

# Filing/Planning

## **IRS Goes Totally Paperless!**

E-filing your tax return has always offered speed and security, but, until this year, you still had to mail a paper signature form to the IRS. Well, the IRS has recently designed an electronic signature. Now the entire filing process is truly paperless!

### **How does it work?**

Your electronic signature will consist of five pieces of information:

- A five-digit PIN (personal identification number), which you select
- Your Social Security number
- Your birth date
- Your 1999 adjusted gross income
- Your 1999 total tax

### **Your five-digit PIN.**

Your tax professional or your tax preparation software will guide you through the signature process, including your PIN selection, which can be any five digits except "00000". If you are filing a joint return, each spouse must enter his or her own PIN.

The IRS will verify the remaining four items to confirm you are the person who "signed" the 2000 return.

### **Your 1999 Tax Information.**

Enter the adjusted gross income as it appeared on your original return, before any adjustments by the IRS or amendments by you. Adjusted gross income is shown on line 33 (Form 1040), line 18 (Form 1040A), or line 4 (Form 1040EZ) of your 1999 return. Your total tax can be found on line 56 (Form 1040), line 34 (Form 1040A), or line 10 (Form 1040EZ). If you did not file a 1999 tax return, enter zero for each item.

### **Joint Returns.**

If you are filing a joint return this year but did not last year, each spouse must enter his or her own 1999 tax information. If you filed a joint return last year but are not doing so this year, you will still enter the tax information as it appeared on your 1999 return.

### **Can everyone use the electronic signature system?**

No, you can't use the PIN if:

- You are under age 16 and did not file a 1999 tax return
- You filed Form 1040-NR, 1040-PR, or 1040-SS for 1999
- You are filing a 2000 return for a deceased taxpayer
- Your Social Security card states "Not Valid for Employment"
- You are filing certain forms that must be attached to the return

- If you are not sure that you are eligible to use the new PIN system, call your local H&R Block office, where you can speak with a tax preparer who will answer your questions.

### **The IRS Notes that the Top 10 Mistakes for Paper Filings of 1040A Forms Are:**

1. Taxpayer identification numbers or names for dependents that don't match IRS or SSA records, resulting in exemptions being denied;
2. Dependent's last name reported incorrectly;
3. Taxpayer identification numbers or names for dependents that don't match IRS or SSA records, resulting in denial of all or part of the child tax credit;
4. SSN for child(ren) who qualify for earned income credit don't match SSA records;
5. Preparer doesn't include nontaxable earned income from W-2's;
6. Primary SSN is incorrect or illegible;
7. Earned income credit is figured or entered incorrectly;
8. Name line is illegible or does not match IRS records;
9. Based on information reported, the IRS re-calculated the tax using the filing status for a single person; and
10. Taxpayer's SSN and/or name doesn't match SSA records.

### **Extensions Buy Time but Cost Money**

If you file an extension, interest accrues on your balance due, and the amount you owe dear Uncle Sam, could increase. However, filing an extension does not increase your chance of being audited. And if you don't owe anything, you aren't penalized at all. But if you fail to file within three years, you lose any refund you are due. This means you need to file your 2001 return by April 15, 2004, in order to claim a refund.

### **Take Interest in Prepaying Your Extension**

When you file for an extension, you are not required to make any prepayments. However, if you don't pay at least 90 percent of your total tax bill at (or before) the time you file Form 4868, you will owe a late payment penalty. You will also owe interest on the entire balance due (even if it's less than 90 percent). You are required to list on the extension form what your estimated income and tax liability may be, but if you're able to submit at least a partial payment when you send your extension, whatever money you send with it reduces the amount of money you pay the late penalty and interest on.

If you don't prepay and you miss the October 15 extension filing date, you'd better start saving. Even though you filed an extension, penalties are retroactive to April 15 when you miss the October 15 deadline. Your penalty for late filing is calculated at five percent of the amount owed per month, while your penalty for late payment of taxes is calculated at .5 percent of the amount owed. Your maximum combined late filing/late payment penalty is five percent of the amount owed per month. And your penalties continue to accrue until a maximum penalty of 25 percent of the balance due is reached. Interest continues to accrue on the unpaid balance until it is paid.

### **Quarterly Payments Prevent Annual Surprises**

If you're an entrepreneur, quarterly estimated payments can ensure at least your tax output remains somewhat steady throughout the year. As a self-employed individual, you must estimate your taxes and pay them quarterly, allowing you to spread your tax burden throughout the year rather than writing an extraordinarily large check on April 15 that may include an underpayment penalty.

### **Make Amends to the IRS**

If you didn't file last year, it isn't too late to make it right. Even if you don't owe for last year, filing now ensures you'll get the refund the IRS owes you. And if you owe taxes, the sooner you file the less you'll accrue in penalties and interest.

### **Don't Bank on the IRS' Tax Advice**

Like most governmental entities, the IRS is composed of many individuals. And although IRS employees dispense opinions about tax issues, the IRS will not necessarily stand behind their information if it is wrong. If you receive questionable information, be sure to get a second opinion from another tax professional, such as those at H&R Block.

### **Marriage Creates a New Paper Trail**

Marriage changes numerous aspects of life, including your tax situation. As former single people, you must now file your taxes as married filing jointly or married filing separately, whichever works to your advantage taxwise. Check with your H&R Block tax preparer for advice.

### **Stock Sales Require Proper Reporting**

If a friend or family member gives you a gift, the IRS doesn't need to know about it. But if you sell someone stock, securities or other assets, you've created a taxable transaction. You must report the sale on Schedule D.

### **Tax Time is No Time for Procrastination**

Paying the IRS isn't usually something people like to do early. However, it is a good idea to file your taxes before the April 15 deadline. Whether you file at the post office or on the Web, you'll avoid traffic and hassles. And if the IRS rejects your return, you'll still have time to correct the mistake.

Even if you don't have the money to pay your tax liability, file your return on time. Your penalties are less if you file without making a payment than if you don't file at all.

### **The Tax Perks of Active Duty**

As an active-duty military person, you receive special benefits, such as a housing allowance, which are shown on your LES. You are also considered a resident of the state that is your home of record, regardless of where you serve. Many states have special rules that determine how you are taxed, be sure to check your tax advisor.

### **Bankruptcy is Nontaxable**

Bankruptcy is not a taxable event on your return, assuming that you filed a Chapter 7 or

11bankruptcy. If you filed Chapter 13 bankruptcy, report your income and expenses on your return. You can exclude any discharge of debt, but you must file Form 982.

### **Beware the Ballooning Refund**

So this year's tax return seemed like a windfall? If you purchased a house or made a lifestyle change that significantly increased your tax refund, you may wish to re-examine your Form W-4 to adjust your withholding amount. By correcting your withholding accordingly, you'll reduce the amount of your interest-free loan to the government and increase this year's take-home pay.

### **The Most Taxing of Tax Errors**

People often make mistakes entering calculations for the earned income credit. The mistakes run from simple math errors and selecting an incorrect credit amount from the table to claiming a credit for which you are not entitled. When calculating the earned income credit, read the instructions carefully -and follow them to the letter.

### **Honey, We Forgot to Claim the Kids!**

If you already sent in your taxes and realized that you forgot to report some income, expenses or dependents, you can prepare an amended return on Form 1040X. This allows you to indicate changes to income, dependents or expenses. When you do this, you calculate a new tax liability and compare it to the old tax liability. Don't forget to take advantage of additional withholding and credits associated with the dependents.

### **Rebuilding Your Paper Trail**

If you're ready to sit down and prepare your tax return, and you've lost your records, don't panic. If you've lost your W-2, contact your employer for another. If you cannot get one before you file, use the information from your last pay stub for the year and prepare Form 4852. If you've lost receipts, reconstruct the amounts as best you can. If you obtain additional substantiation after you've filed, you can file an amended return if the numbers you reported weren't accurate.

### **Act Now to Reduce Taxes Later**

The clock reads 11:54 p.m. You are squealing around corners on two wheels, running red lights like you're color blind and flying up straight-aways with reckless abandon, and all for one cause - operation: tax day.

You park the car in a bewildered state on the lawn of the post office and sprint for the doors, carrying your precious tax cargo like a running back would his pigskin. You make it inside just in time to drop your return in the slot, wolf down a complimentary stale cookie and chug a cup of luke-warm coffee. A feeling of relief immediately consumes your entire body. You can finally put your tax worries away for another year.

Or can you?

For the smart consumer, taxes are a year-round event. By taking a few simple steps now and throughout the year, you can save yourself a lot of heartache, and most importantly, money, later.

According to H&R Block tax expert Maggie Doedtman, the most critical element in early tax planning is also the least difficult. 'Keeping good tax records is absolutely, 100 percent, the most important step taxpayers can make in planning for next year,' she says. 'If you start from the very beginning, and make a habit of it, there's no easier way to potentially decrease your tax liability.'

If you fail to keep good tax records during the year, chances are you will be paying more taxes than you need to because you have forgotten some deductions in the rush to get organized at the end of the year.

And make sure you write down all of your potential deductions. 'It's always better to have too much information than too little,' advises Doedtman.

Along with record keeping, it's important to think about what potential life events could occur in the upcoming year. Will you be moving, finding a new job or adding another member to your family? All of these events would have significant tax implications on your situation.

'It's important to think about things that could happen in your life and then alter your tax withholding appropriately,' Doedtman says. 'If you plan on having a baby, for instance, you might want to think about making adjustments in your withholding, even before the baby is born.'

Although there are numerous practices to lower your tax liability, it's important not to lose sight of some of the simplest ways. Using dependable tax records and timely adjustments to your withholdings, you can definitely enhance your chances of coming out on top during tax time. And, hopefully, avoid that panicked late-night trip to the post office on next year's tax day!

### **Single Parenthood Offers Modest Tax Benefits**

Single parents often qualify for head of household status, which offers a higher standard deduction and more favorable tax rates than the single status. Also, single parents, like married couples, can take advantage of the earned income credit, childcare credit, and the child tax credit.

### **Claiming Not-So-Typical Dependents**

You can write off as dependents people of any age who have lived with you an entire year, provided you can demonstrate they meet the five dependency tests. Each dependent allows you to exempt from income \$2,900.

### **File Electronically for a Speedy Return**

Even if you prepare your own tax return, you might consider visiting an H&R Block

office to file your return electronically. E-filing is quicker than mailing your return and waiting for a check. If you're a do-it-yourselfer, you can prepare and file your return online at <http://www.hrblock.com>. If you're not getting a refund, you can pay your balance due via credit card by calling 1-800-2PayTax (1-800-272-9829) or 1-888-ALLTAXX (1-888-255-8299). You may also pay by using <http://www.1888ALLTAXX> or <http://www.officialpayments.com>. Your credit card issuer will charge you a convenience fee based on the amount of the payment, in addition to the fee for using this service. Both systems accept American Express, Discover and MasterCard.

### **U.S. Income Taxing on Foreigners**

International taxes are a complicated process for those in the U.S. on work or student visas. For example, depending on your status you may be required to file Form 1040NR or may be eligible to file Form 1040. We recommend you see a tax professional to determine the best method of filing and how treaty provisions may affect your taxes.

### **Married Couples Have Multiple Filing Options**

Married couples have three filing choices: married, filing jointly; married, filing separately; or even filing as unmarried. To file as unmarried, you must have lived apart from your spouse for the last six months of the year, have a dependent child living with you, and provide more than half of the support for the household.

### **Determining Who's Head of the Household**

If you lived with your spouse all year or any part of the last six months of the year, neither one of you will qualify for head of household status. If you didn't live together any of the last half of the year, the taxpayer who provided more than half the cost for keeping up the home for one or more children may file using the head of household status. It's possible for you both to qualify, but you would both have had to provide a household for separate children.

### **Who Invited the Taxman to My Wedding?**

Uncle Sam thinks that two can live as cheaply as one, and therefore you may not need the extra income created by your happy union. If both of you have income, and your income is substantial, you may pay more tax than if you could file as singles. That's because the standard deduction for married taxpayers is not twice as large as the standard deduction for singles. Also, the tax rates jump into higher brackets for married couples at less than twice the income levels for singles. But enjoy your bliss anyway; you may pay more taxes but some studies show that married people live longer. And not every married couple pays the marriage penalty. In many cases, married couples pay less tax than they would if they were filing as singles.

### **The Taxing Side of Marriage**

If you plan to get married soon, compare the amount of tax you'll pay as two single taxpayers with the amount you would pay as a married couple. In some situations, the tax on a joint return is higher than it would be on two separate returns. The closer the spouses' incomes, the larger the marriage penalty. Your tax professional can help in planning to avoid a large difference in your tax situation.