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*Strengthening our communities.*

# American Rescue Plan Act: Unemployment Compensation

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# Unemployment Income Pre-2020

- Internal Revenue Code section 61 defines “Gross Income”
  - As a general rule, Gross Income includes all income. Examples include:
    - W-2 Wages
    - Cash Received
    - Anything of value that you have received in exchange for services
- Gross Income also includes Unemployment Wages
  - Internal Revenue Code section 85
- Unemployment Compensation is vague;
  - Includes any amount received under a law of the United States or of a state, *which is in the nature of unemployment compensation.*
- For 2020, unemployment is the main source of income for many taxpayers

# Form 1099-G

VOID  CORRECTED

PAYER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone no.		1 Unemployment compensation	OMB No. 1545-0120	
		\$	2021	Form 1099-G
		2 State or local income tax refunds, credits, or offsets		
				\$
PAYER'S TIN	RECIPIENT'S TIN	3 Box 2 amount is for tax year	4 Federal income tax withheld	
			\$	
RECIPIENT'S name		5 RTAA payments	6 Taxable grants	
		\$	\$	
Street address (including apt. no.)		7 Agriculture payments	8 Check if box 2 is trade or business income <input type="checkbox"/>	
		\$		
City or town, state or province, country, and ZIP or foreign postal code		9 Market gain		
		\$		
Account number (see instructions)		10a State	10b State identification no.	11 State income tax withheld
				\$
				\$

**Certain  
Government  
Payments**

**Copy 1  
For State Tax  
Department**

Form **1099-G**

[www.irs.gov/Form1099G](http://www.irs.gov/Form1099G)

Department of the Treasury - Internal Revenue Service

# Unemployment Compensation for 2020 Tax Returns

- On March 11, 2021, Congress passed the American Rescue Plan Act of 2021 (“ARPA”)
  - The Act included some relief for the millions of American’s receiving unemployment and Pandemic Unemployment Assistance (PUA) during 2020
- Can exclude up to \$10,200 of unemployment compensation received in 2020 for individuals or \$20,400 for married couples
- Phase out if AGI above
  - \$150,000 for taxpayers
  - Credit is reduced by \$50 for each \$1,000 of income over the threshold amount

# Unemployment Compensation for 2020 Tax Returns

- The Unemployment Income exclusion is phased out above \$150,000 of “Adjusted Gross Income”
- To determine the “Adjusted Gross Income,” the government will include:
  - Unemployment Compensation
  - Social Security Payments
  - And deductions for:
    - Adoption
    - Higher education savings bond interest
    - Retirement savings deduction
    - Education loan interest deduction
    - Qualified tuition deduction

# Unemployment Compensation for 2020 Tax Returns

- What do to if you have already filed your 2020 tax returns?
  - Do nothing!
  - On March 31, the IRS published a notice to taxpayers stating that they will be recalculating previously filed returns to account for the exclusion.
    - The IRS will adjust individual taxpayer returns first
    - Afterwards, the IRS will begin to adjust Married Filing Jointly returns
  - Refunds that result from changes in unemployment will be mailed out beginning in May and run through the summer

## Unemployment Compensation Exclusion Worksheet—Schedule 1, Line 8

- |            |  |                  |
|------------|--|------------------|
| <b>1.</b>  | If you are filing Form 1040 or 1040-SR, enter the total of lines 1 through 7 of Form 1040 or 1040-SR. If you are filing Form 1040-NR, enter the total of lines 1a, 1b, and lines 2 through 7   | <b>1.</b> _____  |
| <b>2.</b>  | Enter the amount from Schedule 1, lines 1 through 6. Don't include any amount of unemployment compensation from Schedule 1, line 7, on this line   | <b>2.</b> _____  |
| <b>3.</b>  | Use the line 8 instructions to determine the amount to include on Schedule 1, line 8, and enter here. Do not reduce this amount by the amount of unemployment compensation you may be able to exclude  | <b>3.</b> _____  |
| <b>4.</b>  | Add lines 1, 2, and 3  | <b>4.</b> _____  |
| <b>5.</b>  | If you are filing Form 1040 or 1040-SR, enter the amount from line 10c. If you are filing Form 1040-NR, enter the amount from line 10d   | <b>5.</b> _____  |
| <b>6.</b>  | Subtract line 5 from line 4. This is your modified adjusted gross income   | <b>6.</b> _____  |
| <b>7.</b>  | Is the amount on line 6 \$150,000 or more? The \$150,000 threshold applies to all filing statuses even if your filing status is married filing jointly.<br><input type="checkbox"/> <b>Yes.</b> Stop. You can't exclude any of your unemployment compensation.<br><input type="checkbox"/> <b>No.</b> Go to line 8.  |                  |
| <b>8.</b>  | Enter the amount of unemployment compensation paid to you in 2020. Don't enter more than \$10,200  | <b>8.</b> _____  |
| <b>9.</b>  | If married filing jointly, enter the amount of unemployment compensation paid to your spouse in 2020. Don't enter more than \$10,200. If you are filing Form 1040-NR, enter -0-  | <b>9.</b> _____  |
| <b>10.</b> | Add lines 8 and 9 and enter the amount here. This is the amount of unemployment compensation excluded from your income   | <b>10.</b> _____ |
| <b>11.</b> | Subtract line 10 from line 3 and enter the amount on Schedule 1, line 8. If the result is less than zero, enter it in parentheses. On the dotted line next to Schedule 1, line 8, enter "UCE" and show the amount of unemployment compensation exclusion in parentheses on the dotted line. Complete the rest of Schedule 1 and Form 1040, 1040-SR, or 1040-NR | <b>11.</b> _____ |



# Unemployment Compensation for Indiana

- On April 23, 2021, the Indiana General Assembly passed HB 1001, which creates a formula for calculating the taxable portion of unemployment
- Unemployment Income is not considered income for the Indiana Earned Income Tax Credit
  - This means that if your only income last year was unemployment income, you might not qualify for the Indiana EITC
- The Indiana Department of Revenue recommends the following:
  - **If you haven't filed your taxes yet:** Wait until the Indiana Department of Revenue issues guidance on HB 1001.
  - **If you have filed your taxes:** Do not amend or do anything yet.

# Unemployment Compensation for Indiana

- The deductible portion of Unemployment Income is equal to:
  - Eligible Unemployment income minus excess adjusted gross income
- Eligible Unemployment Income
  - All unemployment received during 2020
- Excess Adjusted Gross Income
  - Income plus excluded unemployment income minus \$18,000 if married or \$12,000 if single.

# Example of Deduction in Action

	<u>Example 1</u>	<u>Example 2</u>
Gross Income	\$ 20,000	\$ 20,000
Unemployment Income	\$ 10,000	\$ 15,000
Gross Income; Plus	\$ 20,000	\$ 20,000
Income Excluded;	\$ 10,000	\$ 15,000
Less	\$ 12,000	\$ 12,000
Excess Gross Income	\$ 18,000	\$ 23,000
Divided by 1/2	\$ 9,000	\$ 11,500
	\$ 10,000	\$ 15,000
	\$ 9,000	\$ 11,500
Eligible Deduction	\$ 1,000	\$ 3,500

# Department of Workforce Development

- If you have received more unemployment income than you were entitled to, you are required by Indiana State Law to repay those amounts
- The Department of Workforce Development has 1-year from the date of determination to collect those amounts
  - Amounts not collected by the DWD will be sent to the IRS
  - Future refunds may be offset by the IRS
  - 60-days before a refund is offset you will receive a “Notice of Intent to Offset Federal Income Tax Refund letter” from DWD.



Questions?

Please contact a Low-  
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