

## Understanding the 2020 Recovery Rebate

### What is the CARES Act?

The CARES Act (Coronavirus Aid, Relief, and Economic Security Act) is a \$2 trillion federal stimulus package passed by Congress and signed into law by the President. The goal of the law is to alleviate the losses resulting from the Covid-19 pandemic by providing aid to businesses, expanding unemployment, and a one-time recovery rebate check for individuals. The focus of this guidance package relates to the recovery rebate for individuals.

### Who is eligible to receive Economic Impact Payment (EIP)/Stimulus Payment?

- US Citizens and Lawful Permanent Residents with social security numbers valid for work who cannot be claimed as dependents by another taxpayer.

### Who is not eligible to receive an Economic Impact Payment (EIP)/Stimulus Payment?

- Any nonresident alien individual; and
  - Any individual who can be claimed as a dependent; and
  - An estate or trust.
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### How much can individuals expect to receive through their Economic Impact Payments?

In general, eligible individuals will receive a credit in the amount of \$1,200 (or \$2,400 in the case of eligible individuals filing a joint return). However, these amounts are subject to a phase out of 5% of the taxpayer's adjusted gross income that exceeds:

- \$150,000 in the case of a joint return,
- \$112,500 in the case of a head of household, and
- \$75,000 in the case of any other taxpayer (a taxpayer not described in 1 and 2)

### Additional Payments for Qualifying Children:

Taxpayers with qualifying child(ren) will also receive an additional \$500 per qualifying child. A qualifying child for purposes of the Economic Impact Payments is a child under the age of 17 who is related to you by blood, marriage or adoption, and who has lived with you in the United States for more than half of the year.

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### How to receive payments:

1. If you filed a tax return for years 2018 or 2019, the rebate will be issued to you automatically based on the information on that return. The stimulus check will be deposited into the bank account the IRS has on record from your 2018 or 2019 return. If direct deposit information was not provided on the tax return, the IRS will mail a paper check to the taxpayer's last known address. If you have moved since the last return was processed, the best course of action is to change your address with the United States Postal Services. This can be done through the USPS website at <https://moversguide.usps.com/mgo/disclaimer>. Alternatively, you can file a Change of Address form with the IRS, but this will take weeks to process.
2. Individuals who receive SSI, veterans' benefits, Social Security or railroad benefits also do not need to do anything as the rebate will be issued in the same manner that they receive these benefits.

### How to Receive Additional Payments for Qualifying Children:

Individuals who receive the Economic Impact Payment/Stimulus Payment and are eligible to claim an additional \$500 for their qualifying children must use the "non-filer portal" to provide information to the IRS about their dependents. Please note that the deadline for Social Security and/ or railroad benefits recipients to use this portal was April 22<sup>nd</sup> at 12 pm. The deadline for SSI and veteran's benefits to use the portal was on May 5<sup>th</sup>, 2020.

**\*\*If you believe you are eligible for the additional \$500 stimulus check for a qualifying child, and have missed these deadlines you will receive the amount you are eligible for upon filing your 2020 tax return (in early 2021).\*\***

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### **Non-filer portal**

As mentioned, the deadline has passed for Social Security, SSI, railroad benefits and veterans' benefits recipients to use the non-filer portal to claim the \$500 stimulus for dependents. However this portal can still be used by individuals with low to no income, who do not receive any of the federal benefits mentioned above.

Individuals who may receive a refund are highly encouraged to file their 2019 return, rather than using the non-filer tool. The effect of the non-filer tool is that it will create a \$1 return for the user, in order to provide the necessary information for the IRS to process and deliver the EIP payment accurately and efficiently. This means that an individual who uses the non-filer tool, and later wishes to file a 2019 return will need to paper file their 2019 return. This can be problematic as processing will likely take months given the closures of IRS offices, in turn delaying receipt of their refund.

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### **Effect on past debts**

A very common concern among eligible individuals is whether the EIP will be used to offset past debts. The **only debt** that the EIP can be applied to is **past due child support**. The EIP cannot be taken to offset outstanding federal tax debt, outstanding New York State income tax debt or outstanding Federal student loan debt.

#### **\*\*\*IMPORTANT NOTE regarding past due child support and injured spouse relief\*\*\***

The IRS is aware that some taxpayers who filed for injured spouse relief with their 2019 tax return still had their portion of the EIP applied to their spouse's outstanding child support debt. The IRS is working to fix this, and there are no additional steps needed from the taxpayer at this time.

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### **Additional measures to provide relief to taxpayers during Covid-19**

#### **Retirement Account withdrawals:**

- As part of the CARES Act, individuals may withdraw up to \$100,000 of coronavirus distribution from an eligible retirement plan with no 10% early withdrawal penalty.
- A **coronavirus distribution** is one made by a person affected by the coronavirus.
  - This can be a person who has been diagnosed with Covid-19, whose spouse or dependent is diagnosed with such virus, or a person who experiences adverse financial consequences as a result of being quarantined, being furloughed or laid off or having work hours reduced due to such virus or disease, being unable to work due to lack of child care due to such virus or disease, closing or reducing hours of a business owned or operated by the individual due to such virus or disease.

Note: Although these distributions are not subject to an early withdrawal penalty, they still constitute taxable income. However, the distributions can be included over a 3 year period, rather than all in the year of distribution.

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### **Modifications to Charitable Contributions in 2020**

The CARES Act also allows a \$300 above the line deduction for cash contributions to charitable organizations. This allows individuals who use the standard deduction to reduce their gross income by \$300 for donations made to a charitable organization.

Significantly, individuals who itemize their deductions can deduct up to 100% of their Adjusted Gross Income for charitable contributions in 2020. Excess contributions can be carried forward for the next 5 years subject to the 60 of AGI limitations.

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### **Other Measures to provide relief to taxpayers:**

1. The IRS has stopped most collection activity, with the exception of high income non-filers. The IRS has also delayed the issuance of automated and systemic liens and levies.

\* Please note the IRS will continue to apply refunds due to taxpayers to offset outstanding federal tax debts through the Treasury Offset Program.

2. The IRS and New York State have **extended the filing and payment deadline** for federal taxes until July 15<sup>th</sup>, 2020

3. **Installment Agreement** payments may be suspended without penalty through July 15<sup>th</sup>, 2020

#### **4. Offers in Compromise:**

a) Taxpayers can delay all payments for an accepted Offer in Compromise until July 15<sup>th</sup>, 2020. Interest may continue to accrue.

b) Taxpayers now have until July 15<sup>th</sup>, 2020 to provide supporting documents for any pending Offer in Compromise

### **Resources for additional help:**

1. Erie County Bar Association Volunteer Lawyers Project- Low Income Taxpayer Clinic  
438 Main St. Suite 700  
Buffalo, NY 14202  
(716) 847-0662(ext. 316)

\*VLP is operating remotely, however we are available to answer your questions via phone.

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#### 2. Online tax filing services:

- For a list of free online tax preparation services for low income taxpayers, please visit:  
<https://apps.irs.gov/app/freeFile/>

3. Remote Free Tax Preparation Services for local residents:  
VITA in collaboration with the Buffalo Federation of Neighborhood Centers (BFNC) is offering free remote tax preparation services to taxpayers who have utilized VITA tax preparation services in the past two years. To be eligible, individuals must meet the following requirements:

1. Taxes must have been prepared using VITA within the past 2 years; and
2. Individuals must have access to a computer and internet; and
3. Individuals must have a valid email address.

To use this service, please call 211 and follow the prompts for free tax preparation.

