



## Refund and Amount of Tax Owed



### Introduction

This lesson covers the Refund and Amount You Owe sections of the taxpayer's return. After completing this lesson, you will determine if taxpayers have overpaid (a refund is due) or have underpaid (balance is due to the government) their tax. This part of the return is a summary of the tax, credits, and payments.

Taxpayers may be entitled to a refund or owe tax. In either case, they have several choices on how to get their refund or pay the amount they owe. It is important that volunteers are familiar with those choices to better help taxpayers understand their refund and payment options. This is especially true because of the increase in the number of taxpayers coming in to VITA/TCE sites who owe tax for the first time and need guidance.



Feedback results indicate volunteers are less familiar with the procedures for payment options than the procedures for refund options. Be sure to identify the payment options available to taxpayers that are outlined in this lesson and in the Volunteer Resource Guide, Tab K, Finishing the Return.

To complete these sections of the taxpayer's return, you will need to confirm answers provided on the Intake/Interview & Quality Review Sheet, regarding direct deposit and direct debit. Also, review the Volunteer Resource Guide, Tab K, Finishing the Return, which provides guidance on refunds and balance due returns.

### Objectives

At the end of this lesson, using your resource materials, you will be able to:

- Identify the applicable section and lines of Form 1040 for the refund or amount owed
- Report the correct amount of refund or amount owed
- Identify the refund options available, including the purchase of savings bonds
- Describe the different payment options for the amount owed
- Explain how to adjust the amount of tax withheld or make estimated tax payments to avoid underpayment of taxes

#### What do I need?

- ☐ Form 13614-C
- ☐ Publication 4012
- ☐ Publication 17
- ☐ Form 1040
- ☐ Form 1040-ES
- ☐ Form 8888
- ☐ Form W-4
- ☐ Form W-4P
- ☐ Form W-4V

#### **Optional:**

- ☐ Publication 505
- ☐ Publication 594
- ☐ Publication 4134
- ☐ Form 9465

### How do I know if the taxpayer is due a refund?

The taxpayer's total tax payments already made, which includes refundable credits, appears on the applicable line of Form 1040.

If the payments made exceed the amount of tax liability, the amount of the overpayment is shown on the applicable line in the Refund section of the Form 1040. This is the amount the taxpayer has overpaid.

If the amount of the tax liability exceeds the payments made, the amount owed appears in the Amount You Owe section of the Form 1040. This is the amount the taxpayer must pay to the IRS. The taxpayer's total tax appears on the applicable line of Form 1040.



For taxpayers who are due a refund:

- Advise taxpayers to check Where's My Refund? on [irs.gov](https://irs.gov) or download the IRS2Go app to check their refund status
- Inform taxpayers of the split refund and saving bond options

## What are the options for an overpayment?

Taxpayers can choose to:

- Apply any portion of their overpayment to the following tax year
- Receive all or part of their refund using direct deposit
- Receive all or part of their refund as a check
- Purchase Series I Savings Bonds



**RALs, RACs, and Other Financial Products:** You may be asked about Refund Anticipation Loans (RALs). A RAL is money borrowed by a taxpayer from a lender based on the taxpayer's anticipated income tax refund. A variation of a RAL is a Refund Anticipation Check (RAC). Financial Institutions also offer a variety of other financial products to taxpayers based on their refunds. Providers that assist taxpayers in applying for a RAL or other financial products have additional responsibilities and may be sanctioned by the IRS if they fail to adhere to the requirements.

## How do I apply part of the overpayment to the following year?

For taxpayers who want to apply a portion of the overpayment to next year's taxes, enter the amount to be applied to the following year on the applicable line. By entering an amount on this line, the taxpayer is electing to apply all or a portion of the current year's overpayment to next year's estimated tax.



**Tax Software Hint:** The software shows the remaining amount to be refunded to the taxpayer on the amount to be refunded line.

## How do I indicate that the entire refund should be sent to the taxpayer?

For taxpayers who want the entire refund sent to them, leave the line for amount applied to estimated tax blank or enter 0.



A field in the signature section of Form 1040 labeled Identity Protection PIN is designed to help prevent refunds from being issued to an identity thief. See Form 1040 Instructions for more information.



Identity Theft Central (<https://www.irs.gov/identity-theft-central>) is an online resource that provides information on how to report identity theft, how taxpayers can protect themselves against phishing, online scams, and more.



**Tax Software Hint:** The tax software shows the entire refund amount on the amount to be refunded line.

## What are a taxpayer's refund options?

Taxpayers may choose to have their refund deposited directly into their account at a bank, credit union, or other financial institution, or to a prepaid debit card or IRA. Direct deposits are usually received within three weeks of return acceptance. Taxpayers may choose to have a refund check mailed to them. Refund checks are usually mailed within 6 to 8 weeks after the return is filed. In addition, taxpayers can request that their refund be deposited directly into a TreasuryDirect online account to buy U.S. Treasury marketable securities and savings bonds. Details can be found at <https://www.treasurydirect.gov>.



The taxpayer may decide toward the end of the return preparation process to allocate some or all of the refund to their IRA. Be sure to go back into the return and enter the contribution amount – the taxpayer may get additional benefit from the contribution through a deduction and/or the retirement savings credit.

Taxpayers who do not have a TreasuryDirect online account also have the option to purchase savings bonds with their federal income tax refunds. Additional details will be covered later in the lesson.

### ***What are the benefits of direct deposit?***

Encourage taxpayers to use direct deposit; direct deposit refunds are received faster than checks (usually within 10 to 21 days) and eliminate the possibility of a check being lost or stolen. Direct deposit is more convenient for the taxpayer and saves tax dollars because it costs less to process.

How do I enter the information for direct deposit?

Make sure taxpayers show you proof of their bank account and routing information, such as a check. Bank deposit slips are not a reliable source for routing and account numbers for direct deposit. Enter the account number from left to right, but omit spaces and symbols. The Volunteer Resource Guide, Tab K, Finishing the Return, Pointers for Direct Deposit of Refunds, includes a diagram showing where to find the Routing Transit Number (RTN) and Depositor Account Number (DAN) information on a check.



Direct deposit of a taxpayer's refund is to be made to an account (or accounts) only in the taxpayer's name. Advise taxpayers their refunds may only be deposited directly into their own accounts.



**Tax Software Hint:** For software entries, go to the Volunteer Resource Guide, Tab K, Finishing the Return, for software entries on direct deposit.



If the routing and account numbers are not valid, the refund will be delayed 4–6 weeks. If the direct deposit is rejected, a check will automatically be mailed to the address on the return.

### ***Can the refund be deposited into more than one account?***

Taxpayers may choose to have their refund deposited in up to three accounts. For example, a person expecting a refund of \$600 could choose to deposit \$200 into a checking account, \$300 into a savings account, and \$100 into an IRA account.

Taxpayers' refunds should only be deposited directly into accounts that are in their own name, a spouse's name, or both if it's a joint account. No more than three electronic refunds can be deposited into a single financial account or prepaid debit card. Taxpayers who exceed the limit will receive an IRS notice and a paper refund.



**Tax Software Hint:** Use Form 8888, Allocation of Refund (Including Savings Bond Purchases), to list the RTN and account number for each deposit. Form 8888 is not required if the refund is to be deposited into a single account. Go to the Volunteer Resource Guide, Tab K, Finishing the Return, for the software entries.

### ***What if the taxpayer makes a mistake on the return that increases the amount of the refund?***

The IRS recommends using electronic filing to avoid math errors and other common problems that can require adjustments to a return after it is filed. If an adjustment results in a larger refund than expected, the IRS adds the difference to the last account designated for direct deposit.



When an adjustment is made to a tax refund, the IRS sends a letter explaining any errors that resulted in the adjustment, as well as any changes made to the refund amount and the amount of each direct deposit.

### **What if the taxpayer makes a mistake on the return that decreases the amount of the refund?**

If an adjustment results in a smaller than expected refund, the IRS uses a bottom-up rule and deducts the difference from the direct deposit amount designated for the last account shown on Form 8888. If the difference exceeds the amount designated for the last account, the IRS deducts the remainder from the amount designated to the next account, until the amount due is paid.

#### **example**

Joan's return shows a refund of \$300 and she asks the IRS to split her refund among three accounts with \$100 to each account. Due to an error, her refund is decreased by \$150. The IRS will adjust her direct deposits as follows:

	Requested Direct Deposits	Actual Direct Deposits
Account 1	\$100	\$100
Account 2	\$100	\$50
Account 3	\$100	0

The IRS will apply this same bottom-up rule to adjust direct deposits for refund offsets for *unpaid federal taxes* or if the *Earned Income Credit (EIC) portion of the taxpayer's refund* is withheld pending further review. After the EIC review, if a refund is allowed, it will be direct-deposited in the account listed first on Form 8888.

#### **example**

Bill asks that his refund of \$780 be deposited into three different accounts: \$300 into Account 1, \$300 into Account 2, and \$180 into Account 3. However, Bill owes federal taxes of \$290 on an earlier tax year, and after this is offset, only \$490 remains to be direct deposited. Account 3 will receive \$0, Account 2 will receive \$190, and Account 1 will receive \$300.

#### **example**

Melanie is due a refund of \$1,000; \$700 of the refund is an earned income credit (EIC). She asks that her refund be split into three different accounts: \$500 into Account 1, \$300 into Account 2, and \$200 into Account 3. Melanie's EIC amount of \$700 was held pending a review. So, \$300 went to Account 1 and \$0 went to Accounts 2 and 3. Later, when the IRS allowed her EIC refund amount, it was deposited into Account 1.

### **What happens if the taxpayer owes other debts like student loans or child support?**

If the refund is decreased due to an offset to pay state income tax, child support, or certain federal nontax debts, such as student loans, then the decrease will be taken first from the account that appears first on the payment file received from the IRS. The IRS payment file orders accounts from the lowest to the highest routing number. If the debt exceeds the payment designated for the account that appears first on the payment file, the Treasury Department's Financial Management Service (FMS) will reduce the payment designated for the account that appears next.

### **What should I watch out for?**

Double-check the RTN of the financial institution before the return is transmitted if:

- You are unfamiliar with the financial institution.
- The RTN is for a credit union that is payable through another financial institution. Taxpayers should contact their credit union for the correct RTN.
- If more than one account is selected for direct deposit, be sure that the amounts on Form 8888 equal the refund amount on Form 1040.



### **EXERCISES**

Answers follow the lesson summary.

**Question 1:** Using direct deposit is one way to reduce the chance that a refund will be lost or stolen.

☐ True ☐ False

**Question 2:** When entering an account number for direct deposit, make sure to include all spaces and hyphens. ☐ True ☐ False



**CAUTION** Financial institutions generally do not allow a joint refund to be deposited into an individual account. The IRS is not responsible if a financial institution refuses a direct deposit.

### **What do I need to know about the option to buy U.S. savings bonds with a federal tax refund?**

IRS will provide taxpayers with an opportunity to purchase U.S. savings bonds with their tax refunds. Volunteers should review these guidelines to promote this asset-building opportunity as part of the filing season.

Taxpayers now have more choices, including the purchase of bonds for co-owners, such as children or grandchildren.

### **What are U.S. savings bonds?**

U.S. savings bonds are savings instruments for individual savers issued by the U.S. Department of the Treasury. For purposes of this program, only Series I Savings Bonds will be offered.

Series I Savings Bonds are sold at face value (a \$50 bond costs \$50), and grow in value for up to 30 years. The bonds can be purchased in denominations of \$50, \$100, \$200, \$500, \$1,000. In any single calendar year, taxpayers can purchase up to \$5,000 of savings bonds of any denomination.

Series I Savings Bonds pay interest based on a combination of a fixed rate (which remains the same throughout the life of the savings bond) and a semiannual inflation rate, which is updated each May and November. Savings bonds accrue interest until redeemed or until they reach their final maturity in 30 years.

Savings bonds can be redeemed for principal and accrued earnings anytime after the first 12 months after date of purchase (unless the taxpayer lives in an area affected by natural disaster.) Also, if a savings bond is redeemed within the first five years, the three most recent months' interest will be forfeited. After five years, no penalty will apply.

## How can savings bonds be purchased at VITA/TCE sites?

Taxpayers can choose to save part or all of their refunds by requesting savings bonds on Form 8888. The specific details on how to purchase savings bonds with a federal tax refund are included in the Form 8888 Instructions.

In addition to the three direct deposits, taxpayers can allocate their refund to request up to three different savings bond registrations and receive a check. Form 8888 is divided into separate parts to reflect this.

- Part I: Complete this part for direct deposit of a portion of a refund to one or more accounts.
- Part II: Complete this part to buy paper bonds with part of a refund. In addition to making bond purchases for themselves, taxpayers can make bond purchases and add beneficiaries or co-owners, and make bond purchases for someone other than themselves.
- Part III: Complete this part if taxpayers wish to receive part of their refund by check.
- Part IV: Total allocation of refund. Add the amounts for each part together; they must equal the total refund amount.

The Form 8888 Instructions provide directions for the specific information to include on the form for the purchase of savings bonds.

### example

Mary's tax return shows she is due a refund of \$548.00. She wants to buy a \$500 savings bond. Using Form 8888, Mary can purchase the savings bond and elect to deposit the remaining \$48 into her checking account.

## How does the taxpayer receive the savings bonds?

Taxpayers will receive the amount they designated by mail in the form of U.S. Series I Savings Bonds. However, if taxpayers make an error in figuring their refund, the bond request is not a multiple of \$50, or the refund is offset for any reason, this option will not apply and the entire amount of the refund will be sent to taxpayers in the form of a check.

## When will requested bonds not be issued?

Bonds will not be issued if any of the following apply:

- The bond request is not a multiple of \$50.
- More than one name is entered on line 5b, 5c, 6b, or 6c.
- The refund is decreased because of a math error.
- The refund is offset for any reason.

Instead, the **entire** refund will be sent to the taxpayer in the form of a check.

If an error is made on the return and the amount of the refund is increased, the additional amount will be sent to the taxpayer in the form of a check.

## Whom does the taxpayer contact if the savings bonds are not received?

The first step is to check the status of the refund by going to the "Where's My Refund" feature on <https://www.irs.gov> or calling 1-800-829-1954. Taxpayers can generally get information about their refund 72 hours after the IRS acknowledges receipt of their e-filed return, or three to four weeks after mailing a paper return. If the IRS has processed the refund and placed the order for their savings bonds, taxpayers will need to contact the Treasury Retail Securities office at 1-844-284-2676 to inquire about the status of the savings bonds.

For additional information, refer to Form 8888 or go to <https://www.irs.gov>.

## How do I know if an amount is owed?

Taxpayers who owe money on their returns are often afraid and do not know what to do next. This is a good opportunity to advise the taxpayers of the various options for payment.



**Tax Software Hint:** The software automatically calculates the amount that is owed when the payment total is less than the amount of tax. Refer to the Volunteer Resource Guide, Tab H, Other Taxes, Payments, and Refundable Credits.

Explain to taxpayers that the tax return will be filed now and that they should submit their payment of taxes due no later than April 15 (or the next business day if April 15 falls on Saturday, Sunday, or a legal holiday). Remind taxpayers that filing an extension of time to file does not extend the time for payment.



**CAUTION** To avoid a penalty, taxpayers with an amount owed must file their return by the due date even if they cannot pay the full amount with the return.

## What forms of payment are acceptable?

The payment options are:

- Check or money order submitted with Form 1040-V, Payment Voucher
- Electronic funds withdrawal
- Credit card (fees may apply)
- Electronic Federal Tax Payment System (EFTPS)
- IRS Direct Pay
- Cash at a retail partner
- Pay by mobile device



**CAUTION** Taxpayers should not mail cash with their returns.



**TIP** Form 1040-V includes instructions and a table of IRS addresses.



**Tax Software Hint:** Go to the Volunteer Resource Guide, Tab K, Finishing the Return, to review the information on balance due returns. Be sure to read this reference and refer to it when preparing a return that has an amount owed; it provides more information on EFTPS.



**TIP** Taxpayers can check the balance owed on their account by creating an account on [irs.gov](https://www.irs.gov/payments/view-your-tax-account) or by requesting an account transcript. <https://www.irs.gov/payments/view-your-tax-account>

## What if the taxpayer cannot pay?

If taxpayers state that they cannot pay, first advise them to file the return and pay as much as they can with the return. This will reduce penalty and interest charges. Once they receive a notice, they can pay the remaining amount in full or choose another payment option if more time is needed.



Taxpayers who cannot pay the full amount owed, shown on Form 1040 in the Amount You Owe section, may use one of the following options:

- Pay in full within 120 days using the Online Payment Agreement Application (OPA) or calling. No fee is charged, but interest and penalties are charged on payments after the April due date.
- Monthly installment payments (established online using OPA or file Form 9465, Installment Agreement Request). A fee is charged for this option, in addition to interest and penalties.
- Referral to Low-Income Taxpayer Clinics (LITC). Services are offered for free or a small fee.



Any amount of tax owed that is not paid by the April due date is subject to penalties and interest. Taxpayers who cannot pay should choose the option that is the least costly. For example, the 120-day pay-in-full option has no user fee. Print extra vouchers for taxpayers who need to send in multiple payments.



Taxpayers who can show they will have a substantial financial difficulty if they pay their tax on the due date are considered to have an *undue hardship*. Such taxpayers can request an extension of time to pay by filing Form 1127, Application for Extension of Time for Payment of Tax Due to Undue Hardship, by the due date of the return. Remember, undue hardship is more than an inconvenience.

## How do I handle Form 9465, Installment Agreement Request?

The following outlines key information related to an installment agreement.

- Taxpayers who owe can immediately establish an installment agreement online, using the Online Payment Agreement Application (OPA) on [irs.gov](https://www.irs.gov). Taxpayers can also use OPA to agree to pay in full in up to 120 days. With OPA, there is no need to complete Form 9465. For more information, go to <https://www.irs.gov> and search for the term “OPA.”
- If the return is being filed electronically, Form 9465 can also be included with the e-filed return. Refer to the Volunteer Resource Guide, Tab K, Finishing the Return.
- When filing a paper return, Form 9465 should be completed and attached to the front of the return before mailing.
- If taxpayers already have an installment agreement with the IRS, they may be able to add the current year’s amount owed to the same agreement. Taxpayers in this situation should contact the IRS directly at 1-800-829-1040 or complete Form 9465 reflecting the balance of all amounts (prior and current year amounts) and indicate the new total monthly payment. Submit Form 9465 electronically with the return.
- If the request is granted, the taxpayers must pay an installment agreement user fee. The amount of the fee varies depending on whether the agreement was setup online or the taxpayer agreed to pay by direct debit. If the taxpayers’ income is below certain limits, they may qualify for a reduced fee. Taxpayers can also request a reduced user fee by completing Form 13844, Application for Reduced User Fee for Installment Agreement. Taxpayers can obtain Form 13844 at [irs.gov](https://www.irs.gov) or by calling the IRS forms number at 1-800-829-3676. The fee for establishing an installment agreement using OPA on [irs.gov](https://www.irs.gov) is lower.
- If the IRS approves the agreement, a notice is issued that provides details of the agreement and requests the user fee at that time.
- If the total amount due is more than \$25,000, there are additional requirements. Refer to Form 9465 instructions.



Some low-income taxpayers may qualify for a modification of user fee requirements. The IRS will waive or refund user fees associated with installment agreements for taxpayers who earn less than 250% of the federal poverty rate. For details, see User fee waivers and refunds on [irs.gov](https://www.irs.gov).





An offer in compromise allows taxpayers to settle tax debt for less than the full amount owed. Low-income taxpayers qualify to waive the application fee for an Offer-in-Compromise (OIC) if their AGI is at or below 250% of the federal poverty level. Assisting a taxpayer with an OIC is out of scope for the VITA/TCE Programs.

### Where can I refer taxpayers for other options to resolve tax-related matters?

Low-Income Taxpayer Clinics (LITCs) are independent from the IRS and Taxpayer Advocate Service (TAS). LITCs represent taxpayers whose income is below a certain level and who need to resolve tax problems with the IRS. LITCs can represent taxpayers in audits, appeals, and tax collection disputes before the IRS and in court. In addition, LITCs can provide information about taxpayer rights and responsibilities in different languages for individuals who speak English as a second language. Services are offered for free or a small fee. For more information or to find an LTC, see the LTC page at <https://taxpayeradvocate.irs.gov/about/litc> or **Publication 4134, Low Income Taxpayer Clinic List**. This publication is available online at [irs.gov](https://www.irs.gov) or by calling the IRS at 1-800-829-3676.

Under the Taxpayer First Act, programs funded by IRS grants are encouraged to refer taxpayers when appropriate to an LTC. As mentioned above, LITCs can provide help with many issues that VITA volunteers might identify in their work with taxpayers. LTC staff may also be a resource to VITA Quality Reviewers or preparers in helping with the interpretation of tax law. Ideally, tax preparation programs and LITCs will share information and discuss how best to make a referral, to provide the best possible service to our taxpayers. LITCs are encouraged to refer taxpayers to free preparation options such as VITA and TCE by the LTC Program Office.



### EXERCISES (continued)

**Question 3:** For which of the following will the taxpayer be charged a convenience fee?

- A. Direct deposit of a refund
- B. Electronic funds withdrawal of a tax payment
- C. Using a credit card to make a tax payment
- D. Using a personal check to make a tax payment

## Taxpayer Interview and Tax Law Application

Seymour's Form 1040 shows his total tax is \$450. His tax payments come to just \$200. Therefore, Seymour owes \$250.

### SAMPLE INTERVIEW

#### VOLUNTEER SAYS...

*The amount of tax you owe is \$250. You can either mail in a check or money order with the payment voucher, use electronic funds withdrawal, IRS Direct Pay, use cash at a retail partner, or call in a credit card payment. You'll have to pay an additional convenience fee for using a credit card.*

*No, we can designate the date that the debit will occur, any time up to April 15. I would just need to see proof of account to verify your bank account information so I can include the routing and account numbers in your electronic return.*

*Right. And it saves you the trouble of mailing in the voucher with your payment.*

*You can do that too. Here's Form 1040-V, which has been completed for you. Make your check or money order payable to "United States Treasury." If it's not already printed on the check, make sure it shows your name, address and daytime phone number. Also, print your Social Security number and "Form 1040" with the applicable tax year on the front of your check. Then mail the payment with the voucher. I'll get the mailing address for you.*

*Just make sure it gets postmarked by the due date. I can e-file your tax return right now, but it's up to you to make sure you send in your payment on time.*

#### SEYMOUR RESPONDS...

Hmm. How does electronic funds withdrawal work? Does it come out of my account right away?

And there's no charge?

Sounds good to me. But I don't have my checking account information with me. Maybe I should just mail in my payment.

That doesn't seem too hard.

Thank you for your help. I will make sure the payment is made on time.

## How is the estimated tax penalty calculated?

The estimated tax penalty is calculated on Form 2210, Underpayment of Estimated Tax by Individuals, Estates, and Trusts, and reported on the applicable line in Form 1040, Amount You Owe section. While completion of Form 2210 is out of the scope of the VITA/TCE programs, it is important for volunteers to have an awareness of the estimated tax penalty provisions.

## What is the Estimated Tax Penalty?

Generally, taxpayers may owe a penalty for underpayment of estimated tax if they did not pay enough tax, either through withholding or by making estimated tax payments.

In most cases, taxpayers must make estimated tax payments if they expect to owe at least \$1,000 in tax (after subtracting withholding and credits) and their withholding and credits will be less than the smaller of:

- 90 percent of the tax shown on the current tax return or
- 100 percent of the tax shown on the prior year's tax return (110 percent for certain higher-income taxpayers; see Form 1040-ES)

An estimated tax penalty may apply if the taxpayer does not make estimated tax payments as required.

There are special situations when a taxpayer will not have to pay a penalty. See Form 2210 Instructions or Publication 17 for more information.

#### example

Mark's total tax is \$1,657 for the current tax year. His withholding is \$417. He owes \$1,240. His prior year's tax was \$2,000. Mark will probably be charged an estimated tax penalty because the amount he owes is over \$1,000 and his withholding and credits are less than 90 percent of his current year tax or 100 percent of his prior year tax.

### Do I have to calculate the estimated tax penalty?

Because Form 2210 is complicated, leave the estimated tax penalty line blank on Form 1040. This will not prevent the IRS from calculating the penalty if it is due. Let the taxpayer know that a penalty may be owed, and if so, the IRS will send a notice.



Form 2210 is no longer included with the estimated tax penalty notice. Refer taxpayers who need assistance with Form 2210 to a professional tax preparer.



### EXERCISES (continued)

**Question 4:** Dion's total tax liability is \$1,044. After withholding, she owes \$640. This means Dion might have to pay a penalty for underpayment of estimated tax. ☐ True ☐ False

### How can taxpayers make sure the correct amount of tax is withheld?

There are several ways to pay taxes during the year to avoid having a balance due when the return is filed. Depending on the taxpayer's situation, here are some suggestions:

- Taxpayers whose income is mostly from wages, pensions, unemployment, or some investment income (such as interest on U.S. bonds) can adjust their withholding
- Taxpayers whose income is mostly from self-employment or investments can make or increase their estimated tax payments
- A combination of increased withholding and estimated tax payments may work best for some taxpayers

Recipients of annuity, pension, or certain other deferred compensation payments use these forms to tell payers the correct amount of federal income tax to withhold: Form W-4, Employee's Withholding Certificate, and if applicable, Form W-4P, Withholding Certificate for Periodic Pension or Annuity Payments. Each form includes the following types of information the employer uses to figure the taxpayer's correct withholding:

- Marital status (married taxpayers may request the employer to withhold at a higher rate to avoid under-withholding)
- Qualifying children or other dependents
- Other income, deductions and any additional amount to be withheld
- Qualification of exempt status

The amount of tax the employer withholds from the taxpayer's wages depends on:

- The amount of pay the taxpayer earns
- How often the taxpayer is paid
- The taxpayer's information entered on Form W-4

### When should taxpayers submit a revised Form W-4 to their employer?

The taxpayers may submit a new Form W-4 whenever they want to increase or decrease the withholding amount.

Life events such as a change in marital status, birth of a child, or purchase of a home will change adjustments, deductions, and credits on the tax return. These taxpayers should submit a revised Form W-4 to their employer.



Refer to Form W-4 instructions to see the applicable lines a taxpayer must complete to revise Form W-4.

In some situations, getting the right amount withheld is difficult if:

- The taxpayers are married and both work
- The taxpayers have more than one job
- The tax law regarding deductions or credits changes

Publication 17, Tax Withholding and Estimated Tax chapter, has more information on this topic. Taxpayers can go to the [Tax Withholding Estimator](#) to help calculate the correct withholding.

#### example

Mary claimed her son as a dependent on this year's return. Mary will not be able to claim her son as a dependent on next year's return. Due to the change in Mary's tax situation, she uses the Tax Withholding Estimator to help determine the appropriate amount of withholding and submits an updated Form W-4 to her employer.

#### example

John works two full-time jobs. He reviews his withholding and realizes he will not have enough tax withheld. He gives his employer a revised Form W-4 to increase his withholding so he will not owe money when he files his return.

### How do taxpayers request an increase or decrease in withholding for other income payments?

Taxpayers can use the following withholding forms to request a change in their withholding on other types of income.

- Form W-4P, Withholding Certificate for Periodic Pension or Annuity Payments
- Form W-4S, Request for Federal Income Tax Withholding from Sick Pay
- Form W-4V, Voluntary Withholding Request (generally used for certain government payments, including Form SSA-1099)
- Form W-4R, Withholding Certificate for Nonperiodic Payments and Eligible Rollover Distributions



Refer to the Volunteer Resource Guide, Tab K, Finishing the Return, for guidance on helping taxpayers avoid a balance due. Advise taxpayers to use the [Tax Withholding Estimator](#) to check their withholding for next year. If they need to adjust the amount withheld, suggest they submit a revised Form W-4, and if appropriate, help them complete the revised Form W-4.

## When should the taxpayer make estimated tax payments?

Estimated tax is the amount a taxpayer expects to owe for the tax year after deducting any tax credits or federal withholding. Taxpayers with significant income that is not subject to withholding (such as interest, dividends, capital gains, or self-employment income) will often find they need to make estimated tax payments.

The decision tree in Publication 17, Your Federal Income Tax for Individuals, and Publication 505, Tax Withholding and Estimated Taxes, can help determine if the taxpayer should make estimated tax payments. See the Payments and Miscellaneous Refundable Credits lesson for more information.

### example

Maria is retired, and her only income is from a pension and some investments. She had no withholding and is not eligible for any tax credits. When you complete her return this year, she has a balance due of \$1,300. Maria should begin making estimated payments, since her balance due next year will be more than \$1,000, and she has no withholding. If Maria does not want to make estimated payments, she could submit Form W-4P to request withholding from her pension instead.

## How is estimated tax figured?

Use Form 1040-ES, Estimated Tax for Individuals, to compute the amount of estimated tax that should be paid over the year. This form includes worksheets to help taxpayers estimate their income and tax liability for the year. The current year's tax return can be used as a starting point, but any anticipated changes should also be taken into account. Taxpayers may also have to adjust their payments during the tax year if a change in income or the tax law will affect their tax liability.

For additional information on estimated tax payments, refer to the Volunteer Resource Guide, Tab K, Finishing the Return.

## How can I avoid common errors?

Double and triple-check the routing number and account number for direct deposit and electronic funds withdrawal. Have the taxpayers compare the numbers entered on the return to their checks or other account information. If an error is made in the bank information, taxpayers must work with the bank to resolve any misdirected funds.

## Summary

### Refunds

If the payments made exceed the amount of tax, then the amount of the overpayment is entered on the overpaid line in the Refund section of Form 1040.

Taxpayers can choose to apply any portion of their overpayment to the following tax year or receive their refund as a check or direct deposit. Direct deposits can be split among as many as three different accounts by using Form 8888.

For direct deposit of the refund, select Direct Deposit as the Federal Return type on the e-File page. Enter the Routing Transit Number (RTN) and Depositor Account Number (DAN) in the Taxpayer Bank Account Information section of the e-File page. Use a check as proof of account.

Taxpayers can use their federal tax refund to buy U.S. savings bonds for themselves or others, such as children or grandchildren. They do not need to have a bank account or an existing account with the Treasury Department.

Review Form 8888 for more information about splitting a refund and the purchase of savings bonds. Form 8888 can be downloaded from <https://www.irs.gov>.

## Amount Owed

If the payment total is less than the amount of tax owed, then the balance due amount is entered on the applicable line in the Amount You Owe section of Form 1040. A copy of Form 1040-V, which is used for mail-in tax payments, will also be prepared.

Taxpayers are often very anxious if they owe tax on their return. Take the time to provide the various payment options to taxpayers in this situation.

Explain to taxpayers that the tax return can be electronically filed now but that they should submit their payment of taxes by the due date of the return. They can pay with a check or money order, with Form 1040-V, electronic funds withdrawal, credit card, Direct Pay, cash at a retail partner, or through a mobile device.

Taxpayers who are unable to pay may request an additional 120 days to pay, or complete Form 9465 for an installment agreement. This request can be made with an e-filed return, or by using the Online Payment Agreement feature on [irs.gov](https://irs.gov).

Interest and penalties are charged on amounts not paid by the due date of the return. There are fees associated with certain payment options.

## Estimated Tax Penalty

If it appears taxpayers may owe an estimated tax penalty, let them know the IRS will calculate the penalty and send a bill. Completion of Form 2210 is out of scope. Refer taxpayers who need assistance with Form 2210 to a professional tax preparer.

## Adjusting Tax Withholding

Advise taxpayers who did not have enough tax withheld to submit a revised Form W-4 (to their employer), Form W-4P (to a pension or IRA payer), Form W-4S (to a sick-pay payer), or Form W-4V (to certain governmental payers). Use the [Tax Withholding Estimator](#) to calculate the correct withholding amount.

Taxpayers with significant income that is not subject to withholding (such as interest, dividends, capital gains, or self-employment income) may find they need to make estimated tax payments. Use Form 1040-ES, Estimated Tax for Individuals, to compute the amount of estimated tax that should be paid over the year.

## What situations are out of scope for the VITA/TCE programs?

The following is out of scope for this lesson. While this list may not be all inclusive, it is provided for your awareness only.

- Form 2210, Underpayment of Estimated Tax by Individuals, Estates, and Trusts



### TAX LAW APPLICATION

To gain a better understanding of the tax law, complete the practice return(s) for your course of study using the Practice Lab on L&LT.



### EXERCISE ANSWERS

**Answer 1:** True. Direct deposit is safer since there is no check to be lost or stolen.

**Answer 2:** False. Enter the account number from left to right, leaving out all spaces and special characters.

**Answer 3:** C. The credit card processor covers its costs by assessing a “convenience fee” to taxpayers using this system. Taxpayers will be advised of the amount of this fee when they call the interactive voice response system.

**Answer 4:** False. The tax Dion owes is less than \$1,000, so she does not have to pay a penalty.