



# Tips for D-I-Y Tax Filers

by Andrea Murad

Published January 20, 2012 | FOXBusiness

Many taxpayers plan to file their returns on their own this year, but with a complicated tax code, it's easy to make a simple mistake that can delay a refund or, even worse, hit you with a penalty.

The weak economy and availability of low-cost tax software has led to more Americans choosing to take a do-it-yourself approach with their taxes. While tax pros warn that this choice could land filers in a tangled web in the obtuse world of the tax code, there are some easy steps they can take to ease the process and avoid potential land mines.

Experts advise filers to be organized and to put tax documents in the same folder when they come in the mail in January. These documents include Form W-2s, the different Form 1099s that list investments, and Form 1098s that detail mortgage interest payments.

Enrolled agent Cynthia Jeanguenat advises filers to check the information on these forms, including name and Social Security number, and to compare numbers with other documents, like an end-of-year paystub with a Form W-2. "These documents have to be correct before you file your return," says Jeanguenat. "If they're not correct, they have to be corrected. This process can take time."

## Choosing a Filing Status

Along with demographic information, filers should choose the correct filing status, according to Jeanguenat. She advises filers to determine whether they qualify for "Head of Household," which, according to IRS guidelines, may have a lower tax rate than that for single or [married filing separately](#) statuses. To qualify, a person must be unmarried as of the last day of the year, have paid for more than half the cost of keeping up a home, and claimed an exemption for a relative for more than half the year.

"If your child is a college student who worked, communicate with your child whether you are claiming them as a dependent," says Abe Schneier, senior technical manager at the American Institute of Certified Public Accountants. "If your child files their return and takes the personal exemption and the parents claim the child as a dependent, the IRS will send a letter that only one can treat this individual as a dependent." The parents and child will both receive a penalty notice, and, on the wrong return, the IRS will assess a penalty and interest past due on unpaid taxes, he adds.

Certified Public Accountant James Walker suggests using last year's tax return as a guide or roadmap for preparing this year's return. "Professional preparers do this as a matter of course." Using an old return will help to ensure that you've included everything as you can compare income sources and deductions on the two returns.

## Determine if You Need to File an Extension

If you are unable to file your taxes by the April 17 deadline, file an extension. "When you file an extension for a tax return, you're extending the time to file the return but not the taxes owed," Walker says. "Work up an estimate of any owed taxes, pay an amount with the extension, and go back later and refine the number."

If taxes aren't estimated properly and have an unpaid balance, the IRS will assess a failure to pay penalty against you that's equal to 0.5% of the unpaid tax per month the tax is unpaid plus interest. If you don't file anything and miss the deadline, the IRS will assess a failure to file fee against you equal to 5% of the unpaid taxes per month the tax is unpaid plus interest. The penalties are capped at 25% of the unpaid taxes.

"You would usually hear about simple mistakes within three months, but sometimes they are only caught in an audit which can generally start up to three years after you file the return," certified public accountant Stephen Aponte, director at accounting firm Holtz Rubenstein Reminick.

### **Look Out for these Deductions/Credits**

Many people miss common deductions and credits. Deductions are reductions in income while credits are a reduction in tax, according to IRS guidelines. Here are a few to look out for:

**Social Security Tax.** In this job market, you may have had multiple jobs. "If you have changed your job multiple times during the year and earned more than \$106,800, it's likely that you had too much Social Security tax withheld from your wages," says Aponte. "You can claim a credit for that excess amount."

The maximum amount of Social Security tax that can be withheld is \$4,485.60 for 2011, according to IRS guidelines.

**Capital Gains and Reinvested Dividends.** "The 1099B that you receive from your brokerage firm is going to be different this year," says Schneier. Filers now enter capital gain and loss data from Form 1099B into the IRS's new Form 8949. Brokerage firms will be required to track the cost basis of your transactions to correctly calculate capital gains and losses.

"Don't throw out trade confirmations from brokerage accounts," says Schneier.

These receipts may be the only record you have for determining your cost basis, or how much you originally paid for the security."

If you have a mutual fund and you receive dividends throughout the year that are reinvested back into the fund, you can add the dividends to your cost basis, says Aponte. "When you sell the fund, you'll have a lower capital gains." Dividends are taxed in the year they're received, and if you don't add them to your cost basis, they'll be taxed twice.

**Mortgage Interest and Home Purchases.** If you refinanced a mortgage, be careful to properly deduct points and mortgage interest. "There are many more intricacies when you do refinance, especially if you take out a new mortgage that's larger than the original," says Schneier. Points may not be deductible, as they have to be amortized over the mortgage correctly, which is usually the life of the loan.

The First Time Homebuyer's Credit incented people to buy homes in 2008 through 2010, and anyone who claimed the credit had to hold the house and use it as their primary residence for three years, according to IRS guidelines. "If you claimed this credit and sold your house within three years, you have to recapture, or repay, that credit," says Schneier.

**State Sales Tax Versus State Income Tax Deduction.** "If you're in a state with low or no income tax, it may be beneficial to deduct sales tax instead of income tax," says Aponte.

This deduction would benefit residents in states with low or no income tax, such as Florida, Delaware, Nevada, Wyoming and Alaska, according to Aponte.

**Charitable Contributions.** “Charitable contributions are easy to determine if you have a cancelled check or receipt,” says Schneier. When you donate clothing or furniture, for example, “you don’t deduct the value you paid when you purchased the items but the value at the date of the donation,” he says.

For donated cars, he advises filers to contact the charitable organization to help determine the car’s value. “For furniture and clothing, you need to come up with the value yourself, and you need to find a comparable value or those items.”

**Medical deductions.** Schneier warns filers to be careful when it comes to reimbursements from insurance companies and only deduct the amount that’s actually paid. Eligible medical expenses that exceed 7.5% of your adjusted gross income can be deducted, according to IRS guidelines.

**Unreimbursed Employee Expenses.** Only uniforms that you wouldn’t wear anywhere else that’s specifically required for your job (ie: uniforms for fire fighters) can be deducted.

“If you’re looking for a job in the same line of work, you can take expenses for lodging, travel, food, agency fees, business cards, and postage,” Aponte says. If you have a substantial break in employment, are changing careers, or are looking for a job for the first time, you cannot take this deduction, according to IRS regulations.

When these expenses are totaled with other eligible unreimbursed employee expenses, you can deduct the amount that exceeds 2% of your adjusted gross income, according to IRS guidelines.

**Volunteer Work.** “For people who do charitable work, remember to deduct out of pocket expenses,” Aponte says. Filers cannot take a deduction for their time, but they can deduct any out-of-pocket expenses and mileage used to travel to the volunteer work, according to IRS guidelines.

If you are eligible to make a contribution to an individual retirement account, the deadline for depositing money is the same as when you file a return, says Schneier. He advises filers to check that their money is deposited into the brokerage account by the deadline as institutions don’t always deposit checks the same day they’re received.

After calculating all your deductions and your adjusted gross income, “if you are a higher income tax payer with many deductions, you may be subject to the Alternative Minimum Tax,” says Aponte. He recommends calculating the AMT on Form 6251 to determine the amount of tax you owe --the higher of the regular tax or the AMT. [Tax software](#) can help to solve this problem since the software will determine whether the filer is subject to the AMT, he says.

When you’re finished, “double check your work,” Walker says. Experts recommend checking your math on the return and to make sure you are using the right numbers from the tax tables.

Whether or not you used software or handwrote your return, “when you finish working on your return, compare it to last year’s return and let it sit for a period so you can review it with fresh eyes,” says Walker.

Experts recommend [filing tax returns](#) electronically if you’re using software. If you’re mailing instead, before it’s in the envelope, “Don’t forget to sign the return,” says Walker.

 Print  Close

---

#### URL

<http://www.foxbusiness.comhttp://www.foxbusiness.com/personal-finance/2012/01/20/tips-for-d-y-tax-filers/>

---

[Home](#) | [Video](#) | [Markets](#) | [Government](#) | [Economy](#) | [Industries](#) | [Investing](#) | [Technology](#) | [Personal Finance](#) | [Travel](#) | [On Air](#)

| [Privacy](#) | [Terms](#)

Quotes delayed at least 15 minutes. Market Data provided by Interactive Data (Terms & Conditions). Powered and implemented by Interactive Data Managed Solutions.

Company fundamental data provided by Morningstar. Earnings estimates data provided by Zacks. Mutual fund data provided by Lipper. Economic data provided by Econoday.

Dow Jones & Company Terms & Conditions.

This material may not be published, broadcast, rewritten, or redistributed. © 2012 FOX News Network, LLC. All rights reserved.