



Learn 8 Steps to Take Before You Prepare Your Taxes

Description

According to the Internal Revenue Service, about 85 million individuals pay specialists to prepare and file their tax returns (IRS). If you are one of them, it is critical that you arrange your receipts, forms, and other documentation well in advance of tax season.



Your preparer may collect information directly from you or request that you fill out a questionnaire. In either case, a little planning ahead of time will help you go through the procedure swiftly and easily. Even if you do your own taxes, the methods outlined here will assist you in becoming organized.

1. Select a Tax Preparer

If you don't already have a tax preparer, contact friends and consultants (such as an attorney you know) for recommendations. Make certain that the person you select has a preparer tax identity number (PTIN), indicating that they are permitted to file federal income tax returns.

Make careful to ask how much they charge in fees. Of course, this is dependent on the complexity of your return. Avoid selecting a company that takes a cut of your refund. The IRS website includes advice on selecting a preparation as well as a link to the IRS directory of preparers, where you can

search by credentials and location.

2. Make an Appointment

Even if you decide to file for an extension, the sooner you meet with your preparer, the sooner you should be able to complete your return. If you expect a refund, you'll get it sooner as well.

If you wait too long to book an appointment with a tax preparer, you may miss the deadline. That means you may lose out on tax-saving opportunities, such as making deductible contributions to an individual retirement account (IRA) or a health savings account (HSA).

3. Collect Your Documents

By the end of January, you should have received all of the tax documentation you require from your employer or employers, as well as banks, brokerage firms, and others with whom you do business. Check that the information on each form corresponds to your own records.

The following are some of the most prevalent types:

- Form W-2 if you worked.
- The different 1099 forms that reflect additional income you received, such as dividends (Form 1099-DIV), interest (Form 1099-INT), and non-employee remuneration provided to independent contractors (Form 1099-INT) (Form 1099-MISC). Brokers aren't required to send out Form 1099-B, which details gains and losses on securities transactions, until mid-February, so they may arrive later.
- Form 1098, which is used to report any mortgage interest paid.
- Form W-2G if you won money at a casino.

4. Total Your Receipts

The receipts you'll need to supply may vary depending on whether you itemize or take the standard deduction. You should choose whichever produces the larger write-off, but the only way to be certain is, to sum up, your itemized deductions and compare the total to your standard deduction.

For the 2022 tax year, the standard deduction is \$12,950 for single taxpayers and \$25,900 for married couples filing jointly. In 2023, these amounts will rise to \$13,850 for singles and \$27,700 for married couples filing jointly.

Look for receipts for medical expenses that are not covered by insurance or paid by another health plan (such as a flexible spending account (FSA) or an HSA), property taxes, and investment-related charges.

All of these are subject to limitations, but if they are significant enough, it may be worthwhile to itemize. If you itemize your deductions, you must also gather any charitable donation backup.

Donations of \$250 or more, for example, necessitate a formal acknowledgment from the charity specifying the amount of your gift and that you received nothing (other than perhaps a small item) in return. If you don't have such a letter, contact the charity and ask for one. More information on charitable deductions can be found in IRS Publication 1771.

If you have business income and costs to report on Schedule C, you must include your books and records, such as QuickBooks or another accounting system, expense receipts, and relevant bank and credit card statements.

5. Provide Your Contact Information

You most likely know your Social Security number (SSN), but do you know the SSN of each dependent you claim? You should write those down (in a safe location, of course), along with any other information your tax preparer may require.

Make a note of the addresses if you own a vacation house or rental property, for example. If you sold a property in the last year, keep track of the dates you bought and sold it, the price you paid for it, and the money you earned from the sale.

6. Determine Whether to Request an Extension

If you need extra time to accomplish all of these tasks, you can file your tax return on October 15th and request an extension. To avoid fines and interest, you must still estimate how much tax you owe and pay it by the standard April deadline.

7. Be Prepared for Any Refund

If you anticipate receiving a tax return, you have numerous options regarding how to handle it.

- You can apply some or all of your refund toward your taxes for the next year. If you normally pay anticipated taxes throughout the year, you may be able to cover the initial quarterly installment.
- The government can either mail you a paper check or deposit your refund straight into your checking or savings account.
- You can put some or all of your return into specific accounts (IRAs, health savings accounts, education savings accounts), or you can use it to buy U.S. savings bonds through TreasuryDirect.

By completing Form 8888, you can also divide your refund among the direct deposit options. You must inform your tax preparer of your intentions so that they can include it on your return.

8. Locate a copy of last year's tax return

If you hire the same preparer as last year, they will most likely have your past data. If you utilize a new preparer, last year's return can serve as a reminder to the preparer—and to you—of key items to avoid overlooking. Here are a couple of such examples:

- **Dividends and interest:** Your previous year's return should have indicated which banks, mutual funds, and other financial organizations sent you 1099 forms. Make use of that list to ensure that you get 1099s from them again this year (unless you closed those accounts or sold the investments in the meantime).
- **Charitable deductions:** Even if you did not receive any acknowledgment from the organization, you could still deduct your contributions provided you have a receipt, canceled check, or other documentation.

Examine the list of organizations to which you donated last year to see if you made similar contributions this year. The list can also help you remember to donate to organizations you typically support this year.

When Is the Tax Return Filing Deadline?

Income tax returns are typically due on April 15 of the year after the tax year. However, because Monday, April 17, is a holiday (Emancipation Day) in Washington, D.C., and Patriot's Day in Maine and Massachusetts, taxpayers have until Tuesday, April 18, 2023, to file their 2022 tax return.

In non-holiday conditions, the IRS may also extend the filing date. For example, due to "exceptional circumstances relating to the pandemic," the deadline for filing 2020 tax returns was pushed up from April 15 to May 17, 2021. This extension also pushed the tax payment deadline to May 17, 2021.

What Is the Cost of Tax Preparation?

According to a National Society of Accountants poll, the average cost for tax preparation using Form 1040 in 2020 was \$220 when the standard deduction was utilized and \$323 when deductions were itemized.

How Do I Submit an Extension Request to the IRS?

Every year, income tax returns are due on or around April 15th. If you are unable to file on time, you may request an automatic six-month extension using Form 4868.27. Remember that the extension only applies to filing your tax return, not paying any taxes that you may owe.

You must pay your taxes before the customary filing time to avoid fines and interest (usually April 15, but April 18, 2023, for the tax year 2022).

In conclusion

Whether you do your own taxes or hire someone to do them for you, organizing your documents ahead of time will save you time and, in the case of a professional preparer, money. The earlier you begin, the smoother the procedure should be, and the sooner you'll be able to put the process behind you for another year. Visit the IRS's own list of "actions you can take now to make tax filing easier in 2023" for additional information.

Category

1. Finance

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