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## Taxes and Your Job Change

The information contained in this memorandum is of a general nature, subject to change and should not be acted upon in your specific situation without further details and professional assistance.

### General:

You **can** deduct certain expenses you have in looking for a new job in your present occupation, even if you do not get a new job.

You **cannot** deduct these expenses if:

1. You are looking for a job in a new occupation, or
2. There was a substantial break between the ending of your last job and your looking for a new one.

Job hunting expenses are not deductible for your first job or when you've been out of work for a lengthy period and haven't been seeking work... perhaps to stay home and care for children. But moving expenses may be. You can even deduct a move to a new area before you get a job there, but you must generally work full time for 39 weeks in the first 12 months after the move. Hang onto any correspondence you receive from prospective employers that might help you prove that you were searching for a job in the same line of work. The occupation of an unemployed taxpayer is the kind of work performed for a past employer. A temporary job in an unrelated trade or business is no bar to taking the deduction for expenses incurred in searching for employment in the field that the taxpayer had previously been employed. Even if employment is not secured, job search expenses and fees are deductible.

### A short checklist of expenses that may qualify:

- Outplacement and employment agency fees.
- Cost of printing and mailing your resume.
- Phone bills for all calls related to your job hunt
- Using the Internet to search ... document the costs, time and results.
- Travel costs to and from a job interview.

If you're traveling to an out-of-town job interview, keep a log or diary showing the amount of time you spent looking for a job compared to the time spent on personal activities. The log could prove helpful in case the IRS challenges your deductions on grounds that the primary purpose of your trip was personal.

- ❑ Automobile expense - If you're using your car to drive to job interviews, network meetings or to the post-office to mail resumes, keep a log of your mileage.
- ❑ 50% of related meals and entertainment
- ❑ And any other job-hunting expenses you incur.
- ❑ Certain relocation and moving costs.

### Employment and Outplacement fees:

You can deduct employment and outplacement agency fees you pay in looking for a new job in your present occupation. If, in a later year, your employer pays you back for employment agency fees, you must include the amount you receive in your gross income up to the amount of your tax benefit in the earlier year. If your employer pays the fees directly to the employment agency and you are not responsible for them, you do not include them in your gross income. Similarly, expenses for career counseling are deductible if they are incurred in an effort to find other employment in the same trade or business.

### Resume costs:

You can deduct amounts you spend for typing, printing, and mailing copies of a resume to prospective employers if you are looking for a new job in your present occupation. Don't forget to include pens, paper, envelopes, printer cartridges and copying costs.

### Travel and Transportation Expenses:

If you travel to an area and, while there, you look for a new job in your present occupation; you may be able to deduct travel expenses to and from the area. Your airfare, hotel, meals, cab fares and other incidental travel expenses are all eligible for a deduction. You can deduct the travel expenses if the trip is primarily to look for a new job. The amount of time you spend on personal activity compared to the amount of time you spend in looking for work is important in determining whether the trip is primarily personal or is primarily to look for a new job. In other words, don't take a three-month trip to Europe, go on one interview for an hour, and try to claim the entire cost as a job search expense.

If a prospective employer pays all your travel expenses to come in for a job interview, the reimbursement is tax-free to the extent it doesn't exceed your actual expenses.

Even if you cannot deduct the travel expenses to and from an area, you can deduct the expenses of looking for a new job in your present occupation while in the area.

If you use the standard mileage rate to figure your car expenses, use 36.5 cents per mile for the year 2002; 36.0¢ for 2003. (check the current rate as the 2003 may be revised)

As with medical costs, you get a deduction in this "miscellaneous" category only if all your expenses in this category exceed a threshold: in this case, 2% of your adjusted gross income (\$75,000 AGI = \$1,500). The list of qualifying expenses is long, but you get no tax savings unless you pass the 2% test. A good strategy here is to use the bunching technique of scheduling payments to fall in the year you will exceed the 2% minimum to maximize your deductions. If you are certain you'll fall short, hold off paying qualifying expenses, such as professional dues and the cost of subscriptions to tax or investment publications, or postpone buying small tools for use in your job. If it's likely your expenses will pass 2% of AGI, speed up such spending to maximize your deduction.

## Relocation Expenses:

1. Try to get your employer to reimburse as much of your moving expenses as possible because the tax code doesn't provide much help.
2. Get your employer to reimburse as much of your moving expenses as possible because the tax code doesn't provide much in the way of deductions.
3. Have your employer "gross up" your reimbursement.

If your employer promises to reimburse all your relocation costs, you can still end up losing thousands of dollars on the move if you don't receive a gross up adjustment to allow for the taxes you'll have to pay on the reimbursements. When figuring how much of an extra reimbursement you'll need for taxes, keep in mind that the tax reimbursement itself is considered taxable income. So you'll need to ask for a big enough allowance to cover the tax you'll have to pay on the expense reimbursements plus the tax you'll have to pay on the tax reimbursement. Talk about being taxed on the taxes on the tax... but this is how it works.

## Cross County Moves

The deduction for job-related moving expenses, which can be claimed regardless of whether you itemize your deductions, can provide some relief for workers who won't be fully reimbursed for their basic relocation expenses. Now the bad news...

The IRS only allows the most basic moving expenses to be deductible. They include:

- The cost of packing and shipping your household goods
- In-transit storage
- Transportation to your new location
- Lodging en-route.

A lot of other expenses that you normally incur a result of the move are not deductible. Some of them are pre-move house-hunting trips, temporary living expenses in the new location, restaurant meals en-route to your destination, the real estate agent's commission to sell your old home and closing costs on your new home purchase. In all the moves I've made I've never come out ahead, so be prepared to lose a little unless you get the new employer to cover "all" relocation costs plus the gross up.

## Local Moves

If you're relocating around town, you probably won't be able to deduct any of your moving costs. That's because the moving deduction can be claimed only if your new job location is at least 50 miles farther from your old home than your old job location was to your old home. If you move beyond that, then you may qualify.

## When You Sell Your Home

The Taxpayer Relief Act of 1997 made life simpler, and in many cases less taxing for homeowners who are making a job-related move. Under the old tax law, homeowners could avoid paying capital gains tax on the sale of their home as long as they bought a new home that cost at least as much.

Under the new tax law, the tax treatment of a home-sale is no longer tied to what you spend on a replacement residence. As long as your home served as your principal residence for at least two of the prior five years, up to \$500,000 in profits from its sale (\$250,000 for single individuals) are permanently exempt from capital gains tax. Even if you don't meet the two-year residency requirement, you can claim a prorated exemption when your home is sold because of job relocation. Unfortunately, losses on the sale of a personal residence aren't deductible.

## Bridge Loans

If your employer offers you a no-interest or below-market rate short-term loan to make a down payment on a new home because your old home hasn't sold yet, be sure to ask your employer all that is required of you to ensure it's tax-free treatment. Normally, no-interest and below-market rate loans carry tax consequences for the borrower. But employer bridge loans are exempt from tax if they meet certain criteria. One condition is that the loan must be paid back in full within 15 days after your old home is sold.

## Record Keeping

You should keep records that will give the information needed to figure the deduction according to these rules. Also keep canceled checks, credit-card charge slips, account statements and receipts of the expenses paid to prove the deductions you claim. Keeping good records is especially important when it comes to substantiating job-hunting expenses and don't forget that mileage log for your auto expenses.

## Summary

If you keep good records and document your expenses well you will be in a better position to take advantage of the tax benefits available to you. Also you may find the IRS publication 529 "Miscellaneous Deductions", a helpful reference source along with a number of others IRS publications.

Because there are many different rules and regulations in this area, we encourage you to seek professional advice before taking any action concerning your specific situation.

Until then, do continue to enjoy...

...many good things.

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