H&R Block analysis: virtually all taxpayers affected by tax reform

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Homeowners, high-tax state residents and families face most significant changes

KANSAS CITY, Mo., Dec. 20, 2017 (GLOBE NEWSWIRE) -- With passage in both chambers of Congress of the Tax Cuts and Jobs Act (TCJA) and with the president expected to sign the legislation, H&R Block (NYSE:HRB) advises taxpayers that while many of the changes will not affect individual taxpayers' tax liability until they file their 2018 tax return in 2019, all taxpayers will be impacted beginning January 1, 2018 including changes to their paychecks in early 2018. These changes could reduce or increase income taxes owed for 2018 and beyond. Homeowners, high-tax state residents and families are among those impacted the most.

"Tax reform is not just a tax rate change or a bigger child tax benefit than you've had before. It's going to change the way you think about and plan your income taxes. You'll need to take a fresh look at your individual situation to know your outcome and new strategies to use to get the best tax outcome," said Kathy Pickering, vice president of regulatory affairs and executive director of The Tax Institute at H&R Block. "Whether you prepare your own taxes or get assistance, this is the perfect time to talk with a tax professional to get help understanding how your situation may be affected by the new legislation and any adjustments you may need to make to get your best tax outcome in the future."

New tax brackets, rates and loss of exemptions impact most taxpayers

The new tax bracket and tax rate structure will impact most taxpayers. Except for the lowest rate bracket, the rates are slightly lower and the brackets are generally slightly broader. The changes to the tax brackets will affect how much tax to pay for 2018 and could change a taxpayer's paychecks starting in early 2018.

"The good news is that the changes to the tax brackets means most taxpayers will pay less tax," said Pickering. "And the reality is, the tax filing experience will feel familiar: you'll still gather all your tax and financial documents, calculate if you should itemize or take the standard deduction, determine if you can take advantage of some of the new changes and prepare your tax return."

Similarly, the elimination of a more than $4,000 benefit in 2018 for each taxpayer, spouse and qualifying child or relative will affect most taxpayers. This benefit, the personal and dependent exemptions, reduces income. Without it, more of a taxpayer's income is subject to taxation. For example, in 2017 a married couple would have to pay taxes on more than $8,000 of their income they previously wouldn't have. If they have a tax rate of 15 percent in 2017, they would pay almost $1,000 in additional taxes.

Those who itemize will have fewer expenses to deduct and a higher standard to cross

The almost doubled standard deduction for individuals to $12,000 and to $24,000 for married taxpayers filing jointly could offset the loss of personal exemptions. Those who usually itemize deductions, including homeowners and residents of high-tax states, might no longer find it beneficial if the standard deduction is now larger than the expenses they can itemize.

"One of the few income tax planning actions you can take before the end of this year is to pay as many of your 2018 expenses in 2017 as possible, like state property taxes, charitable donations or medical expenses," said Pickering. "If your deductible expenses next year are less than the almost doubled standard deduction, it is better to add those expenses to your 2017 itemized deductions."

The new legislation limits mortgage interest deductions to the interest paid on a maximum of $750,000 mortgage taken out after December 14, 2017, and eliminates the home equity mortgage interest deduction. Taxpayers with a mortgage taken out before December 15, 2017 can continue to claim interest on up to $1 million of mortgage debt. At the same time, it limits real estate, property and state and local tax deductions to a combined maximum of $10,000. While this will likely impact many homeowners and residents of high-tax states, other taxpayers will also be affected, including those who have employee business expenses, casualty and theft losses and gambling-related expenses.

Changes to child-related tax benefits impact families

Also, families will be affected by the loss of the personal exemption of more than $4,000 per person. However, taxpayers whose income falls under $400,000 if married filing a joint return and $200,000 otherwise, will receive an increased child tax credit of up to $2,000 for every qualifying child. Families with dependents over the age of 17 may also qualify for a new family tax credit of $500 per dependent that does not qualify for the child tax credit. The increased child tax credit, new family tax credit, along with the larger standard deduction, may or may not make up for the loss of the personal and dependent exemptions. For larger families and families that previously itemized, the impact of the elimination of the personal exemption will be magnified.

"There are many variables in this legislation that make it difficult for families to know if they will come out ahead or not," said Pickering. "But it's not enough to know if you'll pay more or less taxes. You might pay less, but still have significant changes to your taxes that mean, for example, you won't get a tax benefit for moving for a new job. A tax professional can forecast and explain your impact and develop new strategies so you can maximize your income tax benefits."

Additional resources on the impact of tax legislation include *How the Tax Cuts and Jobs Act impacts U.S. tax returns* and five taxpayer scenarios developed by The Tax Institute.

To learn more about the tax legislation's impact on their situation, taxpayers can schedule an appointment online at one of H&R Block's 10,000 offices or by calling 1-800-HRBLOCK.

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