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Finance for Parents

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Tax Season 2019: How Things Have Changed for Parents

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Between birthday parties and baseball games, it's easy to see how tax season can sneak up on parents.

If you've been putting off your taxes, you're in good company. Compared to this time of year in 2018, more than 1.5 million fewer taxpayers have filed their taxes so far, according to the IRS.

But it's important to get started, stat. If nothing else, you might notice that the process is a bit different than in years past.

changes to tax law in decades. The new rules went into effect for the tax year 2018, which means that 2019 is the first tax-filing season in which you'll see the changes.

However, one study found that more than half of Americans are unfamiliar with some of the biggest changes.

Here's a rundown of what parents can expect when filing taxes this year.

For Tax Season 2019, You'll Probably Pay Fewer Taxes in Total...

There are still seven income tax brackets under the new tax laws for 2018, but the income level at which a taxpayer gets bumped into the next bracket has mostly gone up.

Plus, the top tax rate has come down to 37% from 39.6%. The result: A lower total tax burden for eight in 10 taxpayers, according to analysis by the Tax Policy Center. The average taxpayer should owe $1,600 less to the federal government this year compared to last.

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… But You May Not See a Bigger Refund

Even if you're paying less in taxes this year, your withholdings at work may not reflect all of the tax changes. Depending on the allowances and withholding elections you've claimed on your W-4 at work, you could find yourself getting a smaller refund this year—or even owing Uncle Sam because enough money wasn't taken out of your paycheck for taxes each month.

"Many people were getting more money throughout the year, but they didn't notice the few extra bucks in their paycheck," says Eve Davis, a Portland, Oregon-based enrolled agent. "But they notice it in the smaller refund."

While the average refund is down just slightly this year, 80% of taxpayers are still getting a refund for an average of more than $2,900.

If you do end up owing money this year, there's still time to help ensure that it doesn't happen again next year (and to budget for it in the future so you aren't taken unawares). Use this calculator to figure out how much you should be withholding from your paycheck, and update your W-4 at work to reflect the correct amount.

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New Tax Laws for 2018 Say You'll No Longer Get Dependent Exemptions…

While the tax law has some benefits for parents, it also eliminated incredibly valuable tax exemptions for dependents.

Under the previous law, you could claim a $4,050 tax exemption for yourself, one for your spouse and one for each of your dependent children. The new tax law did away entirely with these exemptions, which acted as deductions on your tax return.

… But You Might Get a Child Tax Credit

Despite the dependent exemptions going away, more parents now have access to the Child Tax Credit under the new law, thanks to higher income limits. The credit has also doubled in value to up to $2,000 per qualifying child age 16 or younger.

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Lewis, a CPA with TurboTax. Up to $1,400 of the tax credit is refundable, per child, which means that even taxpayers who don't owe taxes could get a refund.

The credit begins to phase out at a taxable income of $200,000 for individuals and $400,000 for married couples filing jointly. Those are up from $75,000 and $110,000, respectively, in 2017.

You Might Also Get a Credit for Other Dependents

You may also be able to get a tax benefit for dependents in your home who don't qualify for the child tax credit. That might include children age 17 and older (who previously qualified for an exemption), as well as other relatives you support.

Non-relatives might qualify as well, if they live with you, rely on you financially and have a gross income of less than $4,150.

Under the new law, you might receive a credit of up to $500 per dependent of this sort.

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Itemize

The standard deduction nearly doubled under the new tax law, up from $12,700 to $24,000 for married couples filing jointly. It went from $6,250 to $12,000 for individuals. So, in the past you might've given enough to charity to exceed that standard amount—but now you might not cross the threshold.

"The single biggest change that's affecting most taxpayers is the increase in the standard deduction," says Jeff Warnkin, a certified financial planner and CPA with JL Smith Group in Avon, Ohio.

Those higher deductions mean that it will make sense for about 90% of taxpayers to take the standardized deduction, rather than itemize their taxes. That's up from 70% last year, according to TurboTax.

Many states haven't raised their standard deduction levels, though, so you may still have to keep track of potential deductions for your state taxes.

Some Homeowners Will See Lower Tax Breaks

Families who do itemize may see some big changes on deductions related to homeownership.

years. (Taxpayers with existing mortgage can continue to deduct interest on loans up to $1 million.)

Interest on home equity loans remains deductible, but only if you use your HELOC to buy, build or improve your home. So, you can deduct the interest on the HELOC you used to build a nursery, but not if you used the funds for your babymoon.

There Are Limits on State and Local Tax Deductions

There's also a new $10,000 cap on the amount of state and local taxes that taxpayers can write off on their federal taxes. This will have the largest impact on people who own property in areas with high local and state taxes, such as New York City.

In the end, a lot has changed about tax season in 2019 (well, April 2019, that is, when you're filing your 2018 taxes). But one thing remains constant: Nothing good comes from procrastinating on getting those taxes done.

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Tax season is a great excuse to get organized. Connect your accounts so your partner knows where to find everything, just in case.

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