

AVOID SURPRISES ON YOUR 2018 TAX RETURN

According to the IRS, the number of taxpayers who owe at the end of the year has increased 40% in recent years. To make matters worse, if you owe money on your tax return you will also likely be charged penalties and interest for not paying the correct amount throughout the year. The best way to avoid this is to make adjustments to your federal withholdings with your employer or to make estimated tax payments throughout the year. To get started you should determine if you are likely to have a balance due when you file your 2018 tax return next year.

WHY DO I OWE?

When you are paid by your employer they are required to withhold federal taxes to cover your expected liability. However, these withholdings are not always sufficient to cover your final tax bill due to various factors that can affect your tax liability. Several of these factors include:

1 More than one source of income. If you work more than one job, or if you have a spouse that also works, you have an increased chance of owing on your tax return. This is because each employer only accounts for the wages they are paying you when determining how much taxes to withhold. When you have more than one source of income you could be in a higher tax bracket than your employer expects.

2 Significant increase in income. When you start making more money you run the risk of being phased out of various tax deductions that you may have qualified for in the past. And if you receive a large pay raise in the middle of the year, your withholdings in the first half of the year may no longer be sufficient for that portion of your income when you move into a higher tax bracket.

3 No longer claiming your child. Claiming your child on your tax return can reduce your tax bill by \$2,000-3,500 per year. So when your child moves out on their own, or when you cannot claim your child due to divorce, it can take a heavy toll on your tax bill.

4 Major life changes. Getting married, getting divorced, or retiring. These are all major life changes that can have a dramatic impact on your tax return. When you go through one of these changes you should be prepared for significant changes to your tax bill.

WHAT TO DO?

If any of the above situations apply then you are at increased risk of having to pay when you file your 2018 tax return. To avoid this you can change your withholdings with your employer. If you have more than one job we recommend claiming zero allowances with your second employer. You can also request that an additional specified amount be taken out of each check and put toward your federal tax liability.

You can also estimate your final tax bill and make quarterly estimated payments to reduce or eliminate your bill at the end of the year. If you still owe, making quarterly payments can help you avoid paying additional penalties when you file your return. If you would like help determining if you should adjust your withholdings or make estimated payments please give us a call.