COVID-19 and Direct Payments to Individuals: Summary of the 2020 Recovery Rebates in the CARES Act (S. 3548)

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The Coronavirus Aid, Relief, and Economic Security (CARES) Act (S. 3548), as introduced on March 19, 2020, proposes direct payments of up to $1,200 per person ($2,400 for married taxpayers filing a joint tax return) and $500 per child—“2020 recovery rebates.” Similar to the 2008 recovery rebates, these payments are structured as tax credits advanced to households that file an income tax return. Taxpayers that filed a 2018 income tax return would have this credit advanced to them in 2020, generally in the form of a direct deposit or check by mail. Thus, these taxpayers do not need to wait until 2020 tax returns are filed in 2021 to claim the credit. If they did not file a 2018 return, information from a 2019 return can be used for the advanced credit.

This Insight provides a brief overview of the proposed 2020 recovery rebates, with several simplified examples to illustrate payment amounts for different families.

Calculating the Credit Amount

The credit equals the greater of

1. the taxpayer’s net income tax liability up to $1,200 ($2,400 for married joint filers). Net income tax liability is the taxpayer’s income tax liability before the child tax credit and refundable tax credits (like the EITC); or
2. $600 ($1,200 for married joint filers) if the taxpayer has qualifying income. For the purposes of the basic credit, qualifying income is either
   (a) at least $2,500 of earned income, social security income, or veterans’ benefits; or
   (b) gross income above the standard deduction and $1 of net income tax liability.

All eligible taxpayers would receive the minimum basic credit of $600 ($1,200 married joint filers). Taxpayers eligible for the credit can receive an additional $500 for each child that qualifies for the child tax credit.
The total credit phases out at a rate of 5% of adjusted gross income (AGI) above $75,000 ($150,000 for married joint returns).

As with any tax refund, these payments would not count as income or resources in determining eligibility for, or the amount of, any federally funded public benefit program.

Lower-income taxpayers with little or no income tax liability would tend to receive a smaller credit, on average. Tax credit amounts rise for higher-income taxpayers, until the tax credit phases out at the upper end of the distribution. The distribution of the 2020 recovery rebates may be similar to that of the 2008 recovery rebates.

Other Features of the Proposed 2020 Recovery Rebates

- **SSN requirement**: Taxpayers must provide social security numbers (SSNs) for themselves, their spouse (if married filing jointly), and any child for whom they claim the $500 child credit. Adoption taxpayer ID numbers (ATINs) are also acceptable for adopted children. Taxpayers who provide an individual taxpayer identification number (ITIN) are ineligible for the credit. Hence, married couples in which one spouse has an SSN and another has an ITIN are ineligible for the credit.

- **Nonresident aliens**: The credit is not available to nonresident aliens.

- **Territories**: The law includes a provision requiring the U.S. Treasury to make payments to territories (mirror code and non-mirror code) equal to the aggregate amount of credits claimed by their residents.

- **Past-Due debts**: The credit cannot be reduced for certain unpaid debts, including debts owed to a federal agency (excluding child support), past-due state income taxes, and unemployment compensation debts.

- **Appropriations**: The bill appropriates $396.45 million in FY2020 for the administration of these payments.

Advancing the Proposed 2020 Recovery Rebates

The bill would advance the credit, which would be received as a direct deposit or a check by mail. Without this advancing provision, taxpayers would have to wait until they file their 2020 income tax returns in early 2021 to claim this credit.

The advanced credit amount is estimated using the same formula as the 2020 recovery rebates, but based on taxpayers’ 2018 income tax return information (if the taxpayer did not file a 2018 income tax return, 2019 income tax return information could be used instead).

If, when taxpayers file their 2020 income tax returns in 2021, they find that the advanced credit is greater than the actual credit, they would not be required to repay the excess credit. In contrast, if the advanced credit is less than the actual credit, the taxpayer would be able to claim the difference on their 2020 income tax return.

Simplified Examples of 2020 Rebate Amounts

The following examples illustrate the rebate amount received in 2020 using the taxpayer’s 2018 tax return. These are simplified examples and assume the taxpayer files a 2018 return, meets all the eligibility criteria of the credit, and only claims the standard deduction and child credit and EITC (if eligible). Income tax liabilities are estimated using TAXSIM.
Low-income disabled individual with only Supplemental Security Income (SSI)

In general, cash public assistance for low-income populations, such as SSI, is not considered gross income and is excludable from gross income under a limited general welfare exclusion. In addition—excluding social security retirement benefits (§ 86(d)) and veterans’ benefits—cash public assistance for low-income populations would not be considered qualifying income as defined in this bill. So if SSI is the individual’s only source of income, they would be ineligible for the rebate.

Low-income single worker with $10,000 of earned income

This individual has $0 of net income tax liability prior to applying the EITC (actual liability after the EITC is -$403). Because they have qualifying income (earned income above $2,500), they would receive a $600 rebate.

Low-income senior with $15,000 of social security income

This individual has $0 net income tax liability (and $0 in actual liability). Because they have qualifying income (social security benefits above $2,500) they would receive a $600 rebate.

Married couple with two children and $50,000 of earned income

The couple has $2,739 in net income tax liability prior to applying the child credit and EITC (actual liability after these credits is $1,575). They would receive a $3,400 rebate ($2,400 basic credit and $500 for each child).

Married couple with two children and $200,000 of earned income

The couple has $30,819 in net income tax liability prior to applying the child credit (actual liability after this credit is $26,819). Before applying the phaseout, the rebate would be $3,400. As a result of the phaseout, they would receive a rebate of $900.

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