TCJA Series
Wait a minute, where are my deductions for dependents? The effects on the family taxpayer, of changes under TCJA.

Atkinson, NH: January, 2019

Introduction reprinted from my October article on same topic

The Tax Cuts and Jobs Act, affectionately known as TCJA, has been one of the most controversial and sweeping tax laws in the recent past. The objectives of the Act, as stated, was to provide tax reductions for American middle and lower income taxpayers, provide relief for corporations in an effort to attract business back to the United States and a simplification of the tax system.

Effects of the Act are estimated to cost on the order of 1.5 trillion dollars over the next ten years. This is expected by its lawmakers, to be recouped by a resurgence of the economy and additional jobs, resulting in more tax revenues from higher business volume and taxpayer incomes. There are many parts to the legislation, and the IRS is still sorting out regulations.

The most significant elements of the Act to taxpayers has been:

1. Reduction in tax rates in most **individual brackets**, and other changes in preparing taxes
2. Elimination of **Exemptions**, and increases in the **Standard Deduction** and **Child Tax Credits**
3. A 'pass-through' income exemption for **self-employed individuals** and those participating in partnerships and Subchapter S Corporations.
4. An elimination of the **Alternative Minimum Tax** for corporations, and fewer individual tax returns will see AMT in the future.

This article will explore the impacts in the area of dependent exemptions, and credits now available.

Deductions versus Credits

Previously, families were allowed to identify the taxpayer, spouse and children who were qualified (generally up to age 19 or a full time student to 24) as members of the household. The taxpayers were given a reduction in taxable income, called P*ersonal Exemption,* of $4,050 in 2017. This amount were indexed to inflation, and would likely have gone to $4,100 for 2018. For a taxpayer in the 25% tax bracket, these reductions would be worth more than $4,000 in taxes for a family of four.

In addition, taxpayers were allowed to deduct from taxable income, certain specific expenses known as Itemized Deductions. As an alternative to itemized deductions, the taxpayer was allowed a set Standard Deduction amount. This amount was $12,700 for a couple filing jointly in 2017. The taxpayer could deduct the higher of total itemized deductions, or the standard deduction.

In addition, there was a *Child Tax Credit* (CTC) which equated to a direct reduction in tax of up to $1,000 per child under the age 17, for taxpayers under certain low to moderate taxable income thresholds. So, a deduction is a reduction of taxable income, which results in a reduction of tax at whatever rate category your income falls into. A credit, is a direct reduction in the tax itself.

Tax Act changes to Exemptions and Credits

There were three significant changes under TCJA impacting family taxpayers. First, a provision of the tax act **eliminated the Personal Exemptions**. Second, the **standard deduction** has been **increased** (roughly doubled) to $24,000 for a couple in 2018.

To offset the loss of the exemptions, the third significant change affecting average taxpayer families, is an increase in the Child Tax Credit. The previous credit of $1,000 was increased to $2,000, and the group this was intended to benefit previously was significantly expanded. This was done by elevating the threshold levels of taxable income, above which the credit was phased out. In 2017, a family would start to suffer a loss of credit at taxable income of $110,000, until it was entirely lost at $130,000. In 2018 this “phaseout range” begins at $400,000, thereby benefiting a far larger slice of the family taxpayer population. Most people will now qualify (roughly 99% of families earn less than $400,000 according to published statistics).

The net result for your situation

Obviously, not everyone is a three-member family. There a number of considerations, when trying to figure out the impact to your situation:

1. How many and how old are dependent children? Dependents up to 17, likely qualify for the $2,000 CTC, however students aged between 16 and 23, may still qualify for credit, but only $500. Others who qualified as non-children dependents in the past, will also be eligible only for the lower credit.
2. If your child has a part time job, they will not pay federal taxes if they earn less than $12,000. In the past, this benchmark was $6,350. This does not mean however that they are automatically your child qualifying for CTC.
3. Guidance is still sketchy for defining who is a dependent, eligible for CTC. Taxpayers need to be particularly careful when claiming a CTC for their child, even if they are a full-time student. You must have provided more than half of their financial support.

Once again, “it all depends.” The long and short of it, there is no easy answer to what your situation will likely be. All I can suggest is that you get your tax information together early, and visit a qualified tax preparer who can explain this differences in your final result. If you just want to get your taxes done, and don’t care to understand how things changed, buy a tax program.

Ed Carter, is a Certified Public Accountant, and tax advisor and preparer serving southern NH. Find out more at edcartercpa.com.