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THE REGISTER CITIZEN

MARKET MATTERS: When do you need a professional?

By Russell L. Abrahms
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Photo: Contributed Photo; Russell L. Abrahms

Try fixing your kitchen faucet yourself, until you realize you’ve spent hours and it still leaks. Or finishing your basement, and then realizing you forgot to leave space for a door.

There are some things best left to professionals.

While you certainly can do your taxes yourself or through do-it-yourself tax software, there are times when that’s not smart. More and more people with complicated situations and businesses are using do-it-yourself tax software to prepare their taxes, and many are having disastrous results.

Every year, professional tax preparers see the downside of doing-it-yourself. Often, taxpayers miss out on saving thousands of dollars. Other times, they'll owe penalties. Or, they'll face an IRS audit.

One common mistake people make is duplicating deductions, because a question was asked by software multiple times. This may have saved you money upon filing, but when the IRS catches up with the mistake, you'll owe money, including penalties.

Another mistake that often occurs is that tax filers will omit income because questions weren't clear. They also fail to compare multi-year tax returns, which could have uncovered errors and omissions.

People forget to enter investment gains and losses, but they end up being audited by the IRS after federal document matching identifies errors. The IRS document matching program is designed to detect people who under-report or don't report income.

Erroneously reporting realized gains/losses within self-managed retirement investment accounts is another error that causes problems for taxpayers, and consequences with the IRS.

Sometimes taxpayers are utterly shocked when the tax software company will not stand by its products. They're also surprised the software company will limit reimbursements to only the cost of the software.

If you've downloaded the software, and are having trouble even understanding the questions the system is asking as you begin to file, it's a good idea to idea to seek help.

Realize that tax software will not highlight potential errors in year-end W-2s, 1099s and investment statements. The software will not help determine whether multiple states will seek to tax the reported income. It also will not discuss how to find reasonable cause penalty waivers that frequently are provided by government agencies.

Sometimes, do-it-yourself tax filers lose out because they don't weigh alternatives, and they miss the opportunity to use IRAs, SEPs, HSAs and other options to reduce tax liability.

People also commonly lose out when they inaccurately calculate deductions and credits. Deductions, like charitable donations, can reduce your taxable income, and tax credits directly lower the amount of taxes owed.

Realize, too, that the tax code changes every year. In 2017, Congress made the largest overall changes in 30 years — creating countless opportunities for errors.

The list of mistakes that can occur is endless. Consider carefully whether you want to risk it.

Just like botching your home renovations will cost you more in the long run, the same goes for filing your taxes — only you don't want the tax man after you.

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