

# TAX REFORM EFFECTS

## SMALLER TAX REFUNDS REPORTED

Tax season has begun, and preliminary reports show that the average refund is down about 8% from the same time last year, from \$2,035 to \$1,864, causing speculation that consumer spending may be hurt due to refund reductions. At the time of the report, approximately 16 million returns had been filed and 13 million were processed. During the 2017 tax season, nearly 152 million returns were processed, and some argue that the small sample size so far this year may skew the data and not be a true indicator of the overall population. The Internal Revenue Service provides filing season statistics every year, which will be needed to see whether these preliminary reports prove to be true. In the meantime, what might cause this change in dynamics?

### Why the Smaller Refund?

If in the end, it turns out that the average refund is 10–20% less than last year, here are some potential reasons why. The Tax Reform and Jobs Act of 2017 brought about some changes that may result in smaller refunds for some people. These changes include the following:

- ❖ **Personal Exemption:** In 2017, filers were allowed a Personal Exemption of \$4,100, which reduced taxable income by this amount. This exemption is no longer permitted in 2018.
- ❖ **Limits on State and Property Tax Deductions:** In years past, filers were able to deduct state, local and property taxes. Now these deductions are capped at \$10,000, which means that people who typically pay more than that on these taxes will not be able to deduct any amount above \$10,000.

We discussed these changes and how they may affect strategies for charitable giving in the following article, released in 12/2018: [Donor-advised Funds: A New Strategy for Giving](#)

- ❖ **Reduced Withholding:** The IRS adjusted their withholding tables in February of 2018. At that time, many Americans began taking home more pay. Naturally, the result is that less of their pay needs to be refunded during tax season; however, some filers may find they were not deducting enough. If this was the case, the affected filers may receive a tax bill rather than a tax refund.

In fact, at the time the IRS announced the new withholding tables, they also encouraged employees to “check their paychecks to ensure they’re having the right amount of tax withheld for their personal situation.” To aid them in doing so, the IRS released an online Withholding Calculator. For more information, please see our article, released in 3/2018: [IRS Releases New W-4 and Recommends “Paycheck Checkup”](#)

## Is there a Chance of a Larger Refund?

Filers who have simple returns using the standard deduction—rather than itemizing—may find their refund is higher than last year. In 2017, the standard deduction for individuals was \$6,350, which is now \$12,000 for the 2018 tax year. The standard deduction for married couples was \$12,700 in 2017 and is now \$24,000 in 2018.

## For More Information

If you have questions about filing your taxes this year, we recommend you contact your CPA or tax advisor, who will be able to provide guidance and feedback.

For more information or assistance from our team, please contact us at **210-495-8474**, toll-free at **1-888-757-2104**, or **Info@BFGonline.com**.



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