

PERSONAL FINANCE



Get Your Withholding Right

[By Dan Caplinger]

Tax procrastinators will make their last stand next week. The final extended deadline for filing your 2006 tax returns is Oct. 15. What surprises me most about these tax slackers is that many of them will get big tax refunds in the coming months — money they could have gotten a lot sooner with a little effort.

As nice as it is to get a big check once a year, you can do better things with your money than giving Uncle Sam an interest-free loan. By making sure you don't have too much tax withheld from your paycheck, you can keep that interest for yourself.

A frightening form

A big part of why people get their withholding wrong is because it's difficult to calculate. Take a look at [IRS Form W-4](#), and you'll see what I mean. For those "lucky" people who don't itemize deductions, take tax credits, have investment income, or have a spouse who works, filling out the form is fairly straightforward. Otherwise, you've got yourself a big math mess to deal with.

Trying to adjust your withholding may seem like more trouble than it's worth. You can convince yourself that the penalties and interest from making an incorrect calculation— not to mention the risk of getting audited — are worth a bit of lost interest on your money.

Granted, there's less incentive for individuals to monitor their tax payments than there is for corporations. For instance, when Congress passed laws lowering the tax rate on bringing back foreign earnings into the U.S., companies like **Hewlett Packard** (NYSE: HPQ), **Kellogg**

(NYSE: K), and **Procter & Gamble** (NYSE: PG) saved billions — on top of all the time they didn't have to pay tax at all.

But every little bit helps. And it doesn't have to be that hard.

Checking your withholding

The IRS has done everything it can to make things simple by giving you a [withholding calculator](#) to use. By entering in estimates for the rest of the year of your salary, investment income, and deductions, the calculator tells you exactly how to fill in your W-4 to get your refund as close to zero as possible.

If you're interested in putting off paying your taxes to the last possible moment, there are a couple other things to keep in mind:

90% is the rule. In general, as long as you have 90% of your tax withheld from your paycheck, you can pay the remaining 10% with your tax return next April without any penalty. **Look at last year's tax bill.** For most taxpayers, you won't owe any penalties if your withholding is at least equal to your total income tax due from last year. If you have a big increase in income this year, using this rule can let you defer paying a significant amount until the following April 15.

Don't blow it

Figuring out your withholding is only half the battle. If you have less tax withheld, your paycheck will go up. But if you just spend that extra money, you'll miss out on your chance to save up a nice nest egg over the year to replace your tax refund. And if you cut your withholding so far that you actually owe tax with your return, having spent that money could create a big problem when you file.

Instead, put that extra money aside. A savings account can [get you around 5%](#) on your money, which can add hundreds of dollars in interest over the course of a year. When April comes, you can treat yourself to your "refund" — plus all that interest as icing on the cake.

You can't get out of paying taxes. But by putting it off as long as you legally can, you can make the most of your own money — and keep more of it for yourself.

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