Tax Guide

Keeping Track of it All

A detailed account of income and expenses is required for tax preparation.

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You'll need to compile this important information, whether you handle your taxes personally or pay a professional to complete the task.

The worst impulse is to procrastinate until the last second this tax season, since getting all of the needed receipts, bills and other paperwork together can be so stressful and time consuming. Best to organize all of it as you go along in a year-long process that keeps everything organized and at the ready.

FORMING RECORD-KEEPING HABITS

Take careful notes and file paperwork when it is received, organizing everything as accurately and thoroughly as possible. You'll begin forming better organizing habits as you go along. Need help getting started? Seek out advice, either in person or online, from a qualified tax professional for more details on how to keep track of it all. They'll also be the most up to date on changes to the tax code. Begin preparing monthly financial statements, in particular if you are a business owner. You'll budget in a more responsible manner, while tracking how your personal finances or business venture is doing. Tax organizers found online are also helpful.

START THE PROCESS EARLY

The year-end tax process begins with keeping everything in order, week after week. Begin the day after you file your taxes with an honest assessment of how the process unfolded for you. Was it hard to find the required information? What would make organizing everything easier for the next year? Keep the previous year's return on hand for the purposes of comparison. You will be able to identify changes in real time that could impact the bottom line when tax time rolls around again. Make timely notes about big changes in your home life or at work that would show up on a return, including the birth of a child, selling a house or a major equipment purchase.

TRUST QUALIFIED TAX EXPERTS

Once you've compiled all of your information and organized everything, you'll be ready to file. The IRS provides free electronic filing if you meet certain filing and salary requirements. If you're not comfortable with the process, or if things have gotten more complicated lately, consider meeting with a qualified tax professional. They can help in preparing your taxes, while answering any questions you may have.

Selecting a Tax Preparer

You need a qualified accountant, but also someone you can trust.

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The tax code changes with frightening regularity, leaving the door open for some unwelcome surprises if your tax preparer isn't keeping up to date.

The IRS expects you to complete tax returns with 100% accuracy, and being unaware of a new wrinkle in the law won't save you from a stressful, time-consuming and perhaps costly audit.

CERTIFIED PUBLIC ACCOUNTANTS

The best option is often a certified public accountant who specializes in handling individual tax returns. Check with friends and family members to get references for trusted professionals in your area. You may also take advantage of online resources including an American Institute of Certified Public Accountants website tool that's helpfully called "Find a CPA." When contacting a CPA, be sure to inquire about their willingness to handle individual tax returns since some certified pubic accountants focus on business clients instead.

ENROLLED AGENTS

Enrolled agents, unlike certified public accountants, only focus on taxes rather than handling a larger variety of financial activity. These agents are required to have worked for at least five years with the IRS, or have passed special exams dealing with tax code. You'll find enrolled agents working for CPA firms or in an individual setting. Find one near you by using an online locator found on the National Association of Enrolled Agents website.

NATIONAL CHAINS

If you have a straightforward return, using a storefront national chain may be the way to go. A CPA or enrolled agent might be a better bet for more complicated returns. Most of these preparers have passed multi-week courses, and their finished returns are reviewed by experienced tax professionals who work as their supervisors.

COST

There is a cost factor in having your taxes prepared by a professional, and what they charge can vary widely. Solo tax preparers generally charge less than those at larger firms for a standard federal filing and state income tax filing, according to one survey by the National Society of Accountants.

Either way, remember you get what you pay for: Don't settle for a more poorly credentialed, less experience tax preparer just to save a little money. It might end up costing you far more in the long run.

Filing if You're Self-Employed

Being self-employed has many benefits — until tax time comes.

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Working for yourself means you've got to shoulder more responsibility to keep your taxes organized and paid on time.

Self-employed individuals include sole proprietors, independent contractors, members of business or trade partnerships, and part-time business owners. Some 15 million Americans fall into these categories, according to Pew Research.

Unlike self-employed individuals, W-2 works have taxes automatically deducted from their regular paychecks. Those who work for themselves have to keep track of what is owed, and then pay on time. Take-home pay will be higher to the self-employed, but a portion of that money must be set aside to cover the eventual tax obligation. The forms are different, and that in itself can be daunting. So become acquainted with these new wrinkles, or be prepared to pay a qualified professional to prepare your taxes.

YOUR OBLIGATIONS

The self-employed, including freelancers, need to take taxes into account when budgeting or setting up a price structure. Decisions about reinvesting in your company or building up your savings must take into account this accumulating annual debt to Uncle Sam. Track your business expenses monthly in order to make figuring out year-end deductions and tax obligation an easier process. A provided IRS worksheet can help you figure your quarterly taxes.

UNIQUE SELF-EMPLOYMENT TAXES

Medicare and Social Security deductions are typically split between the employee and employer, amounting to about 8% of your gross income. The company matches that figure. When you don't have an employer, however, you are responsible for the entire tax. Most of it goes to Social Security, but the government sets a limit on how much is taxable over the course of the year. All wages above that total, which has been around $137,000 in the past, are exempt. Medicare does not have a cap.

FIGURING YOUR INCOME

Prior to filing, you'll need to determine if your business had a net profit or net loss. Subtract expenses from your company's income to reach this figure. The Internal Revenue Service has set a floor for how little you can earn without filing, but you may still have to file an income-tax return if you meet other requirements outlined in Form 1040. Consult a professional accountant and tax preparer if you don't feel comfortable handling these tasks, or if they've become increasingly complicated.

Tax Breaks for the Military

Military members and their families are eligible for special IRS consideration.

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Free tax preparation and assistance with filing is available, and benefits may include larger refunds.

WHAT'S AVAILABLE

An Earned Income Tax Credit could add up to thousands of dollars for low- or moderate-income members of the service. Combat pay is either partially or completely tax free. Those serving in support in a combat zone may also qualify for this benefit. Reservists whose duties require travel of more than 100 miles from home may deduct any travel expenses that were not already reimbursed. Those who contribute to a savings or retirement plan, including the Thrift Savings Plan, may also be able to claim a credit for those contributions.

The IRS allows tax-free combat pay contributions to an IRA, which in turn grows while deferring taxes until you withdraw your savings. Qualified distributions of these earnings aren't taxed, either. That's a huge additional savings boost over the life of your service. The monthly exclusion for officers, meanwhile, is capped at the highest enlisted pay rate, on top of pay received for imminent danger or hostile fire service. A list of the areas that are tax-qualified combat zones is available on the IRS website.

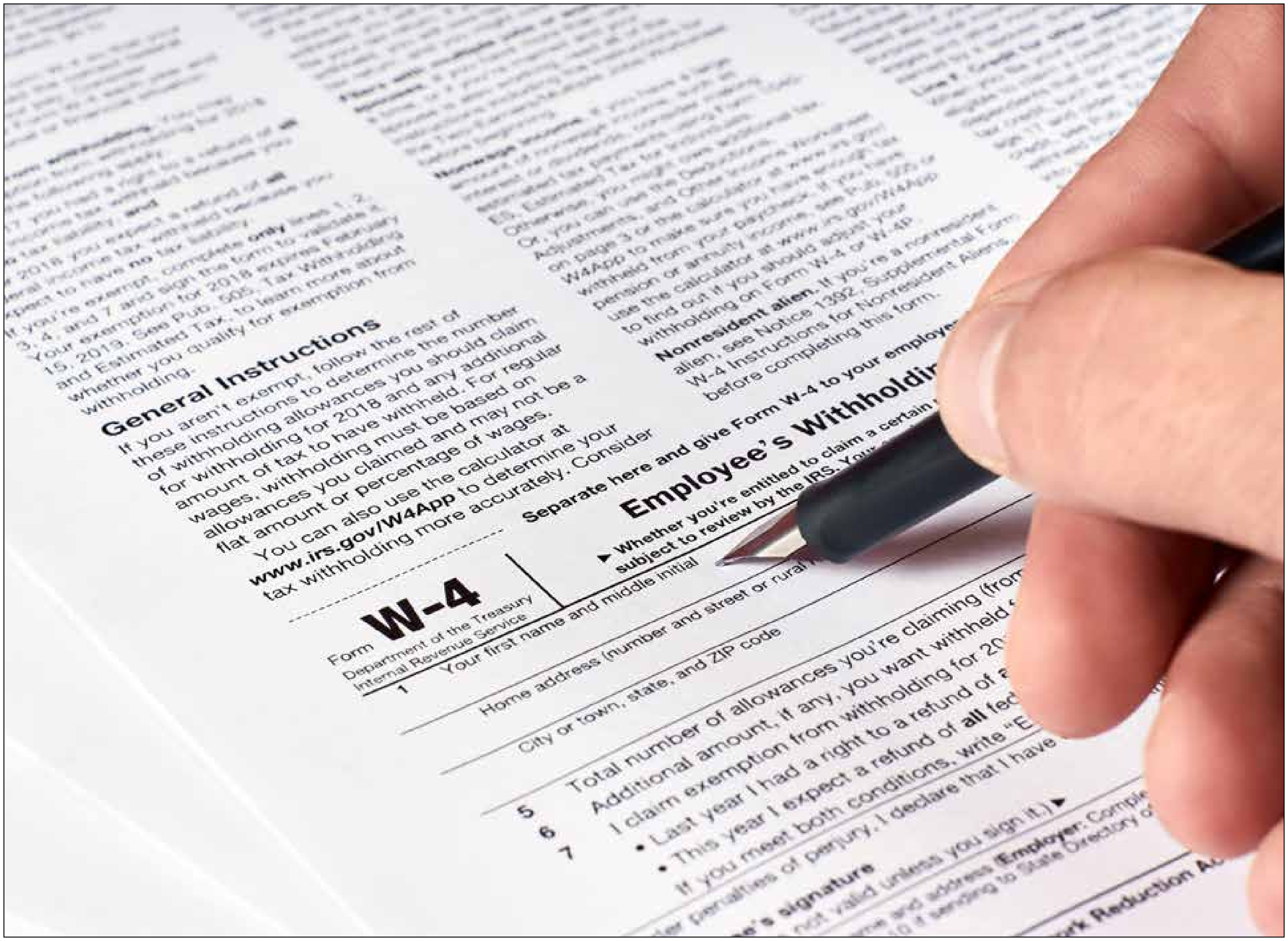
OVERSEAS?

U.S. service members who are stationed abroad earned an automatic extension on filing their federal income tax form. If one spouse is oversees because of military duty and certain other conditions, the other spouse is allowed to sign a joint return — unlike the typical return which must both be signed by both spouses. Military spouses can also choose to be taxed in their home of record or in their current location, which can generate significant savings if one state has a lower tax rate. Some don't have an income tax, at all. Consult with the legal office at your military installation for more details or clarification on these or other potential benefits.

LEAVING THE MILITARY?

Those departing from the military for civilian life may be able to deduct certain expenses from your job search, including resume preparation, travel costs, and fees from job-placement agencies. For more information, check out the Armed Forces Tax Guide from the Internal Revenue Service, which includes tips and information designed to help service members and their families get the maximum benefits prescribed by law.

Setting Withholdings Properly



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Changing jobs isn't the only time you should review how much they're taking out.

Monitoring the amount that's going to Uncle Sam will help you match withholdings with your actual end-of-year liability.

Income tax is withheld from your wages, as well as other types of income. If enough isn't taken out because of your withholding submissions, you could end up owing on your final return. If too much is taken out, the government holds on to your money all year until a refund finally arrives.

HOW TO CHECK

Check your withholdings when personal or financial changes take place that might impact your liability. Life events like buying a home, getting married or divorced, or having a baby are some of the most common times when you might need to shift withholdings. If you've experienced any of these changes since the last time you filed, your tax requirements may have changed too. You may also want to use the IRS's withholding calculator if your pay changes to make sure the correct amount is being withheld so there isn't a surprise at the end of the tax year.

MAKING A CHANGE

Exemptions and adjustments made in a timely manner will keep you from owing or having a large refund that indicates you have paid in too much. After determining the changes you want to make, request that your employer provide Form W-4, which is called an employee's withholding allowance certificate. Change the withholding status, allowances and other details to match your new income figure and then return it to your employer. In some cases, companies may allow withholding changes to be made online.

ADDITIONAL CONSIDERATIONS

Withholding changes may need to be made based on non-taxable income like IRA distributions, dividends, interest, capital gains and gig-economy income. Itemized deductions can also play a role in your final annual income figures — including gifts, education credits, child or earned income tax credits and medical expenses. For instance, those who purchased plans through the Health Insurance Marketplace should receive Form 1095 at the start of the filing season. This form, which will help complete your final return, indicates the coverage you and your family had, any premium assistance, and reports total monthly premiums paid. In some cases, you may be eligible for the premium tax credit, which would also raise your final income.

How to Prevent Tax Fraud

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Like other forms of identity theft, tax fraud can be a scary experience.

Thieves are increasingly using stolen Social Security numbers to file fraudulent tax returns in order to claim a bogus refund.

Unfortunately, this kind of criminal act usually goes undetected until you try to file your own return, or you receive a dreaded notice from the Internal Revenue Service. Your return will be rejected, for instance, if you try to file through a tax preparer's system.

BE DILIGENT

Most tax fraud is committed when people are careless with coveted personal information. Don't carry your Social Security card with you, unless it is required. Don't leave it in plain sight at your home. Never share it over the phone unless you are speaking to a trusted source. Americans are also urged to regularly check their credit rating, as well as the constantly updated earnings statements from Social Security. Dramatic changes in either number is an any early indicator of illegal identity theft — which can lead to tax fraud down the road.

PROTECT YOURSELF

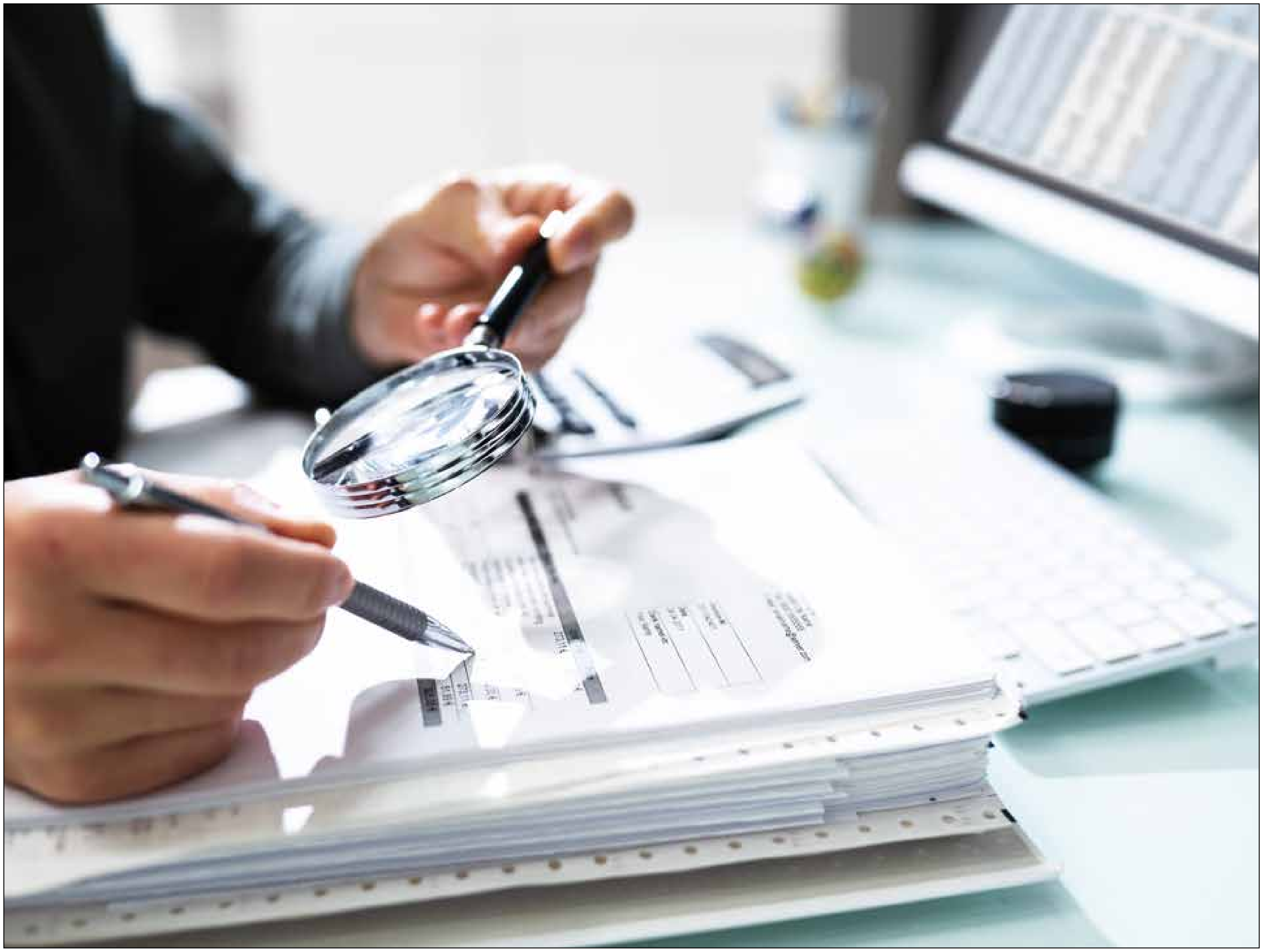
The IRS will never initially contact a taxpayer by email, social media or by phone. They don't ask for financial or personal information in this manner. You may receive an urgent phone call from someone claiming to be an IRS agent, claiming that you risk arrest or being deported if you do not act immediately. Any such unexpected messages, threats or deadlines that supposedly come from the IRS are a scam. Also be alert to official mail that indicates tax transcripts that you never requested, early or additional tax returns that you didn't file, notice of additional unknown wages or the assignment of an Employer Identification Number when you didn't ask for one. If these arrive, contact the IRS right away.

WHAT TO DO IF YOU SUSPECT TAX FRAUD

If you are contacted by email, the IRS asks that you forward that information to phishing @irs.gov so that it can be investigated. Calls and related impersonation schemes should be reported to the treasury inspector general for tax administration at 800-366- 4484 or online at treasury.gov by clicking on IRS Impersonation Scam Reporting. The web address from fake websites claiming to be affiliated with the IRS should also be forwarded to phishing@irs.gov. Remember, official website addresses will always begin with irs.gov.

If You Get Audited by the IRS

Understand the process so you don't have to live in fear.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One of the most dreaded sentences in American life may be: "You're being audited." Here's what to do next.

The fact is, you may be audited for no reason other than a random selection. You don't have to have miscalculated or hidden income. So it's important to understand what an audit means, and how it will work.

DEFINITION OF AUDIT

An audit involves an IRS review of an individual or organization's financial information and accounts. The goal is to ensure that their income has been correctly reported. If a discrepancy is found, the taxpayer will be required to make up the difference. Fines may also be levied.

HOW THEY HAPPEN

Returns are selected by the IRS for audit in several ways. An audit may be triggered by random selections and computer screening, based on nothing more than a computer model. They may also happen based on document matching, meaning that your W-2 or Form 1099 doesn't square up with the records submitted by an employer. An audit may also be ordered based on related examinations. If a business partner or investor is audited, for instance, that may lead the IRS to your front door.

METHODS AND RIGHTS

Audits are typically conducted by mail, but may also involve an in-person review of taxpayer records. This interview might take place at an IRS office, at the taxpayer's place of business, in their home, or at an accountant's office. You have certain rights throughout this process, including the right to privacy, information about why you are being audited, details on how the IRS will use the information they are gathering, and what happens if you do not comply. You may represent yourself, or select an authorized representative. You also have the right to appeal, both at the IRS and in court.

HOW IT ENDS

You will be presented with the audit's final findings, and asked to sign a piece of paper called an examination report or similar document. This form depends on the type of audit. If you agree, you might be required to pay the difference found in the audit and, sometimes, a fine. If there is a disagreement with the audit, a meeting will be scheduled with IRS management. A mediation program is also available. If the disagreement can't be resolved, the matter may move into the court system.