



September 2009

Adjusting FIT Withholding on a New Form W-4

Dear Client:

With just about a third of the year remaining, now is a good time to check to see if you are on track to have about the right amount of federal income tax withheld from your paychecks for 2009.

- If you will be significantly underwithheld this year, you risk being hit with an IRS interest rate penalty.
- If you will be significantly overwithheld, you are basically making an interest-free loan to the government when you could be putting that money to work for yourself.

Neither situation is good for you. The simplest way to correct for underwithholding or overwithholding is by turning in a new Form W-4 (Employee's Withholding Allowance Certificate) to your employer. Taking this action will adjust the amount of federal income tax that is withheld from your paychecks for the rest of 2009. Specifically, you can adjust your withholding by increasing or decreasing the number of allowances claimed on your Form W-4. The more allowances claimed, the lower the withholding from each paycheck, and vice versa. If claiming zero allowances for the rest of the year would still not result in enough extra withholding, you can ask your employer to withhold an additional amount of federal income tax from each paycheck.

While filling out a new Form W-4 seems like something that should be quick and easy, it's not necessarily so—because the tax rules are neither quick nor easy. You may need to complete several worksheets (included in the Form W-4 instructions) to get a reasonably accurate fix on how many allowances should be entered on your Form W-4. (You don't need to file the completed worksheets with your employer or the IRS; just keep them with your 2009 tax records.)

Alternatively, consider using the online Form W-4 calculator available on the IRS website at www.irs.gov. From the home page, click on the "Individuals" link. Then scroll down and click on the "IRS Withholding Calculator" link. You will see the entry point for online calculator. It's easy to use once you assemble the needed information about how your 2009 tax return is likely to turn out, plus your most recent pay stubs.

Please understand the IRS calculator is not perfect (it's free and to some extent you get what you pay for). However, using the calculator to make withholding allowance changes on a new Form W-4 filed with your employer is probably better than doing nothing if past performance shows you are likely to be significantly underwithheld or overwithheld for this year.

Of course, if you want more precise results, we would be happy to put together a 2009 tax projection for you. At the same time, we can probably recommend some planning moves that would lower this year's tax bill. Please call us if you have questions or want more information on this subject or on any other tax-related matter.

Sincerely,

Miller Verchota, Inc.

Certified Public Accountants