Slow start to tax season, similar refunds

The IRS reports that the tax filing season is off to a sluggish start, with tax refunds averaging about the same as last year—$1,869. That may disappoint employees who expect larger tax refunds.

Of course, tax liability is based on a combination of earned income (wages, self-employment income), unearned income (capital gains, dividends), deductions and credits. If employees don't want to owe taxes next year or want heftier tax refunds next year, they have to take steps this year.

Gig central

If you're in a band, you've got a gig. If you're not in a band, your gig means you have self-employ income. Income earned from side jobs is 100% taxable, even if it's not enough to have been reported on Form 1099-K ($20,000 reporting threshold) or Form 1099-MISC (a much more reasonable reporting threshold of $600).

For service providers, the IRS' Gig Economy Tax Center explains what gig work is (e.g., driving a car for booked rides or deliveries or renting out your bedroom), the records they need to keep, the estimated taxes they should have been paying (it's an even bet whether they did) and provides some useful publications they may want to consult.

Withholding estimator

Frankly, we will never know whether the withholding estimator really works. We tried it, and we know other people who tried it, and the results are underwhelming. But employees may need to update their W-4s to account for the income they'll earn this year from side gigs and the estimator is a good place to start.

Nevertheless the IRS would like you to know that, if it's not exactly new, it's been improved, including a customized refund slider that allows users to choose the refund amount they prefer from a range of different refund amounts and then gives users specific recommendations on how to fill out their W-4s.

W-4 questions

Employees who don't have enough tax withheld may be the subject of a lock-in letter from the IRS instructing you to disregard their W-4s and adjust their withholding.

The newest source of anxiety: Employers are receiving lock-in letters referencing pre-2020 W-4s—forms still based on withholding allowances—and which instruct employers to decrease employees' withholding allowances.

The issue: whether you need two withholding systems to handle pre-2020 lock-in letters and the other for 2020 lock-ins. According to the IRS, in its updated Withholding Compliance Questions & Answers**,** the answer is "not necessarily":

The same set of withholding tables will be used for both withholding calculations. You can apply these tables separately to systems for new and old lock-ins. Or, rather than having two separate systems, you may prefer to use a single system based on the redesigned Form W-4. To do this, input values to Step 4(a) and 4(b) as follows:

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4(a) – 12,900 for MFJ [married filing jointly] or 8,600 for all others; and 4(b) – Number of allowances, as specified in WHC Letter [the lock-in letter] multiplied by 4,300.

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