

# WHY DO WE ALWAYS OWE MONEY?

## The truth about income layering and the withholding tables.

When withholding is done on a W-2 person it is based upon what status and exemptions are being claimed by the employee. Sometimes just changing the status/exemptions helps compensate for a flaw in the withholding tables. Sometimes not so much 😊.

Here is an example of what is going on:

Let 's say, w/o regards to any bonus's, you and your spouse are withholding at Single Zero and are paid weekly (computations work the same whatever the frequency is though):

	<u>Spouse #1</u>	<u>Spouse #2</u>
WEEKLY GROSS WAGES per W-2	\$ 3,785.	\$ 1,103
The withholding tables assume the following – Taking into account the standard deduction on a per week basis	<u>(\$ 110)</u>	<u>(\$ 110)</u>
Your Federal Taxable earnings are	\$ 3,675	\$ 993

Now lets look at the withholding tables:

SINGLE RATES—weekly withholding is:

\$ 73 - \$ 260	10%	\$ 19	\$ 19
\$ 260 - \$ 832	12%	68	68
\$ 832 - \$ 1,664	22%	189	35
\$ 1,692 - \$ 3,164	24%	353	0
\$ 3,164 - \$ 3,998	32%	<u>164</u>	<u>0</u>
Total federal withholding at S-0		\$ 803	\$ 123

So both of your employers will withhold using these rates.

PROBLEM – Spouse #2's income is being **layered** ON TOP OF Spouse #1's. wages.

So spouse #2's income is being withheld at on average 11-12% but it's ACTUALLY getting taxed at the 32%....in this case this couple is short \$193 per week. ( $993 \times 32\% - 123$ )

That being said, sometimes your itemized deductions can save you and cover that percentage gap. Any deductions in excess of the standard deductions are saving you that same 32% . That helps because those excess deductions are NOT considered in the withholding tables.

NOTE – The employers are doing **NOTHING** wrong in their calculations. It's just the way the tables are designed. The employee needs to compensate for the second income coming in. This can be done by asking for an additional dollar amount or percentage amount to be taken over and above the tables.

This income layering applies anytime there is more than one paycheck coming into a household. I have seen it happen on single people also, if they work two jobs. Or perhaps you are trying to cover the taxes on other income such as dividends, stock sales, interest income or other taxable income that does not offer withholding. AND, bonus's checks can mess up the equations too.

Failure to make sufficient tax payments during the year can cause underpayment penalties.  
**YOU NEED TO SPEAK WITH YOUR ACCOUNTANT TO HELP YOU WITHHOLD PROPERLY!**

From your  
friends at  
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