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Calculating Your Success

5 COMMON TAX MISTAKES TO AVOID

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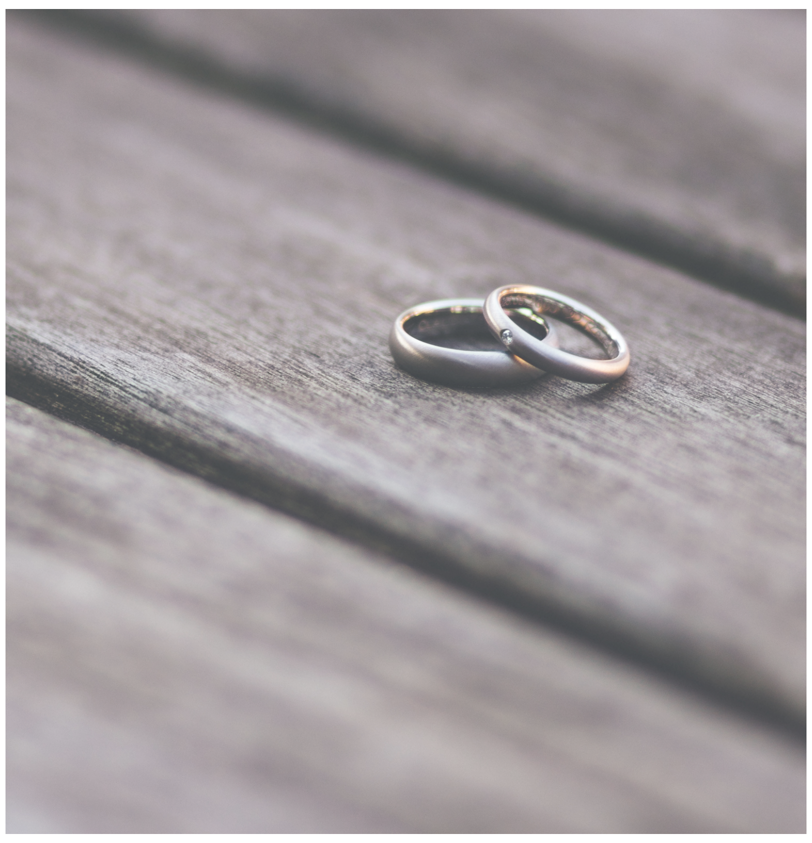

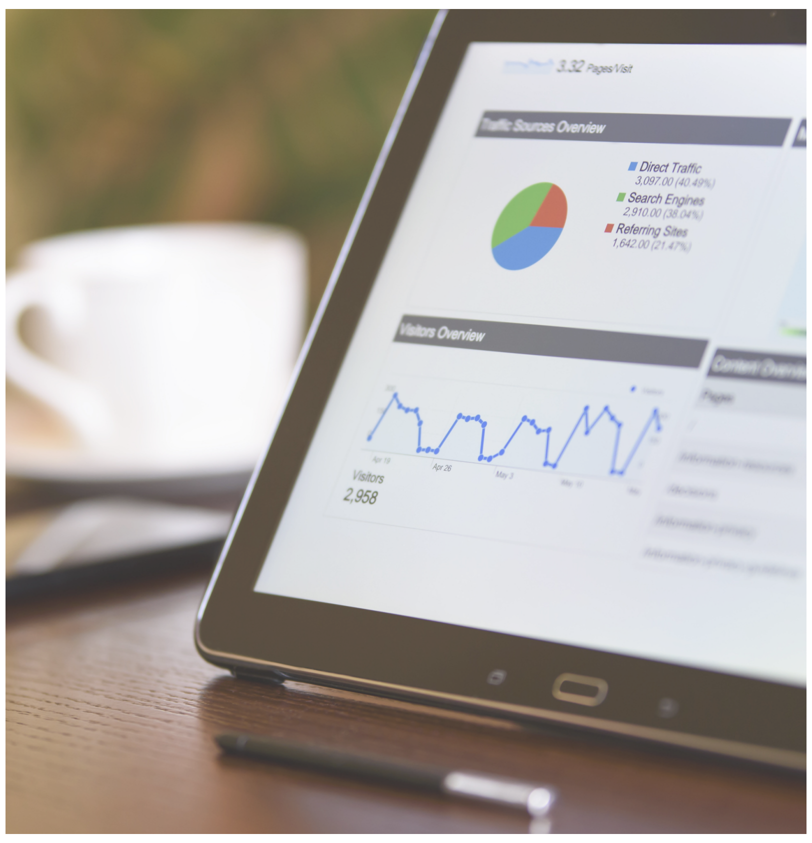

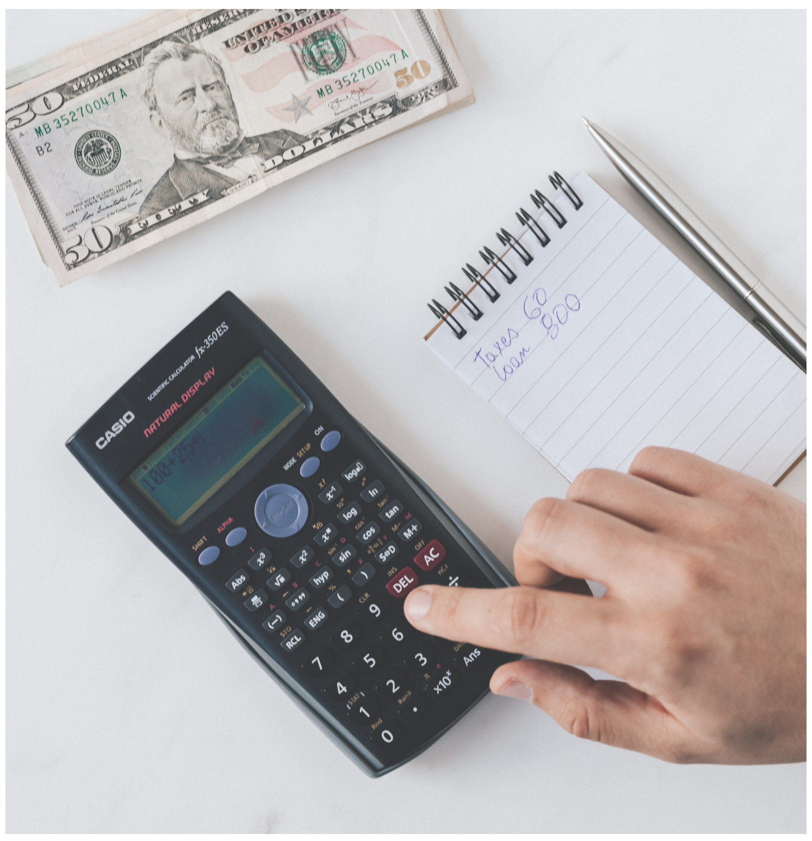

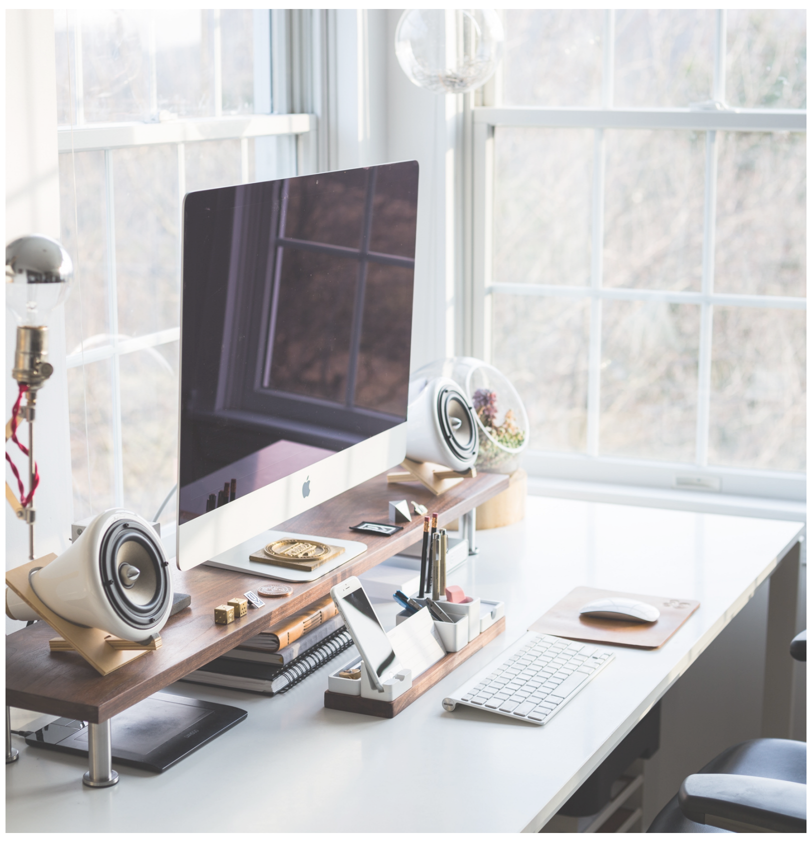

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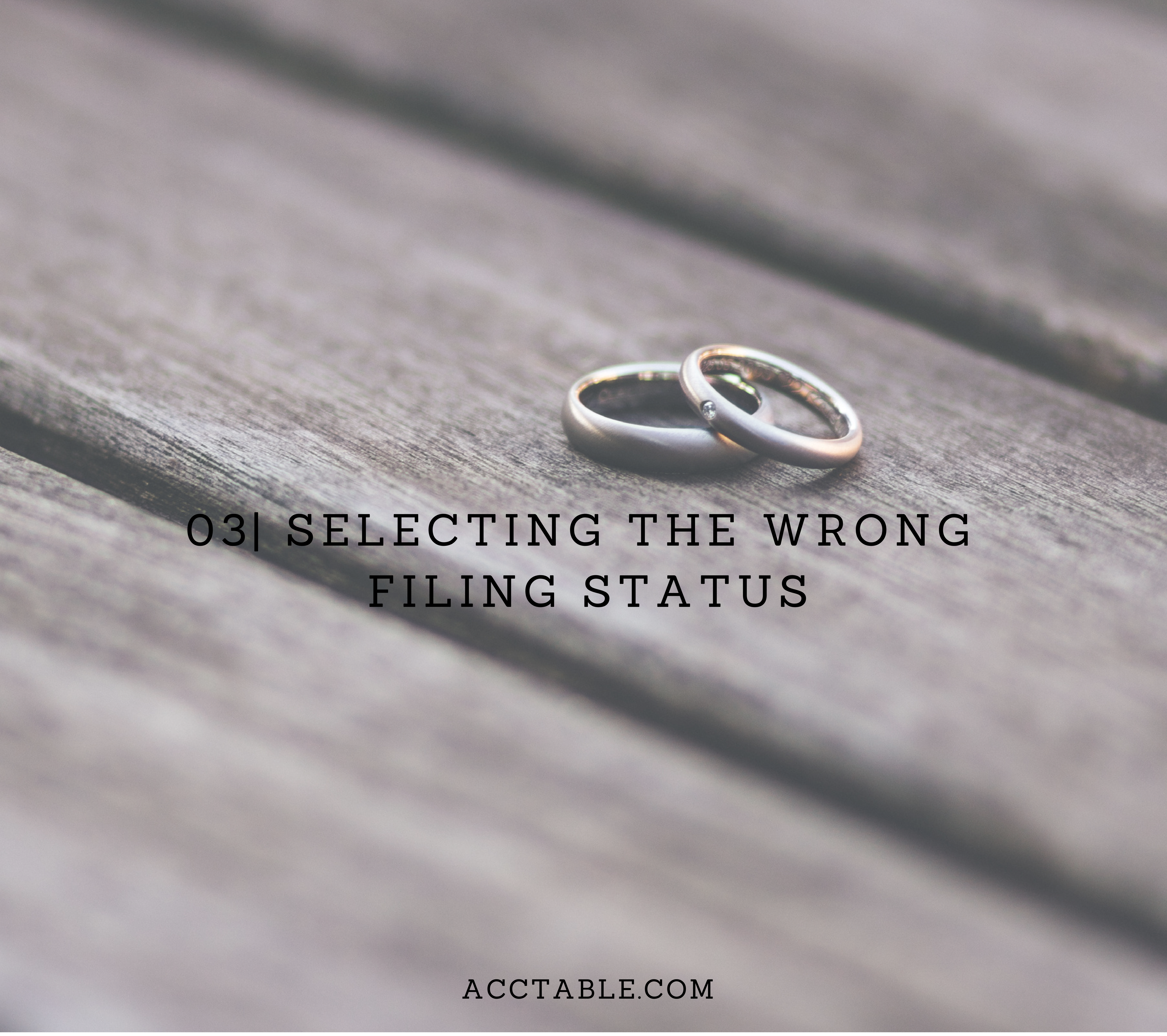

03| SELECTING THE WRONG FILING STATUS

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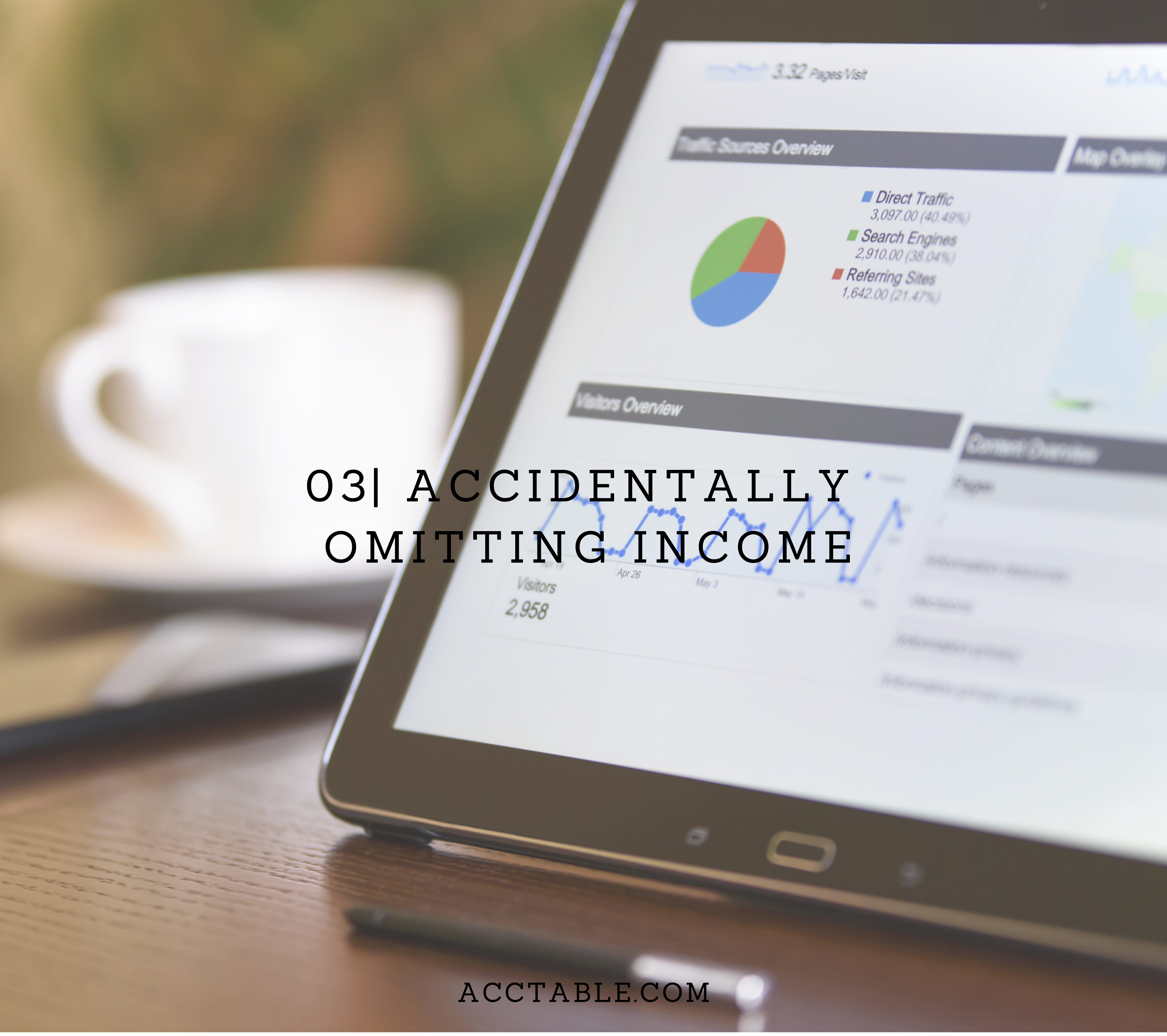
Your filing status is the very first question on the 1040. It is important to choose the correct filing status as it impacts everything on your tax return from your standard deduction to your tax rates.

If you are married, should you choose Married Filing Jointly (MFJ) or Married Filing Separately (MFS)? Most often, choosing MFJ results in the lowest tax liability but there are other factors to consider. If your spouse has past tax liabilities, then we would possibly recommend filing MFS to avoid both being on the hook to the IRS.

Let’s say, you and your spouse separated this year and lived apart for more than 6 months of the year. You may be eligible to file as single or if you have children file as Head of Household, which could possibly lead to additional tax credits.

The bottom line is choosing the incorrect filing status can cost you thousands of dollars.



03| ACCIDENTALLY OMITTING INCOME

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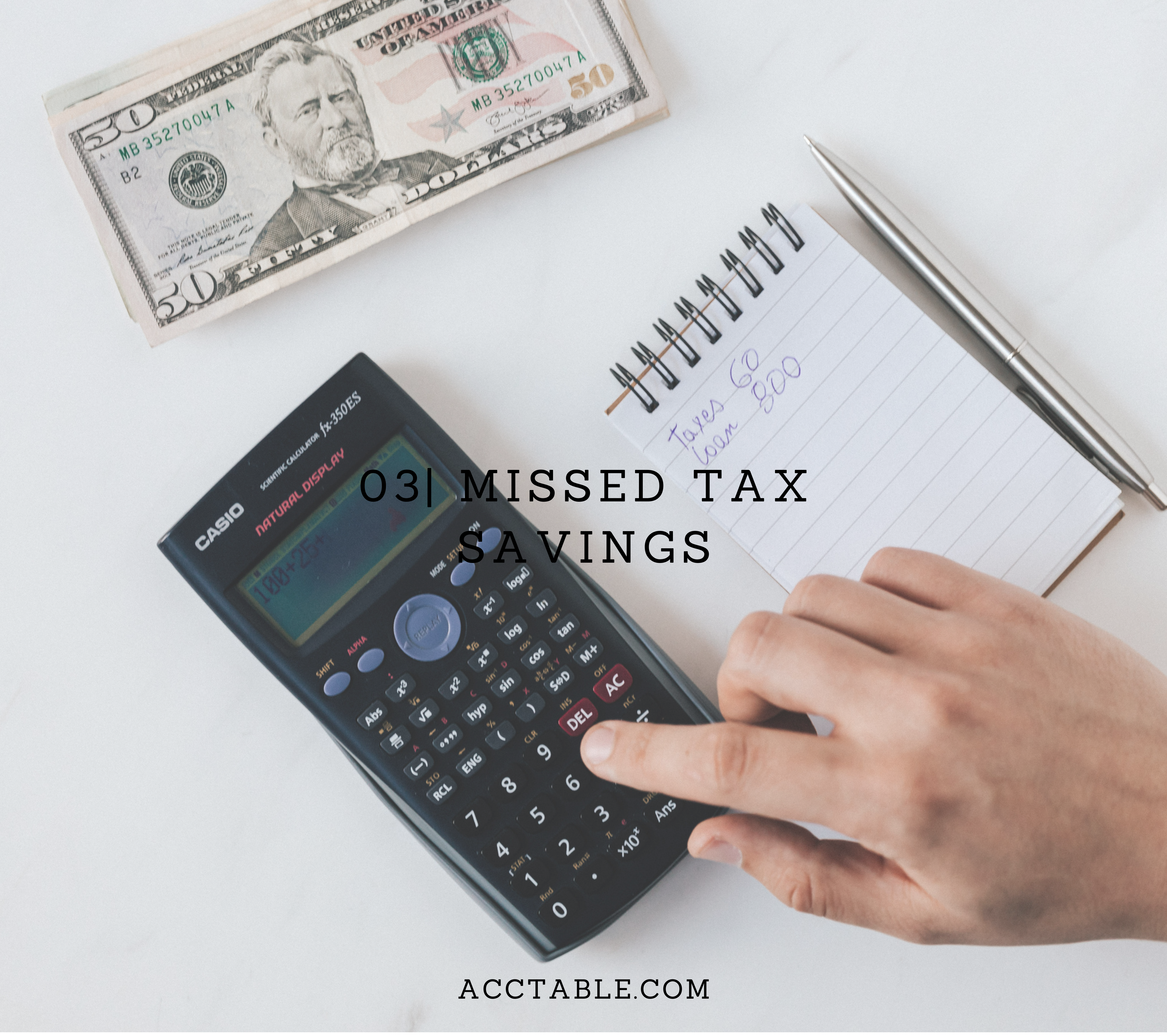
Income is actually easier to omit than you might think. Obviously, you claim the W2 income, but what about all the other stuff? It is important to know what is income and what is not!

The most common reason we see omitted income is because of selling stock. Most people will sell stock and immediately purchase another stock which means you may never see the cash. Selling stock is a taxable transaction and is required to be reported. The IRS receives the 1099-B, stating that the stock was sold, but not necessarily how much you paid for it. It may also be possible that you do not have income at all, but rather a loss that can be deducted.

If you rely on the IRS to catch up with you, it could cost you underpayment penalties, late payment penalties and interest.

Needless to say, it can be costly.



03| MISSED TAX SAVINGS

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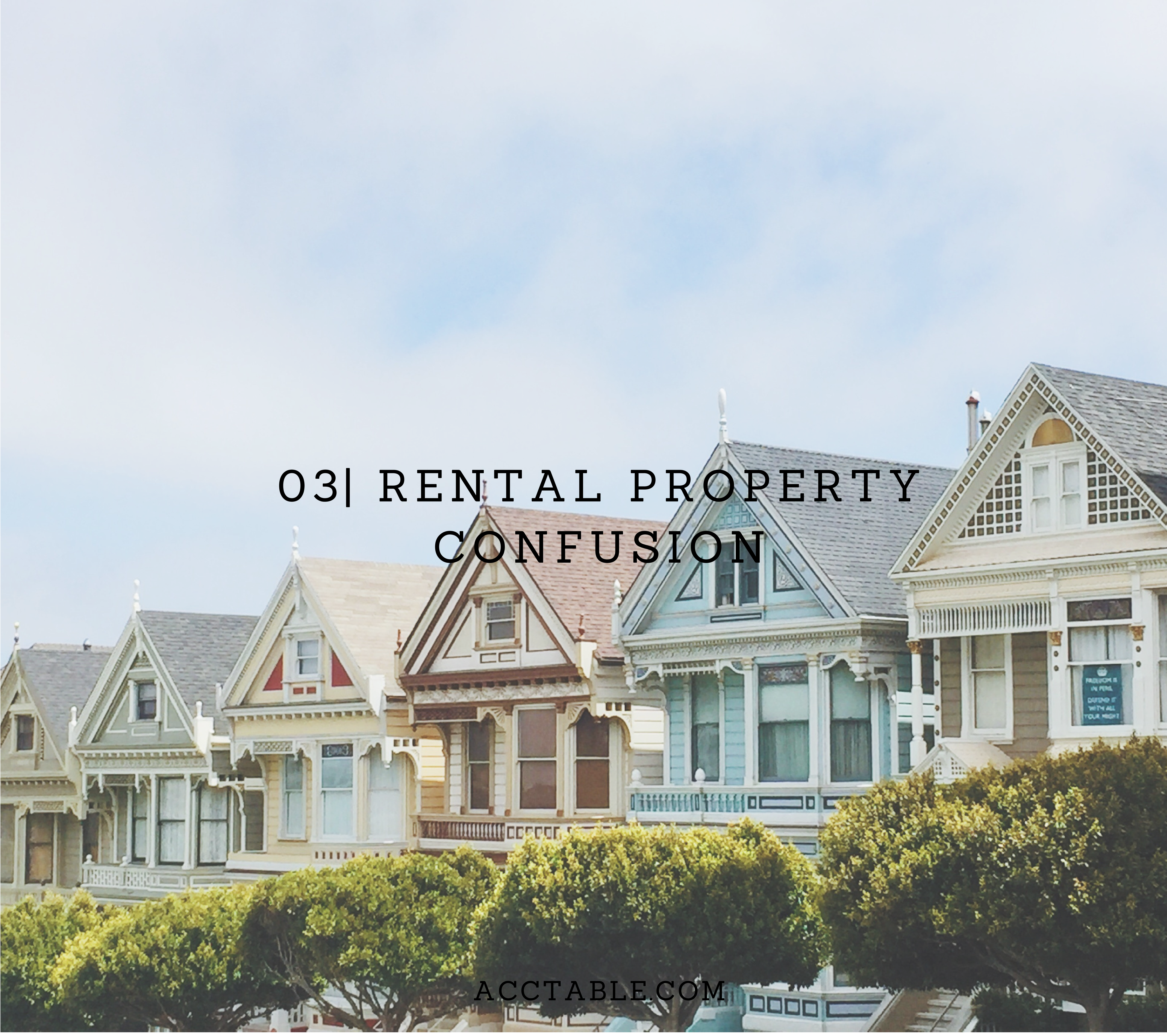
There are more tax deductions and credits out there than we can count and they change from year to year. You may be eligible this year and not next year. The most common tax credit we see missed is the Earned Income Tax Credit (EITC). According to the National Conference of Legislators, an estimated 20% of eligible workers do not claim EITC.

The Earned Income Credit is for working people making low to moderate income. The credit depends on your filing status, the amount of your income and the children you support.

This credit for 2020 can be up to $6660. You don't want to have to rely on the IRS to tell you that you are eligible for this credit!

Other common missed credits are the Dependent Care Credit, Higher Education Credits and the Savers Credit.



03| RENTAL PROPERTY CONFUSION

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Rental properties are not straightforward. Most people get confused on what they can deduct, especially when it comes to depreciation.

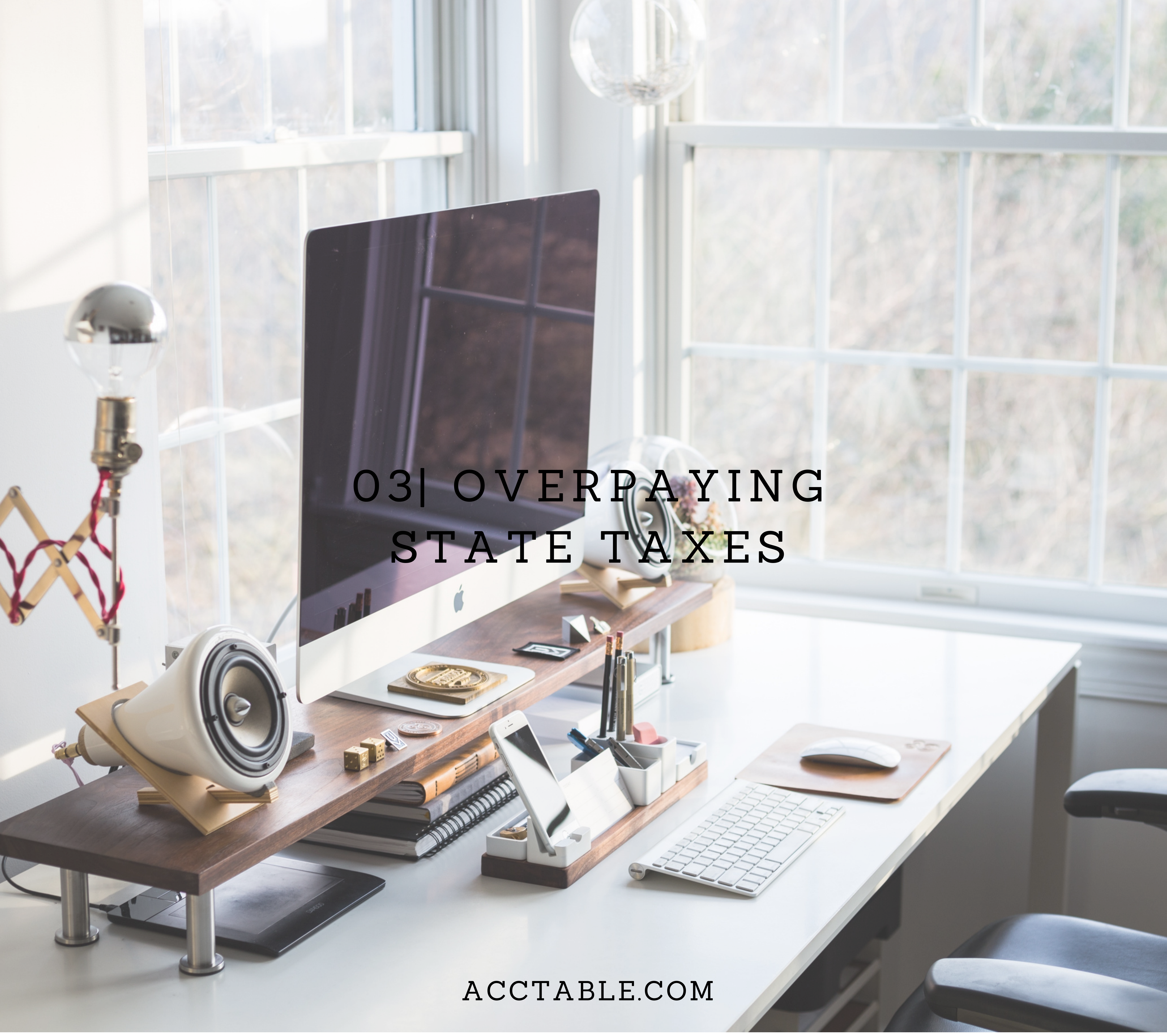
After some research, you probably understand that you are required to depreciate residential property over 27.5 years, yet what number do you use to calculate the depreciation? This can be very confusing because you have to back out the cost of land, add in your closing costs and so on and so on.

To complicate the matter more, what if you have a primary residence that you are now turning into a rental property. How do you calculate the depreciation amount? There are several factors that need to be considered in determining the amounts that are allowable.

Another common mistake is adding security deposits into rental income when in fact it is not income. Only if the security deposit is kept at the end of the lease for damages or rent should it be claimed as income.

Rental properties are actually very complicated and we strongly advise that you consult a tax professional for help with them.

03| OVERPAYING STATE TAXES



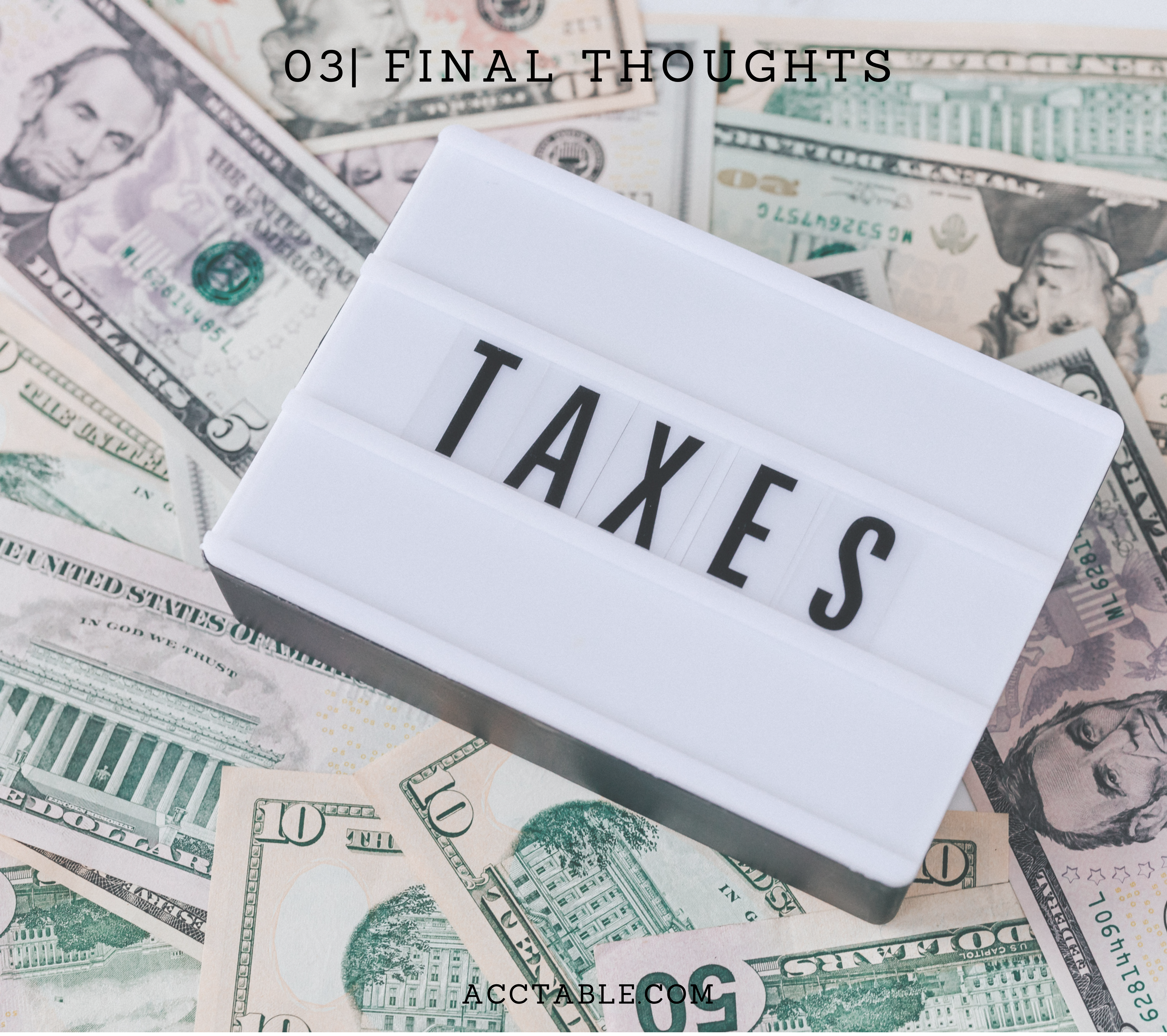
State taxes can sometimes be more confusing than federal taxes because each state has its own rules. You are required to pay income tax to the state you earn income in, but what if you live in a different state? This could possibly require filing in multiple states.

You will find that many neighboring states have a reciprocal tax agreement, which allows you to earn the income in one state, but pay taxes in the state you reside. In this case, as long as your employer withheld income tax in the state you reside, you only need to file one tax return to your home state.

The absence of a reciprocal agreement, would require you to file a non resident state income tax return in the state you earned the income in and then file a resident tax return in the state you live in. This is the situation where many people overpay their taxes because they are unaware that they can take a credit for taxes paid to the state they earned the income in.

Most importantly is knowing what agreements your home state has with the state you are working in and to make sure your employer is withholding tax to the correct state.

03| FINAL THOUGHTS



Most people believe their taxes are simple so they do not require a tax professional. Do-it-yourself taxpayers use a DIY tax software, such as Turbo Tax, and make more mistakes than they realize. While software programs have become better year after year, the reality is software is only as good as the information you put in.

Can you prepare your own taxes? You most certainly can! There a few questions worth asking yourself before you begin the process.
1) Can I without a doubt accurately file my taxes?
2) Do I know the ins and outs of tax deductions and credits to know I've saved the most money possible?
3) Do I sleep better because I know I did everything right, saved money, and the IRS won't be knocking on my door?

At Accountabilities, we know when to dig deeper and are trained to take advantage of tax credits to maximize your tax savings.

You deserve to have a personalized tax plan that takes advantage of all your eligible tax savings and keep as much of your hard earned money as possible. Let's chat so you can file your taxes with confidence!