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How Much Do You Owe Uncle Sam? Tax-Prep Sites May Disagree

We ran the same tax situation through five popular tax-preparation sites, and got totals that varied by almost \$2000.

Tina Orem, PC World

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Tax-prep software and services all promise to make the annual IRS ritual painless by asking the right questions and then doing the math. But that doesn't mean they'll all arrive at the same bottom line. We ran a tax scenario for a fictional family through five popular tax-prep sites. The results? Each site told us that the family owed a different amount in taxes, and the difference between the lowest and highest bill was almost \$2000, or about 10 percent of the family's total tax bill.

Tax Sites Don't Always Agree on the Bottom Line

Our fictional family saved the most money using TurboTax; Complete Tax had them paying more than \$1800 more.

	CompleteTax	TaxBrain	TaxAct	TaxCut	TurboTax
Salary income	\$100,000	\$100,000	\$100,000	\$100,000	\$100,000
Interest income	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000
Gain on home sale	\$81,500	\$69,500	\$72,000	\$72,000	\$69,500
Gain on stock sale	\$4,000	\$4,000	\$4,000	\$4,000	\$4,000
Gross Income	\$186,500	\$174,500	\$177,000	\$177,000	\$174,500
IRA Contributions	(\$6,000)	(\$6,000)	(\$6,000)	(\$6,000)	(\$6,000)
Adjusted Gross Income	\$180,500	\$168,500	\$171,000	\$171,000	\$168,500
Deductions	\$16,194	\$16,314	\$16,536	\$16,289	\$16,448
Exemptions	\$10,500	\$10,500	\$10,500	\$10,500	\$10,500
Taxable Income	\$153,306	\$141,686	\$143,964	\$144,211	\$141,552
Tax	\$22,994	\$21,156	\$21,481	\$21,544	\$21,131
Payments	\$20,000	\$20,000	\$20,000	\$20,000	\$20,000
Tax Owed	\$3,019	\$1,156	\$1,481	\$1,544	\$1,131

Which site was correct? It's hard to say. The disparity in the returns (on a total tax bill of more than \$20,000) stemmed from the instructions the tax sites provided (or failed to provide), but it also reflected a lack of concrete guidance from the IRS.

The services I used for this experiment were the [same ones I evaluated earlier this year](#) for overall usability: [CompleteTax](#), [TaxAct](#), [TaxBrain](#), [TaxCut](#), and [TurboTax](#). This time, however, I relied on the software's instructions and help to make decisions about some slightly more complicated (but hardly unusual) tax scenarios.

My test family--let's call them the Smiths--was a couple with one child and a base income of \$100,000, augmented by \$1000 in interest income. They spent \$6000 on childcare expenses, paid \$1000 in student-loan interest and \$12,000 in mortgage interest, and made two contributions of \$3000 to IRAs.

The Smiths had donated a pile of clothes and household items to charity sometime during the year. They had bought 100 shares of stock on January 1, 2008, for \$5 per share, and then sold those shares on December 31, 2008, for \$45 per share (lucky them!). Also in 2008 they sold a small vacation house for \$179,000 (they had bought the house in 1990 for \$80,000).

Purchase and Sale Expenses on a Home

The sale of the vacation home proved a real test for the tax-prep packages. All the sites said the Smiths could deduct costs associated with the sale of the home, but some were more precise about what types of expenses could and couldn't be included.

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10 easy ways to save
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Home Sale Worksheet

2008

General Information

Help

Date former main home was acquired

Date former main home was sold

	Taxpayer	Spouse
If you (or your spouse) lived in the home for less than two of the previous five years, enter the number of days of residence.	<input type="text"/>	<input type="text"/>

Was the sale the result of...

- a health issue?
- a change in employment greater than 50 miles?
- an IRS defined unforeseen circumstance? [More Info](#)

Adjusted Basis of Home Sold

Costs of Purchasing Your Home.

- Original purchase price of home sold
- Seller-paid points [More Info](#)
- Settlement fees or closing costs for home sold: [More Info](#)
 - Abstract and recording fees
 - Legal Fees (including title search and preparing documents)
 - Surveys
 - Title insurance
 - Transfer or stamp taxes
 - Amounts seller owed you agreed to pay (back taxes, interest, recording or mortgage fees & sales commissions)
 - Other

Other Costs and Basis Information about Your Home.

- Cost of additions and improvements
- Special tax assessments paid for local improvements, such as streets and sidewalks
- Other increases to basis [More Info](#)
- Depreciation, related to the business use or rental of the home, claimed (or allowable)
- Other decreases to basis [More Info](#)

The stock sale seemed like a simple transaction—until the questions started coming: Was the sale a “normal sale” or was it a “personal loss”? Was it a wash sale or a Section 1202 exclusion? For all five sites, just the act of classifying the sale involved questions that the Smiths would probably have no way of answering without at least a little strategic advice (or jargon-to-English translations). CompleteTax, for example, asked which one of nine categories the stock sale fell into but offered little explanation of each and no real method for determining which one fit. As if to rub salt in the wound, the site’s vague, four-sentence help box on the subject included the phrase “You would usually know if another choice applies.”

TaxCut Premium

Main Menu **Federal** State File

Personal Information Income Adjustments and Deductions Credits Taxes Federal Wrap-Up

About Your Asset

Who owned this asset?

☐ Tina

☐ Husband

☒ Both

Description

Disposition type — Most transactions will have no special type.

(ex., 85 sh HRB)

No special type

[Learn More](#)

Disposition Type

How you disposed of an asset. This determines what further information is needed to report the sale on the tax return. Transactions requiring only the acquisition date, acquisition cost, sales date, and sales price are usually coded as “No special type.” Transactions that require more information or have special tax treatment are coded individually.

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The IRS, according to its Publication 526 (“Charitable Contributions”), allows taxpayers to deduct the fair market value of donated clothes and household items in most circumstances. But it offers no guidance on where to find, or how to determine, those fair market values; in fact, page 10 of Publication 526 says, “There are no fixed formulas or methods for finding the value of items of clothing.” For household goods, the IRS goes on to say that “formulas (such as using a percentage of the cost to buy a new replacement item) are not acceptable in determining value.”

This different-answer-every-time problem is nothing new in the tax world. In a similar experiment back in the 1980s, [Money Magazine](#) found that human tax pros came up with different results for the same tax scenarios as well. And because the IRS has [refused to evaluate the accuracy of tax-prep software in applying tax law](#) (saying that would be “a monumental challenge”), the only way you’ll probably ever know if your tax software steered you wrong is if the IRS decides to audit your return.

Tax-preparation software has indeed helped millions of Americans do their taxes more quickly and more cheaply, but these examples illustrate how the bottom line can be directly affected by the amount and quality of hand-holding provided. If you need an entire subset of specialized knowledge and calculations just to fill in one little white box, you might consider calling a CPA—and even then, be prepared to be second-guessed if you’re audited.

