Unemployed last year? Buying health insurance this year? You may benefit from favorable new changes

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In recent months, there have been a number of tax changes that may affect your individual tax bill. Many of these changes were enacted to help mitigate the financial damage caused by COVID-19.

Here are two changes that may result in tax savings for you on your 2020 or 2021 tax returns. The 2020 return is due on May 17, 2021 (because the IRS extended many due dates from the usual April 15 this year). If you can't file by that date, you can request an extra five months to file your 2020 tax return by October 15, 2021. Your 2021 return will be due in April of 2022.

Some unemployment compensation from last year is tax free

Many people lost their jobs last year due to pandemic shutdowns. Generally, unemployment compensation is included in gross income for federal tax purposes. But thanks to the American Rescue Plan Act ("ARPA"), enacted on March 11, 2021, up to $10,200 of unemployment compensation can be excluded from federal gross income on 2020 federal returns for taxpayers with an adjusted gross income under $150,000. In the case of a joint return, the first $10,200 per spouse isn't included in gross income. That means if both spouses lost their jobs and collected unemployment last year, they're eligible for up to a $20,400 exclusion.

However, some states tax unemployment compensation that is exempt from federal income tax under ARPA.

The IRS has announced that taxpayers who already filed their 2020 individual tax returns without taking advantage of the 2020 unemployment benefit exclusion, don't need to file an amended return to take advantage of it. Any resulting overpayment of tax will be either refunded or applied to other outstanding taxes owed.

The IRS will take steps in the spring and summer to make the appropriate change to the returns, which may result in a refund. The first refunds are expected to be made in May and will continue into the summer.

More taxpayers may qualify for a tax credit for buying health insurance

The premium tax credit ("PTC") is a refundable credit that assists individuals and families in paying for health insurance obtained through a Marketplace established under the Affordable Care Act. ARPA made several significant enhancements to this credit.

For example, under pre-ARPA law, individuals with household income above 400% of the federal poverty line ("FPL") weren't eligible for the PTC. But under the new law, for 2021 and 2022, the premium tax credit is available to taxpayers with household incomes that exceed 400% of the FPL. This change increases the number of people who are eligible for the credit.

Let's say a 45-year-old unmarried man has income of $58,000 (450% of FPL) in 2021. He wouldn't have been eligible for the PTC before ARPA was enacted. But under ARPA, he's eligible for a premium tax credit of about $1,250.

Other favorable changes were also made to the premium tax credit.

Many more changes

The 2020 unemployment benefit exclusion and the enhanced premium tax credit are just two of the many recent tax changes that may be beneficial to you. Please contact us if you have questions about your situation.

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