



New Exclusion of up to \$10,200 of Unemployment Compensation

If your modified adjusted gross income (AGI) is less than \$150,000, the American Rescue Plan enacted on March 11, 2021, excludes from income up to \$10,200 of unemployment compensation paid in 2020, which means you don't have to pay tax on unemployment compensation of up to \$10,200. If you are married, each spouse receiving unemployment compensation doesn't have to pay tax on unemployment compensation of up to \$10,200. Amounts over \$10,200 for each individual are still taxable. If your modified AGI is \$150,000 or more, you can't exclude any unemployment compensation. If you file Form 1040-NR, you can't exclude any unemployment compensation for your spouse.

The exclusion should be reported separately from your unemployment compensation. See the updated instructions and the Unemployment Compensation Exclusion Worksheet to figure your exclusion and the amount to enter on Schedule 1, line 8.

When figuring the following deductions or exclusions from income, if you are asked to enter an amount from Schedule 1, line 7 enter the total amount of unemployment compensation reported on line 7 (unreduced by any exclusion amount) and if you are asked to enter an amount from Schedule 1, line 8, enter the amount from line 3 of the Unemployment Compensation Exclusion Worksheet. See the specific form or instructions for more information. If you file Form 1040-NR, you aren't eligible for all of these deductions. See the Instructions for Form 1040-NR for details.

- Taxable social security benefits (Instructions for Form 1040 or 1040-SR, Social Security Benefits Worksheet)
- IRA deduction (Instructions for Form 1040 or 1040-SR, IRA Deduction Worksheet)
- Student loan interest deduction (Instructions for Form 1040 or 1040-SR, Student Loan Interest Deduction Worksheet)
- Nontaxable amount of Olympic or Paralympic medals and USOC prize money (Instructions for Form 1040 or 1040-SR, Schedule 1, line 8)
- The exclusion of interest from Series EE and I U.S. Savings Bonds issued after 1989 (Form 8815)
- The exclusion of employer-provided adoption benefits (Form 8839)
- Tuition and fees deduction (Form 8917)
- The deduction of up to \$25,000 for active participation in a passive rental real estate activity (Form 8582)

If you have already filed your 2020 Form 1040 or 1040-SR, you should not file an amended return at this time. The IRS will issue additional guidance as soon as possible.

The instructions for Schedule 1 (Form 1040), line 7, Unemployment Compensation, are updated to read as follows.

Line 7**Unemployment Compensation**

You should receive a Form 1099-G showing in box 1 the total unemployment compensation paid to you in 2020. Report this amount on line 7.

Caution. *If the amount reported in box 1 of your Form(s) 1099-G is incorrect, report on line 7 only the actual amount of unemployment compensation paid to you in 2020.*

Caution. *When figuring any of the following deductions or exclusions, include the full amount of your unemployment benefits reported on Schedule 1, line 7 (unreduced by any exclusion amount): taxable social security benefits, IRA deduction, student loan interest deduction, nontaxable amount of Olympic or Paralympic medals and USOC prize money, the exclusion of interest from Series EE and I U.S. Savings Bonds issued after 1989, the exclusion of employer-provided adoption benefits, the tuition and fees deduction, and the deduction of up to \$25,000 for active participation in a passive rental real estate activity. See the specific form or instructions for more information. If you file Form 1040-NR, you aren't eligible for all of these deductions. See the Instructions for Form 1040-NR for details.*

Note. If your modified adjusted income (AGI) is less than \$150,000, the American Rescue Plan enacted on March 11, 2021, excludes from income up to \$10,200 of unemployment compensation paid to you in 2020. For married taxpayers, you and your spouse can each exclude up to \$10,200 of unemployment compensation. For example, you file jointly with your spouse and your modified AGI is less than \$150,000. You were paid \$20,000 of unemployment compensation and your spouse was paid \$5,000. Report the \$25,000 (the total amount of your unemployment compensation) on line 7 and report \$15,200 on line 8 as a negative amount (in parentheses). The \$15,200 excluded from income is all of the \$5,000 unemployment compensation paid to your spouse, plus \$10,200 of the \$20,000 paid to you. If your modified AGI is \$150,000 or more, you can't exclude any unemployment compensation. Use the Unemployment Compensation Exclusion Worksheet to figure your modified AGI and the amount to exclude. If you file Form 1040-NR, you can't exclude any unemployment compensation for your spouse.

If you made contributions to a governmental unemployment compensation program or to a governmental paid family leave program and you aren't itemizing deductions, reduce the amount you report on line 7 by those contributions. If you are itemizing deductions, see the instructions on Form 1099-G.

Caution. *Your state may issue separate Forms 1099-G for unemployment compensation received from the state and the additional \$600 a week federal unemployment compensation related to coronavirus relief. Include all unemployment compensation received on line 7.*

If you received an overpayment of unemployment compensation in 2020 and you repaid any of it in 2020, subtract the amount you repaid from the total amount you received. Enter the result on line 7. Also enter "Repaid" and the amount you repaid on the dotted line next to line 7. If, in 2020, you repaid more than \$3,000 of unemployment compensation that you included in gross income in an earlier year, see *Repayments* in Pub. 525 for details on how to report the payment.

Tip. *If you received unemployment compensation in 2020, your state may issue an electronic Form 1099-G instead of it being mailed to you. Check your state's unemployment compensation website for more information.*

Unemployment Compensation Exclusion Worksheet – Schedule 1, Line 8

1. If you are filing Form 1040 or 1040-SR, enter the total of lines 1 through 7 of Form 1040 or 1040-SR. If you are filing Form 1040-NR, enter the total of lines 1a, 1b, and lines 2 through 7.
2. Enter the amount from Schedule 1, lines 1 through 6. Don't include any amount of unemployment compensation from Schedule 1, line 7 on this line.
3. Use the line 8 instructions to determine the amount to include on Schedule 1, line 8, and enter here. Do not reduce this amount by the amount of unemployment compensation you may be able to exclude.
4. Add lines 1, 2, and 3.
5. If you are filing Form 1040 or 1040-SR, enter the amount from line 10c. If you are filing Form 1040-NR, enter the amount from line 10d.
6. Subtract line 5 from line 4. This is your modified adjusted gross income.
7. Is the amount on line 6 \$150,000 or more?
 - a. Yes. Stop You can't exclude any of your employment compensation
 - b. No. Go to line 8
8. Enter the amount of unemployment compensation paid to you in 2020. Don't enter more than \$10,200.
9. If married filing jointly, enter the amount of unemployment compensation paid to your spouse in 2020. Don't enter more than \$10,200. If you are filing Form 1040-NR, enter -0- .
10. Add lines 8 and 9 and enter the amount here. This is the amount of unemployment compensation excluded from your income.
11. Subtract line 10 from line 3 and enter the amount on Schedule 1, line 8. If the result is less than zero, enter it in parentheses. On the dotted line next to Schedule 1, line 8, enter "UCE" and show the amount of unemployment compensation exclusion in parentheses on the dotted line. Complete the rest of Schedule 1 and Form 1040, 1040-SR, or 1040-NR.

Page Last Reviewed or Updated: 24-Mar-2021