Financial Wellness UPDATE

QCI Asset Management Inc.

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Fast facts

More than 20 percent of returns filed on paper have at least one error; this can raise the odds of an audit or delay a refund. Try e-filing and go green!

Questions about saving for the future?

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5 Common Tax Mistakes to Avoid in 2021

These blunders happen all the time–but you should take extra care to steer clear of them this year.

The tax code is complicated. It often changes, so it can be difficult to know what rules to follow and what benefits you're entitled to. Here are a few tax mistakes you should make every effort to avoid this year.

1. Not filing your return early when you're due a refund

Each year, the majority of people who file a tax return are due a refund. If you're expecting money back from the IRS, then it pays to get moving as quickly as you can. This year, the IRS will begin accepting tax returns on Feb. 12. While taxes aren't due until April 15, you could end up getting your money back a lot sooner if you hustle.

It's especially important to file your taxes early this year if you were entitled to one of the recently issued $600 stimulus payments, but didn't receive yours. Those who don't get their stimulus initially will need to claim the Recovery Rebate Credit on their taxes to get that cash. The longer you delay, the longer you'll wait.

2. Not reporting all of your income

Failing to report all your income is a good way to land your return on the IRS audit list. As you set out to do your taxes, remember that you're obligated to tell the IRS about all of the money you earned in 2020, whether it's wages from a side job, bank account interest, or dividends in a brokerage account.

Also, don't forget that unemployment benefits are taxable income that you must report as well. Many people lost their jobs in 2020. If you were one of them, you'll need to account for benefits received when you file your upcoming return.

3. Not knowing your tax credits and deductions

The IRS offers filers a host of lucrative tax credits and deductions that can substantially reduce their tax liability. If you're a lower earner, for example, you may be entitled to claim the Earned Income Tax Credit, which is particularly valuable because it's fully refundable (meaning, the IRS will pay you if the credit knocks your tax liability down to below $0). If you have children, it pays to look into the Child Tax Credit. If you're a homeowner, there are several expenses you can deduct, like interest on your mortgage or property taxes, if you itemize on your return.

4. Waiting until the last minute to file your return

Last year, the IRS extended the tax-filing deadline to July 15 in light of the coronavirus pandemic. This year, however, it's unlikely to do the same. The pandemic has been with us since early 2020. Taxpayers should theoretically have plenty of time to complete their returns by mid-April.

Still, this isn't the year to procrastinate. Many filers' financial situations changed in 2020, and the demand for tax prep help may be higher than usual. If you want assistance with your return, line it up well ahead of the deadline.

5. Filing a paper return

The IRS is still in the process of catching up on paper returns that were filed in 2020. Granted, the agency also closed its offices for much of last year and then came back to piles of mail it had to sort through. While we won't necessarily see the same paper backlog in 2021, you're still better off submitting your taxes electronically. Not only will that reduce your chances of making an error, but it will also help expedite your potential refund.

The U.S. economy is in shambles, and there's a pandemic raging. The last thing you need is a tax headache. Avoiding these mistakes will take one potential source of stress off the table.