

Top 10 Tax Mistakes That Cost People Money

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1. Filing with the Wrong Status

The Mistake:

Many taxpayers file as Single when they actually qualify for Head of Household, or don't understand when Married Filing Separately costs more than it saves.

Why It Matters:

Filing status directly affects your tax brackets, standard deduction amount, and eligibility for many tax credits. Head of Household typically offers better rates and a higher standard deduction than Single.

The Fix:

Review IRS Publication 501 to understand filing status rules. If you're unmarried and pay more than half the cost of keeping up a home for a qualifying person, you may qualify for Head of Household.

2. Missing Credits for Children and Dependents

The Mistake:

Not claiming the Child Tax Credit, Child and Dependent Care Credit, or education credits when eligible because documentation was missing or questions were misunderstood.

Why It Matters:

Tax credits reduce your tax dollar-for-dollar. The Child Tax Credit alone can be worth up to \$2,000 per qualifying child. The Earned Income Tax Credit (EITC) can be worth several thousand dollars for eligible lower-income workers.

The Fix:

Keep accurate records of all dependents' Social Security numbers, birth dates, and relationships. Understand the income and age limits for each credit. For childcare credits, maintain provider information including EIN or SSN.

3. Ignoring State and Local Tax Implications

The Mistake:

Not tracking state withholding, local income taxes, or the updated caps and rules for deducting state and local taxes (SALT), especially in high-tax states.

Why It Matters:

Each state has different tax rules, credits, and requirements. Moving between states mid-year creates filing obligations in multiple states. The SALT deduction is capped at \$10,000 for most taxpayers, but many don't track this properly.

The Fix:

Keep records of all state and local taxes paid. If you moved or worked in multiple states, understand the filing requirements for each. Consider whether itemizing gives you any benefit given the SALT cap.

4. Not Reporting All Income

The Mistake:

Forgetting a side gig, cash app income, tips, investment sales, or a stray 1099 form, which can trigger IRS notices and penalties.

Why It Matters:

The IRS receives copies of all W-2s and 1099 forms issued to you. When your return doesn't match their records, automated systems flag your return for review. Unreported income can result in penalties, interest, and even audits.

The Fix:

Keep a running log of all income sources throughout the year. Track cash payments, app payments (Venmo, PayPal, Cash App), and tips. Check your IRS online account in late February/early March to see what forms they've received in your name.

5. Poor Recordkeeping for Self-Employed Expenses

The Mistake:

Throwing away receipts, not tracking mileage, failing to document the business purpose of expenses, resulting in paying tax on income that could have been offset by legitimate deductions.

Why It Matters:

Self-employed taxpayers can deduct ordinary and necessary business expenses, but only if they can prove them. Without documentation, you lose deductions and pay more tax than necessary.

The Fix:

Open a separate business bank account immediately. Use mileage tracking apps for business travel. Take photos of receipts and store them digitally. Note the business purpose on each receipt. Review and update your expense records monthly, not annually.

6. Withholding and Estimated Tax Errors

The Mistake:

Having the wrong amount withheld from paychecks or skipping estimated tax payments for self-employment income, causing surprise balances and underpayment penalties at filing time.

Why It Matters:

The U.S. tax system is "pay as you go." If you don't have enough withheld or don't make quarterly estimates, you can face penalties and a large April tax bill. Self-employment income has no automatic withholding, making this especially common for gig workers.

The Fix:

Review and update your W-4 whenever you have a major life change (marriage, divorce, child, second job). If you're self-employed and expect to owe at least \$1,000, make quarterly estimated payments in April, June, September, and January.

7. Missing Retirement and HSA Opportunities

The Mistake:

Failing to contribute to IRAs, workplace retirement plans, or Health Savings Accounts (HSAs) when eligible, missing opportunities to both lower current taxes and build long-term wealth.

Why It Matters:

Traditional IRA and workplace plan contributions can reduce your taxable income today. HSA contributions are triple tax-advantaged (deductible, grow tax-free, and withdrawals for medical expenses are tax-free). These are some of the best tax reduction strategies available.

The Fix:

Maximize contributions to employer plans, especially if there's a match (free money). Consider IRA contributions up to the deadline (usually April 15 of the following year). If you have a high-deductible health plan, contribute to an HSA. Self-employed? Look into SEP-IRAs or solo 401(k)s.

8. Not Planning for Life Changes

The Mistake:

Going through divorce, marriage, having a child, or moving without any tax planning, often leading to lost benefits, unexpected tax balances, or missed filing requirements.

Why It Matters:

Life changes affect filing status, dependent claims, deduction eligibility, state tax obligations, and withholding needs. Failing to adjust can mean you overpay or underpay throughout the year.

The Fix:

Update your W-4 immediately after any major life event. Review which parent claims dependents after divorce or separation. Understand your state tax obligations if you move. Consider meeting with a tax professional during the year of major changes, not just at tax time.

9. Filing Late or Not at All

The Mistake:

Missing the tax filing deadline or not filing at all because of fear, confusion, or procrastination, creating penalties and interest that are often worse than the original tax owed.

Why It Matters:

The failure-to-file penalty is typically 5% of unpaid taxes per month, up to 25%. The failure-to-pay penalty is 0.5% per month. Interest compounds. Even if you can't pay, filing on time (or requesting an extension) significantly reduces penalties.

The Fix:

File on time even if you can't pay the full amount—you can set up a payment plan with the IRS. If you need more time to prepare, file Form 4868 by April 15 for an automatic 6-month extension to file (but not to pay). If you haven't filed in prior years, start now—the IRS has programs to help people get current.

10. Doing Everything Alone When Your Situation Is Complex

The Mistake:

Trying to handle business ownership, rental properties, multi-state returns, or major financial transactions alone using consumer software, often resulting in costly mistakes or missed planning opportunities.

Why It Matters:

Complex situations require knowledge of specific rules, credits, deductions, and planning strategies that go beyond basic tax preparation. A qualified professional can often save you far more than their fee through strategic planning, proper deductions, and avoiding errors.

The Fix:

Know when to get help. If you have self-employment income over \$50,000, own rental properties, operate in multiple states, have significant investments or crypto, are going through divorce, or sold a business or property, consider working with a CPA, EA, or tax attorney. Professional guidance often pays for itself many times over.

Use This as Your Self-Check

Before you file, review this list and ask yourself:

- ✓ Am I using the correct filing status?
- ✓ Have I claimed all eligible credits and dependents?
- ✓ Did I report all income from every source?
- ✓ Do I have documentation for all my deductions?
- ✓ Is my withholding or estimated tax strategy working?
- ✓ Have I considered retirement and HSA contributions?
- ✓ Did I adjust for any major life changes this year?
- ✓ Am I filing on time?
- ✓ Is my situation complex enough to need professional help?

Write down any questions to bring to the workshop or to your tax professional.

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