



**September 7, 2011**

## **Impact of Job Loss on Taxes**

Many people have lost their jobs during the ongoing economic recession, the worst since the Great Depression. If you have lost your job, the last thing you need is tax problems. But the reality is that losing your job does bring about tax issues. What can you do about these issues?

The first thing to know about is what job loss activities can impact your taxes.

### **1. Your final salaries**

Once you are laid off from your job, all severance pay, accumulated leave or vacation pay and sick pay will be taxed. Your employer must provide your Form W-2 by January 31st after the close of the calendar year. For this year, Form W-2s are due to employees by January 31, 2012.

### **2. Your employer goes bankrupt or out of business**

If your employer files for bankruptcy or closes down, the employer is still required to file and to report your wages and withholding on a Form W-2 at the end of the year. When bankruptcy or winding up of a company takes place, it is often the case where sending your Form W-2 may be inadvertently be missed out. If you do not or have not received your Form W-2, you should contact your employer to find out what happened.

If you do not receive your W-2 by mid-February, contact the IRS at 800-829-1040. You have to furnish them with your personal particulars like name, address, Social Security number etc, employer's details, date of employment, your salary and estimated amount of withholding. A good practice is to keep your salary records or pay stubs until you

receive your Form W-2.

Whether you have your Form W-2 or not, file your tax return or request an extension of time to file. Without your Form W-2, you need to file with Form 4852, Substitute for Form W-2, Wage and Tax Statement.

If you subsequently receive your Form W-2 after filing Form 4852 and the information in it differs from what you stated in Form 4852, then you should file an amendment by filing a Form 1040X, Amended U.S. Individual Income Tax Return.

### **3. Your state unemployment insurance benefits**

All insurance benefits from your state are taxable. You may opt for having 10% withheld for federal taxes by completing Form W-4V. The State will provide you with a Form 1099-G by January 31st that shows the amount of taxable benefits paid in the previous year and how much federal income tax was withheld.

### **4. Your IRA or pension plan withdrawals**

Whatever you withdraw from your IRA or pension plans is subject to tax. Generally, if you are younger than 59 ½ years old when you withdraw, you may have to pay an early withdrawal penalty of 10%.

### **5. Forgiveness of debts**

If you have been forgiven any debts like credit card debts, you have to pay taxes on the amount of debt cancelled. IRS Publication 4681, Cancelled Debts, Foreclosures, Repossessions, and Abandonments (for Individuals) gives you information on this matter.

If you are unable to fulfill your tax obligations, you should contact the IRS and request a payment plan. Go to [www.irs.gov](http://www.irs.gov) for more information on payment methods and balance due payment options. Alternatively, call the IRS at 1-800-829-1040.