

Which 1040 Is The Right One For You?

Article Highlights:

- Form 1040-EZ
- Form 1040-A
- Form 1040
- Affordable Care Act
- Using the 1040-EZ Could Be A Mistake

When Benjamin Franklin said that nothing is certain but death and taxes, he managed to name two of the things that people loathe and fear the most. One of the things that makes taxes so unpleasant is obviously the fact that you have to hand over some of your hard-earned money to the government, and the other is that it can be so difficult to figure out how to fill out the forms – and which one to use.

The rule of thumb for choosing your personal income tax form is to try to go with the one that is easiest to understand, but that being said, you also need to be sure that it is the one that is correct. The government provides three forms – the 1040, the 1040A, and the 1040EZ – and all are meant to help you pay the amount that you owe. But each form has a different purpose, and if you choose the wrong one, it can end up meaning that you either pay more than you owe or end up having to pay fines for not paying enough.

The simplest form is the one known as the EZ, while the long Form 1040 is the most complicated. Though it may be tempting to go for the one that takes the least amount of time to complete, if you simply jump for the fastest way through your filing responsibilities, you may end up cheating yourself of the opportunity to take some of the tax breaks to which you're entitled. That's because the more detail the form asks for, the more chances there are for you to provide information that may entitle you to a write-off.

The Affordable Care Act Might Preclude the Use of the EZ - Many people who were formerly able to file Form 1040EZ may find that they are no longer eligible to use this short form. This is because those who purchase health insurance through a state or federal exchange under the Affordable Care Act have the option to receive advance payment of the premium tax credit, which helps pay some of the costs of the insurance. In order to ensure that you receive the appropriate amount of credit, the taxpayer is required to submit all appropriate information on Form 8962, which cannot be filed with the 1040EZ – it can only be submitted with Form 1040 or 1040a. Though this means that taxpayers have to do a bit more paperwork, but it ensures that the proper amount of credit is taken and also provides the opportunity for the government to reimburse you if not enough of a credit is provided.

How Using The EZ May Be A Mistake - In some cases, using the 1040EZ can end up costing you money. This is because the short form, which is often the one selected by taxpayers who believe that their uncomplicated finances make it the most appropriate for them, does not provide the opportunity to take advantage of tax breaks you may be entitled to. For example, a recent college graduate who was just hired by his first employer would naturally assume that his taxes are so simple that there's no need to fuss with a longer form. But doing so eliminates the possibility of taking a write-off for any interest that he paid on a student loan. Similarly, if he was wise and started setting aside money into a traditional IRA upon learning that his new employer offered no retirement plan, then his contributions would be deductible – but the short form doesn't even ask that question. He might end up in a lower tax bracket by using the long form and would be able to pay just fifteen percent on taxes rather than 25 percent, simply based on these two deductions. Another deduction that can be taken on a 1040 or 1040A but not on a 1040EZ is the Lifetime Learning tax

credit for courses taken to improve job skills – and there are many more. Form 1040EZ has the advantage of being simple, but it can end up working against you if you want to get the greatest possible deduction.

Reviewing the Three Tax Returns - It can be difficult to know which of the three tax returns is the right one for you and your particular situation. Here is some basic information on each one to provide you with a better sense of which you should choose.

Form 1040EZ - This simplest of all of the IRS forms is open to people who meet the following criteria:

- You are filing as either single or as married filing jointly
- You are younger than 65. If you are filing a joint return with your spouse, then your spouse must also be younger than 65. If your 65th birthday (or your spouse's 65th birthday) falls on January 1 of the tax year, then you are considered to have turned 65 in the previous year, and will become ineligible to use the form.
- Neither you nor your spouse (if filing jointly) can have been legally blind during the tax year.
- You cannot have dependents and use this form.
- Your interest income must be less than \$1,500.
- Your income (or joint income if filing with your spouse) must be less than \$100,000.

Though the 1040 EZ does make things easier by being just one page long, it minimizes the amount of deductions that you are able to take. The 1040EZ limits taxpayers to taking just the earned income tax credit, and it may end up cheating you of deductions to which you are entitled. For that reason, it makes sense to consider the other forms that are available.

Form 1040A - Form 1040A is available regardless of what the taxpayer's filing status is. Those who file as single, married filing either separately or jointly, head of household, or qualifying widow or widower can all use this form. In addition to having this advantage, it also provides the opportunity to claim more than just the earned income tax credit. Taxpayers are also able to take advantage of tax credits for their children, education, dependent care, retirement savings credits, and elderly or disabled care. All of these deductions are available using the 1040A, but not the 1040EZ. Additional criteria for using the 1040A include:

- You must have taxable income (or combined incomes) below \$100,000.
- You cannot itemize deductions.
- You can have capital gain distributions but cannot have capital losses or gains.

There are other adjustments allowed for those using Form 1040A. These are known as above-the-line deductions, and they reduce the total gross income counted against you for tax purposes. By using these adjustments, you are able to reduce your overall tax burden. These adjustments include some IRA contributions, educator expenses, college tuition and fees, and student loan interest.

Form 1040 - For those who have higher incomes, need to itemize their deductions, or have investments and income that require a more complicated tax preparation, the appropriate form is the 1040. The 1040 generally requires additional documentation and forms, but using it is often the only way to get the additional savings that are due to the taxpayer. Some of these credits include deductions for taxes paid in a foreign country, deductions for the cost of adopting a child, and a number of above-the-line deductions that are not available with the other forms. The purpose of having these other adjustments available is to provide people with the greatest opportunity to reduce their gross income, thereby reducing the overall tax burden. People who use Form 1040 are able to take deductions for self-employment taxes that have been paid, moving taxes, alimony payments, and more. There is no need to use a form Schedule A, as the available deductions are already listed on

the front page of the 1040 – however, certain forms or schedules may need to be completed and attached.

Although any taxpayer can use the 1040, it is most generally used by taxpayers:

- Who itemize their deductions,
- Who are self-employed, or
- Who have capital gain income from the sale of stocks or other assets.

If you are still uncertain as to which form is most appropriate for you, IRS Publication 17 provides many answers and details, including special circumstances and specific examples.

It is important to remember that just because a form was appropriate for you in the past, it may not be in the future, and there is no requirement that you use it again. It may be appropriate for you to consult with a professional tax preparer to ensure you receive all the tax breaks and benefits you are entitled to.