Some Tax Myths that Many People Continue to Believe In

After having done taxes for several years, many people believe that they know a a whole lot about filing taxes and the applicable rules and guidelines pertaining to their specific situation. Unfortunately, with the tax code undergoing revisions and updates almost every year, and literally hundreds of different codes that pertain to nearly as many different situations, unless you're a tax professional, it is difficult to keep updated on all of the new changes. What makes matters worse is not the fact that there is too much tax information that need to be learned, but that some of what you have believed in is no longer true, or was never really true. Every year, many individuals complete their tax returns while following tax myths, and in the process they are essentially giving money away, or they can run into a serious IRS problem.

It's a common assumption for people to automatically file for a joint tax return when they get married. This is basically not true as they actually have the option of filing under 'married filing separately.' Usually, filing under this option will cost you more than when using a joint income tax return. But in special cases, this option actually saves you money. It is advisable for couples with two income earners to try using both ways and then evaluate which option is better. You can actually use one method now, and then the other alternative the next year, and still find yourself saving a considerable amount of money for both occasions. Because a person's tax responsibility changes every now and then, it is important that this will be done every year. Knowing which option to take necessitates proper communication with your spouse as doing otherwise may spell more serious IRS problems.

Another misconception that costs taxpayers a substantial amount of money is trying to deduct their sales taxes. Until 1986, it was actually allowed for people to subtract some sales taxes for their purchases. This type of policy, however, was somehow re-instituted in some states. In 2004, 2006 and even 2007, people can subtract their sales taxes from the state tax or federal income tax. It must be noted however, that the deduction can only be made in either of the two, not both. Residents of Wyoming, Alaska, Washington, Florida, Texas, South Dakota and Nevada received a substantial break when this type of tax deductions was permitted. Just to ensure that you're still on the right track and to avoid potential issues with the IRS, you may want to check on this policy's status every now a then.

One myth is because of the fact that people are not really updated with the IRS guidelines. At a certain point in time, anyone aged 55 years old and above can claim $125,000 as exclusion from his/her taxes given that this was part of the gains from the sale of a house. But this benefit can only be taken once. Now, the new law is actually much better than it used to be. When the law was amended, it took out the age requirement and made the $125,000 exclusion available to anyone and they raised the amount to $250,000 per person. To illustrate, a married couple may actually save up to $500,000 of taxes from gains made by selling a house. Another major amendment in the law is that this exclusion can already be claimed every two years. So every two years you can sell a house and exclude up to $250,000 in gains from taxes.