

# Make More Money With the Same Paycheck

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[Growing Money Blog](#)

“How much are you getting back?” is the common question that I hear around the office and on the streets. That is the question people asked to inquire about the tax refund amounts from the IRS. I hear answers like, I am getting back \$1000, \$1500, or \$2000, and these people are filled with excitement. But the question is, why are these people so excited? I know they are happy to receive money, but I beg to differ that receiving a tax refund is good news, especially a large one. Getting a tax refund means that these people had overpaid their taxes by \$1000, \$1500, or \$2000. I think it is foolish to have a large tax refund and I will explain why.

Employees on W-2 have their federal tax withholdings deducted from their pay check by their employers based on the employee's allowance filled out on the [Form W-4 Employee's Withholding Allowance Certificate](#). The federal tax withholdings are calculated based on the allowance number - the higher the total number of allowances and the lower the federal tax withholdings will be deducted from the pay check.

If you fill in a zero on your total allowance claim (line 5), then you will be subjected to the maximum federal tax withholdings. It is easy to just write zero on the allowance, alleviate your worries, and receive a huge tax return check from the government, but that is not a financially smart move.

A zero on the total allowance claim, while most likely covering total amount for taxes owed at the end of the year, may result in a huge overpayment for the taxes. This extra money paid to the government, although would be return to you, becomes a missed opportunity for you to profit from it. The government holds on to the extra money until the end of the year and pays it back it to you without interest, and thereby the government has taken your extra money for an interest-free ride.

Instead of giving the extra money to the government, you can withhold fewer taxes. The fewer taxes withheld will increase the net amount on your pay check, but the gross amount on your pay check remains the same. The extra money that comes from this increase should be deposited directly in a high-yield interest bearing account for making maximum guaranteed profit. At the end of the year, you may not receive a \$1000, \$1500, or \$2000 tax refund check, but you will be earning interest on the extra money.

A more advanced strategy is to withhold fewer taxes than supposedly owed at the end of the year, causing an underpayment to your taxes owed. This will substantially increase the net amount on your pay check, however you will be owing taxes at the end of the year. The increase in the net amount on your pay

check should be deposited directly to a high-yield interest bearing account and will allow you to earn more savings interest. It is important to note that the extra money should be reserved for paying back the taxes owed for this strategy to come to fruition.

Also, there is one catch to this advanced strategy. Too much underpayment may result in a [tax penalty](http://www.essortment.com/all/taxespenalties_rlcx.htm) (see also [http://www.essortment.com/all/taxespenalties\\_rlcx.htm](http://www.essortment.com/all/taxespenalties_rlcx.htm)). Be careful not to fall into the tax penalty zone or else this will defeat the purpose of making extra money.

One last factor to this whole tax withholdings strategy is that it involves not only the financial component, but also the emotional/mental component. Tax penalty aside, most people do not feel comfortable owing taxes at the end of the year.

The best strategy, which compromises the financial and emotional/mental components, is to calculate your withholdings so that you will receive a small refund at the end of the year. This allows you to have peace of mind while also knowing that you are reducing the amount of money lent interest-free to the government.

I remembered that when I was an employee on W-2, I would bump up my personal allowance on the Form W-4. I saw a marginal increase in the net amount on my next paycheck. I was careful not to spend that extra money and deposited it to a high-yield interest savings account.

Since I was withholding fewer federal taxes, I ended up owing federal taxes at the end of the year. When my friends asked me to tell them how much I was getting back from my tax refunds, I told them that I had to pay taxes out of pocket.

Their reaction was, "Oh, that sucks"

And I replied, "It's okay, I did it on purpose. I'm making money."

Then they showed me that confused and what-the-hell-am-I-talking-about face. I sat down and explained the whole tax withholdings strategy.

In short, I did not give the government an interest free loan. Moreover, I took part of the money I owed the government and earned interest on it before returning the funds I owed to the IRS. Therefore, while my gross amount on the pay check stayed the same, I increased the net amount and made more money with the same pay check.