



IRS sending more than 2.8 million refunds to those who already paid taxes on 2020 unemployment compensation

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WASHINGTON —The Internal Revenue Service is sending more than 2.8 million refunds this week to taxpayers who paid taxes on unemployment compensation that new legislation now excludes as income.

IRS efforts to correct unemployment compensation overpayments will help most affected taxpayers avoid filing an amended tax return. So far, the IRS has identified 13 million taxpayers that may be eligible for the adjustment. Some will receive refunds, which will be issued periodically, and some will have the overpayment applied to taxes due or other debts. For some there will be no change.

The American Rescue Plan Act of 2021 (ARPA) excluded up to \$10,200 in unemployment compensation per taxpayer paid in 2020. The \$10,200 is the maximum amount that can be excluded when calculating taxable income; it is not the amount of refunds.

Earlier this month, the IRS began its programming review of tax returns filed prior to the enactment of ARPA to identify the excludible unemployment compensation. The IRS also is making corrections for the Earned Income Tax Credit, Premium Tax Credit and Recovery Rebate Credit affected by the exclusion.

Taxpayers who have qualifying children and who become eligible for EITC after the exclusion is calculated may have to file an amended return to claim any new benefits. The IRS can adjust tax returns for those who are single with no children and who become eligible for EITC. The IRS also can adjust tax returns where EITC was claimed and qualifying children identified.

To date, the IRS has reviewed over 3.1 million returns, with more than 2.8 million receiving refunds.

The IRS plans to issue the next set of refunds in mid-June. The review of returns and processing corrections will continue during the summer as the IRS continues to review the simplest returns and then turns to more complex returns.

Taxpayers will receive letters from the IRS, generally within 30 days of the adjustment, informing them of what kind of adjustment was made (such as refund, payment of IRS debt payment or payment offset for other authorized debts) and the amount of the adjustment.