H&R Block data shows taxes down 25 percent due to TCJA impact

April 11, 2019

Tax benefit of tax reform shows up in paychecks rather than refunds, showing importance of W-4 help

KANSAS CITY, Mo., April 11, 2019 (GLOBE NEWSWIRE) -- H&R Block (NYSE:HRB) data through March 31, 2019 shows the size of its clients' tax refunds is up 1.4 percent under the first year of tax reform and new withholding tables, while overall tax liability is down 24.9 percent on average. This gap in outcomes has contributed to a confusing tax experience for anyone seeking to understand how the largest change to the tax code in 30 years, the Tax Cuts and Jobs Act (TCJA), impacts them. That's because while the average tax filer is better off, they've received a small amount of that benefit in their tax refund, which many people think of as their "bottom line." This creates an illusion about the real impact of tax reform, and unless taxpayers act, it will be amplified on the 2019 tax return they file next year.

Even though 13 states, including D.C., saw their average refund decrease, all 50 states and D.C. saw their average tax liability decrease anywhere from 18.0 percent to 29.1 percent. Source: H&R Block data through March 31, 2019

Even though 13 states, including D.C., saw their average refund decrease, all 50 states and D.C. saw their average tax liability decrease anywhere from 18.0 percent to 29.1 percent. Source: H&R Block data through March 31, 2019.

Even though 13 states, including D.C., saw their average refund decrease, all 50 states and D.C. saw their average tax liability decrease anywhere from 18.0 percent to 29.1 percent. Source: H&R Block data through March 31, 2019.

“Tax reform represented the largest change to the tax code in 30 years, and on top of that, the IRS changed withholding tables in February 2018, automatically adjusting take-home pay,” said Kathy Pickering, executive director of The Tax Institute and vice president of regulatory affairs at H&R Block. “All these moving pieces have made it hard for people to understand the TCJA impact on their individual situation. Relying on their refund size to determine what tax reform means to them may not only be misleading, but can also put them further at risk of not getting the tax outcome they want when they file next year. Instead, people can get W-4 help from H&R Block in person and online for the refund outcome they want next year.”

Taxes down 25 percent, but refunds roughly flat, so where did the money go?

Given the 24.9 percent decrease in tax liability for H&R Block clients, taxpayers want to know where that money went. Survey analysis from H&R Block uncovers an issue: Nearly 80 percent of Americans did not update their W-4 last year, resulting in a bump in their paychecks throughout the year, sometimes more than their taxes decreased. Now, H&R Block data reveals just how much the TCJA impacted taxpayers’ paychecks.

With tax liability down nearly $1,200 on average, but refunds up just $43, an average of $1,156 went into paychecks during the year, or about $50 a biweekly paycheck starting in March of 2018. The impact of the withholding changes will be amplified in 2019 because they will be in effect all 12 months of the year.

“We’ve been encouraging people to update their withholding since February of last year, so that they can balance the benefits of tax reform the way they want. For some, that’s getting it all in a larger tax refund, for others it’s getting it in their paychecks, spread out throughout the year,” said Pickering. “This is especially important for anyone who lost some tax benefits, like if they have more than $10,000 in state and local taxes, large amounts of unreimbursed employee business expenses, or any life changes.”

When tax liability change outpaces refund change

Not only does the H&R Block data show just how much the TCJA impact showed up in paychecks versus refunds, but it also shows which taxpayers experienced the biggest discrepancy between those two parts of their tax equation. Of the examined groups, it was those who itemized in both 2017 and 2018 who had their paychecks and refunds mismatch the most. Although their tax dropped on average 36.6 percent, instead of going up, their refunds actually dropped 22.7 percent, making theirs the most dissonant TCJA impact experience. They received about $50 more in each paycheck than would be needed, if they wanted to keep their refund roughly the same size.

“It’s reasonable to assume that a tax cut would mean your refund will increase, but that’s not necessarily the case,” said Pickering. “The IRS updated how employers calculate how much tax to withhold from paychecks, which means you could have been getting all your tax cut – and then some – in your paychecks.”

This was also the case for homeowners who deducted their mortgage interest in both years. Their refunds dropped an average of 11.8 percent. But their tax liability also dropped on average by 28.3 percent. The benefit of lower overall taxes showed up in their paycheck instead of their refund.

On the other hand, taxpayers with adjusted gross income of less than $25,000 had their TCJA impact on their paychecks and their refunds most closely align. Their tax liability dropped 12 percent on average, and their refunds increased 5.4 percent on average, so the remainder of their tax benefit went to their paychecks.

The group with the largest refund increase were those who took the standard deduction in 2017 and 2018; their refunds increased 6 percent on average.

"Either surprise – getting a larger or smaller refund than expected – can be a problem when you've been planning for and expecting something different," said Pickering. "If you're not happy with your refund, the important thing is to update your withholding so the same thing doesn't happen to you again next year."

State outcomes depend more on personal situation than geographic location

People living or working in states with high taxes or high property values have been particularly concerned about the impact of tax reform's $10,000 cap on the state and local tax (SALT) deduction. For 2016, 44.8 million taxpayers claimed $566 billion in SALT deductions, or more than $12,600 on average. Many residents of high-tax states or with high-value property pay much more than $10,000 in state and local taxes.

North Dakota saw the largest increase in average refund of 6.7 percent while Washington, D.C., saw the largest drop at 6.1 percent. However, when looking at average tax liability, New Jersey had the largest drop of 29.1 percent on average, while Washington, D.C., saw the smallest decrease of 18 percent. Even though 13 states, including D.C., saw their average refund decrease, all 50 states and D.C. saw their average tax liability decrease anywhere from 18.0 percent to 29.1 percent.

TCJA impact on 2019 tax refunds set to be even more extreme

The refund trends from this year are set to be magnified for the 2019 tax year because the paycheck withholding calculations are in effect all year. Failing to update a W-4 could mean that someone who had a refund drop this year could see their refund drop by even more next year: on average $200 more.

H&R Block tax professionals provide W-4 planning for their clients when they file their 2018 tax returns. Because a W-4 form requires a lot of the same information that goes on a tax return, and because updating a W-4 at the start of the year stretches out the changes over a longer period, tax season is an opportune time to update a W-4.

People can also get help understanding their TCJA impact with a tax professional face-to-face in an office, virtually through Tax Pro Go, or online with Ask a Tax Pro. Or they can learn more through H&R Block's tax reform resource online or in the DIY online help center, found throughout the DIY online product.

H&R Block analyzed federal tax returns for prior H&R Block clients completed through March 31, 2019 in its offices and online, which shows how refunds and tax liability have changed for individuals rather than overall. The H&R Block analysis also limited the dataset to returns that had the same factors in each year. For example, to look at tax reform's impact on homeowners, the data set included only those clients with mortgage interest in both years, to avoid skewing results.

About H&R Block
H&R Block, Inc. (NYSE: HRB) is a global consumer tax services provider. Tax return preparation services are provided by professional tax preparers in approximately 12,000 company-owned and franchise retail tax offices worldwide, and through H&R Block tax software products for the DIY consumer. H&R Block also offers adjacent Tax Plus products and services. In fiscal 2018, H&R Block had annual revenues of over $3.1 billion with over 23 million tax returns prepared worldwide. For more information, visit the H&R Block Newsroom.

Photos accompanying this announcement are available at:

http://www.globenewswire.com/NewsRoom/AttachmentNg/8aa4bc74-ba0f-4002-9c98-5c35b84cd0ac

http://www.globenewswire.com/NewsRoom/AttachmentNg/9d83663b-42b3-4b92-af84-b9d8f36a2cc8

http://www.globenewswire.com/NewsRoom/AttachmentNg/d4ea9c6d-9967-45a2-8dd4-a213e2a4caf5

For Further Information
Investor Relations: Colby Brown | (816) 854-4559 | colby.brown@hrblock.com
Media Relations: Susan Waldron | (816) 854-5522 | susan.waldron@hrblock.com

H&R BLOCK

Source: HRB Tax Group, Inc.