

3rd Stimulus Payments and ARPA

Part of the American Rescue Plan Act (ARPA) signed by President Biden on March 11, 2021, included a 3rd round of stimulus payments. This round has a few different provisions. Here are the highlights of the differences.

One big difference is a “plus-up” provision – discussed later.

This round is an advance on the 2021 tax return credit, just as the previous \$1,200 and \$600 amounts were advances on the 2020 tax return credit.

The amount is \$1,400 for the taxpayer and EACH dependent shown on the taxpayer’s return with the exception of nonresident alien individuals. As before, each dependent must have a valid SSN or ATIN. The earlier rounds were only paid for dependents who were under the age of 17. Also, the payments are not available for taxpayers who died prior to January 1, 2021.

An individual is not allowed the \$1,400 if the individual is claimed on someone else’s tax return. The earlier rounds said an individual was not allowed the \$600/\$1,200 if the individual “was eligible” to be claimed on someone else’s tax return. This “was eligible” provision meant it didn’t matter if the individual was claimed or not, just whether they were ELIGIBLE to be claimed by someone else. The new provision uses the word “claimed”, so when the 2021 returns are prepared, we’ll have to decide which is best – claim the individual or not claim the individual, taking into account all results of claiming or not claiming.

The phase-outs are lower this time:

- MFJ or QW is from \$150,000-\$160,000.
- HH is from \$112,500-120,000.
- S & MFS is from \$75,000-\$80,000.

This round is based on the taxpayer’s 2020 income tax return. If a 2020 income tax return is not processed, IRS will use the taxpayer’s 2019 income tax return. Recipients of SS benefits, RR benefits, veterans’ benefits, etc., will also receive their benefits without having to file a tax return. The same for those individuals who do not receive any of these benefits and do not have to file tax returns. IRS has indicated those who used the Non-Filers tool on irs.gov last year will also receive the payments without having to do anything special this year.

PLUS-UP PAYMENT. There may be a “plus-up” payment, after the initial payment. This can occur if IRS uses the taxpayer’s 2019 income tax return and the 2020 tax return would produce a higher payment than the 2019 return. This also means some taxpayers will receive two payments and **HAVE TO REMEMBER** them when the 2021 return is filed.

Example 1, a taxpayer filing Single had AGI of \$78,000 on the 2019 return. The taxpayer would receive an advance payment of \$560 of the \$1,400 maximum. The taxpayer files the 2020 return as Single and shows an AGI of \$47,000. After processing the 2020 return, IRS will send this taxpayer an additional (plus-up) stimulus payment of \$840 (\$1,400 - \$560 previously paid).

Example 2, a taxpayer filing MFJ had AGI of \$130,000 on the 2019 return and had 2 dependents. The taxpayer files MFJ for 2020 return, also with an AGI of \$130,000, BUT HAD 3 dependents. After processing the 2020 return, IRS will send this taxpayer an additional (plus-up) stimulus payment of \$1,400.

On April 2, 2021, IRS announced 130K payments have been made, including some “plus-up” payments. More payments are going out in weeks to come.

It also appears IRS is doing direct deposits of some of these payments even though the tax return does not have direct deposit information. IRS has not said where it obtained the direct deposit information.

This text has been shared courtesy of: David & Mary Mellem, EAs & Ashwaubenon Tax Professionals, 920-496-1065 (920-496-9111).

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