



IRS TO AUTOMATICALLY ISSUE REFUNDS ON TAX-FREE UNEMPLOYMENT BENEFITS

From the Journal of Accountancy by Sally P. Schreiber, J.D.

In good news for many taxpayers, the IRS said that, beginning in May and continuing through the summer, it will automatically issue refunds to eligible people who already filed a tax return reporting unemployment compensation before the recent changes made by the American Rescue Plan Act, P.L. 117-2 ([IR-2021-71](#)). Under this process, eligible taxpayers will not have to file amended returns to receive a refund.

The American Rescue Plan Act, enacted on March 11, allows taxpayers with modified adjusted gross income of less than \$150,000 on their tax return to exclude unemployment compensation up to \$20,400 if married filing jointly and \$10,200 for all others, but only for 2020 unemployment benefits.

The IRS explained that, according to the Bureau of Labor Statistics, over 23 million U.S. workers nationwide filed for unemployment last year and some self-employed workers qualified for benefits for the first time. The IRS said it is trying to determine how many workers affected by the tax change already have filed their tax returns.

Because the change occurred after some people filed their 2020 tax returns, the IRS says it will take steps in the spring and summer to correct those returns, which may result in a refund. In testimony before the Oversight Subcommittee of the House Ways and Means Committee on March 18, IRS Commissioner Charles Rettig had promised that the IRS would attempt to issue these refunds without requiring taxpayers to file amended income tax returns, which can be costly and time-consuming.

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

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

Taxpayers do not need to file amended returns unless the calculations make the taxpayers newly eligible for additional federal credits and deductions not already included on the original tax returns.

As an example of a situation where a taxpayer may be entitled to an additional credit, the IRS explained it can adjust a return for a taxpayer who claimed the earned income tax credit (EITC). But because the exclusion for unemployment benefits changed the taxpayer's income level, he or she may now be eligible for an increase in the EITC amount, which may result in a larger refund. In these cases, 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.

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The IRS advised taxpayers to review their state tax returns, too.

The IRS has also [issued guidance](#) for those taxpayers who have not yet filed their returns on how to treat the benefits, including a worksheet for figuring a taxpayer's modified adjusted gross income for these purposes and the amount of unemployment compensation a taxpayer can exclude from income.