



February 1, 2021

Recovery Rebate Credit

As we get into tax season, it appears an issue that should be simple will become a trouble maker. In order to properly prepare a client's tax return, the amount of the client's two Economic Impact Payments, EIP1 and EIP2, must be known. These two payments are advance payments of the Recovery Rebate Credit (RRC).

EIP1 – Was the one authorized by the CARES Act, which was signed into law March 27, 2020, and had a chaotic distribution during the spring and summer of 2020, with some payments not made until as late as the fall. Maximum EIP1 amounts:

- Each eligible individual: \$1,200
- Married couple (both eligible) filing jointly: \$2,400
- Each qualifying child (as defined by IRC Sec 24(c))(under age 17 at close of year): \$500

EIP2 – Was authorized by the COVID-Related Tax Relief Act of 2020, enacted Dec. 27, 2020, and provided for a second round of EIPs, with payments scheduled to begin the last week of December and a goal of all payments being made by Jan. 15, 2021. The maximum amount of these payments:

- Each eligible individual: \$600
- Married couple (both eligible) filing Jointly: \$1,200
- Each qualifying child (as defined by IRC Sec 24(c))(under age 17 at close of year): \$600

Phaseout – The payments were intended for lower income individuals and families. Thus, the EIP1 payments were limited by either the 2019 or 2018 return's AGI (adjusted gross income) and EIP2 payments were limited by the 2019 return's AGI. The actual Recovery Rebate Credit, when reconciled with the combined EIP1 and EIP2 payments is phased out by 5% of the taxpayer's AGI that exceeds the taxpayer's 2020 filing status threshold. As shown in the following table, complete phaseout occurs at different AGI points. The IRS's worksheet (shown later) takes these differences into account, as will your tax software.

RECOVERY REBATE CREDIT & EIP PHASEOUTS			
	Threshold	Complete Phaseout	
		EIP1	EIP2
Unmarried Taxpayers (as well as Married Filing Separately)	\$75,000	\$99,000	\$87,000
Head of Household	\$112,500	\$136,500	\$124,500
Married Taxpayers Filing Joint	\$150,000	\$198,000	\$174,000
Add for each qualified child		\$10,000	\$12,000

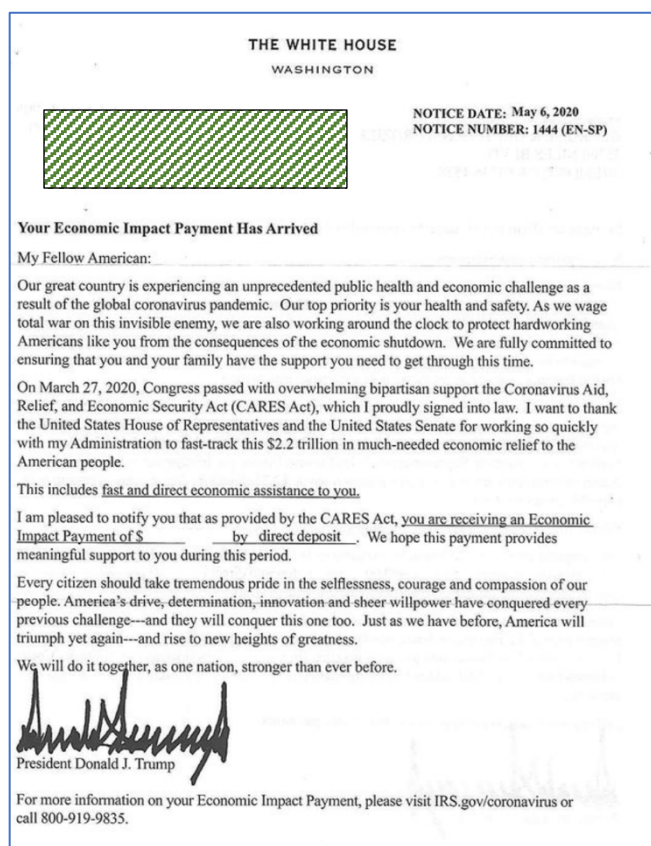
How Much Were EIP1 and EIP2

Payments? – The most significant issue will be determining what your clients were issued for EIP1 and EIP2. According to the IRS those who received an EIP1 payment also received Notice 1444 approximately 15 days after the EIP1 was delivered either by direct deposit, check or debit card.

Notice 1444 was in the form of a letter from the White House, not your typical IRS information form, which may have led to it being discarded rather than being saved as a tax document.

IRS Notice 1444-B reports the amount your client was issued for EIP2. Receipt of the 1444-B notice is not anticipated for several weeks and a draft of that notice is not available.

Do You Need Copies of Notices 1444 and 1444-B? No, if you can confirm the amount of the EIPs, you have all the information you need for filing. Having the Notices only provides backup verification. If the client received their EIP via direct deposit to their bank account, their bank statement should confirm the amount they received. If necessary, they (or you if you have a POA on file with the IRS for that client) can request an IRS account transcript which will show the EIP amounts.



What Happens if the Wrong Amounts are Used for Filing? Like any other use of an incorrect number your client most likely will hear from the IRS. Just make the client aware of the potential for a letter from the IRS with an adjustment one way or the other. However, if the EIPs using the client's estimated EIP amount(s) and rebate recovery credit amounts reconcile to zero, with no additional amount due the taxpayer, there probably won't be any further communication from the IRS about it.

Obtaining the Information from the IRS – If your client has an Online Account the payments will show there. Otherwise, they can create an [Online Account](#).

Reconciliation – The Recovery Rebate Credit is based upon the 2020 filing status, AGI and number of dependents under the age of 17 at the end of 2020. If the EIPs were less than the Recovery Rebate Credit determined on the worksheet (see below), the taxpayer will be entitled to the difference as a refundable credit on the 2020 return. If the taxpayer received more than entitled to, they do not have to pay back the difference.

Joint Return - For a refund or credit made or allowed on a joint return, half of the refund or credit is to be treated as having been made or allowed to each spouse.

Entitled to but Didn't Receive an EIP1 or an EIP2 Payment – If the advance payments were not issued, a taxpayer can always claim the Recovery Rebate Credit on the 2020 tax return.

The IRS has issued Notice 21CPC to some taxpayers where the Service was unable to process the individual's 2019 tax return in time to issue an EIP. The notice advises these individuals to claim the Recovery Rebate Credit on their 2020 return.




Recovery Rebate Credit Worksheet – The worksheet is included in the 1040 instructions, page 59, and reproduced on page 4. No doubt, your tax software will produce it or a comparable worksheet based on your input of the EIP amounts received plus other data from the return.

Continue to page 4

Recovery Rebate Credit Worksheet—Line 30

Before you begin: ✓ See the instructions for line 30 to find out if you can take this credit and for definitions and other information needed to fill out this worksheet.
 ✓ If you received Notice 1444 and Notice 1444-B, have them available.

Don't include on line 16 or 19 any amount you received but later returned to the IRS.

1. Can you be claimed as a dependent on another person's 2020 return? If filing a joint return, go to line 2.
☐ **No.** Go to line 2.
☐ **Yes.**  You can't take the credit. Don't complete the rest of this worksheet and don't enter any amount on line 30.
2. Does your 2020 return include a valid social security number (defined under *Valid social security number*, earlier) for you and, if filing a joint return, your spouse?
☐ **Yes.** Skip lines 3 and 4, and go to line 5.
☐ **No.** If you are filing a joint return, go to line 3.
 If you aren't filing a joint return,  you can't take the credit. Don't complete the rest of this worksheet and don't enter any amount on line 30.
3. Was at least one of you a member of the U.S. Armed Forces at any time during 2020, and does at least one of you have a valid social security number (defined under *Valid social security number*, earlier)?
☐ **Yes.** Your credit is not limited. Go to line 5.
☐ **No.** Go to line 4.
4. Does one of you have a valid social security number (defined under *Valid social security number*, earlier)?
☐ **Yes.** Your credit is limited. Go to line 5.
☐ **No.**  You can't take the credit. Don't complete the rest of this worksheet and don't enter any amount on line 30.
5. If your EIP 1 was \$1,200 (\$2,400 if married filing jointly) plus \$500 for each qualifying child you had in 2020, skip lines 5 and 6, enter zero on lines 7 and 16, and go to line 8. Otherwise, enter:
 • \$1,200 if single, head of household, married filing separately, qualifying widow(er), or if married filing jointly and you answered "Yes" to question 4, or
 • \$2,400 if married filing jointly and you answered "Yes" to question 2 or 3. **5.** _____
6. Multiply \$500 by the number of qualifying children under age 17 at the end of 2020 listed in the Dependents section on page 1 of Form 1040 or 1040-SR for whom you either checked the "Child tax credit" box or entered an adoption taxpayer identification number **6.** _____
7. Add lines 5 and 6 **7.** _____
8. If your EIP 2 was \$600 (\$1,200 if married filing jointly) plus \$600 for each qualifying child you had in 2020, skip lines 8 and 9, enter zero on lines 10 and 19, and go to line 11. Otherwise, enter:
 • \$600 if single, head of household, married filing separately, qualifying widow(er), or if married filing jointly and you answered "Yes" to question 4, or
 • \$1,200 if married filing jointly and you answered "Yes" to question 2 or 3. **8.** _____
9. Multiply \$600 by the number of qualifying children under age 17 at the end of 2020 listed in the Dependents section on page 1 of Form 1040 or 1040-SR for whom you either checked the "Child tax credit" box or entered an adoption taxpayer identification number **9.** _____
10. Add lines 8 and 9 **10.** _____
11. Enter the amount from line 11 of Form 1040 or 1040-SR **11.** _____
12. Enter the amount shown below for your filing status:
 • \$150,000 if married filing jointly or qualifying widow(er)
 • \$112,500 if head of household
 • \$75,000 if single or married filing separately } **12.** _____
13. Is the amount on line 11 more than the amount on line 12?
☐ **No.** Skip line 14. Enter the amount from line 7 on line 15 and the amount from line 10 on line 18.
☐ **Yes.** Subtract line 12 from line 11. **13.** _____
14. Multiply line 13 by 5% (0.05) **14.** _____
15. Subtract line 14 from line 7. If zero or less, enter -0- **15.** _____
16. Enter the amount, if any, of EIP 1 that was issued to you (before offset for any past-due child support payment). You may refer to Notice 1444 or your tax account information at [IRS.gov/Account](https://www.irs.gov/Account) for the amount to enter here **16.** _____
17. Subtract line 16 from line 15. If zero or less, enter -0-. If line 16 is more than line 15, you don't have to pay back the difference **17.** _____
18. Subtract line 14 from line 10. If zero or less, enter -0- **18.** _____
19. Enter the amount, if any, of EIP 2 that was issued to you. You may refer to Notice 1444-B or your tax account information at [IRS.gov/Account](https://www.irs.gov/Account) for the amount to enter here **19.** _____
20. Subtract line 19 from line 18. If zero or less, enter -0-. If line 19 is more than line 18, you don't have to pay back the difference **20.** _____
21. **Recovery rebate credit.** Add lines 17 and 20. Enter the result here and, if more than zero, on line 30 of Form 1040 or 1040-SR **21.** _____

Eligible Taxpayer - A taxpayer eligible for the credit is anyone **OTHER** than:

- (A) a non-resident alien individual.
- (B) a dependent.
- (C) an estate or trust.

Caution: Sec 6428(d)(2) says among those not eligible for the economic impact payment is any individual with respect to whom a deduction under section 151 is allowable to another taxpayer for a taxable year beginning in the calendar year in which the individual's taxable year begins. So, it is a facts-based issue - if the parents **could** qualify to claim a child as a dependent, then the child isn't eligible for the economic impact payment, even if the parents don't claim the child.

Also note on Form 1040, page 1, for Standard Deduction, the box "someone can claim you as a dependent" - says **can** claim, not **did** claim. So, if the child were to file his or her own return and NOT mark the box, but the parents could claim the child, then the child has filed an erroneous (some might say, fraudulent) return

Deceased Taxpayers - An issue that arose with the first-round advance payments was whether deceased taxpayers were eligible for the payments. Although the CARES Act seems to say that anyone alive in 2019 would qualify for an EIP, the IRS's FAQs (QA5) says otherwise: "payment made to someone who died before receiving the payment should be returned to the IRS" and "For payments made to joint filers with a deceased spouse who died before receiving the payment, return the decedent's portion of the payment." And in QA1: "The following are also not eligible: a deceased individual or an estate or trust."

The COVID-Related Tax Relief Act of 2020 specifies that any individual who was deceased before January 1, 2020, shall be treated as if the valid identification number of such person was not included on the return. In other words, those who passed away before 2020 aren't eligible for an EIP or recovery rebate credit. (Act Sec 272(f)(2)(A))

Further, no amount of credit shall be determined with respect to any qualifying child of the taxpayer if the taxpayer was deceased before January 1, 2020, or in the case of a joint return, both taxpayers were deceased before January 1, 2020. (Act Sec 272(f)(2)(B))

Social Security Number (SSN) – No credit shall be allowed to an individual without an SSN, except for:

- Adopted children - In the case of a qualifying child who is adopted, an adoption identification number (ATIN) qualifies in place of an SSN.

- Military (Special Rule) – Where one spouse has an SSN, the other is not required to have one.
- Mixed-status Couples – For the first round of advance payments, both spouses had to have an SSN for either spouse to qualify for a payment. Added by the COVIDTRA: Married taxpayers filing jointly, and otherwise eligible, where one spouse has a Social Security Number and one spouse does not, are eligible for a payment of \$600, in addition to \$600 per child under age 17 with a Social Security Number. Further, since the law change was retroactive, but EIP1 payments had ceased by the time the law change occurred, taxpayers in this situation will be able to claim the additional amount when they reconcile the Recovery Rebate Credit on their 2020 return.

Incarcerated Individuals - Although the language in the CARES Act did not state that incarcerated individuals are not eligible for the Recovery Rebate Credit and advance economic impact payments, the IRS FAQs on the subject had stated that someone incarcerated was ineligible for the EIP. The IRS was sued and on September 24, 2020, a federal district court issued a preliminary injunction, later becoming a permanent injunction, barring the IRS from denying an EIP to an incarcerated individual who otherwise qualifies to receive an EIP. *Scholl v Mnuchin*, DC CA 9/24/2020 Although the IRS is appealing this decision to the 9th Circuit Court of Appeals and had requested a stay of the district court's preliminary injunction, the answer to FAQ 7 on the IRS website has been changed to read as follows:

Pursuant to a permanent injunction entered in Scholl v. Mnuchin, No. 20-cv-05309 (N.D. Cal. Oct. 14, 2020), appeal docketed, No. 20-17077 (9th Cir.), the IRS cannot deny a payment to someone who is incarcerated if they meet the criteria described above in the response to Q A1. Information can be provided to the IRS by using the Non-Filers: Enter Payment Info here online tool by November 21, 2020. Or, you may mail us a 2019 simplified paper tax return following the procedures at File a Simplified Paper Tax Return by the court-ordered deadline of November 4, 2020. For more information see Q B13. I am currently incarcerated, or I was incarcerated at some point in 2020, and I have not received a Payment. What do I need to do to get a Payment?

Any updates regarding the appeal of the court's order will be posted on this webpage.

The December 2020 legislation is silent on the matter of whether incarcerated individuals are eligible for the rebate credit and EIPs.

Non-Filers Receiving Government Benefits - Those that are receiving Social Security, SSI disability, survivor's or Railroad Retirement or veteran's benefits, but hadn't filed a 2019 or 2018 return, should have **automatically** received a first

round EIP for themselves. If they have child dependents under the age of 17, they did not receive the additional \$500 payment for the dependent unless they went to the [IRS Get My Payment tool](#) and entered the dependent information before a specified cutoff date, which was extended several times during the year.

By law, the additional \$500 per eligible child amount, if not included in the advance payment can only be paid if the individual files a return for tax year 2020.

Other Non-Filers – If taxpayers did not receive an economic impact payment, they can file a return for 2020 and receive the refundable credit then.

Offsets – If the individual owes federal debts, here's how the EIPs were impacted:

- EIP1 – payments were offset only when the individual owed past due child support.
- EIP2 – these payments were not offset for any federal or state tax debts. nor if the individual owed past due child support.



California Tax Treatment - The federal Economic Impact Payments that individuals receive from the federal government are not subject to California income tax.

NOTES