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NEWS RELEASE

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Tax Planning When Employment is Terminated

Thomson Reuters Expert Provides Advice for Executives Struggling through a Job Change

New York, NY, April 28, 2009 – The current recession has been an equal opportunity offender; the Senior Vice President of Marketing is just as likely to be faced with a pink slip as the extra cashier at the local grocery store. Coupled with tanking retirement plans and the dismal housing market, many high-earning executives are dealing with an economic situation they never dreamed they would be facing at this point in their career. “Executives struggling through a job change caused by a corporate downsizing or restructuring frequently overlook the tax and financial consequences of events associated with the layoff or termination,” says Jim Van Grevenhof, Senior Tax Analyst from the Tax & Accounting business of Thomson Reuters. “Yet, the proper handling of these aspects can’t be overstated and may ease the executive’s transition through the career change.” Van Grevenhof provides the following advice to executives facing an unexpected lay-off.

The former employer may offer a variety of job and financial assistance programs intended to smooth the executive’s transition to a new career. “Companies terminating executives frequently offer severance payments intended to mitigate the sting of termination and job placement services to assist the executive in finding new employment,” says Van Grevenhof. Companies hiring executives often provide financial assistance to cover moving expenses and relocation costs.

“Severance or dismissal pay, including an amount paid in lieu of a termination notice, is taxable income to the executive regardless of whether the employer is legally bound to make the payment,” reminds Van Grevenhof, “However, the value of job placement assistance provided by an employer to a terminated or laid-off executive generally may be excluded from the executive’s income as a working condition fringe benefit.”

Qualified moving expense reimbursements are excluded from an executive’s income. “A qualified moving expense reimbursement includes any amount received, directly or indirectly, by an executive from an employer as a payment for, or a reimbursement of, expenses that would have been



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deductible as moving expenses on the executive's personal tax return if directly paid or incurred by the executive," says Van Grevenhof.

Generally, distributions from a qualified retirement plan (less any nondeductible employee contributions) are taxed as ordinary income. "A 10% penalty tax applies to distributions before age 59½, unless they are part of a series of substantially equal payments, received due to separation from service after age 55, death or disability, or meet certain other exceptions," advises Van Grevenhof.

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