

## Refunds, How They Can Change from Year to Year

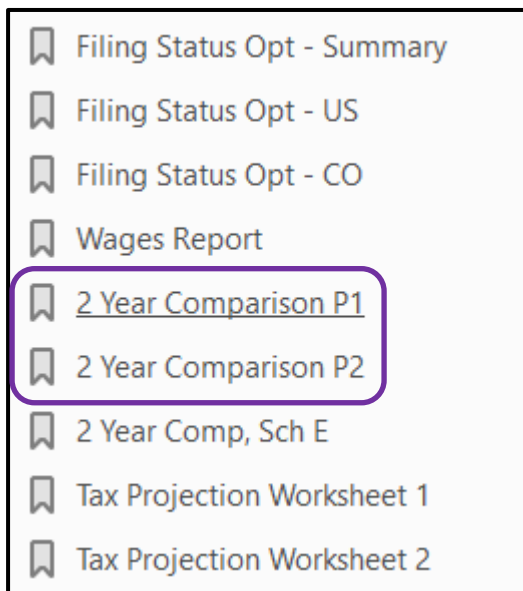
Tax refunds can change from year to year for several reasons! First, your world could substantially change such as new baby, new house, sold house, married, divorced, etc.

Second, your income can change from year to year. Several clients “feel” that their income hasn’t changed, but when W-2s are compared, the change is dramatic.

Third, taxable credits could change from year to year due to the whims of Congress and the Treasury Department. Your eligibility for these credits can also change depending on your income.

### 2 Year Comparison

The first step is to review the **2 Year Comparison** within your tax PDF file. It is usually towards the end of the federal tax return. If you are using a PDF reader that utilizes bookmarks, you’ll see something like this-



#### ▲ Income

Line 1 is your wage income,  
Line 13 is your rental income,  
Line 14 is your partnership or S Corporation income  
Line 20 is your total income, and  
Line 30 is your Adjusted Gross Income, and what we nerdy tax accountants call AGI.

Do those numbers feel right? Compare last year with this year by using the third column. Look at big changes (deltas), and make sure they make sense.

### ▲ Deduction

Lines 31 thru 41 – These are all your deductions. Line 39 specifically states Itemized or Standard in terms of the deduction taken for routine items such as real estate taxes, state income taxes and mortgage interest.

### ▲ Tax Computation

Line 43 is your taxable income, and therefore Line 44 is your tax based on that taxable income but before credits.

Line 57 is your total tax after credits but before income tax withholdings / payments including “refundable” tax credits.

**Sidebar:** To take a tax credit such as electric vehicle purchase, you must have a computed tax on Line 44. However, “refundable” tax credits such as some education credits are available even if your tax is \$0 on Line 44.

- ▲ Line 58 – **This is where a lot of trouble starts.** This figure is the income tax withheld on your paychecks. If you have a big change from last year as compared to this year without a big change in income, this might explain your refund change.

In other words, an increase in income without a corresponding increase in withholdings is a recipe for bad news.

- ▲ Lines 70 – This is ultimately what percentage of tax you pay from year to year, or the effective tax rate. So regardless of the actual income, or tax, or deductions, etc., if line 70 is the same from year to year, your taxes haven’t changed.

## Tax Reduction Strategies

Here is a snippet from our tax reduction strategies article-

One of our primary focuses at WCG is ensuring you are paying the least amount of taxes allowed by law. Some of our other primary focuses are helping you build wealth and leverage the most of your financial worlds for you and your family. However, these focuses or objectives are not isolated; they are very much related to each other and intertwined.

Before we run through several tax reduction and tax avoidance ideas, let’s talk about some basic concepts-

There is not a secret tax deduction club that only a few people know about. If there were, it would be like fight club, right? But trust us when we say no one not is talking about a tax deduction club intentionally.

Most people are interested in saving cash when they say they want to reduce or avoid taxes, but saving cash and reducing taxes are not necessarily the same.

Two households, making the exact same income, might have wildly different tax liabilities based on the myriad of variables such as children, mortgage interest, charitable donations, available tax credits, and, Yes, the proficiency of the tax professionals involved.

As household incomes travel through the ranges, a lot of things happen. The first \$100,000 in income for most households is well-sheltered with itemized deductions and low tax brackets. The next \$100,000 in income sees certain tax credits go away, higher tax brackets and fewer available tax deductions such as IRAs and other things (what we call income phase-outs). In other words, if you go from \$100,000 to \$200,000 in household income, you will pay way more than double in taxes (you could easily see 2.5 to 3.0 times more). Yuck! The next \$100,000 and beyond is completely naked, and is generally purely taxable (unless some tax reduction tactics are deployed). Super yuck!

Tax deductions and tax deferrals are not the same. Tax deferrals are tax bombs later in life; little IOU's to the IRS and they will eventually call in the chit. But if you use the immediate tax savings to build wealth, then a tax deferral is worth it. Deferring taxes to pay for a cruise vacation might not always be the best approach (then again, live a little!).

You want to match the highest tax deduction to the high income. Let's say it's December and you are considering buying a piece of equipment. If next year's income is going to be significantly higher, wouldn't it make sense to wait until January to complete the purchase? Probably.

Tax deductions commonly need separation with cash. For example, you can save \$2,500 (for example) in taxes right now if you write a check for \$10,000 to a charity. That might not make sense if you are more interested in cash than taxes, right? Tax deferrals commonly need separation with cash as well, but at least you get it back. IRA's and 401k plans (among others) come to mind.

Want to read more-

[wcginc.com/reducing-taxes/](http://wcginc.com/reducing-taxes/)

## Tax Patrol

We also have Tax Patrol! This is a wonderful tax service for those who don't need all the business advisory bells, but from time to time want some love from an experienced tax consultant and business advisor. Have a quick tax question? Need to know the depreciation rules as you buy that new car? Wondering what your April tax bill is going to be in August? Tax Patrol is like ski patrol... you might not use it, but you sleep better knowing you have it.

Typical Tax Patrol starts at \$125 per month which includes tax preparation, estimated tax payment calculations, IRS audit defense, unlimited complimentary quick chats and a tax planning event (so you know what your refund or tax bill will be long before spring).

## In Closing

Please contact us with additional questions or concerns. We always want you to feel comfortable with the entries and ultimate results of your tax returns- to that end, we will always spend the time necessary to review everything with you.

Thanks!

**WCG**