

# Bailey, Carr CPAs, P.C.

---

## NEWSLETTER

Dear Client:

If you typically receive a large refund after you file your tax return, or you owe a substantial amount at that time, you should consider adjusting your income tax withholding.

If your tax circumstances change, it's up to you to give your employer a new W-4. Many employees neglect to take this step, resulting in withholding that is either too high or too low.

If your withholding is too high, you are in effect giving the government an interest-free loan. Although the overpaid tax will be refunded to you once you file your return, you would have been better off using the money during the year to generate income or for personal purposes. In this case, you should reduce the amount your employer withholds to increase your regular take-home pay.

At the other extreme are taxpayers who have too little withheld and who owe substantial amounts come April 15<sup>th</sup>. While they enjoy the "extra" amounts received in each paycheck, they must pay back the taxes owed in April, and will possibly be tacking on extra in the form of penalties. If this is your situation, you should increase your withholdings. As a rough guideline, you should owe less than 10% of your tax bill when you file your return in April.

You should check your withholding whenever significant personal or financial changes occur in your life, including the following:

- **Changes in filing status or exemptions:** You get married or divorced; have a new child or a child goes off on his or her own.
- **Changes in wage income:** Your or your spouse start or stop working, or start/stop a second job.
- **Changes in income not subject to withholding:** You take out or pay off a mortgage, become entitled to the dependent care credit, child tax credit or higher education credit; changes in medical, alimony or job expenses.
- **Changes in other taxes:** You owe self-employment tax or employment taxes for your household workers.

The procedures for arriving at the proper withholding amounts are among the more complex ones taxpayers confront. A wide array of factors play a role: exemptions, deductions, credits, marital status, spouse's income, and others. The Form W-4 includes three worksheets that you may have to complete to determine the proper withholding. Additionally, form IT-2104 for NYS has a worksheet and calculations to determine State withholding. Remember that you can withhold different State and IRS amounts.

If you think your situation calls for a withholding adjustment (up or down), and you would like some guidance in getting through this maze, please contact us.