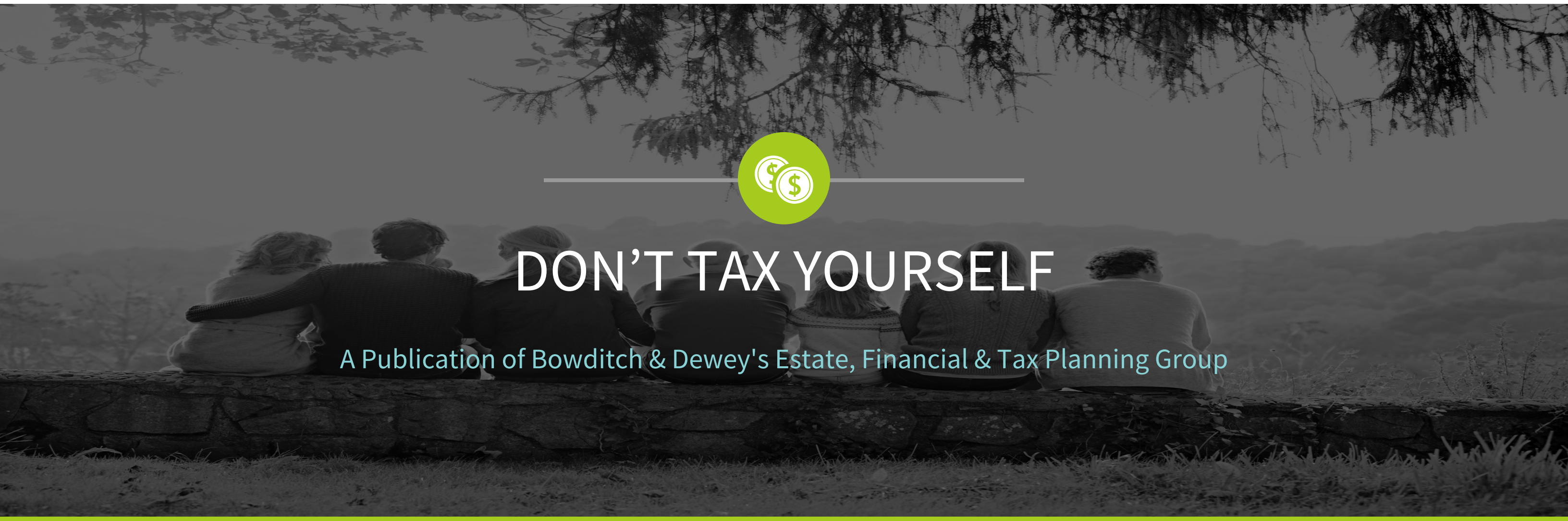

DON’T TAX YOURSELF

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Tax Tips for New College Graduates

BY DAJANA STAJKO • JUNE 21, 2023

As new college graduates cross the stage to receive their diplomas, many will also be heading to their first full-time jobs. There are some tax tips new graduates can implement early on that will help with savings in the long run.

TAX WITHHOLDING AND FORM W-4

One of the first forms a new employee will be asked to complete is Form W-4, Employees Withholding Certificate. The answers on this form will determine how much federal income tax is withheld from the employee’s check each pay period.

Many recent graduates are accustomed to receiving tax refunds because, if they have been working part-time during the academic year, their incomes may have been under the standard deduction amount. As a new member of the full-time workforce, they are likely to be receiving a bump in income over the standard deduction amount, and it may come as an unwelcomed surprise when they do not receive their usual refund after their first year of full-time employment. As we discussed last fall, the W-4 form is designed to closely align with a taxpayer’s expected tax liability. If a taxpayer would like to continue to receive a tax refund, the taxpayer may want to consider having an additional amount of federal tax withheld each pay period by indicating the amount on Line 4(c).

GIG/PART-TIME WORK

If the recent grad worked part-time during the last semester of school or picked up work in the “gig” economy, it might make sense to have additional tax withheld with the full-time employer to cover any tax liability associated with part-time work in which little income tax was withheld, or to cover “gig” economy income in which no tax was withheld.

STUDENT LOAN INTEREST

Once the repayment of student loans begins, the new graduate may be eligible for a deduction of up to $2,500 for any student loan interest paid. There are, however, income limitations on that deduction.

FLEXIBLE SPENDING ACCOUNTS (FSA)

FSAs are a great way for new graduates to tuck money aside for out-of-pocket healthcare costs such as copays and deductibles. In addition to having funds set aside to pay these expenses, the new grad will save taxes as well, since contributions are not subject to payroll tax withholdings.

401(K)- TRADITIONAL OR ROTH

A 401(k) is a great way to save for retirement, and new grads should strongly consider enrolling in their employer's 401(k) if one is offered. Contributions to a traditional 401(k) are made with pre-tax dollars (meaning the employee does not pay taxes on their contributions; taxes are only owed when money is withdrawn), whereas contributions to a Roth are made with after-tax dollars, but withdrawals (and all the earnings) are received tax-free if the distributions are "qualified distributions." Both are good options, and it always makes sense to take advantage of an employer match to your retirement plan contributions, if offered.

New college grads should consider these important tax tips to help them boost their savings.