

How to update your W-4 to avoid an income-tax surprise

Russ Wiles

Arizona Republic
USA TODAY NETWORK

After a tumultuous year that has upended traditional employment, millions of Americans could face income-tax surprises. One way to reduce the odds of owing a big bill to Uncle Sam — or paying out too much and thus giving an interest-free loan to the government — is to check your withholding.

More than a year ago, the Internal Revenue Service released a redesigned form W-4 on which taxpayers figure how much money they should withhold from their paychecks. Most taxpayers so far appear to have ignored it.

Three in four individuals received refunds last year that averaged \$2,500 per recipient — that's an interest-free loan to the government that could certainly get put to a better use.

Much has changed in the past year, including job losses and taxable unemployment benefits for some people, taxable retirement-account withdrawals, overtime or extra-hours pay for workers in many essential industries and a volatile stock market that spewed out capital gains and losses.

New employees fill out W-4s when starting a job but often neglect to update their information after that. Updates aren't required, and 45% of respondents in a recent survey reported that they didn't remember when they last revised their information.

One in nine taxpayers said they had never heard of W-4s, according to the survey released by the Harris Poll and American Institute of Certified Public Accountants.

Updates aren't especially difficult or time-consuming. Now could be a good time to do it, with a full year of salary, withholding and other information to review. A tax withholding calculator provided by the Internal Revenue Service is worth completing first.

What's different about the new W-4?

The updated W-4 no longer includes allowances — which were based on the number of personal and dependent exemptions you had — and makes it easier for taxpayers to coordinate their tax situation across multiple jobs and with a working spouse, according to the ac-

countants institute.

The new form “provides simplified steps to account for dependents, multiple jobs and other items that can affect the amount of tax owed,” said Neal Stern, a certified public accountant and member of a financial literacy group of the organization. The prior version “focused mainly on the number of taxpayers included in the tax return and often required use of separate worksheets to calculate additional withholding needs,” he said.

Based on the organization's survey, only 26% of taxpayers have updated their withholding since the IRS released the redesigned W-4 in December 2019.

Is it a good time to check withholding?

Yes. While it's too late to affect withholding for 2020, changes you make now will adjust amounts for the coming year.

While there wasn't sweeping tax-reform legislation last year, the financial situations of many people have changed. For example, many more Americans now are receiving jobless benefits, which are taxable. Some also have withdrawn taxable funds from retirement plans. Others sold unsheltered stocks or other investments at a profit.

“If you owed a lot of tax or had a huge refund, you should take a look at withholding to get closer,” said Bailey Tocco, a certified public accountant and managing director at CBIZ MHM in Phoenix. Recent pay increases or decreases are other reasons to take a look, she said.

Some 53% of respondents in a LendEDU survey last year said they were worried about tax debts in 2021. A good way to minimize the possibility of owing money to federal or state tax authorities is to adjust withholding (or make estimated quarterly payments).

States that levy income taxes have their own withholding forms — it's A-4 in Arizona. The Arizona form is easy to use and intuitive, Tocco said, as you simply choose what percentage of income you would like to have withheld.

Must taxpayers submit new W-4s?

Aside from starting a new job, no. But doing so could make for a smoother ride. “People tend to overlook a few extra bucks in their take-home pay, but they

sure notice when they get a \$300 tax bill instead of a \$1,500 refund,” said Gregory Anton, a CPA and chairman of the financial-literacy group for the accountants institute.

Updates are especially important if your personal circumstances have changed, such as taking on an additional job, getting married or divorced, or having a new child.

If two spouses are employed, should both provide updated W-4s?

Yes, each spouse should complete one. Only half of the survey respondents said they knew about this recommendation.

What's wrong with withholding too much?

Many people do rely on hefty refunds to pay down debts, purchase big-ticket items and so on. The AICPA survey found that more than half of respondents purposely withheld an incorrect amount, with most preferring to overpay to receive a refund.

But one drawback is the opportunity cost of not having use of the money earlier. The IRS typically doesn't pay much or any interest on refunds, making over withholding a poor investment decision, said Tocco.

“Especially for people who don't have much set aside to cover emergencies, it's often better to avoid over-withholding and be able to access the money you've earned if it's needed for financial stress like an unexpected major repair bill or temporary loss of income,” said Stern.

Besides, the IRS last year was tardy in paying some refunds owing to office-shutting measures tied to the pandemic. Thus, there's a risk of having to wait longer than usual for a refund, and that's frustrating.

Are there other consequences of not withholding enough?

Yes. You could incur an underpayment penalty.

“Most taxpayers face a possible underpayment penalty from the IRS if they owe more than \$1,000 at tax time and haven't paid in at least 90% of their tax for the current year or 100% of their tax

for the previous year, whichever is smaller,” said Stern. States also may levy underpayment penalties.

According to IRS statistics as of late July cited by the accountants institute, the average tax bill for Americans who owe money at filing time is roughly \$5,500. Yet two in five respondents said they weren't confident that they could pay even a \$3,000 tax bill on short notice without borrowing or charging the balance on a credit card.

Do independent contractors submit a W-4?

No. These people usually satisfy their tax obligations by paying estimated taxes based on earnings in four equal installments throughout the year. “However, employees who have side work as an independent contractor should consider updating their W-4 to take their additional income into account,” Stern said.

What's involved in filing a new W-4?

A good first step is first to estimate how much you might owe using the IRS' tax withholding estimator. You will need information handy from a recent pay stub and your income-tax return from last year. The IRS estimator allows you to play around with various actions that can affect your answer such as retirement-account withdrawals you might take during the year. You can do it all anonymously.

Other factors that can make it more difficult to estimate withholding include multiple jobs, rental income and additional investment income, said Tocco.

After that, you should submit a W-4 through your human resources department at work, or first download the form at irs.gov, fill it out and then give it to your employer.

What if I made a mistake or I'm not satisfied with the results?

Then you can submit another W-4. In the accountants institute survey, only one-third of respondents knew that forms can be updated throughout the year.

Reach the reporter at russ.wiles@arizonarepublic.com.

Count

Continued from Page 1A

Due to COVID-19, HUD is not making the Point-in-Time count mandatory this year. Many regions, like Multnomah County, have sought to delay or opt-out of the count over coronavirus concerns.

But local officials wanted to be able to assess and meet with the homeless population. Anecdotally, advocates are hearing that the homeless population has increased. A PIT count would help confirm this suspicion.

“We opted in because the data is not only valuable for sending back to HUD and really demonstrating the need in our community, but this is our one time of year when we get the chance to really identify the number of unsheltered persons that are within not only Salem but all of Marion-Polk County,” Hamilton said. “We use that data ... as a launching pad for demonstrating need or understanding the population and designing evidence-based programming.”

This year, COVID-19 has brought a new set of challenges for the count. A shortage of volunteers is leading agencies like the Mid-Willamette Valley Community Action Agency, which oversees ARCHES, to rely more on staff to conduct the count.

“Asking people to come out and engage with a broad range of individuals — sometimes 50 to 100 a day — that can be intimidating especially if you're in a vulnerable population yourself,” Hamilton said. “We do not want anyone to go out and risk their lives for the count. We entirely respect everyone's decision to sit this one out.”

Those collecting data are given personal protective equipment and sanitizer, and many interviews are able to be conducted outside.

Not all the changes are drawbacks, Hamilton added. HUD is now giving regions two weeks — instead of the usual seven days — to conduct the count. The extended window will give staff and volunteers more time to meet and find everyone, she said.

The count, which surveys people about where they spent the night of Jan. 25, also collects demographic information and is collected via an app. This allows for the swift transmission of information so advocates can see where the population is in real-time, Hamilton said. The app is a recent addition and was first used in the area in 2020.

Groups met at ARCHES Tuesday morning before setting out to West Salem to not only collect data but also connect people to services, help them into housing and offer them necessities like sleeping bags, hygiene items and tents.

Throughout the day and the next two weeks, volunteers and staff will be conducting similar efforts in Cascades Ga-



Breezy Aguirre with The ARCHES Project hands out tents and sleeping bags to unsheltered people during the Point-in-Time survey in West Salem. BRIAN HAYES / STATESMAN JOURNAL

taway Park, Wallace Marine Park, the Market Street underpass at Interstate 5, in smaller cities like Woodburn and in rural sections of the county, including the Santiam Canyon.

After an emergency declaration to reduce the spread of COVID-19 pushed those living on downtown streets into Cascades Gateway and Wallace Marine parks, about 200 to 300 people have made camp in each of the city parks.

Neighbors living near the parks have said they are “filled with squalor and human suffering” and have been tied to increased crime in communities bordering the parks.

The city's “unwind” plan for camping clearly set forth the goal of not clearing encampments in January to allow for the annual Point-in-Time Count and maximize federal resources to the region.

Hamilton said along with the growing camps in the parks and under Interstate 5, advocates believe the wildfires and economic impact of the pandemic have pushed even more people into homelessness.

“I also know that the population, generally speaking in the broader community sense, has grown,” she said. “This is our chance to capture that.”

For questions, comments and news tips, email reporter Whitney Woodworth at wmwoodworth@statesmanjournal.com, call 503-910-6616 or follow on Twitter @wmwoodworth



www.edwardjones.com
Member SIPC

Edward Jones
MAKING SENSE OF INVESTING



LOCAL ADVISORS

Salem Area

Michael Wooters
FINANCIAL ADVISOR
South | 503-362-5439

Garry Falor CFP®
FINANCIAL ADVISOR
West | 503-588-5426

Caitlin Davis CFP®
FINANCIAL ADVISOR
West | 503-585-1464

Chip Hutchings
FINANCIAL ADVISOR
Lancaster | 503-585-4689

Jeff Davis
FINANCIAL ADVISOR
Mission | 503-363-0445

Tim Sparks
FINANCIAL ADVISOR
Commercial | 503-370-6159

Keizer Area

Mario Montiel
FINANCIAL ADVISOR
Keizer | 503-393-8166

Surrounding Area

Bridgette Justis
FINANCIAL ADVISOR
Sublimity | 503-769-3180

Tim Yount
FINANCIAL ADVISOR
Silverton | 503-873-2454

Kelly Denney
FINANCIAL ADVISOR
Dallas | 503-623-2146