

MAKING CENTS FIGURING OUT YOUR TAX WITHHOLDING

-John P. Napolitano, CFP®, CPA, PFS, MST, RLP®



When it comes to taxes, a lot of emphasis is placed on whether you are getting a refund or if you owe money when you file. Some prefer getting a refund. That spring check becomes a forced savings account and a way to save for large expenditures.

For others, the thought of getting a refund irks them. They look at it as having advanced the IRS an interest-free loan for the year; they wish that they had the use of those funds as they were earned.

Technically, the second group is correct. It is most often better to have access to your money rather than have it sit in someone else's account only to be refunded to you in a lump sum once a year. Getting the mix of withholding taxes and estimated payments to be the lowest possible amount is a pretty straightforward calculation.

If you can reasonably estimate your income and deductions, it is fairly easy to “guesstimate” what you’ll pay in total taxes next year. For most taxpayers, this tax-paying process happens in the form of tax withholding from your paycheck. You fill out a W-9 form when you start a job and declare how many dependents that you have, and that will determine your withholding percentage.

If you’d like to avoid the large refund in the future, you can change that W-9 form to more accurately reflect what actually needs to be withheld. In the old

days, it was a detailed manual worksheet to figure out your “equivalent exemption” amount. Now, the IRS makes it easier for you and provides a withholding calculator on its Web site, www.IRS.gov.

If you have earnings from sources other than employment – such as self-employment, unemployment, interest, dividends or real estate – you may also need to file quarterly estimated tax payments using form 1040-ES.

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The rules for estimated payments are clear but not simple in IRS documentation. In effect, estimated payments are due if you will owe more than \$1,000 in taxes when you file, and if you expect your withholding and estimated payments to be less than the smaller of: 90 percent of the total tax due with this year’s return, or 100 percent of the total tax paid in the prior year.

If you paid zero in taxes for 2009, and do not owe when you file a return, you will not need to pay estimated payments for 2010.

Your first estimate for 2010 would be due on April 15, 2010, the same date that your final payment for 2009’s taxes is due (although many New England communities have an extension this year). This can be an expensive day for the unprepared.

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