

AI-00778 Tax Refund Zero

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Explain why a small IRS tax refund is better vs a large one .

A small tax refund from the IRS might actually be a good thing for your finances, here's why:

- **It means you weren't giving the government an interest-free loan:** A large refund signifies you overpaid in taxes throughout the year. The government essentially held onto your money without giving you any interest.
- **More money in your paycheck:** By adjusting your tax withholding (W-4 form), you can keep more money in each paycheck. This allows you to better manage your cash flow throughout the year.
- **Financial discipline:** A smaller refund encourages you to be mindful of your taxes throughout the year. You might be more likely to save or invest that extra money in your paycheck rather than waiting for a lump sum refund.

However, there are exceptions:

- **Refundable tax credits:** If you qualify for refundable tax credits, like the Earned Income Tax Credit, a larger refund might be beneficial. These credits directly reduce your tax liability and can result in a larger refund.

Ultimately, aiming for a smaller refund (ideally close to \$0) is financially advantageous. This doesn't necessarily mean you'll owe taxes, just that you've withheld the correct amount throughout the year.

For more information you can search for "what is the average tax refund"

<https://www.cnbc.com/2024/02/12/the-average-tax-refund-is-almost-29percent-lower-this-tax-season-irs-reports.html>.