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Consumer Advice Section

Take the Torment out of Tax Time

Six Tips for Worry-Free Filing

If you're like most people, you look forward to doing your taxes like you long for a paper cut. Your annual reunion with old Uncle Sam may never be a party, but there are ways to make it less painful. A little education and preparation can go a long way to easing the process and saving money on this year's tax bill.

Here are six tips to set you off on the right foot.

Start early

When it comes to taxes, procrastination is your worst enemy. Like waiting to cram for a big test until the night before, frantically filling out tax forms on April 14 can lead to serious mistakes and missed opportunities for savings. Getting a head-start lets you approach the process calmly and take the time you need to do it right. A cool head can earn you some cold hard cash in the form of a bigger refund.

Give yourself a break

You can still calculate your taxes the old-fashioned way, with paper forms and a number 2 pencil. But why would you? For the vast majority of individuals, basic software such as TurboTax® or TaxCut® costs around \$30 and can shave hours off your prep time.

For more complicated tax returns, calling a Certified Public Accountant or using a brand-name tax service such as H&R Block or Jackson Hewitt might be a worthwhile investment. If the pros uncover valuable deductions or prevent costly errors, the service can easily pay for itself.

Pick up the paper trail

Whether you go it alone or call the pros, you'll need to get organized beforehand. Gathering all the required records in advance is far more efficient than tracking down each figure on an as-needed basis. It can also save money if you're paying a professional by the hour.

All the federal publications and worksheets you'll need are available through the IRS web site, and most state-specific forms can be found at your state government's site. You'll also need last year's tax forms on hand, plus this year's W-2 statements, records of any investment transactions, and receipts for deductible expenses.

Beyond making your filing process easier, keeping the right information handy can help you sail through an audit if the IRS should come knocking.

Choose the right path

Deductions lower your taxable income and reduce what you owe the IRS. When you file a tax return, you have two options for taking deductions: standard or itemized.

The standard deduction is the fast and easy way. You take one overall deduction, an average amount determined by the IRS, and skip the hassle of tallying deductions one by one. With the standard deduction, however, there's a chance you could be leaving money on the table.

Itemizing your deductions, which entails writing off eligible expenses such as mortgage interest and state income tax, takes more time but could cut your federal tax bill further. Your best bet is to calculate your savings using both methods, and file the one that benefits you most. Not everyone is eligible to itemize deductions, so check the IRS requirements first.

Claim what's yours

If you choose to itemize your deductions, allow extra time for some detective work. You could qualify for tax breaks you never expected. For example, if you sold off a losing investment, donated to charity, or paid interest on a student loan, you might be able to take back a few extra bucks.

Tax credits, which are dollar-for-dollar reductions to your tax bill, are even more valuable than deductions. You might qualify for a credit if you bought a home in early 2010, contributed to a retirement plan, paid for childcare with after-tax dollars, or made energy-saving improvements to your house. Your tax software or accountant can help you find out which credits you can claim.

Learn from the experience

If you've taken advantage of every tax break you're entitled to and you still owe the IRS, take it as a lesson. First, come up with a responsible plan to pay the bill without racking up credit card debt. Dip into your emergency fund or, if necessary, explore options to pay the IRS in installments. Next, rethink your tax strategy for the current year; chances are you need to raise your withholdings to pay more tax with every paycheck.

Getting a huge tax refund isn't necessarily a reason to celebrate either. It means you've been overpaying your taxes and, essentially, providing the government with an interest-free loan. Consider lowering your withholdings for the current year, with a goal of getting a small refund on your next tax return.

With smart tax decisions all year long, you can make the most of your money and lay the building blocks for lifelong financial security.