



Job Related Questions During an Economic Downturn



What if my income declines?

There are many tax credits that are subject to income limitations. If you had a reduction in income during the year, you may be eligible for some credits or deductions. For example, the [Earned Income Tax Credit](#) is available for working families and individuals. Eligibility is determined by income and family size. You must file an income tax return in order to claim EITC. Visit www.irs.gov, keywords [1040 Central](#), for more information on EITC, other tax credits and tax law changes.

What if I lose my job?

The loss of a job may create new tax issues. Severance pay is taxable. Payments for any accumulated vacation or sick time are also taxable. You should ensure that enough taxes are withheld from these payments or make estimated tax payments to avoid a big bill at tax time. Public assistance and food stamps are not taxable. The IRS has a helpful publication which lists a number of job-loss related tax issues. For more information, see [Publication 4128, Tax Impact of Job Loss](#).

What if I receive unemployment compensation?

Unemployment compensation you received under the unemployment compensation laws of the United States or of a state must be included in your income. It is taxable income. If you received unemployment compensation, you should receive Form 1099-G showing the amount you were paid and any federal income tax you elected to have withheld. For more information, see [Publication 525, Taxable and Nontaxable Income](#).

What if I am searching for a new job?

You may be able to deduct certain expenses you incur while looking for a new job, even if you do not get a new job. Expenses may include travel, résumé and placement agency fees. For more information, see [Publication 529, Miscellaneous Deductions](#). Moving costs for a new job at least 50 miles away from your home may also be deductible.

What if?

The Internal Revenue Service recognizes that many people may be having difficult times financially. There can be a tax impact to events such as job loss, debt forgiveness or tapping a retirement fund. If your income decreased, you may be newly eligible for certain tax credits, such as the Earned Income Tax Credit.

Most importantly, if you believe you may have trouble paying your tax bill, contact the IRS immediately. There are steps we can take to help ease the burden. You should always file a tax return on time, even if you are unable to pay, so you can avoid additional penalties.

This document contains some “What if” scenarios and their possible tax impact.



Internal Revenue Service



Job Related Questions Continued



What if my employer goes out of business or into bankruptcy?

Your employer must provide you with a Form W-2 showing your wages and withholdings by January 31 of the following year. You should keep up-to-date records or pay stubs until you receive your Form W-2. If your employer or its representatives fails to provide you with a Form W-2 by February 15, contact the IRS and we can help by providing you with a substitute Form W-2. If your employer is liquidating your 401(k) plan, you have 60 days to roll it over to another qualified retirement plan or IRA. For more information, see [Publication 4128](#), *Tax Impact of Job Loss*.

What if I close my own business?

If your business is no longer operating, you still are responsible for filing all required tax returns for your business by the due dates. In addition, if you had employees, you must file all required employment tax returns, including Forms 940, 941, 943 or 944. Both business and employment taxes should be paid when due. But, if you are not able to pay in full, contact the IRS immediately to discuss your options. For more information, visit www.irs.gov, keywords [Starting, Operating or Closing a Business](#).

What if I withdraw money from my IRA?

Generally, early withdrawal from an Individual Retirement Account (IRA) prior to age 59 1/2 is subject to being included in gross income plus a 10 percent additional tax. There are exceptions to the 10 percent additional tax, such as using IRA funds to pay your medical insurance premium after a job loss. For more information, see [Publication 590](#), *Individual Retirement Arrangements (IRAs)*.

What if my 401(k) drops in value?

Generally, you cannot claim a loss on your retirement accounts that are already receiving favorable tax treatment. The only time you would have a loss is when you receive a distribution that had previously been taxed. For more information, see [Publication 575](#), *Pension and Annuity Income*.

Additional Topics

Recordkeeping:

IRS [Publication 552](#),
for Individuals

IRS [Publication 583](#),
for Businesses

Resources

Online:

Visit www.irs.gov for
the most up-to-date tax
products and information

By Phone:

IRS Tax Help Line
1-800-829-1040

IRS Forms & Publications
1-800-829-3676
(1-800-TAX FORM)

