



Adjusting Your Income Tax Withholding

The Summer is a great time to revisit your income tax withholding. This is especially true if you typically receive a large refund from IRS after you file your income tax return, or you owe the IRS a substantial amount at that time. If this is the case, you should consider adjusting your income tax withholding.

For some background, income taxes are “pay-as-you-go” and are normally paid during the year as income is received through withholding from paychecks, pension payments, Social Security benefits or certain other government payments. Your employer withholds income tax from your paycheck based on the number of withholding allowances you claim on Form W-4, Employee's Withholding Allowance Certificate. You must give your employer a Form W-4 when you first begin work.

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 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 15th. While they enjoy the "extra" amounts received in each paycheck, they must pay back the taxes owed in April, and will likely be tacking on extra in the form of penalties. If this is your situation, you should increase your withholding. As a rough guideline, you should owe less than 10% of your tax bill come April.

This is why it is so important to revisit your income tax withholding during the year. Even if you have had too little tax withheld for part or even most of the year, you still may be able to

avoid a penalty by asking your employer to withhold additional amounts for the rest of the year. This is because the increased withholding at year's end will be treated as paid equally throughout the year.

If you are a wage earner, the IRS has a useful tool available online called a Tax Withholding Estimator: <https://www.irs.gov/individuals/tax-withholding-estimator>. This tool can help wage earners determine if they have too much or too little tax withheld. Taxpayers may use the estimate to change their withholding amount and submit a new Form W-4 to their employer. The tool offers those who earn wages step-by-step help for tailoring the amount of income tax they should have withheld from their paycheck.

In any event, it is advisable to check your withholding whenever significant personal or financial changes occur in your life, including the following:

- **Changes in filing status:** You get married or divorced.
- **Changes in wage income:** You or your spouse start or stop working, or start or stop a second job. You receive a year-end or holiday bonus.
- **Changes in income not subject to withholding:** You have an increase or decrease in rental income, interest income, dividends, capital gains, digital assets, virtual currency, or IRA distributions.
- **Changes in deductions and credits:** You become eligible for deductions other than the standard deduction; you become entitled to the dependent care credit, child tax credit, or the higher education credit.
- **Changes in other taxes:** You owe self-employment tax or employment taxes for your household workers.

The process for arriving at the proper withholding amounts are some of the more complex ones taxpayers confront. A wide range of factors come into play: deductions, credits, marital status, your spouse's income, and others.

This alert covers only some of the tax rules related to adjusting your income tax withholding that could potentially benefit you and your family. Please contact us if you have questions, want more information, or would like us to help you with a specific income tax withholding situation, so that by working together we can deliver the best tax results for you.

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