

Don't like paying income taxes? Make sure you don't overpay!

by Julie Casserly

Easy financial management tips for tax time and beyond

The average homeowner will get a tax refund of \$4,000 to \$5,000 this year. What most people don't understand is that a big number on line 72 of the 1040 income tax form means they overpaid their taxes.

"It's ironic that most people get so excited about getting their tax refunds, which really means that they've been sending too much money to the government," says Julie Murphy Casserly, the president of Chicago-based JMC Wealth Management, Inc. "The good news is that it's really easy to pay the appropriate amount of income tax, and best of all, doing so will raise your household income with every paycheck."

Simply contact your HR department, and fill out a new W-4 form, Casserly says. The rule of thumb, Casserly advises, is to increase your exemptions by one for every \$1,500 you get back.

Where people go wrong, Casserly notes, is in not realizing that instructions on the W4 form don't take other deductions you may have -- such as mortgage interest write-offs and education credits. "As a result, most people underestimate their exemptions, and wind up paying more income tax than necessary," she says.

Getting ahead

Making this fix is quick and easy, but it's too late for 2006. However, there are ways to turn that refund into a real opportunity to get ahead, and also enjoy a little splurge.

"If you don't have a lot of credit card debt, I recommend that you commit half the refund to savings, and spend the other half -- because let's face it, you've been looking forward to this," says Casserly. "However, if you spend half, you should really save the other half. Open an ING Direct or eCiti Savings account, which pay some of the highest interest rates available. Or better yet, open a Roth IRA account and select age-based portfolios such as those in the Fidelity Freedom Funds family. This is a painless way to get ahead while still enjoying the reward you've been anticipating."

If you have credit card debt, split your refund in thirds, suggests Casserly, and pay down the debt in addition to the saving and spending scenarios she suggests.

Spending to save?

One reason why many family budgets fail, Casserly asserts, is that the plans are too Spartan. "You have to consider the emotion behind the money," she says. "It's important to reward yourself for good behavior -- like setting up that Roth IRA or saving a chunk of a bonus. A little gratification here and there can prevent a spending binge."

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