Taxes in Plain English
(Tax jargon kept to a minimum)

2018 Edition
# TABLE OF CONTENTS

**Introduction**

1. Start at the Beginning  
2. The Art of When  
3. Building Your Return  
4. Putting It All Together  
5. The Sum of Its Parts  
6. In Search of Subtraction  
7. The Next Level  
8. Hold On There, Pardner  
9. Alert! Shameless Marketing Ploy Ahead!  
10. So, Are You In?
INTRODUCTION

If you haven’t noticed already, we’re up to our deductions in the annual American rite of passage known as filing income tax returns. And for some taxpayers, the mere thought of tax time makes them grumpy. They look forward to filing their taxes with the same anticipation they get from a root canal or a day in Divorce Court.

Truth is, it doesn’t have to be that way.

In most cases, doing your own income taxes is not only affordable, but surprisingly easy. Of course, if you have a personal financial empire to report, with foreign investment and stock futures and such, you’re better off getting professional tax help (and we’ll talk about that later). But for the rest of us – you’ve come to the right place.

We built 1040.com to be the antidote for just the kind of adult angst we’re talking about here. With software that’s smart and simple, we guide you through the income tax process – no lumps, no bumps, and all in record time. And we’re just the kind of tax nerds you need to keep you up to date on the latest deductions and credits, while guiding you around the hazards on your road to Taxville.

We know the U.S. Tax Code can be pretty intimidating. At a gazillion pages long, it can make the most hardened CPA weep in frustration. But here’s the good news: YOU don’t need to know it. Our software takes care of all that. We do all the calculations and all the heavy lifting. But you do need to know the basics of the tax preparation process, because you have some decisions to make about your next income tax return.

Filing your income taxes is a bit like taking a trip. You need to know where you want to end up, and you’ve got to know the best route to take to get there. So this can be your roadmap to a successful income tax season – and it’s time to get started.
START AT THE BEGINNING
1. Start at the Beginning

The federal income tax is over 100 years old, so don’t think anybody’s picking on you. Way back in 1913, the very first federal income tax was unveiled. Various forms of a graduated tax had been tried before then, of course – that got started during the War of 1812 – but we’ve had our present income tax since it was enacted by President Woodrow Wilson. Besides the numbers – the tax was only 1 percent on income over $4,000 for married filers – the biggest difference was in the form itself. The first 1040 was only 4 pages long – although some in Washington at the time said that was too complex. Oh, yes, one more thing: tax returns back then were all public information, so everybody could see what you made, and how much tax you paid. That little loophole was among the first to be closed, so tax returns have been confidential ever since.

So, how does this income tax thing work? Let’s start with some basic terms. Those of us who work for someone else are paid for our work. A certain percentage of money is withheld from our wages to pay our federal taxes. The more in wages we make, the more tax is held out. It’s these wages and withheld taxes that are reported every year on a Form W-2. The money the employer holds out for taxes is sent to the government directly.

If you’re self-employed, you’re responsible for withholding the federal tax from your proceeds, and sending them in the form of quarterly tax payments.

Before we go farther, let’s get some of the terminology settled.

**Gross income** is basically all the money you earned during the year, whether it’s reported on a W-2 or not. It can include tips, gifts, unemployment payments, alimony, even Social Security distributions.

The **tax rate** is a percentage that is multiplied with your gross income to figure your initial tax. Rates vary with your situation – whether you are single or married, for example – and can change from year to year. Not to worry, though; our software keeps up with it all – automatically.

**Deductions** are circumstances or other conditions that allow you to subtract (or deduct) a certain amount from that gross income figure. Individual deductions tend to proliferate like rabbits; there are a bazillion of them.
The **standard deduction** is a set amount that a taxpayer can elect to receive, if he or she does not qualify for the higher-level **itemized deduction**. In other words, if your tax picture is pretty simple and you don’t have a number of deductions to apply to your income taxes, you can elect to take the standard deduction and still get a benefit. Our software figures this for you, so no need to worry.

To take advantage of the bulk of deductions, however, a qualifying taxpayer has to **itemize deductions**. In effect, it’s foregoing the standard deduction (you can’t get both), and opting to take the specific deductions you list on the tax return, on Schedule A.

**Credits** are good too, but they help from a different angle. Instead of cutting the amount of income you had like a deduction, credits are applied to the tax you owe. More credits equal less tax. Credits can be applied without itemizing. Your mileage may vary.

**E-filing** is the system we use for electronically sending your completed tax return to the Internal Revenue Service. E-filing has a number of benefits: it’s fast, it’s easy, you can make sure your return goes directly to the IRS, and you’ll get your refund much quicker if you e-file.

**Refund** – Really, do we have to explain this one? You know, that pile of money you hope to get back from the IRS after you e-file!

Taking the simplified approach, your income tax return may look like this: you start at gross income, and decide if you’ll go by way of either the standard deduction or itemized deductions. After a brief stop at tax rate, you’ll get more gas in your tank at tax credits.

If you happened to have more taken out in withholding than the calculations say you owe, you get a refund. If your withholding didn’t take out enough, you’ll have to pay **tax due**.

**Tax year vs. calendar year** – This one gets a lot of folks. The tax year is the year you are reporting for in your income tax return. The calendar year is simply the year when you are filing that return. For example, when you file your taxes in January 2018, you are filing the return for tax year 2017. So when somebody talks about “tax year such-and-such,” they’re talking about the year that would be covered by a tax return – not the year in which it is filed. (Important hint: the tax year will always be less than the calendar year, since you cannot file taxes for the year currently in progress.)

So that’s your quickie terminology tune-up. Next you need to know the Art of When. It’s like Zen – but not nearly as satisfying.
THE ART OF WHEN
2. The Art of When

OK, so this part is a little more than we stated. It’s not just the Art of When ... it’s What and When you need to do it.

For most of us taxpayers, the date April 15 should be tattooed on our foreheads. Or at least into our frontal lobes. That’s the drop-dead date the IRS has to get your income tax return, barring other limited circumstances (we’ll get to those in a bit). This is no arbitrary date; it’s set into the U.S. Tax Code. And telling Mr. Treasury Agent “My dog ate it,” when he asks you why you haven’t filed your income tax return yet just won’t get you any slack.

But maybe it would be helpful to give you a look at the year, noting the high spots (or low spots, depending on your point of view) that will demand your attention. Keep in mind, any dates and timeframes are for individual income tax filers; business income taxes follow a different timetable.

January – Generally, this month is when employers, banks and others send out the various financial reports we taxpayers use in our income tax returns – W-2s, 1099s and such. Also, sometime in January (the date varies), the Internal Revenue Service announces that it’s starting to accept income tax returns for the previous tax year. You can’t get the jump on the IRS by trying to send in your return before that announcement, either. The IRS just won’t allow you to send it, so wait for it to open the gates.

From then on to mid-April, it’s all about sending your taxes. As a rule of thumb, the sooner you get your return transmitted to the IRS and accepted, the quicker you’ll see any refund. Filing early, by the way, also ranks high on the list of smart moves to head off identity theft.

February & March – Tax return transmissions continue. We’ll have the 1040.com calculation engine tuned up and running at maximum RPM for you. At this time of year, we’re bangin’ on all cylinders.

April – Things start to get interesting here. Yes, we said your income tax return was due by April 15. But you should know that you can file what’s known as An Application for an Automatic Extension of Time to File (known in the business as “an extension”) that will allow you up to Oct. 15 to file your return. The IRS doesn’t really ask for a reason why you need more time. And as long as the extension is filed before April 15, they’re pretty generous with it.

Filing an extension is easy on 1040.com. But if you want to see your refund anytime soon, we definitely recommend playing it straight and getting your return in by April 15.
By the way, when it comes to money, the IRS is seldom in a compromising mood. So, if you find yourself owing tax, it’s due at the IRS by April 15. Period. And that’s the case even if you get an extension of time to file your taxes. Should you forget to file on April 15 – and you didn’t get an extension – expect to be charged penalty and interest on any tax you owe. That can be up to 25 percent of your total tax bill. If you’re due a refund, there won’t be any penalty or interest – but since you filed late, your refund will, of course, be late too.

**May – September** – If you filed by April 15, you’ve got all summer to kick back, enjoy that beverage of choice (paper umbrella optional) and enjoy the fruits of your financial fortitude. The hammock is a lovely place this time of year.

Remember, too, that what happens this year will be fodder for your next tax return. So now, while there’s no pressure, figure out a filing system that makes sense for you, so you can get to all those receipts and tax bills you need to refer to when you do your next income tax return.

Thanks to the wonders of electronics, we can keep organized for very little money and in a very small space. For those who like the tactile rush that only paperwork can supply, you can buy some file pockets at the Monster Mart, and use them to keep track of the various pieces of paperwork you generate over the course of the year. Either way, the point is to keep all your tax documents in one place, so you can find stuff in a flash when you sit down to file your return.

**October** – This month is important because it contains your final deadline for filing taxes without a penalty. Remember that extension you filed in April? Well, it’s good for six months, and time’s up on Oct. 15.

So if you filed an extension, you’ll need to file by Oct. 15, or face a Failure to File penalty. Unless you’re a soldier in a combat zone, there is no second extension from the IRS. And of course, if you owed any tax, that would have been due back in April.

**November** – Turkey, dressing, and football!

**December** – Santa Claus, presents – and more football!!

---

Ahem. Pardon our exuberance. The tax geek in us sees December as a great time to actually prepare for January’s tax return filing. Since it closes out the year, we use the month to marshal our documents that were generated over the past year and get organized (remember those a few paragraphs back?).
BUILDING YOUR RETURN
3. Building Your Return

In order to understand how to build a better tax return, you need to know the pieces you may be using. These are some of the forms that you may get, from employers, from banks, even from the government. You’ll report these forms in your return.

**W-2** – if you work for someone else, chances are you’ll get one of these to report your earnings and how much was withheld from your pay for taxes. Expect a W-2 from each employer you had.

**1099** – There is a whole family of 1099s, with each reporting a different kind of income. Those most likely to be coming to a mailbox near you:

- **1099-MISC** – If you’re a contractor or a freelancer, you should get one of these from every company that hired and paid you.

- **1099-G** – If you got any unemployment compensation during the year, expect one of these to report the income. You could also receive a 1099-G if you got a state refund last year; it will show the amount of that refund that’s taxable if you itemize your deductions.

- **1099-SSA** – If you get Social Security payments, you’ll see them listed on a 1099-SSA.

- **1099-R** – Those with a retirement plan, an annuity, an IRA or pension will get one of these yearly for each such plan you have.

- **1099-INT** – If you have an interest-bearing account, such as a saving account, this form may come from the host financial institution, showing how much interest your account earned during the year.

- **1099-DIV** – Mutual fund or stock owners get this 1099, reporting dividends that were paid.

- **1099-B** – If you sold stock during the year, your financial institution or broker will issue one of these to report capital gains or losses incurred in the transaction.

- **1098** – Issued by your mortgage lender to report mortgage interest and mortgage insurance.

- **1098-T** – If you attended college during the year, this reports tuition and fees.

- **1098-E** – If you have a student loan, this shows how much interest you paid for the year.

**Form 1095-A** – If you bought health insurance through a state or federal Exchange or Marketplace, you could get one of these showing your purchase.

**Donation Statement** – Lists donations, whether cash or property, to a church or charity.
PUTTING IT ALL TOGETHER
4. Putting It All Together

As we’ve seen, there may be a number of parts to your income tax return. Now let’s see how those pieces can come together to make a complete return.

Taken as a whole, it might help to view your tax return as one big equation. Not quite as bad as those horrid word problems we had in high school, but it still takes a modicum of mathematical muscle to make it all work. But here’s where it gets easier: you provide the numbers, we provide the mathematical muscle.

In the Old Days, you’d go to the Post Office, pick up the forms you thought you’d need, and spread them out on the kitchen table while you filled them out, doing the calculations as you went. Six pencils, two erasers, and a basketful of expletives-deleted later, you’d have a paper tax return ready to be mailed off to the IRS.

Now, we sit down with our W-2s, 1099s and other documents, fix a hot cup of coffee, and, after creating a 1040.com account, start filling in the blanks on the electronic forms. Only this time, all those additions, subtractions and percentage calculations are done automatically. Our website does all that heavy lifting for you. We like to say, “We’re tax geeks – so you don’t have to be.”

In fact, our site can even tell you which tax forms you need – all based on what you’ve answered to some pretty basic questions.
THE SUM OF ITS PARTS
5. The Sum of Its Parts

If you’re not familiar with the income tax process, it’s helpful to break it up into a series of steps.

The first step is also one of the easiest – that’s where you tell us just who you are. Name, address, Social Security Numbers and so forth. Included in this section is something called filing status. That means, for the purpose of your return, how are you, the taxpayer, characterizing your marital status? It sounds simple (and usually is), but our website can help you make an informed choice.

Many times, it just comes down between choosing “married” or “single,” but not always. Here’s a quick overview:

- If you’re single and NOT supporting children or parents with your income, you’d file single.
- If you’re single and supporting children or parents for most of the year, you’d probably qualify to file as head of household.
- If you’re married, you’ll most likely file a joint return with your spouse.
- If you’re married but separated, or married with a sizeable income difference with your spouse, it might benefit you to file married filing separately.

Once you’ve entered your personal information, the next step is to find out how much income you had. Remember the W-2 and all those 1099 forms we talked about earlier? This is where you would enter the numbers from those forms. We make it easy. For example, the number in Box 2 on your W-2 goes in Box 2 of the online form, and so on. And that’s true for any of the income forms, not just the W-2. The online boxes jive with the corresponding physical form you have to enter.

Adding up all your income can be as simple as copying your one-and-only W-2, or as complex as adding up all the 1099-MISCs and your other receipts if you’re a contractor or a self-employed professional. When you’re done, you should have your gross income figure.

Since that’s what is used to compute how much tax you owe, you’ll want to pick up a few deductions if you can, in order to soften the blow.
IN SEARCH OF SUBTRACTION
6. In Search of Subtraction

As we mentioned before, deductions reduce the amount of your gross income that is considered taxable by the IRS. Basically, deductions – sometimes also called “adjustments” by us tax geeks – can fall into one of three categories.

Standalone deductions can be taken on an individual basis, meaning they don’t depend on other deductions or conditions. These are also sometimes called “above-the-line” deductions. Some of the common standalone deductions include:

- **Education expenses** – This includes tuition and fees paid by students, and some qualifying expenses for teachers.
- **Moving expenses** – If your move is to take a new job (and the move meets IRS distance requirements), you can qualify for this cool move.
- **Student loan interest** – Means just what it says: interest on your student loan.
- **IRA contributions** – If you have a qualifying IRA, part of the amount you contribute can be deducted from income.

Itemized deductions – We touched on this earlier, but to recap, a standard deduction is available to taxpayers who don’t have enough individual deductions to itemize. The standard deduction is a set amount that is based on your filing status – married filing jointly, single, head of household and so on.

If your situation qualifies for the itemized category (don’t worry, our software will let you know if you do), you may have some additional deduction opportunities. Some of the more common ones include:

- **Mortgage expense** – This includes mortgage interest and mortgage insurance premiums.
- **Other taxes** – You may be able to deduct the amount you’ve paid during the tax year for personal property taxes, state income taxes and real estate taxes. Some restrictions apply. Your mileage may vary.
- **Gifts to charity** – If you can itemize, you can deduct the fair market value of items donated to qualified organizations, such as the TV you donated to the animal shelter’s thrift store, as well as cash donations to a qualifying charity.
- **Casualty or theft loss** – The thief got your car stereo, but you could get a deduction for the cost of the replacement. And that can make for some pretty sweet music too.
- **Medical and dental expenses** – Helps to remove some of the Insult from Injury.
The third group of deductions are characterized as **exemptions**. This number one source of deductions can be as close as your own family. Are you married? Check. Got some kids? Check. Got a dog? Just kidding.

The math here is pretty simple: more people in your family equals a bigger deduction. Most of you can multiply the number of persons in your family (as listed on your return) by $4,050. The result is added to the rest of your deductions.
THE NEXT LEVEL
7. The Next Level

We have gross income; we also have total deductions. Subtract your deductions from your income and you have (drumroll, please) ... **taxable income**. Ta-daaaaah!

This is the figure that’s used to determine just what your tax will be – but don’t go reaching for your wallet just yet. While the IRS uses a sliding scale to determine how much tax is owed at each income level, we still have one more chance to whittle that tax bill down to size.

This is where **credits** come in, further reducing the amount of tax you owe. Among the common credits you’re likely to see (and hopefully use):

- Child care expenses – You’ll need to know the Employer Identification Number if you use a daycare provider, and a Social Security Number if you pay an individual.
- Child Tax Credit – basically another credit for having kids.
- Higher education expense – Some college expenses qualify for a credit, but the student and the parent cannot both claim the credit.
- Retirement savings plan – Not quite the same as an IRA, but some contributions to a savings plan may qualify for credits nonetheless.

Subtract your total credits from your taxable income and you get what’s called **total tax**. This is what you owe the government for the privilege of making the income you had.

Your bottom line shows up when we compare that total tax figure with your **total payments**. And here’s how you get the total payments:

Simply add up how much was withheld during the tax year. If you have a Form W-2 or a 1099, it will state how much was withheld for federal taxes. Other “payments” are included in total payments, depending on your situation. For example, if you’re a contractor or freelancer and make quarterly estimated tax payments, those would be included. Also, certain credits, such as education credits and the Earned Income Credit, are “refundable,” meaning they count as a payment.

The payoff? Subtract your total payments from total tax and you get Your Bottom Line. If it’s a positive number, you owe a few more pesos to the Men in Black. If it’s a negative – Payday! You get a refund.
HOLD ON THERE, PARDNER
8. Hold On There, Pardner

Right about now, we can see that cartoonish purple spiral coming out of your head and your eyes glazing over. It’s a sure sign of Lingo Overload. We see it a lot when we try to explain taxes to folks. But we’ve got a sure remedy.

1040.com will take care of all those additions, subtractions, credits, payments and Total Tax for you. Guaranteed. You’ve got all the important stuff, right? The W-2s, the 1099s and the receipt from the church bazaar for that old couch you donated?


Sorry – got carried away there for a minute. But you get the idea.

Back to business.

Let’s rehash a bit. Like we said, the basic building blocks of a tax return are income (which can include W-2 employee wages, 1099-MISC income for contractors and freelancers, and interest income); deductions (which can include items such as gifts to charity, student loan interest, education expenses, mortgage interest, personal property taxes, state taxes, and real estate taxes); and credits (like child care, higher education, the Child Tax Credit, retirement savings and the Earned Income Credit).

But don’t worry that you’ll forget this-credit or that-deduction when it comes time to file.
ALERT! SHAMELESS MARKETING PLOY AHEAD!
9. Alert! Shameless Marketing Ploy Ahead!

Back in the day when sending a stack of paper forms to the IRS was your only option, you did need to know exactly how all this stuff meshed together. But now, our software does all that automatically. Sign into your account, and answer some simple yes-or-no questions to tell 1040.com what you need. We come up with the forms, you come up with the numbers, and we deliver the Bottom Line in seconds.

We use the latest calculations every step of the way. Our program even checks your return before it’s sent, to make sure there are no math errors that could mean trouble later. And if you get stuck on your return, we have email support to help you through the rough spots. So you can be confident your return gives you the best result your situation allows – and it’s right.

How easy is that?

And did we say fast? In the paper days, you relied on the Post Office to get your treasured tax return to the IRS. Yeah. Enough said there.

Now when you e-file with 1040.com, transit time for your completed return is measured in nanoseconds – and the trip is as secure as modern technology can make it.
SO, ARE YOU IN?
10. So, Are You In?

That’s our look at the income tax landscape. We hope we’ve given you some of the basics of income taxes. And we hope we’ve convinced you just how easy the process can be on 1040.com!

We want you to have a positive income tax filing experience, whether it’s with us or with a professional preparer. But we think you’ll find teaming up with 1040.com is a good move. Lots of taxpayers have, and keep coming back year after year to do their returns. In fact, our years in the income tax business (our expertise reaches all the way back to 1977) have built up quite a little community around our site – people who have come to depend on the power and the simplicity of our website.

That’s because we here at 1040.com are dedicated to our craft, forging that link between tech and taxes.

We’re tax geeks – so you don’t have to be.
ABOUT THIS GUIDE

WRITTEN BY:
Bob Williams
Senior Writer, 1040.com

ADDITIONAL CONTRIBUTORS:
James Stork
EVP, Drake Software

CONTACT 1040.COM
Email: marketing@1040.com
Website: www.1040.com
Blog: www.1040.com/blog/
Twitter: @taxesonline
Facebook: facebook.com/taxesonline
Instagram: instagram.com/1040taxes
Pinterest: pinterest.com/1040comtaxes

ABOUT 1040.COM:
WE’RE TAX GEEKS – SO YOU DON’T HAVE TO BE.

We’re a small group of tax professionals, programmers, writers and designers. Our parent company, Drake Software, has been making professional tax software since 1977, and we’ve taken that core expertise and distilled, honed, crafted and polished it for the home user.

Our mission: to make filing your taxes as quick and simple as we can. So you can get back to your real life.

What that means, for us and for you:

• We feel that tax jargon should be avoided whenever possible. We prefer words that actually mean something to you.

• We don’t like the whole idea of asking you to pick out a tax “package” before you even know what you need. Sure, like other sites, we charge a bit more for more complicated returns, but you don’t have to figure out what to buy before you start.

• We believe in offering extra services, but we’re not going to irritate you with them. No constant popups to “upgrade” here.

Bottom line: we work hard at this stuff, so you don’t have to.

1040.com
Your Taxes. Smart & Simple.