

Tax Refunds, 401(k)s and New W-4s

As a proponent of financial literacy education, I have a mission: Find ways for people of all financial means to achieve retirement security. When I see 401(k) plans with generous matches, I wonder about the motivation of nonparticipants. When the reason is a tight budget, I ask, "Do you get a tax refund?"

Think about that for a moment. What's the logic behind reducing your paycheck to lend money to the government -- just to have it refunded the following year? Isn't it a better idea to have that same amount of money earn a 401(k) company match? (I wrote an earlier column on this topic, which you can find at Juliejason.com -- tinyurl.com/fsyb3d48.)

What's more important this year is that your tax refund might be bigger than usual due to the One Big Beautiful Bill Act of 2025 (tinyurl.com/yn6k4dmv). To accommodate those changes, the IRS issued a new 2026 W-4, which is the form that tells your employer how much to withhold from your paycheck.

To see how these changes affect you, try out the Tax Withholding Estimator at the IRS website (tinyurl.com/uu2y6zt9), which is now updated with modifications for credits and deductions, including "no tax on tips, no tax on overtime, and other tax benefits" (tinyurl.com/nhrdrk67).

To use the estimator, you'll need paystubs from your jobs (and your spouse's, if applicable), other income amounts and your most recent tax return. You'll be asked questions about your income and adjustments, deductions or credits you think you might claim.

The IRS states that it takes about "25 minutes on average" to complete the step-by-step process, adding that the tool "does not require taxpayers to log in or

provide personally identifiable information." You should also note that the tool might not work as well if a significant part of your income comes in the form of an annual bonus.

You can see the 2026 version of the W-4 at the IRS webpage "About Form W-4, Employee's Withholding Certificate" (tinyurl.com/muhkzs37).

Let's go through some of the changes. The Deductions Worksheet on Page 4 of Form W-4 addresses:

-- Qualified tips (for those with a total income of \$150,000 or less, or \$300,000 if married and filing jointly): Enter an estimate of up to \$25,000;

-- Qualified overtime compensation (total income of \$150,000 or less, or \$300,000 if married and filing jointly): Enter an estimate of your qualified overtime compensation up to \$12,500 (\$25,000 if married filing jointly) of the "and-a-half" portion of time-and-a-half compensation.

Other new deductions include:

-- Qualified passenger vehicle loan interest (total income is less than \$100,000, or \$200,000 if married filing jointly): Enter an estimate of your qualified passenger vehicle loan interest up to \$10,000;

-- Seniors (total income is less than \$75,000, or \$150,000 if married filing jointly): Enter \$6,000 if you are age 65 or older before the end of the year; additionally, enter \$6,000 if your spouse is age 65 or older before the end of the year (and has a Social Security number valid for employment).

The Deductions Worksheet recommends that taxpayers see the instructions for Schedule 1-A "for more information about whether you qualify for the deductions." They can be found in the

instructions for Form 1040 (tinyurl.com/4ewym4d3).

(Keep in mind that the standard tax deduction increases for 2026. See the IRS news release "IRS releases tax inflation adjustments for tax year 2026" for more details -- tinyurl.com/3hevs6m2.)

The W-4 form also features a change to the withholding exemption. In past years, if you were claiming an exemption from withholding because you had no federal income tax liability in the previous year and you expected to have the same situation in the current year, you wrote "Exempt" in the space below Step 4.

Now, there is a separate box you can check that states "I claim exemption from withholding for 2026."

There is no better time than now to see if your withholding should be reduced in light of tax changes. I'd like to see you funding your 401(k) plan if you are not already doing so, especially if your plan has a match.

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