

## 7 Mistakes to Avoid on Your 2012 Tax Return

Written by Ginny Grimsley  
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By: Rick Rodgers, CFP

Every year, our politicians talk about the need to simplify the tax code and every year, they make it more complex.

The average taxpayer will spend an estimated 23 hours completing their return this year. Eighty percent of taxpayers will hire someone to do the work, or buy tax software, even though 64 percent of taxpayers don't owe anything.

There are six definitions of a child; more than a dozen educational credits, and 16 different types of tax-favored savings plans. That may seem daunting, but with some basic knowledge and planning, you can avoid costly mistakes.

Here is a list of the seven common mistakes and missed deductions to help you prepare your 2012 tax return.

1. Charitable deductions - cash. Did you make a contribution to charity last year? The IRS is cracking down on bogus deductions, so be sure to follow the [donation tax rules](#). One of the most important rules is that you give to a charity with an IRS tax-exempt status. Don't forget to take the mileage deduction when it applies. The IRS allows 14 cents per mile driven in service of charitable organizations.
2. Charitable deductions – in kind. Your used clothing donated to charity may not seem worth much, but consider using valuation software to determine how much to claim. You may be pleasantly surprised. The same applies for furniture and other household items donated. Clothing must be in good condition or better to take the deduction.
3. Social Security number. Privacy concerns caused the IRS to stop putting taxpayer Social Security numbers on tax package labels. Most of your tax information is keyed to your tax ID number. Tax ID number errors raise red flags with the IRS, which attempts to match reported income to tax returns. This number is also important when claiming the Child Tax and Additional Child Tax credits and credits for educational expenses. Take time to verify that your tax ID number is correct on 1099s, W-2 forms and all tax documents to avoid delays

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processing your return.

4. Dividend reinvestments. Each time a stock or mutual fund reinvests dividends, it's the same as making a new purchase of shares. The amount of the reinvested dividend adds to your tax basis when you calculate your taxable gain from a sale. Make sure you don't overpay the IRS. Mutual funds generally track the average basis of shares and automatically include reinvested dividends in the calculation. Ultimately it's up to you to make sure you calculate the gain properly.

5. Unused deductions from 2011. The tax code allows capital losses to offset capital gains. When losses exceed gains, the taxpayer can use only \$3,000 of losses against other income. Any excess loss can be carried forward into future tax years. Don't forget to carry the unused losses over to your 2012 tax return. Charitable deductions are capped based on the type of property donated and your adjusted gross income. Excess deductions can also be carried into future years. Don't let carryovers get lost in the shuffle.

6. Excess Roth contributions. Single taxpayers whose modified adjusted gross income is between \$110,000 - \$125,000 (\$173,000 - \$183,000 for joint filers) cannot make a full Roth IRA contribution. Check this number when you complete your tax return. Excess contributions are subject to a 6 percent penalty on the amount you contributed.

7. Overlooked medical deductions. Health insurance premiums are an often overlooked deduction. The portion paid by the employee is a deductible expense when you itemize. This includes the portion you pay to Medicare which is usually deducted from Social Security. Transportation expenses for trips to medical facilities or doctors' offices are also deductible. The IRS allows 23 cents per mile driven for medical purposes in 2012.

If you have made a mistake or missed a deduction you can file an amended tax return to correct the problem. Some taxpayers worry filing an amended return will increase their chances of being audited. Amending the return doesn't focus the IRS's attention on your return but it will extend your exposure to their challenges. The IRS looks back three years from the date you file a return. When you amend your tax return you reopen the three-year window.

No one likes to deal with the IRS and taxes, but you could be leaving money on the table by not

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filing an amendment. If the total amount of tax you owe is smaller than your original return, the IRS will refund the difference.

Also file an amended return if the correction results in additional tax owed. The IRS will add interest to the amount if you amend after your filing deadline, but it rarely adds penalties. Correcting the mistake early saves interest and can avoid penalties.

### About Rick Rodgers

Certified Financial Planner® Rick Rodgers is president of Rodgers & Associates, “The Retirement Specialists,” in Lancaster, Pa., and author of “The New Three-Legged Stool: A Tax Efficient Approach to Retirement Planning.” He’s a Certified Retirement Counselor and member of the National Association of Personal Financial Advisers. Rodgers has been featured on national radio and TV shows, including “FOX Business News” and “The 700 Club,” and is available to speak at conferences and corporate events ( [www.RodgersSpeaks.com](http://www.RodgersSpeaks.com) ).