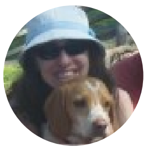
How to File Your Taxes: A Beginner's Guide

Here's everything first-time filers need to know, including when to file your tax return and how to track your refund.



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Author Bio

In 2019, the Internal Revenue Service processed more than 253 million tax returns and collected more than $3.5 trillion in revenue.

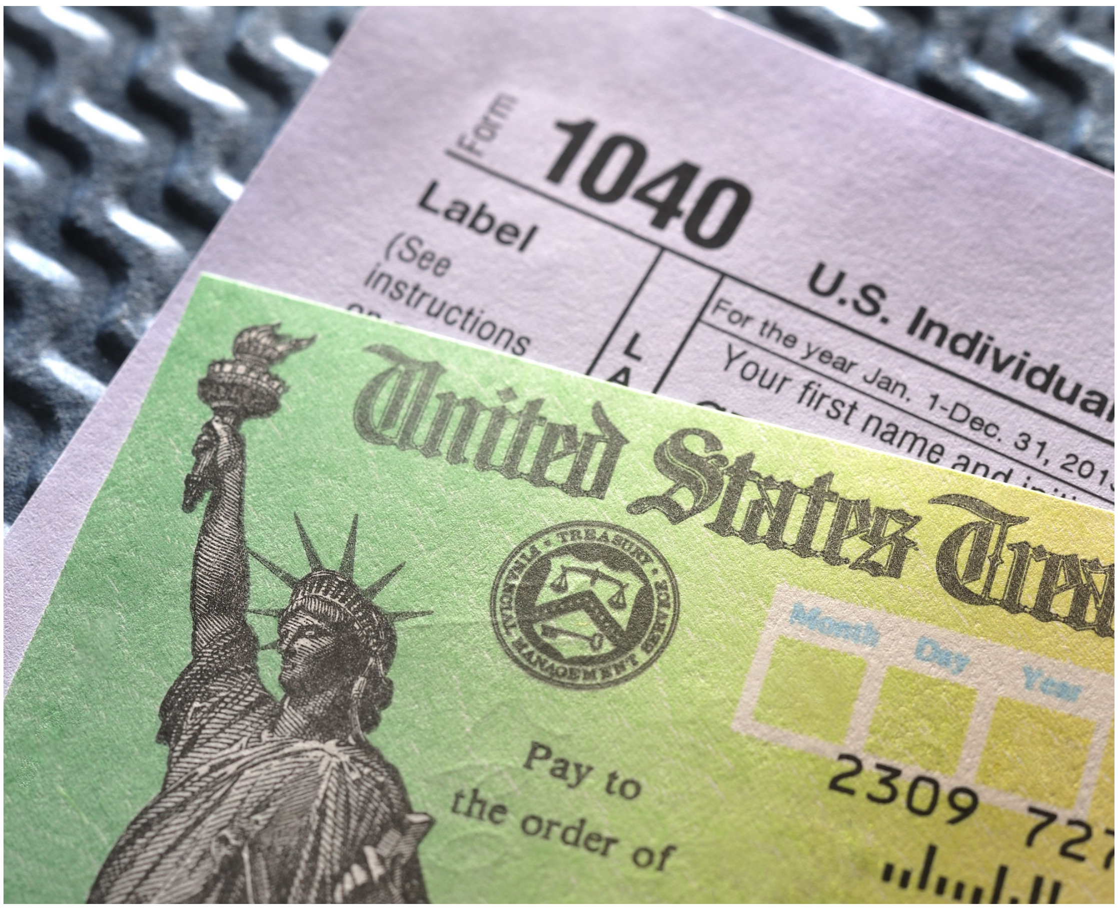
Individuals and businesses throughout the U.S. are expected to file tax forms with the IRS to tell the federal government how much income they earned, what deductions and credits they're claiming, their total tax bill, and how much they underpaid or overpaid for the year.

Americans pay taxes throughout the year, with many workers having money directly withheld from their paychecks. The tax-filing process is how the government returns any overpayments made by taxpayers or charges those who didn't pay enough. The overpayments can be substantial, as the IRS issued more than $452 billion in tax refunds in 2019.

While millions of Americans file tax returns, that doesn't mean the process is easy, especially if you've never filed taxes before. This guide will walk you through the process of figuring out all the ins and outs of filing your tax return, including:

- Who needs to file taxes?
- What tax forms do you need to prepare your tax return?
- What are tax deductions and tax credits?
- What tax forms do you need to submit with your tax return?
- How do you file your tax forms?
- How do you choose the right tax filing status?
- How do you decide whether to itemize or claim the standard deduction?
- What are the deadlines for filing taxes?

- What to do if you can't meet the tax filing deadline?
- When and how do you claim your tax refund?
- How do you track your refund?
- How do you pay taxes if you owe the IRS money?
- Where can you get help filing your taxes?
- When should you hire a tax professional?
- How do you save money when filing your taxes?
- What should you do with your tax refund?



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Who needs to file a tax return?

Not everyone needs to file a tax return. Whether or not you need to file depends on your income, filing status, and whether anyone claims you as a dependent. The table below shows when you're required to file for the 2020 tax year (these are the taxes that will be due in April of 2021).

If your income equals or exceeds the listed amount, you're expected to submit a tax return.

Filing Status	Age at the End of 2020	Income at Which You Must File
Single	Under 65	$12,400
Single	65 or older	$14,050
Married filing separately	All ages	$5.00
Head of household	Under 65	$18,650
Head of household	65 or older	$20,300
Married filing jointly	Both spouses under 65	$24,800
Married filing jointly	One spouse under 65	$26,100
Married filing jointly	Both spouses 65 or older	$27,400
Qualifying widow or widower with dependent child	Under 65	$24,800
Qualifying widow or widower with dependent child	65 or older	$26,100

If you are claimed as a dependent, there are different rules. For example, if you are claimed as a dependent and you are single, under 65, and not blind, you must file a return if:

- Your earned income exceeds $12,400
- Your unearned income exceeds $1,100
- Your gross income exceeds the greater of $1,100 or $11,850 in earned income + $350

If you aren't sure if you need to file, the IRS has an Interactive Tax Assistant tool to help you figure it out after you answer a few simple questions.

If you are not required to file a tax return because you didn't meet the minimum income threshold, you may still want to do so. For example, you may be eligible for certain refundable tax credits, including the Earned Income Tax Credit.

Refundable tax credits can allow you to get back not just money that may have been withheld from your paycheck, but also *more* money than you actually paid in taxes. If you're eligible to get money back from the IRS, you will need to file a return in order for the IRS to send you the funds you're entitled to.

For the 2020 tax year, if you were eligible for but did not receive an Economic Impact Payment (better known as your coronavirus stimulus check), you can also claim it by submitting a tax return. Economic Impact Payments are valued at up to $1,200 per adult and $500 per eligible dependent child and were authorized by the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) to mitigate the financial devastation resulting from the COVID-19 pandemic.

What tax forms do you need to prepare your tax return?

You'll receive lots of different forms in the mail that you may need when preparing your tax return. These forms give you key information, such as details about your income and deductions you may be entitled to. Keep an eye out for the following tax forms:

- **W-2:** This form comes from employers and details the amount you earned as well as the amount of income tax withheld from your paychecks. If you worked full or part-time, you'll receive this form.
- **1099:** This form is used to report income from sources besides employers. You'll receive this form if you earn income as a contractor or freelancer, or if you earn income from rental real estate, among other things
- **1099-INT:** This is another type of 1099 form you'll receive if you earned interest from a savings accounts or if you earned dividends from investments.
- **1095-A:** If you enrolled in a qualified health plan through Obamacare's Health Insurance Marketplace, you'll need this form to make sure you receive the proper amount of "advanced premium tax credits," which are the credits many Americans receive to help them purchase insurance.
- **1098:** You'll receive this form detailing interest payments made on your student loans or interest payments made on your mortgage. You can deduct up to $2,500 of student loan interest as long as your income is over the

earnings limit. If you itemize, you can also take a deduction for interest on a mortgage up to either $750,000 or $1 million, depending on when you bought your home.

There may be other forms sent to you by employers or companies you've done business with. Keep all this tax paperwork together as you receive it. While you won't need to submit most of it to the IRS (the companies who generate the forms send them directly), having it in one place will make completing your tax return much simpler.

If you plan to claim certain deductions for business expenses, charitable donations, or medical expenses, be sure to keep those receipts, too. If you're audited, you'll need proof to back up the deductions you claimed.

An audit is an investigation by the IRS to check that you declared all your income and didn't claim any deductions or credits you weren't entitled to. The likelihood of an audit is relatively small but it's still worth holding on to your documents in case you're asked to provide proof of your eligibility for deductions by the IRS.

What are tax deductions and tax credits?

When you submit your tax forms, it's important that you claim all of the deductions and credits you're entitled to. Deductions and credits both provide tax savings but in different ways.

A deduction reduces the amount of income the government deems taxable and levies your income tax rate on. If you had $55,000 in taxable income and you claim a $1,000 deduction, your total taxable income is reduced to $54,000 because you subtracted the amount of the deduction from your taxable income.

The value of a deduction is determined by your tax rate because your savings come from not having to pay taxes on the deductible amount. So, if you were in the 22% tax bracket, a $1,000 deduction would save you 22% of $1,000, or $220.

A credit, on the other hand, reduces your taxes owed on a dollar-for-dollar basis. A $1,000 credit would reduce your tax bill by $1,000. If you'd have had a $2,000 tax bill and you claim a $1,000 credit, your tax bill comes down to $1,000.
Tax credits are obviously more valuable than a deduction, although both provide savings. And while some credits only reduce your tax bill to $0, there are others that are fully or partially refundable so it's actually possible to get money back from the IRS that exceeds what you paid into the tax system.

This 2021 guide to tax credits can help you find credits for which you're eligible, while this guide to tax deductions can help you identify opportunities to take advantage of these valuable tax savings.

What tax forms do you need to submit with your tax return?

Figuring out what tax forms you'll need may seem complicated, but the good news is that if you use tax prep software, all the forms you need will be populated for you. However, you still need to know what forms you'll encounter when filing your taxes.

In prior years, taxpayers had a choice of several different 1040 forms, which is the basic tax form you need to submit to the IRS. This form is what most people refer to as their tax return.

However, since 2018 there has been a simplified 1040 form that virtually all individual taxpayers will use. This form asks for all the basic info you need to provide to the IRS including:

- Your filing status
- Whether you're claiming the standard deduction
- Whether anyone can claim you as a dependent
- Your address
- Your birth year (and your spouse's birth year)
- Your address
- Details about dependents you're claiming, including their full name, Social Security number, and relationship to you

In addition to the 1040 form, you may need to submit additional forms, called "Schedules." Examples include:

- Schedule 1 if you're claiming deductions such as the student loan interest deduction or a deduction for self-employment tax; or if you have additional income from unemployment compensation; capital gains; gambling wins; or prize or award money.
- Schedule 2 if you owe alternative minimum tax (most people won't) or if you must make an excess advance premium tax credit repayment (you may need to make this payment if you received too many Obamacare subsidies for your insurance coverage).
- Schedule 3 if you can claim a nonrefundable tax credit other than the Earned Income Tax Credit (EITC) or the credit for other dependents. Examples include educational credits, a foreign tax credit, or general business credit.

Each state also has its own tax forms that have to be submitted -- assuming you live in one of the 43 states (plus D.C.) that collect state taxes. Visit your state's Department of Revenue website to find the corresponding state tax forms.

How do you file your tax forms?

You have three possible options for how to submit tax forms to the IRS:

- **You could e-file your forms.**

E-filing is the preferred approach. It's faster, easier, and you're less likely to make mistakes when forms are submitted electronically.

If you make $69,000 or less, there are many software programs that let you submit your taxes for free. (If you make more than $69,000, you can take advantage of those free forms, but you won't get the free help from the software program.) The IRS provides a list of software programs that people who earned less than $69,000 can use to file taxes at no cost. Our guide to the best tax software program can help you find the best software solution for you.

Many of the software programs that allow you to e-file your federal taxes at no cost also let you e-file your state tax returns for free, provided your income doesn't exceed a certain threshold. These programs ask you simple questions about your life to identify deductions and credits you're eligible for. They also walk you through the process of filling out all the required forms.

If your income exceeds $69,000, you can choose to use the software programs if you aren't sure how to do taxes on your own. But depending on the program, you may have to pay a fee to file your federal and/or state taxes.

- **You could mail in your forms.**

You also have the option to fill out paper forms and mail them to the IRS. The address where you need to send your forms can be found on the IRS website (it varies by state). When you mail in your forms, it normally takes between six and eight weeks for them to be processed; however, the IRS is currently warning that staffing issues may lead to further delays.

- **You can have your forms submitted for you.**

Authorized tax preparers may have the authority to e-file for you. You could find paid professionals, such as accountants, to complete your taxes and submit your forms electronically. Or you could use volunteer tax services to help you complete and submit your forms for free (more on this later).

How do you choose the right tax filing status?

When you submit your tax return, one of the most important steps is choosing the correct filing status. Your filing status determines your tax bracket and can affect the deductions and credits you can claim.

Your tax filing status options include:

- **Single:** You can file as single if you've never been married, if you're divorced, or if you're widowed. As we'll explain below, you don't typically want to file as single if you have the option to file as head of household or as a widow(er) with a dependent child.
- **Head of household:** You're eligible to file as head of household if you weren't married as of Dec. 31, if you paid at least half the cost of maintaining a home, and if you're living with or supporting a "qualifying person." A qualifying person could be anyone you financially support, provided they meet certain requirements. This IRS guide details exactly who counts as a qualifying person. Children and aging parents are two common examples.
- **Married filing separately or married filing jointly:** You're eligible to file as married if you were living together as legal spouses or common law spouses (if recognized by your state) as of Dec. 31. You can file as married even if you were living separately, as long as you aren't legally separated. You can also file as married if your spouse died during the course of the tax year. Married filers have a choice between filing jointly or separately, but there are many limits on deductions if you opt to file separately. Most married couples are better off filing jointly, but you can check out this guide to a few situations where filing separately might make sense.
- **Widow(er) with dependent child:** You can choose this status if your spouse died in the prior two years, you were eligible to file jointly with your spouse in the year of death, you haven't remarried, and you maintain a home for at least one dependent child. This IRS guide helps you determine if your child qualifies as a dependent.

You don't want to choose *single* as your filing status if you qualify for head of household or widower because you move into a higher tax bracket at a lower income level when you file as single. There are also certain deductions that you can't claim if you earn too much -- and the threshold at which you lose those deductions is lower for the single filing status. Plus, if you file as single, your standard deduction is also smaller.

Explore all your options and choose the status that allows you to pay the least in taxes. This online IRS tool can help determine which status you qualify for.

How do you decide whether to claim the standard deduction or to itemize?

In addition to filing status, the choice of whether to itemize or take the standard deduction is one of the two most important decisions you'll make when filing taxes.

When you take the standard deduction, you are able to deduct a set amount of income from your taxes based on your filing status. For the 2020 tax year, the standard deduction is:

- $12,400 if you file as single or married filing separately
- $18,650 if you file as head of household
- $24,800 if you file as married filing jointly

If you take the standard deduction, you are allowed to take a few additional tax deductions as well, such as a deduction for contributions to an IRA or a deduction for student loan interest. There are many other deductions you can only claim, though, if you itemize.

If you choose to itemize instead of taking the standard deduction, you deduct from your taxable income for specific things -- but you do not deduct the $12,400, $18,650, or $24,800 standard deduction. You should itemize *only* if the total combined value of your itemized deductions exceeds the standard deduction.

Some of the deductions you can only claim if you itemize include deductions for:

- State and local taxes (SALT) paid
- Mortgage interest
- Charitable donations
- Medical expenses that exceed a certain percentage of income
- Investment expenses

The Tax Cuts and Jobs Act significantly increased the standard deduction. Starting in 2018, many people who previously itemized began claiming the standard deduction instead because the value of their itemized deductions is not high enough to exceed the standard deduction amount.

What are the deadlines for filing your taxes?

There are deadlines for filing your taxes that you must meet. Typically, Tax Day is April 15, meaning that's the last day to e-file or mail your tax return. Monday, April 15, 2021, is when your 2020 taxes are due.

Sometimes April 15 falls on a weekend or on a holiday, so the deadline for filing your taxes is moved to the next business day. And the deadline for 2019 taxes was delayed substantially due to COVID-19, with 2019 taxes not due until July 15, 2020.

There is no reason to wait for the deadline -- the IRS will begin accepting returns for the 2020 tax year as early as January 27, 2021.

What if you can't meet the tax filing deadlines?

If you can't submit your taxes by the April deadline, request an automatic six-month extension by submitting Form 4868 electronically or via mail. Submitting this form by the April deadline means you'll automatically have until October to submit your tax returns.

A filing extension doesn't extend the time you have to pay your taxes, though. If you haven't submitted the tax payments you owe by April 15, you could be hit with penalties and late fees. However, you won't be charged these penalties if you have paid at least 90% of what you owe by April 15, and you submitted a timely extension request. The remaining 10% would be due by the October deadline.

Be sure to file even if you cannot afford to pay your taxes because the failure-to-file penalty is substantially greater than the penalty for failing to pay. The failure-to-file penalty is 5% of the unpaid tax balance for each part of a month you're late, with a maximum penalty of 25% of what's owed. The failure-to-pay penalty is 0.5% of what you owe for each part of a month you're late, with a maximum 25% penalty.

When and how can you claim a tax refund?

If you have overpaid your taxes during the year because too much money was withheld from your paycheck or because you submitted excess payments to the IRS, you can claim your refund simply by e-filing or mailing your tax returns. The IRS will send your refund via mail or you can submit your bank information and request to have your refund distributed using direct deposit.

E-filing and requesting a refund via direct deposit is the fastest way to obtain your refund. In most cases, you will have your refund within 21 days or less from the time you submit your return. If you mail in your return, it could take up to six weeks for your refund to arrive.

If you claim the EITC or the Additional Child Tax Credit, your refund will be delayed even if you submit your returns early and choose direct deposit. That's because the Protecting Americans from Tax Hikes (PATH) Act requires the IRS to hold refunds until mid-February when you claim these credits.

How can you track your refund?

After you've submitted your tax return, track its status on the IRS website. You will need to submit your Social Security number, choose your filing status, and input the refund amount to track when it will arrive.

How can you pay taxes if you owe the IRS money?

Taxpayers who owe money to the IRS can pay using their bank account without paying a fee. The IRS payment website allows you to use direct pay at no cost by submitting your bank information. You may also pay with a credit card using a third-party payment processor, but there is a fee for doing so.

You can send a check or money order to the IRS to pay your taxes as well, or pay cash to a retail partner. The IRS provides detailed instructions for making cash payments, as well as instructions for where to mail a check or money order.

Where can you get help filing your taxes?

Some taxpayers are entitled to free assistance in preparing and submitting their tax returns. People with low income, who are disabled, or who have difficulty with English can obtain free assistance through the Volunteer Income Tax Assistance (VITA) program while seniors can get help through the Tax Counseling for the Elderly (TCE) program.

Many of these sites were closed in 2020 due to COVID-19. It is unclear if they will remain closed in tax season 2021.

When should you hire a tax professional?

Not all taxpayers are entitled to free assistance -- and some who aren't would benefit from getting help from a professional rather than just using online software or filling out paper returns.

It may be a smart choice to hire a tax professional if:

- **You've had a major life change:** When your income dramatically changes, you divorce or get married, your spouse dies, or you add a new member to your family, these changes can have a profound impact on your taxes. It may make sense to consult with a professional to figure out how your tax situation will change and what you can do to minimize your tax obligations in your new situation.
- **You've started a business or are running a business:** There's a whole separate set of tax rules that apply to those who own their own business. You should talk with a professional about how your company should be

structured for tax purposes and what special deductions you may be entitled to as a result of your company.

- **You have foreign assets:** There are very complex rules for declaring offshore investments and substantial penalties if you don't obey them. If you have an offshore account or other foreign investments, get help with your taxes.
- **You live or work in multiple states:** State tax rules vary dramatically from one locale to the next. A tax professional can assist you in figuring out what your state tax obligations are when you have various residences.
- **You've just retired:** Retirees have different sources of income and tax obligations to fulfill. Get professional help to figure out your new tax situation now that you're no longer in the workforce.

If you aren't sure where to start when it comes to your taxes, hiring a professional may help your peace-of-mind. It costs less than you probably think to get tax help with a simple return, and it can be worth it to avoid making mistakes that come back to bite you.

How do you save money when filing your taxes?

It's important to do everything you can to save money when you file your taxes. This means avoiding common -- and costly -- mistakes when you file. To make sure you don't pay the IRS more than necessary, you should:

- Keep receipts and claim all deductions and credits you're entitled to.
- Avoid claiming credits or deductions you aren't eligible for, which could lead to an audit or penalties.
- File and pay your taxes on time to avoid interest and late fees.
- Use the right filing status and make the optimal choice between itemizing and claiming the standard deduction.
- Contribute to tax-advantaged accounts such as IRAs and 401(k)s that provide a tax break.
- Get tax help if necessary so you don't make costly errors.

Making the effort to do your taxes right and save as much as possible can leave you with more money in your pocket for other important financial goals.

What should you do with your tax refund?

Ideally, you should try *not* to get a tax refund, although many people like getting this big chunk of change every year. When you receive a tax refund, you've tied up your money and given the IRS an interest-free loan when you could've used that cash to pay down debt or save for emergencies. Avoid getting a refund next year by asking your HR contact to adjust the amount being withheld from your paycheck.

If you do receive a refund, be smart about how to use the money by:

- Paying down debt
- Building an emergency fund
- Saving for long-term goals such as the down payment on a home
- Putting the money into your retirement account
- Investing in the stock market for the long term

Use the money in a way that benefits your long-term financial horizon rather than splurging on things that don't add real value to your life.

Now you know how to file your taxes

So, how do you file taxes?

To sum it all up, you'll need to either e-file using free or paid software or mail in your 1040 with the other required forms. Choose a filing status based on your family situation and then add up the value of deductions and credits you're eligible for to determine if you should itemize or claim the standard deduction. After you submit your 1040 and state tax forms, pay what you owe via bank account, cash, check, money order, or credit card -- or claim a refund, which should be delivered by the IRS in about 21 days, or less if you choose direct deposit.

While it sounds complicated, you can get free or paid help. Choosing a good tax software program can help make the filing process quite easy. And, remember, the first few times you file taxes are always more complicated. As you file tax returns year after year, you'll get more familiar with IRS rules -- and the process will get easier over time.

Beyond taxes: The real millionaire blueprint

Millionaires know that the stock market is where the real money is made...and that the holy grail is beating the market.

Well, beating the stock market by over 4x* is exactly what our award-winning analyst team has done for nearly two decades. they’ve run their *Motley Fool Stock Advisor* online investing service.