

# The Norton Tax Bulletin

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## Stimulus Payment

Dear Clients, family and friends,

After a lot of talk, Congress finally got their act together. President Trump signed into law the Coronavirus Aid, Relief, and Economic Security Act, (CARES Act), a \$2 trillion stimulus package to help mitigate the impact of the Coronavirus pandemic.

The CARES Act includes stimulus (*or often referred to as a rebate*) payments of up to \$1,200 for each individual and \$500 for each dependent child, defined by the child tax credit rules as under age 17. There are limits, however, that are not generally understood. I will endeavor to share the information I know as of this time. This is all very new, and it is entirely possible (*and expected*) that “tweaks” may be made to the rules. But the basic framework should be unchanged.

The IRS will use the 2019 return for determining filing status and income limitations. If the 2019 return has not been filed, then they will use the 2018 return. If a taxpayer (a) has not filed their 2019 return (and if also they have not filed a 2018 return), (b) and if they are not receiving Social Security payments, the IRS will be unable to figure out what amount of stimulus payment to make – and NO stimulus payment will be made. I will discuss this more later.

Here is where you find the AGI on the 2019 return:

1	Wages, salaries, tips, etc. Attach Form(s) W-2	1	
2a	Tax-exempt interest	2a	
3a	Qualified dividends	3a	
4a	IRA distributions	4a	
c	Pensions and annuities	4c	
5a	Social security benefits	5a	
6	Capital gain or (loss). Attach Schedule D if required. If not required, check here	6	<input type="checkbox"/>
7a	Other income from Schedule 1, line 9	7a	
7b	Add lines 1, 2b, 3b, 4b, 4d, 5b, 6, and 7a. This is your <b>total income</b>	7b	
8a	Adjustments to income from Schedule 1, line 22	8a	
b	Subtract line 8a from line 7b. This is your <b>adjusted gross income</b>	8b	
9	Standard deduction or itemized deductions (from Schedule 7)	9	
10	Qualified business income deduction. Attach Form 8995 or Form 8995-A	10	
11a	Add lines 9 and 10	11a	
b	<b>Taxable income.</b> Subtract line 11a from line 8b. If zero or less, enter -0-	11b	

For 2018, the AGI appears on line 7.

I want to remind you all of this important point. If a taxpayer didn't file a tax return for 2018 or 2019, the IRS will use data available from their annual Social Security benefit statement. Those who did not receive Social Security benefits, and either did not file taxes because their income was too low or are simply delinquent in their filing will need to e-file a 2019 tax return *quickly* to receive a stimulus check. Most all preparers are able to quickly e-file returns for clients. If you need assistance with this, contact me.

## What if my address has changed since my last tax return was filed?

The IRS uses the address on the most recently filed return to update its records. If your 2018 return has a prior address and you have not filed your 2019 return with your current address (*and will not do so quickly*), then download and file FORM 8822 (notice of change of address) immediately! Otherwise, your stimulus check could be mailed to your old address (*assuming your stimulus will not be direct-deposited based upon your financial institution information on your 2018 return*).

## Who and How Much?

**Individuals** with adjusted gross income (AGI) up to \$75,000 a year are eligible for the full \$1,200 payment. The payment is reduced by \$5 for every \$100 in income above \$75,000. The payment amount is entirely phased out at an AGI of \$99,000. I would assume that **married taxpayers filing separately** would fall into this category.

**Married filing joint couples** with AGIs up to \$150,000 a year are eligible for a \$2,400 payment. The payment is reduced by \$5 for every \$100 in income above \$150,000. The payment amount is entirely phased out at an AGI of \$198,000 (if the taxpayers have no dependent children). Married couples also will receive an additional \$500 for every dependent child under 17.

**Example - MFJ with no children.** David and Lisa are married and filed their 2019 return jointly. They have no dependent children. If they reported an AGI of \$150,000 or less, they are eligible for the maximum \$2,400 payment. If they reported an AGI above \$150,000, their rebate will be reduced and finally phased out at an AGI of \$198,000.

**Example - MFJ with two children.** Chris and Christina are married filing joint. Assume that they have two dependent children under age 17. If they reported an AGI of \$150,000 or less, they are eligible for the maximum \$3,400 ( $\$2,400 + \$500 \times 2$ ) payment. If they reported an AGI above \$150,000, their rebate will be reduced and finally phased out if their income hits the top of the threshold amount.

**Head of household filers** with AGIs up \$112,500 a year are eligible for the full \$1,200 payment and an additional payment of \$500 for each dependent child under age 17. The payment is reduced by \$5 for every \$100 in income above \$112,500. Head of household taxpayers will also receive an additional \$500 per dependent child under age 17. With no eligible children, a head of household filer is phased out at an AGI of \$137,000. With one eligible dependent child, a head of household filer is entirely phased out of the rebate payment at an AGI of \$146,400.

**Example. Head of Household- no children under 17.** Heather has an 18-year-old high school senior living with her and qualifies as a head of household filer. If her AGI is \$100,000, Heather's payment is \$1,200. Her dependent child does not qualify her for the additional \$500 payment *because the child is not under age 17*. If Heather's dependent child is under age 17, her payment is \$1,700.

High school seniors, college students and adult children living at home often don't provide more than half of their own support and are claimed as dependents on their parents' returns. If, however, a high school student or other adult child does not qualify as a dependent (*usually because of age or their own income being greater than the maximum allowed for a dependent*), they may themselves be eligible for a stimulus payment. They will have to file a return, however.

**Phaseout of the rebate.** If your income is above the threshold amounts, a reduced payment will result. The reduced amount using your own income (AGI) can easily be calculated using the Washington Post [calculator](#).

### **Ready to file your 2019? Read this first!**

Here is a scenario. You filed your 2018 return last year and your AGI is below the threshold – meaning, you will get the full stimulus. However, 2019 was a much better year, and your AGI will result in a reduction (*or even elimination!*) of your stimulus payment. In that circumstance, do NOT file your 2019 return now. Take advantage of the additional time this year (*to July 15<sup>th</sup>*) and have your stimulus based upon your 2018 lesser income!

If your 2019 AGI will be LESS than it was in 2018, then you should file your 2019 return ASAP – *especially if your 2018's AGI was high enough to cause a reduction in your stimulus payment.*

### **What needs to be done to get the Stimulus Rebate?**

**Nothing.** The IRS will deposit the calculated amount directly into your bank account, using the AGI and the bank information on your 2019 tax return. If your 2019 return hasn't been filed, the IRS will use the AGI and the bank information from your 2018 tax return. If there's no bank information on the return, the IRS will mail a check.

In the event you have closed the bank account that was listed on the last filed return, then I expect that once the electronic deposit is rejected, a check will then be issued (*this is what typically happens on returns filed electing direct deposit, but the deposit rejects for some reason*).

For taxpayers who did not provide direct deposit information on their 2019 or 2018 returns, in the coming weeks the 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 do not know if taxpayers will be able to update their prior bank information through this new portal.

### **When Will the Payments Arrive?**

The IRS says that a direct deposit should be in your bank account in about three weeks. Checks should start arriving in six to eight weeks.

### **What about a potential offset if there is a liability for another tax year?**

Generally, if a taxpayer files a current return that reflects a refund, but at the same time there is an unpaid liability for a prior year, the refund will be offset (*up to the amount of the unpaid*

*liability*). However, this stimulus check is not subject to an offset for Federal debts, tax debt, student loans, or unemployment. However, it is subject to offset for child support.

### **Where is this stimulus money coming from?**

Treasury doesn't have to print all this money because it can simply borrow the \$2 trillion from investors by selling U.S. government bonds. The money that investors use to buy the bonds could come from their cash accounts, but more likely it will come from selling other investments, like corporate bonds.

### **2020 Tax Return**

Technically the stimulus rebate is an advance of a 2020 refundable tax credit. If you have less income in 2020 than in 2019 because of layoffs, reduced hours and closed businesses, and your rebate payment was reduced by the income threshold based upon the 2019 or 2018 return, you'll receive a credit for the difference on your 2020 return. However, if you received too much of an advanced payment (*because your 2020 AGI was higher than the 2018 or 2019 AGI used to calculate your stimulus payment*), you do not have to pay back the excess.

I hope that you find the information in this newsletter of value to you. Stay safe and well.

Very truly yours,

*Dick Norton*

***This newsletter is not intended or written by me to constitute written advice that you may rely upon to avoid penalties that may be imposed by any taxing authority. An attorney should always be consulted in matters involving legal issues such as those inherent in estate planning or other matters where an attorney is best qualified and authorized to provide such guidance.***