

Tax Tips You Can Use



Unemployment Compensation
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With millions of Americans now receiving unemployment compensation, many of them for the first time, the Internal Revenue Service has reminded people receiving unemployment compensation that by law, unemployment compensation is taxable and must be reported on a their federal and state income tax returns. Taxable benefits also include any of the special unemployment compensation authorized under the Coronavirus Aid, Relief, and Economic Security (CARES) Act, enacted this spring. (this is from IRS bulletin IR 2020-185). This is not a change to the law, but many more people are using unemployment now and many people are receiving more than they would normally get.

Taxpayers can have tax withheld from their benefits now to help avoid owing taxes on this income when they file their income tax returns next year. However, withholding is not automatic. One must “check the box” to have state and/or federal tax withheld.

It is true that many people have needed every penny of that money to keep going, but that hardship does not change the taxation of the unemployment. If you or someone you know has received unemployment this year, please tell them to put money away for taxes, because both the federal government and Oregon will want the tax due next April.

If a taxpayer took a loan from her 401K, the money is not taxable. If she subsequently was laid off or quit, that loan, if not paid back in full, becomes a distribution and is taxable.

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The fine print: This article is for information only. Please see your tax professional for questions about your individual tax situation.