

GET A BIGGER TAX REFUND

SMART STRATEGIES TO MAKE SURE YOU COME OUT AHEAD ON APRIL 15. BY CYNTHIA HANSON

There's both good and bad news for Americans filing tax returns. More deductions and credits are available—but that means there are more laws to understand, rules to follow and forms to complete, as well as more opportunities to mess up. We asked the experts what you need to know.



5 mistakes TO AVOID

When you're rushing to complete your tax return, it's easy to overlook important things. Here are five common pitfalls:

1 **FILING A SLOPPY RETURN.** If you hand-write your return, the risk of making a mistake is much higher than if you file electronically. The three most common problems—math errors, wrong Social Security number, and failing to sign the return—slow your refund because the IRS has to contact you to fix the mistakes. Plus, a sloppy handwritten return is more likely to need corrections because the info cannot be easily deciphered and entered into the IRS system. But if you file electronically, the process is speeded up, says IRS spokeswoman Nancy Mathis, so you get your refund sooner. Go to irs.gov for more information.

3 **CHOOSING NOT TO ITEMIZE.** Some people assume, incorrectly, that they're audit-proof if they use the standard deduction rather than itemize; others don't want to put forth the effort, Munro says. But why pay extra? If your deductions add up to more than the standard deduction—\$10,300 for a married couple filing jointly; \$7,550 for a single parent with a dependent child; or \$5,150 for single taxpayers or married taxpayers filing separately—itemize.

4 **DECLARING A CHILD A DEPENDENT WHO ISN'T.** When the IRS detects the mistake, you'll get a smaller refund or a higher tax bill, because they'll recalculate your return. Plus, they may charge a penalty, based on the taxes owed and the reason for the error, along with interest on the unpaid tax. A full-time student up to age 24 is still considered a dependent; otherwise, the cut-off age is 18. In cases of divorce, the parent who has residential custody for more than six months of the year is the *only* one who can take the deduction.

2 **MAILING A PAPER RETURN WITHOUT GETTING A RECEIPT.** "The burden of proof that you sent your return rests with you," says Margaret Atkins Munro, coauthor of *Taxes 2007 for Dummies* (John Wiley & Sons). Send it "certified" so you have proof and can't be charged late fees or interest. Also be sure to make a copy of the return for your records.

5 **FAILING TO FILE BECAUSE YOU CAN'T PAY.** This can be costly. When the IRS catches up with you, you'll be charged not only the tax owed, but also a failure-to-file penalty (5%) and interest (at the end of 2006 it was 8%). The solution? Submit your return, paying as much as possible. Then contact the IRS and ask to create an installment agreement, which will allow you to pay off your debt, with interest, over a period of months. Go to irs.gov to get form 9465 or call the IRS customer service hotline at 800-829-1040. It costs \$43 to set up the plan.

6 surprising ways TO SAVE MONEY

Want to reduce your tax bill and boost your refund? See if you qualify to take advantage of these deductions and credits.

1 TELEPHONE TAX CREDIT Thanks to the Federal Excise Tax change, telephone customers will no longer be taxed on their long-distance and bundled services, including prepaid phone cards. You can claim a one-time credit or refund on your return for the taxes you paid after February 28, 2003, and before August 1, 2006—without showing any records. For individuals it's \$30; if you have four or more exemptions, it's \$60. Or go through your phone bills for that three and a half year period, assuming you've kept them, and claim the total amount you paid in federal excise tax.

2 HOME IMPROVEMENTS The Energy Policy Act of 2005 made tax credits available for many types of home improvements, including insulation; replacement windows; some high-efficiency water heaters, furnaces and boilers; high-efficiency central air-conditioning units; and high-efficiency fans for cooling and heating. The maximum credit is \$500 during the two-year period beginning January 1, 2006, and ending December 31, 2007, and you can use up the credit in one year or spread it out over two years. Those who've installed solar panels, solar water heating equipment or a fuel-cell power plant can take additional credits.

3 MILEAGE If you use your car for unreimbursed business travel, make sure you deduct 44.5 cents per mile. If you volunteer for charity and drive to and from the location, deduct 14 cents per mile.

4 FUEL-EFFICIENT CARS An energy-efficient hybrid vehicle bought on or after January 1, 2006, might qualify for a credit. Go to irs.gov to see the list of IRS-approved vehicles and the amount you can deduct.

5 HURRICANE RELIEF Did you house a Katrina evacuee in your home for 60 days or more without charging rent? You can take an additional personal exemption of \$500 per individual—up to \$2,000 for housing four people. Fill out form 8914, which will ask for details about those you've helped, such as their Social Security numbers and former addresses. If you used your car to provide disaster relief to Katrina victims, deduct 32 cents per mile.

6 RELOCATION Moving expenses are deductible if you change locations for work and meet this distance test: Your new job location has to be at least 50 miles farther from your former home than your old job location was from your former home. Write off costs of packing, transportation and lodging en route.

AUDIT ALERT

There are two ways the IRS may ask you for more information. "Correspondence audits" are conducted by mail and require taxpayers to send back additional documentation. A "field audit" requires a taxpayer, or her representative, to sit down with an IRS agent and provide receipts that substantiate all the deductions and credits on the tax return. "If you're audited, answer the questions as specifically and briefly as you can—and don't offer information that the IRS hasn't asked for," Munro cautions. "Anything you bring up becomes open to further IRS questioning."

Last year nearly 1.3 million Americans were audited, the highest number since 1998. The more you earn, the more likely you are to hear from the IRS.

KEEP UP WITH CHARITY GUIDELINES

Are you claiming a deduction for donating to a charity? The rules are getting stricter. If you're giving household goods or clothing, the items must be in good condition, and it's a good idea to obtain a receipt from the organization. "Take a picture of any furniture or appliances you donate and write down the condition and brand of donated clothing," says Donna LeValley. Effective January 1, 2007 (for the 2007 return) substantiation will be required for all contributions, not just those over \$250. A canceled check, credit card slip or receipt from the charity will suffice.