



## UNDERSTANDING THE ECONOMIC IMPACT PAYMENTS

### Scenario #1

Jeff and Mary filed a joint return in 2019. Their adjusted gross income was less than \$150,000. They claimed their son, Joel, age 20 and a full-time college student, as a dependent. Jeff and Mary are eligible for a \$2,400 economic impact payment. They do not get a \$500 payment for Joel because he isn't a qualifying child under age 17. Joel is not eligible for an economic impact payment either because he is a dependent of his parents. This is true even if Joel filed a tax return merely to claim a refund of withheld taxes from a part-time job. At this point, we do not know how the IRS plans to screen taxpayers in this situation. Presumably, they will develop procedures to match tax returns that claim dependents against the returns of the dependents.

### Scenario #2

Robert is single and claimed his 80-year old mother, Edna, on his 2019 tax return. Robert's adjusted gross income was \$87,000. Edna lives in a nursing home and earned \$11,000 in Social Security benefits. She did not file a return. In this situation, Robert will receive a \$600 economic impact payment, because his payment decreases \$5 for every \$100 over the \$75,000 threshold. Robert does not receive any payment for claiming his mother as a dependent. The IRS stated that taxpayers who do not have a filing requirement and who are collecting Social Security or Railroad Retirement benefits will automatically receive an economic impact payment based on their current Form 1099-SSA or 1099-RRB. Since Edna is a dependent of Robert, she is not entitled to a payment. The IRS is aware of the issue and is working on a solution to prevent payments from inadvertently being issued to dependents who are not entitled to receive them.

### Scenario #3

Peter and Jan were married in 2018 and filed a joint return. They divorced in 2019 and neither have filed a 2019 return at the time the economic impact payments were issued. In 2018 Peter and Jan had their tax refund deposited into a bank account that was only in Jan's name. Since neither Jan nor Peter filed a 2019 return, the IRS will base their economic impact payment on their 2018 tax return. It is likely that the IRS will deposit \$2,400 into Jan's account. Unless Peter files a 2019 return and includes his bank account information, he will not receive an economic impact payment. The IRS released a statement indicating that the IRS is developing an online portal where taxpayers can enter their bank account information for the direct deposit of the economic impact payment. At this time, we do not know when the portal will be operational or if it will solve this particular issue.

### Scenario #4

Justin and Chrystal filed their 2018 tax return and claimed their daughter, Olivia, age 16, as a qualifying child. In May 2019, Olivia turned 17. Based on this scenario, Justin and Chrystal are eligible for an economic impact payment that will include \$500 for Olivia. If they file their 2019 return, Olivia is still a qualifying child for purposes of the other dependent credit on their 2019 tax return. However, since she is 17, she no longer qualifies her parents for the additional \$500 economic impact payment. If Justin and Chrystal receive a payment based on their 2018 return, and receive the \$500 for Olivia, they will reconcile that payment when they file their 2020 income tax return in 2021.

## Scenario #5

Luisa is 19-years-old and lives with her parents, who provided over half of her support for 2019. She did not earn any income during the year. Since Luisa can be claimed as a dependent (she would be a qualifying relative) on her parents' return, filing a 2019 return with no income would not make her eligible for the economic impact payment.

## Scenario #6

Jake and Marcie filed a joint return in 2018. Their adjusted gross income was less than \$150,000. In 2019 their AGI increased to \$175,000 and they welcomed their first child. A family with a child born in 2019 is eligible for the \$500 per child rebate amount (assuming all other requirements are satisfied). If the family has not yet filed a 2019 tax return, the IRS will determine the family's economic impact payment amount based on their 2018 tax return. For Jake and Marcie, that payment will equal \$2,400 if they do not file their 2019 return before the payment is issued. As a result, they will not automatically receive the additional \$500 amount for their child born in 2019.

If they file their 2019 return, they are eligible for a payment of \$1,650 [ $\$2,900 - ((\$175,000 - \$150,000) \times .05)$ ]. Much less than what they would receive if the payment is based on the 2018 return. Had their AGI stayed lower than \$150,000 in 2019, their economic impact payment would be \$2,900 assuming they filed their 2019 return before the payment was issued.

Jake and Marcie have two options. They can either:

- File their 2019 return and get a payment of \$1,650, or
- Wait to file their 2019 return until after the payment is received and collect a payment of \$2,400. When they file their 2020 return, they will be eligible for a \$500 credit for their child.

## Scenario #7

Pat and Sam are a married couple who elect to file separate returns. Pat's return shows adjusted gross income (AGI) of \$60,000 while Sam has an AGI of \$85,000. Pat will receive a stimulus payment of \$1,200 while Sam will receive a payment of \$700 [ $\$1,200 - ((\$85,000 - \$75,000) \times .05)$ ]. Taxpayers who file separate returns are subject to the threshold for a single individual.

## Scenario #8

Brad and Ellen are divorced. Their divorce decree states that each of them can claim their 5-year-old son, Todd, every other year. In 2018 Brad filed as single and claimed Todd as a dependent. In 2019, Ellen filed as head of household and claimed Todd as a dependent since it was her year to do so. Assume Brad and Ellen have an adjusted gross income of less than the threshold amounts. If Brad does not file a 2019 return before the economic impact payment is issued, he will receive a payment of \$1,700 ( $\$1,200 + \$500$ ) based on his 2018 filing. If Ellen files her 2019 return, she will also get a \$1,700 economic impact payment based on her 2019 filing. The IRS is aware that one of the parents in this situation will receive more of a payment than they are entitled to receive. They have not issued guidance on how or if they will adjust the payments in this case, if at all. At the very least, this will all work itself out when Brad files his 2020 return in 2021. In 2020, Brad will again be allowed to claim Todd as a dependent so there should be no adverse consequences to his refund or balance due, if any.

## Scenario #9

David is a U.S. citizen living and working abroad. He files a 2019 tax return, excluding his foreign sourced income. His AGI is below the threshold amount for a single individual. Even though David does not live in the U.S., he still fits the criteria to be eligible for a stimulus payment; therefore, he should receive \$1,200 in the

next few weeks. Earlier versions of the bill had earned income limits; however, those provisions were removed in the final bill.

## Scenario #10

Ann is single with no dependents. In 2017, Ann decided to go to graduate school full-time. She attended school in 2018 and 2019, earned no income and did not file a tax return for either year. As a result, Ann will not receive an economic impact payment of \$1,200 as part of the stimulus package. If Ann files a tax return for 2020 in 2021, she will receive a credit against her 2020 tax liability, effectively putting an extra \$1,200 into her pocket.