3 Common Mistakes You Don’t Want To Make This Tax Season

Erik Carter, Contributor
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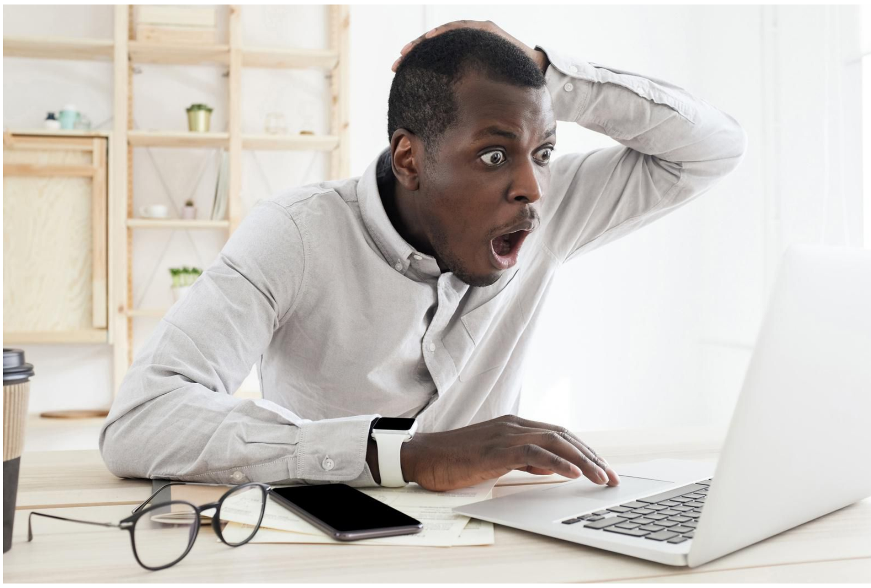
It’s the beginning of every American’s favorite time of the year … to hate: tax season. Starting on Feb 12 th , the IRS started accepting tax returns for the 2020 tax year. Here are three of the most common tax season mistakes you don’t want to make:



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1) Missing last minute tax-saving opportunities.

While it’s too late to influence most of the factors that will determine your 2020 tax liability, there are still a couple of things you can do by the April 15th tax filing deadline. One is to contribute up to $6,000 (or $7,000 if you turned 50 or older last year) to an IRA for 2020. If you don’t have a retirement plan through work or do but meet the income limits , you can deduct your contributions to a traditional IRA, which can be invested to grow tax-deferred until withdrawn. There’s a 10% penalty for withdrawals before age 59½, but exceptions include qualified education expenses and up to $10,000 over your lifetime for a first-time home purchase.

Another type of IRA you can choose is a Roth IRA. The contributions aren’t deductible, but the account can grow to be tax-free after age 59 ½. Unlike a traditional IRA, you can also withdraw the sum of your contributions (but not earnings) at any time without tax or penalty. If your income is too high to contribute to a Roth IRA, you can contribute to a traditional IRA and then convert it to a Roth IRA.

If you're in a high-deductible health insurance plan, another way to reduce your current and future taxes is to contribute to a health savings account (HSA) for 2020 (up to $3,550 for individual coverage or $7,100 for family coverage with an additional $1,000 if the account owner turned age 55 or older last year). Like a traditional IRA, the contributions are tax-deductible, but the withdrawals are tax-free as well if used for qualified health care expenses. You can also use it for non-medical expenses without the normal 20% penalty starting at age 65 (although it will be taxable when used for non-medical expenses).

2) Waiting to file.

There are several reasons why taxes aren't something to procrastinate about until the last minute. First, you never know when your tax return may end up being more complicated than you thought. You might need additional paperwork or other information or even need to switch from using software to hiring a professional tax preparer. In that case, you'll want time to find the right person rather than whoever happens to be available during the busiest time of tax season.

Second, the only thing worse than owing a large sum to the IRS is finding out just before the payment deadline that you aren't able to make the payment. You'll then be subject to interest and penalties as well. By completing your tax forms early, you'll have more time to save up or otherwise get cash to pay your tax bill by the April 15 deadline.

If you get a refund, filing earlier lets you get your money back sooner so you can put it to work. You also often need a tax return if you apply for a mortgage or have a child applying for financial aid. Getting it done early gives you a head start on filing those forms too.

Finally, one of the most common forms of identity theft is for someone to file an income tax return in your name and run off with the refund, leaving you stuck explaining to the IRS why everything on your return is wrong. Unlike other forms of identity theft, this can't be prevented by a credit freeze and it won't show up in credit monitoring because no credit is involved. Your best bet is to file your return before someone else can file it for you or at least get an IRS identity protection PIN .

3) Choosing the wrong person to file your taxes.

With a plethora of tax software out there, doing your own taxes is easier than ever. If your adjusted gross income is less than $72,000, you can even qualify for free file software. Just be aware that these free options only cover very basic returns.

If you don't qualify, you can still access free fillable tax forms. However, they just do the calculations and offer only basic guidance, so you have to be able and willing to do your taxes by yourself. Also, all your info is deleted on October 20th so you won't have access to it after that unless you save it somewhere else.

In any case, doing your own taxes isn't the right choice for everyone. If you own a business or investment real estate, ambiguities in the tax code can make it hard to figure out what income is taxable and what expenses are deductible. Living or working in multiple states or countries, buying and selling investments in taxable accounts, or being a non-US citizen can all make your taxes more complex and time consuming. These are all cases where a tax professional could make sense.

However, hiring a preparer is generally more expensive than doing it yourself. In 2019, the average charge for an individual 1040 return was over $200.

But for more complex situations, you might want to hire an Enrolled Agent (EA). Enrolled Agents are licensed by the IRS to prepare individual and business income tax returns and represent taxpayers before the IRS. However, they're generally more expensive than non-credentialed preparers. You can search for one on the website of the National Association of Enrolled Agents .

Finally, if you have a business and need business accounting along with your tax return done, you might want to hire a Certified Public Accountant (CPA) that specializes in tax preparation. Keep in mind that their fees tend to be the highest of preparers, so it might be overkill for just an individual income tax return. If you're also looking for more comprehensive financial planning, consider a CPA who's also a Personal Financial Specialist (PFS).

Of course, there's a myriad of other tax filing mistakes to avoid like being disorganized or making computational errors, but these are three that can really cost you. Try to take advantage of remaining tax-saving opportunities, get started early, and choose the right person to prepare your taxes. Then, maybe tax season won't seem quite as taxing.

By Erik Carter, Contributor

Craig Childress, CFP, ChFC, CLU
Certified Financial Planner
Oswego Wealth Advisors

503-342-2249
craig@oswegowealthadvisors.com
oswegowealthadvisors.com

Schedule a meeting