

BETWEEN JOBS? HERE ARE SOME THINGS YOU SHOULD KNOW

1. Unemployment compensation is taxable. Unlike wages, though, no withholding is taken on unemployment unless it's specifically requested. You may request that income taxes be withheld from your unemployment checks by submitting a completed Form W-4V, Voluntary Withholding Request, to the unemployment office where you applied for benefits. Once your request is processed, 10% of your benefits will be withheld for federal taxes.
2. Back pay, sick pay, unused vacation pay, and severance payments are all taxable.
3. Retirement plan distributions must be rolled over to an IRA or another retirement plan within 60 days of receipt to avoid tax and, if applicable, a 10% early withdrawal penalty. See IRS Publication 575, Pension and Annuity Income, for information on exceptions to the early withdrawal penalty.
4. Job-hunting expenses are deductible, whether or not you get a new job. You must be looking for work in the same general field as your last job. Job-hunting expenses are taken as itemized deductions on Schedule A as miscellaneous expenses subject to the 2% of AGI limitation.

Examples of deductible job-hunting expenses are:

- Resume preparation fees
- Career counseling and outplacement fees
- Newspapers, periodicals, etc.
- Employment agency fees
- Transportation to job interviews

- Out-of-town travel (The trip must primarily be for the purpose of looking for a job or going to a job interview.)

5. Qualified moving expenses are claimed on Form 3903, Moving Expenses. They are taken as an adjustment to gross income on

Form 1040, page 1. You do not need to itemize to deduct these expenses. To be deductible, the following tests must be met:

- Your new job must be at least 50 miles from your old job and residence. For example, if you currently live 10 miles from your present job, your new job must be at least 60 miles from your former residence. If you are not currently working, the new job must be 50 miles from your current residence.

- If you are an employee, you must stay at your new job at least 39 weeks in order to claim moving expenses. If you are terminated from your new job, other than for willful misconduct, you still pass the time test. If you move to a new location and start your own business, you must work full-time in that new business for at least 39

weeks during the first year and a total of at least 78 weeks during the first two years. You do not have to meet this time requirement if you are laid off or discharged (for a reason other than willful misconduct) from your new job, become disabled, or transferred to a new location by your employer. For other exceptions to the time test, see IRS Publication 521, Moving Expenses.

Unemployment and severance payments are taxable. So is the money you may have received in exchange for unused vacation. But all the news is not bad. Many activities connected with a job search are deductible, even if you're not successful in landing the job.

— Jackie Perlman,
CPA, Senior Tax
Research Analyst

Deductible moving expenses include the cost of moving yourself, your family, and your household belongings (including your pets) to the new location. If your employer reimburses you for these expenses, the reimbursement is not taxable, and you may not claim the deduction. If your employer reimburses you for other moving expenses, this portion of the reimbursement is included in your wages.

6. Up to \$250,000 gain (\$500,000 for married filing jointly) on the sale of your residence may be excluded. You must have owned and lived in the home any two out of the five years preceding the sale and not have excluded gain on the sale of another home within a two-year period of the current sale date. You do not need to purchase a new home for the exclusion to apply. If you do not meet the two-year test, you may still be eligible for a reduced exclusion.
7. Expenses for child care while you look for a job qualify for the child care credit, but you must have earned income during the year for the credit to apply. Qualified expenses are limited to the lower of (1) \$2,400 (\$4,800 for two or more children) or (2) your earned income.
8. If you decide to return to school, you may be eligible for the Hope Scholarship, Lifetime Learning credit or the new higher education deduction. See IRS Publication 970, Tax Benefits for Higher Education, and the H&R Block 2004 U.S. Tax Press Kit, Education tab for more information.
9. The unemployed can also write off medical costs if their bills add up to at least 7.5 percent of their AGI. This may sound like a lot, but if your income falls to \$20,000 a year, the deduction could be triggered if your health-related bills amount to \$1,500 or more.
10. A home equity loan can help pay expenses. The good news is, interest on home equity loans is generally deductible and can be used for virtually any purpose. Caution: Taking a loan on your home puts your home at risk if there's a chance that you won't be able to meet your mortgage payments. You should carefully consider all of your options before taking out an equity loan.
11. If your home or car is in jeopardy of repossession while unemployed, speak to your tax professional early so that you will understand how your tax situation is affected.