



AVOID APRIL 15 TAX SURPRISES!

"I always get a tax refund but I prepared my taxes last night and I actually owe \$1,200 to the IRS. Something is wrong! Were my withholdings messed up last year?"

Virtually every HR/payroll manager has had this question asked by an employee as they prepare their annual income tax returns. Since it is mid-year 2010, now is the time to suggest that every employee review their tax position for 2010, in time for withholding adjustments and a new W-4 to avoid last minute April 15th tax surprises. You can read [IRS Publication 919](#) which helps an individual calculate their correct W-4 allowances, by completing various worksheets. For those individuals whose primary income sources are wages from employers and have child tax credits and deductions for mortgage interest, property taxes, etc., the "IRS Withholding Calculator" is an excellent tool for calculating a person or couple's 2010 federal income taxes, with a recommendation of W-4 changes to make for the remainder of 2010 to avoid an unpleasant April 15th tax surprise. Your employees can access this calculator in the [Forms and Downloads](#) section on AccuPay's website. Simply click on the "IRS Withholding Calculator".

The IRS calculator is not well suited for people with self-employment income and self-employment tax, or for those who generate "below zero" federal tax due to earned income tax credits or child tax credits at lower income levels. The calculator works very well for people who have wages, investment income, rental income, tax credits for children below the age of 17, daycare tax credit, "making work pay" tax credit, Schedule A itemized tax deductions, etc. The calculator can also help an employee determine how much federal income tax to withhold to pay tax on investment income in lieu of paying quarterly estimated tax payments. **This calculator will tell a person or couple how much they can expect to owe or get as a refund based on their scheduled withholdings for 2010, and then will recommend the number of W-4 allowances required to approach a break-even point by the end of the calendar year.**

One of our CPA/advisors has tested the IRS calculator and found it to be an accurate tool for adjusting withholdings to meet each person's tax objectives via payroll deductions. An individual using the IRS calculator needs their YTD payroll "stubs" showing gross wages and federal income tax withholdings both YTD and as reported on the person's most recent payroll, in addition to their 2009 tax return for the purpose of estimating 2010 investment income, exemptions for children, and Schedule A itemized deductions.

We know tax-time can be stressful for employees and also the HR/Payroll Administrators. Our staff is prepared to answer your questions or those of your employees so they can accurately use the IRS calculator and make Form W-4 withholding adjustments as needed--simply call us at 885-7600 and we will help you with this process at no additional charge. Also, make sure we receive new W-4's from employees who wish to change their withholdings---and remind your employees that they will need to recalculate their W-4 allowances at the beginning of 2011!

PayDay is an email communication of payroll news, legal updates and tax considerations intended to inform clients and colleagues of AccuPay about current payroll issues and planning techniques. You should consult with your CPA or tax advisor before implementing any ideas, comments or planning techniques.