

5 tax tips for young, first-time filers



Susan Tompor, Detroit Free Press Personal Finance Columnist 5:48 p.m. EDT March 23, 2016



(Photo: J. David Ake/Associated Press)

Getting the keys to the car is way more fun as one of those coming of age moments than say, oh, cranking out that first tax return. But the first steps to living on your own invariably take you on the road to a 1040.

This tax season, more than 5 million people will file their own individual return for the first time. Here's a look at some points to consider:

1. How old are you? If you're younger than 24, talk to your parents before filing.

One huge way for a millennial to create major migraines for Mom and Dad is to simply take his or her W-2 form, go online, check the box that says you'd claim yourself as a dependent and file that return electronically.

"It just creates a mess," said John E. Cargill, an enrolled agent who has his own firm, J.E. Cargill Co. in Shelby Township.

Many times, college students can be claimed as dependents on their parents' tax return, if certain rules are met. And the parent who is in a higher tax bracket would want to claim that older child as a dependent, if possible. If so, young tax filers typically should not check "Yourself" under exemptions and not check Box 6a on the 1040, if someone could claim them as a dependent.

The exemption for a dependent can be claimed on only one tax return; it cannot be claimed on both a parent's and a student's return.

If the young person just checks the box to claim "Yourself" under exemptions, the parent's e-file return would then be rejected by the system because the young person's Social Security number was already used to file a return, Cargill said.

Cargill said he has run into this problem a little too often. He has had to amend the teen or college student's return and then send the parent's return by regular mail because it could not be e-filed at that point.

Even if you graduated from college in June, moved back home for a few months and got a job in October or November last year, you'd need to review whether your parents would claim you as a dependent on the 2015 return.

Mark Luscombe, principal analyst for Wolters Kluwer Tax & Accounting, said a relationship test is necessary to claim a dependent exemption for a qualifying child. There's an age test, as well.

The child must either be younger than 19 at the end of the calendar year or younger than 24 at the end of the calendar year and a full-time student. (There is an age exemption for children with disabilities.)

The child would also have to meet an abode test — for which he or she must have the same main place of residence as the taxpayer for more than half the year. (Temporarily living away at school would generally count as living with the taxpayer.)

The child has to meet a support test, under which he or she must not provide more than half of his or her own support for the year. (Amounts received as scholarships are not considered support.)

Finally, the child cannot have filed a joint return with his or her spouse, except as a claim for refund.

Some college students and teens need to file their own return, even if they're being claimed as a dependent on the parent's return.

For 2015, dependent children must still file their own return if they have more than \$1,050 of unearned income from investments. Dependent children who earn more than \$6,300 in wages must file a return, as well. The rules are complicated and need to be reviewed.

2. Are you paying off student loans? There's a tax break for that.

Up to \$2,500 of interest on qualified student loans paid during the year can be claimed to reduce your taxable income — if you meet the requirements, said Frank St. Onge, enrolled agent for Total Financial Planning in Brighton.

For a young consumer dealing with a 15% tax rate, for example, the tax bill would be reduced by \$375 if the filer had the \$2,500 of student loan interest, St. Onge said.

The savings depend on your tax rate and the amount you paid in student loan interest.

This tax break is only allowed up to certain income limits. A single person could claim the full \$2,500 deduction if his or her modified adjusted gross income is \$65,000 or less. But only a portion of the interest payments could be deducted if the modified adjusted gross income is between \$65,000 and \$80,000.

There's no deduction for single taxpayers for student loan interest if the modified adjusted gross income is \$80,000 or more.

If married and filing jointly, the phase-out range is \$130,000 to \$160,000. There's no deduction if the modified adjusted gross income is \$160,000 or more.

And, you cannot deduct your student loan interest if you file as married filing separately or if someone else claims you as an exemption on their tax return.

3. Do you have the correct 1040 form?

Many young tax filers might be tempted to go the easiest route and just opt to fill out the two-page [1040-EZ](https://www.irs.gov/pub/irs-pdf/i1040ez.pdf) (<https://www.irs.gov/pub/irs-pdf/i1040ez.pdf>) for single and joint filers with no dependents.

But Jennifer Owens, enrolled agent at H&R Block in Warren, said someone who wants to claim an education credit, though, is going to need to file something other than a 1040EZ.

Someone would need to file a 1040 or 1040A to claim education-related tax breaks, if he or she paid higher-education expenses that are eligible for a tax credit or deduction.

The only tax credit you can claim on a 1040EZ is the Earned Income Tax Credit. So you cannot claim the child and dependent care credit and file a 1040EZ. And there are some situations where you cannot use the 1040EZ — such as if you earned money from tips that are included on your W-2 form or if your taxable income is more than \$100,000 as listed on Line 6 of the 1040EZ.

4. Don't overlook the IRS Free File program.

You can use free online software via the [Free File](https://www.irs.gov/uac/Free-File-Do-Your-Federal-Taxes-for-Free) (<https://www.irs.gov/uac/Free-File-Do-Your-Federal-Taxes-for-Free>) program at www.irs.gov (<http://www.irs.gov>) if your income is below \$62,000.

Or you might be able to get free help elsewhere.

The Volunteer Income Tax Assistance (VITA) program offers [free tax help to people](https://www.irs.gov/Individuals/Free-Tax-Return-Preparation-for-You-by-Volunteers) (<https://www.irs.gov/Individuals/Free-Tax-Return-Preparation-for-You-by-Volunteers>) who generally make \$54,000 or less, persons with disabilities and limited-English-speaking taxpayers who need assistance in preparing their own tax returns.

5. If you go with a paid tax preparer, watch out for any wild claims.

Never sign a blank return, no matter how much of a rush you're in at the time. Avoid a tax preparer who charges a fee based on the percentage of your refund. Don't trust someone who claims to be able to double your refund.

The Better Business Bureau Serving Eastern Michigan and the Upper Peninsula has its own [BBB tax resource center](http://www.bbb.org/detroit/get-consumer-help/bbb-tax-resource-center/) (<http://www.bbb.org/detroit/get-consumer-help/bbb-tax-resource-center/>) now at www.bbb.org/detroit (<http://www.bbb.org/detroit>) where you can get some information on finding an accredited tax preparer.

Extra credit: Double-check your work — or someone else's.

Just because the return looks done, you are not done. Print out a copy, both for your records and as a way to proofread for any mistakes, said Eric Gould, adjunct professor of tax and business law at Walsh College.

It's possible that you transposed a number. Or maybe looking at it again will help you realize you didn't include some income from interest or wages from a temporary job.

"The math is probably correct, but make sure the numbers you entered are correct," said Gould, who has a law practice in Royal Oak.

If you're getting a refund via direct deposit, triple check that you have the correct account number and routing number for your bank.

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