

An Apple a Day Keeps the Doctor Away?

Our CPAs Say a PayCheckUp Keeps the IRS At Bay.

The good news: When Congress enacted the TCJA, the legislation was widely described as the most sweeping change to the federal tax system since the Tax Reform Act of 1986. The law affected many taxpayers *positively*.

The bad news: Even though most taxpayers are likely to see a **REDUCTION** in taxes in 2018, they could still **OWE** at year's end.

"We have found that the TCJA is mostly good news for our clients," said Associate Partner Sean Balliet, CPA/CFP®. "However, if the withholding is not properly adjusted, they could still owe quite a large tax bill at the end of the year."

The caveat: In late January or February as employers adopted the new withholding tables, your net paycheck probably increased. However, this does not mean employers have automatically adjusted the appropriate amount of federal tax withheld for your specific situation. Payroll is automated, you may have already made your selections, and this was not adjusted for you by the payroll fairy. Individuals must let employers know if they want to change their withholding amounts by providing a new W-4 form.

The example:

Year	Total Liability	Total Withholding	Tax Owed	Year	Total Liability	Total Withholding	Tax Owed
2017				2018			
Pre-TCJA	\$22,000	\$22,000	\$0	Post TCJA	\$20,000	\$18,000	\$2,000

Mid-year is a great time to check your withholding. You have time to correct for any potential issues 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 2018.

On the Flip side: If you pay too much in taxes, you are basically making an interest-free loan to the government.

"For those who anticipate a large refund, there are advantages to getting more money in a paycheck now with an adjustment, and these are just the ideas we like to discuss with our clients," remarked Balliet.

Certified Financial Planner, Sal Cocivera of CORA Capital Advisors notes "that extra money could be used to pay off high interest credit card debt or just what you need to kick start an investment account, college fund or 401(k). Found money is a great place to start planning for the future," he said.

The problem: Let's say you decide to tackle this withholding review yourself; the IRS provides worksheets for you to do so. Here's a tip—use a pencil or print out three or four worksheets. Because while filling out a new Form W-4 seems like a quick and easy task, it's not. Our accountants are constantly checking the new rules as they speak to clients on the phone and meet with them in person. There is nothing quick or easy about the TCJA.

Because the IRS is aware of this potential fault in the system, they have *strongly recommended* a “paycheck checkup as soon as possible” and created a calculator to help the taxpayer. Problem is, you almost have to be a CPA to use it correctly, almost like the W-4 worksheets. Similar to everything else issued by the IRS, it is subject to rules and interpretation, and if you aren't in the know, you might get it wrong. If you have a weekend to kill, you could give it a try. But if you have a relationship with an accountant you trust, why not use their honed skills and consider it money well spent now in order to save more later?

The group affected: The only way to know for sure is to run the numbers and ensure the proper amount of federal income taxes is being withheld. According to [IRS.gov/taxreform](https://www.irs.gov/taxreform), the following people should undergo this paycheck checkup as soon as possible.

- You are a two-income family.
- You have two or more jobs at the same time or only work part of the year.
- You claim credits like the child tax credit.
- You have dependents age 17 or older.
- You itemized deductions in 2017.
- You have high income or a complex tax return.
- You have a large tax refund or tax bill for 2017.

“So for us at Baratz & Associates, PA that's maybe 90% of our clients,” Balliet said. “We want people to know this is critical, and the more quickly they act the better.”

The Solution: We don't assume the client wishes us to perform this service as it is an additional fee. But if you fall into one of the groups above, don't wait. Contact your CPA to perform the **PayCheckUp** and keep from getting an unwelcome surprise from the IRS next year.