

# Death and Taxes: You Can't Control Death, But You Can Control Your Tax Liability.

by Annie Margarita Yang

"In this world, nothing can be said to be certain, except death and taxes." Benjamin Franklin was right, but he never said you must hire a third party to do your taxes. According to the IRS, the majority of Americans do not do their own taxes. Instead, they use professional accountants or software programs.

I used to be that American. I handed my W2s to my parents, which they passed to their accountant. I never understood taxes because the professionals took care that. I never met their accountant either so I couldn't ask questions. I didn't know the difference between a W2, 1099, and 1040. What's a deduction? Is that the same as a deductible for car insurance? Taxes were like a confusing, jumbled knot I didn't want to untie. It's embarrassing, as it's an area of personal finance I knew I should learn about but avoid anyway.

My mindset changed last year. In the 2016 fiscal year, my parents no longer claimed me as a dependent. Because of that, they used their accountant to do my taxes and then handed me an \$85.00 bill. That's the first time they made me pay. I didn't like it. If I had known, I would have tried doing it myself first before opening my wallet.

The 2017 fiscal year return is different. I'm putting my big girl pants on!

I looked into different software programs. Because I had a few jobs but was also self-employed, my only TurboTax option was the Self-Employed for \$119.99. The reviewers wrote about how it made reporting their income and expenses super easy.

I considered buying it but reasoned I've only been doing financial coaching for a year. My income/expenses were not complicated. Plus, I've done professional bookkeeping, so my own business records were very organized.

I ended up researching which forms I needed to complete (1040, Schedule C, Schedule SE). I downloaded the PDFs from the IRS website and looked at them. At first, I had a case of FOMO—serious! I had a terrible FEAR that I would make a mistake or miss out on a deduction because of my lack of knowledge. But it turns out they were very easy to fill out. I literally plugged in numbers from my Excel sheet onto the form and then added and subtracted. After a day and a half, the tax return was finished, double-checked, signed, and mailed.

## Lessons Learned:

1. You have the most at stake when it comes to your finances, not anyone else. Do not throw

numbers into a black box and trust what comes out on the other side. Accountants aren't on the lookout for every credit/deduction you could claim. In 2016, my SO and I was eligible for the Earned Income Tax Credit. My parents' accountant completely overlooked it and I only noticed it last week. According to the IRS, 25% of taxpayers who are eligible for the Earned Income Tax Credit fail to claim it. I now have to file an amended 2016 return to get the \$510.00 refund.

2. You don't know what you don't know, and that can screw you over. The issue with not doing your own taxes is you don't know all the credits/deductions out there. If you don't know, how will you make good financial decisions and limit your tax liability too?

In 2016, I paid for my undergraduate tuition using the 529 plan my parents opened for me. I did the right thing: I withdrew the exact amount needed to pay for qualifying expenses. I made sure to avoid paying the 10% penalty.

But I could have made a better decision! I could have paid the first \$2,500 from my savings and then the rest from the 529 plan. Doing this would have allowed me to claim the American Opportunity Tax Credit, which is free money. I lost out on the opportunity to get \$1,000 more in refunds from the IRS and it's too late for me to do anything about it now. It's unfortunate I only found out about this after I graduated college already.

Whenever you make a major life decision and have to pay for it, research the tax laws first.

## **Tips To Make This Easier:**

- Save and organize your receipts throughout the year.
- Use last year's tax return as a template.
- Read the IRS instructional guide for forms you don't understand.
- Realize that if you make a mistake, it's okay. You have three years to submit an amended return. If the IRS says you made an error, learn from it!

Try doing your own taxes this year. Of course, there is nothing wrong with using an accountant, so long as you check it line by line afterward. I actually encourage it if your financial situation is complicated and if you make more money with the time that you save.

What do you think? How have you done your taxes in the past?

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