# What’s Wrong With a Big Tax Refund?

*[Editor’s Note: This guest post was submitted by longtime WCI reader, physician spouse, and personal finance freelance writer, Ryan Trettevik. We have no financial relationship. It discusses tax refunds, why you shouldn’t want one, and what can be done to reduce them. The secret to all this is # 1 to make sure you don’t pay any penalties by staying in the safe harbor and # 2 make sure you have enough money to pay all of your taxes at the end of the year.]*

I never thought embarrassment was an emotion I’d feel when entering our info into TurboTax, but that’s exactly what happened this year. My husband transitioned from a resident to a fellow in 2018. He was doing a non-ACGME fellowship that included half time attending work so his income significantly increased. As I entered the numbers into TurboTax our federal return cranked higher and higher, eventually landing on a big tax refund of $9,000.



How did this happen? Well, despite the fact that we’re married and have two kids, my husband’s W-4 was set to single with zero allowances. In prior years this had worked fine. The extra withholdings made up for most of the taxes owed on my

1099 income and we had a tax bill of a couple hundred dollars each April. However, when his income increased in 2018 (and we added our second child) the settings on his W-4 meant the small extra withholdings we were used to had changed to much larger extra withholdings.

## What’s Wrong With a Big Tax Refund?

What’s wrong with a $9,000 tax refund? That’s gotta be better than these folks that were hit with a $8,000 tax bill, right? Wrong. We had loaned the government $9,000 dollars interest-free. I don’t know about you, but we don’t go around giving out interest-free loans. Or at least we didn’t know we did.

(Sidenote: I’m comparing a big refund and big bill with the assumption that you have the cash to pay your tax bill. Getting hit with a large tax bill and not having the money to pay it is certainly worse than a large refund.)

Not only had we given the government a silly loan, but I hadn’t opened the solo 401k I was eligible for with my 1099 income because we didn’t have money to contribute to it. If we hadn’t loaned the government that money, we could have filled more tax-advantaged space!

I was embarrassed. There I was, avidly reading all the personal finance blogs and books I could get my hands on, taking the coursework for a CFP certification, and I hadn’t checked our tax withholding in a year where there were major changes to the tax laws, our income significantly changed, and we had another kid. (Wait, maybe that’s my excuse, we had an infant and a 2-year-old!) I figured our tax withholding would be off and even mentioned that to my husband, but I hadn’t realized how far off it would be and I didn’t take the time to calculate it.

# When Should You Adjust Your Tax Withholdings?



You probably don't need one more thing to do when transitioning to a fellowship or attending position. You're adjusting to a new level of responsibilities when it comes to patient care, you might have new teaching responsibilities, maybe you're even adjusting to a new city. Plus, there are all the boxes on the WCI financial waterfall to take care of such as adequate disability and life insurance. Even with all of that on your plate, I'm going to suggest you add one more task to your list: Check your tax withholding and adjust it as needed.

This is particularly important when you transition to an attending because if you are withholding too much, the money can go further in that first year with an increased income. For example, in future years, $9,000 won't make a difference as to whether or not we can fill all of the tax-advantaged space available to us. When you only have six months of an increased income in the year you graduate from residency, overpaying your taxes creates a more significant reduction in the amount you have to put towards other important goals like paying off student loans or saving for retirement.

Plus, as I mentioned earlier, my husband was getting paid half-time in his fellowship. If he had gone straight into a full-time attending position, we would have been giving the government a five-figure loan.

After making this blunder, I did a bit of reading on when you should adjust your W-4. There are certain life changes that should remind you to check your withholding and adjust your W-4 as needed. These include:

## #1 Large Changes in Income

There aren’t many fields where someone’s income doubles, triples, or quadruples from one year to the next. Physicians are somewhat unique in this experience, making those transition years an important time to check your withholdings. Other times you’ll see a big change in income could be when you start or stop a second job.

Ryan Trettevik and husband Brad Harris

Things like significantly increasing your pre-tax retirement contributions, large amounts of student loan interest deductions, or alimony expenses can also adjust your income, and therefore should lead to changes in your withholdings.

If you’re married, a large change in the difference between your income and your spouse’s income (even if the total household income hasn’t changed significantly) could mean you need to adjust your withholdings. W-4’s aren’t coordinated for married people, or for single people with multiple jobs, so it's important that you use a withholdings calculator to set both of your exemptions accurately.

## #2 Big Life Changes

Have a kid? Is your kid no longer a dependent? Did you get married? Divorced? Buy a home? All of these will change your tax situation. It turns out you're required to adjust your W-4 within ten days of an event that lowers your exemptions, such as divorce.

## #3 Eligible for New Deductions/Credits

Large medical expenses, big gifts to charity, dependent care expenses, education credits, etc. could affect your taxes enough to change your withholdings.

## #4 Having Taxable Income Not Subject to Withholding

This type of income would include a side hustle taking off and increasing your self-employment income, capital gains, or IRA distributions.

## #5 Major Changes to Tax Law

This is a good time to double check your withholdings since it might not be clear how tax law changes will affect your specific situation.

These are the most common reasons people need to adjust their W-4. While our situation may have been somewhat unique since we were accounting for the taxes on my 1099 income by withholding more on my husband's W-4, there are plenty of you that are going to fall under one of those categories. Four of those categories actually applied to us in the last tax year and we still didn't check our withholdings. Oops!

## Considerations for Married Couples

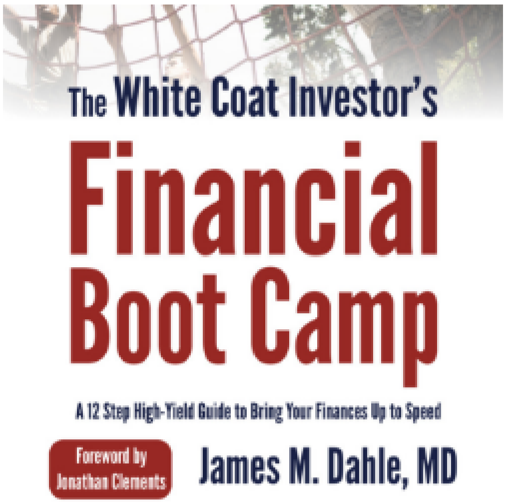
As you can see, things can be more complex for married couples than for single filers. Changes for one spouse affect the couple's overall tax picture and are unaccounted for on the other spouse's W-4. If you file married filing jointly, you'll want to use your combined income when figuring out allowances. You can then claim all of the allowances on one spouse's W-4 or divide the allowances between them.

## Check Withholdings Early in the Year

It's best to check your withholding early in the year to make sure can get your withholding as accurate as possible from the beginning, but it's better to check anytime in the year than never. You can change your payroll exemptions as often as you like. You don't need to get it perfect the first time if your life situations change again later in the year, you can adjust things accordingly.

## Tax Withholding Calculators

Not sure where to start? Enter your info [here](). Is the calculator perfect? [No](). But we learned it's a lot better than not attempting to figure out your proper tax withholding. Once you get your results, you can adjust your W-4 appropriately. We adjusted this immediately for this year once I saw our mistake and will check on it again later this year when we have a better idea of my husband's income to be sure additional tweaks aren't necessary.




This took a total of 5-10 minutes. Going through these steps will ensure you aren't giving the government a loan when you could be putting that money to work for you. It will also ensure that you aren't surprised by a large tax bill that you aren't prepared to pay or [a penalty for underpaying]().

## Putting Our Refund to Use

We've made the best of this small blunder and used the refund to fill retirement accounts for this year sooner than we planned. It's nice to get a jump start on filling those accounts as it will let us move on to the next buckets we're trying to fill sooner, but the perfectionist in me would have preferred to fill more tax-advantaged space last year. Ideally, you’re all smarter than me and won’t run into this issue. If that’s not the case, I hope that sharing this experience will help someone else avoid this first world problem!

*How do you determine the number of withholdings to claim each year? Are you changing your withholdings going into 2019 tax year? How has the new tax law affected the amount you withhold? Comment below!*