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5reasonsWhyNotToGetALargeTaxRefund.doc

5 Reasons Why You Should NOT Get A Large Tax Refund



REASON #1: When you get a large refund, you are loaning your money to the government.

The biggest objection to getting a large refund is the simple fact that you have given the IRS an interest-free loan of your hard-earned money.

Your large refund, whatever the amount, could have been otherwise invested and increased in value over the course of the year. So by letting the government keep your money, you are actually losing money! Why give the government your money any sooner than necessary?

REASON #2: Getting a large refund does *not* mean you are paying less tax.

We all know how complicated our tax system is. It's crazy, convoluted, chaotic and inconsistent. But on this point, there really is a lot of misunderstanding on the part of innocent (but misinformed) taxpayers:

Getting a large refund does *not* mean that you somehow paid less tax than if you got no refund.

There are many taxpayers out there who think that getting a refund means that you somehow "beat the system." This is nonsense. Think about it -- all you did was get your own money back! It was your money all along; all you did was postpone getting it.

REASON #3: Having a balance due does *not* increase the chance of a tax audit.

If you have a balance due, you do NOT end up on some IRS "black list." But for some reason there are many taxpayers who have this unfounded fear of owing money to the government. This fear causes people to unnecessarily go to the opposite extreme -- "I've got to make sure I never owe, so I'll just have way too much withheld to be safe."

Safe from what? This fear of an audit is pure nonsense.

REASON #4: Getting a large refund is usually a sign of poor (or non-existent) tax planning.

Many folks do not realize how easy it is to get out of the "big refund rut".

You have control over how much you pay in to the IRS during the year. If you or your spouse are W-2 employees, you can change your withholdings very easily. Just file a new Form W-4 with your employer and you won't have to wait so long to get your money back.

If you are self-employed and making quarterly estimated tax payments, the same principle applies. With a little number-crunching you can determine the minimum amount of estimated tax payments you are required to make.

Whether you are self-employed or work for someone else, if you're not sure how to do these calculations, get help from your local tax professional.

REASON #5: Getting a large refund is usually a sign of poor (or non-existent) financial planning.

Some of our clients have insisted that they needed a large refund so they could have a nice nest egg to look forward to every spring. They were using the government as their "forced" short-term savings plan.

If you want to save \$5,000 over the course of the year, just authorize your employer to deposit \$100 per week into your savings account. Then at the end of the year, your \$5,000 will be sitting in your own bank account instead of at the U.S. Treasury. And, you will have earned interest on the funds!

In addition, you won't be in such a frantic frenzy to get your tax return filed."

You should seriously reconsider such an approach to money-management. Why let the government have your money? Don't wait until the end of the year to get your money back. With a little planning and self-discipline, you can take control of this part of your life.

CONCLUSION

With some simple tax planning you can easily come out ahead financially by not getting large refunds when you file your tax return... in fact the ideal situation is when you get no refund at all, but owe the government a small amount!