

CARES Act: Recovery Rebates for Individuals

Under the CARES Act, individual taxpayers will receive advance refunds of credits against 2020 taxes equal to \$1,200 for individuals, or \$2,400 for joint filers, plus \$500 for each qualifying child. Generally, income tax credits reduce a taxpayer's income tax liability and are claimed on the tax return for the year they arise. However, the government will make advance payments of the credit as soon as possible, with eligibility and credit amounts based on information from 2019 or 2018 tax returns.

The amount of each recovery rebate credit is phased out by \$5 for every \$100 in excess of a threshold amount. This threshold amount is based upon 2018 adjusted gross income (unless a 2019 return has already been filed). The phaseout begins at \$75,000 for single filers, \$112,500 for heads of households, and \$150,000 for joint filers. Thus, the rebates are completely phased out for single filers with 2018 (or 2019, if applicable) adjusted gross income over \$99,000, heads of household with \$136,500, and joint filers with \$198,000. Once the credit for an eligible individual phases out, the credit for each qualifying child phases out with each additional \$10,000 in AGI over the threshold.

Example

Pat and Terry are eligible individuals who file a joint return that claims two qualifying children. If Pat and Terry's AGI is \$198,000 or less, they are entitled to a \$3,400 advance payment (\$1,200 each for Pat and Terry, plus \$500 for each child). If Pat and Terry's AGI is at least \$218,000, their advance payment is completely phased out. If Pat and Terry's AGI is more than \$198,000 but less than \$218,000, their \$3,400 advance payment is partially phased out. For example, if their AGI is \$205,000, their \$3,400 credit is reduced by \$350 (five percent of their \$7,000 AGI that exceeds the phase-out threshold).

In order to be eligible for a recovery rebate, the individual must not be:

- a nonresident alien,
- able to be claimed as a dependent on another taxpayer's return,
- an estate or trust, and
- must have included a Social Security number for both the taxpayer, the taxpayer's spouse, and eligible children (or an adoption taxpayer identification number, where appropriate).

The advance credit is based on the AGI reported and the qualifying children claimed on the eligible individual's 2019 return. If the individual requested payment of any refund via electronic funds transfer, the IRS may pay the advance credit to that same bank account. However, if an individual has not filed a 2019 return by the time the advance credits are determined, the advance credit is based on the individual's 2018 tax return. If the individual has not filed a 2018 return by the time the advance payments are determined, the advance payment is based on information provided in Form SSA-1099, Social Security Benefit Statement, or Form RRB-1099, Payments by the Railroad Retirement Board, for calendar year 2019.

Although the advance credit is based on earlier tax returns, the rebate actually applies to the 2020 tax year. The advance credit reduces the amount of the taxpayer's credit for the 2020 tax year, but not below zero. One-half of any advance payment or refund made on a joint return is treated as having been made or allowed to each spouse. Thus, it appears that a taxpayer whose advance credit is reduced or eliminated because of the AGI limits (based on their 2019 or 2018 return) may still be able to claim the credit on a 2020 return if 2020 AGI drops below the phase-out limits.