

# YOUR COMPLETE GUIDE TO FILING TAXES



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- CREDIT UNION -

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# INTRO

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There's a good reason for Ben Franklin's claim that there are only two absolutes in life: death and taxes. For most of us, there's no getting around the yearly tax-filing obligation. Between a tax code that sees multiple changes every year, complicated forms to complete with perfect precision and loads of receipts and pay stubs to keep track of, it can all get overwhelming, and fast. On top of all that, there are scams that pop up each tax season. Then there's the whole question of whether you're withholding the right amount of money from your paychecks throughout the year.

Luckily, filing your taxes and keeping your information safe does not have to be stressful or challenging. To make it simple, we've compiled this handy guide to help you know more come tax time — from deciphering the various tax forms to learning how to spot a tax scam. Once you've learned about the tax-filing process and how to protect your information, following through on this new-found knowledge should be a fun challenge.

It's time to take the headache out of tax season!

# TAX FORMS 101

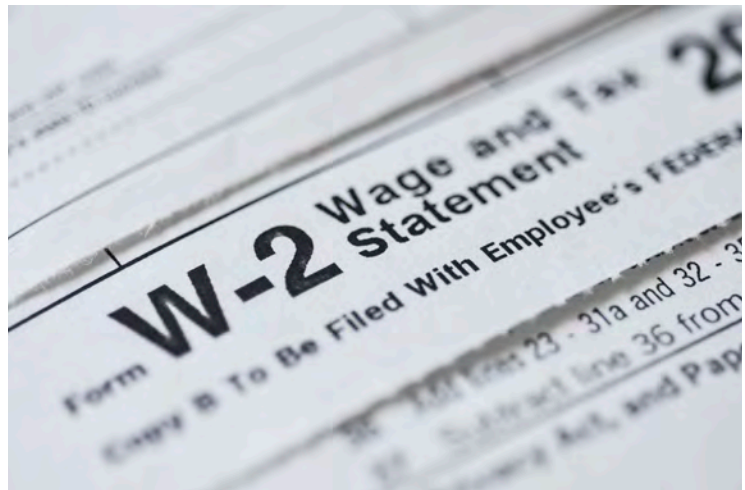
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Tax time is not the best time of year for people who don't love paper. Sorting out what's important is a big challenge, and it becomes more difficult when you don't know what's what.

Fortunately, it's easier to tell these forms apart than most of us realize. Here are the four most common tax forms you'll want to be familiar with.

## 1. W-2

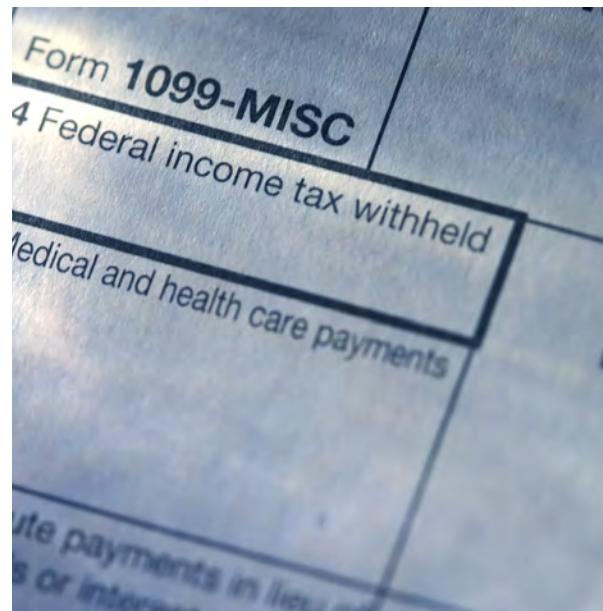
This is the most common tax form — a statement from your employer containing your yearly wages, how much tax you've had withheld and how much you've paid (pre-tax) for things like health care premiums. This may be the only major tax form you get.



It's also one of the most important forms. Keep it with other tax documents until filing time.

## 2. 1099

1099s identify income from sources other than wages, salary and tips. Most common is the 1099-INT, which lists interest income. You may get a 1099-INT from any financial institution where you have an interest-earning account.



If you work freelance or as a contractor, you'll probably receive a 1099-MISC. There are several more 1099s, such as a 1099-G for unemployment or another source of government income and a 1099-C for canceled debt.

Hold on to these forms, too. You'll need the amounts of untaxed income when you're ready to file.

### 3. 1095

1095s deal with health insurance. Form 1095-A is for insurance purchased through a marketplace exchange. 1095-B is for private health insurance. And 1095-C is for employer-sponsored health-care coverage.



These forms are important if you get a health insurance subsidy through the Affordable Care Act (ACA). If not, you can file this form away because you'll only need it if issues arise regarding your coverage.

### 4. 1098

The 1098 and the 1098-T report tax deductible expenses. The 1098 lists mortgage interest and points on your primary residence, while the 1098-T itemizes tuition and other expenses paid to institutions of higher learning. The 1098-T is used in several places, including claiming the Hope Credit.

To claim mortgage-related deductions, you'll need to itemize them. Claiming the deductions on the 1098 requires forgoing the standard deduction, which can be a bad idea. Unless you have a host of other deductions or you bought or refinanced your home during the year, it's best to claim the standard deduction and file away the 1098.

Unfortunately, you can't file your taxes and be rid of those papers until you get all your forms together. Keep all necessary forms together until all of them arrive. Get a manila folder to keep them all in one place. Keep that folder somewhere safe, and, as soon as possible, file your taxes so you can put it into storage. Keep your returns for at least three years after filing.



# FAQS ON FILING TAXES

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Taxes need to be filed every year — but it doesn't have to be difficult. Below, we've answered some of the most common questions on filing taxes along with helpful tips and advice to make it a simple and stress-free process.

## HOW CAN I FILE MY TAXES?

If you have all the necessary information on hand and you're ready to file, choose one of the following ways to fill out your return:

- **File your taxes manually.** If you'd rather go it alone, you can file your own taxes by filling out a 1040 according to the instructions provided by the IRS. Mail the form to the IRS, along with any payments owed. You can also choose to e-file. It's a good idea to triple-check your tax return before sending to be sure you haven't omitted any important information or made any careless mistakes.
- **Use a tax software program or service,** like TurboTax



or H&R Block. The service will walk you through a series of questions about your income and possible deductions, complete the 1040 for you, and if you so choose, electronically file. There's a fee for using most tax software programs, though you may find one at no cost. Research every program carefully to ensure you're dealing with an authentic tax preparer.

- **Enlist the help of a professional.** If you'd feel more confident filing your taxes through a professional, hire an accountant or tax preparer who will work with you to fill out the tax return on your behalf and to maximize your refund.



## **HOW MUCH MONEY WILL I NEED TO PAY IN TAXES?**

The amount of tax money you will owe is determined primarily by your income. In an effort to keep the tax code as fair as possible, the government divides wage earners into three separate tax brackets. The thresholds for these brackets are determined by total income earned, as well as the filing status of each individual. Taxpayers whose income places them in the highest bracket are taxed at the steepest rate. The reverse is true for those in the lowest tax bracket.

If you're employed by a business or firm, you'll receive a W-2 from your employer. This form will detail how much money you've earned this year and how much of your salary has already gone toward paying taxes. This information will need to be copied onto your 1040. If you're self-employed or an independent contractor, you'll fill out a 1099 to help determine your taxable income. This information will also be transferred to your tax return.

Taxable income is subject to the tax rate of your income bracket, and that determines your tax liability.

## WHAT'S THE DIFFERENCE BETWEEN A TAX DEDUCTION AND A TAX CREDIT?

You've done the bulk of the work, but don't rest easy just yet! Now you've got to figure out which deductions and credits you can claim. But first, understand the difference between these two important terms.

If you qualify for a tax deduction, your taxable income will be reduced. For example, if your taxable income is \$55,000



and you've donated \$3,000 throughout the year to qualifying charities, your taxable income will be reduced to \$52,000. Aside from eligible charity donations, you may be able to claim deductions for mortgage interest and qualifying healthcare costs as well.

You can choose to claim the standard deduction in a preset amount or to itemize individual deductions. You might want to use an online tax calculator to determine which method will give you more deductions. You may also consider enlisting the help of an accountant, tax preparer or tax filing software to help with this decision.

A tax credit, on the other hand, refers to money that comes directly off your tax bill. For example, if you owe \$6,000 in taxes and you're claiming a \$2,000 child tax credit, your tax bill can be reduced to \$4,000.

## **WILL I BE GETTING A TAX REFUND?**

Once you've finalized your deductions and credits and listed all your earned income, your tax return is ready to be filed. Be

sure to sign and date all appropriate documents and to triple-check each form for accuracy before filing.

Depending on the amount of money you earned this year, the amount of taxes you've already paid and the number/accumulated value of your deductions and credits, you will either receive a tax bill or a refund. If you owe money to the IRS, you haven't been paying enough taxes throughout the year. If you receive a refund, you've overpaid in taxes. Or, if your deductions and credits have reduced the amount you owe to a negative number, the government owes you a refund. It's important to note that not all credits are refundable; some will lower your tax bill but will not be refunded if their value is greater than the tax bill.

## **AM I WITHHOLDING THE RIGHT AMOUNT OF MONEY?**

One of the biggest blunders people make with their taxes is thinking that receiving a generous refund means they're doing something right. The truth is actually contrary to this way of thinking: A large refund means you've been withholding too much money from each paycheck this year. While it's fun to

get that big refund check, you've essentially been giving the government an interest-free loan instead of using that money yourself to save, invest or allow for more breathing space in your budget. On the flip side, if you're facing a large tax bill at the end of the year, you likely have not been paying enough in taxes and would have benefitted from spreading the tax burden more evenly throughout the year.

Tax season presents a perfect opportunity to review the amount of money you're withholding from each paycheck. Ideally, you want to owe the government no money, very little money or get a modest refund. Speak to a tax adviser and consult with an HR representative at your workplace for help with finding that perfect amount to withhold. You can also adjust the withholding amount on your W-2 at any time if circumstances change or you find that you've withheld too much or too little money.

# 6 COMMON TAX MISTAKES TO AVOID

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As you break out the calculator and pencils, dig out the enormous pile of receipts, tax forms and pay stubs, slow down to avoid working hastily. You don't want to wind up making a mistake that'll delay your refund, make you accountable for a fee – or even worse – force you to do that dreaded paperwork and math all over again.

Whether you choose to go it alone, use tax-prep software or hand it all over to an accountant, begin by checking out our handy list of common mistakes people make on their taxes.

## **FAULTY MATH**

Believe it or not, one of the most common errors on filed taxes is simple math mistakes. A small miscalculation can throw off all your numbers and get you into trouble with the IRS. Using an online program or a number-loving accountant may mitigate



this problem, but it won't assure you of anything. However you choose to prepare your taxes, be sure to triple-check all the math before filing.

## **NAME CHANGES AND MISSPELLINGS**

When preparing your taxes, you're thinking numbers, but don't forget to pay attention to everything else on the form! Details matter, and if you use a name that's different than the one the IRS has on file for your Social Security number, your refund may be delayed or not processed at all. Similarly, if you spell



your name wrong, it won't match the one the IRS has in its system. That could mean trouble for you and your taxes.

If you've recently changed your legal name because of a marital status change, be sure to let the Social Security Administration know. Otherwise, remember to use the correct spelling of your legal name on all your tax forms. Review every form carefully before filing to avoid frustration later.

## **OMITTING EXTRA INCOME**

Detailing the earnings from your day job is a given when preparing your taxes. Most of us even remember to include bonuses and extra commission earnings. But many people neglect to include other sources of income, such as freelance work, moonlighting as a consultant and any other side work they may have done throughout the year. If you've taken any side jobs this past year, be sure to fill out a 1099-MISC and to file it along with your taxes.

## **DEDUCTING FUNDS DONATED TO CHARITY**

Everyone knows you can write off charitable donations as a deduction, but many people aren't sure how to go about taking this step. Charity laws are complicated! First, only donations given to an organization with a tax-exempt status can be deducted from your taxes. Second, if you've donated food items or used clothing, they had to have been in decent shape to be eligible as a write-off. Finally, calculate the value of your non-monetary donations according to what they would be worth if you'd sell them now. Don't forget to include those charity tax receipts when you file!

## **USING THE MOST RECENT TAX LAWS**

As if it weren't already complicated enough, the U.S. tax code undergoes significant changes on an almost yearly basis. Standard deductions, maximums for earned income tax credit and annual deductible amounts for Health Savings Accounts (HSA) change frequently, but there are often other changes made to the code as well. Be sure to familiarize yourself with the most recent and relevant changes before filing your taxes each year.

## SIGNING YOUR FORMS

Last, but definitely not least, don't forget the most basic step of signing your name. If you're filing through USPS mail, be sure to put your John Hancock wherever necessary. If filing online, you can use a PIN instead. Most signature lines will need to be dated as well.

Read through all of the forms before submitting to ensure you haven't neglected anything or made mistakes. Being super-careful now will help you avoid any future aggravation. And best of all, this way, when you're done filing, you can finally kiss that paper mountain goodbye!



# FILING TAXES AS A COLLEGE STUDENT

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Imagine missing a full day of class, showing up the next day and seeing a test on your desk. You open the packet and find what appears to be gibberish staring back at you. Everyone around you is writing busily, while you're stumbling in the dark.

The first time you prepare your own taxes can feel exactly like being expected to ace an exam on material you've never learned. You're given a big pile of papers and are expected to sort it out yourself without any trouble at all. It's easy to get overwhelmed and frustrated.

Before you start panicking, take a deep breath and relax, because your credit union will walk you through the process of filing taxes as a college student by highlighting three crucial questions you'll want to ask yourself before tackling those forms.

## **AM I REQUIRED TO FILE?**

First, take a minute to determine if you really need to file. If you've only been working part time this past year and you haven't made that much money, you are probably not required to file taxes. Look up the current minimum taxable income amounts online to see if you need to file this year.



## **HOW HARD DOES THIS HAVE TO BE?**

If you know that your tax situation is relatively simple, you may be eligible to use a form called the 1040-EZ. It's a super-simple document that takes just a few minutes to complete. You'll enter your wages, your filing status (married or single) and the taxes you've already paid, all of which is on the W-2 you'll receive from your employer(s). You'll also input some basic information about yourself, including your name, address and Social Security number. You won't get to claim any tax credits through a 1040-EZ, but this should be of little consequence since there aren't many tax credits typically available for college students.

## **WHERE CAN I GET HELP?**

If you still can't make heads or tails of your tax forms, enlist the help of an e-filing service. Use this handy [tool](#) provided by the IRS to help you pick the best one.

If you'd rather work with a live person, look for the Volunteer Income Tax Assistance (VITA) on campus. Through this

program, business students seeking to bolster their resumes will volunteer to help other students with their taxes at no cost.



# HOW SHOULD I USE MY TAX REFUND?

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When you receive an unexpected windfall, whether it's from a tax refund, work bonus or a cash gift, it's always a good idea to be proactive about how you'll spend it instead of letting it just blow through your checking account.

Below, we've listed some dos and don'ts to consider when deciding how to spend your tax refund.

## **DO: PAY DOWN DEBT**

You probably don't want to see your entire refund go straight to a credit card bill, but you don't have to take the all-or-nothing approach. Consider earmarking 20% of your windfall toward paying down high-interest debt. You can adjust this number as you see fit, but you'll be doing yourself a favor by paying off a



large chunk at once. You'll save a ton on interest and you'll be finished with this debt a lot sooner than planned.

## **DON'T: LEND OUT YOUR REFUND MONEY**

Helping a friend or relative out of a tight spot is sweet, but lending all of your refund money is not the wisest move. You might not see that money for a while. If you do, it'll likely be repaid in small amounts instead of the large chunk of cash you have now, which severely limits what you can do with the money.

If a friend or relative is in desperate need of financial help, consider lending them a small portion of your refund. Also, be sure to agree on a repayment plan so you can have some assurance you will see that money again.

## **DO: START SAVING OR INVESTING**

If you've always been waiting until you have a substantial amount of cash in hand to start a savings account or an emergency fund, you've just run out of excuses! Take \$1,000

out of your refund and use it to start a savings account. You can automatically transfer money from your checking account to savings each month as a way of helping it grow, even if you can only afford as little as \$5-10. The headstart you're getting now, along with the small monthly contributions, will add up quickly.

If you're feeling super responsible and forward thinking, use this opportunity to start investing. The rewards will greatly outweigh any qualms you might feel about not spending this money. Say you receive an annual refund of \$2,800 and invest this money at 6% interest. If you continue investing this amount annually, you'll find yourself with approximately \$250,727 in 30 years' time.

Now that's making your refund work for you!

## **DON'T: INVEST IN A LOW-INTEREST ACCOUNT**

If you decide to sock away some or most of your refund money, don't be lazy about it. Keeping all of that cash in a low-interest savings account or an ordinary checking account with little to



no earning capability will dramatically decrease its growing power. If you're not sure where to invest or save your refund, call, click or stop by the credit union, where a member service representative will be happy to walk you through the options.

✓ **DO: INVEST IN YOURSELF**

It might sound trite, but you are your own most precious commodity. Advance your career and increase your earning

power by using your tax refund to pay for a work-related conference, additional training in your field or for learning an entirely new skill. Money invested in yourself is never wasted!

## **DON'T: BLOW IT ALL ON IMPULSE BUYS**

Don't spend your entire refund without planning or you'll be setting yourself up for disappointment later. You'll likely end up with nothing substantial and not more than two pennies of your refund money to rub together.

## **DO: REWARD YOURSELF**

While you don't want to blow it all, it's OK to celebrate on one or two major purchases you've been eyeing throughout the year. Now's the time to splurge on that pair of designer shoes you've been drooling over all season, or treat yourself to a night out at that expensive new restaurant in town.

## **DON'T: RECEIVE YOUR REFUND ON A GIFT CARD**

Gone are the days of Uncle Sam licking a stamp for every refund he sends. Today, you can choose to get your tax refund deposited directly into your checking account, and many tax software programs even offer you the opportunity to get the refund via gift card. While direct deposit is fine, if you're offered your refund on a gift card, opt out. You always stand the chance of losing the card. A gift card will also limit the ways you can spend your refund.

## **DO: DONATE TO CHARITABLE CAUSES**

For many people living paycheck-to-paycheck, donating to charity can take a back seat on the list of priorities. This might be a great time to break that habit. The bonus cash in your pocket gives you the opportunity to give back to your community in ways you might not be able to afford throughout the year. Plus, it gives you a head start on potential deductions for next year if you plan to itemize.

However you choose to spend your refund, consider all of the options carefully before making your decision and you won't have any regrets.



# ALL YOU NEED TO KNOW ABOUT TAX IDENTITY THEFT

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As you prepare to file your taxes, keep your guard up against tax scams, like tax identity theft. This prevalent scam involves a scammer using another taxpayer's Social Security number (SSN) to file a tax return in their name for claiming their refund. The scammer will often pose as an IRS representative to get the necessary information out of the victim.

## **HOW TO SPOT A TAX IDENTITY THEFT SCAM**

It's important to familiarize yourself with the way the IRS operates so you may better spot a tax identity theft scam. If you're contacted by an alleged IRS representative who is acting contrary to IRS protocol, you're likely looking at a scam.

## **THE IRS WILL NEVER:**

- Initiate contact by email
- Request personal or financial information via text or social media
- Call taxpayers with threats of lawsuits or arrests
- Call, email or text to request taxpayers' Identity Protection PINs
- Ask taxpayers to wire money, pay with a prepaid debit card or share credit card information over the phone

## **PROTECT YOURSELF**

Follow these rules to keep yourself safe from tax identity theft:

- Never share your SSN over the internet or with unverified callers.
- File your tax return as early as you can.
- If filing taxes electronically, use a secure internet connection.
- If filing taxes by mail, send your return directly from the post office.
- Before using a tax preparer, research their credentials thoroughly.



## IF YOU'RE A VICTIM

If you have reason to believe you've been targeted by a tax identity theft scam, be sure to take the proper steps for mitigating the damage to your finances. Visit [IdentityTheft.gov](https://www.identitytheft.gov) to report tax identity theft to the IRS and the FTC. The agencies will also give you a personal recovery plan so you can start repairing your finances immediately.



# BEWARE OF THE FAKE TAX FORM SCAM

Tax season means a paperwork blizzard. Often, someone loses a copy of an important document and needs it to be re-issued. Naturally, everyone's too busy to verify the authenticity of each request.



That's what scammers are counting on with a ploy targeting people who prepare tax forms. In this scheme, the scammer sends an email claiming to be a hired company or someone from the IRS requiring duplicate copies of W-2s. An overworked clerk, fearing noncompliance with the IRS, innocently sends the forms.

Using the personally identifiable information on these forms, fraudsters can open fake credit cards, apply for loans or file a fraudulent tax return in an attempt to grab a refund check.

## **IF YOU'RE TARGETED**

If you prepare W-2s, be on guard for these fake emails. Here's the sample text from one such message:

“ATTN: Due to some complains (sic) we had concerning the W-2 mismatch, We advice (sic) you to send your 2018 filled W-2 form in (PDF) format for confirmation.”

Note the abbreviations, the typographical errors and the poor punctuation. These should tell you this isn't the work of the IRS – the tax authority knows its grammar!

You may also get a similar message that appears to be from your boss. Watch for the same typos and confirm these requests in another message.

If someone really needs another copy, it's safest to mail it to them. It's also unlikely that someone will need copies of *all* W-2s. Be suspicious of any such request.

## **IF YOU'RE A VICTIM**

If your information has been unwittingly compromised, take these steps to minimize the possible fallout:

- Call one of the three major credit bureaus to request a fraud alert on your account. This will force anyone who wants to issue credit in your name to verify their identity.
- Order a copy of your credit report and review all the accounts open in your name. Review statements for the accounts

you have as well. If you see a suspicious account or charge anywhere, immediately close the account in question.

- File a complaint with the Federal Trade Commission (FTC) at [www.identitytheft.gov](http://www.identitytheft.gov).

It's worth filing your taxes early. If a thief tries to file a tax return using your information after you've already done so, the IRS will be alerted to the fraud.

