

As Unemployment Rises, So Does Confusion on Tax Implications

June 16, 2009 4:42 PM ET

Act Now to Ensure No Surprises Come Tax Time

KANSAS CITY, MO, Jun 16, 2009 (MARKETWIRE via COMTEX) -- One in 10. That is how many Americans economists predict could be unemployed by year's end. Yet, 8 in 10 taxpayers believe they won't have to pay taxes on unemployment benefits, according to a survey conducted by The Tax Institute at H&R Block.

Numbers recently released show 9.4 percent of Americans are unemployed. For those people and the more than 1 million others who filed for unemployment in the past two months, it's critical to understand the tax implications of receiving those benefits. Those who don't, may have an unexpected tax bill next April, warned tax professionals at H&R Block (NYSE: HRB).

"For most individuals, taxes are very confusing. If your situation has changed and you are now unemployed, that adds a new level of complexity and stress to an apprehensive time," said Amy McAnarney, executive director of The Tax Institute at H&R Block.

To help relieve some of that stress, McAnarney said it's important to learn a little more about three key areas:

- Taxability of unemployment benefits
- COBRA insurance subsidy
- The reasons for tracking job search expenses

Extra, extra

Congress did pass some additional relief, however. A provision in this year's Recovery Act is designed to relieve some financial burden for those who are unemployed. For anyone receiving unemployment benefits in 2009, an extra \$25 per week is added to their benefit. In addition, the time a person can receive unemployment payments was extended to 20 weeks and in certain high unemployment states, extended an additional 13 weeks. Be sure to check with a local tax professional or unemployment office to determine which states give the extension.

The legislation passed in February also gives a break on COBRA insurance premiums to those who qualify. This benefit is a federal subsidy of 65 percent on monthly premiums for up to nine months. This decreases the out-of-pocket expense on COBRA by almost two-thirds for those who are eligible.

To tax or not to tax

Although unemployment compensation is taxable, the Recovery Act contains a provision that exempts the first \$2,400 of unemployment benefits earned in 2009 from federal taxes. However, any unemployment compensation earned over \$2,400 is still taxable.

So, for those unemployed, these steps can simplify the tax picture:

- Setting aside a portion of your benefit amount to pay taxes next year or fill out form W-4V to have it automatically withheld
- Tracking and documenting job search related expenses
- Talking to a tax professional to avoid confusion

Deducting the job search

McAnarney said many expenses incurred as a result of a job search are tax deductible when a taxpayer seeks employment in the same field or business as their previous job. Among them:

- Resume development

- Professional placement services
- Mileage driven to job interviews and other unreimbursed travel expenses such as airfare

Taxpayers must itemize as part of their miscellaneous deductions to deduct job search expenses. However, only miscellaneous expenses that exceed 2 percent of adjusted gross income are deductible. "Because even the little expenses add up, be sure to document and keep receipts," McAnarney said.

H&R Block tax offices are open now and can help individuals best prepare for any taxes on unemployment compensation before the year ends. Or visit www.hrblock.com for tax tips and other important information.

The Tax Institute, a division of H&R Block, is a national leader in providing unbiased research, analysis and interpretation of federal and state tax laws. Staffed by enrolled agents, CPAs and attorneys, The Tax Institute provides industry expertise for matters related to taxes and the professional tax preparation industry.

About H&R Block

H&R Block Inc. (NYSE: HRB) is the world's preeminent tax services provider, having served more than 400 million clients since 1955 and generating annual revenues of \$4.1 billion in fiscal year 2008. H&R Block provides income tax return preparation and related services and products via a nationwide network of approximately 13,000 company-owned and franchised offices and through TaxCut(R) online and software solutions. The company also provides business services through RSM McGladrey. For more information visit our Online Press Center at www.hrblock.com.

SOURCE: H & R Block