

# COVID-19 and Unemployment

*Updated September 11, 2020*

Unemployment can be scary and overwhelming, but you don't need to navigate it alone. Here are some things you should know when it comes to unemployment eligibility, benefits and taxes.

**What is unemployment compensation?** Unemployment compensation is a form of monetary assistance provided by the federal and state governments to people who are out of work. These benefits are mostly funded by taxes that are paid by employers at the federal and state levels.

**Am I eligible for unemployment compensation?** Generally, employees who are laid off or who lose their jobs through no fault of their own typically qualify for unemployment benefits. Taxpayers who want to receive unemployment compensation must apply for benefits through their state programs. The amount of compensation they receive depends on:

- the amount of time they worked
- their earnings
- the maximum benefit their state allows

**How do I take advantage of government benefit programs?** Every year, federal, state, and local governments distribute \$1.8 trillion in benefits. From money for food to health care plans, there are government benefit programs that can reduce your day-to-day expenses. Some of the money-saving benefits include:

- health insurance
- food assistance
- low cost gas and electric utilities
- low cost phone service
- low cost auto insurance
- unclaimed funds

**What are the tax implications of unemployment?** The two big things to consider are reporting the full amount of unemployment compensation you receive, and looking for new ways to give yourself a tax break.

Account for unemployment income: Typically, unemployment income – including the \$600 unemployment compensation that was available with the CARES Act – is taxable and should be included in your income for the year, especially if you have any other income. Some states also count unemployment benefits as taxable income. When it's time to file your taxes, you will receive Form 1099-G, which will show the amount of

unemployment income you received. Form 1099-G will also show any federal taxes you had taken out of your unemployment pay.

Because unemployment income is taxable, one option is to have federal taxes taken out of your unemployment income so there are no surprises when it's time to file your taxes.

Another option is to adjust your withholdings. Once you are able to find a job, take your unemployment income into account when you are filling out a W-4 withholding certificate for your employer.

Unemployment benefits under the CARES Act are something new for the self-employed. If you are an independent contractor, side-gigger, or freelancer, keep in mind that unemployment income will be added to your net income from self-employment and will be taxable. When you get ready to pay your estimated quarterly taxes, you can also take your unemployment income into consideration, if you don't have federal taxes withheld from your unemployment.

Take advantage of newfound credits and deductions: Depending on your income level, losing your job may open the door to some additional tax breaks, like the following:

- **Earned Income Tax Credit.** The amount of the credit increases the more children you have. A taxpayer with three or more qualifying children is eligible for a maximum credit of \$6,660 in 2020.
- **Child Tax Credit.** A 2020 tax credit of up to \$2,000 for qualifying children under the age of 17.
- **Child and Dependent Care Credit.** Amounts you pay someone to care for your child so you can work or look for work may be deductible, depending on your level of income. The percentage of your child care expenses you are able to claim is from 20% to 35% of your expenses up to \$3,000 for one child and up to \$6,000 for two or more kids depending on your income. If you have lower income you may be able to claim 35% of your expenses (\$1,050 for one child and \$2,100 for two or more kids) instead of the lower percentage based on higher income.
- **Savers Credit.** Credit of up to \$1,000 (\$2,000 for couples) for retirement plan contributions by low-income taxpayers. If you contributed to retirement in 2020 and now fall within the income thresholds to qualify for the Saver's Credit due to lost wages, you may see a credit worth up to \$1,000 if you're single or \$2,000 for married filing jointly.
- **The Health Coverage Tax Credit (HCTC).** This credit is available through 2020 for a select group of unemployed people. If you lost your job due to trade with foreign countries and are receiving Trade Adjustment Assistance benefits, you may be able to claim this credit, which covers 72.5% of your health insurance premiums.

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