Should I Do My Own Taxes, or Hire a Professional?

Tax laws change constantly, and your taxes only become more complicated the older you get. In fact, many times, people just don't realize what they don't know. This week's listener, for example, settled a debt–without understanding the tax implications–and lost most of her tax refund as a result. So when should you do your own taxes, and when should you consider calling a professional? For guidance, host Stefanie O'Connell Rodriguez turns to personal finance experts, Kristin Myers, editor-in-chief of The Balance, and Caleb Silver, editor-in-chief of Investopedia.

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Kendall: They garnished my tax return. Unfortunately, I was very broke at the time. And that was going to be put towards some bills that I needed to take care of and that put me farther behind.

Stefanie O'Connell Rodriguez: This is Taxes in Ten, a limited series from the podcast Money Confidential at *Real Simple*. I'm your host, Stefanie O'Connell Rodriguez. And this week, we're talking to a Nevada-based listener, who we're calling Kendall, not her real name.

Back in her mid-twenties, Kendall had a car repossession on her credit. While she initially owed around $9,000, she was able to settle the debt for about $3,000.

Kendall: I made my payments. I paid it all off. Did my taxes that year no issues.

Stefanie O'Connell Rodriguez: The following year, a few weeks after filing her tax return, Kendall got an unpleasant surprise from the IRS**.**

Kendall: I get a notice from the IRS that they are taking 70 percent of my refund due to under-reporting my income for the previous year.

Stefanie O'Connell Rodriguez: The IRS considered the difference between the amount Kendall initially owed and the amount she ultimately settled her car debt for, as income, which was about $6,000.

Kendall: That is when I learned that certain debts that are discharged or negotiated can be counted as income—even if you don't actually see the money—and will be taxed.

Stefanie O'Connell Rodriguez: Because she had not paid taxes on that income, 70 percent of Kendall's tax refund that year was garnished.

That's the thing about taxes—sometimes, you don't know what you don't know. In Kendall's case, she didn't realize the IRS would count the difference in the debt she'd settled with her creditor as income.

Maybe you've experienced something similar, where you didn't know you had to report the income you made on your freelance side hustle, or you didn't realize you were missing out on tax deductions you were actually entitled to.

And even if for some reason you do know the ins and outs of the tax code in one year, the laws and rules are always changing, which is why there's a whole industry dedicated to tax planning and preparation. But even navigating that can feel complicated.

Kristin Myers: I mean, you practically have to have a PhD just to do your taxes every single year. There are so many loopholes, so many deductions.

Caleb Silver: And it gets more complicated the older you get, the more life stages you go through, when you start to have children, if you start a small business, if you're heading into retirement—it gets complicated every step of the way. And you got to stay on top of it.

Stefanie O'Connell Rodriguez: It's a lot to unpack, so we're turning to personal finance experts, Kristin Myers, editor-in-chief of The Balance, and Caleb Silver, editor-in-chief of Investopedia for answers.

Kristin Myers: It is a hundred percent okay for you to do your taxes yourself. Do not feel that you need to go and spend money on a tax preparer or a certified accountant. If your financial picture is fairly simple—you go to work and that's the primary source of your income, you don't have side hustles, it's just very basic and straightforward—it is perfectly fine to use tax software.

Caleb Silver: It depends on the complexity of your financial situation. How complicated is your financial life? If this person has a lot of investments, if this person has a lot of stock options, potentially from a company they're working for, or they've inherited some money, or they've been gifted some money, there's all kinds of ways your tax life can become very complicated—and then it might be time to talk to a professional.

But you know what you can do? There are a lot of registered investment advisors that can help you not only with your investments, but also with your taxes, also with your insurance, so maybe it's not time for a tax preparer on its own, but maybe you need broader financial advice. So, there's ways to be thinking about this beyond, 'Can I just have somebody help me with these forms?' Maybe it's part of your holistic life planning, and we see a lot more financial planners offering that service.

Kristin Myers: I also want to mention here that if you earn under a certain amount, and it does depend on the state or municipality, you can actually qualify for some free tax advice. And even with the IRS, there's something called the IRS free file. If you earn under a certain amount, you can actually make use of some of the software through the IRS website.

Stefanie O'Connell Rodriguez: So, Kristin, let's say that I've decided I'm going to take the DIY route. What do I need to answer the questions that software is going to ask me?

Kristin Myers: So, you are going to want to have the records that show how much you earned that year, records that might've showed what your expenses were that year, what your mortgage insurance is going to be. And a lot of these documents are actually being mailed to you, particularly at the beginning of the year. So, even if you change jobs, your old employer will send you a W2. Your current employer will send you a W2. You might also find that your investment accounts are sending you documents. Your student loan provider might start sending you documents. You're gonna want to have all of these documents to fill out some of that software.

Stefanie O'Connell Rodriguez: So, if I'm looking for a tax professional, who is the kind of person that I'm looking for?

Kristin Myers: It depends on what you want. So, a certified accountant, CPA, doesn't necessarily only need to do your taxes. They can actually handle a lot of your financial transactions that might be going on. But if you only care about tax time, it doesn't have to be a certified accountant, but it is going to be a registered tax preparer—and the IRS actually has a list by state of all the registered tax preparers within that state. And they're going to help walk you through strictly the tax process.

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Stefanie O'Connell Rodriguez: After the break, we're back with what happens and what to do when you get a notice from the IRS *after* filing your tax return.

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Stefanie O'Connell Rodriguez: Caleb, what happens if I make my best effort and I still get that dreaded notice that I'm being audited?

Caleb Silver: Yeah, those are five terrifying letters that spell audit, but taxpayers should understand that an audit in no way implies that you're doing some criminal activity, right? Taxes are complicated. Tax forms are complicated. There's a lot of financial data, a lot of numbers. Maybe you made an error.

Some are just things like unusual deductions. Let's say you made an unusual deduction for a home office beyond the standard amount that you're allowed to do, or more than one home office or in several states. That could be a red flag for the IRS. Maybe it's the business use of your car. You've overused your car, you're claiming too much, that could send a red flag as well. So, there's a lot of things that could really raise the red flag.

Sometimes, it's a complete, honest mistake that you made. Sometimes you maybe have overdone it, or your accountant maybe overdid it trying to claim a deduction for you. It's really a process that you go through, and they'll notify you every step of the way. And then, once you come to some agreement that you either overstated your taxes or overstated your refunds, you might owe them money and you've got to get right on paying that.

Stefanie O'Connell Rodriguez: So, let's say I've been audited. I do owe more money. What next?

Caleb Silver: Well, you're going to get a report from the IRS saying that you owe money and you're going to sign that. And if you sign it, you can't fight it anymore in tax court. You can appeal it, you can go a couple of other rounds with the IRS, but once you sign the statement that you've been audited and you owe a certain amount of money, that's it, you got to pay that money back. You can get charged interest on the money you owe the IRS, it's 5%, but it could go as high as 25%, depending on the nature of the audit and the amount you owe. If you can't make the payments, you can set up an extension payment plan with the IRS. They're very good about that. They just want their money and that could be a monthly payment plan, that could be an offer and compromise to settle the debt for a smaller amount than you owe, so there are ways to negotiate. But you have to make sure that you're signing all the documents, you're reviewing all the documents, and then you're taking the right steps.

Kristin Myers: If the IRS is already calling you, you should have an alarm bell go off in your head because, typically speaking, the IRS prefers snail mail to calling you at least at the first instance. The IRS will never demand on the phone that you pay them immediately. You can pay back your bills in incremental amounts. They're never going to ask you to pay them in a wire transfer or a gift card or prepaid debit card that you mailed to some address. That will never ever, ever happen.

[BEAT DROPS]

Stefanie O'Connell Rodriguez: Next time on Taxes in Ten, we'll discuss how milestone moments - such as buying a house, getting married, having a baby – might also alter how you plan for tax season.

This has been Taxes in Ten, a limited series from the podcast Money Confidential at *Real Simple*. Follow Money Confidential on Apple Podcasts, Spotify, or wherever you listen, so you don't miss an episode. And we'd love your feedback. If you're enjoying the show, leave us a rating and review—we'd really appreciate it.