7 Tips for Filing Your 2011 Taxes

Every filing year's a little different. Let us help you pinpoint savings.

By Kevin McCormally, Editorial Director, Kiplinger.com

If you're among the 75 million or so Americans who have yet to complete a 2011 tax return, it's time to figure out exactly what share of your income will go to the IRS.

At this point, about the only way to hold down your bill is to avoid missteps that would drive it higher than it needs to be. So get to work.

This year, your return is due on April 17, giving you two extra days to make sure you're not paying a penny more than you owe.

Capital pains. You may need the extra time just to figure out the new rules for reporting capital gains and losses. When you sell stock purchased in 2011 and later years, your broker has to report to you -- and to the IRS -- exactly what you paid for the shares (your cost basis). Ultimately, this information, included on Form 1099-B, should make it easier to accurately report gains and losses.

But this year, the primary result is confusion. The IRS has created Form 8949 for reporting sales of stocks, bonds, mutual funds and other assets. It comes with pages of mind-numbing instructions, including a lengthy table to help you determine which of ten codes you may need to enter for each transaction.

And get this: You may need as many as three versions of the form, based on whether your broker sent you a Form 1099-B reporting the sale and, if so, whether the 1099-B reported the basis of the shares.

For this year's tax return, brokers are required to report only the basis of stocks purchased in and then sold in 2011. Even so, you still have to complete Form 8949s for all the securities you sold in 2011. (The basis-reporting rules apply to mutual funds starting with shares purchased in 2012.) You will carry over information from your 8949s to a Schedule D, which in the past sufficed for reporting capital gains and losses.

If you sold mutual fund shares in 2011, don't forget that your tax basis includes not only outright purchases but also dividends you reinvested over the years. And don't neglect to revive any capital losses carried over from your 2010 return.

Pay the piper. If you took advantage of the rule that allowed postponing the tax bill on a 2010 Roth IRA conversion, the grace period is over. You must pay tax on half of the converted amount with your 2011 return (and the rest of the bill next year). You should have filed a Form 8606 with last year's return, reporting the conversion and noting how much income you'd be reporting on your 2011 return. Dig out that form and plug in the appropriate number on line 15b of your Form 1040.

Trim the self-employment tax. A painful reality for self-employed people is paying both the employer's and employee's share of the Social Security and Medicare tax. Normally, that's 15.3% of self-employment income. But for 2011, self-employeds get the same two-percentage-point break that employees enjoyed because of the payroll tax holiday. That means you owe 13.3% on the first $106,800 of income and 2.9% on any excess self-employment income.

To even the playing field a bit, self-employed taxpayers get a special write-off on their Form 1040 equal to 50% of the Social Security and Medicare tax they pay -- basically a deduction of the employer's share. But for 2011, the write-off is 57.51% or 59.6%, depending on your self-employment income. Do the math carefully on your Schedule SE so that you don't shortchange yourself. We have more Tax Tips for Freelancers and the Self-Employed.

Paying back the home-buyer credit. If you took advantage of the first-time home-buyer credit in 2008, 2009 or 2010 -- and sold the house in 2011 -- it could be payback time. The 2008 version of the credit required taxpayers to gradually repay the $7,500 credit by adding $500 to their tax bills for 15 years starting in 2010 (and any unpaid amount in full in the year the home was sold). There was no required repayment of the 2009 and 2010 home-buyer credits -- unless you sold the house before using it as your principal residence for at least three years. In that case, the government wants its $8,000 back.

But there's a critically important *but*. You are not required to repay more than the profit you made when you sold the home. So if you sold for a loss, no repayment is required. You'll find all the details in the instructions for Form 5405.

Get credit for child-care costs. Congress still hasn't fixed a discrepancy in the two tax breaks that help working parents pay for child care. If you pay for the care of two or more children under age 13, you can claim a tax credit based on up to $6,000 of expenses. But if you have a flex plan at work, you can't use more than $5,000 pretax to pay for care. What if you use a flex plan but spent more than $5,000 for qualifying care? Be sure to claim the credit on up to $1,000 of the excess. That'll save you at least $200.

Points on a refinancing. Unlike points on a mortgage for your principal residence -- a cost that can be deducted in full in the year you buy -- points on a refinancing or a second home have to be amortized over the life of the loan. That means you need to remember to claim the break in dribs and drabs over 30 years if you have a 30-year mortgage.

But every little bit helps. Look at Newt Gingrich's 2010 return (we did). It shows a $19 deduction for a portion of the $2,261 it cost him to refinance the mortgage on a rental property he owns in Wisconsin. Because the refi was in October 2010, he got to write off one-fourth of one-thirtieth of the cost.

Last-minute deductions. Although the door slammed shut on most tax-saving moves on New Year's Eve, you still have time to make 2011 tax-saving deposits to a traditional IRA or health savings account if you qualify for one. If you stash $5,000 in an IRA by April 17 and you're in the 25% bracket, you can shave $1,250 off your 2011 tax bill. (The right to make deductible contributions begins to phase out if you have a retirement plan at work and your adjusted gross income exceeds $56,000 on an individual return or $90,000 on a joint return.)