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Unemployment Refunds

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The Internal Revenue Service [will begin issuing refunds](#) this week to eligible taxpayers who paid taxes on 2020 unemployment compensation that the recently-enacted American Rescue Plan later excluded from taxable income.

The IRS identified over 10 million taxpayers who filed their tax returns prior to the American Rescue Plan of 2021 becoming law in March and is reviewing those tax returns to determine the correct taxable amount of unemployment compensation

and tax. This could result in a refund, a reduced balance due or no change to tax (no

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any refundable tax credits.

The IRS will issue refunds resulting from this effort by direct deposit for taxpayers who provided bank account information on their 2020 tax return. If valid bank account information is not available, the refund will be mailed as a paper check to the address of record. The IRS will continue to send refunds until all identified tax returns have been reviewed and adjusted.

These refunds are subject to normal offset rules, such as past-due federal tax, state income tax, state unemployment compensation debts, child support, spousal support or certain federal nontax debts (i.e., student loans). The IRS will send a separate notice to the taxpayer if the refund is offset to pay unpaid debts.

The IRS will send taxpayers a notice explaining the corrections, which they should expect within thirty days of when the correction is made. Taxpayers should keep any notices they receive for their records. Taxpayers should review their return after receiving their IRS notice(s).

Correction to any Earned Income Tax Credit (EITC) without qualifying children and the Recovery Rebate Credit are being made automatically as part of this process. However, some taxpayers may be eligible for certain income-based tax credits not claimed on their original return, such as the EITC for their qualifying children. If so, they should file an amended tax return if the revised adjusted gross income amount makes them eligible for additional benefits.

More complex corrections will begin upon the completion of the first phase and involves couples filing as married filing jointly.

Unemployment compensation is taxable income. The American Rescue Plan excludes \$10,200 in 2020 unemployment compensation from income used to calculate the amount of taxes owed. The \$10,200 per person exclusion applies to taxpayers, single

or married filing jointly, with modified adjusted gross income of less than \$150,000.

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but did not report unemployment compensation on their 2020 tax return.

Taxpayers who have not yet filed a tax return should follow the [guidance for Forms 1040 and 1040-SR](#), which details how to exclude unemployment compensation.

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