Coach's Corner

Our latest commentary to help you elevate the success of your practice

After-Tax Advisor

What to Do When Tax Bills Catch Clients by Surprise

By: Eaton Vance | May 1, 2024

Have you ever met a client who feels undertaxed? No? Neither have we. Paying a tax bill can be even more painful when the amount is larger than expected. Even carefully calculated withholding amounts can be insufficient if clients receive supplemental wage income, investment income or other payments during the year.

Tax season is an opportunity to ask clients if their bill took them by surprise. You can then go deeper by asking these follow-up questions:

- **Do you owe more than you've already paid?** This could mean you're paying penalties and interest as well.
- **Are you getting a large and unexpected refund?** While it's nice to get a refund it's money that could have been working for the client, instead of the IRS, all year.
- **Would you like to discuss ways to avoid a tax surprise next year?** Advanced planning is the key to avoiding surprises.

It's important to diagnose the cause of an unpleasant tax surprise quickly—while it's top of mind for clients—and initiate corrective action. This may be the last thing clients want to do, but addressing tax problems quickly makes a satisfying outcome more likely.

Here are some suggested actions:

- Involve your clients' accountants in preventing a recurrence of tax surprises.
- Discuss quarterly estimated tax payments with their accountants to correct underpayment of taxes and the potential resulting penalties.
- Review withholding elections to determine if withholding an additional dollar amount from each paycheck would close any underpayment gap.
- Help clients who receive large refunds year after year understand that they're making interest-free loans to the government. They may want to consider reducing their withholding.
- Determine if the tax surprise was the result of an isolated event, such as a large exercise of incentive stock options.

Bottom Line: Be an After-Tax Advisor by initiating advanced planning strategies that help clients avoid future tax bill surprises.

Related Content

FLYER: TF365 Monthly Planner

Eaton Vance
Advisor Institute

"It's important to diagnose the cause of an unpleasant tax surprise quickly—while it's top of mind for clients—and initiate corrective action."