

GENERAL INSTRUCTIONS

Who May File

This form may be used by both resident and nonresident individuals. If you received unemployment compensation, or if you received a Coronavirus Relief Payment, use this form to subtract those amounts from your federal adjusted gross income to determine your Maryland adjusted gross income.

This form may also be used by resident and nonresident individuals to report income modifications to tax year 2020 authorized by legislation enacted during the 2021 legislative session, including the addition modification for pass-through entity members. Please check our website **marylandtaxes.gov** for legislative updates affecting this form.

Qualifying Guidelines

Unemployment Compensation Subtraction. You qualify for this subtraction if:

- You received unemployment benefits from the Maryland Department of Labor;
- You received unemployment benefits from the unemployment insurance program of any of the following jurisdictions, with which Maryland has a reciprocal taxation agreement: Pennsylvania, Virginia, West Virginia, and Washington, D.C.;
- All or some portion of the unemployment benefits were included in your FAGI;
- Your federal adjusted gross income does not exceed:
 - \$75,000 for single, married filing separately, and dependent filers;
 - \$100,000 for a married couple filing a joint return, or an individual filing as head of household or as a surviving spouse.

On March 11, 2021, the American Rescue Plan Act (ARPA) was signed into law. ARPA permits exclusion of up to \$10,200 from FAGI. For married taxpayers, each spouse receiving unemployment compensation may exclude up to \$10,200 of their own unemployment compensation.

The federal exclusion is limited to taxpayers whose modified adjusted gross income is less than \$150,000. The same \$150,000 modified adjusted gross income cap applies to both single filers and married taxpayers filing jointly; married filing joint taxpayers may not double the modified adjusted gross income cap.

Any amount of unemployment compensation over \$10,200 that is included at the federal level is eligible for the subtraction at the Maryland level, subject to Maryland's income caps for the subtraction. Taxpayers who qualify for the federal exclusion, but do not qualify for the Maryland subtraction, need not add back the amount excluded from FAGI; the exclusion flows to the Maryland return.

For more information, please see the RELIEF Act Tax Alert, which can be found here: https://marylandtaxes.gov/RELIEFAct/docs/RELIEF_Act_Tax_Alert.pdf

Examples

1. A taxpayer filing single has modified adjusted gross income of \$54,000, and received \$20,000 of unemployment compensation. \$10,200 may be excluded from FAGI on the federal return; \$9,800 is included in FAGI. Their FAGI is \$63,800. Because \$9,800 is included in FAGI, and their

FAGI is less than \$75,000, the Maryland unemployment compensation subtraction is \$9,800.

2. A taxpayer filing single has modified adjusted gross income of \$69,000, and received \$5,000 of unemployment compensation. The entire \$5,000 may be excluded from FAGI on the federal return; no unemployment compensation is included in FAGI. Their FAGI is \$69,000. Because no amount of unemployment compensation is included in FAGI, they are not eligible for the Maryland unemployment compensation subtraction, even though their FAGI is under \$75,000.
3. A taxpayer filing single has modified adjusted gross income of \$69,000, and received \$20,000 of unemployment compensation. \$10,200 may be excluded from FAGI on the federal return; \$9,800 is included in FAGI. Their FAGI is \$78,800. Because their FAGI exceeds \$75,000, they are not eligible for the Maryland unemployment compensation subtraction, even though \$9,800 is included in FAGI. No addition modification is required to add-back the unemployment compensation excluded from FAGI, even though the taxpayer's FAGI exceeds the Maryland income threshold for the subtraction. The federal exclusion flows to the Maryland return.
4. A taxpayer filing single has modified adjusted gross income of \$85,000, and received \$15,000 of unemployment compensation. \$10,200 may be excluded from FAGI on the federal return; \$4,800 of unemployment compensation is included in FAGI. Their FAGI is \$89,800. Because their FAGI is above \$75,000, they are not eligible for the Maryland unemployment compensation subtraction, even though \$4,800 of unemployment compensation was included in FAGI. No addition modification is required to add back the unemployment compensation excluded from FAGI, even though the taxpayer's FAGI exceeds the Maryland income threshold for the subtraction. The federal exclusion flows to the Maryland return.
5. A taxpayer filing single has modified adjusted gross income of \$160,000, and received \$5,000 of unemployment compensation. None of the unemployment compensation is excludable from FAGI; all \$5,000 is included in FAGI. Because the taxpayer's FAGI is over \$75,000, the taxpayer is not eligible for the Maryland unemployment compensation subtraction, even though \$5,000 of unemployment compensation was included in FAGI.
6. Married taxpayers filing jointly have modified adjusted gross income of \$70,000. Spouse A received \$20,000 of unemployment compensation; Spouse B received \$5,000 of unemployment payments. \$10,200 of Spouse A's unemployment compensation may be excluded from FAGI; all \$5,000 of Spouse B's unemployment compensation may be excluded from FAGI. \$9,800 of unemployment compensation is included in FAGI. Their FAGI is \$79,800. Because their FAGI is under \$100,000, they are eligible for a Maryland unemployment compensation subtraction of \$9,800, the amount of unemployment compensation included in FAGI.
7. Married taxpayers filing jointly have modified adjusted gross income of \$80,000. Spouse A received \$20,000 of unemployment compensation; Spouse B received \$15,000 of unemployment payments. \$10,200 of Spouse A's unemployment compensation may be excluded from FAGI; \$10,200 of Spouse B's unemployment compensation may be excluded from FAGI. \$14,600 of unemployment compensation (\$9,800 of Spouse A's + \$4,800 of Spouse

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**MARYLAND
FORM
502LU**

**LEGISLATIVE UPDATES
ADDITION/SUBTRACTION
MODIFICATIONS INSTRUCTIONS**

2020

B's) is included in FAGI. Their FAGI is \$94,600. Because their FAGI is under \$100,000, they are eligible for a Maryland unemployment compensation subtraction of \$14,600, the amount of unemployment compensation included in FAGI.

8. Married taxpayers filing jointly have modified adjusted gross income of \$95,000. Spouse A received \$20,000 of unemployment compensation; Spouse B received \$5,000 of unemployment payments. \$10,200 of Spouse A's unemployment compensation may be excluded from FAGI; all \$5,000 of Spouse B's unemployment compensation may be excluded from FAGI. \$9,800 of unemployment compensation is included in FAGI. Their FAGI is \$104,800. Because their FAGI is over \$100,000, they are not eligible for the Maryland unemployment compensation subtraction, even though \$9,800 of unemployment compensation is included in FAGI. No addition modification is required to add back the unemployment compensation excluded from FAGI, even though the taxpayer's FAGI exceeds the Maryland income threshold for the subtraction. The federal exclusion flows to the Maryland return.

9. Married taxpayers filing jointly have modified adjusted gross income of \$130,000. Spouse A received \$20,000 of unemployment compensation; Spouse B received \$5,000 of unemployment compensation. \$10,200 of Spouse A's unemployment compensation may be excluded from FAGI; all \$5,000 of Spouse B's unemployment compensation may be excluded from FAGI. \$9,800 of unemployment compensation is included in FAGI. Their FAGI is \$114,800. Because their FAGI is over \$100,000, they are not eligible for the Maryland unemployment compensation subtraction.

10. Married taxpayers filing jointly have modified adjusted gross income of \$160,000. Spouse A received \$20,000 of unemployment compensation; Spouse B received \$5,000 of unemployment compensation. None of their unemployment compensation is excludable from FAGI; all \$25,000 is included in FAGI. Because their FAGI is over \$100,000, they are not eligible for the Maryland unemployment compensation subtraction, even though \$25,000 of unemployment compensation is included in FAGI.

Coronavirus Relief Payment Subtraction. You qualify for this subtraction if:

- You received a federal, State, or local government grant or loan for which you applied on or after March 5, 2020; and
- The grant or loan was provided for the purpose of assisting with the economic hardships resulting from the Coronavirus pandemic; and
- The grant or amount of loan forgiveness was included in your federal adjusted gross income. Please note, forgiveness of federal Payroll Protection Program loans issued pursuant to the Coronavirus Aid, Relief, and Economic Security Act is not included in federal adjusted gross income, and, therefore, does not qualify for this subtraction.

- In order to be eligible for the subtraction, these amounts must be included in a taxpayer's FAGI for the same year. Please note certain payroll protection programs under the federal Coronavirus Aid, Relief, and Economic Security (CARES) Act have already been excluded from FAGI under federal law. As these amounts are not included in a taxpayer's FAGI, they are not eligible for Subtraction on the Maryland return.

Required Attachments

In order to take either subtraction, you must attach to your Maryland return a completed Form 1099-G.

SPECIFIC INSTRUCTIONS

ADDITIONS

Line 1 **Members of pass-through entities that elected to make payments attributable to members' share of the pass-through entity taxable income.** If you received a credit for tax paid by the pass-through entity on your distributive or pro rata share of income on Maryland Schedule K-1 (510), Part D enter the amount of the credit claimed on Form 502CR part CC line 7.

Line 2 Reserved for future use.

Line 3 Add the amounts from lines 1 and 2.

SUBTRACTIONS

You must include a copy of Form 1099 with your return to claim any of the subtractions on lines 4 through 6.

Line 4 Enter amount of unemployment compensation reported on 1099-G, Box 1, that was included in your FAGI.

Line 5 Enter total amount of Coronavirus relief grant payment. If you received a Coronavirus relief loan, and any portion of the loan was forgiven, include on this line the amount that was forgiven.

You can find a list of eligible Maryland grant and loan programs at marylandtaxes.gov/ReliefAct.

Line 5a. Check the appropriate box. Enter the agency or entity from which you received the grant or loan. A list of eligible grants and loans can be found on the Comptroller's web page.

Line 6 Reserved for future use.

Line 7 Add the amounts from lines 4, 5, and 6.

For more information, visit marylandtaxes.gov or email your question to TAXHELP@marylandtaxes.gov. You may also call 1-800-638-2937 or from Central Maryland 410-260-7980.