



W-4, What For?

Dear Dr. Per Cap:

My employer made me fill out a new W-4 form this year. It's a pain because I have to go online and use a calculator to determine my withholding. Can I just put a "zero" for allowances like I did before?

Signed,

Less Hassle

Dear Less Hassle

I reached out to my go to resource for tax filing questions – Henry Thompson at Chief Dull Knife College Extension Services in Lame Deer, MT. Henry runs a Native Volunteer Income Tax Assistance (VITA) site and her team files about 600 returns a year for folks living on or near the Northern Cheyenne Indian Reservation.

IRS Form W-4 aka Employee's Withholding Certificate has been redesigned so that your employer can withhold the correct amount from your pay. The old W-4 provided a worksheet to calculate your total number of allowances. Fewer allowances meant more withholding. Entering "zero" like yourself, meant your employer withheld income taxes at the highest level.

This gave you a smaller paycheck but a larger refund come tax season. According to Henry lots of folks would just write in "zero" and call it good. However, when you opt for a larger refund you're essentially giving IRS an interest free loan until tax season. Henry jokingly calls big tax refunds the Indian Savings Program.

A better option can be to calculate a closer estimate of how much tax you'll owe so your refund is smaller but your paychecks are bigger. Don't wait for money you earned and no more Indian Savings Program!

The 2021 W-4 takes this approach. It does away with allowances by letting you list dollar estimates for withholding instead. Unlike the older form the new one also allows you to file as head of household, as opposed to just single or married, for even great accuracy.

Depending on your filing status and number of jobs the new form provides two options to calculate withholding, a worksheet and an online calculator, as well as the ability to claim dependents and expanded adjustments. The goal of these extra steps is to ensure your refund isn't too big or worse yet you owe money at the end of the year. Ideally a person shouldn't receive a refund larger than \$500. If that's the case, it's a good idea to update your W-4 to lower your withholding.

Yeah, it's more work than the old way but it's worth the effort. If you need help filing, find a local VITA site at <https://irs.treasury.gov/freetaxprep/>. Most VITA sites are operating virtually this year so just drop off or email W-2's and other statements.

And big thanks to Henry Thompson for all the fresh info – you know you can always count on those Cheyenne women!

Ask Dr. Per Cap is a program funded by First Nations Development Institute with assistance from the FINRA Investor Education Foundation. For more information, visit www.firstnations.org. To send a question to Dr. Per Cap, email askdrpercap@firstnations.org.