



AM I HAVING ENOUGH WITHHELD?

Tax time can be extremely stressful if you haven't planned well. It is important to determine the right amount to have withheld from your paycheck to avoid owing a large sum at the end of the year or receiving a large refund, which could have been invested or spent during the previous year.

There are three steps you can follow to avoid being surprised at tax time:

1. Determine the proper withholding amount.
2. Claim the correct number of allowances.
3. Check your withholding.

Determine the proper withholding amount

Two factors determine the amount of income tax your employer withholds from your regular pay: the amount you earn and the information you provide on Form W-4. This form asks you for three pieces of information:

1. **The number of withholding allowances you want to claim:** You can claim up to the maximum number you're entitled to, claim less than you're entitled to, or claim zero.
2. **Whether you want taxes to be withheld at the single or married rate:** The married status, which is associated with a lower withholding rate, should generally be selected only by those taxpayers who are married and file a joint return. Other people, including those who are married and file separately, should generally have taxes withheld at the higher, single rate.
3. **The additional amount, if any, you want withheld from your paycheck:** This is optional; you can specify any additional amount of money you want withheld.

Deciding on the right amount to withhold can be especially challenging for married couples. When both spouses work and have taxes withheld at the married rate, they sometimes end up with insufficient taxes withheld. If this happens to you, remember that you can always choose to withhold at the single rate. In addition, you can determine the proper



withholding amount by completing Form W-4's Two-Earners/Multiple Jobs Worksheet.

Claim the correct number of allowances

Think of allowances as cash in your pocket at the time you receive your paycheck. The more allowances you claim, the less taxes are taken from your paycheck (and the more cash ends up in your pocket on payday). If you claim zero allowances, you will maximize the amount withheld from your paycheck. This will reduce the amount of cash you take home in your paycheck. The following factors determine your number of allowances:

- The number of personal and dependency exemptions you claim on your federal income tax return
- The number of jobs you work
- The deductions, adjustments to income, and credits you expect to take during the year
- Your filing status
- Whether your spouse works

To claim the correct number of allowances, you should complete Form W-4's worksheets. These include a personal allowances worksheet, a deductions and adjustments worksheet, and a two-earners/multiple jobs worksheet. IRS Publication 505 (Tax Withholding and Estimated Tax) explains these worksheets.

Check your withholding

To avoid surprises at tax time, it's a good idea to periodically check your withholding. If you accurately complete all Form W-4 worksheets and don't have significant nonwage income (e.g., interest and dividends), it's likely that your employer will withhold an amount close to the tax you'll owe on your return. But in the following cases, accurate completion of the Form W-4 worksheets alone won't guarantee that you'll have the correct amount of tax withheld:

- When you're married and both spouses work, or if either of you start or stop working
- When you or your spouse are working more than one job
- When you have significant nonwage income, such as interest, dividends, alimony, unemployment compensation, or self-employment income, or the amount of your nonwage income changes
- When you'll owe other taxes on your return, such as self-employment tax or household employment tax
- When you have a lifestyle change (e.g., marriage, divorce, birth or adoption of a child, new home, retirement) that affects the tax deductions or credits you may claim
- When there are tax law changes that affect the amount of tax you'll owe

In these cases, IRS Publication 919 (How Do I Adjust My Tax Withholding?) can help you compare the total tax that you'll withhold for the year with the tax that you expect to owe on your return. It can also help determine any additional amount you may need to withhold from each paycheck to avoid owing taxes when you file your return. Alternatively, it may help identify if you're having too much tax withheld. If you find that you need to make changes to your withholding, you can do so at any time simply by submitting a new Form W-4 to your employer.

Throughout this process, we will work to help you determine the best withholding strategy for you.

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