

IRS says more taxpayers making mistakes on tax returns this year

Written by

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ST. PAUL, MINN. — The Internal Revenue Service announced that an early sampling shows about 15 percent of federal tax returns include errors relating to the new Recovery Rebate Credit. The amount of a taxpayer's 2008 stimulus payment, combined with information about their 2008 tax situation, determines eligibility for the new Recovery Rebate Credit.

Some filers erroneously claimed the credit, others claimed the wrong amount and some mistakenly entered the amount of the stimulus payment they received last year on the Recovery Rebate Credit line on the Form 1040.

"Filers should NOT report the stimulus payment directly on their tax returns," said IRS spokesperson Carrie Resch. "Use that figure only on the Recovery Rebate Credit worksheet or trust the software to compute the credit correctly. Or simply let the IRS calculate it for you."

The Recovery Rebate Credit is a one-time benefit for people who didn't receive an economic stimulus payment last year and a small number of people who received some of the payment last year and whose circumstances may have changed, making them eligible now for the unpaid portion. These situations may include people who earned more or less in 2008 than in 2007, who had or adopted a child, or who ceased being a dependent in 2008. Also, seniors and retirees who did not file for a stimulus payment last year may qualify for the credit if they have at least \$3,000 in qualifying income or benefits, such as Social Security or Veterans benefits.

Most of the 119 million Americans who received a stimulus payment last year are not eligible for the Recovery Rebate Credit, but will need to provide the amount of their stimulus payment to determine for sure.

To determine eligibility for the new credit, taxpayers supply the stimulus payment information either on a worksheet when preparing a paper return or in response to the program's questions when using tax software.

Paper filers in doubt may enter "RRC" on the Recovery Rebate Credit line on the Form 1040 and the IRS will calculate the credit based on its records. Generally, the credit will be added to a taxpayers refund or applied to an amount that is owed.

Like last year's stimulus payment, the Recovery Rebate Credit is a maximum of \$600 for individuals and \$1,200 for joint filers. Another \$300 is added for each qualifying child under age 17.

Myths About Reporting Stimulus Payments

To minimize further mistakes, the IRS sets the record straight on some myths and misunderstandings that may be causing increased filing errors.

Myth #1: The economic stimulus payment you got last year must be paid back, is taxable or lowers your refund.

Fact: The stimulus payment is not taxable federally, does not have to be paid back and does not lower your tax refund. Do not report it as income.

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Myth #2: You must report the stimulus payment you received last year on your 2008 tax return.
Fact: You DO NOT report the stimulus payment directly on your tax return. If you are using tax software, enter the stimulus payment amount when prompted and the software will complete the calculation and enter the correct credit on your return. If you are filing a paper return, enter the stimulus payment amount on the Recovery Rebate Credit worksheet in the instruction booklet then complete the worksheet and enter the result on your return.

Myth #3: When using tax software, the amount of the refund displayed on the screen decreases as soon as you enter your stimulus payment, so that proves it's either taxable or it reduces your refund.

Fact: Some tax software adds the Recovery Rebate Credit to your refund up front then subtracts your stimulus payment from the credit as soon as you enter the amount of payment you received in 2008. With some exceptions, people are only entitled to either the 2008 stimulus payment OR the Recovery Rebate Credit on their 2008 tax return, not both.

Myth #4: If you enter the amount of your stimulus payment directly on your tax return, your refund will be delayed for weeks.

Fact: Entering the amount of your stimulus payment directly on your tax return is an error and may delay your refund, but usually by no more than one week.

Myth #5: If you can't provide the amount of your stimulus payment, you can't get the Recovery Rebate Credit.

Fact: The IRS has an online tool called "How Much Was My 2008 Stimulus Payment?" at www.irs.gov that provides the amount of your stimulus payment when you enter your Social Security Number and your 2007 filing status and number of exemptions claimed. (If you don't have internet access, call 1-866-234-2942, choose option 1 and provide the same information.)

If you're in doubt, enter "RRC" on the appropriate Recovery Rebate Credit line on the Form 1040, 1040A or 1040EZ and the IRS will figure the credit for you.

Myth #6: If you got a stimulus payment last year, you are not eligible for the Recovery Rebate Credit.

Fact: This is true for many but not all. For example, taxpayers who added a qualifying child to their household in 2008 or a person who ceased being a dependent may qualify for the credit. People who earned too much to qualify based on their 2007 return, but had less income in 2008 may also qualify for more.

Myth #7: The Recovery Rebate Credit will be sent as a separate check.

Fact: The credit will be added to your 2008 tax refund. It will not be a separate payment. For more information, visit IRS.gov or call the IRS toll-free at 1-800-829-1040.