

Most People Receive Refunds at Tax Time

By Elaine Maag and Elena Ramirez

The federal government requires employers to withhold taxes on wages. Taxpayers routinely have too much income tax withheld. Of the 126 million tax returns the IRS processed through April 17, 2015, almost three-quarters resulted in a refund.

Getting a tax refund happens both by design and by choice. Some taxpayers qualify for refundable credits, such as the earned income tax credit or the child tax credit (CTC) that exceeds their tax liability. Other than advance payments to insurers of premium tax credits related to the Affordable Care Act, the IRS does not routinely advance tax credits to those who might be eligible. As a result, most credits are received only after people file their tax returns.

Most people with positive annual federal income tax liability have too much tax withheld during the year, and thus receive refunds when they file their returns. Some taxpayers claim fewer exemptions than they will likely be eligible for when filling out

paperwork to calculate withholding, which can result in a tax refund when the taxpayer files a tax return. Others ignore guidance on claiming additional exemptions to account for itemized deductions, setting themselves up to receive a refund. Still other times, people qualify for tax credits such as those for college or childcare expenses that are not accounted for in the standard withholding tables. All of these cases set taxpayers up to receive refunds. Some people may opt to do this to avoid the risk of owing taxes, and others may choose this as a form of forced savings — a sort of Christmas club operated by the IRS.

In 2015, almost 73 percent of tax returns processed by April 17 received refunds that averaged just over \$2,711. Early filers were more likely to get refunds than those filing later, and their average refund was larger. In total, the federal government held \$249 billion of excess withholding — interest free — for some part of 2014 and 2015. Not a bad deal for the government — but maybe something people who received those large refunds might want to think about when setting up their withholding for this year.

