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6 Basic Tax Tips Millennials Should Read ASAP

Just as everything old is new again, so too is the Millennial generation's relationship with archaic processes - They do not get along, unless what is archaic becomes vintage. Case in point, why would they use the United States Postal Service (USPS) to send a letter, when they can keep in touch with their friends instantaneously over SnapChat, when the latter is not yet considered retro.

The one outmoded process that Millennials cannot avoid, however, is the internal Revenue Service (IRS)'s draconian tax system. Without fail, there comes a day where their parents can no longer claim them as a dependents, and time comes to figure out the system for themselves. In that regard, just as Harry Potter entered the Wizarding World, so too shall they enter into the mundane world of taxes.

That said, it is totally understandable that you, as a young millennial professional, are overwhelmed and need help sorting through the myriad of forms, rules, and paperwork necessary for filing your taxes. Unless you make below the annual income minimum of \$10,400, there's no getting around it, regardless of whether your taxes are filed through the USPS or online. In order to make the process as easy as possible, however, information on several of the most relevant topics newly tax-paying millennials have been compiled below.

Topics include:

- What is a W-4?
- What is a W-2?
- What is a Tax Return?
- What is Form 1040?
- What is an Audit?
- Do tax circumstances change over time?

1. What is a W-4?



The W-4 tax form is used by employers to properly calculate deductions from their employees paychecks, which go towards Medicare, Social Security, and a number of state, local, and federal taxes. Typically re-submitted annually, the W-4 reflects an employee's work and marital status.

----- Separate here and give Form W-4 to your employer. Keep the worksheet(s) for your records. -----

| | | | | |
|---|------|---|--|---|
| Form W-4 Department of the Treasury Internal Revenue Service | | Employee's Withholding Allowance Certificate ▶ Whether you're entitled to claim a certain number of allowances or exemption from withholding is subject to review by the IRS. Your employer may be required to send a copy of this form to the IRS. | | OMB No. 1545-0074 2018 |
| 1 Your first name and middle initial | | Last name | | 2 Your social security number |
| Home address (number and street or rural route) | | 3 <input type="checkbox"/> Single <input type="checkbox"/> Married <input type="checkbox"/> Married, but withhold at higher Single rate. Note: If married filing separately, check "Married, but withhold at higher Single rate." | | |
| City or town, state, and ZIP code | | 4 If your last name differs from that shown on your social security card, check here. You must call 800-772-1213 for a replacement card. ▶ <input type="checkbox"/> | | |
| 5 Total number of allowances you're claiming (from the applicable worksheet on the following pages) | 5 | | | |
| 6 Additional amount, if any, you want withheld from each paycheck | 6 \$ | | | |
| 7 I claim exemption from withholding for 2018, and I certify that I meet both of the following conditions for exemption. <ul style="list-style-type: none"> • Last year I had a right to a refund of all federal income tax withheld because I had no tax liability, and • This year I expect a refund of all federal income tax withheld because I expect to have no tax liability. If you meet both conditions, write "Exempt" here ▶ | | | | |
| Under penalties of perjury, I declare that I have examined this certificate and, to the best of my knowledge and belief, it is true, correct, and complete. | | | | |
| Employee's signature (This form is not valid unless you sign it.) ▶ | | | | |
| 8 Employer's name and address (Employer: Complete boxes 8 and 10 if sending to IRS and complete boxes 8, 9, and 10 if sending to State Directory of New Hires.) | | 9 First date of employment | | 10 Employer identification number (EIN) |

For Privacy Act and Paperwork Reduction Act Notice, see page 4. Cat. No. 10220Q Form **W-4** (2018)

Beyond the present, the W-4 is also meant to illustrate changes in a person's life. Geographic relocation and new jobs, as well as children, spouses, or other such dependents all may alter the final score. Each criteria contributes to a point-based system, the total of which corresponds to a certain number of allowances. In the end, those with a higher number of allowances are permitted smaller deductions from their paychecks.

While it may sound unfair that some will have greater deductions than others, there is no need to fear. While the average deduction hovers around 20%, the IRS makes it relatively easy to gain that money back down the line.

2. What is a W-2?

A W-2 is a federal form, which reports an employee's wages and withheld taxes within a given tax year. Provided by employers, the taxpayer is typically given four copies — one for their records, one to be filed with the Federal government, and two for their state or local tax divisions.

The W-2 is an incredibly important form, as it is impossible to file your taxes without it. In the event that a W-2 gets lost, the first step is to contact the employer to get a replacement. Should that avenue not yield results, options include contacting the IRS or filing a personal estimate of the W2 data via form 4852.

| | | | | | |
|--|-----------------------------------|---|-----------------------------------|---|-------------------------|
| a Employee's social security number | | Safe, accurate, FAST! Use | | Visit the IRS website at www.irs.gov/efile | |
| b Employer identification number (EIN) | | 1 Wages, tips, other compensation | | 2 Federal income tax withheld | |
| c Employer's name, address, and ZIP code | | 3 Social security wages | | 4 Social security tax withheld | |
| | | 5 Medicare wages and tips | | 6 Medicare tax withheld | |
| | | 7 Social security tips | | 8 Allocated tips | |
| d Control number | | 9 Verification code | | 10 Dependent care benefits | |
| e Employee's first name and initial Last name Suff. | | 11 Nonqualified plans | | 12a See instructions for box 12 | |
| | | 13 Statutory employee Retirement plan Third-party sick pay <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> | | 12b | |
| | | 14 Other | | 12c | |
| | | | | 12d | |
| f Employee's address and ZIP code | | | | | |
| 15 State Employer's state ID number | 16 State wages, tips, etc. | 17 State income tax | 18 Local wages, tips, etc. | 19 Local income tax | 20 Locality name |
| | | | | | |

Form **W-2** Wage and Tax Statement

2018

Department of the Treasury—Internal Revenue Service

Copy B—To Be Filed With Employee's FEDERAL Tax Return.
This information is being furnished to the Internal Revenue Service.

When a W-2 form is received, it's important to verify the printed information as soon as possible. If there is a glaring error involving identification information, such as social security number, or regarding the wage and tax numbers, it is important to get it rectified prior to filing. This is because, when it comes time actually file, the amounts presented will be transcribed directly onto the form. When done correctly, it really is that simple — it's just a matter of selecting the correct tax return form.

3. What are Tax Returns?

Tax Returns are financial documents filed with the IRS in order to report one's tax liability, including reimbursements, expenses, and income. Submitted annually, these forms can assist taxpayers in not only determining if they are owed a refund, but also to calculate income tax.



Although universally mandated taxes, such as Medicare and Social Security, are deducted every month from paychecks, it's important to still file the relevant paperwork every year.

As for "why?", to put it plainly, people make mistakes. For each person's income and circumstances, there is an exact amount needed to be withheld each month. Using that number as a barometer, tax returns help taxpayers see if they hit that amount.

If that's the case, then no action need be taken. On the other hand, if one had too much withheld, then tax filings help ensure that they receive a refund. Conversely, having too little deducted requires additional payment to the government. In that scenario, avoiding payment can lead to an audit by the IRS.

4. What is form 1040?

Form 1040, or the “U.S. Individual Income Tax Return” form, in conjunction with its sub-variants, act as the main staple of the IRS’s tax return paperwork suite. It is the standard by which taxpayers report annual income and determine what they owe, or are owed, by the federal government.

Form 1040 comes in five forms — the standard 1040, the 1040EZ, the 1040A, the 1040NR, and the 1040X. Starting with the most complex after the standard 1040, the 1040A takes a more exacting approach towards deductibles than its brethren. While the less often used 1040NR is meant for tax-filing nonresidents, the 1040X is intended to be filed to correct errors on previously submitted 1040 forms. For reference, these forms are only available to those who earned income within the fifty states. Unincorporated territories, such as Puerto Rico and American Samoa, operate with a different set of forms.

| Department of the Treasury—Internal Revenue Service | | |
|---|--|---|
| Form | Income Tax Return for Single and Joint Filers With No Dependents (99) | |
| 1040EZ | | |
| Your first name and initial | Last name | |
| If a joint return, spouse's first name and initial | Last name | |
| Home address (number and street). If you have a P.O. box, see instructions. | | |
| City, town or post office, state, and ZIP code. If you have a foreign address, also complete spaces below (see instructions). | | |
| Foreign country name | | Foreign province/state/county |
| Foreign postal code | | |
| Income Attach Form(s) W-2 here. Enclose, but do not attach, any payment. | 1 | Wages, salaries, and tips. This should be shown in box 1 of your Form(s) W-2. Attach your Form(s) W-2. |
| | 2 | Taxable interest. If the total is over \$1,500, you cannot use Form 1040EZ. |
| | 3 | Unemployment compensation and Alaska Permanent Fund dividends (see instructions). |
| | 4 | Add lines 1, 2, and 3. This is your adjusted gross income . |
| | 5 | If someone can claim you (or your spouse if a joint return) as a dependent, check the applicable box(es) below and enter the amount from the worksheet on back. <input type="checkbox"/> You <input type="checkbox"/> Spouse If no one can claim you (or your spouse if a joint return), enter \$10,350 if single or \$20,700 if married filing jointly . See back for explanation. |
| | 6 | Subtract line 5 from line 4. If line 5 is larger than line 4, enter -0-. This is your taxable income . |
| Payments, Credits, and Tax | 7 | Federal income tax withheld from Form(s) W-2 and 1099. |
| | 8a | Earned income credit (EIC) (see instructions) |
| | b | Nontaxable combat pay election. 8b |
| | 9 | Add lines 7 and 8a. These are your total payments and credits . |
| | 10 | Use the amount on line 6 shown to find your tax in the tax table in the instructions. |

Lastly, the 1040EZ very much lives up to the implication of its suffix. Officially titled "Income Tax Return for Single and Joint Filers with No Dependents", the 1040EZ is where most young professional millennials will end up, unless they are making over \$100,000 annually. The major simplification over other forms is that the 1040EZ insists on filers taking a standard tax deduction, rather than the more complex itemization offered for the other 1040s.

When filling out the 1040EZ, in keeping with the spirit of its name, it's best to follow the KISS principle, or keep it simple, stupid. With the W-2 form available for reference —taxpayers are meant to send both forms together—, it is difficult to make a mistake. If you don't overthink it, the 1040EZ can stay easy.

5. What is a tax audit?

A tax audit is when the IRS chooses to investigate a filed tax return more closely than is usual. This can involve verification of accuracy regarding stated income and deductions. While audits may be initiated at random, they become much more likely when some aspect of a tax return is deemed suspicious.

This is where it is beyond to crucial to have saved every bit of financial paperwork. If an audit is launched against you, every potential error or mistake can be ruinous. With that in mind, be sure to not become complacent and throw away all relevant documents at the end of each fiscal year, as the IRS is within its rights to go back through old records to find the information it seeks. Although three years of exploration is standard, the IRS may opt for to six years worth of tax returns, W-2s, receipts, and so on, should the need arise.



Having said all that, audits do not have to be horrible. In fact, they can be quick and painless, so long as you are truthful and accommodating from the start. Many of those who are audited every year get through without a hitch. Those who are dishonest and withhold information and documents, however, may find themselves in a sea of trouble quite quickly, as punishments may include hefty fines, reparations, and possibly even jail time. In those incidences, take the stories as cautionary tales to be honest with your taxes.

6. Do tax circumstances change over time?

Your tax situation, regardless of specific circumstances, will certainly change as the years go by. Even though you are a young, single Millennial professional with no attachments today, that may very well not be the case down the line.



Even if you never get married or have children, which would disallow usage of the 1040EZ all by themselves, there is also your career to consider. As your experience and value increase, so too will your salary. Once it hits the 1040EZ income limit of \$100,000, then you'll be barred from using the form just the same.

As you begin to use new and more detailed forms, fiscal responsibility might dictate that rather than continuing to accept the standard deduction, an itemized accounting could be more prudent. This is especially true for business owners, freelance consultants, and those who travel internationally for work, as

those professions' fiscal reality is not nearly as cut-and-dry as a \$75,000 annual salary with an accompanying W-2 form.

In the case of those who travel, whether they be business people or English teaching expatriates, communication is key. The IRS, as opposed to its counterparts in the UK or New Zealand, mandate that income made by United States citizens, anywhere on earth, is subject to their purview. If they want to get in touch, and you have no means of mail delivery, it's best to find a digital solution. For that, Anytime Mailbox can be of assistance.

Notice: This is not to be taken as tax advice and the author does not claim to be a licensed tax professional. This is just the experience of one person and how they managed their personal finances as a millennial and in the past. Always consult with a tax professional and the local laws of where you file your returns.

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