Top 10 Tax Myths

The tax code can be a confusing read, clocking in at about 74,000 pages long. Even tax professionals don't have every nuance memorized, so it's no surprise that urban tax myths abound. Unfortunately, it can be difficult to claim ignorance or blame your accountant if you fall prey to a common tax myth, so it's a good idea to learn which myths are actually true and which need to be busted.

1. **Myth**: Your accountant is liable for any errors in your return.

   Fact: Professional tax preparers want to avoid making errors for the sake of their reputation and job security, but any tax fraud committed on your return is solely your responsibility. Similarly, you cannot blame tax software or false information you read online. If you're working with an accountant, make sure to review his or her work and ask questions about anything you don't understand before sending in your return.

2. **Myth**: Certain actions can automatically trigger an audit.

   Fact: Working with an accountant won't shield you from an audit, but no income bracket or tax deduction that you claim can provoke a guaranteed audit either. Approximately one percent of taxpayers get audited each year, and while those earning more than $100,000 are twice as likely to make that list, that doesn't mean high earnings trigger an audit. You also aren't guaranteed an audit if you claim the home office deduction, as long as you claim it legitimately. Filing early or late, claiming charitable donations or amending a return with a mistake in it is no more likely to trigger an audit. High charitable donations or excessive business write-offs may increase your chances of being audited, but using those deductions in general does not ensure an audit.

3. **Myth**: You have to itemize in order to take advantage of tax deductions.

   Fact: There are a number of tax deductions or income adjustments you can claim even if you take the standard deduction. These "above-the-line" deductions decrease your adjusted gross income and are available to any taxpayer. You don't even need to file a Schedule A to claim them—above-the-line deductions are located right on Form 1040. These income adjustments include deductions for tuition and fees, alimony and moving expenses.

> April 15 is just an adjustment to see if you've over- or underpaid throughout the year. Getting a large refund means you gave the IRS an interest-free loan.

4. **Myth**: Getting a big tax refund is the best outcome.

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Fact: It can be great to receive a big check from Uncle Sam in April, and many taxpayers treat their refund as a bonus to be spent on a big-ticket item they otherwise couldn't afford. What many taxpayers don't realize is that you pay taxes all year long, either in the amount withheld from your paychecks or via quarterly estimated taxes. April 15 is just an adjustment to see if you've over- or underpaid throughout the year. Getting a large refund means you gave the IRS an interest-free loan. However, you also shouldn't aim to owe a large tax bill, because you may not be able to afford it, and, if it's large enough, it may come with penalties. The best bet is to adjust your withholdings so you'll break as close to even as possible at the end of the year.

5. **Myth**: Illegal income isn't taxable.

   Fact: As they say, two wrongs don't make a right. You may have broken the law in the way you earned your money, but failing to claim it on your taxes is breaking a second law. There is a special section on Form 1040 for reporting "other income," which the IRS explains: "Income from illegal activities, such as money from dealing illegal drugs, must be included in your income on Form 1040, line 21, or on Schedule C or Schedule C-EZ (Form 1040) if from your self-employment activity." Technically, Uncle Sam can't disclose your illegal activities to the authorities, but loopholes in the law allow them to turn people in anyway.

6. **Myth**: Filing income tax is a voluntary action.

   Fact: The tax code refers to income tax filing as a system of "voluntary compliance," which many people interpret to mean they can't be forced to participate. However, voluntary compliance means that the IRS makes taxpayers responsible for calculating and sending in their return on their own, rather than sending them a bill or a check automatically. Not filing your taxes is not an option; it's illegal.

7. **Myth**: You can claim your pet as a dependent.

   Fact: While Fido is financially and physically dependent on you and you may spend a lot of money caring for him each year, he does not count as a dependent for tax purposes. Only human beings—those with a Social Security number—may be claimed as dependents. In 1986, the IRS began requiring taxpayers to list their dependents' Social Security numbers on their returns, and, mysteriously, 7 million children disappeared as dependents. Today, you'd have to falsify information in order to claim your pet as a dependent, which could land you in jail.

8. **Myth**: Married couples must file jointly.

   Fact: Married couples have two choices for filing status: married filing jointly and married filing separately. Most couples choose the former because it often has the most favorable effect on your return. But in some circumstances, such as in the case of high medical bills, it can save you money to file separately. It's a good idea to consider both options before filing each year, as your situation can change from year to year.

9. **Myth**: You don't have to claim income below $600.

   Fact: You need to report any and all income you earn on your tax return. The person paying you is not required to supply you with a Form 1099 unless you hit the $600 threshold, but that doesn't mean you aren't required to pay taxes on it.

10. **Myth**: Children don't have to pay taxes.

    Fact: Most children do not have to file a tax return, but those who earn income may have to. If a child earns an income from an after-school job and earns more than the standard deduction, which is $6,300 in 2015, he or she is required to file. For unearned income (such as investment interest or dividends), the IRS has a separate cutoff for required filing, which is $1,050 in 2015. Even if a child does not meet the required thresholds for filing, he or she may still want to file to obtain a refund, especially if his or her employer has withheld taxes throughout the year.

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