

Tax Notes

What Clients Need to Know About New 2018 Withholding Rates

By Ann P. Buscaglia, CPA, Partner and Julie De Los Angeles, CPA, Manager

Are you dreaming of ways to spend your 2018 federal tax refund? You just might have to scale back those plans as your refund might not be as big as you're use to – in fact you might owe money!

According to a recent report from the Government Accountability Office (GAO), more than 4.5 million taxpayers will owe money with their return in April 2019. This is the result of the various law changes mandated by the Tax Cuts and Jobs Act (TCJA) — most notably the elimination of many itemized deductions.

New Withholding Rates vs Allowable Itemized Deductions

Earlier this year, the IRS adjusted their withholding rates to reflect the lower tax rates in the new tax act. Those new rates were applied using the same amount of allowances a taxpayer had previously reported on their W-4. Prior to the TCJA taking effect, many taxpayers had inflated the number of allowances to reduce the amount of their withholding. Generally, this was done because the taxpayer had itemized deductions to offset their taxable income.

The problem is that many taxpayers will not have that same level of itemized deductions in 2018. The well-publicized \$10,000 limit of state and local taxes will affect many taxpayers, especially in high tax states such as New York, New Jersey and Connecticut. Add to that mortgage interest limitations, the elimination of the deduction for job-related expenses, and the elimination of personal exemptions, most taxpayers will have substantially lower itemized deductions.

2018 Standard Deduction and Likely Affected Taxpayers

Many taxpayers, in fact, will take advantage of the increased standard deduction for 2018. The standard deduction in 2018 is \$24,000 for married filing jointly, which is up from \$13,000 in 2017, and \$12,000 for single which is up from \$6,500.

In their report, the GOA specifically identified married taxpayers with two children under age 17 with earned income over \$180,000 and unearned income of \$20,000 as being highly likely to have to pay additional tax in 2018 due to under-withholding.

It is important to note that wage earners are not the only taxpayers affected by the change in withholding. Retirees are also at risk if they have elected to have tax withheld from their pension and IRA payouts and have previously itemized their deductions.

Act Now

It's not time to panic – it is time to act. The IRS has launched an awareness campaign urging all taxpayers to check their withholding to head off a higher tax bill when they file their return in April. We could not

agree more. We strongly encourage clients to have projections done **now** so that there are no surprises when their return is filed.

Contact Us

With a couple of questions and a recent paystub, we are available to analyze your withholding to date and advise you on steps to take now to potentially reduce your balance due in April 2019 and in future years. If you have any questions regarding withholding in general or any other tax matter, contact the individuals listed below or another member of your client service team at PKF O'Connor Davies.

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