



Income Tax Issues Related to Unemployed Individuals

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Overview

- **Income Considerations**
 - Severance pay
 - Unemployment benefits
 - Part time employment
 - Contract labor
 - Self employment
- **Expenses Deductions and Credits**
 - Moving expenses
 - Job hunting expenses
 - Home office expenses
 - Self-employment expenses
 - Educational expenses and credits
 - Other expenses
- **Other Considerations**
 - Early retirement
 - Work related education expenses



Income

- **Severance Pay**
 - Taxable in year received
 - Generally reported as wages on Form W-2
- **Unemployment Benefits**
 - Up to \$2,400 not taxable (Form 1040, line 19)
 - \$2,400 exclusion is per spouse if married filing a joint return
- **Part Time Employment**
 - Effect on unemployment compensation
 - Generally, TWC will deduct the amount of earnings per week from your maximum benefit in arriving at your net benefit payment
 - Taxable as wages and reported on Form W-2



Income

- **Contract Labor**
 - Will reduce unemployment benefits
 - Generally, TWC will deduct the amount of earnings per week from your maximum benefit in arriving at your net benefit payment
 - Generally taxable as ordinary income and reported on Form 1099-MISC
 - Self-Employment Tax (Social Security & Medicare)
 - Liable for self-employment tax on earnings if over \$400



Income

- Self-Employment Income
 - Will reduce unemployment benefits
 - Generally TWC will deduct the amount of earnings per week from your maximum benefit in arriving at your net benefit payment
 - Must be operating the business with a profit motive
 - Deductions are allowed for reasonable and necessary business expenses
 - Liable for self-employment tax on net earnings if over \$400
 - May have to pay in quarterly estimated tax payments



Expenses

- Moving Expenses
 - Deductible if moving to a new location to take a new job
 - Distance requirements
 - Distance between the new job location and the former home must be at least 50 miles more than the distance between the old job and former home
 - For first time employees or persons returning to work the distance test is met if the new workplace is at least 50 miles from the former home

Expenses

- Moving Expenses Cont...
 - Must Be a Full Time Employee
 - Must be at the new location for at least 39 weeks in the 12 month period following arrival
 - For married taxpayers only one spouse needs to meet this test
 - An exception to this rule is involuntary separation, (for other than willful misconduct) death, disability, subsequent transfer by same employer or military
 - You can combine two jobs in the new location to meet the 39 week rule
 - Similar rules for self-employed individuals



Expenses

- Moving Expenses Cont...
 - What is Deductible
 - Cost of moving household goods and personal effects (including in-transit or foreign-move storage expenses)
 - Travel expenses (including lodging but not meals) for one trip for the taxpayer and each member of the household
 - Household members do not have to travel together or at the same time. For 2009, the standard mileage rate is 24 cents per mile, plus parking and tolls

Expenses

- Moving Expenses Cont...

- How to Deduct

- If the employer pays the expenses directly to a third party vendor then use Form 3903 only if you paid expenses that were not reimbursed
 - If the employer reimburses you directly and you return any unused reimbursement not substantiated as a moving expense then use Form 3903 only if you paid expenses that were not reimbursed
 - If the employer gives you a moving allowance that does not have to be substantiated then the reimbursement will be included in your W-2 and you will use Form 3903 to claim the deduction for the expense



Expenses

- Job Hunting Expenses
 - Must be pursuing a job in your present line of work
 - Deductible even if no job is found
 - What is deductible
 - Fees paid to an employment agency & executive recruiters
 - Cost of typing, printing, and mailing resumes
 - Cost of assembling portfolios of work
 - Career counseling to improve position in trade
 - Fees for legal and accounting services or tax advice relating to employment contracts
 - Advertising for a new job in present field
 - Transportation costs to interviews
 - Long distance telephone calls to prospective employers



Expenses

- Job Hunting Expenses
 - What is deductible cont...
 - Newspaper and business publications bought for employment advertising
 - 50% of meals & entertainment expenses directly related to job searches
 - Out of town travel expenses including meals, lodging and local transportation if the trip is primarily to look for a new job
 - If the trip is personal, travel costs are not deductible. However, out-of-pocket job hunting expenses at the destination are still deductible
 - Deductible on Schedule A as a miscellaneous itemized deduction subject to a 2% of adjusted gross income floor



Expenses

- Home Office Deductions
(Business Use Of Your Home)
 - To Qualify for Deduction the Area in the Home Must Be Used Regularly and Exclusively for Business:
 - As the principal place of business (including administrative use)
 - As a place to meet with clients in the normal course of business
 - In connection with the business if it is a separate structure not attached to your personal residence
 - Must be for the convenience of your employer if not self-employed



Expenses

- Home Office Deductions (Business Use Of Your Home)
 - Business Use Percentage
 - Determined by any reasonable method such as taking the area of the office and dividing it by the total area of the home
 - Deductible Expenses
 - Mortgage interest
 - Real estate taxes
 - Home repairs/maintenance
 - Rent
 - Utilities
 - Home insurance
 - Security system
 - Other reasonable expenses



Expenses

- Home Office Deductions
(Business Use Of Your Home)
 - Direct Expenses
 - Benefit only the business and are generally 100% deductible
 - Indirect Expenses
 - Benefit both the business and the personal parts of the house
 - Limited to the business use percentage
 - How To Deduct
 - Form 2106 and Schedule A if a wage earner
 - Form 8829 if self-employed
 - The amount of the deduction is limited to earnings



Expenses

- **Self Employment Expenses**
 - Any expense reasonable necessary to carry on your trade or business is deductible
 - Keep written records and receipts
- **Educational Deductions and Credits**
 - Student loan interest up to \$2,500 on qualified education loans for college or vocational school expenses can be deducted as an adjustment to income (Form 1040, Line 33)
 - Tuition and fees
 - Up to \$4,000 is deductible as an adjustment to income subject to adjusted gross income limitations (Form 1040, Line 34)
 - Tuition and fees required for the enrollment and attendance at an eligible educational institution
 - Taxpayer, spouse or child are eligible



Expenses

- Educational Deductions and Credits
 - American Opportunity Credit
 - Credit of up to \$2,500 subject to adjusted gross income limits (Form 8863)
 - Tuition, fees, course materials
 - First four years of undergraduate program
 - 40% of credit is refundable
 - Lifetime Learning Credit
 - Credit up to \$2,000 per year subject to adjusted gross income limits (Form 8863)
 - Tuition, fees, course material
 - Available for an unlimited number of years for undergraduate and graduate programs
 - Non-refundable credit



Expenses

- **Other Deductible Items**

- Uniforms (Itemized deduction subject to 2% floor)
 - Must be required as a condition of employment
 - Must not be adaptable to everyday wear
- Home Phone Service
 - Long distance business calls
 - Extra cost of a second phone for business use
 - Extra Features such as call waiting or call forwarding if needed for business
- Computer/Internet
 - Antivirus software
 - Website domain
 - Computer, printer, and other technology



Other Considerations

- Considering Tapping Into a Retirement Plan?
 - IRA's, 401(k) plans, SEP plans
 - Must be at least 59.5 years old to begin withdrawing funds from an IRA or other qualified plan without a penalty
 - Withdrawals prior to age 59.5 are generally subject to a 10% penalty tax with a few exceptions such as
 - Total permanent disability (all plans)
 - Unreimbursed medical expenses exceeding 7.5% of adjusted gross income (all plans)
 - QDRO (not IRA)
 - Health insurance premiums for certain unemployed individuals (IRA only)
 - Qualified higher education expenses (IRA only)
 - First time home purchase up to \$10,000 (IRA only)
 - Reservist on active duty for at least 180 days (all plans)



Work Related Education Costs

- Must be:
 - Expressly required by an employer
 - Required by law or government regulation or
 - Course must maintain or improve skills required in performing a present job
- Not Deductible If:
 - Course is to:
 - Help return to a job, business, or profession
 - Meet the minimum requirements for a trade or business or
 - Qualify for a new job, trade or business



Work Related Education Costs

- What is Deductible
 - Tuition, textbooks, registration fees and supplies
 - Transportation
 - Meals and lodging while attending school away from home
 - Writing expenses for term papers or dissertations
 - Lab fees, student cards, insurance and degree costs
- How to Deduct
 - Itemized deduction subject to a 2% of AGI floor