

Hi, Viewers!

Though I'm no longer moderating Tax Talk Today, I still keep up with tax law and on occasion write locally. With all the questions about COVID-19 and the CARES Act I decided to put the following together and would like to share it with you. Hope everyone is doing okay and looking forward to the next Tax Talk Today program!

- Les Witmer



### **Covid-19 Stimulus Payments and the Filing Season**

Years ago, the IRS Commissioner while visiting Atlanta to talk at an accounting forum was also to do an interview at the local NBC affiliate for a live segment of the Today show. I was escorting him to the TV station and we were going over things to emphasize. He wanted to emphasize reasons that people should file early—important to the IRS so they didn't have a last-minute rush on processing and taxpayer assistance. I could see he was troubled with the talking point as he said to me, "human nature is to procrastinate—many people just wait to the last minute and there's not much we can do." I said somewhat in jest, that we can't say it but if we told people not to file early, that the treasury then would be glad to have their refund money longer to use interest free, that would probably make people mad enough to file early! Needless to say, we never used that approach!

The IRS announced the 2021 filing season won't start until Feb. 12 this year. That's because of COVID-19 impact on the IRS as they were required to get the second economic impact payment out and handle inquiries on it. That's maybe frustrating for those who traditionally are early return filers who usually do so because they are getting a refund. Those that owe money, of course, are more likely to wait until the deadline. But should more taxpayers be filing early or as soon as possible this year?

I mentioned the second economic impact payment—remember there was one back in March for \$1,200 per person, \$2,400 for married couples plus \$500 per qualifying child and then this second one that went out in early January for \$600 per person. Those were the full amounts but not everyone got that. Why would that have happened and what needs to be done about it?

The payments technically were advance payments of a new Coronavirus Aid, Relief and Economic Security (CARES) Act recovery rebate tax credit. That was passed by Congress and because of the impact the pandemic was having on the economy and people's financial situation,

the IRS was required to send the payments out as soon as possible using on hand prior tax year data. Hey, nothing new here—the IRS has been used (and abused) over the years in getting money out and collecting money owed for various reasons to the government as well—mostly by implementing new tax laws. But to get these payments out, the IRS was using old 2019 filing information which didn't necessarily reflect the correct, current income data. And since the amounts were based on and often reduced in many cases due to adjusted gross income (AGI), some people didn't get the full amount for which they qualify, using what would be now accurate income information. And in some cases, they didn't get it at all because it was sent to outdated financial account or wrong address. So, what can be done about that? The good news is taxpayers can get any credit amount they missed out on by claiming it on their 2020 Form 1040.

There's line 30 on the 2020 Form 1040 where any amount due would go. And the instructions include a worksheet where this can be figured out, which tax software includes. Reminder, it's a tax credit, which means if someone does owe Uncle Sam anything, the credit will cover that bill dollar-for-dollar and it is a refundable tax credit. If the credit amount is more than the tax bill, the excess credit is a refund. And in case Congress approves any additional stimulus payments, early filing means the taxpayer's recent information is up-to date so they'd get the correct amount and to the current financial account or current address. And as always, I like to plug the use of direct deposit to a bank account which is the fastest and safest method!

And there's another reason to have your tax return done early, even if taxes are owed. It doesn't mean it needs to be filed or paid now, but there's the relief of having it done and beating the last-minute rush whether the taxpayer does it or uses a tax professional. Tax Professionals crunch time begins April 1 in dealing with those that wait until the last minute to gather their things and make an appointment. And as tax practitioners have related to me, those that come in late often haven't kept the best records and might be in for some surprises.

One of those surprises this year could impact someone who received unemployment compensation as many have since people were out of work because of the pandemic. Unemployment insurance payments are taxable. And many times, nothing or not enough was withheld which could lead to having a tax bill, and that could lead to a problem paying it based on their current employment situation and income.

Lastly, some taxpayers filing now expecting a refund from the stimulus credit might have an unexpected problem if they have previous debts and owe the government money. Outstanding stimulus payments may be offset for back taxes and debt. That's bad news for anyone struggling financially because of the coronavirus pandemic who was counting on stimulus money to help pay for basic needs. Those who got full stimulus payments, despite having outstanding debts, did not have their payments subject to any offset. The IRS is exploring ways to exercise its discretion to help vulnerable taxpayers, taking into account the limitations of its computer systems, resource issues, and a rapidly approaching start to the filing season according to the IRS Taxpayer Advocate—the IRS's independent taxpayer problem solver. There's this little-known offset bypass refund process that gives the IRS discretion and allows the IRS to distribute a tax refund anyway despite tax debts. However, to handle that not on a case-by-case basis, that

process would need to be automated. Something tax practitioners need to be on the lookout to see if that happens.