

Avoid most common errors on Form 1040

Each year, there are somewhat predictable trouble spots on federal income tax forms, according to the Internal Revenue Service, areas where large numbers of taxpayers make incorrect entries and thereby slow the processing of their tax forms.

These trouble spots fall into two broad categories: items that recur each year but require a certain amount of care and attention to detail, such as being careful to select the correct figure from the tax tables; and changes to the form resulting from changes in tax laws one year to the next, such as the addition of a new line to a form or movement of an existing line to a new position on the form.

Not surprisingly, the largest percentage of errors are made on Form 1040, the so-called long form. To assist filers of this form, IRS has compiled the following list of problem areas to double-check:

- 1. Medical Deductions.** Actually this item is not entered on Form 1040, but on a required Schedule A was redesigned last year, this item lead the list of last year's most common errors. Due to changes to the rules on medical deductions, IRS expects problems again this year. Be sure to check the new limitation on medical expenses.
- 2. Figure from Tax Table.** Because of the number of pages and figures involved, this item is always high on the list of most common errors. Double-check the figure from the tax table for your filing status and enter on line 38. Check the box for Tax Table.
- 3. Unemployment compensation.** Last year, perhaps due to the growth of the number of unemployed taxpayers and changes in

the tax law, this item moved into the list of most common errors. Double check your figures on the worksheet on page 11 of the tax instruction booklet, and make appropriate entries on lines 20a and 20b.

- 4. Child Care Credit.** Last year there was a trade-off: computations for this tax credit became more complicated, but many taxpayers were entitled to a larger credit. Read your instructions carefully and double-check your computations on Form 2441, *Child and Disabled Dependent Care Credit*. Enter figure on line 45 and attach Form 2441.
- 5. Balance Due/Refund.** This important item usually makes the list of most common errors. If your total tax owed (line 56) is larger than your total tax payments made (line 64), enter the difference on line 68, Amount

You Owe. Follow the instructions for remitting payment. If the reverse is true, enter the difference on line 65. Overpaid. Enter on line 66. Refund, the portion of the line 65 overpayment that you want refunded to you.

- 6. Earned Income Credit (EIC) Not Claimed.** If you are a working parent and have living with you at least one child, and if your adjusted gross income (line 32) is less than \$10,000, you probably qualify. See page 16 of the instructions.
- 7. EIC Error or Not Qualified.** In order to qualify, you must have a dependent child living with you and you must have worked during the year, plus other limitations. Follow the instructions carefully and enter on line 59.
- 8. Dividends.** You must complete and attach Schedule B if you have \$400 or more in dividend
- 9. Income Computation.** This is a logical outgrowth of item 8, since the taxpayers who miscalculate their dividend income will end up with an error on line 22, total income. Double-check these figures.
- 10. Income Averaging.** Due to the number of tax years covered on the form, Schedule G, *Income Averaging*, is one of the most complicated and intimidating forms for individual filers. You must have copies of your returns for the preceding four years in order to accurately complete this form. Read and follow instructions carefully and double-check all figures.

Good Tax Records Equal Easier Return Preparation

Keeping accurate and complete tax records makes tax return preparation easier, the Internal Revenue Service advises.

You should keep the necessary records to prepare a complete and accurate income tax return. Generally, you should keep your records for as long as their contents may be material in administering any Internal Revenue law.

Records that support an item of income or a deduction should be kept until the statute of limitations for the return expires (generally three years from the date the return was due or filed, or two years from the

date the tax was paid, whichever occurs later).

Other records that concern income averaging or property transactions—purchase of a home, for example—should be kept for as long as they are material.

Copies of tax returns filed should be kept even after the cancelled checks, receipts and other records are disposed of, since they may be helpful in preparing future returns. You should keep them for at least three years to conform to the statute of limitations. If you are considering income averaging you will need your records for the past four years.

Additional information on maintaining records is contained in IRS Publication 552, *Recordkeeping for Individuals and a List of Tax Publications*, available free by using the mail-order form in your tax package.

A Five-Part Check For Dependency

Many people depend on each other. However, to claim a person as a dependent on the federal income tax return, certain specific require-

ments must be met. The following quiz should help you determine whether or not a person is your dependent.

- | | | | |
|--|--------------------------|--|--------------------------|
| | True | | False |
| 1. You furnished more than half the person's financial support during the year. | <input type="checkbox"/> | | <input type="checkbox"/> |
| 2. His or her income is less than \$1000 unless the person is your child or stepchild and under nineteen or a full-time student for at least 5 months of the year. | <input type="checkbox"/> | | <input type="checkbox"/> |
| 3. The person was a U.S. citizen, resident or national, or a resident of Canada or Mexico for some part of the year you wish to claim him or her. | <input type="checkbox"/> | | <input type="checkbox"/> |
| 4. The person is your child, stepchild, parent, stepparent, grandparent, grandchild, brother, sister, stepbrother, stepsister, in-law, or, if related by blood, your aunt, uncle, niece, or nephew. If the person is not one of the listed relatives, he or she was a member of your household and lived with you for the entire year. | <input type="checkbox"/> | | <input type="checkbox"/> |
| 5. If married, the person is not filing a joint return with his or her spouse OR neither the person or the person's spouse is required to file but they are filing a joint return only to claim a refund of tax withheld. | <input type="checkbox"/> | | <input type="checkbox"/> |

Correct Answers: TRUE for all five. If you checked TRUE for all statements you may claim the person as your dependent.

Note: There are special rules for children of divorced or separated parents and for persons supported by more than one taxpayer. Additional information can be found in the free IRS Publication 501, *Exemptions*. To obtain a copy of this handy reference, use the order form found in your tax package.

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Tax Assistance Offered

•Free income tax assistance is available through VITA (the Volunteer Income Tax Assistance program) sponsored by the Student Bar Association of the Wake Forest University School of Law. VITA assistance will be available at the Legal Aid Society, 216 W. Fourth Street, each Saturday from 10 a.m. to 2 p.m., Feb. 11 through March 3.

•Free service for senior citizens on income taxes will be held each Wednesday through April 11 from 1-4 p.m. at the Senior Center at 512 N. Trade Street. Senior citizens may also register to vote and change names, addresses and precincts. Ask for Ms. Yellock Truman. For more information, call 722-7399.

OLDER AMERICANS

There are exemptions and credits for you! Use the handy order form in your tax package to obtain free IRS Publication 554 for details.



A PUBLIC SERVICE MESSAGE FROM THE INTERNAL REVENUE SERVICE

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Eating out?

Do you pay frequent visits to a fast food restaurant? If so you are likely to be a young adult.

Researchers found that 18 to 24-year-olds eat in a fast food restaurant about 8 times a month. Those 50 and older stop by about 3 times a month, says Rachel Kinlaw, extension food specialist, North Carolina State University.

Not surprisingly, men pay more for a meal. Over half reported spending more than \$3 on their own meal, compared with 37 percent of women spending more than \$3 on their own food.

Hamburger fast-food restaurants had 47.6 percent of the total sales in 1982, followed by steak and full-menu restaurants at 21 percent. Pizza and chicken-style restaurants took 10.7 and 9.8 percent of the market.

Mexican food sales are hot. They registered the largest percentage gain in terms of sales -- up 22 percent. But they still had only 4.1 percent of the total sales, says the extension specialist.

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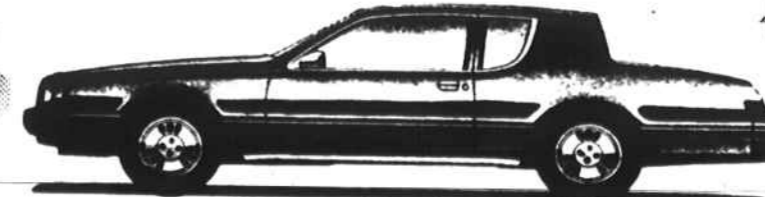


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