

# Golden Bullets

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## FEDERAL INCOME TAX WITHHOLDING: THINGS TO CONSIDER

I recently read an article in *USA Today*. Did you see it? Here's an excerpt:

The average tax refund issued so far dropped to \$1,949, down 8.7 percent from \$2,135 at the same time last year, according to IRS statistics. Last week, the agency reported that refunds were off by 8.4 percent compared with 2018 after the first week of filing.

In a way, this part of the story misses an important point. **The size of a federal income tax refund—or even whether you get one—is mostly up to you.**

When you file a federal income tax return, you're reconciling the difference between the tax deposits you made during the year and your actual tax liability. A taxpayer who has deposited too much with the IRS during the year gets a tax refund. Another who has sent in too little must write a check for the shortfall.

What do I mean about **tax deposits**?

The IRS collects deposits from taxpayers during the year from various sources, including

- Payroll deduction from wages,
- Mandatory withholding from certain kinds of distributions,
- Voluntary withholding and
- Quarterly tax deposits.

If you are getting a big refund at tax time, it's because you sent the federal government too much of your money through one or more of these sources during the year. It's as if you **gave the folks in Washington a tax-free loan of your money**. If you owe a big tax bill, it's due to the fact that you didn't send the IRS enough in advance.

I can help you manage their projected tax liabilities and income tax withholding. I work with my clients to implement a number of tax management strategies, including:

- helping to manage rollovers from qualified plans or between IRAs,
- shepherding tax-free exchanges of financial products,
- helping them consider and purchase tax-advantaged financial products,
- thinking about income tax bracket management and
- controlling the timing of taxable transactions.

I help my clients manage their tax deposit behaviors. For certain kinds of taxpayers and transactions, sending money to the federal government (withholding) may be required. For some, handling the transaction in a different way may allow more flexibility with regard to tax withholding.

For others who have consistently been sending too little to the IRS, choosing to have more money withheld from a taxable transaction might help them close the gap at filing time. Why is that important? Clients who have sent the Service **too little relative to their actual tax liability risk having to pay an extra penalty**, in addition to the tax due.

Are you writing the IRS a big tax check for 2018? Did you loan the federal government way too much—interest-free—during the year? Give me a call, and let's talk taxes.

***AS ALWAYS, PLEASE FEEL FREE TO CALL TO DISCUSS THESE OR OTHER FINANCIAL SECURITY ISSUES OF CONCERN.***

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