

COMMON

X tax errors

TO AVOID

Our extended tax season is coming to a close, bringing a time of paperwork and preparation to millions of Americans who want to file an accurate return.¹

Navigating the U.S. tax system can be challenging. How you need to file depends on your income and filing status, as well as which tax deductions and credits you can claim. Your taxes are your responsibility, even if someone assists you in filing them.²

As you prepare your taxes, here are some common filing issues to avoid. Keep in mind that this white paper is for informational purposes only. It's not a replacement for real-life advice, so make sure to consult your tax, legal, and accounting professionals before modifying your strategy. Remember, tax rules are constantly changing, and there is no guarantee that the treatment of certain existing rules will remain the same.



Error 1 Overlooked Side Income

Taxpayers must claim any income they've received in a tax year. One area that some taxpayers overlook is claiming side money that is in addition to their normal salary. If you receive income from efforts outside your regular wages or self-employment, then you are obligated to report what you receive.

This money usually isn't reported on a 1099 or W-2 and can include income from the following sources (and more):³

- Activity that won't yield a profit, such as a hobby
- Barters for services or property
- Forgone interest from below-market loans
- Canceled debt, including discounts on mortgage loans
- Social Security benefits to spouses and dependents (subject to filing status and income)
- Unemployment compensation

But not all side money is considered taxable. If you receive a financial gift from someone, like a family member, you may not have to claim this money as taxable income.⁴



SOME REASONS FOR IRS tax penalties

- Not filing by the tax deadline
- Not paying owed taxes on time
- Not paying quarterly taxes, when needed
- Your bank doesn't honor your check or other form of payment

Source: IRS.gov, 2023

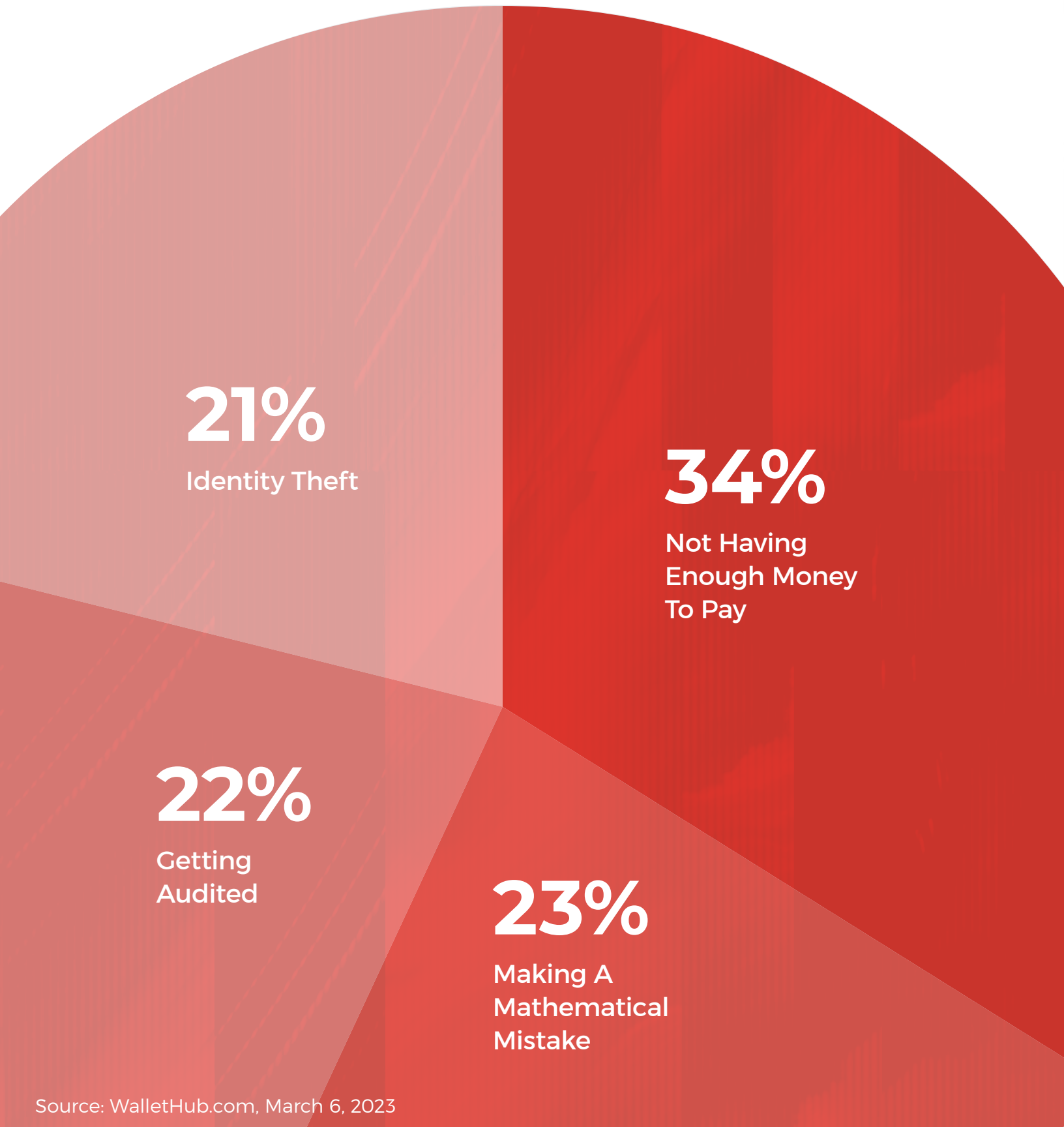
Error 2 Unrealized Tax Breaks

Tax breaks can help you manage the taxes you owe or change your liability, resulting in greater benefits for you. While deductions are one form of tax breaks, others include tax credits, exemptions, and certain tools designed to help you manage your tax burden.⁵

Here are some tax provisions worth keeping on your radar that could help you manage your taxable income:

- **Child and Dependent Care Tax Credit:** This credit allows you to claim childcare costs for children younger than 13. You can also claim expenses related to caring for a spouse or dependent who cannot physically or mentally care for themselves.⁶
- **Reinvested Dividends:** This tax break could help you save money by not double taxing dividends that you reinvested to buy more shares.⁷
- **Appreciated Stock Donations:** Donating stocks to nonprofits that you wish to support can financially help these organizations while potentially lowering your tax responsibilities.⁸

BIGGEST TAX DAY CONCERNS for Americans





Error 3 Wrong Filing Status

Your filing status can greatly impact your taxes because it defines your standard deduction and tax brackets. A common reason people choose an incorrect status is that their status has changed during the tax year. Before filing your taxes, be sure that you've updated your tax paperwork to reflect any changes to your filing status.

The five different tax filing statuses are:

- **Single:** Taxpayers who aren't married, are divorced, or are legally separated (as state law dictates).
- **Married Filing Jointly:** Taxpayers who are married and will file a combined joint return. Widow(er)s can typically file a joint return within the first tax year of losing their spouse.
- **Married Filing Separately:** Taxpayers who are married and choose to file separate tax returns, which may or may not decrease their tax liabilities.
- **Head of Household:** Taxpayers who are typically single and pay at least half of all home expenses for themselves and a qualified person.
- **Qualifying Widow(er) with a Dependent Child:** Taxpayers whose spouse has died within the past two years and who have a dependent child, assuming other qualifications are met.⁹

Changes to Filing Status

As your life changes, you can revise your filing status to match. However, if you're amending previous years' tax returns there are limitations. For example, if your status is married filing separately, you can amend your previous returns to be married filed jointly but not the other way around.¹⁰

Error 4

Incorrectly Claimed Dependents

As stated earlier, taxpayers can claim dependents for whom they are financially responsible during a tax year. The IRS defines a dependent as a “qualifying child” or “qualifying relative.” As part of the 2017 Tax Cuts and Jobs Act, taxpayers can no longer claim personal exemptions for each dependent, and they can miss out on other tax benefits by incorrectly claiming or forgetting a dependent. Be aware that if you have a blended family, in which you share children with another taxpayer, you could end up accidentally claiming children when only one parent would be able to do so.^{11,12}

Here are some tips to help you claim dependents:^{11,13}

- **Age Cap:** Dependents must be under the age of 19 (or, for full-time students, under the age of 24) at the end of the tax year.
- **Claims Cap:** Only one taxpayer at a time can typically claim a dependent.
- **Same Residence:** The claimed dependent must live with the taxpayer for more than six months of the same year.
- **Proof of Records:** Having school and medical records on hand will help prove that you live at the same address.

New Credit for Dependents

One available tax credit available is referred to as the Credit for Other Dependents. To claim this credit, taxpayers must support dependents who are either:

- Their children, aged 17 years or older (at the end of the tax year);
- Their parents; or
- Other qualifying relatives or unrelated people living with the taxpayer.

However, this credit is only for taxpayers not claiming dependents under the Child Tax Credit, so be sure to correctly file this detail.¹⁴

Error 5

Not Having Proof of Purchases

Your paperwork is crucial for filing taxes correctly and includes everything from your pay slips to receipts. Beyond helping you file taxes, your documents also serve as proof for the claims you make on your return. Should the IRS find any errors or choose to audit you, you’ll need these records to back up the numbers.

Here is a partial list of items to have on hand for verifying your financial records:¹⁵

- **Receipts:** You’ll need receipts to prove any tax breaks you’re claiming, including transportation and any volunteer work.
- **Mileage:** Keep track of the miles you spend driving for things like volunteering, business meetings, or medical appointments. You’ll also want to document any parking fees, bus or taxi fares, and tolls that you pay for these efforts.
- **Documents on Life Events:** Store important documents relating to any life events you’re including in your tax claims, such as:
 - Adoption
 - Child custody arrangement
 - Divorce
 - Marriage
 - Spousal death
- **Medical Records for Home Improvements:** If you renovate your home for medical reasons, such as by installing a wheelchair ramp, be sure to keep any relevant medical and expense records.

The suggested timeframe for storing your records will vary depending on your individual situation. The IRS recommends that you keep your records for three years from the date you filed your original return or two years from the date you paid the tax, whichever is later, if you file a claim for a credit or refund after you file your return. If you file a claim for a loss from worthless securities or bad debt deduction, the IRS recommends you keep your records for seven years.¹⁶

Error 6 Not Accounting for Income Changes

Your or your family's income is the key determinant of how much you'll pay in federal taxes. The IRS will tax you at a rate depending on the total you report.

Here are the income brackets for the 2023 tax year:¹⁷

2023 rate	single filers	married filed jointly
10%	\$0 – \$11,000	\$0 – \$22,000
12%	\$11,001 – \$44,725	\$22,001 – \$89,450
22%	\$44,726 – \$95,375	\$89,451 – \$190,750
24%	\$95,376 – \$182,100	\$190,751 – \$364,200
32%	\$182,101 – \$231,250	\$364,201 – \$462,500
35%	\$231,251 – \$578,125	\$462,501 – \$693,750
37%	\$578,126+	\$693,751+

To know your tax bracket, it helps to do some calculations before you file. You'll need to identify your taxable income by:¹⁸

1. Adding together your earned and investment incomes.
2. Subtracting from that total any adjustments or deductions.

In Conclusion

Filing your taxes can be a complex responsibility, and accidental errors can be easy to make. By being diligent, carefully strategizing, and keeping tight records, you can improve your ability to file taxes without mistakes. Even if you're choosing to work with a tax professional, you are responsible for making sure you correctly file your financial details.

Remember, if you have any questions about your financial life, we're here to help you navigate this complicated landscape. We always welcome collaborating with your tax professionals to align the strategies you take across your financial priorities.

Endnotes & Disclosures

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