

Deductibility of job-search expenses

If you or someone in your family is looking for a new job, you should be aware of the income tax deduction that may be available with respect to job-search costs. Qualifying expenses are deductible even if they don't result in a new position being offered or accepted.

What are job hunting expenses. Expenses of seeking new employment can encompass a broad range of items. Some of the more common expenses for which deductions have been allowed are:

- the cost of resumes, including postage for sending them to prospective employers;
- job counseling and referral fees;
- employment agency fees;
- telephone charges related to seeking new employment;
- local as well as out-of-town travel for interviews, to the extent not reimbursed by the prospective employer.

Nondeductible items include a loss incurred on forfeiture of a deposit for a home in an area where a new job was anticipated, and a real estate broker's commission on the sale of a home in connection with a move to a new job location.

For job-search expenses to be deductible, you must be looking for employment in the same trade or business in which you are engaged. For this purpose, a corporation's secretary-treasurer seeking a position as assistant to the vice president of finance at another corporation was seeking employment in the same trade or business. But an artist seeking work in the business end of the art field was held to be looking for a job in a new trade or business. And IRS says any job in the private sector is a new trade or business for a retired military officer.

Accepting temporary employment in another line of work won't affect your deduction for expenses in searching for permanent employment in your regular line of work. But job hunting costs aren't deductible if you are looking for a job in a new trade or business, even if you find employment as a result of the search.

First time job seekers. IRS says that job hunting expenses incurred in seeking employment for the first time are not deductible. This rule can be tough on students and others entering the job market for the first time. But it may be possible to avoid the impact of this rule through an internship or other employment during the student's senior year. In addition to looking good on a resume, this type of work experience can be a trade or business in which the student is engaged (thus avoiding the first time job seeking rule).

Reentry into job market. If an individual is temporarily unemployed, expenses of seeking employment in the field in which he or she was previously employed are deductible. But IRS takes the position that if there is a substantial time break between earlier employment and the current search, you cannot deduct the expenses of looking for a job. Thus, if there has been a gap of several years since the last employment, for example, to take care of small children or to return to school to pursue post-graduate studies, the cost of seeking employment is not deductible.

Other limitations on deductibility. Deductible expenses in seeking employment are claimed as miscellaneous itemized deductions. As a result, individuals who take the standard deduction cannot claim such expenses. In addition, miscellaneous itemized deductions are deductible only to the extent that, in the aggregate, they exceed 2% of your adjusted gross income. Thus, unless your job hunting costs are large or you have other significant miscellaneous deductions, you may not be able to derive any tax benefit from these expenses.