



## Even very low-income workers should file 2020 taxes

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If the pandemic has taught us anything, it is that every dollar counts for your low- and moderate-income (LMI) clients, customers and employees. Encouraging them to file their taxes could bring them much needed relief. The general guidance is people do not need to file if they earn less than \$12,400 (single) or \$24,800 (married), but not filing taxes could be leaving money on the table.

The 2020 federal tax filing deadline recently was extended to May 17. All states across the Tenth District also extended their filing deadlines. The extra month should not be wasted.

*Please note that the Federal Reserve Bank of Kansas City is not a tax expert. Each situation is unique. Please consult a tax expert if you have questions.*

### **Benefits to filing taxes**

When LMI workers file their taxes, they typically benefit from two programs:

- **Earned Income Tax Credit (EITC):** The amount varies based on earnings and how many children are in the household. Childless workers are eligible for the tax credit, but at a lesser amount.
- **Child Tax Credit (CTC):** This provides a tax credit of up to \$2,000 per child. Lower earners can only expect to receive up to \$1,400 total.

The Child Tax Credit for 2020 taxes is only partially refundable. Thus, low-earner households generally are eligible only for the refundable portion of up to \$1,400.

The Tax Policy Institute [estimated](#) the average household in the lowest income quintile received \$860 through both tax credits in 2020. Workers with children may expect a much larger total credit.

### **Additional benefits to filing this year**

Many benefits are unique to 2020.

- **Recoup any Economic Impact Payments (EIPs):** Filing taxes this year is the last opportunity for people to recoup any money they were due from the relief checks sent in 2020.
- **Enrolling for periodic CTC payments:** Starting in July, the IRS will send periodic checks to those eligible for the CTC. Filing taxes this year ensures the IRS has their address, bank account and eligible children on record to start sending the checks automatically. If sent monthly, the check would amount to \$250 to \$300 a child. People will receive the remainder of the credit when filing taxes next year. The amount of the tax credit for 2021 taxes was increased to \$3,000 - \$3,600 a child depending on the child's age, and LMI filers will be eligible to claim the full amount.
- **Income tax forgiveness on up to \$10,200 of unemployment benefits:** Congress passed this tax break in the American Rescue Plan in March 2021. Guidance is being developed for people who already filed and paid those taxes. States still may tax unemployment benefits.

The changes to the CTC are [estimated](#) to reduce child poverty by about 45%, but it hinges on people filing their taxes.

## How to file

LMI individuals have many options available to file their taxes for free. A good starting point for researching the best option is through [this guide](#) from ProPublica.

- Most LMI households qualify for free in-person tax assistance through the **Volunteer Income Tax Assistance (VITA) Program** provided they:
  - Earned less than \$57,000
  - Have disabilities, or
  - Speak limited English
- **Tax Counseling Programs for the Elderly (TCE)** are available to those 60 or older.

The IRS offers [more information](#) about VITA/TCE programs. Many sites may be at reduced capacity or closed due to precautions around the COVID-19 pandemic. People can find a VITA/TCE site near them through the VITA/TCE [locator tool](#) or by calling 800-227-7669.

## Refund anticipation loans come with risks

It can take from a week to more than a month to receive a tax refund. Because of that, LMI individuals often turn to refund anticipation loans. These products provide money quickly but come with high interest rates and fees, which reduces the

amount of a person's tax refund. If the amount of the refund falls short of the anticipated return, filers will owe the difference on the loan. People should be aware of and carefully consider the cost of using these products.

Each person's tax situation is different. It can be difficult to know whether someone will owe taxes or receive a refund until they complete their tax filing documents. Even then, the IRS does not make it clear that someone's refund may be garnished to cover court-ordered debts. For people with complicated or uncertain tax situations it often is best to seek a certified tax specialist.

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