

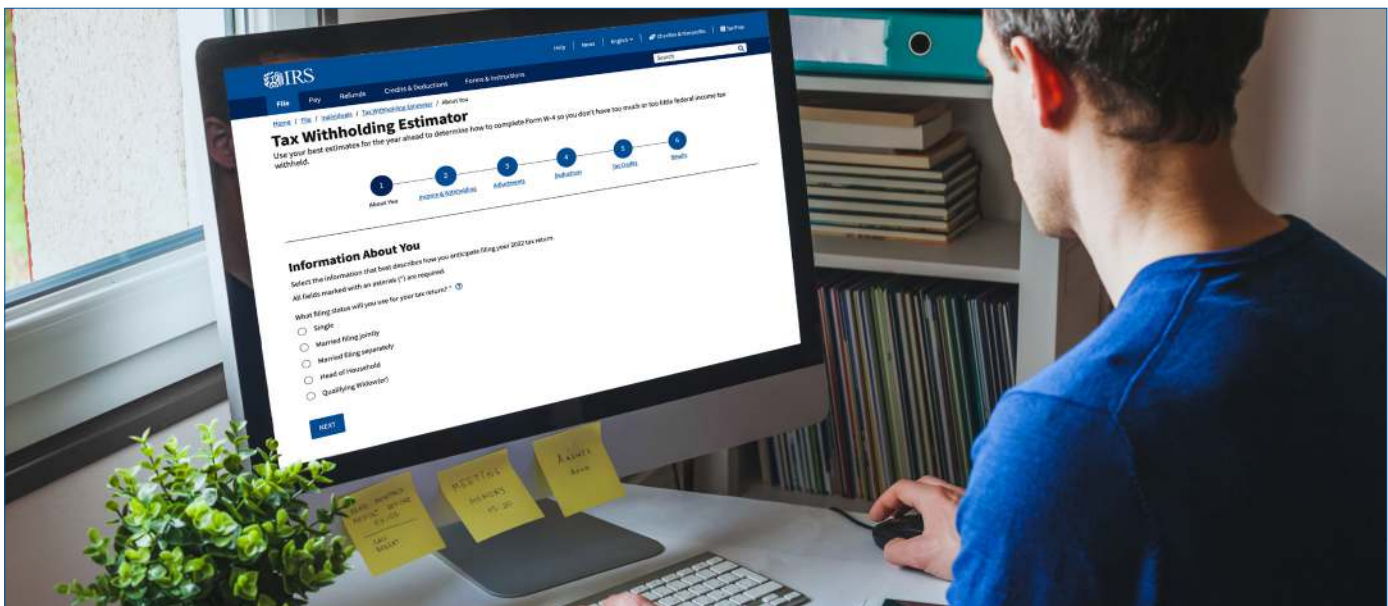
# Avoid Tax Sticker Shock: Review Your Income and Withholdings

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**N**obody likes to get whacked at the end of the tax year with a higher-than-expected income tax bill or a smaller-than-expected refund, but that's what happens when you don't have enough money withheld from your paychecks or aren't paying enough in estimated taxes.

The United States operates a *pay-as-you-go* tax system, which means you as a taxpayer are expected to pay taxes on your income *as you earn it*, not just at the end of the year. If you owe too much at the end of the year, the government charges you a penalty. You can think of it as interest on what you underpaid for the time you underpaid.

To avoid a nasty surprise when you're preparing your tax return at the end of the year, review your income expectations and withholdings (and estimated taxes) at the beginning of the year and adjust as needed. This is especially important if you have any self-employment or investment income or income from other sources.



## Using the IRS's Tax Withholding Estimator

To help you determine your correct tax withholding, the Internal Revenue Service (IRS) provides an online [Tax Withholding Estimator](#) that you can use

- Complete a new Form W-4, Employee's Withholding Allowance Certificate and submit it to your employer
- Make or modify your estimated tax payment to the IRS

Before you start, gather your income documents, including these:

- Pay stubs

- W-2s from employers
- Forms 1099-K, 1099-MISC, 1099-NEC, W-2 or other income statements you received from customers/clients
- Forms 1099 from banks, issuing agencies, and other payers including unemployment compensation, dividends, interest, and distributions from a pension, annuity, or retirement plan
- Records of virtual currency transactions

Also:

- Know the number of children you will claim for the child tax credit and earned income tax credit
- Be aware of other items that will affect your 2022 tax return when you file in 2023 (such as a change in filing/marital status or the purchase of a home)

In case you're wondering, the IRS Tax Withholding Estimator *doesn't* ask for personally identifiable information, such as your name, Social Security number, address, or bank account number. And the IRS doesn't save or record the information you enter in the Estimator.

### **Reviewing and Updating Your W-4**

IRS Form W-4 provides the means for you to instruct your employer to withhold more or less money from your paychecks, so use this form to help avoid any surprises at the end of the tax year. If you're struggling to pay your bills from month to month, and you typically receive a large refund at the end of the year, you can also use your W-4 to reduce your withholdings and improve your cash flow throughout the year.

To update your withholdings, simply complete a new [IRS Form W-4](#) and provide it to your employer. You can fill out the [W-4 online](#) and then print a copy for your employer.

**Pro Tip:** Print another copy of your IRS Form W-4 for your own records. You never know when this may come in handy.

### **When NOT to Use the IRS's Tax Withholding Estimator**

Don't use the [IRS Tax Withholding Estimator](#) if you have only pension income or have a complex tax situation (for example, if you're likely to be required to pay the alternative minimum tax) or if you have long-term capital gains or qualified dividends.

**Recommendation:** If you fall into one of those categories, check with your [tax planning professional](#) or seek guidance from [IRS Publication 505](#) to determine your correct tax withholding.

### **Calculating Quarterly Estimated Tax Payments More Precisely**

If you're self-employed and your income fluctuates, income data from last year (such as the data from last year's tax return or 1099s) may not do you much good. Instead, look at the *percentage* of your income you paid in taxes (federal, state, and local) and use those percentages to calculate your quarterly estimated taxes based each quarter's actual income.

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**Example:** If you paid 30 percent in federal income and self-employment taxes last year and you earn \$50,000 in one quarter of this year, your federal estimated income tax payment for that quarter would be  $\$50,000 \times 0.30 = \$15,000$ .

For a more accurate estimate, subtract business expenses from your gross income before multiplying by the percentage.

### **Need Help Estimating Your Taxes?**

Estimating taxes is often more challenging than calculating how much you actually owe at year's end. That's especially true if your taxes are complicated or you experience a major life change, such as having a child, buying or selling a home, or you have several diverse sources of income. And making ballpark estimates off the top of your head can be risky.

We can help at SWC. We're Southern California's independently owned tax planning and financial strategies advisory firm for entrepreneurs and small business owners, real estate investors, and high-net-worth individuals. And whenever we meet with you, we'll ask you about what's going on in your life and what has changed, if anything, since we last met. Using this information and our deep knowledge of the ever-changing tax code, we can calculate a precise estimate of how much you can expect to pay, and we can help calculate and process any quarterly estimated taxes you may be obligated to pay.

The result? You will have peace of mind, knowing that you are withholding enough in taxes to receive the refund you expect at the end of the year and avoid any unpleasant surprises. At the same time, we closely examine your finances as a whole in order to identify opportunities and develop strategies for reducing your tax bill.

Don't wait until year's end. Now is the best time to review and optimize your tax and financial plans. [Contact us](#) to schedule your tax and financial planning session.

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#### **Keep in touch.**

16875 W. Bernardo Drive, Suite. 290  
San Diego, CA 92127  
p: (858) 487-4580 | f: (858) 487-8033  
w: [www.SWC.cpa](http://www.SWC.cpa)

#### **Laura A. Stees, CPA**

Co-founder | Partner | Business Strategist  
[Laura@SWC.cpa](mailto:Laura@SWC.cpa)

#### **Marni L. Walker, CPA**

Co-founder | Managing Partner  
[Marni@SWC.cpa](mailto:Marni@SWC.cpa)