



SELF-PREPARING YOUR TAXES

Many of us prefer to complete and file our taxes ourselves. While it can be risky (errors can lead to penalties and late fees) the benefits of self-preparing can be great. You will definitely become more familiar with your finances and may even save money on tax preparation fees. But where do you begin? Getting started can be overwhelming and confusing so here is a step-by-step guide to self-preparing your taxes this year.

STEP-BY-STEP GUIDE

1. Gather your documents. A lot of people experience frustration because of unorganized paperwork
2. Decide if you will manually prepare your taxes or use a computer software program. This depends on your preference. If the thought of filling out paperwork makes you tense, consider using tax preparation software. They often provide interview questions to obtain your data and plug those figures into the proper places on your tax forms.
3. Gather your paper forms or choose software. Long gone are the days of obtaining all your tax forms from your local post office. While some branches still offer the basic forms, you may not find all the paperwork you need at those locations. Refer to the [IRS](#) for all the latest forms and instruction publications.

The IRS offers “Free File” for taxpayers with an Adjusted Gross Income (AGI) of \$52,000 or less. They eliminated the “Tele-file” option and replaced it with an online option. The IRS works in conjunction with nineteen software companies to make completing and filing your taxes easy. The computer programs are either free or low-cost. Start at the [IRS Free File](#) page. If you starting at the software companies website you won’t have the free or low-cost option. [About.com](#) tested and reviewed all nineteen sites. They focused on cost, ease of use, speed, and accuracy.

If you’ve decided to use your computer to prepare your return, choose software. A quick internet search provides dozens to choose from. When shopping for software consider the following:

- Does the software provide updates for changes in tax laws – last minute legislation can affect your tax situation. Make sure you have the most up to date version available.
- Does it allow electronic federal and state filing – next week’s *Money Mondays* will talk about the benefits of electronic, or e-filing.

- Compare prices and features – they vary greatly from free to \$100 and up. Be mindful of your budget. If your software will cost you \$75 and take you 2 hours to complete, hiring a tax professional may be more cost effective.
- Look at free demos and you will see they all are visibly different. Choose the one that appeals to your style preference.
- Remember you may be able to deduct the cost of your tax preparation software on your return.

4. Draft your calculations manually or enter your data – rough drafts are invaluable. They familiarize you with the process and calculations needed to complete your return.

5. Proof and edit your returns – we are human and make mistakes. Proof your returns thoroughly for any errors before submitting your tax return.

6. Finalize your returns – print final copies (if you are filing via paper) and attach any necessary supporting documents. Also, keep a copy of your complete tax return with supporting documentation for your records.

7. Send them on their way – mail them or submit them electronically!

PITFALLS TO AVOID

There are many details in our tax returns and many common errors can be avoided.

1. Type-o's: Proof your return paying close attention to your name, social security number, and address.
2. Taking standard deduction vs. itemizing. While itemizing may be a bit more time consuming it may allow you greater deductions than standard. It's definitely worth checking.
3. Don't copy last year – there are new tax laws each year. You may miss important deductions by plugging this years' figures into a current year forms.
4. Don't forget the 2006 tax forms are missing lines for important deductions. See my previous [Queercents](#) article.
5. Include any state income tax refund you received last year, as it may or may not be deductible.
6. Home office deductions – can be tricky but beneficial. Refer to [IRS publication 587](#) for more information.

7. Check prior year returns for items to be carried forwarded.
8. Attach copy B of your W2s. 1099s don't need to be attached...except 1099R!
9. Gambling winnings are taxable – include them in your income.
10. Alimony and spousal support payments included in a divorce or separation decree are often deductible. Child support is never deductible.
11. Tips are subject to income tax. Keep a running log of your tip income using [IRS publication 1244](#).
12. I mentioned it above, and will state it again. Check, check and triple check your math! Please use a calculator.
13. Don't proof your return when you are tired. Take a break before proofing your tax return – relax your eyes and mind. Put your return aside for one day. Don't look at it or think about it. Then go back the following day with a fresh perspective. You just may see something you overlooked.
14. Not carrying deductions forward. Compare your current return to last year. This may alert you to items you've overlooked, could remind you of deductions you've missed, or illuminate inconsistencies.
15. Incorrect postage – often we need to put more cause of the weight.
16. Sign and date your returns!

FREE ADVICE AND OTHER SERVICES

Free help isn't as hard to find as you might think! The IRS even offers several [free options](#) such as the Volunteer Income Tax Assistant program (VITA), Tax counseling for the elderly (TCE) including AARP Tax-Aide Counseling, and the Armed Forces Tax Council (AFTC).

While self-preparing your taxes can be risky, it's often worth the effort. Knowledge is your best tool. If you are not 100% confident in your tax return do not file it, consult a professional instead. Many tax preparation firms offer review services for those of us who self-prepare. For a fee a professional reviews your tax return, alerts you to errors, missed deductions and even to potential audit triggers. They'll sign off on your return and even submit it for you.



My business, [Dollars and Sense Taxes and Accounting](#), offers this service as well. The fee is \$75! Please e-mail or call (510) 444-9555 for more information.

Join us next week to learn the benefits of e-filing! And in the meantime, e-mail your questions or contact me for a complimentary consultation.