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Revising Your W-4? Seek Professional Advice.

Article Highlights:

- Form W-4 is used to establish payroll-withholding amounts.
- Incorrectly completed W-4s can result in under-withholding and unexpected year-end tax liability.
- The IRS's W-4 calculator is only suitable for simple returns.
- Commonly encountered problems in getting the W-4 completed to establish the proper amount of withholding.

This time of year, many employers will request updated W-4 forms from their employees (and the equivalent state form for those who live in a state with income tax). The W-4 form allows you to specify your filing status and the number of dependent exemptions to be used for determining the amount of income tax to be withheld from your payroll. Although the IRS provides an online W-4 calculator, it is generally suitable only for more simple returns, and may not be appropriate in all cases, since it does not take into account all income adjustments, credits, and deductions available. Be careful when completing the W-4 form, because errors can create some significant financial problems.

Let's say that you are married and have two dependents. On your tax return, you claim four exemptions. The natural thing for you to do would be to claim "married" and four exemptions on the W-4. However, for W-4 purposes, the exemption for the taxpayer and spouse are automatically built into the married rates, and only two exemptions need to be claimed. The result, of course, is that the taxpayer ends up claiming more exemptions than he or she actually is entitled to, which can result in under-withholding, if the standard deduction is used.

It is common practice and acceptable for taxpayers to claim additional exemptions when they would otherwise have excessive withholding. Over-withholding may occur because the withholding tables do not account for large itemized deductions or other situations that might reduce the worker's taxable income.

It's also quite common for taxpayers to increase their exemptions to provide more take-home pay from their payroll checks. In doing so, they are essentially borrowing tax money from the government, which they will have to repay - along with possible penalties and interest - when they file their return the following year. That might seem like a good idea now, but it could lead to an unexpected tax liability at tax time. This is where a professional tax projection can more accurately establish appropriate withholding amounts.

Determining the appropriate number of exemptions to claim on the W-4 can be tricky if you have other substantial income on which no tax is withheld or when both spouses of a married couple are employed. The guidance of a tax professional may be beneficial in these and other cases, to help determine the W-4 withholding allowances and to analyze how the withholding amount may affect the need for estimated tax installment payments.

If you feel you need assistance in determining your withholding amount and completing the W-4 to produce the correct withholding, please give this office a call.

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