



Not a Lot of Runway Left, But a Paycheck Check-Up Now May Help You Have a Gentler Tax Landing

By Tom Bassett, J.D., CPA, AEP

As head of Commerce Trust Company's East Region Tax Group, Tom Bassett, J.D., CPA, AEP, shares his perspective on strategies that could help clients better prepare for the impact of the new tax reform provisions signed into law late last year.



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Generally speaking, one goal of the new federal tax law reform provisions was to reduce the tax liability for the middle class, yet there will still be some potential winners and losers within this segment of the taxpaying public.

And the Internal Revenue Service (IRS) has been hastily sending up signal flares to help. IRS bulletins are encouraging just about anyone earning a paycheck, particularly taxpayers with children or other family dependents, to verify as soon as possible if their company payroll withholding is in sync with the new requirements of the Tax Cuts and Jobs Act.

Why will withholding levels matter so much this tax year? IRS withholding tables have been adjusted to reflect the new lower rates, which in turn determine the amounts of money routinely taken by the government from your paycheck.





The adjusted tables are used to calculate federal withholding tax on all regular wages by applying your Form W-4 elections currently on file with your employer.

Withholding calculators with the new formula abound – the IRS website (Withholding Calculator on IRS.gov) and company websites of large employers across the United States have them for those who wish to run estimates. Let's say, for example, that one of these calculators indicates you are under-withholding payroll taxes by \$3,000 for 2018. If you are paid twice per month, that's a \$500



per pay period withholding deficit you have to make up between now and the end of the year. This could be a stretch for some families, but making an adjustment of some kind may soften the blow if you act quickly to change your W-4 elections. If you don't increase your withholding, you could find you owe a penalty for failure to make estimated tax payments when you file your return next year.

In broad terms, families with younger children are expected to benefit from tax reform as the changes to the Child Tax Credit outweigh the personal exemption deductions you used to receive for qualified dependents. On the other hand, families with older teenagers or children in their early 20s will find they've lost those exemption deductions but don't qualify for the Child Tax Credit, so they may find that withholding levels from previous years may leave you with an unanticipated tax bill come April 15.

Rug rats are in, elderly teens not so much. A child must be under 17 for parents wanting to avail themselves of the Child Tax Credit. Bonus for 2018: The Child Tax Credit is being doubled. Married taxpayers with one child, for example, can claim a \$2,000 tax credit. Two children get you \$4,000, and so on.

And while we're we are here, let's take this moment to review the difference between a tax credit and a tax deduction. While a deduction reduces the amount of your income that is subject to tax (providing a benefit that depends on your marginal tax rate), a credit reduces your tax bill dollar-for-dollar. If you owe the IRS \$6,000 for the year, and have a \$2,000 tax credit, your tax bill drops to \$4,000. So, a credit is always generally more valuable than a deduction of a similar amount.

The danger zone: Some taxpayers with older children lost their deduction for personal



exemptions and their kids aren't eligible for the Child Tax Credit. They are no longer getting that deduction for older teens that are heading toward college age, and as a result taxes for that group are going to go up.

Finally, families with children are not the only demographic that should be doing a paycheck check-up. Retirees should also be checking withholding calculators to make sure they are paying enough tax during the year on pensions, annuities, IRA distributions, and the like. The Tax Cuts and Jobs Act changed the way tax is calculated for most taxpayers, including retirees. Because of this law change, retirees who receive a monthly pension or annuity check may need to raise or lower the amount of tax they pay in during the year.¹

Doing a check-up ASAP will help taxpayers determine if they need to adjust their withholding





or make estimated tax payments. The earlier they do this, the better, because the earlier someone runs the numbers, the more time there is for withholding to take place evenly during the rest of the year. Waiting until later in the year means there are fewer pay periods to make the tax changes.

The Government Accountability Office (GAO) recently warned that more than 4.5 million taxpayers will come up short next April, unless they act now to adjust their withholding. Your Commerce Trust advisor will be glad to walk you through the steps if you need assistance.



CHILD TAX CREDIT

- The maximum child tax credit increased from \$1,000 to \$2,000 per qualifying child.
- For 2017, the tax credit phased out for couples, starting at \$110,000 of taxable income, and for singles, starting at \$75,000 of taxable income.
- For 2018, those limits are now \$400,000 (couples) and \$200,000 (single taxpayers).
 - Taxpayers whose income was too high to benefit from the Child Tax Credit in prior years may now find they qualify.

PERSONAL EXEMPTION

- The 2017 tax law removes the personal exemption deduction that taxpayers formerly claimed for themselves, their spouse and dependents.

DEMOGRAPHIC OF THOSE MOST LIKELY TO HAVE A TAX 'SURPRISE'

- Married taxpayers who itemize deductions and have two or more children
- Combined income exceeds \$180,000 from one or more jobs
- \$20,000 or more in nonwage income (dividends, interest or capital gains)

How Would You Rate This Article?



¹ IRS Issue Number: Tax Reform Tax Tip 2018-143. #IRSTaxTip: Retirees with pension income should do a Paycheck Checkup ASAP. <https://go.usa.gov/xPxs5>

*Always consult with your CPA and professional advisor on matters involving income taxes.

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Tom has managed the East region tax team for Commerce Trust Company since joining in 2012. He is responsible for the services his department provides to clients of Commerce Trust in the St. Louis, Springfield, Belleville, Peoria, and Bloomington offices. In addition to tax planning and consulting services to that client base, his group annually prepares more than 120 returns for charitable trusts and private foundations and more than 350 returns for individual, estate, gift, trust, and partnership clients of Commerce Trust. Tom also co-manages Commerce Trust's annual tax return preparation process, including reviewing and maintaining Commerce Trust's accounting system and the integration of this system with the organization's external vendor. Tom attended Washington University in St. Louis, earning two bachelor of arts degrees in physics and psychology, a juris doctorate, a master of business administration, and a master of science in business administration. He is a member of the Missouri Society of Certified Public Accountants, the American Institute of Certified Public Accountants, the Missouri Bar Association, The Bar Association of Metropolitan St. Louis, the American Association of Attorney-Certified Public Accountants, and the Estate Planning Council of St. Louis. Tom has chaired the audit, investment, and budget subcommittees of the Finance Committee of The Bar Association of Metropolitan St. Louis for several years.



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