizens and U.S. resident aliens an EIP, also known as stimulus payments. You may qualify if you meet the following requirements.

- U.S. citizen or U.S. resident alien.



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- Valid, work eligible Social Security Number (SSN).
- Not a dependent on someone else's return.
- Not incarcerated.
- Alive at the time that the payment is received.

This payment is an advance of a 2020 federal tax credit. It is not considered income for tax or benefit purposes. When filing your 2020 tax return, you will have another chance to calculate the EIP. If the 2020 calculation is greater than the amount previously received, you will receive the additional credit. If you would have received less based on the 2020 calculation, you will generally not need to repay the difference.

You will need to know the EIP received when filing your 2020 return. Within 15 days of sending out the EIP you should have received Notice 1444, *Your Economic Impact Payment*. You are advised to keep the notice for your tax records. At this time, the IRS does not anticipate creating a look up tool for EIPs.

**Payment amount.** The EIP is \$1,200 per individual (\$2,400 if Married Filing Jointly) with an additional \$500 for each qualifying child under age 17. There is no additional amount for a qualified child who is age 17 or older, or a qualified relative of any age. Your payment will be reduced or eliminated if your adjusted gross income (AGI) exceeds the limits below.

AGI Threshold Amounts <sup>1</sup>			
	Married Filing Jointly	Head of Household	All Other Eligible Individuals
Full Payment	Less than \$150,000	Less than \$112,500	Less than \$75,000
Partial Payment <sup>2</sup>	\$150,000 – \$197,999	\$112,500 – \$136,499	\$75,000 – \$98,999
No Payment	\$198,000 or more	\$136,500 or more	\$99,000 or more

<sup>1</sup> Each AGI threshold amount increases by \$10,000 for each additional qualifying child.

<sup>2</sup> The payment is reduced by 5% of the amount that AGI exceeds the threshold for the full payment.

**Tax return used for EIP calculation.** To calculate the EIP, the IRS used the most recent return you filed from 2018 or 2019. If you did not file for either year, filing a 2018 or 2019 return during 2020 will generate a calculation of the EIP.

This brochure contains general information for taxpayers and should not be relied upon as the only source of authority. Taxpayers should seek professional tax advice for more information.

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An IRS tool was developed for non-filers to provide the necessary information to calculate and determine eligibility for the EIP. The “Non-Filers: Enter Payment Info Here” tool is only available for:

- Federal benefit recipients who did not receive the \$500 per qualifying child payment, and
- Low-income or no-income individuals who do not receive Social Security, Supplemental Security Income (SSI), railroad retirement, and veteran benefits.

Recipients of the benefits listed above, and other individuals who have not yet received an EIP but otherwise qualify, should use the “Get My Payment” tool available on [www.irs.gov](http://www.irs.gov).

The IRS is mailing letters to individuals who typically do not file a federal income tax return and do not receive Social Security or other federal benefits. IRS Notice 1444-A provides eligibility criteria and information on how to claim the EIP. The mailing will begin around September 24, 2020 from an IRS address. The letter urges you to use the Non-Filers tool and register for a payment by October 15, 2020.

If the IRS has calculated whether a recipient should receive an EIP, they will not recalculate again during 2020 for later filings or amended returns.

**Repayments.** If an EIP recipient was deceased, incarcerated or claimed as a dependent when the payment was received, the funds should be returned to the IRS. If a joint return was filed and EIP was received for two adults but one spouse is deceased or incarcerated, half of the payment should be returned.

## Contact Us

There are many events that occur during the year that can affect your tax situation. Preparation of your tax return involves summarizing transactions and events that occurred during the prior year. In most situations, treatment is firmly established at the time the transaction occurs. However, negative tax effects can be avoided by proper planning. Please contact us in advance if you have questions about the tax effects of a transaction or event, including the following:

- Pension or IRA distributions.
- Significant change in income or deductions.
- Job change.
- Marriage.
- Attainment of age 59½ or 72.
- Sale or purchase of a business.
- Sale or purchase of a residence or other real estate.
- Retirement.
- Notice from IRS or other revenue department.
- Divorce or separation.
- Self-employment.
- Charitable contributions of property in excess of \$5,000.