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2020 Tax Filing Tips

2020 Tax Filing Season has arrived; are you ready? The Internal Revenue Service (IRS) has announced that tax season will open on Monday, January 27, 2020. The IRS will begin accepting paper and electronic tax returns that day.

The due date for 2019 federal income tax returns is April 15, 2020, for most individual taxpayers (sorry, it's a Wednesday so there's no extra time this year). As usual, business tax returns are due not later than March 15, 2020. The IRS expects to process more than 150 million individual tax returns, with most of the returns filed before the April due date.

You have by now starting receiving documents needed to settle up your 2019 tax return with Internal Revenue Service. It's important that you, the tax payer (John Q. Public), take advantage of available tax benefits throughout the year.

Getting organized should be your #1 priority. It's recommended that you use a large envelope or a file folder, where you can accumulate tax information as you receive it. This process will help prepare you for when it's time to file.

Tips

Adjust your withholding

It goes without saying that a refund generally results from an overpayment. Don't wait until year end to consider changing the taxes withheld if you are expecting a large refund. This is essential if you are claiming the earned income tax credit, or EITC, or the additional child tax credit. Why? The IRS is now required by law to hold all refunds on those returns until Feb. 15. The new law was put into place to allow the agency additional time to detect and prevent tax fraud.

It’s a personal choice, according to IRS Commissioner; “if you want to have extra money withheld to get bigger tax refund, but you have options available if you prefer to have a smaller refund next year and more take-home money now.” To achieve this, simply complete Form W-4, Employee’s Withholding Allowance Certificate, to adjust the amount of taxes withheld and submit it to your employer.

Protect your identity

In respect to tax fraud, if you received an Identity Protection PIN, or IP PIN, in the past, then you must provide this number on your tax return not only this year but on all future tax returns. An IP PIN is a six digit number assigned to eligible taxpayers that helps prevent fraudulent returns from being filed under your Social Security number. Remember, the IP PIN is your friend in getting the IRS to accept your tax return. However, this is no ordinary IP PIN, as it changes every year. If you do not receive the notification in the mail, you can obtain one by visiting IRS.gov

Get what’s yours

Lower your tax liability by taking as many credits and deductibles that are allowable. A tax credit is a dollar-for-dollar reduction in your actual tax bill. A few credits are refundable, which means if you owe $250 in taxes but qualify for a $1,000 credit, you’ll get a check for the difference of $750. (Most tax credits, however, aren’t refundable.)

As the simplified example in the table shows, a tax credit can make a much bigger dent in your tax bill than a tax deduction.

	Would you rather have:	
	A $10,000 tax deduction…	*…or a $10,000 tax credit?*
Your AGI	$100,000	$100,000
Less: tax deduction	($10,000)	
Taxable income	$90,000	$100,000
Tax rate*	25%	25%
Calculated tax	$22,500	$25,000
Less: tax credit		($10,000)
Your tax bill	**$22,500**	**$15,000**

How to claim tax deductions

Generally, there are two ways to claim tax deductions: Take the standard deduction or itemize deductions. You can’t do both.

The standard deduction

The standard deduction basically is a flat-dollar, no-questions-asked reduction in your AGI. The amount you qualify for depends on your filing status.

Filing status	**2019 tax year**	**2020 tax year**
Single	$12,200	$12,400
Married, filing jointly	$24,400	$24,800
Married, filing separately	$12,200	$12,400
Head of household	$18,350	$18,650

People over age 65 or who are blind get a bigger standard deduction.

Itemizing Deductions

Itemizing lets you cut your taxable income by taking any of the hundreds of available tax deductions you qualify for. The more you can deduct, the less you'll pay in taxes.

Should you itemize or take the standard deduction?

Here's what the choice boils down to:

- If your standard deduction is less than the sum of your itemized deductions, you probably should itemize and save money. Beware, however, that itemizing usually takes more time, requires more forms and you'll need to have proof that you're entitled to the deductions.
- If your standard deduction is more than the sum of your itemized deductions, it might be worth it to take the standard deduction (and the process is faster).

Note: The standard deduction went up significantly in 2018, so you might find that it's the better option for you now even if you've itemized in the past.

Your tax advisor can run your return both ways to see which method produces a lower tax bill.

There are hundreds of deductions and credits out there. Common tax credits include: child and dependent care tax credit, child tax credit, adoption credit, earned income tax credit, charitable donations deduction, student loan interest deduction, american opportunity tax credit, lifetime learning credit, medical expenses deduction , deduction for state and local taxes, mortgage interest deduction, gambling loss deduction, IRA contribution deduction, savers credit, health savings account contributions deduction, self-employment expenses deduction, home office deduction, educator expenses deduction and residential energy credit, etc.

Be smart and consult a competent Tax Advisor!

For More Information: Contact Us

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