

Refund Expectation Management: 3 Reasons Your Refund Might Not Be As Big As You're Expecting

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Everyone tells you not to plan on having a tax refund. If you're living paycheck-to-paycheck, though, you know where every dollar is going. You might be counting on that money to give you the breathing space you need.

Even if you're a little further ahead than that, you may still have made plans for your tax refund. You might be planning to pay off a credit card from the holidays or hoping to put a down payment on a car. You might just be hoping to take a little vacation over spring break!

Whatever your plans for the money, it's a good idea to temper your expectations. Unfortunately, you can't count on the same tax refund you got last year. Here's why.

1.) Student loan garnishments

If you're behind on your student loans, you might not see much of your refund. If you don't have much of an income, it's easy to get behind and it's hard to catch up. One of the reasons lenders love these loans is that they're very difficult to get rid of. If you're in default or declare bankruptcy, those lenders are still trying to get their money.

Student loan companies know that, for people with minimal income, tax refunds are a source of a big chunk of money. Also, since it's not a regular source of income, the rules regarding garnishment are more lenient. Ordinarily, creditors are only allowed to take 15% of your

discretionary income if you have one loan, or 25% if you have multiple loans. For a tax refund, the Department of Education can instruct the IRS to apply the full amount of any tax refund you're due to the balance of your loan.

Even if you're paid off in full, it might be wise to check with your spouse. This process can also apply to your refund for his or her defaulted student loans. As far as the IRS is concerned, you're one taxpayer with one set of obligations.

This process can apply to federal student loans, federally subsidized loans and some private loans. You'll receive a notice of proposed offset from the IRS. You have 65 days from receipt of the notice to object to the offset. Deferments can be provided for up to 3 years for economic hardship and unemployment. They may be provided indefinitely for individuals seeking an advanced degree or for people with disabilities.

It's also possible the "loan" may just be a paperwork error. If you've unenrolled from classes but haven't yet received a repayment from the school, for instance, you might get your refund back with a short letter. The notice of referral will provide you instructions to request a review.

2.) You made more money

Usually, getting a raise is something to celebrate. If you got one this year, that's good news for your career future. It's less good news for your refund.

The refund is the difference between what you paid in taxes and what you ended up owing. Your taxes are withheld from your paychecks assuming they stay the same all year. If you got a raise in June, then you were effectively under-withholding for the first half of the year.

Beyond the difference in payment, you may find your raise puts you just above the threshold for credit programs. Credits like the Earned Income Tax Credit (EITC) have income eligibility requirements. If you made more money this year than you did last year, you may not qualify. The same is true for subsidized insurance premiums through the Affordable Care Act (Obamacare). If your income changed after you obtained coverage, you may have to hand back a part of that subsidy.

The EITC is fairly significant, particularly if you have kids. It may be worth your time to look for other deductions you can take to get your gross income under the threshold. Consider working with a professional tax preparer, too.

3.) You were the victim of identity theft

The past few years have seen an increase in tax returns filed fraudulently on behalf of victims of identity theft. A crook uses your Social Security number and fabricates financial information to get a hefty tax refund, then cashes the check. You're not only out your tax refund, but also may be facing criminal charges for the phony info on "your" return.

With cuts to the IRS budget this year, its enforcement and investigation of these crimes has dropped. You should contact the IRS immediately if you receive notice that more than one tax return was filed using your Social Security number or if you are issued a W-2 (an income statement report from your employer) by an employer you don't recognize. These are red flags that someone is fraudulently using your identity.

The FTC recommends you contact the IRS's Specialized Protection Unit at 1-800-908-4490. You should also prepare proof of your identity, like a copy of your drivers' license, Social Security card, or passport. The IRS has a form, IRS ID Theft Affidavit Form 14039, that will start the investigative process. Recovering from this crime will take time, but you will get the refund you're due.

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