

## Tax Filing Help during the Recession

If you're experiencing economic hardship, several recent tax breaks may be available to you as you fill out your 2009 income tax return.

The first thing to remember is: **If you owe taxes and cannot pay them, it is crucial that you contact the Internal Revenue Service as soon as possible to request a payment plan.** Failing to pay will just compound the problem.

### Lost Your Job?

Losing your job or being out of work does not relieve you of the responsibility to pay your income tax. If you have lost your job, it is important to know what tax rules apply in filing your income tax return. Some forms of financial assistance are taxable and some are not; some costs are deductible and some are not.

#### Benefits that are taxable as income:

- State unemployment insurance benefits (up to 26 weeks) and extended benefits (up to 13 weeks) are taxable, **except that for tax year 2009, there is a special rule that permits anyone to exclude from gross income up to \$2,400 of unemployment compensation.** (If items are excluded from income, they will not be taxed.)
- **Severance pay is taxable income in the year you receive it.** Your employer will include severance pay in your Form W-2, which you should have received by now. If your employer has not issued you a Form W-2 (whether due to your employer's bankruptcy or otherwise), the IRS can help you complete a substitute W-2 using your records.
- Accumulated leave or vacation pay and sick pay are also calculated as wages and included in your Form W-2.
- In general, if you withdraw money from your qualified retirement plan or Individual Retirement Account (IRA) **before** you reach eligible age (which may vary under different retirement plans), and if you did not roll it over into another qualified retirement plan or IRA within 60 days, **the amount will be taxable income.** If you are under age 59-1/2, you may also have to pay an additional 10% tax on the early distribution, although there are exceptions, such as using this

money to pay your medical insurance premium after a job loss. See IRS Publication 17 or IRS Publication 575.

If you sold assets such as stocks, bonds or investment property in 2009, you need to report the sale. If you have a gain, it may generate an income tax liability. See IRS Publication 505.

**Benefits that are not taxable:**

- Receipt of public assistance or supplemental nutrition assistance (formerly known as food stamps) is not taxable as income.
- Cash and property received from family or friends as a gift is not taxable income. If a gift produces income such as interest, dividends, or rent, however, the person who received the gift is subject to income tax on the income that the gift produces.

If you are unemployed, you may qualify for the Earned Income Tax Credit, which is meant for low- to moderate-income working individuals and families. To qualify, your income must meet certain guidelines. EITC can reduce your taxes, so that you keep more money in your pocket. More about this refundable credit is available in IRS Publication 596.

**You may also qualify for certain deductions if you file Form 1040 and Schedule A**

If you itemize your deductions – that is, file form 1040 and Schedule A - certain expenses while looking for a new job in your present occupation (e.g. employment and outplacement agency fees, resume preparations, travel expenses for job search and interviews) may be deductible. See IRS Publication 17.

If you move because of a change in your job location, you may be able to deduct your moving costs. In order to deduct these costs, however, the move must occur close in time to the start of the new job, and you must have moved at least 50 miles. For further information, see IRS publication 521, Moving Expenses.

If you are now paying the full cost of your health insurance, you can generally deduct these health insurance premiums, if, combined with other medical and dental bills, they exceed a specified floor. See Schedule A and Publication 502, Medical and Dental Expenses.

**Possible tax credits:**

If you have gone back to college to take some courses, you may qualify for the Hope or Lifetime Learning educational credits. In some cases, tuition costs will qualify as an itemized deduction. See Publication 970, Tax Benefits for Higher Education.

**Lost Your Home to Foreclosure?**

If your lender forgave the debt you owed on your principal residence, the forgiven amount is considered taxable income. However, you may be eligible for relief under the Mortgage Forgiveness Debt Relief Act, which provides exclusions for forgiven debt, and precludes it from being taxed in the 2007-2012 tax years. Please refer to IRS Form 982.

If you sold your home for less than the mortgage amount, your loss is not deductible on your taxes.

For the IRS Center to Assist Unemployed Taxpayers, go to:

<http://www.irs.gov/individuals/article/0,,id=219269,00.html>

If you need help resolving tax problems, you may be eligible for Taxpayer Advocate Services (TAS) assistance. You may call TAS toll-free at 1-877-777-4778 or 1-800-829-4059.

All IRS publications are available at [www.irs.gov](http://www.irs.gov)

The White House is providing a Recovery Act Tax Savings Tool to assist taxpayers in determining their eligibility for specific tax benefits.

<http://www.whitehouse.gov/recovery/tax-saving-tool>