

Should I File a Tax Return?

Prepared by Jamie Andree, Director of Indiana Legal Services Low Income Taxpayer Clinic

Whether to file a federal income tax return is a question many of us face each year during tax season. It helps to know where to find the rules and where to go for help.

How do I know whether I have to file a tax return?

You must file a federal income tax return if your income is above a certain level. The level varies depending on your filing status, age and the type of income you receive. Filing status means whether you are filing your tax return as single, married filing jointly, married filing separately, or head of household. For example, for 2011, you were required to file a federal tax return if your filing status was single, you were under age 65, and your income was at least \$9,500 not counting any Social Security you received. Self-employed people are required to file a federal return despite having significantly lower income. Indiana requires you to file a state tax return and pay state income tax with much lower income.

An easy way to determine if you are required to file a federal tax return is to use the Interactive Tax Assistant ("ITA") available on the IRS website. The ITA tool takes you through a series of questions and will help determine whether you may need to file. The rules for who has to file are also found in the instructions to IRS Forms 1040, 1040-A, 1040-EZ, and 1040-NR. These instructions are online and can be obtained at your local IRS Taxpayer Assistance Center.

Why is it important to file a tax return?

Filing a return when required is important because it is your legal responsibility. If you do not file a return, it is likely the IRS will file a return for you. This is called a "substitute for return." Not only will penalties be added to your tax bill, if you owe tax, for failing to file a return on your own, but you will often owe more tax when IRS files a return for you. Fortunately, many people who are required to file returns end up receiving a refund.

The IRS will usually know whether you should have filed a return or not. Copies of W2s and 1099s that are sent to you are also sent to IRS. So IRS is notified of compensation you received during the tax year, and if you don't file a tax return, the IRS will prepare the substitute for return using this information. When the IRS prepares a return for you, it will not give you deductions or credits for which you were eligible. For self-employed individuals, filing tax returns allows you to claim your business expense deductions, which can significantly reduce your tax liability. Additionally, when you are self-employed, failure to file a return will cause you to miss out on Social Security earnings credits.

Should I file a tax return even if one is not required?

Even when you aren't required to file a tax return, there are several reasons why you may want to file anyway. Here are a few important examples.

- You may have had federal income tax withheld. This is money that has been taken out of your pay by your employer throughout the year and sent to IRS. When you file a tax return you get the amount of withholding in excess of any tax you owe sent back to you as a refund.
- You may qualify for the Earned Income Tax Credit (EITC) if you worked but did not earn a lot of money. The EITC may significantly increase the size of your tax refund even above the amount withheld from you pay.
- You may qualify for the Additional Child Tax Credit. This refundable credit may be available to you if you have at least one qualifying child and you did not get the full amount of the Child Tax Credit.

- There are educational tax credits which may be refundable. For example, in 2011 the American Opportunity Tax Credit for the first four years of postsecondary education is refundable up to \$2,500.
- Having tax return information available might be helpful (or required) when applying for and receiving educational or other types of loans.

What if I owe federal taxes but I can't pay?

If you cannot pay the full amount of tax you owe, you should still file your return by the deadline and pay as much as you can. Even paying a portion of the tax you owe will reduce the amount of penalties and interest you will be charged for failing to pay the full amount. You may be able to get a short term extension to pay, enter into a payment plan called an installment agreement, settle your tax debt for less than the amount you owe, or have IRS excuse you from making payments for a period of time because of economic hardship. These alternatives may not be available if IRS has had to file a tax return for you because you failed to do so.

What if I haven't filed a return in years?

Some people have failed to file required tax returns and are afraid to re-enter the tax system. Taxpayers who file overdue returns on their own are often treated better than those who are caught. For example, once a return is filed, IRS has a deadline to audit it. Once the deadline has passed, the return is final. If no return is filed, the IRS can come after the taxpayer at any time, even after many years. When you haven't filed required returns, it is advisable to get advice from a tax professional.

Where can I get help?

The VITA Program offers free tax preparation assistance during tax season to people who make \$50,000 or less and need assistance in preparing their current year tax returns. You can find a VITA site near you by calling 1-800-906-9887.

If your household income is under 250% of the Federal Poverty Level and you need help resolving a problem with IRS, you can contact Indiana Legal Services' Low Income Taxpayer Clinic [LITC.] This is a free service. You can contact the LITC at (812) 339-7668, (800) 822-4774 or tax.clinic@ilsa.net.