

First \$2,400 of Unemployment Benefits Tax Free for 2009

All or part of unemployment benefits received in 2009 will be tax free for many unemployed workers, according to the Internal Revenue Service.

“This morning we learned that a record 5.6 million people were receiving unemployment benefits in the middle of March. This underscores the need for the relief provided by the American Recovery and Reinvestment Act, which includes making the first \$2,400 of unemployment insurance exempt from tax,” said IRS Commissioner Doug Shulman. “I urge all unemployed workers to take this special tax break into account as they plan their tax withholding and quarterly estimated tax payments for the year. This change offers a helping hand to millions of Americans who are out of work and struggling to make ends meet.”

Under the American Recovery and Reinvestment Act, enacted last month, every person who receives unemployment benefits during 2009 is eligible to exclude the first \$2,400 of these benefits when they file their tax return next year. For a married couple, the exclusion applies to each spouse, separately. Thus, if both spouses receive unemployment benefits during 2009, each may exclude from income the first \$2,400 of benefits they receive.

The new law doesn't affect the return taxpayers are filling out now. Unemployment benefits received in 2008 and prior years remain fully taxable.

Unemployed workers can choose to have income tax withheld from their unemployment benefit payments. Withholding on these payments is voluntary. However, choosing this option may help avoid a surprise year-end tax bill or a possible penalty for having paid too little tax during the year. Those who choose this option will have a flat 10 percent tax withheld from their benefits.

Unemployed workers who expect to receive more than \$2,400 in benefits this year should consider having tax withheld from their benefit payments in excess of that amount. Those unemployed workers who have already chosen to have tax taken out of their benefits, should consider the \$2,400 exclusion in determining whether to continue to have tax withheld.