

Unemployment Compensation Exclusion 2020 and Community Property States

By now everyone has heard about the exclusion of up to \$10,200 of unemployment compensation benefits received in 2020. And by now everyone has heard that IRS is “correcting” returns and sending out refunds due to this law change.

But do you know how the exclusion applies in a community property state? On its website, IRS addressed this issue in a Question/Answer format. The title of the page is “Unemployment Exclusion Update for Married Taxpayers Living in a Community Property State”. QUOTED below is the text from this page as of July 7, 2021:

“I’m married and live in a community property state. Are we eligible for the exclusion?”

Yes. Because you live in a community property state, if you file a Married Filing Separate return, you report half of your unemployment compensation and half of your spouse’s unemployment compensation on your tax return and your spouse reports the other half of your unemployment compensation and half of his or her unemployment compensation on his or her tax return. You should exclude up to \$10,200 on your tax return if your modified AGI is less than \$150,000. Your spouse should exclude up to another \$10,200 on his or her tax return if your spouse’s modified AGI is less than \$150,000. Neither of you should exclude more than the amount of unemployment compensation you report on your Schedule 1, Line 7.

If you file a Married Filing Joint return, when completing the worksheet, you should report half of your unemployment compensation and half of your spouse’s unemployment compensation on line 8 of the worksheet and your spouse reports the other half of your unemployment compensation and half of his or her unemployment compensation on line 9 of the worksheet. If your joint modified AGI is less than \$150,000, you and your spouse can exclude up to \$10,200 each. Do not exclude more than the amount of unemployment compensation you report on your Schedule 1, Line 7.”

Community property income is based on the laws of the respective community property state. Those of you who live in or have clients who live in a community property state are familiar with community property laws.

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

©2021 Ashwaubenon Tax Professionals. No reproduction of this article is permitted without the express written consent of Ashwaubenon Tax Professionals, 2140 Holmgren Way, Suite 1040, Green Bay, WI 54304.