



## **Unemployment compensation is taxable; Have tax withheld now and avoid a tax-time surprise!**

There are millions of Americans who are now receiving taxable unemployment compensation. Many of them, for the first time. The IRS recently reminded that for those collecting unemployment, they can have tax withheld from their benefits to help avoid owing taxes on this income when they file their federal income tax return next year.

By law, unemployment compensation is taxable and must be reported on a 2020 federal income tax return. These benefits include any of the special unemployment compensation authorized under the Coronavirus Aid, Relief, and Economic Security (CARES) Act, enacted this past spring.

But the withholding is voluntary. Federal law allows any recipient to choose to have a flat 10% withheld from their benefits to cover part or all of their tax liability. To do this, fill out [Form W-4V](#), Voluntary Withholding Request (PDF), and give it to the agency paying the benefits. **DO NOT SEND to the IRS. If the payor has its own withholding request form, use it instead.**

If the recipient doesn't choose withholding, or if withholding is not enough, they can make quarterly estimated tax payments instead. The payment for the first two quarters of 2020 was due on July 15. Third and fourth quarter payments are due on Sept. 15, 2020, and Jan. 15, 2021, respectively. For more information, including some helpful worksheets, see [Form 1040-ES](#) and [Publication 505](#), available on [IRS.gov](#).

Here are some types of payments taxpayers should check their withholding on:

- Unemployment compensation includes: Benefits paid by a state or the District of Columbia from the Federal Unemployment Trust Fund
- Railroad unemployment compensation benefits
- Disability benefits paid as a substitute for unemployment compensation
- Trade readjustment allowances under the Trade Act of 1974
- Unemployment assistance under the Disaster Relief and Emergency Assistance Act of 1974, and
- Unemployment assistance under the Airline Deregulation Act of 1978 Program

Recipients who return to work before the end of the year can use the [IRS Tax Withholding Estimator](#) to make sure they are having enough tax taken out of their pay. Available only on [IRS.gov](#), this online tool can help any worker or pension recipient avoid or lessen their year-end tax bill or estimate the refund they want.

In January 2021, unemployment benefit recipients should receive a [Form 1099-G](#), Certain Government Payments (PDF) from the agency paying the benefits. The form will show the amount of unemployment compensation they received during 2020 in Box 1, and any federal income tax withheld in Box 4. Taxpayers report this information, along with their W-2 income, on their 2020 federal tax return. For more information on unemployment, see Unemployment Benefits in [Publication 525](#).