

Tax Notes

CARES Act – Recovery Rebate

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With the recently enacted Coronavirus Aid, Relief, and Economic Security (CARES) Act, the federal government recognized that many individuals and families were struggling and had an immediate financial need to help cover lost wages. In response, the CARES Act provides for a “recovery rebate.” This rebate is actually a refundable tax credit of 2020 taxes that is being paid in advance – think of it as an early 2020 tax refund.

Rebate Calculation

Taxpayers are eligible to receive rebate checks up to \$1,200 for individuals and \$2,400 for joint filers. Taxpayers generally must have a Social Security number to qualify; an individual taxpayer identification number (ITIN) will not suffice. In addition, an additional \$500 payment will be sent to taxpayers for each qualifying child dependent under age 17 (using the qualification rules under the Child Tax Credit). The amount of the rebate begins to decrease by 5% of your income over the following thresholds:

	Phase Out Begins	Fully Phased Out
Single Filers	\$ 75,000	\$ 99,000
Head of Household	\$112,500	\$148,500
Married Filing Jointly	\$150,000	\$198,000

Note: The amount to fully phase out above does not include the dependent rebate. The dependent rebate would continue to decrease by 5%.

Example: Married filed jointly with no dependents with income of \$200,000 would get zero rebate. If they had one dependent, they would get a \$400 rebate ($\$200,000 - \$198,000 \times 5\% = \100 decrease in rebate). If they had two dependents, they would get a \$900 rebate.

Basis of Rebate

The IRS will calculate your rebate using your 2019 tax information if you have already filed **or** your 2018 return if you have not yet filed 2019. When you file your tax return for 2020 and if your income is lower, entitling you to additional tax credit, it will be refunded at that time. If your income goes up and reduces the amount of credit you should have received, it is not clear as of now if the amount overpaid will have to be paid back.

If you haven't filed a 2018 or 2019 return because your income was below the filing requirement, you can still qualify for the rebate if you received Social Security without filing a return. If you didn't file in 2018 and you didn't receive Social Security, you should file a 2019 return so that you become eligible for the rebate.

Timing

President Trump has indicated that the rebates should go out within a couple of weeks. The exact timing is unknown as the IRS continues to be short-staffed. To help expedite the process, the IRS will be making electronic payments if the taxpayer had previously authorized a direct deposit in 2018 or 2019. If that information isn't available or the electronic payment is rejected, a check will be mailed. Within 15 days of either mailing or depositing your payment, you will receive a notice informing you of the payment, how it was made and a number to call if you didn't receive it.

Common Questions

The IRS does not have my direct deposit information. What can I do?

In the coming weeks, Treasury plans to develop a web-based portal for individuals to provide their banking information to the IRS online, so that individuals can receive payments immediately as opposed to checks in the mail.

I am not typically required to file a tax return. Can I still receive my payment?

Yes. People who typically do not file a tax return will need to file a simple tax return to receive an economic impact payment. Low-income taxpayers, senior citizens, Social Security recipients, some veterans and individuals with disabilities who are otherwise not required to file a tax return will not owe tax.

Contact Us

PKF O'Connor Davies is monitoring the situation in Washington, DC and as it changes we will keep you informed. If you have any questions, please contact your client services team at PKF O'Connor Davies or either of the following:

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