

Are you withholding too much? Let's find out. There's a simple way, and a longer (but more thorough) way. Let's start by getting some facts down on paper. Head directly to the next worksheet.

WORKSHEET #5: INCOME WITHHOLDING

1. FIRST*

Obtain a copy of your W-4—this is the tax form your employer must file with the IRS. Ask your supervisor or Human Resources department for a copy.

2. NEXT

Now, look at line 5 of your W-4: "Total Allowances You Are Claiming." Write that number below.

ALLOWANCES You Claim: _____

3. NEXT

Determine your dependents. Respond to each line as appropriate.

___ You. Enter "1" to declare that you are, in fact, dependent on yourself. Almost everyone enters "1" here.

___ Spouse. Enter "1" if you have a nonworking spouse or domestic partner.

* If your parents claim you as a dependent, skip this worksheet and discuss your withholding with them.

___ Children. Enter the number of children you claim as “dependent” on you.

___ Elderly parents. Enter the number living with/financially depending on you.

___ Others. Enter the number of other people who rely on you to pay the vast majority of their expenses. (Usually, this means they live in your home. This is also relatively rare. If you aren’t sure, check the IRS.gov website for more info.)

___ TOTAL Dependents. (Add the numbers immediately above.)

4. NEXT

Gauge if you’re withholding the right amount by answering these questions:

Is the number of your total dependents larger than the allowances on your W-4? _____

Do you get a sizable tax refund every year? _____

Do you expect a tax refund next year? _____

If you answered “yes” to two or more of these, you may be withholding too much from your paychecks.

OPTION

If you’d like to take a more thorough look at the issue of your withholdings, and make a more in-depth assessment, go to <http://www.irs.gov>, and in the search window type in “withholding calculator.” This will give you a link to the IRS’s web-based withholding calculator; go through it to determine what you should be withholding on your W-4.

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5. NEXT

If appropriate, change your withholding. Ask your employer to turn in a new W-4 for you, one reflecting the new number of exemptions (the number of broad deductions the IRS gives you, including one for yourself and one for each dependent). You can do this at any time.

6. NEXT

Watch.

If you raise the number of your exemptions, you should see the size of your paycheck increase (though it could take several weeks for this to take effect). If, after four weeks, your paycheck amount remains unchanged, contact your Human Resources director and have them follow up.

THE END

Above all, be sure to ask questions of your employer/HR department as you analyze—and possibly adjust—your withholdings. Even if you're confident that you know the answers, it never hurts to have clarification or a second opinion—especially when your money's at stake.

STEP 2: Assessing your cost of living— and what's left over

In chapter 2, you opened your existing bills and identified the absolute necessities (rent/mortgage, utilities, transportation, credit card minimum payments, government-mandated payments).

It's time to find out what these necessities are costing you and how much money you have left for additional expenses.

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