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| |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | | |  |  |  |  |  | | --- | --- | --- | --- | --- | | **Why You Don’t Want a Tax Refund**  **Some people love it when they get a tax refund. But in reality, a refund means you overpaid your taxes. If you had broken even, you would have had more money in your wallet throughout the year.**  A tax overpayment is basically an interest-free loan to Uncle Sam. That money can be put to better use in your pocket. Here’s how to make the changes you need to avoid overpaying your taxes.  **You pay your taxes as you go.** In the United States, the IRS collects revenues by applying a withholding tax to your paychecks. The amount withheld credits your annual federal (and perhaps state/local) income tax account. You control the amount withheld by filling out IRS Form W-4 and claiming a number of tax allowances. The more allowances you claim, the less tax is withheld. If you regularly get a refund each year, consider increasing the number of tax allowances you claim on your W-4.  **A refund is a tax-free loan.** The IRS has a job—to collect taxes based on the income you earn. Most taxpayers use Form 1040 to file their taxes, and that’s where you claim a refund because you overpaid your withholding tax. The overpaid amount represents a tax-free loan to the federal government. Eventually, you receive the overpaid amount as a refund, but you don’t receive a penny of interest income on the loan.  **Better uses for your refund money.** If you withheld the proper amount, you’d neither owe money nor collect a refund each year. Rather than receive a refund, you could have instead used that money during the year to boost retirement account contributions. Over the decades, the opportunity cost of not maximizing retirement contributions could cost you thousands of dollars. Other good uses of a larger paycheck include funding an emergency account and paying down debt.  **Use the withholding calculator.** If you don’t know how many tax allowances to claim on your W-4 Form, you can use the tax withholding estimator at irs.gov to help you find the right answer. Before you begin, gather your most recent tax return, pay stubs (for you and, if married, your spouse), and information on other sources of income. You then answer five questions about your filing status (single, married filing jointly, etc.), number of dependents, wages, pension income, and other sources of income. The estimator will then tell you the correct number of tax allowances to minimize your refund.  **Taxes should be part of your financial plans.** When you avoid a large tax refund, your paycheck has the optimal amount of after-tax income. That’s an important amount because you can use it to budget your spending, saving, and investing. Contact me to review your financial plans so that you don’t shortchange your retirement funding and other long-term goals.   |  |  | | --- | --- | | |  | | --- | | [LET'S CONNECT](mailto:##AdvisorEmail##) | |  |  |  | | --- | --- | | Tracking #1-05101218 Expiration 02/24 |  | | | |