

HOW TO FIX TAX RETURN ERRORS

Suppose you discover a mistake or omission of an item on the 2007 federal tax return you recently filed. Should you ignore the error? Although it can depend on the nature and significance of the item, the answer is generally "no." But the matter may be resolved by filing an amended 2007 return.

Clearly, you should file an amended return right away if you've paid less tax than the amount you actually owe for 2007. If the IRS eventually detects the mistake, it can require you to pay the difference in tax liability plus substantial interest and penalties. As a general rule, the IRS has three years in which to audit a return, but the statute of limitations is extended to six years if you underreport income by more than 25%. And there's no time limit if fraud is involved.

When a change works in your favor, consider all the ramifications. If you stand to receive only a few extra dollars back, it's probably not worth the effort. This also gives the IRS another chance to scrutinize your return. On the other hand, if you expect a sizable refund in return, it usually makes sense to pursue this action.

One of the common reasons for amending a return is to change your tax filing status or dependency exemptions. For instance, there could be some confusion over claiming exemptions for children following a divorce. Similarly, you may have overlooked special deductions or credits available on 2007 returns. This includes tax breaks for:

- Mortgage insurance premiums
- Teacher supplies (up to \$250 limit)
- Hybrid vehicle purchases
- State sales tax (in lieu of deducting state income tax)

Act now: If you need assistance in this area, don't hesitate to contact us to discuss your situation.