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Taxing Times

Software still beats out Websites for preparing returns

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Regardless of whether we are or aren't getting a well-deserved tax cut, we'll still have to settle up for last year's income. To help you reckon what you should render unto Caesar, there are various computerized assistants you can recruit, including tax-preparation programs that have been around for years and online tax-prep sites. We're here to help you determine which is best, especially if your Schedule D has a tangled tale to tell.

If your return isn't too terribly complicated, you might be able to whisk through it online. Four companies have made personal tax preparation and filing available on the Web this year. Three are the makers of desktop tax software: Intuit (www.turbotax.com), H&R Block (www.hrblock.com), and 2nd Story Software (www.taxact.com). A fourth is hosted by H.D. Vest (www.hdvest.com), a financial-services company.

These sites have several similarities in their respective desktop products. They all support a healthy number of the forms and schedules, enough for all simple and some complicated returns. All use an interview process to get the information they need to prepare your return, and then drop it into the correct slots on forms and schedules. Calculations are performed automatically.

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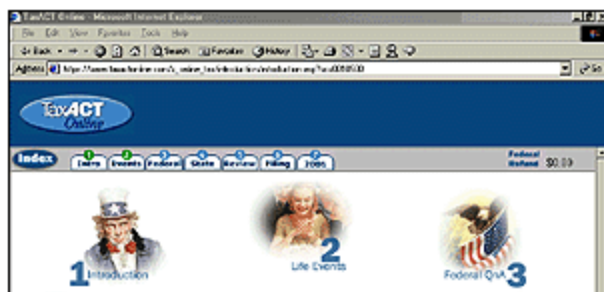
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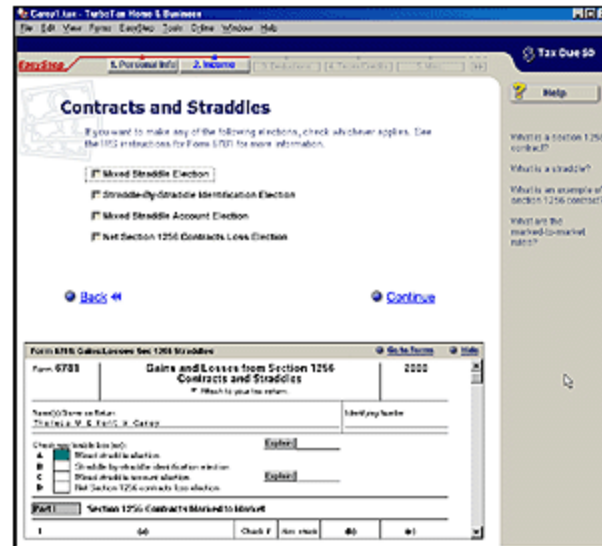
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Among online tax-prep sites, TaxACT (top) comes closest to working like its counterpart desktop program, providing more robust information than other sites. But when it comes to arcane provisions, TurboTax (bottom) still does a better job.

All comb your return for errors and omissions and give you a chance to fix them. And they all give you the option to either print your return or file it electronically. In fact, you won't be charged any fees for using the site until you decide to do so.

That's where the similarities end. For the most part, tax-preparation sites are stripped-down versions of their desk-top-product cousins. None offers you the option of entering data directly on forms. In fact, you don't even see the section of the form you're working on, as you do in some desktop products.

All use toolbar tabs to help you navigate, and some include topical indexes, so you can jump quickly to other areas. And you can save your work and keep coming back to complete your return (though, for security reasons, you'll be timed out after a certain period of inactivity unless you log out).

The tax and program help and guidance offered over the Internet pale in comparison with what's available through the software you buy and install on your PC. Compared with these programs, online tax-prep products offer only

rudimentary help, answers to frequently asked questions and a bit of additional explanation. Finding in-depth answers may necessitate heading elsewhere, such as to the IRS's own mammoth and unwieldy, but very thorough, site (www.irs.gov).

The sites' biggest shortcoming affects anyone still using a dial-up connection for Web access. These sites are slow. Combine the aggravation of tax preparation with the irritation of crawling page changes, and you've got the worst of all worlds. That's less of a problem for the growing hordes with DSL or cable connections.

One company did manage to deliver its desktop product on the Web in a fairly intact fashion: 2nd Story Software. TaxACT Online looks and works -- for the most part -- like its desk-top counterpart. It includes a section on planning for the next tax year, which TurboTax and TaxCut do in their desktop versions, but not online. Help is more robust, too. The Tax Advisor button pulls up context-sensitive information, and the Help button provides a multi-chapter guide to taxes. Relevant FAQs are available, too, although we found them hard to read because of the color combinations.

H&R Block so far hasn't suffered the technical glitches that beset it last year, and we liked the way it handled preparation (though it lacked the index navigator the others had). Like TaxACT, it offers a good serving of help: FAQs, IRS publications, a glossary, and access to H&R Block tax experts -- at \$19.95 a pop. Cost for filing is \$19.95 for federal and state returns.

Intuit is back this year with Quicken TurboTax for the Web. Filing costs \$14.95 for federal until April 1, and \$19.95 after; state returns are \$9.95. (Those with adjusted gross incomes under \$25,000 can file free.) While the site provides scant preparation help, we had few complaints about the tax return-completion process itself.

Finally, for a company that hasn't built a name in financial software, H.D. Vest offers a surprisingly good product, especially considering that it's free. This is the second year that H.D. Vest has offered this service, and it's improved its help system and its overall speed since last year.

For all practical purposes, the core market for tax-prep software consists of just two programs: TaxCut and Intuit's TurboTax. We reviewed the Deluxe and Home and Business versions published by each company. Unlike the online versions, abundant help is available on the CD-ROMs on which the programs are supplied, including video and audio assistance. TaxCut tries to make some of the video and audio help amusing, but TurboTax just sticks to the facts.

This year, the scenario we ran through the two programs was heavily weighted towards frequent traders. We also checked out the business-use-of-home sections of both programs for those Barron's readers who take the

home-office deduction.

TurboTax greatly improved the way it imports data from its sister programs, Quicken and Quickbooks, bringing in small chunks of data as you work through a particular section of the program rather than hauling the entire year's worth of transactions in at once, as TaxCut does. The success of the import depends on how you've used your personal-finance program in the preceding year. If you neglected to specify that you want taxable transactions tracked in Quicken or Quickbooks, you'll have trouble importing the information into TurboTax.

TurboTax took a step down the road of automating the tax-return process this year. A consortium of employers will make W-2 data available through a secure process, and if you're eligible you should receive the appropriate information with your tax forms. Several online brokers, including Fidelity, TD Waterhouse and Cititrade, allow you to download 1099 data directly into the program as well, eliminating those data-entry chores. The download capability wasn't available until after this issue went to press, however, so we were unable to test it.

Both programs handle Section 1256 contracts and straddle accounting, but TurboTax offers a lot more help during the data-entry process. Those of you operating under mark-to-market rules will appreciate the way TurboTax guides you through the process. TaxCut's explanations in this area are sparse, at best.

Business-use-of-home accounting was much improved in TaxCut this year, as it eliminated some of the confusion regarding whether a deduction went under Schedule C or Schedule A. Overall, however, TurboTax dug a little deeper into the home-office expenses, prompting entries that would result in a lower tax bill. In addition, the Depreciation Expert in TurboTax Home and Business does a great job helping account for new capital purchases.

Someday, we'll all do our taxes online. But for now, we recommend that you shell out the extra bucks to buy a desktop program if you're going to do your return yourself. Hyperactive traders also should look at the Trader Tax Solution Package offered by GreenTraderTax.com and the tax services offered by DayTrader-Tax.com. They're not cheap, but they can help you determine if you qualify as a professional trader in the IRS's eyes. The programs also help traders manage their hundreds (thousands?) of transactions better than TurboTax and TaxCut, which are more suited for long-term investors.

How important are low commissions to *Barron's* readers? Would you pay more for better executions? Please e-mail us at electronicinvestor@lycos.com on this and any other aspects of online trading.

E-mail comments to editors@barrons.com

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