Stimulus Payments to Individuals

I hope all of you are feeling and doing well amid the COVID-19 pandemic. This has certainly made for some troubled times. Congress has been very busy in the past few weeks trying to financially help taxpayers. Enough has happened, along with better guidance, that I want to reach out to you about various provisions that may be helpful to you.

My first topic will be the stimulus checks (officially – Economic Impact Payments).

Under the CARES Act signed on March 27th, Congress authorized the payment of $1,200 to eligible taxpayers. Congress is using the IRS, under the US Treasury, to make the payments for two reasons. First, the IRS is in the best position to be able to send payments to a large majority of the country. Second, the payments are actually an income tax credit to be available for the tax year 2020. More about that in a bit.

The Amount of the Payment

The payments to eligible taxpayers will be up to $1,200 for single taxpayers and up to $2,400 for married couples along an additional $500 for each dependent under the age of 17. Thus, the payment for a married couple with 2 children under the age of 17 would receive $3,400.

Who is Eligible?

U.S. citizens and residents are eligible for a full payment if their adjusted gross income (AGI) is under $75,000 (singles or marrieds filing separately), $122,500 (heads of household), and $150,000 (joint filers). The individual must not be the dependent of another taxpayer and must have a social security number that authorizes employment in the U.S.

For individuals whose AGI exceeds the above thresholds, the payment amount is phased out at the rate of $5 for each $100 of income. Thus, the payment is completely phased out for single filers with AGI over $99,000 and for joint filers with no children with AGI over $198,000. For a married couple with two children, the payment will be completely phased out if their AGI exceeds $218,000.

The CARES Act excludes dependents aged 17 and older from receiving a stimulus check. This means that the parents of children over the age of 16 won't be receiving the $500-per-child stimulus kicker, even if their kids still legally qualify as a dependent on their income-tax filing. Additionally, disabled adults and seniors who are claimed as dependents won't be receiving a stimulus check.

To determine your AGI, the IRS will look at your 2019 income tax return (or the tax year 2018 if 2019 has not yet been filed). For some clients, we have advised them to delay filing their 2019 returns if their 2019 AGI is higher than 2018.

When Will You Receive Your Payment?

Taxpayers who have their direct deposit information on file with the IRS, from either 2018 or 2019, will begin receiving their direct deposit of the stimulus payment this week. In fact, the IRS began sending them this past Saturday. For the many taxpayers who haven't used direct deposit, they will receive their payment via check starting at the end of April. Even if you haven't received an income tax refund direct deposit in the past two years but you are receiving Social Security benefits via direct deposit, then you will also receive your stimulus payment via direct deposit.

The IRS plans to send a letter about 15 days after they make the direct deposit for you so you can either confirm that you received your payment or you can direct the IRS to the correct bank account.

For those to receive a check rather than direct deposit, the checks will be mailed starting at the end of April. The IRS will send checks starting with taxpayers with low income, i.e. less than $10,000. That will be followed sequentially for taxpayers up to $20,000, then $30,000 and so on until the top of the phase-out range is reached. It is expected that the whole process may last until September.

For individuals who have had no income tax return filing requirement (because your income is low enough that you don't have to file), and aren't on Social Security, the IRS may not likely know about you. You are still eligible for a stimulus payment. To register your information and your direct deposit information, the IRS opened a new website portal a couple of days ago: https://www.irs.gov/coronavirus/economic-impact-payments. You can also use the portal to let the IRS know that you have eligible dependents so you can claim the $500 per child.

For those filers who have not had an occasion to direct deposit a federal refund, the IRS intends to have another portal available later this week; hopefully by April 17th. The webpage with the link to this portal is at the same link above. Here, you will be able to input your direct deposit information, so you won't have to wait for a paper check.

Treatment as an Income Tax Credit

Under the CARES Act, an eligible individual is allowed an income tax credit for 2020 identical to the stimulus payments. Essentially, the stimulus payment is an advance for the 2020 tax credit. Or more specifically, even though the credit is technically for 2020, the law treats a

hypothetical credit for 2019 as an overpayment that IRS will rebate as soon as possible during 2020. Yes, this is confusing!

An individual who wouldn't qualify for a credit in 2019 because of too much income may turn out to be entitled to a credit for 2020. IRS won't send an advance rebate (stimulus payment) to such an individual, because advance rebates are generally based on information on the 2019 return. However, the individual will be able to claim the credit when filing the 2020 return.

Also, if you didn't receive the stimulus payment, based on your 2018 or 2019 AGI, but it turns out that your 2020 AGI is low enough, then you will still get your $1,200 amount. This adjustment only works this one direction. So, if you did receive your stimulus payment, but your 2020 AGI is so high that you shouldn't have received it, you will not be charged back … you get to keep it anyway.

On another important note, the stimulus payments will not be treated as taxable income.