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Bad news bearers

By: Bernadette Starzee May 6, 2019

Heather Santonino: More people were able to benefit from the child credit this year.

It was a tumultuous tax season for taxpayers and their accountants as the full impact of the Tax Cuts and Jobs Act of 2017 was revealed. Many individuals were unhappy to discover they either owed more or were entitled to less of a refund at the tax deadline than in past years.

“In comparison to prior years, it was a rough season,” said Heather Santonino, a senior tax manager at Marcum in Melville. “Depending on their circumstances, some people owed more on April 15 than they usually do. And some that were expecting more of a tax cut from the Tax Cuts and Jobs Act did not receive the cut they were expecting.”

Accountants in many cases found themselves in the unenviable position of being the bearer of bad news.

“There was a lot of disappointment this year,” said Gigi Boudreaux, a partner at Westbury-based DSJCPA. “It’s very hard to deliver bad news to people who weren’t expecting it. Some people kept up with the news, but many didn’t, and it caught them by surprise.”

It was particularly complicated to handle the returns of individuals who own businesses, according to Raymond Haller, a tax partner at Grassi & Co. CPAs in Jericho.

“If you’re a shareholder in a corporation, a partner in a business or a sole proprietor of your own business, there were a lot of changes that would impact your individual tax return,” he said, noting that changes in the areas of business interest expenses, qualified business income deductions and depreciation were particularly onerous. “We are waiting for Congress to fix the tax code regarding a depreciation item that was put through incorrectly. Affected taxpayers went on extension and are waiting on the sidelines while we wait for the dust to settle. They probably won't be able to file until October, and hopefully it will be fixed by then."

One of the issues impacting individual taxpayers was a change in tax withholding tables in early 2018, which resulted in many people having lower amounts withheld from their paychecks throughout the year. Many individuals were surprised to learn they had to pay that money back.

"The withholding tables changed last February, which gave people more money in their pockets throughout the year," Boudreaux said. "Most people didn't think anything about it at the time. Trump said they would have more in their pockets, and they said 'Okay.' Most didn't realize they would owe more when they filed their taxes, since less was withheld."

Since the passage of the Tax Cuts and Jobs Act, there has been much talk about how the region would be impacted by the $10,000 cap in state and local tax (SALT) deductions that took effect with tax year 2018. The SALT deduction cap disproportionately hurt taxpayers in New York and other high-income, high-tax states.

"Most people in Long Island were able to itemize in the past because they have high property tax, high state and local income tax and high mortgage interest," Boudreaux said. "But with the SALT deduction capped at $10,000, high earners in particular were hurt. If you're earning $1 million and you pay $40,000 in property taxes, and you can only deduct $10,000 in taxes paid to your state and local municipality, that is going be to a monumental difference."

While the top federal tax rate dropped from 39.6 percent to 37 percent, "it didn't balance out with the loss of those deductions," Boudreaux said.

But the impact of the SALT deduction cap on the region was lessened by the elimination of the Alternative Minimum Tax.

In prior years, "those who were in the AMT were not allowed to deduct state and local taxes, so the SALT limitation did not really impact them," Santonino said.

For single taxpayers in 2017, the AMT tax liability would start when income levels approached $150,000 and phase out after income levels reached $500,000, Haller said. For married filing joint taxpayers with three children, the AMT tax liability would start when income levels approached $175,000 and phase out after income levels reached $615,000.

"So if you have two schoolteachers on Long Island who earned a combined $225,000, they would have been in the AMT before, and so they would not have been getting the benefit of the SALT deductions anyway," Haller said.

Those with incomes above the upper AMT threshold were most impacted by the SALT deduction cap, Haller said, adding those with higher incomes were also disproportionately affected by the fact that miscellaneous itemized deductions are no longer allowed.

"Teachers who buy materials for their classrooms and police officers who pay for uniforms and other equipment related to their jobs were also impacted by this change," Boudreaux said. "A lot of them use their refund for savings, and they were surprised to find that they not only didn't get a refund but had to pay."

People with children under 17, however, were able to take advantage of more generous tax credits.

“For those who qualified, the credit per child doubled from $1,000 to $2,000, and the income threshold to qualify for the credit went up from $110,000 to $400,000 for a married couple filing jointly,” Santonino said. “So if you’re a married couple earning, say, $300,000 and you have two kids, you can now take $4,000 in credits that you couldn’t take before.”

For some taxpayers, the enhanced child credit helped offset the removal of miscellaneous itemized deductions and the cap on SALT deductions, Haller said.