

P+P TAX TIP: BALANCE DUE RETURNS AND CHANGING TAX WITHHOLDING

Overview

Generally, there's nothing wrong with owing taxes! It means that someone didn't pay enough taxes throughout the year and instead needs to pay by Tax Day. It's important to understand the reasons someone may owe taxes and options for paying. It's also important to have a basic understanding of how to adjust withholding and make other tax payments to ensure taxpayers pay the right amount of tax throughout the year.

Common reasons for a balance due

The exact reason each taxpayer owes is different, but some common reasons include:

- **Not enough tax paid during the year:** if tax withholding does not match total income, the amount paid throughout the year will not meet the total tax liability. This often happens if a taxpayer has more than one job.
- **Self-employment income:** self-employment tax is calculated on the taxpayer's profit from their business and tax is not withheld in advance.
- **Change in income:** an increase in income can raise tax rates and change credit eligibility; a decrease in income can reduce credits based on earned income.
- **Change in dependents:** removing a dependent can disqualify a taxpayer for many different tax benefits.

Payment options

P+P has a **Paying a Balance Due handout** to share with taxpayers. It covers how to mail a payment or make one online. It also lists who to contact to set up a payment plan.

Direct debit can be scheduled when filing a tax return. Withdrawal dates can be set as late as Tax Day. If a taxpayer chooses to pay by direct debit, have them confirm the withdrawal date and sign the Balance Due Authorization section on the P+P intake sheet.

Paying late is an option! Interest and penalties will be added to late payments. If a taxpayer faces financial hardship due to the amount owed, encourage them to contact a Low-Income Taxpayer Clinic to discuss their options for payment and collections.

Withholding and W-4 Adjustments

Tax time allows taxpayers to assess their withholding and estimated payments. During preparation, you may advise a taxpayer to make changes when withholding for the most recent tax year was too high or too low. Below are a few examples.

- A taxpayer receiving only Social Security benefits as income likely does not need any tax withheld from their benefits.
- A taxpayer who has a dependent graduating from college may need more tax withholding because they will no longer claim the child as a dependent.
- A taxpayer who is self-employed may want to have extra tax withheld from a wage-earning job or pay estimated taxes to cover their self-employment tax.
- A taxpayer with a job and no tax withholding may have claimed exempt status on Form W-4, and they can update the form to have the correct tax withheld.

P+P has a Form W-4 handout and an estimated taxes handout available in the Customer Tax Tools section of prepareandprosper.org. Share these handouts with customers and use them explain how to pay taxes throughout the year.