FastLaunch TAX

FERGUSON
BOOKKEEPING AND TAX

HOW TO MAXIMIZE YOUR REFUND

INTRODUCTION

There's no doubt, tax time isn't fun for anyone. It can be stressful to make sure that your math is all correct, that you've filled out all your forms correctly, and that everything is in on time. Plus, with ongoing tax law changes and adjustments, staying informed is key! And of course, on top of that, there's the stress of owing money to the IRS.

Fortunately, there are lots of credits and tax breaks that may apply to your situation. While it can be hard to know all of your options without being a professional accountant or tax preparer, using the best tax software to file your return can help ensure you get all the deductions and credits you are entitled to.

Here are some things to watch out for that might give you some quick and easy ways to get more out of your tax return for the 2025 tax year.

Let's Start our journey!

TABLE OF CONTENTS

1.INCREASE WITHHOLDINGS

Increase Withholdings

If you're employed full-time at a company, one of the first things you did when you were hired was fill out IRS Form W-4. The information you provide on the W-4 determines how much money is withheld from your paycheck each pay period and paid toward your personal income taxes. The calculation is based on the information you provide, including dependents and other adjustments.

Understanding Your W-4

The W-4 form guides your employer on how much federal income tax to withhold from your pay. While the concept of "allowances" has been replaced, the form now focuses on four key steps:

- Step 1: Entering personal information.
- Step 2: Accounting for multiple jobs or a spouse's job to ensure enough is withheld if there's more than one source of income.
- Step 3: Claiming dependents and other credits, which directly reduces your tax liability.
- Step 4: Making "other adjustments," such as for other income not subject to withholding (like interest or dividends), itemized deductions (if you expect to itemize significantly), or additional tax you want withheld.

Why Adjust Your Withholding?

If your goal is to increase the dollar amount you receive in your tax refund, you can request to change your W-4 tax form with your human resources department. When you adjust your withholding to have more money withheld from your check each payday, your tax refund will therefore be larger. This strategy can serve as a form of forced savings for some individuals, ensuring they have a lump sum available after filing their taxes for specific financial goals or to pay down debt.

The Trade-off of a Large Refund

While a larger refund can feel satisfying, it's important to understand the trade-off. Receiving a big refund means you allowed the government to hold onto more of your money, interest-free, throughout the year. This money could have been earning interest in a savings account, invested, or used to pay down high-interest debt. The IRS Tax Withholding Estimator is designed to help taxpayers "break even" by withholding the exact right amount of tax from each payment, so they don't owe money in April or receive a big refund check. If you want a bigger refund check, you can always choose to have slightly more tax withheld during the year, but be mindful of the opportunity cost.

When to Review Your W-4

The times of year you're allowed to make this change are dependent on your company's policies, but generally, it may be made any time of year. It's especially wise to review and adjust your W-4 whenever you experience significant life changes, such as:

- Marriage or divorce
- The birth or adoption of a child
- Purchasing a new home
- A change in job or income (yours or your spouse's)
- Significant changes to your deductions or credits

Avoiding Penalties

Proper withholding helps you avoid underpayment penalties. If you don't withhold enough throughout the year, you could face penalties from the IRS when you file your return. Conversely, over-withholding, while leading to a larger refund, means you've given an interest-free loan to the government. Using the IRS Tax Withholding Estimator regularly can help you strike the right balance and avoid surprises at tax time.

2.DEDUCT ALL DONATIONS

If you give generously to charitable organizations throughout the year, you can deduct the value of those donations from your taxable income, which could increase your refund check. Not only can you deduct cash donations to qualified charitable nonprofit organizations (including churches and other religious groups), but you can deduct the cash value of physical donations like clothing, electronics, art, or real estate. You can even deduct the mileage used to drive your car as a volunteer for a charitable organization.

To be able to deduct charitable donations, you typically need to itemize your deductions. The standard deduction is adjusted annually for inflation. For the 2025 tax year, the standard deduction amounts will be published by the IRS and will be higher than previous years' figures. If your total itemized deductions, including significant charitable donations, exceed your standard deduction, it may be worth itemizing.

Keep in mind that tax-deductible donations must be made to a nonprofit that can prove its 501(c)(3) tax status. Most legitimate charities state clearly on their websites or in their literature that they're 501(c)(3) nonprofits, so it's usually simple to verify. Another requirement is that you must keep a receipt. Again, legitimate nonprofits have systems in place to ensure that they'll give you receipts for any and all donations. You also can't technically give all of your money away to charity and expect it to be tax-deductible. In general, you can only deduct up to 50 percent (or sometimes 60% or 30% depending on the type of donation and organization) of your adjusted gross income in charitable donations. As with all financial planning and tax decisions, it might be best to see a professional accountant to be sure you don't exceed the maximum.

3.REVIEW YOUR FILING STATUS

Filing status, such as single, head of household, married filing separately or jointly, and others, can greatly influence the amount of money you receive in your refund. This is mostly because each different filing status qualifies for a different standard deduction. Depending on your financial and family situations, you'll want to pick a filing status that minimizes your tax burden and increases your chance of a refund.
In general, married couples often see a larger tax refund if they file jointly. Filing a joint return typically qualifies you for a higher standard deduction (which will be adjusted for inflation for 2025) and can offer some tax breaks unavailable to those filing separately. If you're married but file separately, the deduction is generally half of the joint standard deduction.

There are some situations, however, in which a couple may choose to file separately. For example, if one spouse earns considerably less and also has a lot of unreimbursed medical expenses, filing separately might allow the lower-earning spouse to deduct more of those medical expenses, because the IRS only allows you to deduct expenses in excess of a certain percentage of adjusted gross income (7.5% for most years, though it can vary).

Many taxpayers also lose out on tax savings because they file as individuals instead of head of household. Single parents, for example, shouldn't file as individuals if they have one or more children living with them at least six months out of the year. The same applies to people who are taking care of an elderly parent or relative. If you are financially responsible for that person and they live with you at least half the year, then you may qualify as a head of household. Heads of household get a higher standard deduction compared to individuals (these amounts will be adjusted for inflation for 2025).

4.MAKE THOSE KIDS COUNT

No one has children just for the tax breaks, but it's a nice perk. While the personal exemption is no longer available, the Child Tax Credit remains a significant benefit.

For the 2025 tax year, the Child Tax Credit generally remains a valuable credit, often up to $2,000 per qualifying child aged 16 or younger at the end of the tax year. The Child Tax Credit is much more valuable than a deduction because it's a credit, meaning the full dollar value is subtracted directly from your final tax bill, not just your taxable income. Even better, a portion of it is often refundable, meaning that if your credits are larger than your tax bill, you could receive the excess as a refund.

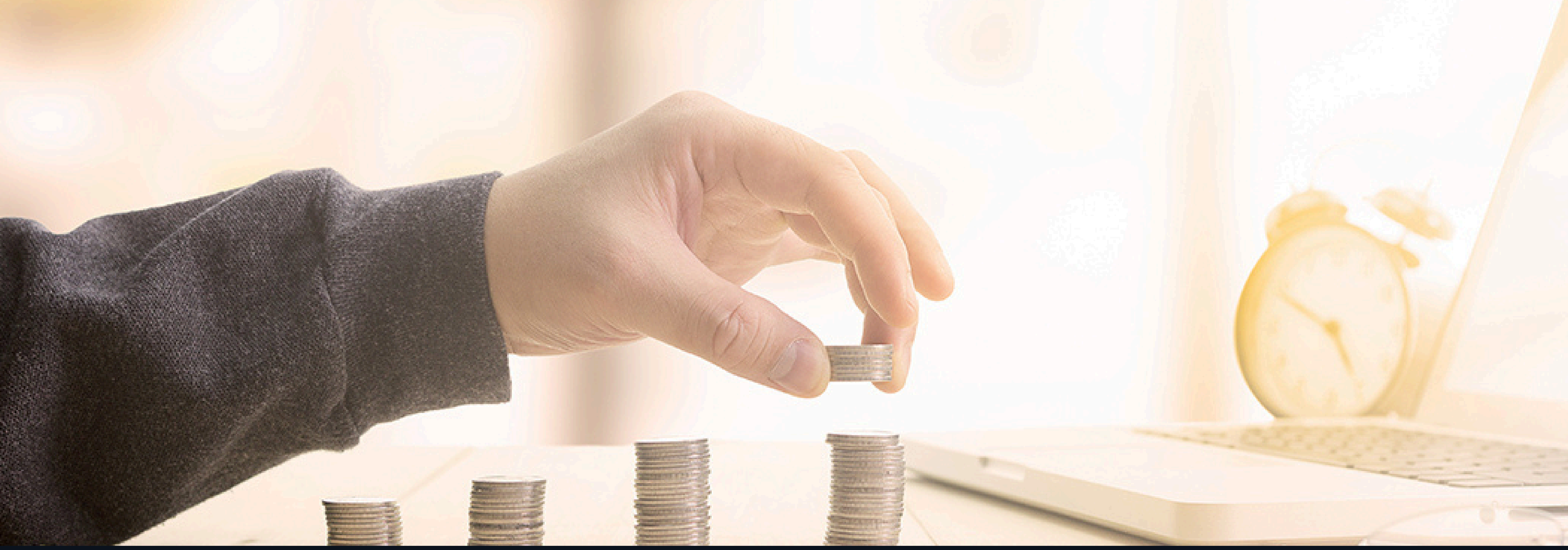
Additionally, a separate nonrefundable tax credit of $500 per qualifying person (including children 17 and older who are full-time students, or other qualifying relatives who live in the household and meet dependency tests) is often available. Always check the most current IRS guidelines for specific income limitations and eligibility requirements for these credits for the 2025 tax year.

5.DEDUCT DEPENDENT CARE EXPENSES

Taking care of kids or aging parents can rack up huge expenses. Did you know that some of those expenses are deductible? If you pay someone to take care of your kids or an elderly relative while you're at work (or looking for work), you may reduce your tax liability and increase your refund through the Child and Dependent Care Credit.

The Child and Dependent Care Credit is important because, like the Child Tax Credit, it is subtracted from your final tax bill dollar for dollar, not deducted from your taxable income. The trick is figuring out if you qualify for this credit and how much it's worth. To qualify for the credit, you must pay for someone to take care of your dependent child (generally younger than 13) so that you can work or look for work. You can also claim this credit if the child is older than 13 and mentally or physically impaired (adults who fall in these categories can be claimed also if they are your dependents).

There's a limit to how much of those child or dependent care expenses you can claim. The IRS generally allows you to claim up to $3,000 in expenses for one qualifying individual or $6,000 for two or more individuals. The actual amount of the credit is only a percentage of those costs, between 20 and 35 percent based on your annual income. So, for example, if you claim the maximum of $6,000 to send two kids to daycare and you make $35,000 a year, you'll get a credit worth $1,440 (24 percent of $6,000). These amounts and percentages are subject to annual review by the IRS for the 2025 tax year.



6.INCREASE IRA CONTRIBUTIONS

One of the most recommended ways to increase your tax refund is to increase your contributions to your retirement fund. Contributing to a traditional Individual Retirement Account (IRA) or 401(k) not only facilitates saving for retirement, but placing money into the IRA lowers your total taxable income because it comes off the top (for traditional accounts). The more you contribute to the IRA, the less of your income is subject to taxes. Generally, the lower your taxable income, the less you'll owe in taxes, and the less you owe in taxes, the greater the refund.

Be careful, though, to make the IRA contribution by the deadline (typically the tax filing deadline, excluding extensions, for the previous tax year), and know your limits. Contribution limits for IRAs and 401(k)s are adjusted annually for inflation. For the 2025 tax year, these limits will be announced by the IRS. Consult a tax professional or the official IRS website to ensure your IRA contributions are made on time and in the right dollar amount for the 2025 tax year.

7.REFINANCE YOUR HOME

When interest rates are low, many homeowners look at refinancing their homes. Those who refinance at a lower interest rate benefit from lower mortgage payments as well as a lower amount paid over the life of the mortgage. But did you know refinancing could also bump up your tax return?

When you refinance your home, the majority of your initial monthly payments will be going toward interest on the loan. While it's no fun paying a big chunk of money in interest, generally, all of that interest is tax deductible. The tax law allows homeowners to deduct interest on mortgage loans (including refinanced loans) up to certain limits, which are adjusted for inflation annually. For the 2025 tax year, these limits will be published by the IRS.

Of course, a lot of factors need to be considered when refinancing a home, including your new interest rate, how much you still owe on your house, and its current market value.
Another option to remember is a home equity loan or line of credit. Interest paid on a home equity loan or line of credit is deductible as long as the money is being used to substantially improve the house that secures the loan. It's a tax-wise way to cash in on the equity in your house if used for qualifying home improvements.

8.IT STILL PAYS TO GO GREEN

If you've been thinking about adding solar panels to your house or buying an electric vehicle, it could do wonders for your tax refund. Various "green" tax credits are currently available to encourage environmentally friendly investments.

The Residential Clean Energy Credit, for example, allows you to claim a tax credit of 30 percent of the total cost of eligible home renewable energy projects installed through 2032. Qualifying upgrades include installing solar panels, solar water heaters, small wind turbines, geothermal heat pumps, and battery storage technology.

The same is true if you buy a clean vehicle (new or used). For new clean vehicles, the IRS offers a tax credit of up to $7,500. For used clean vehicles, the credit is up to $4,000. However, the availability of these credits depends on numerous factors, including the vehicle's manufacturer's suggested retail price (MSRP), where the vehicle and its battery components are manufactured, and the buyer's modified adjusted gross income. These rules are complex and can change, so it's crucial to check current IRS guidance or a reputable source for the exact vehicles and conditions that qualify for the 2025 tax year.

Both the residential clean energy credit and the clean vehicle credits are generally nonrefundable credits, meaning that they are subtracted dollar-for-dollar from your tax bill, but they won't result in a tax refund by themselves if your tax liability is already zero. That said, these green credits combined with other refundable tax credits can significantly boost your overall refund.

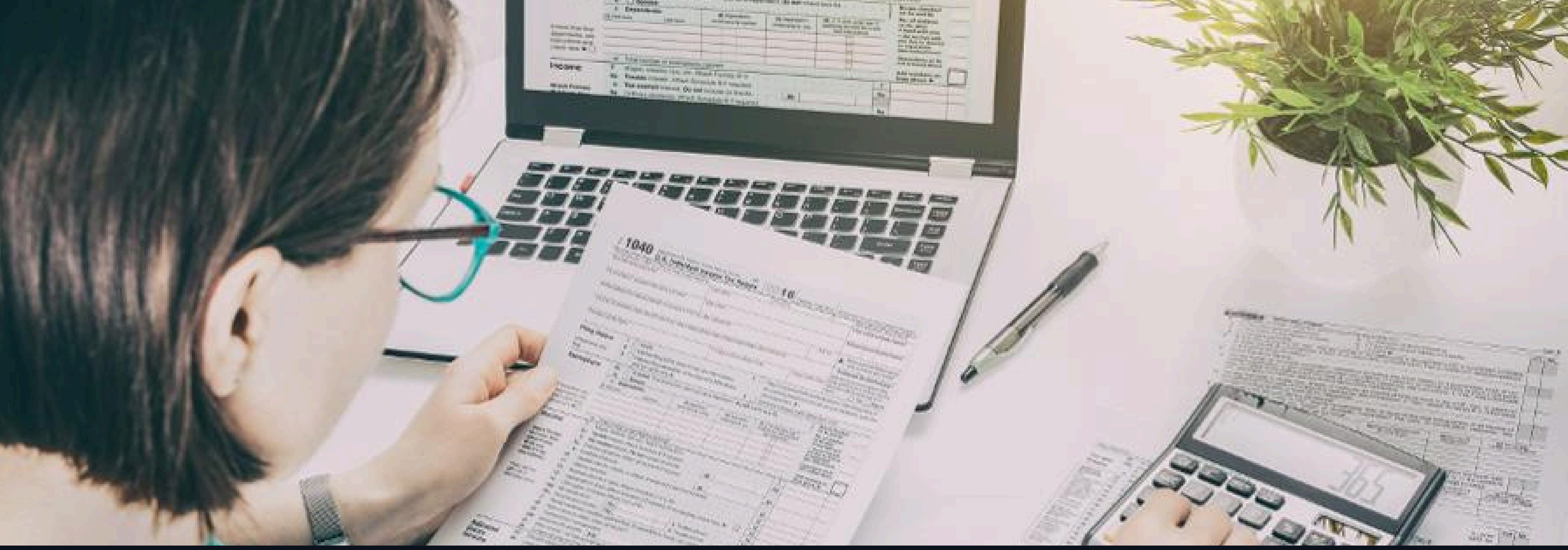
9.WORK FOR YOURSELF

For many Americans, business ownership has become a path to financial freedom. Home-based business owners can deduct things like a home office, a portion of telephone and internet service, and office supplies. When you start a business, the initial deductions may offer tax refunds, and as the business begins to make money, the continuing deductions can lower your taxable income.

Not only can you deduct normal business expenses like the equipment you use for your business and portions of the facilities and utilities, but you may also be eligible for the Qualified Business Income (QBI) deduction (Section 199A). If you are a sole proprietorship, a partnership, or an S corporation, you can claim a deduction of up to 20 percent of your qualified business income.

There are some limits and exclusions to this 20-percent deduction, of course. For the 2025 tax year, the deduction is subject to income limitations, which are adjusted annually for inflation. Additionally, certain specified service trades or businesses (SSTBs), including doctors, lawyers, and accountants, may have limitations or exclusions from this deduction at higher income levels.

Just make sure you can prove to the IRS that you really have a business and are not just trying to write off personal expenses. If your side business never shows a profit even after several years, the IRS might flag you for an audit.



10.INVEST IN TAX PLANNING

Tax planning is one of the best ways to take advantage of all these deductions and credits and get the maximum tax refund possible. Tax planning often starts at the very beginning of the year and takes into account how much money you'll earn and how different expenses (or extra income) affect the total tax amount that you'll owe. Planning also helps you evaluate different ways of using your money to buy needed, yet tax-deductible items or make other tax-reducing investments.

A tax-planning professional (or you, if you're your own best accountant) can play with the numbers in computer software to evaluate what changes you can make to lower the tax bill, therefore upping the refund. Given that monthly billing may not be required based on your individual needs, you can adjust your engagement with tax professionals as you go to align with your financial planning for the 2025 tax year.

.

YOUR FINANCES

FERGUSON

BOOKKEEPING AND TAX

Thank you for taking the time to read "How to Maximize Your Refund."

We hope this guide has provided you with valuable insights and practical strategies to help you optimize your tax refund for the 2025 tax year. Navigating tax laws can be complex, and we are committed to helping individuals and businesses achieve their financial goals.

Please consider Ferguson Bookkeeping and Tax for your future tax preparation needs. We look forward to the opportunity to assist you.

Candis Ferguson (Owner)
Ferguson Bookkeeping and Tax
(346) 552-5818
www.fergbookntax.net