

# **NOYES CAPITAL MANAGEMENT, LLC**

Personal Financial Planning & Prudent Investment Management

## **Tax Returns for Beginners**

March 2, 2010

It is very exciting for young adults to start working in their first job. But they soon realize that the government shares their pay through taxes. As this is likely to be their biggest expense, it pays to learn how to manage your own tax return. To some, the thought of preparing their first tax return is daunting. In order to help young adults get started on their first tax return, we interviewed a local tax expert and all around good guy, Bernie Kiely, CPA CFP® and President of Kiely Capital Management.

**Q:** The focus of this interview is to provide practical advice for young adults to do their first tax return. How would you approach such a daunting task?

**Bernie:** Tax returns are a really quite easy to complete. The first step is to fill in your name. Just read the instructions – it is not scary. A single individual with employer based income plus some bank interest can use the Federal 1040-EZ tax return which is very simple to complete. I can do one by hand in fifteen minutes.

**Q:** What documents should I collect to prepare my tax return?

**Bernie:** Keep a shoebox of employer statements, your year-end W-2 from your employer, your year-end bank statement, brokerage account statement, charitable donations and IRA contribution records.

**Q:** Where do I get the tax forms?

**Bernie:** The IRS will send you tax forms annually after you file your first return. The first year you should go to [www.irs.gov](http://www.irs.gov) and download the 1040—EZ form. You may also want to download IRS Publication 17 which is a free manual that you can refer to with any questions.

**Q:** What else do I need to know?

**Bernie:** First, ask your parents if they are claiming you as a dependant. Typically if they provide over 50% of your support, they get to deduct you as a dependant. Otherwise, you get to deduct one personal exemption for yourself. This is a \$5,700 deduction from your income.

Secondly, know the key formula “income minus deductions equals taxable income.” Your personal exemption and standard deductions total  $5,700 + 3,650 = \$9,350$ . So if you make 10,000 you only pay tax on \$650 of income.

Thirdly if you make less than \$9350, you want to file to get a refund of any withheld taxes.

**Q:** What about state taxes?

**Bernie:** A resident of NJ has to file both a Federal and state return. In NJ only file if your income is over \$10,000 or if you want to claim a refund. In NJ, you can download the tax forms at [www.NJ.gov](http://www.NJ.gov)

If you work in NYC and live in New Jersey, you are required to file tax returns in both states. You would file a non-resident NY tax return and then deduct the taxes paid to NY from your NJ tax return.

**Q:** Should I get a program like Turbo Tax?

**Bernie:** Programs like TurboTax are very good and will take you by the hand they will walk you through and fill out the forms correctly. I recommend that you complete your first returns by hand and use TurboTax when your return becomes more complicated. When you get married and have a house then your tax returns become more complicated and a program like TurboTax is a big help. Programs like TurboTax become more valuable as your return gets more complicated.

**Q:** Are there any web based programs that I could use?

**Bernie:** There is a website called [www.taxact.com](http://www.taxact.com) which can help you file both your federal and state return for \$17.95. You need to fill in the blanks. It is a good deal for an easy return. However, I recommend that you do it yourself using the 1040 E-Z form.

**Q:** What about using H&R Block?

**Bernie:** At H&R Block you get to meet with a real tax-preparer, but they may not be accountants. The benefit is that you will sit with somebody face-to-face that can explain choices to you. They will take responsibility for preparing the return based upon the facts you give them. For a 1040-EZ return they charge \$39 and \$29 for a NJ return. H&R Block is good for simple tax returns but once the return gets complicated you should use a Certified Public Accountant.

**Q:** What happens if I make a mistake in my filing with theirs?

**Bernie:** Many people have minor mistakes in their tax returns. You would get a notice from the IRS showing where they make a correction in the filing and typically ask you to pay the taxes due plus penalties. However, be aware that the IRS also makes mistakes and their corrections may be wrong.

**Q:** Some of my friends file estimated taxes; do I need to do this?

**Bernie:** If your employer is deducting taxes from each paycheck, you usually do not have to pay estimated taxes. Self-employed people need to file estimated taxes. The rule is - you have to pay in the lower of 90% of last year's tax or 100% of this year's tax. You are required to pay as you earn it over the course of the year. If you need to make supplemental payments they are due in April, June September and January.

**Q:** What are the deadlines and penalties for filing a return?

**Bernie:** Your tax return must be postmarked by April 15<sup>th</sup>. If you fail to pay by April 15<sup>th</sup>, there is a penalty plus interest. If you do not file a return for two years, you pay penalties plus you forfeit any refund. . If you owe the IRS money, there is no statute of limitations; they compound the penalty plus interest until you pay. If you are expecting a refund, filing earlier will get it to you faster it.

**Q:** I hear that Roth IRA's are good for young adults.

**Bernie:** Roth IRA's are great. You are putting money away for retirement, which happens faster than expected. Income earned on your investments in a Roth IRA is never taxed. You can compound your investment gains over your lifetime. This is a great deal. You can put in the lower of your earned income or \$5,000 to your Roth IRA. I recommend that you make this a top priority.

**Q:** Bernie, what is your final advice to young adults?

**Bernie:** I recommend three things:

- 1) Never let somebody do something you can do yourself
- 2) Keep good records
- 3) Tax returns are easy to prepare when you are starting out.

If anyone has any questions they can call me, Bernie Kiely, at (973) 455-1894.

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February 23, 2010