

## UNEMPLOYMENT AND TAXES – BE PREPARED FOR 2021

### Is Unemployment Compensation Taxable?

- Unemployment benefits are fully included in gross income for both Federal and Michigan individual income taxes.
- One bright note. Unemployment benefits are excluded from Michigan city income tax returns

### What About Pandemic Unemployment Assistance (PUA)

- These additional benefits are taxable in the same manner as basic unemployment benefits.

### How Could This Affect My Bank Accounts Early Next Year?

- Employees are accustomed to having taxes withheld from paychecks.
- However, many people DO NOT have tax withheld from unemployment benefits.
  - Withholding from unemployment benefits is voluntary.
- As taxable income increases, tax liability also increases.
- If you haven't paid the additional tax (via withholding or some other method), your refunds will be reduced (or you will owe more) when you file your 2020 return.
- Every taxpayer's situation is unique. General advice becomes less meaningful as a taxpayer's situation becomes more complex (e.g. multiple jobs, business income, interest, dividends, various tax credits, etc.).
  - A professional tax projection may be the best answer for some taxpayers.

### Can I Do Anything Right Now?

- Voluntary withholding can be requested by filing Form W-4V with the Michigan Unemployment Insurance Agency.
  - However, this might be too late for 2020.
- You could make a fourth quarter estimated payment (or payments) by January 15, 2021.
  - Form 1040-ES is one common method
- Even if you will owe tax, it is better to realize that now than in April 2021 (payment would be due by April 15, 2021).

### What Documents Should I Expect to Receive?

- You should receive Form 1099-G sometime in January 2021 (they need to be postmarked by February 1).
  - If you want to receive the statement electronically, you must make this request using your MiWAM account by January 2, 2021.
  - Online statements should be available in mid-January. Otherwise, wait for a paper copy to arrive in the mail.

### What If Someone Else Receives Unemployment Compensation Under My Social Security Number?

- If it appears that unemployment benefits are being fraudulently reported in your name/social security number, then then you should report this both to your employer (if applicable) and the Michigan Unemployment Insurance Agency website at [www.michigan.gov/uia](http://www.michigan.gov/uia).
- Depending upon how long it takes to resolve the matter with the state, you might need to extend the due date of your federal tax return. Yes, this could get messy.
- In such an instance, you should also consider the need to obtain an identity theft PIN from the IRS and/or to take other identity theft measures.

#### What If I Receive Form 1099-G, but I Didn't Receive the Money?

- If someone received a Form 1099-G from the State but never actually received benefits in 2020 then there probably was some mistake or fraud.
- Refer to the guidance for the preceding question.

#### What If the Backlog Means I Don't Receive Compensation in 2020?

- Individuals are taxed only on the unemployment benefits they actually receive in the current year. Thus, only the benefits actually received in 2020 will be taxable on the return you file for 2020. Any benefits received in 2021 (including back pay that should have been for 2020) would be taxed on the 2021 return filed in April 2022.

#### How Much Could I Owe If Taxes Were Not Withheld?

- It is difficult to answer how much federal tax will be owed on unemployment benefits because there are seven different tax rate brackets that depend on how much other income plus unemployment benefits you have. However, the most common federal bracket for someone with unemployment is probably the 12% rate bracket.
- The Michigan income rate is 4.25%.
- Individual results will depend upon specific circumstances.