



# 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.

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, lines 7 and 8.

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.

**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, if you were paid \$20,000 of unemployment compensation and your spouse was paid \$5,000, report \$25,000 on line 7 and report \$15,200 on line 8 as a negative amount (in parentheses). The \$15,200 excluded from income is \$10,200 for you and all of the \$5,000 paid to your spouse. 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 you can exclude.

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. Enter the total of lines 1 through 7 of Form 1040 and Schedule 1, lines 1 through 7. Include the full amount of unemployment compensation you received in 2020 on Schedule 1, line 7.
2. 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.
3. Add lines 1 and 2.
4. Enter the total of line 10b of Form 1040 and Schedule 1, lines 10 through 21.
5. Subtract line 4 from line 3. This is your modified adjusted gross income.
6. Is the amount on line 5 \$150,000 or more?
  - Yes. Stop You can't exclude any of your employment compensation
  - No. Go to line 7
7. Enter the amount of unemployment compensation paid to you in 2020. Don't enter more than \$10,200
8. If married filing jointly, enter the amount of unemployment compensation paid to your spouse in 2020. Don't enter more than \$10,200
9. Add lines 7 and 8 and enter the amount here. This is the amount of unemployment compensation excluded from your income.
10. Subtract line 9 from line 2 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.