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Notice 2007-35

Common Mistakes on Tax Returns

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The purpose of this notice is to alert taxpayers about common mistakes made by individuals while preparing their federal income tax returns. These mistakes may result in taxpayers failing to fully pay their correct tax liabilities. In addition, these mistakes may result in delays in processing returns and receiving refunds. Taxpayers should carefully read all the instructions to the tax forms and schedules and review their entire return before filing. In addition, e-filing, either through the Service's Free File Program at www.irs.gov or through tax preparation software or a tax professional, will help reduce errors and speed refunds. Taxpayers who e-file and use direct deposit will generally receive their refunds in as little as two weeks.

Additional taxpayer resources, including answers to frequently asked questions, also can be found at www.irs.gov. Taxpayers can learn more about common mistakes and find an error checklist on page 64 of the Instructions to the 2006 Form 1040, *U.S. Individual Income Tax Return*; this information also is available at Tax Topic 303 on the internet at www.irs.gov and from the toll-free TeleTax number, 1-800-829-4477.

1. Choosing the wrong filing status. Taxpayers should confirm that the filing status (*i.e.*, single, married filing jointly, married filing separately, head of household, qualifying widow(er) with dependent child) selected on the return is correct. For example, taxpayers often incorrectly claim "head of household" filing status without meeting the requirements for that status. In addition to delaying the processing of the return and any refund, designating the wrong filing status on a return also may affect a taxpayer's eligibility for the Earned Income Credit. The Instructions to the 2006 Forms 1040, 1040-A, and 1040-EZ provide detailed information to assist taxpayers in choosing their correct filing status.

2. Failing to include or using incorrect Social Security numbers. The names and Social Security numbers for the taxpayer, taxpayer's spouse, dependents, and qualifying children for the Earned Income Credit or Child Tax Credit must be included on the return exactly as they appear on the Social Security cards.

3. Failing to use the correct forms and schedules. Taxpayers should review the instructions to all applicable forms and schedules to be sure they have correctly used, and accurately completed, each form or schedule.

4. Failing to sign and date the return. Taxpayers must sign and date their return under penalties of perjury. If the return is not signed, it will not be accepted as filed by the Service. If it is a joint return, both spouses must sign the return.

5. Claiming ineligible dependents. Taxpayers may claim a person as a dependent only if that person meets the legal definition of a dependent. Taxpayers should consult the Instructions to Form 1040 or 1040-A to confirm that a person qualifies as a dependent. Each dependent must have a valid Social Security number (or other Taxpayer Identification Number, as applicable), which must be included on the tax return. The failure to include a dependent's name and Social Security number, or claiming an ineligible dependent, may result in an underpayment of tax and/or a denial of the Earned Income Credit.

6. Failing to file for the Earned Income Credit. Taxpayers should review carefully the eligibility requirements for the Earned Income Credit, including income limits, before filing returns. For example, many military families may qualify for the credit because they can choose to include or exclude combat zone compensation in the income calculations, depending on which treatment is more favorable. Detailed

instructions for claiming and computing the credit are contained in the Instructions to the Form 1040 (and the Instructions to Forms 1040-A and 1040-EZ), Fact Sheet 2006-15, and Publication 596 (*Earned Income Credit (EIC)*) and through links at 1040 Central at www.irs.gov.

7. Improperly claiming the Earned Income Credit. Taxpayers must have earned income from work to claim the Earned Income Credit. For example, a taxpayer whose sole income is from Temporary Assistance for Needy Families or Social Security benefits does not have earned income and is therefore ineligible for the credit. Detailed instructions for claiming and computing the credit are contained in the Instructions to the Form 1040 (and the Instructions to Forms 1040-A and 1040-EZ), Fact Sheet 2006-15, and Publication 596 (*Earned Income Credit (EIC)*) and through links at 1040 Central at www.irs.gov.

8. Failing to report and pay domestic payroll taxes. Taxpayers employing household workers, such as a house cleaner, an in-home caregiver, or a nanny, must report and pay payroll taxes for those individuals when the payments exceed certain threshold amounts. Failure to pay and report payroll taxes may result in the assessment of additional tax due, interest on the unpaid amounts, and penalties. The Instructions to the Form 1040, Publication 926 (*Household Employer's Tax Guide*), and Publication 15-A (*Employer's Supplemental Tax Guide*) contain detailed information to assist taxpayers in determining whether an individual providing household help is a household employee for whom the taxpayer must report and pay payroll taxes.

9. Failing to report income because it was not included on a Form W-2, Form 1099, or other information return. Taxpayers must include on their tax returns income reported on a third-party information reporting statement such as a Form W-2 or Form 1099, or other similar statement. But even if income was not reported on a third-party reporting statement, taxpayers must still report all income. Failure to report all income may result in the assessment of additional tax due, interest on the unpaid amounts, and penalties.

10. Treating employees as independent contractors. Employers may not treat an employee as an "independent contractor" to avoid paying and reporting payroll taxes. Employers who improperly treat an employee as an independent contractor may be liable for additional tax due, interest on the unpaid amounts, and penalties. Publication 15-A (*Employer's Supplemental Tax Guide*) contains detailed information to assist taxpayers in determining whether an individual is an employee or an independent contractor.

11. Failing to file a return when due a refund. Taxpayers must file a return to claim a refund of withheld taxes when a refund is due. Taxpayers will forfeit refunds of withheld tax if a return requesting a refund is not filed within three years of the due date.

12. Failing to check liability for the alternative minimum tax. Taxpayers should determine whether the alternative minimum tax, or AMT, applies. If a taxpayer is liable for AMT but does not include it on the return, the Service will determine the taxpayer's liability and may reduce or deny a requested refund or assess any additional tax due, interest on the unpaid amounts, and penalties.

13. Failing to request federal telephone excise tax. Taxpayers can request a one-time credit of \$30 to \$60 for federal excise taxes paid for long-distance or bundled (local and long-distance) telephone service billed after February 28, 2003, and before August 1, 2006, whether for landline, cell phone or Voice over Internet Protocol service. Alternatively, taxpayers can request a one-time credit for the actual amount of excise taxes paid during the period using Form 8913, *Credit for Federal Telephone Excise Tax Paid*. Detailed information is provided in the 2006 Form 1040, 1040-A, and 1040-EZ Instructions, Fact Sheet 2007-1, and the Telephone Excise Tax Refund page at www.irs.gov.

14. Failing to accurately use or compute the Schedule D Tax Worksheet or Qualified Dividends and Capital Gain Tax Worksheet. Taxpayers should determine which worksheet they should use when computing their tax. Failure to use the correct worksheet may result in a reduction or denial of a requested refund or an assessment of additional tax due, interest on the unpaid amounts, and penalties.

15. Failing to enter the correct amount of taxable Social Security benefits. Taxpayers should report not only the total amount of their Social Security benefits, but also the correct amount of taxable Social Security benefits. In addition to delaying the processing of the tax return and any refund, reporting the incorrect amount of taxable Social Security benefits may result in an assessment of additional tax due, interest on the unpaid amounts, and penalties.

16. Mailing a return to the wrong address. Taxpayers who file their income tax returns by mail should send the returns to the appropriate Internal Revenue Service Center based on where the taxpayer lives and whether the taxpayer is including a check or money order with the return. The Forms 1040, 1040-A, and 1040-EZ Instructions, as well as the "Where To File" resource available on www.irs.gov, list the applicable mailing addresses according to where the taxpayer resides. Taxpayers who receive one of the Form Series 1040 booklets in the mail may also use the pre-addressed envelope that is included in the booklet to mail the

return, unless the taxpayer has moved to another area with a different filing location. Mailing an income tax return to the wrong Internal Revenue Service Center or otherwise misaddressing the return could delay the processing of the return and any refund.

The principal author of this notice is the Office of Associate Chief Counsel (Procedure & Administration), Administrative Provisions & Judicial Practice Division. For further information regarding this notice, contact that office at (202) 622-7800 (not a toll-free call).

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