

# Money Management

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Money Management is a weekly column on personal finance prepared and distributed by certified public accountants.

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## **TAX ISSUES TO CONSIDER WHEN YOU'RE UNEMPLOYED**

Many Americans have experienced tough times in the last year or so, including the loss of a job. If you're uncertain how the tax laws apply to those who are unemployed or seeking a new position, the New Hampshire Society of CPAs offers some timely tax season advice.

### **UNEMPLOYMENT BENEFITS ARE TAXABLE ...**

If you received unemployment benefits, you must report that money as taxable income, including any extended benefits you may have gotten. Similarly, severance pay from a former employer is also taxable, as are any additional payments you might have received for unused sick or vacation pay.

### **... BUT YOU GET A BREAK IN A TROUBLED ECONOMY**

Even though unemployment payments are taxable, the government has given a break to people who have lost their jobs in the

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midst of the recent financial crisis. Under the American Recovery and Reinvestment Act, the first \$2,400 of unemployment compensation that you received during 2009 is excluded from income.

#### **JOB-HUNTING EXPENSES CAN BE DEDUCTIBLE**

Another bright spot is the fact that you may be able to deduct some of the expenses you incurred to search for a new position. As a general rule, job search expenses can be deducted as an itemized deduction if you are looking for a position that is in same the line of work as the one you lost or left, whether or not a new job is found. You can claim any expenses in excess of two percent of your adjusted gross income. So, for example, if your adjusted gross income was \$50,000 last year, you can't deduct the first \$1,000 of job search costs, but anything after that is deductible. If you paid to have someone update your resume to make you a more appealing candidate, or to type, print or mail it, those costs may be deductible. If you had to pay fees to an employment agency or outplacement service as part of your search for work, that outlay also may be deductible. In addition, if you had to travel, any air, bus or train fares, mileage, hotel costs or meals also may be deductible. Remember,

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too, that if you had to relocate to take a new job, the moving costs may also be deductible.

#### **DIPPING INTO IRAs**

When people lose a job, many consider withdrawing money from an IRA or other qualified retirement plan. If you do, CPAs caution that generally you will have to pay taxes on the withdrawal and possibly a 10% penalty. On the other hand, if you contributed money to an IRA during the last tax year, you are allowed to take back that contribution as long as you do so before the April 15 tax return deadline. Of course, you will not be able to deduct the original contribution on your tax return. In addition, you must also withdraw any interest or dividends you earned on the contribution while it was in the IRA and pay taxes on them.

#### **HANDLING PAYMENT PROBLEMS**

If you don't have the money to pay taxes, it's best to contact the Internal Revenue Service immediately and discuss your situation. Alternative options are available, such as stretching out your payments over time. The IRS offers taxpayer assistance at 800-829-1040.

**YOUR CPA CAN HELP**

Job loss can create difficult challenges, so be sure to turn to your local CPA with any concerns you may have about your taxes or other financial concerns. He or she has the expertise to help you find answers to the tough questions.

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