

Tax Preparation Software: Making Tax Time Less Frightening - 1

by Vanessa Kier

Tax time.

Two words guaranteed to throw anyone preparing their own taxes into a panic. But don't worry! Thanks to tax preparation software, filing your taxes doesn't have to be frightening. This article will give you some guidelines on choosing the software that's best for you.

Please note that nothing in this article is intended as legal or tax advice. Consult with a professional if you have any questions. This article is also not intended as an endorsement of any mentioned software. It is merely a presentation of some available options.

Before we go into the software options, take a moment to survey your financial situation. How many different forms of income do you have? How many deductions have you accounted for in the past? Knowing where your taxes fall on the scale of simple to very complex is necessary before choosing a tax software, because each version provides support for a specific level of complexity.

Overview

So, what does tax preparation software do? It walks you through a series of questions to determine what income you need to report and what deductions you're eligible for. At each step of the way you will be given the opportunity to enter your applicable numbers into the software. Or you may have the option to import data from your financial software. Once you have answered all the questions, the software will calculate your refund or the tax owed. Then you will have the option to print and mail in your forms, or to e-file. E-file means that you send the return electronically to the IRS instead of mailing your return. This saves time, reduces error, and supposedly results in a faster refund.

Some of the most popular products are TurboTax® by Intuit, the people who make Quicken and QuickBooks, At HomeTM (formerly TaxCut), which is from H&R Block, and TaxACT by 2nd Story Software, Inc. If you do an internet search on tax preparation software you will get a large number of options. You can also check out the IRS website to see partners that participate in the e-File program. There may be different questions asked for federal versus state, so if you need to file both make certain you're buying software that can handle both.

Format

There are generally three different formats offered for tax preparation software—online, download, or CD. Online software means you go to the website and enter all your information there. The website stores your information so you can leave and return to your form later. A download is bought at an online store. The CD version can be bought in either an online store or a brick-and-mortar store. Whatever you choose, make certain it works with your operating system, and your financial software if you plan to import data.

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Complexity=Cost

If you meet a very strict set of requirements, many commercial software companies offer basic online federal tax preparation for free. The IRS website also offers a free online filing program called Free File. Be warned that all the limitations on a software's free filing may not be clear until you've already started using the program. Last year, I got two-thirds of the way through one company's free online program before it notified me that my taxes were too complex for the free version. Aargh!

However, TaxACT's website claims that it allows free preparation and filing of your federal return regardless of the complexity.

If you don't meet the free tax preparation requirements for commercial software, you have one more free option for your federal taxes. You can go to the IRS website and use the free fillable forms. These are found under the Free File section. These free forms are online versions of the paper tax forms, with two advantages. The online system will do basic calculations for you. And at the end of the return, you can e-file for free. As in other online systems, you can save the fillable form and return to it later.

Unfortunately, the more complex your tax situation, the more expensive software you'll need. Also, many software packages only include the federal e-file in the purchase price, even if you bought software for both federal and state taxes. This means you'll pay extra to e-file your state return.

One more word on state filing. Check your state tax board's website for their free filing options. California has two options that allow you to e-file for free, each with different qualifications.

Other Considerations

Once you've narrowed your choices down to a couple of options, what else should you consider?

At this point, it comes down to personal preference. Even if you plan to buy the software in a brick-and-mortar store, I suggest viewing the software's online demo. See if you like the colors and the way the screen is laid out. Is it easy to read? Do the instructions seem easy to follow? Buy whichever software you think you'd feel most comfortable using.

And then shop around for the best price.

So, that's it. Complexity, compatibility and cost. The three keys to choosing a tax preparation software that will hopefully make tax time less stressful.

Good luck!

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