Unemployed Workers to See Boost in Benefits From Recovery Act

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Jobless Should Consider Tax Implications to Avoid an Unwanted Bill at Tax Time

KANSAS CITY, MO, Feb 25, 2009 (MARKET WIRE via COMTEX) -- With the Federal Reserve predicting unemployment to reach 8.8 percent in 2009, jobless workers may need the extra benefits from the American Recovery and Reinvestment Act. But unemployed workers should factor in the tax implications of these benefits to avoid owing at tax time.

"If you're one of the millions of Americans who are unemployed, an extra $25 a week can make a difference in paying rent and basic bills or buying groceries," said Amy McAnarney, executive director of The Tax Institute at H&R Block (NYSE: HRB). "But these taxpayers will want to consider how these benefits will affect their bottom line at tax time -- and plan appropriately to avoid an unwanted tax bill next year."

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The Recovery Act will help unemployed workers by:
-- Increasing unemployment checks by $25 per week
-- Excluding the first $2,400 of unemployed benefits from federal tax
-- Allowing more individuals to qualify for extended unemployment benefits
-- Providing a federal subsidy of 65 percent of monthly COBRA premiums for
   up to nine months.
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Taxpayers receiving unemployment compensation will get the weekly pay increase and tax exemption of $2,400 during 2009. If taxpayers are withholding federal taxes from their benefit, they may want to adjust the withholding based on this change. All individuals who received unemployment in 2009, should reduce the reported unemployment benefits by $2,400 (but not below $0) when they file their 2009 return.

The bill also lengthens the eligibility of extended unemployment benefits. The program provides up to 33 extra weeks of unemployment benefits once they exhaust the regular 26 weeks. The extended benefits are available for individuals who exhaust regular unemployment benefits by Dec. 31, 2009.

Jobless taxpayers should check with their local unemployment offices for the availability of these benefits.

Eligible unemployed workers paying for COBRA will benefit from a 65 percent federal subsidy for their monthly insurance premiums for nine months. Jobless taxpayers who were involuntarily terminated between Sept. 1, 2008 and Dec. 31, 2009, may be eligible. Employers should notify those who are eligible, but individuals should contact their former employers with questions.

Taxpayers who received unemployment benefits -- or a severance package -- in 2008 will still owe taxes on that amount. They also will owe tax -- and possibly a 10 percent premature withdrawal penalty -- if they took money out of an IRA or other retirement plan. Supplemental income earned through freelance and consulting jobs is taxable and generally subject to self-employment tax.

However, jobless taxpayers also should take advantage of tax deductions that apply to them. Job search expenses such as meeting with a career coach, resume help and transportation to interviews are all deductible on the tax return. Unreimbursed relocation expenses for a new job also are deductible. And COBRA payments may qualify for medical expense deductions. Taxpayers should save their receipts for these types of expenses in order to claim them on their tax return.

There were many other changes to the tax law included in the Recovery Act, so taxpayers should consult with a tax professional in order to claim all the credits and deductions to which they're entitled -- and to avoid an unwanted bill at tax time.

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