

Jobless Taxpayers May Be Missing Key Tax Breaks, Costing Themselves Money

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Survey Shows 73 Percent Don't Know Unemployment Benefits Are Taxable

KANSAS CITY, MO, Feb 02, 2010 (MARKETWIRE via COMTEX) -- The unemployment rate for 2009 hit 9.2 percent, but taxpayers are still confused about whether unemployment benefits are taxable and job search costs are deductible, according to a new survey by The Tax Institute at H&R Block (NYSE: HRB). As a result, taxpayers could be surprised at tax time.

"Not knowing how much you have to pay on unemployment benefits or what you can deduct for job hunting expenses could be costly at tax time," said Amy McAnarney, executive director of The Tax Institute at H&R Block. "There are several new tax breaks for 2009 and job search expenses that can mean savings for taxpayers who were out of work."

The survey assessed the tax knowledge and opinions of a nationally representative sample of 898 taxpayers.

Are unemployment benefits taxable?

According to the survey, 73 percent of taxpayers didn't know if or to what extent unemployment benefits are taxable. A tax break in the 2009 Recovery Act exempts the first \$2,400 of unemployment benefits received that year from federal taxes. However, unemployment benefits over that amount are taxable.

Also, legislation passed by Congress added an extra \$25 per week to unemployment checks and provided a 65 percent COBRA subsidy for those who qualify. The subsidy is tax-free for taxpayers with modified adjusted gross income of \$125,000 or less (\$250,000 or less on joint returns).

In November, Congress extended the time a person could receive unemployment benefits to 34 weeks. For those in states with unemployment rates of 8.5 percent or higher, it's 40 weeks.

"Jobless taxpayers will get relief on the unemployment benefits they receive, however, they'll need to plan for their tax liability to avoid an unwanted tax bill," McAnarney said.

What qualifies as job search expenses?

Taxpayers were confused about what qualifies as job search expenses. According to the survey, 40 percent of taxpayers didn't know they could deduct transportation expenses or the cost of help with a resume. Another 17 percent mistakenly believed they could deduct wardrobe purchases, the survey showed.

"If you're paying someone to help compile your resume, using a head hunter or traveling for an interview, you can likely deduct those job search related expenses. But wardrobe purchases or hair cuts aren't deductible," McAnarney said. "Generally, if you can use it for another purpose, it will not qualify as a job search related expense."

Keeping track of job search expenses can help the unemployed reduce their tax liability. Job search expenses must be claimed as miscellaneous itemized deductions, subject to a 2 percent of adjusted gross income limitation. Qualified expenses may include:

- Resume development
- Professional placement services
- Mileage for driving to job interviews or other unreimbursed travel such as airfare and hotel

Taxpayers who relocate because of a new job can deduct your qualified moving expenses without itemizing. The new job must be at least 50 miles farther away than the previous residence was from the old job and taxpayers must remain at the new location at least 39 weeks.

Which life event impacts you the most?

Perhaps as a sign of the economy, the survey showed that taxpayers ranked losing their job as the life event that would most impact their taxes, at 56 percent. That life event ranked higher than having kids, at 22 percent; getting married, 9 percent; or getting divorced, 8 percent.

"Whenever you have a life event -- whether it's getting married or divorced, losing a job or having children -- your taxes could be impacted," McAnarney said. "With nearly 300 tax law changes made in 2009, Americans will want to make sure they know about all the credits and deductions they're due."

H&R Block tax professionals can help unemployed taxpayers take advantage of all the credits and deductions on their 2009 return. For more information about the tax implications of unemployment or for year-end tax tips, visit www.hrblock.com.

About The Tax Institute at H&R Block

The Tax Institute at H&R Block is the go-to source for objective insights on federal and state tax laws affecting the individual. It provides nonpartisan information and analysis on the real world implications of tax policies and proposals to policymakers, journalists, experts and tax preparers. The Institute's experts include CPAs, Enrolled Agents, attorneys and former IRS agents who draw from years of experience and H&R Block's extensive network of resources. For more information visit our press center at <http://thetaxinstitute.com>.

About H&R Block

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