

Taxes

Filing for the first time

Taxes aren't as intimidating as you think, especially the first time around.

If you've never filed taxes, it can seem pretty intimidating. But it's really not as bad as you think. Arm yourself with some basic information before reporting to Uncle Sam.

Learn the Language

Before you dive in, master some of the terms you need to read IRS documents:

- *Earned income* – Salaries, wages, tips and professional fees, including taxable scholarships and fellowship grants.
- *Unearned income* – Investment-type income like interest on your savings account, dividends and capital gains, as well as unemployment compensation.
- *Gross income* – All income you received in the form of money, goods, property and services that is not exempt from taxes.
- *Exemptions* – A predetermined amount of money you can deduct from your taxable income for basic living expenses. You, as an individual, may be an exemption, and dependent children (which you probably are to your parents) qualify as exemptions.
- *Standard deduction* – A set amount of money that the federal government gives you if you meet certain stipulations. It differs according to marital status.
- *Itemized deductions* – There are six main categories of expenses that can be deducted: medical and dental, taxes, interest, charitable contributions, and casualty and theft losses. Itemized deductions reduce the amount of tax you owe.
- *W-2 Forms* – Wage-income forms that you receive from employers in order to prepare your taxes.
- *Filing status* – Whether you are single, married or head of household. There are several sub-categories within each of these as well.

Choosing a Form

To file your taxes, you need to fill out one of three basic forms:

- **1040EZ:** The simplest tax form; consists of a single page. Requires a taxable income of less than \$50,000 and interest income of less than \$400. Restricted to singles and couples with no dependents. Cannot itemize deductions or deduct IRA contributions.
- **1040A:** A more complicated form, allows more flexibility in income sources (including pensions, IRA dividends and retirement benefits). Also requires a taxable income of less than \$50,000. Cannot itemize deductions but can deduct IRA contributions.

- **1040:** The most complicated form, sometimes called the “long” form; required if income is more than \$50,000. Can itemize deductions to adjust income.

For most students, the Form 1040EZ will suffice. If you’re not sure and want to include more sources of income and deductions, you can always file one of the more complicated forms. If you itemize your deductions, you’ll also have to complete Schedule A of your 1040.

Tax Withholding

Am I having enough withheld?

It is important that you properly estimate your tax withholding, because if you don’t it may cost you in a variety of ways. If you receive an income tax refund, it essentially means that you provided the IRS with an interest-free loan during the year. By comparison, if you owe taxes when you file your return, you may have to scramble for cash at tax time--and possibly owe interest and penalties to the IRS as well. Choosing the correct withholding amount for your salary or wages is a matter of completing Form W-4 worksheets, providing an updated Form W-4 when your circumstances change, and perhaps becoming familiar with IRS Publication 919, which deals with withholding.

When determining the correct withholding amount for your salary or wages, your objective should be to have just enough taxes withheld to prevent you from incurring penalties when your tax return is due. (You may owe some money at the time you file your return, but it shouldn’t be much.) You can accomplish this by reading and understanding IRS Publication 505 and 919, properly completing Form W-4 (and accompanying worksheets), and providing an updated Form W-4 to your employer when your circumstances change significantly.

Form W-4 helps you determine the proper withholding amount

Two factors determine the amount of income tax that your employer withholds from your regular pay: the amount you earn and the information you provide on Form W-4. This form asks you for three pieces of information:

1. The number of withholding allowances you want to claim: You can claim up to the maximum number you're entitled to, claim less than you're entitled to, or claim zero.
2. Whether you want taxes to be withheld at the single or married rate: The married status, which is associated with a lower withholding rate, should generally be selected only by those taxpayers who are married and file a joint return. Other people (including those who are married and file separately) should generally have taxes withheld at the higher, single rate.
3. The additional amount (if any) you want withheld from your paycheck: This is optional; you can specify any additional amount of money you want withheld.

Complete the worksheets to claim the correct number of allowances

To understand Form W-4, you must understand allowances. Think of allowances as cash in your pocket at the time that you receive your paycheck. The more allowances you claim, the less taxes are taken from your paycheck (and the more cash ends up in your pocket on payday). For example, you can maximize the amount withheld from your paycheck to ensure that you have enough tax withheld to cover your tax liability by claiming zero allowances. This will reduce the amount of cash you take home in your paycheck. The following factors determine your number of allowances:

1. The number of personal and dependency exemptions that you claim on your federal income tax return
2. The number of jobs that you work
3. The deductions, adjustments to income, and credits that you expect to take during the year
4. Your filing status
5. Whether your spouse works

To claim the correct number of allowances, you should complete Form W-4's worksheets. These include a personal allowances worksheet, a deductions and adjustments worksheet, and a two-earner/two-job worksheet. IRS Publication 505 (Tax Withholding and Estimated Tax) explains these worksheets.

When to Pay

The deadline for taxes is April 15 after the year for which taxes will be filed. "You can get an automatic four-month extension," Knapp says. "But this is not an extension for paying. It's only an extension to file. If you know you're going to owe taxes, you still have to pay by April 15.

How long should I keep copies of my tax returns? → Generally, you should keep your tax returns and supporting information (i.e., receipts, W-2 forms, bank statements) for six to seven years. The IRS has three years to audit a return, or two years after you have paid the tax, whichever is later. However, if income was underreported by at least 25 percent, the IRS can look back six years, and there is no time limit for fraudulent tax returns.

Getting Help

The IRS now has a 24-hour, 7-day toll-free number to help answer questions during the tax crunch period. The number is 1-800-829-1040. You can also call this number to get the location of the nearest IRS office. You can get free tax assistance at any IRS office. "It's probably a good idea to make an appointment," Knapp advises. He also encourages everyone to look for help online at www.irs.gov.

The IRS also has a few publications that can help you:

- IRS Publication 17: Your Federal Income Tax
- IRS Publication 970: Tax Benefits for Education

Learn the basics for how to file, and come next April, you can file your taxes with ease.

References:

<http://www.fastweb.com/student-life/articles/tax-101-the-basics-of-filing-for-the-first-time>

<http://www.360financialliteracy.org/Topics/Taxes/Save-Money-by-Planning-Year-Round/Am-I-having-enough-withheld>