

Taxes 101: H&R Block Gives High School Students, College Graduates First-Job Tax Tutorial

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Regular Paycheck Brings Tax, Savings Choices

KANSAS CITY, MO, May 27, 2010 (MARKETWIRE via COMTEX) --Graduation, commencement -- whatever you call it, big milestones like these require big celebrations and presents. After all the graduation money is spent and people have stopped saying "congratulations," they may be asking about work. Not school work, but "work" work.

For high school students working their first job and college graduates entering the work force, bigger paychecks mean more freedom and more shopping. But, it also may mean increased tax liability. To help sort out these new responsibilities, H&R Block offers a little tax education.

What's a W-4?

Form W-4 determines how much federal income tax is withheld from every paycheck based on the number of allowances claimed and marital status. The more allowances claimed, the less tax employers withhold.

"What you put on your W-4 has a direct impact on the amount of money in your paycheck," said Alison Flores, analyst at The Tax Institute at H&R Block. "For single taxpayers making \$30,000 annually, they would have approximately \$21 additional take-home pay per biweekly paycheck if they claimed one allowance than if they claimed zero allowances."

Those who work more than one job need to pay extra attention to their W-4s to make sure enough tax is being deducted; the more money earned, the higher the tax rate.

Most human resources departments can answer basic W-4 questions, but some taxpayers may find H&R Block's interactive tax withholding calculator helpful.

What are all these taxes?

One very important thing to remember is that all income must be reported to the IRS. It does not matter if it is from tips, a lawn mowing business or working as a nanny.

Federal individual income tax rates range from 10 percent to 35 percent, while state income taxes vary. The employee portion of FICA (Social Security and Medicare) taxes on wages is 7.65 percent. With all applicable taxes competing for their share, taxpayers should claim all tax credits and deductions they are entitled on their tax returns. Claiming all permitted tax breaks can mean the difference between getting a refund check and mailing a check to pay taxes due. Recent college graduates take note: Interest paid on student loans is deductible up to \$2,500, which reduces taxable income and lowers the amount of tax owed.

In some instances, those working their first job may be exempt from federal income tax withholding. To qualify, they cannot have owed taxes last year and cannot expect to owe for this year. However, they cannot be exempt if both of these statements are true:

- They can be claimed as a dependent
- Their total income is expected to be more than \$950 and include more than \$300 in unearned income (e.g., interest and dividends).

Are job-search expenses tax-deductible?

With the unemployment rate at 9.9 percent*, college graduates may be looking longer than anticipated. However, they shouldn't be discouraged; the economy added 260,000 jobs in April.

New college graduates with relevant work experience may be eligible to claim job-search expenses in their present trade/profession. Only items that can be used exclusively for the job search are tax deductible, which means haircuts and clothing are not eligible. These are eligible deductions:

- Resume development
- Professional placement services
- Unreimbursed mileage, airfare and hotel expenses for interview travel.

After work has started, expenses for unreimbursed items necessary for working, such as computers and mobile phones, may be eligible tax deductions.

To deduct job-related expenses, the taxpayer must itemize deductions. It is beneficial to itemize tax deductions if they total more than the standard deduction (\$5,700 for a single taxpayer for 2010). Also, only the portion of job deductions and other miscellaneous itemized deductions that exceed 2 percent of adjusted gross income may be claimed.

For college graduates relocating for a new job, moving expenses may be eligible deductions that do not have to be itemized. These are the eligibility requirements:

- Moving expenses must be incurred within one year from the first day of work
- The new job would have increased the taxpayer's commute by more than 50 miles
 - If the taxpayer was previously unemployed, the new job must be at least 50 miles from the taxpayer's old home
- Taxpayers must be employed at least 39 weeks during the first 12 months after the move.

For more information about the Form W-4, first job tax tips or other tax issues, contact a local H&R Block tax professional or visit www.hrblock.com.

* Bureau of Labor Statistics, reported May 7

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For Further Information
Gene King
816-854-4287
Email Contact

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