GOOF PROOF YOUR TAX RETURN

Avoid these common errors for a stress-free April 15. BY KAREN J. BANNAN

All it took was a single hyphen, and for a few days I ceased to exist, at least to the IRS. Here's what happened: When I got married I kept my birth name—Bannan—using it every year on our tax return. Everything was fine until our new accountant hyphenated Bannan with my husband's last name on our 2005 tax return. The baffled IRS computer spit back a letter: "Who is this person, Bannan-Stealey?"

The fix was easy; I mailed in a form. Still, the mistake made me one of 3 million people whose returns were flagged by the IRS for errors in the first half of last year. Nobody wants to deal with IRS hassles—including a refund that doesn't arrive or the dreaded audit. So we asked the tax pros about six big tax mistakes and how you can avoid them.

MISTAKE #1

Taking a deduction for a charity that doesn't qualify.

Why it happens: A kid comes to the door wanting a donation for a school event, or a charity sends a fund-raising letter, and you hand over a check, assuming you can deduct it. Not so fast, says Tanya Marcum, assistant professor in the department of finance and law at Central Michigan University in Mount Pleasant. You can't write off a donation unless the IRS says the charity is eligible.

How to avoid it: Ask potential recipients if they fall under the IRS guidelines. Or check the organization's Web site. And always get a receipt when you make a donation.

MISTAKE #2

You write off paying your teenager for taking care of your nine-year-old.

Why it happens: While you're allowed to deduct up to $3,000 for child care this year, that doesn't apply to just anyone you hire.

How to avoid it: Your caregiver can't be another dependent or a spouse. A child over 19 whom you don't claim as a dependent is eligible, however.

MISTAKE #3

Miscalculating the amount of last year's overpayment, which you put toward this year's estimated taxes.

Why it happens: Say you thought you were getting a $500 refund, which you applied to this year's taxes. If the IRS decides you were actually due only $400, and you forget to adjust your numbers, you could be fined as much as 7 percent of the taxes you owed but didn't pay, says Alan Kirzner, a partner in a Coral Gables, Florida, accounting firm.

How to avoid it: The IRS will send you a notice about the adjustment. Hold on to it, and change your estimated taxes accordingly. You can also confirm how much you paid by calling your local IRS office. Go to irs.gov/localcontacts for the phone number.

RETURN TO: SENDER
$73 MILLION IN REFUNDS AREN'T RECEIVED DUE TO ADDRESS MISTAKES BY TAXPAYERS

MISTAKE #4

You omit part of your reported income.

Why it happens: You switched jobs during the year, your company changed names or accounting firms, or you moved and didn't receive all your W-2s.

How to avoid it: Review your calendar to remind yourself of extra earnings, says Kathy Burlison, director of tax implementation for H&R Block in Kansas City, Missouri. Did you have a summer or holiday job? Did you do a freelance project? You need a W-2 or 1099 for it. Also, check your bank statement for deposits that don't have matching documentation. While freelancers may not receive a 1099 for a job paying less than $600, they still must report the income.

MISTAKE #5

Overpaying capital gains taxes.

Why it happens: The tax laws recently changed. Before, you could pay as much as 39.6 percent when you sold an asset. Now, if you hold it for more than a year, you could pay 15 percent or even less. (It's 5 percent for those at or below the 15 percent tax bracket.) There's also a deduction for those selling foreign mutual funds.

How to avoid it: Keep meticulous records when you purchase and sell assets. Also, if you've sold foreign mutual funds, you can deduct the foreign tax you paid, advises Eric Tyson, the co-author of *Taxes 2006 for Dummies* (Wiley).

MISTAKE #6

You claim your child as a dependent and your ex—or his mother—does too.

Why it happens: As more of us are living in multigenerational households or in single-parent families, the question of who gets dependent write-offs becomes fuzzier. The problem is, the IRS allows only one exemption per Social Security number and rejects any other returns claiming the same dependent.

How to avoid it: Anyone who might qualify for taking a dependent deduction—usually someone who can say a child has lived in his or her home for more than six months of the year—should enter the deduction to test it as they're preparing their taxes. Then whoever gets the biggest benefit from it should take it. Just make sure everyone else remembers not to. ■

SMART MOVES

- **E-mail your return.** The electronic error rate last year was tiny compared to the one for paper returns; tax software and the IRS system cue you to correct mistakes before the return is filed.
- **Make a correction.** You have until three years after filing to amend your return yourself. Just fix the part you got wrong with Form 1040X, available at the post office, the library or irs.gov.
- **Use a tax preparer.** They made three times fewer mistakes than individual taxpayers did on paper returns, half as many electronically.

SIMPLE WAYS TO AVOID ERRORS

These may seem like no-brainers, but they're actually some of the most common mistakes the IRS sees.

MAKE SURE YOU:

- ✓ Use the peel-off name and address label that came with your forms
- ✓ Double-check all math calculations
- ✓ Sign and date your return—both you and your spouse
- ✓ Attach supporting documentation, including W-2s and 1099s
- ✓ Enclose a signed, dated check if you owe taxes
- ✓ Check only one filing status
- ✓ Match everyone's name and Social Security number against the data on his or her Social Security card
- ✓ Use the correct tax tables in your filing instructions
- ✓ Affix correct postage

"Return to Sender" information refers to 2004 taxes and was provided by the IRS.