

January 9<sup>th</sup> 2013

## **Avoiding These 5 Common Filing Errors Could Save You \$\$\$**

Don't give Uncle Sam more of your hard earned money than you should & avoid getting that dreaded IRS notice in the mail! Just follow these 5 tips!

### **1. Choose the right Filing Status and Be Sure Your Dependents Qualify**

Choosing the correct Filing Status is complicated for many taxpayers. For example, while the term Head of Household may seem to indicate that anyone who maintains a household can use this filing status, there is a strict set of guidelines for who actually qualifies to claim such a status. Also, taxpayers who are recently divorced, separated or widowed may need to pay close attention to filing status rules. And remember, some times it is the dependent exemptions that dictate the filing status a taxpayer can use.

And speaking of dependent exemptions, they can be complicated too, especially for parents who are separated or divorced, have children in college, or taxpayers who take care of their elderly parents. There are quite a few special rules for claiming a dependent. For instance, dependents may be claimed by their parents *even* if they worked during the year and a dependent born in 2010 is considered to have lived with taxpayer *all* 12 months.

See Publication 501 Exemptions, Standard Deduction, and Filing Information for more info [www.irs.gov/pub/irs-pdf/p501.pdf](http://www.irs.gov/pub/irs-pdf/p501.pdf)

### **2. Report Income Correctly ... and in the Right Place!**

The Form 1040 has 21 lines and too many forms to count dedicated to income. Reporting income can be challenging and making a mistake could be costly.

**Stock Sales** - Many taxpayers assume there is no need to report proceeds from a sale of stock if it results in a loss. Keep in mind that, for now, only *gross* proceeds are reported to IRS. Show the loss on your tax return by reporting gross proceeds *and* cost basis or the IRS will consider just the gross proceeds as taxable income.

**Cancelled Debts** – If you settle a debt with a creditor, the amount of debt forgiven is taxable in the year forgiven unless an exception applies. Taxpayers whose debt forgiveness resulted from bankruptcy or who are insolvent may be able to exclude this income.

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**Side Jobs** – In this economy, many people have had to find a 2<sup>nd</sup> job. If your income is considered freelance or sub contractor income, it is generally reported on Schedule C.

**Withdrawal from IRA or Pension** – Many taxpayers withdraw from their IRA or retirement plan during the year and then forget about it when tax time arrives. Most of the time taxes withheld, but the income and withholding must be reported on the tax return. Don't assume since taxes were withheld, no more reporting is required. Caution: Early distributions (before age 59 1/2) from a retirement account are subject to an additional 10% penalty unless an exception applies.

See IRS Publication 525 Taxable and Non-Taxable Income for more info  
[www.irs.gov/pub/irs-pdf/p525.pdf](http://www.irs.gov/pub/irs-pdf/p525.pdf)

### **3. Deduct Expenses in the Right Place and Get the Most Bang for your Buck!**

Just like reporting income, making sure your expenses are in the right place can make a big difference.

**Job Expenses** – First, determine whether expenses are related to your job as an employee or as freelance, sub-contractor. Then make sure you report the expenses accurately. Expenses that apply to your job should be reported on Schedule A or Form 2106. Expenses for your free lance, sub-contractor job should be reported on Schedule C. Incorrectly reporting those expenses on Schedule A or Form 2016 could cost you over 15%.

**Health Insurance Premiums** – Most who have these benefits provided by their employer are already enjoying a pre-tax benefit. But, if you are writing out the check, chances are the premiums are deductible. If you are an employee, deduct this expense on Schedule A. If you are freelance/self employed, be aware of special rules for 2010 that may allow you to deduct this expense without itemizing and also reduce self employment tax on Schedule SE.

See Employee Business Expenses – Form 2106 Instructions  
<http://www.irs.gov/pub/irs-pdf/i2106.pdf> and Publication 535 Business Expenses  
<http://www.irs.gov/publications/p535/index.html> for more info.

#### **4. Higher Education Expenses – Deduction or Credit? Choose Wisely!**

One of the best legislative changes in recent years is the addition of the American Opportunity Credit for higher education expenses. Sadly, *many* taxpayers miss it, thinking a deduction is better than a credit.

The American Opportunity Credit allows many taxpayers a *credit* of up to \$2500 – yes, it is like extra \$\$\$ in your pocket! While taxpayers may use the Tuition and Fee *Deduction*, using the credit could save them BIG. And don't forget, unlike the Hope Credit used in the past, required books, supplies and equipment are now includable for the American Opportunity Credit. A word of caution: Be sure to reduce the amount of tuition used to determine the credit or deduction by the amount of grants and scholarships received.

See IRS Publication 970, Tax Benefits for Education, for more info  
[www.irs.gov/pub/irs-pdf/p970.pdf](http://www.irs.gov/pub/irs-pdf/p970.pdf)

#### **5. Residential Energy Credits – Make sure your improvement qualifies.**

Everyone's going green but your home improvement may not be green as far as the IRS is concerned. Remember, not all energy improvements qualify. For example, just because you replaced your existing heating system with a more efficient unit does not automatically qualify you for the credit. You must have the certificate stating so. For heating & cooling systems – Obtain AHRI Certificate stating that improvement is qualified for a "Federal Energy Efficiency Tax Credit". For windows, insulation and other improvements, read the instructions for Form 5695, Residential Energy Credits, [www.irs.gov/pub/irs-pdf/f5695.pdf](http://www.irs.gov/pub/irs-pdf/f5695.pdf) and [www.ahridirectory.org](http://www.ahridirectory.org) or [www.energystar.gov](http://www.energystar.gov) for more info.

So, do your homework and get it right. Check and double check. As an American, pay the tax you should, BUT not a penny more!