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## Better Money Habits®

### 6 steps for first-time tax filers

Filing your federal income tax return can seem overwhelming. But you can tackle tax season one step at a time—and avoid rookie mistakes—while you take advantage of money-saving opportunities.



## 1 Keep an eye on your income



You need to file a tax return if you meet or surpass certain levels of income during the year. If you're employed, look at your pay stub for the "year to date" income—and if you have more than one job, be sure to add up your income from all your employers. Remember to include income from other sources, too, such as money you make on rental property, anything you sell, investments or interest.

## 2 Save the right paperwork all year long

Stay on top of [tax-related paperwork](#) throughout the year; it will make your life easier during tax season. You might want to keep receipts for things like charitable donations, work-related expenses and medical bills, or other items from step 4. You may also want to keep statements from student loans or investments and any grants or fellowships. Having these handy and organized can help you determine whether to itemize and make the process easier. You should [keep your paperwork after you file](#), too. The IRS recommends keeping records for at least three years.

### 3 Watch for your income documents to arrive



You should receive forms about how much income you've earned from your employers and other income sources in January or February. If you are a full-time employee, you will receive a **Form W-2** detailing your earnings, as well as which taxes were withheld. If you work freelance or on a contract, you may receive a **Form 1099-NEC** detailing what you earned. You may also receive documents showing dividends or interest earned on investments (**Forms 1099-DIV** or **1099-INT**, for example), or student loan interest you've paid (**Form 1098-E**). If you're a college student (or you have a dependent who is), you'll receive a **Form 1098-T** that shows how much you paid in tuition, as well as any amounts you received from grants or fellowships, to help you figure out deductions and credits related to education expenses.



#### Quick Tip

You can't file your tax return until you've received a **Form W-2** or **Form 1099** from every place you have worked during the year. When it comes time to file, you will use those documents to fill out a **Form 1040**—the IRS form for individual income taxes.

## 4 Learn which credits and deductions you can take

Getting a sense of which [credits and deductions you may be eligible for](#) can help you pull together the proper documentation. Here are a few to consider:

- **Saver's credit.** If you are not a full-time student and are not being claimed as a dependent, you may be eligible for a tax credit if you contribute to a retirement plan. The amount of the credit depends on your filing status and adjusted gross income. For the 2021 tax year, if your filing status is single, you may be eligible if your adjusted gross income is \$33,000 or less. If you are married and are filing jointly, you may be eligible if your adjusted gross income is \$66,000 or less. However, these numbers are subject to change in future tax years.
- **Student loan interest.** You can deduct up to \$2,500 in interest payments, depending on your modified adjusted gross income.
- **Charitable deductions.** Donating to your alma mater or a favorite charity? Generally, you can deduct those donations if you itemize your taxes.
- **Freelance expenses.** If you are self-employed, you may be able to claim deductions for work-related expenses such as industry subscriptions and office supplies.

If you think you may qualify for additional credits or deductions, check the [IRS website](#).

## 5 Mind your deadlines

Having your tax documents arrive in January or February gives you about two months to prepare your tax return by the usual due date of April 15. Plan the date when you'll start your return, and make sure it's early enough that you can plan another session or two in case you need to spend time locating more documents or getting help.

In general, experts recommend filing tax returns earlier rather than later. The earlier you file, the better your chances of avoiding tax-related identity theft, a crime that's on the rise. Plus, if you're owed a refund, you will get it sooner.



### Quick Tip

Think you need some extra time to file? Generally, you can file an extension giving you an extra six-months to submit your return, usually in October. But if you owe the government money, you still need to pay your tax liability in full by the due date, typically April 15, to avoid penalties and interest. And if you can't afford to pay what you owe all at once, the IRS offers payment plans.

## 6 Decide how to file your tax return



There are several options for preparing and filing your tax return. Learn about each so you can make the right choice for you:

- **“Free File”:** If your adjusted gross income—this is a specific tax term which basically means your income minus certain tax deductions—is less than a certain limit, the IRS has free tax prep software that can make preparing your tax return easier with features that can help you figure out any deductions or credits you might be able to take.
- **IRS online forms:** If your adjusted gross income is higher than that limit, the IRS has electronic versions of the paper forms that will do the math for you, but they offer only basic guidance and won’t give you the same kind of help figuring out which deductions or credits you might be able to take.
- **Tax preparation software:** If you want a bit more guidance, you can pay a fee to use these online tools, which are available through several providers. They’ll walk you through how to prepare your tax return, and help you figure out any deductions or credits you might be eligible for.
- **Tax preparer:** If you realize that you need one-on-one help from an expert, you can go to a tax preparation firm or an accountant. Make sure you work with someone you can trust. You will be giving this person access to a lot of sensitive personal information, so choose a tax professional carefully. The IRS has a directory of verified tax preparers that may help you find a verified tax preparer in your area. While this doesn’t guarantee their trustworthiness, it’s a good place to start.



### Quick Tip

Remember that you may need to prepare and file state or local tax returns in addition to your federal return.

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