



Withholding — Filling Out Form W-4

Personal Allowances

Personal allowances reported on Form W-4 take into consideration personal exemptions that will be reported on the employee's tax return. Personal allowances can also apply for other items that can reduce tax such as a non-working spouse, head of household filing status, expected credits on the tax return, itemized deductions, or other tax-reduction items.

The higher the number of personal exemptions on Form W-4, the lower the withholding will be. The worksheets that accompany Form W-4 will help the employee determine the proper number of personal exemptions to report.

Example #1: Melissa earned \$52,000 as an employee in 2014. She is single and uses the standard deduction on her tax return. Melissa's Form W-4 shows "Single – 1." Melissa's federal tax liability on Form 1040 is \$6,325. Her federal withholding based on "Single – 1" is \$7,280. Melissa is due a refund of \$955 when she files her tax return.

Example #2: Assume the same facts as Example #1, except Melissa claimed "Single – 3" on Form W-4 so her take-home pay would be higher. Instead of having \$7,280 withheld, at "Single – 3" she had only \$5,408 withheld. Melissa has a balance due of \$917 on her tax return.

Danger Zones

Filling out Form W-4 is fairly straight-forward for a single taxpayer with one job claiming the standard deduction on his or her tax return. "Single-1" will cover the taxes and generally result in a small refund. Likewise with a married couple where only one spouse works, "Married – 2" will generally cover the tax bill. However, the withholding tables do not account for every situation. Many but not all of the following items can be taken into consideration on the worksheets on Form W-4. If there are significant additional sources of income, or other factors that create a more complicated tax situation, it is best to consult your tax advisor for assistance in what to claim for withholding.

Be especially careful filling out Form W-4 with:

- Both spouses working.
- Working more than one job.
- Additional non-wage income, especially self-employment income.
- High-income earners subject to alternative minimum tax, net investment income tax, or additional Medicare tax.
- Married filing separately filing status.
- Dependents earning wages.

See IRS Publication 505, *Exemptions, Standard Deduction, and Filing Information*, for more information about withholding and filling out Form W-4.

Contact Us

There are many events that occur during the year that can affect your tax situation. Preparation of your tax return involves summarizing transactions and events that occurred during the prior year. In most situations, treatment is firmly established at the time the transaction occurs. However, negative tax effects can be avoided by proper planning. Please contact us in advance if you have questions about the tax effects of a transaction or event, including the following:

- Pension or IRA distributions.
- Significant change in income or deductions.
- Job change.
- Marriage.
- Attainment of age 59½ or 70½.
- Sale or purchase of a business.
- Sale or purchase of a residence or other real estate.
- Retirement.
- Notice from IRS or other revenue department.
- Divorce or separation.
- Self-employment.
- Charitable contributions of property in excess of \$5,000.

This brochure contains general information for taxpayers and should not be relied upon as the only source of authority. Taxpayers should seek professional tax advice for more information.

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