

# W-4 ALLOWANCE ESTIMATOR

(ALWAYS get advice of a tax pro before changing your W-4.)

If you have a traditional “W-2 job” and are paid wages from an employer, you have a Form W-4 on file in your employer’s payroll office. The number of “Allowances” you wrote on this form (which you filled out on your first day of employment) tells your employer how much of your wages to withhold for taxes.

The Internal Revenue Code (IRC § 3402 and related regulations) authorizes any employee to revise his/her W-4 whenever his/her tax situation changes. The IRS does not limit the number of times a taxpayer may change his/her W-4, nor how frequently it may be changed. It does, however, **require your employer to process the revised W-4 AND to adjust the amount withheld from your wages for taxes, *effective with the very next pay period.***

**Increasing** the number of Allowances results in a **larger** paycheck!

**Decreasing** the number of Allowances results in a **smaller** paycheck!

If you actively operate a small or home-based business (even on a part time basis) with the intent to produce a profit, you may qualify for many deductions for which other taxpayers may not be eligible. Since more Deductions means paying less in taxes, you may be eligible to increase your number of allowances, putting much more of your wages into your take-home pay.

The **W-4 Allowance Estimator** on the next page will take you through a process of determining the approximate number of Allowances you could claim on your W-4.

If this number is higher or lower than the number on your current W-4, you may wish to consider submitting a revised W-4.

It is *highly recommended* that you have a Tax Professional who *specializes* in Small-Business/Home-Business Tax Law, review your worksheet and your conclusions. Ask for his/her Professional Opinion *prior to submitting* a revised W-4. It is further recommended that you perform this calculation every 90 days and make W-4 revisions whenever necessary.

Now let's see if YOUR Small-Business/Home-Business Tax Deductions will affect the number of Allowances on YOUR Form W-4...

# Estimating Your **'DIRECT' EXPENSE DEDUCTIONS**

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**A.** Estimated total **Gross Business Income** for this year: ▶ \$\_\_\_\_\_

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**B.** 1. How many **DEPENDENT CHILDREN** age 7+ will you employ? \_\_\_\_\_ children  
2. How much will you pay each child this year? \_\_\_\_\_/year  
(In 2013, the first \$6,100 is tax-free to them.)  
3. **Multiply (B1) x (B2):** \$\_\_\_\_\_

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**C.** 1. How many **BUSINESS MILES** will you drive your vehicle(s)? \_\_\_\_\_ mi./year  
2. **Multiply the above number x \$0.655/mile:** \$\_\_\_\_\_

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**D.** Will you **EMPLOY YOUR SPOUSE?** YES / NO  
If **YES**, how much does your family spend annually on **Health Costs** \$\_\_\_\_\_  
that are not reimbursed under any health insurance plan:

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**E.** 1. What is your total of your **TELEPHONE COSTS** for the year? \$\_\_\_\_\_  
2. What is your monthly rate for **1-line Basic Service only:** \$\_\_\_\_\_  
3. Multiply "**E(1) x 12 =**" \$\_\_\_\_\_  
4. Subtract line **E(3)** from **E(1)**, and **Result = Deductible Telephone Costs** \$\_\_\_\_\_

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**F.** What is estimate of all other annual **Business Operating Costs:** \$\_\_\_\_\_

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**G.** Estimate your total expenses for **Overnight Business Travel this year** \$\_\_\_\_\_  
(including travel costs for employees)

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**H.** Add '**B**' through '**G**' and record the total here ▶ ▶ \$\_\_\_\_\_

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**I.** Subtract line '**H**' from line '**A**' and Record the **RESULT:** \$\_\_\_\_\_

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**If RESULT shown on line 'I' is a "LOSS"** — i.e., line A is smaller than line H — divide line 'I' by \$3,900. The result is *Number of Allowances* you could ADD to the number on your current W-4.

**If RESULT shown on line 'I' is a "PROFIT"** — i.e., line A is larger than line H — divide line 'I' by \$3,900 and **CONTINUE BELOW ...**

If the calculation on the previous page resulted in a PROFIT on line 'I', you may ALSO claim INdirect Expense Deductions, but *ONLY up to the amount of your Profit.*

However, if your Indirect Expense deduction total is greater than your profit total, you do not "lose" the remaining deductions -- you may 'carry forward' any remaining Indirect Expense Deductions for use on any *future* Tax Return for the rest of your life.

On the next page you will calculate the value of your Indirect Expense Deductions.

## Estimating Your “INDIRECT EXPENSE” DEDUCTIONS

First, calculate the “BUSINESS-USE PERCENTAGE” of your home:

Total square-footage of the finished areas of your home? \_\_\_\_\_ sq. ft.

What is the total square-footage of all areas of your home  
used “*Regularly and Exclusively*” for business purposes? \_\_\_\_\_ sq. ft.

Bottom line divided by Top line = “Business-Use Percentage” (BUP)

**Your BUP = \_\_\_\_\_ %**

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J. Estimate your annual total cost of ALL Utilities: \$ \_\_\_\_\_

**Multiply the above number by your BUP % = \$ \_\_\_\_\_**

K. Annual Homeowner’s or Renter’s Insurance: \$ \_\_\_\_\_

**Multiply the above number by your BUP % = \$ \_\_\_\_\_**

L. Annual estimated Repair & Maintenance costs: \$ \_\_\_\_\_

**Multiply the above number by your BUP % = \$ \_\_\_\_\_**

M. If you RENT, your rent for the entire year = \$ \_\_\_\_\_

**Multiply the above number by your BUP % = \$ \_\_\_\_\_**

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**N. TOTAL of lines ‘J’ through ‘M’ =    ▶    ▶    ▶ \$ \_\_\_\_\_**

**HOW TO ESTIMATE YOUR W-4 ALLOWANCE CHANGES:**

- 1. Divide the *smaller* of line 'N' or line 'I' by \$3,900.**
- 2. Round to the nearest whole number, and Add that number to the total you filled-in on the line at the very bottom of page 177.**
- 3. The total of those two numbers represents the additional Allowances you could add to the number on your current W-4.**

**BUT CONSULT WITH A TAX PRO FIRST!**