



Technology Corner

By Joseph G. Hodges, Jr.

Tax Return Preparation—Some Form 1040 Solutions

One of the many frustrations we often face as estate administration professionals is the need to prepare and file income tax returns for our deceased clients, typically for the short year of death and often too for the calendar year prior to the year of death. Most of us typically own software that will prepare the Federal Estate Tax Return Form 706, the Federal Gift Tax Return Form 709 and the Federal Fiduciary Income Tax Return Form 1041, not to mention a compatible companion fiduciary accounting package. However, when it comes to the Form 1040 Individual Income Tax Return, we typically defer that sort of work to the client's CPA. Often, however, we run across cases where our clients do not have or have never used a CPA, preferring instead either to have a tax service preparation firm, such as H&R Block, or to simply prepare their taxes themselves using one of the popular software programs or online tax return preparation options that are currently available.

Most of us would prefer not to have to make a substantial investment in such software since it likely would not be needed or used by us all that frequently. However, when the need for it arises, it is nice to know that there are some affordable and easy-to-use solutions we can consider. This column will examine three of these solutions.

The **most popular** individual income tax return preparation programs available today according to various recent software reviews and consumer surveys are **TaxCut** by Block Financial Corp. (H&R Block), **TurboTax** by Intuit (the makers of the popular **Quicken** bookkeeping software) and **TaxAct** by 2nd Story Software (developed by former Parson's Technology **Personal Tax Edge** programmers after Intuit bought Parsons and buried PTE). According to the ZD Net Shopper Web site, the retail prices for the Year 2002 Deluxe desktop versions of these particular products typically range from \$27 to \$50 for TurboTax, from \$19 to \$26 for TaxCut and from \$10 to \$20 for TaxAct, depending on whether or not the preparation of at least one state return is included. Thus, **cost** is not a major roadblock to owning

and using any one of these programs. Online versions of all of these products are also available whereby you can actually prepare and file returns from the vendors' Web sites. The costs here are comparable to those for the CD-ROM or downloadable versions, absent factoring in any shipping and handling costs for the CD-ROMs. In addition, TurboTax is available in a Spanish language version, and all three of these companies are included in the list of 17 Free File Alliance Members that are currently participating in the **IRS's Free File** online tax return preparation and e-filing program for people with an adjusted gross income that is typically at or below \$28,000.

Price alone should not necessarily determine which product might be the best for any particular individual user, as the features of each program are more important. In addition, their ability to **integrate with and import data** from the leading personal finance software programs, such as Microsoft's **Money** and Intuit's **Quicken**, or other similar programs that support tax exchange format (TXF), will often be the deciding factor for many of us. Here is where the choices narrow quickly, as TurboTax will not import data from Microsoft's Money, and TaxAct can't import data from any personal finance programs, making the preparation of returns with this program a rather tedious and time-consuming process. Also, if you are a Mac user, TaxAct is out, and you will have to pay an extra \$10 to upgrade to the Platinum version of TaxCut.

Another critical element is the ability of the program, once installed, to be **updated** via downloads from a Web site, as the ability to have updates for all the last-minute tax law and form changes is essential to successful use of one of these programs. Fortunately, the final 2002 versions of all three of these programs have such a feature.

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Ease of installation is also an important factor, as most of us cannot be bothered with having to review and set a lot of specialized configuration options. Fortunately, all of these programs install relatively easily and come with a “typical” installation option that is perfectly suitable for most cases. In addition, the software can be obtained either by downloading it from the Internet (this is one case where an online speed beyond a 56K modem can be helpful) or by purchasing it on a CD-ROM from a variety of software suppliers. Alternatively, at H&R Block you can prepare your returns online and then have them reviewed by someone at H&R Block before filing. Watch out for those rebate offers that may make the cost of these programs seem very attractive, as it can often take eight to 12 weeks to obtain the rebates, requiring a larger cash outlay in the beginning; in addition, I strongly suspect that most of these vendors are statistically counting on the fact that many customers will think that applying for those rebates is not worth the hassle and delay.

Copy protection was not a big issue until the programs for preparing the 2002 returns came out. For the first time, TurboTax requires the user to activate the program before any returns can be printed or e-filed, the user can only print or e-file one set of returns per activation and the program is only licensed for full use on the PC on which it is originally installed. Any other use requires the payment of an additional activation fee. Worse yet, the initial installed version of this copy protection program, called **SafeCast**, hides on your PC and will not go away even if the TurboTax program is uninstalled from the original PC, thereby causing other problems with PCs. After a storm of protests from a large majority of its customers about this, Intuit finally issued an uninstaller patch that permits the program to be uninstalled, but it lost a significant market share in the process after having been the leading individual tax preparation software program for several years.

One of the nice features of all of these programs is the **Q&A interview process** they use to assist the preparer in properly filling out the returns. The one that comes with TurboTax, called **EasyStep Navigator**, is the most comprehensive and easiest to use, with TaxCut’s, called **Take Me To Navigator**, coming in a close second. Both TurboTax and TaxCut are far ahead of TaxAct’s rather basic **Step Navigator** interface that often requires the user to step through several screens to get to the place where he needs to be. In TaxAct, as you complete the interview process, you can see the data as it is inserted in the applicable

portions of the return forms in the bottom half of the screen. TaxCut and TurboTax do not show the return forms during the interview process, but you can easily jump to a graphical view of the applicable portions of the return forms at any time.

When it comes to **features**, each program has its own unique bells and whistles, although some of them cannot be obtained without purchasing one of the more expensive versions of the programs. TaxAct comes with an integrated version of *JK Lasser’s Your Income Tax*, and the Deluxe version comes with both a What-If and a Joint-Separate Comparison tool. TaxCut Deluxe comes with a retirement savings planner, a home-office assistant, a W-2 data download from four participating payroll companies and an entry manager that allows you to tag various entries as tentative for further follow up and possible revision at a later time. However, you will have to upgrade to the Platinum edition to get additional features such as a depreciation helper and a portfolio manager. TurboTax Deluxe for 2002 has a significantly expanded list of participating payroll companies, brokers and mortgage companies from whom data can be imported online. It also comes with a My Tax History feature that can import relevant data from a prior year’s return that was prepared using TurboTax, thus greatly streamlining the data-entry process for the current year. It also comes with a Future Tax Strategies Advisor section that includes retirement calculators and a tax forecaster. However, you will have to upgrade to the Premier or Investor editions in order to get added retirement tools and useful features for serious investors. The big question to ask yourself is if any of these additional features are essential to your particular use of any one of these programs, as most of these added features will not be of that much use in the case of a deceased taxpayer.

In terms of the **time it takes to prepare** a set of one federal and one state return and e-file both, recent benchmark tests of the 2002 versions of all three of these programs have shown that TaxAct takes by far the longest to use, necessitated in large part by how its Step Navigation system works. TaxCut was much faster, with TurboTax leading the pack in terms of speed and ease of use, due primarily to the data import capabilities that come with both of these programs. However, users of Microsoft’s Money will be relegated to using TaxCut since TurboTax currently does not import data from Money. Also, don’t forget the one return set per licensed PC limitation of TurboTax, which can be a real frustration to many users.

When it comes to **service and support**, TaxAct is the weakest of the group. Its help screens leave a lot to be

desired in spite of their partial integration with the *JK Lasser* materials. Its online support is limited to a searchable knowledge database and e-mailing for help. They offer free telephone support, but it is a toll call. The built-in help features of TaxCut and TurboTax are very comparable and come with various IRS publications, tax tips and video clips. The depth of the FAQs in the TaxCut online knowledge database is not as robust as the one for TurboTax. TaxCut offers e-mail help and toll free telephone support for questions limited to installation, printing and e-filing, but you can pay \$19.95 per question and use their Tax Advisor service

that is offered by H&R Block via e-mail or telephone. TurboTax offers online chat help for free or by telephone for \$15 per call and tax advice from Keen for \$19.95 per 10-minute telephone call.

This Issue's Featured Web Sites:

- **www.taxact.com**—TaxAct on the Web
- **www.hrblock.com**—TaxCut on the Web
- **www.turbotax.com**—TurboTax on the Web
- **www.irs.gov**—IRS Free File, Forms and Publications on the Web