

Top 5 Reasons to Adjust Your W-4 Withholding

Updated for Tax Year: 2013

Common lifestyle changes, like getting a job or getting married, can change your tax liability. To avoid being caught off guard by an unexpected tax bill or huge tax refund, you'll need to adjust your withholdings on your paycheck.

What's a W-4 and Why Should I Pay Attention to It?

Every time you earn income, you'll most likely owe taxes. How much you pay is determined by your Form W-4. Your employer deducts taxes based on the number of allowances you claim on your W-4. This system works well if you're a "standard" taxpayer who files single, has one job, and claims a standard deduction. But if you don't fit into this category — and many of us don't — it's likely that you have too much or too little tax withheld.

When you have too much money withheld from your paychecks, you end up giving Uncle Sam an interest-free loan (and getting a tax refund). Ask yourself if there are better ways to use that money. Why not take home more money in your weekly paycheck? Or invest the proceeds and earn interest on it? On the other hand, having too little withheld from your paycheck could mean an unexpected tax bill or even a penalty for underpayment. Either way, there's a better way to manage your hard-earned money.

The key to paying the right amount of tax is to update your W-4 regularly. Do this whenever you have a major personal life change. The goal is to reduce the potential for both a tax bill and a tax refund to zero, or close to it. But if you count on a big tax refund every year, you should also pay attention to your withholding, because how much you have withheld directly impacts your refund.

Five Life Changes that Should Make You Revisit Your W-4 Withholding

Some life events result in more taxes, while others entitle you to credits and deductions that lower your taxes. The list of these events is long, but here are 5 of the most common:

1. **You get a second job**

Getting a second job is the most common reason for needing to adjust your W-4. Do this whether you moonlight, have a home business, or get another full-time job. Any time your income goes up, your tax liability will likely go up too, requiring a new W-4. If your extra income comes from a side job with no W-4, you can still adjust the W-4 at your main job to account for the increase in income.

2. **Your spouse gets a job or changes jobs**

Any change of household income, whether up or down, could put joint filers in a different tax bracket and require both of you to modify your allowances. To ensure accuracy, use your combined income to figure the allowances. Once this is calculated, one spouse can claim all of

them, or they can be divided between both W-4s.

3. You're unemployed part of the year

If you get laid off from your job and stay unemployed the rest of the year, you likely had too much tax withheld. But if you get re-hired in the same year, you'll need to adjust for the downtime. To avoid paying too much tax, you should increase the allowances on a new W-4. We'll show you how to do that below.

4. You get married...or divorced

Tying or untying the knot will surely change your tax rate, especially if both spouses work. Married persons filing jointly qualify for a lower tax rate and other deductions. Getting a divorce will take you back to single status and reverse many tax benefits. If you fail to account for these events on your W-4 by adjusting allowances, your withholdings could be inaccurate.

5. You have a baby...or adopt one

A new baby is more than a bundle of joy for you and your spouse. It's a major tax event too. You can claim an additional allowance for a dependent and may qualify for the Child Tax Credit, Child Care Tax Credit and others. If you adopt a child, there's another tax credit. Any of these could allow you to reduce your withholding to account for the added tax benefits. Leaving your withholdings as-is will likely result in a larger than expected tax refund.

How to Adjust Your W-4 Withholding

It's easy to adjust your withholding. You can do it on paper or electronically. The old-fashioned way is to walk through the worksheets on the W-4 form, or for more complicated tax situations, use the worksheets in [Publication 919, How do I Adjust my Tax Withholding?](#)

An even easier way is to use the [IRS Withholding Calculator](#). This simple tool makes determining your allowances easy. Just answer the questions and the withholding amount is computed for you.

If the result is different from your current withholding, ask your employer for a fresh W-4. You can claim as many allowances as warranted by your personal situation. Another way to increase your withholdings is to put the actual amount you want deducted on Line 6 ("Additional Withholdings") of the W-4.

You can adjust your W-4 at any time during the year. Just remember, adjustments made later in the year will have less impact on your taxes for that year.