

If you did any of these 7 things in 2020, you may need to start setting aside money for taxes

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2. You received unemployment this year

Many Americans received some form of unemployment benefits this year. But it's important to understand that unemployment benefits are not "free money." If you are currently receiving these weekly benefits, or previously cashed these checks, you may need to take steps now to avoid a nasty surprise on your tax bill.

"People need to be careful about the way this income is taxed. Similar to income from a job, unemployment income is taxable income," says [Elliot Pepper](#), a certified public accountant, financial planner and director of tax for Baltimore-based Northbrook Financial.

Unemployment benefits are considered taxable income, even the \$600 boost that was in effect until the end of July. While you don't have to pay Social Security or Medicare taxes — [typically about a combined 7.65% rate](#) — while receiving unemployment benefits, you do have to pay federal income taxes and state taxes in some jurisdictions.

You're not required to have taxes withheld from your unemployment benefits check, so it's up to the individual to decide what they want to do. But [experts say it's a good idea](#) to take the tax hit up front.

If you're still receiving unemployment benefits, but haven't requested taxes be withheld, you can request a change by filling out [form W-4V](#) (the "V" stands for voluntary). Depending on your state, this may be something you can do online through the benefits portal. A flat federal tax rate of 10% of the benefits paid can be withheld from each payment, [according to the Labor Department](#).

Another option is to withhold the taxes yourself by putting about 10% of the check into a savings account, similar to how freelancers should save part of their paychecks to put toward taxes. "I would rather you be overly conservative, saving more than enough money in a side account, to prepare for the 'what if' scenario where you might owe taxes at the end of the year," Roberge says.