FREE PRACTICE | LIFEREADY

Withholding and Tax Returns

Income-tax withholding is money sent toward income tax as earnings are received. Final tax liability is calculated under the applicable rules for the year. A tax return reconciles income, tax, prepayments, and relevant credits. A refund is not automatically a bonus or proof of no tax owed.

Term / form	Purpose
Form W-4	Information an employee gives an employer to help determine federal income-tax withholding.
Form W-2	Year-end employee wage and withholding information.
Tax return	A filing used to report and reconcile tax information.
Refund / balance due	An overpayment returned / an amount still payable, under the applicable calculation.

Worked fictional reconciliation

For this stripped-down exercise, assume final federal income tax is $900 and withholding is $1,050, with no credits, other payments, penalties, or other taxes. Overpayment = $1,050 - $900 = $150. The assumed refund is $150; it is not a prediction for a real person.

Try both directions

1. Assumed final tax $720; withholding $650. Find the balance due.

2. Assumed final tax $800; withholding $960. Find the refund. What extra information would a real return require?

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WITHHOLDING AND TAX RETURNS

Check, explain, and apply

Answers and meaning

1. $720 - $650 = $70 still due under the stated assumptions. A small amount withheld from each paycheck did not change the assumed final tax calculation.

2. $960 - $800 = $160 overpaid, treated here as a refund. A real return can involve filing status, all income, deductions, credits, other taxes, and other payments; this worksheet intentionally omits those details.

Do not mix different deductions

Social Security and Medicare payroll taxes are separate from federal income-tax withholding. A take-home-pay calculation can include all three plus state or local withholding and benefit deductions. A single invented percentage is not a substitute for the actual withholding tables or a complete tax calculation.

Explain to a friend

1. A friend says, 'My refund was $400, so I did not pay any income tax.' Use the words withholding and final liability to explain why that conclusion may be wrong.

2. Match the task to a form: update employer withholding information; review last year's wages and amounts withheld.

Model explanation: the friend may have paid more during the year than their final liability. A refund returns an overpayment; it does not by itself show the total tax. The form matches are W-4, then W-2.

Source: irs.gov/individuals/employees/tax-withholding . Educational practice, not individualized financial, legal, tax, or investment advice. Examples are fictional. U.S. rules and account terms can vary. Do not enter real tax documents or identifiers into an activity.

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