

TIPS (Tax in Practical Sense)

Adjusting Withholding Allowances

If you are paying taxes every year, consider lowering your number of allowances on Form W-4 and/or add an additional withholding amount. Your monthly income tax deduction will be higher, but any excess amount withheld will be refunded when you file your return. This spares you from the stress of paying extra dollars during filing season.

Retirement Loan or Distribution?

If your age is under 59 ½ and you plan on getting a distribution from your retirement, think thrice! Many taxpayers fall prey to this big mistake. Early retirement distribution is subject to income tax plus a 10 percent early withdrawal tax, unless an exception applies. The best option is to get a loan from your retirement account. Seek advice from your retirement specialist before taking an early distribution or withdrawal.

IRS Letter or Phone Call

Be smarter than a scammer. If you receive an “IRS letter” or a “phone

call” claiming to be from the IRS demanding payment, show the letter to your tax professional and ask for advice before taking action. Avoid further stress and trouble by not sending money right away.

Preparing Early

An early return returns an early refund. Tax preparation does not start when you file your return; it starts at the end of your current tax year (calendar or fiscal). Organizing your receipts and records on a regular basis will save you from rushing and will give you ample time to ensure an accurate return.

Be prepared and enjoy a stress-free tax season!



About the Author:

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PREPARING FOR TAX SEASON

By Maricel P. Felarca, CAP-OM, EA

April is just around the corner and one word automatically comes to mind—taxes!

There are two classifications of taxpayers, the “United States Persons” (residents, citizens, domestic entities) and the “Foreign Persons” (non-resident aliens, foreign entities). For the purpose of this article, I classified these types further into three categories—those who are happy because they are getting a refund, those who are unhappy because they are paying, and those who are stressed in gathering and organizing their tax documents.

Tax filing season can be a stressful time to taxpayers especially to those who are unprepared and who have complicated returns. The good news is, there is a solution that will make tax filing hassle-free, even for those with the following concerns that contribute to their stress:

Fees

I was new in the United States, knew nothing about taxes, and I was told that tax preparation fees are expensive. Hence, I decided to prepare my own return. For the sake of avoiding expensive fees, I endured the pain of reading the Form 1040 instructions from cover to cover and tried to understand them. I went through the same process for years—reading the instructions and doing my own return manually.

Looking back, I wish I would have known better. It was too late when I realized that I had been missing

some credits and could have gotten maximum refunds if I sought the services of a reputable tax preparer. Unfortunately, to claim a refund, I can only file 1040X within three years from the date my original return was filed or within two years from the date I



Stewardship is a total lifestyle. It involves our health, time, talents, environment, relationships, spirituality, and finances.

paid the tax, whichever is later. Beyond that, I can amend my return, but am no longer entitled for a refund.

Saving or Losing?

Apparently, I did my own return because I wanted to save from tax preparation fees. I would not have complained about paying a couple hundred dollars if I could have gotten a thousand dollars or more in additional refunds. My intention was good, but because doing taxes was not my *cup of tea*, I actually ended up losing rather than saving.

The next time you want to save,



weigh the pros and cons. Consider the time, the stress, and the possible additional refunds you're missing. If you believe that preparing your own return is worth all the hassles and saves you more money than if you paid a tax preparer, then go for it!

Trust

Besides the fees and the intent to save, trust was one of the reasons why I did not get someone to do my returns. How would I know if I was getting a reliable preparer who charges the right amount?

We work, deal, and do business with people we know and trust. This is ideal, but can become a potential problem if we choose our unlicensed friend who we know over the licensed stranger who we do not know. Do not be afraid to try a new preparer—but first do your homework.

Should I use a tax preparer or not?

If you have a simple and straight return, you are probably fine doing it yourself. However, certain life situations can affect your taxes. You might want to consider getting a tax professional in these and other circumstances—buying or selling a house, getting married or divorced, welcoming a new member of the family, kids going to college, etc.

The IRS lists 10 things to remember when choosing a tax preparer.

1. **Preparer's Qualifications** – use the IRS Directory of Federal Tax Return

Preparers on irs.gov. <https://irs.treasury.gov/rpo/rpo.jsf>

2. **Preparer's History** – verify the license status of your credentialed preparer.
 - **CPA** – check with State Board of Accountancy
 - **Attorneys** – check with the State Bar Association
 - **Enrolled Agents** – check irs.gov and search for “verify enrolled agent status”
3. **Service Fees** – do not use preparers who promise bigger refunds and charge fees based on a percentage of your refund. Be sure your refund goes directly to you.
4. **IRS E-file** – choose a preparer who offers IRS e-file.
5. **Availability** – avoid fly-by-night preparers. Work with those who are available to answer your questions all year round.
6. **Records and Receipts** – good preparers will check your records and receipts, and ask

questions to figure your total income, tax deductions, credits, etc. Do not use a preparer who e-files using your last pay stub instead of your Form W-2. This is against IRS e-file rules.

7. **Blank Return** – avoid tax preparers who ask taxpayers to sign a blank tax form.
8. **Reviewing Before Signing** – review, ask questions, and verify the accuracy of the return before signing.
9. **Preparer's Signature and PTIN** – by law, paid preparers must sign returns and include their Preparer Tax identification Number or PTIN. Get a copy of your return.
10. **Report Abusive Tax Preparers to the IRS** – use Form 14157 to report abusive tax preparers and suspected tax fraud to the IRS. If you suspect a return preparer filed or changed the return without your consent, file Form 14157-A.

Source: <https://www.irs.gov/uac/choose-your-tax-preparer-wisely>