

Abstract: Taxpayers who received a large tax refund this year may want to adjust their withholding. Each year, millions of taxpayers claim an income tax refund. That can represent a pleasant influx of cash. But it's probably not the best use of cash for taxpayers. In fact, it's similar to giving the government an interest-free loan for nearly a year. Fortunately, there's a way taxpayers can begin collecting their 2024 tax refunds now, by reviewing their withholding and estimated payments, and getting the money in their pockets during the year, instead of in a refund the following year.

To get an “early” refund, adjust your withholding

If you received a large refund this year, you may want to adjust your withholding. Each year, millions of taxpayers claim an income tax refund. To be sure, receiving a payment from the IRS for a few thousand dollars can be a pleasant influx of cash. But it means you were essentially giving the government an interest-free loan for close to a year, which isn't the best use of your money.

Fortunately, there's a way to begin collecting your 2024 refund now: You can review the amounts you're having withheld and any estimated tax payments you're making and adjust them to keep more money in your pocket during the year.

Choosing to adjust

It's particularly important to check your withholding and/or estimated tax payments if:

- You received an especially large 2023 refund,
- You've gotten married, divorced or added a dependent,
- You've bought a home,
- You've started or lost a job, or
- Your investment income has changed significantly.

Even if you haven't encountered any major life changes during the past year, tax law changes may affect withholding levels, making it worthwhile to double-check your withholding and estimated tax payments.

Making a change

You can modify your withholding at any time during the year, or even more than once a year. To do so, simply submit a new Form W-4 to your employer. Changes typically will go into effect several weeks after the new Form W-4 is submitted. For estimated tax payments, you can adjust each time quarterly payments are due.

While reducing withholding or estimated tax payments will, indeed, put more money in your pocket now, you also need to be careful that you don't reduce them too much. If you don't pay enough tax throughout the year on a timely basis, you could end up owing interest and penalties

when you file your return, even if you pay your outstanding tax liability by the April 2025 deadline.

Getting help

One reason to consider adjusting your withholding is the passage of any new tax legislation. For example, several years ago when the Tax Cuts and Jobs Act was enacted, the IRS needed to revise withholding tables to account for the increased standard deductions, suspension of personal exemptions, and changes in tax rates and brackets. If you'd like help determining your withholding or estimated tax payments for the rest of the year, please contact us.

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