



Tax Reform and Your Paycheck

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About Us

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MJW EA & Company LLC has been serving clients in Madison, CT since 1982. Our firm provides tax preparation services for individuals, small business and non-profits, as well as accounting and bookkeeping services.

I have been with MJW EA & Company LLC since 2012.

I am an Enrolled Agent (EA).

I specialize in business returns and individual returns with complex situations.

What's an EA?

- An enrolled agent is a person who has earned the privilege of representing taxpayers before the Internal Revenue Service by passing a three-part comprehensive IRS test covering individual and business tax returns. Enrolled agent status is the highest credential the IRS awards. Individuals who obtain this elite status must adhere to ethical standards and complete 72 hours of continuing education courses every three years.

Enrolled agents, like attorneys and certified public accountants (CPAs), have unlimited practice rights. This means they are unrestricted as to which taxpayers they can represent, what types of tax matters they can handle, and which IRS offices they can represent clients before.

~ Significant changes in 2018/2019 related to the Tax Cuts and Jobs Act of 2017

~ How withholdings changed and the potential impacts on your annual tax return

~ Considerations for 2020 planning

~ New 2020 IRS W-4 form

~ Takeaways / Q&A

Topics to be
Covered

Major Changes of Tax Cuts and Jobs Act

Provision	Previous Law	Tax Cuts and Jobs Act
Standard Deduction	<p>2017</p> <p>Single = \$6,350 Married Filing Separate = \$6,350 Head of Household = \$9,350 Married Filing Joint = \$12,700</p>	<p>2018</p> <p>Single = \$12,000 Married Filing Separate = \$12,000 Head of Household = \$18,000 Married Filing Joint = \$24,000</p> <p>2019</p> <p>Single = \$12,200 Married Filing Separate = \$12,200 Head of Household = \$18,350 Married Filing Joint = \$24,400</p>
Exemptions	2017 = \$4,050 per person	Personal exemptions eliminated
Child Tax Credit	<p>For children under 17 = \$1,000/child Phase out beginning at \$75,000 for Single or Head of Household and \$110,000 for Married Filing Joint</p>	<p>For children under 17 = \$2,000/child Phase out beginning at \$200,000 for Single or Head of Household and \$400,000 for Married Filing Joint NEW - For dependents 17 and older = \$500/dependent</p>

Major Changes of Tax Cuts and Jobs Act, cont'd

Provision	Previous Law	Tax Cuts and Jobs Act
Mortgage Interest Deduction (Sch A)	Interest payments on up to \$1 million of home acquisition (buy, build, improve) debt are deductible. Interest payments on up to \$100,000 of home equity debt are deductible.	Interest payments on up to \$750,000 of home acquisition (buy, build, improve) debt and are deductible; existing debt grandfathered at \$1M. Interest payments on home equity debt are non-deductible .
State, Local and Property Tax Deduction (Sch A)	Real estate, personal property, and either income or sales taxes are deductible.	Deduction is limited to \$10,000 (\$5,000 if Married Filing Separately). Note: this includes your state withholding on your wages.
Miscellaneous Itemized Deductions	Certain miscellaneous deductions in excess of 2% of a taxpayer's adjusted gross income were deductible. Examples include: tax preparation fees, unreimbursed employee expenses, financial investment fees.	Miscellaneous Itemized Deductions eliminated .

Major Changes of Tax Cuts and Jobs Act, cont'd

Provision	Previous Law	Tax Cuts and Jobs Act
Alternative Minimum Tax (AMT)	AMT Exemption Threshold: Single or Head of Household = \$54,300 Married Filing Joint = \$84,500 Married Filing Separately = \$42,250 AMT Exemption Phase-Out Threshold: Single or Head of Household = \$120,700 Married Filing Joint = \$160,900 Married Filing Separately = \$80,450	AMT Exemption Threshold: Single or Head of Household = \$70,300 Married Filing Joint = \$109,400 Married Filing Separately = \$54,700 AMT Exemption Phase-out Threshold: Single or Head of Household = \$500,000 Married Filing Joint = \$1,000,000 Married Filing Separately = \$500,000

What is AMT?

AMT is a parallel income tax calculated using a different set of rules meant to ensure certain higher income taxpayers pay at least a minimum amount of tax. The AMT has fewer allowable tax exclusions and tax deductions. Taxpayers subject to AMT essentially calculate their income tax twice, under regular tax rules and under the stricter AMT rules, and then pay the higher amount owed.

The changes to AMT under the TCJA *reduced* the number of taxpayers subject to AMT from approx. 5 million to 200,000.

New Tax Brackets

2017 Tax Brackets				2019 Tax Brackets			
Tax Bracket	Single or Married Filing Separately	Married Filing Jointly	Head of Household	Tax Bracket	Single or Married Filing Separately	Married Filing Jointly	Head of Household
10%	Up to \$9,325	Up to \$18,650	Up to \$13,350	10%	Up to \$9,700	Up to \$19,400	Up to \$13,850
15%	\$9,326 – \$37,950	\$18,651 – \$75,900	\$13,351 – \$50,800	12%	\$9,701 – \$39,475	\$19,401 – \$78,950	\$13,851 – \$52,850
25%	\$37,951- \$91,900	\$75,901 – \$153,100	\$50,801 – \$131,200	22%	\$39,476 – \$84,200	\$78,951 – \$168,400	\$52,851 – \$84,200
28%	\$91,901 – \$191,650	\$153,101 – \$233,350	\$131,201 – \$212,500	24%	\$84,201 – \$160,725	\$168,401 – \$321,450	\$84,201 – \$160,700
33%	\$191,651 – \$416,700	\$233,351 – \$416,700	\$212,501– \$416,700	32%	\$160,726 – \$204,100	\$321,451 – \$408,200	\$160,701 – \$204,100
35%	\$416,701 – \$418,400	\$416,701 – \$470,700	\$416,701 – \$444,500	35%	\$204,101 – \$510,300	\$408,201 – \$612,350	\$204,101 – \$510,300
39.6%	\$418,401 or more	\$470,701 or more	\$444,501 or more	37%	\$510,301 or more	\$612,351 or more	\$510,301 or more

How do tax brackets work? Tax brackets show you the tax rate you will pay on each *portion* of your income, NOT all your income. A common misconception is that an increase in your tax bracket means all your income will be subject to a higher tax rate. Only the income that exceeds the lower portion of each tax bracket will be taxed at that rate. Additionally, there are preferential tax rates for certain types of income, i.e. long-term capital gains.

Note: The change in tax brackets is not consistent across all income levels.

Examples of reduction in tax bracket at different taxable income (using MFJ rates):

\$18,000- no change; \$50,000- 3% decrease; \$160,000- 6% decrease; \$450,000- no change, \$500,000- 4.6% decrease.

What happened to your withholding?

- In response to the tax law changes, the withholding tables used to calculate the withholding on employee wages were also changed. These are set by the IRS and employers are obligated to use these tables and can only adjust if a new W-4 is submitted by the employer.
- The average drop in withholding was approx. 17-18%.
- Unfortunately, not all taxpayers saw a similar drop in their tax liability.

Comparisons of Changes

- **Employee, Minimal Other Income**
- **No Dependents**
- **Not Married**
- **Homeowner**
- **Federal W-4: Single 2**

	2017	2018	Change	
Income:				
Wages	80,000	80,000	-	
Interest/Dividends	1	1	-	
State tax refund	217	217	-	
Other Income	100	100	-	
Total Income	80,318	80,318	-	
Itemized Deductions:				
State Income Tax	3,704	3,704	-	
Real Estate & Auto Taxes	3,860	3,860	-	
Mortgage Interest	4,837	4,837	-	
Charity	1,673	1,673	-	
Total Itemized/Standard Deduction	14,074	14,074	-	*itemized
Exemptions	4,050	-	(4,050)	
Taxable Income	62,194	66,244	4,050	
Income Tax before Credits	11,283	10,509	(774)	-6.86%
Child Tax Credit	-	-	-	
Income Tax	11,283	10,509	(774)	-6.86%
Withholding	13,139	10,900	(2,240)	-17.05%
Balance Due or (Refund)	(1,856)	(391)	(1,466)	decrease

- **Employees, Minimal Other Income**
- **Two Dependents under 17**
- **Married Filing Jointly**
- **Not Homeowners**
- **Federal W-4 (both spouses): Married but Withhold at *Single Rate*, 3**

	2017	2018	Change	
Income:				
Wages	160,000	160,000	-	
Interest/Dividends	1	1	-	
State tax refund	217	217	-	
Other Income	100	100	-	
Total Income	160,318	160,318	-	
Itemized Deductions:				
State Income Tax	3,704	3,704	-	
Real Estate & Auto Taxes	160	160	-	
Mortgage Interest	-	-	-	
Charity	1,673	1,673	-	
Total Itemized/Standard Deduction	12,700	24,000	11,300	*standard
Exemptions	16,200	-	(16,200)	
Taxable Income	131,418	136,318	4,900	
Income Tax before Credits	24,332	21,869	(2,463)	-10.12%
Child Tax Credit	1,786	4,000	2,214	
Income Tax	22,546	17,869	(4,677)	-20.74%
Withholding	24,253	19,973	(4,280)	-17.65%
Balance Due or (Refund)	(1,707)	(2,104)	397	increase

Tax Planning Tips:

- If you itemize and your itemized deductions are close to your standard deduction, consider bunching your itemized deductions into every other year. For example: make your January mortgage payment in December, make an early real estate tax payment (if you are not subject to \$10k limit) and/or bunch charitable donations.
- Be sure to take advantage of expense reimbursement offered by your employer(s).
- If married, compare outcome of filing Married Filing Joint and Married Filing Separate.
- Maximize your retirement deferrals. At a minimum, contribute enough to maximize the employer match.

2020 Federal W-4 Form

Form	W-4	Employee's Withholding Certificate	OMB No. 1545-0074
Department of the Treasury Internal Revenue Service		▶ Complete Form W-4 so that your employer can withhold the correct federal income tax from your pay. ▶ Give Form W-4 to your employer. ▶ Your withholding is subject to review by the IRS.	
		2020	
Step 1: Enter Personal Information	(a) First name and middle initial _____ Last name _____ Address _____ City or town, state, and ZIP code _____		(b) Social security number _____ ▶ Does your name match the name on your social security card? If not, to ensure you get credit for your earnings, contact SSA at 800-772-1213 or go to www.ssa.gov .
(c) <input type="checkbox"/> Single or Married filing separately <input type="checkbox"/> Married filing jointly (or Qualifying widow(er)) <input type="checkbox"/> Head of household (Check only if you're unmarried and pay more than half the costs of keeping up a home for yourself and a qualifying individual.)			
Complete Steps 2-4 ONLY if they apply to you; otherwise, skip to Step 5. See page 2 for more information on each step, who can claim exemption from withholding, when to use the online estimator, and privacy.			
Step 2: Multiple Jobs or Spouse Works	Complete this step if you (1) hold more than one job at a time, or (2) are married filing jointly and your spouse also works. The correct amount of withholding depends on income earned from all of these jobs. Do only one of the following. (a) Use the estimator at www.irs.gov/W4App for most accurate withholding for this step (and Steps 3-4); or (b) Use the Multiple Jobs Worksheet on page 3 and enter the result in Step 4(c) below for roughly accurate withholding; or (c) If there are only two jobs total, you may check this box. Do the same on Form W-4 for the other job. This option is accurate for jobs with similar pay; otherwise, more tax than necessary may be withheld ▶ <input type="checkbox"/> TIP: To be accurate, submit a 2020 Form W-4 for all other jobs. If you (or your spouse) have self-employment income, including as an independent contractor, use the estimator.		
Complete Steps 3-4(b) on Form W-4 for only ONE of these jobs. Leave those steps blank for the other jobs. (Your withholding will be most accurate if you complete Steps 3-4(b) on the Form W-4 for the highest paying job.)			
Step 3: Claim Dependents	If your income will be \$200,000 or less (\$400,000 or less if married filing jointly): Multiply the number of qualifying children under age 17 by \$2,000 ▶ \$ _____ Multiply the number of other dependents by \$500 ▶ \$ _____ Add the amounts above and enter the total here 3 \$ _____		
Step 4 (optional): Other Adjustments	(a) Other income (not from jobs). If you want tax withheld for other income you expect this year that won't have withholding, enter the amount of other income here. This may include interest, dividends, and retirement income 4(a) \$ _____ (b) Deductions. If you expect to claim deductions other than the standard deduction and want to reduce your withholding, use the Deductions Worksheet on page 3 and enter the result here 4(b) \$ _____ (c) Extra withholding. Enter any additional tax you want withheld each pay period 4(c) \$ _____		
Step 5: Sign Here	Under penalties of perjury, I declare that this certificate, to the best of my knowledge and belief, is true, correct, and complete. ▶ _____ ▶ _____ Employee's signature (This form is not valid unless you sign it.) Date		
Employers Only	Employer's name and address	First date of employment	Employer identification number (EIN)

2020 W-4: Info & General Instructions

- You are not required to complete the new W-4 unless you are a new employee or you want to update/change your withholding.
- Employers and payroll processing companies can continue to withhold based on the old W-4 and associated tax tables unless a new W-4 is required for reasons above.
- The intent is that if a properly completed W-4 is used, taxpayers will be close to break-even when filing their tax returns.
- *Possible Issues:*
 - If you are used to (or want to) have a refund at year-end, additional withholding or adjustments should be made.
 - If you need to have an adjustment made to your withholding, you must complete the new W-4 form and so there is no way to have “same as before plus \$x.”

Info & General Instructions, cont'd

- Only Steps that are *required* are:
 - Step 1a/b: Name, address & social security number
 - Step 1c: Filing status (note: you can pick a filing status that is different than what you use on your tax return)
 - Step 5: Signature

Completing only the required steps may work for some taxpayers with simple tax situations.

Info & General Instructions, cont'd

- Optional Steps:
 - Step 2: Adjustments for taxpayers who hold more than one job or have a spouse who works.
 - Options: Use the Tax Withholding Estimator (link on next slide); use *Multiple Jobs Worksheet*; check Box 3 if earning from both jobs are similar.
 - Step 3: To adjust for child tax and other dependent credits you'll be eligible for. Note: If married and both spouses work, only the higher earner should complete this section.
 - Step 4: Other adjustments
 - Other income not from wages. Enter a dollar amount if you would like your withholding to cover the tax on this income rather than paying estimates.
 - Deductions. Use Deductions Worksheet to determine itemized deductions in *excess* of standard deduction.
 - Extra withholding. May be based on Step 2 or a flat amount you've determined on your own. Note: Do *not* enter additional non-wage income on line 4a and enter additional withholding required on non-wage income as this will duplicate withholding.

Tax Withholding Estimator

<https://apps.irs.gov/app/tax-withholding-estimator>

The screenshot shows the IRS Tax Withholding Estimator application. At the top is the IRS logo and navigation links for 'Help | News', 'CHARITIES & NONPROFITS', and 'TAX PROS'. Below this is a dark blue navigation bar with links for 'File', 'Pay', 'Refunds', 'Credit & Deductions', and 'Forms & Instructions'. The main content area features the title 'Tax Withholding Estimator' and a sub-header: 'Use your best estimates for the year ahead to determine how to complete Form W-4 so you don't have too much or too little federal income tax withheld.' A progress indicator shows six steps: 1. About You, 2. Income & Withholding, 3. Adjustments, 4. Deductions, 5. Tax Credits, and 6. Results. The 'About You' step is currently active. Below the progress indicator, the 'About You' section is titled '1 of 5: Filing Status' and asks 'What filing status will you use for your tax return? (*Required)'. Five radio button options are listed: Single, Married filing jointly, Married filing separately, Head of Household, and Qualifying widow(er). A vertical 'Feedback' button is located on the right side of the page.



Help | News

CHARITIES & NONPROFITS

TAX PROS



File

Pay

Refunds

Credit & Deductions

Forms & Instructions

[Home](#) / [File](#) / [Individuals](#) / Tax Withholding Estimator

Tax Withholding Estimator

Use your best estimates for the year ahead to determine how to complete Form W-4 so you don't have too much or too little federal income tax withheld.



About You



[Income & Withholding](#)



[Adjustments](#)



[Deductions](#)



[Tax Credits](#)



[Results](#)

About You

Select the information that best describes how you anticipate filing your 2020 tax return.

1 of 5: Filing Status

What filing status will you use for your tax return? (*Required) ?

- Single
- Married filing jointly
- Married filing separately
- Head of Household
- Qualifying widow(er)

Feedback

2020 W-4: Bottom Line and Tips



WHAT'S THE
BOTTOM LINE ON
THE NEW W-4?
**IT'S
COMPLICATED!**



OUR TIPS:



COMPLETE YOUR 2019
TAX RETURN AS SOON
AS POSSIBLE. YOU
HAVE UNTIL APRIL
15TH TO FILE/PAY BUT
HAVING THE RETURN
PREPARED (EVEN IN
DRAFT FORM) SO YOU
KNOW YOUR TAX
SITUATION HELPS
YOU PLAN.



REVIEW YOUR
WITHHOLDING
FOR 2020 NOW!



IF YOU NEED TO
ADJUST YOUR
WITHHOLDING,
REVIEW THE
OUTCOME OF YOUR
COMPLETED 2020 W-4
USING THE INCOME
TAX WITHHOLDING
ASSISTANT (LINK ON
NEXT SLIDE).



CONSIDER USING A
TAX PROFESSIONAL
FOR PREPARATION, IF
YOU DON'T ALREADY.
A GOOD PREPARER
SHOULD BE ABLE TO
HELP YOU COMPLETE
YOUR W-4
ACCURATELY AND
HELP YOU WITH
OTHER TAX
PLANNING NEEDS.

Income Tax Withholding Assistant for Employers

<https://www.irs.gov/businesses/small-businesses-self-employed/income-tax-withholding-assistant-for-employers>

IRS		Income Tax Withholding Assistant For Employers		(For use with both 2020 and earlier Forms W-4)	
Pay frequency:	<input type="text" value="Weekly"/>			RESULT	
Employee's taxable wage or salary amount this paycheck:	<input type="text"/>			Amount of Federal income tax to withhold from this paycheck:	<input type="text" value="\$0"/>
Which version of Form W-4 did the employee use?	<input type="text" value="2020 or later"/>			<i>Withhold no federal income tax if on the Form W-4 the employee claimed to be exempt from withholding.</i>	
Please enter the W-4 information in the fields below.					
Information from the employee's most recent Form W-4 if used 2020 or later version					
Step 1. c. Filing status:	<input type="text" value="Single"/>				
Step 2. Did the employee check the box in (c)?	<input type="text" value="No"/>				
Step 3. Total amount on line 3	<input type="text"/>				
Step 4. Other adjustments					
a. Other income amount:	<input type="text"/>				
b. Deductions amount:	<input type="text"/>				
c. Extra withholding amount:	<input type="text"/>				

This Assistant implements the 2020 IRS Publication 15-T, *Federal Income Tax Withholding Methods*. Enter the three items requested in the upper left corner, then fill in the relevant information from the employee's Form W-4. The amount of Federal income tax to withhold from this paycheck is provided in the upper right corner. You may save a separate copy of this calculator for each employee (to avoid having to re-enter the W-4 information each pay period).

- This is an Excel spreadsheet that shows the withholding per paycheck based on how your W-4 is completed.
- It is designed for employers but is a great tool to review the outcome based on how you've completed your W-4.
- It can be used to run various scenarios so you can decide the best way for you to complete your W-4.

A Note About Bonuses

- Withholding on bonuses is calculated differently than on regular wages.
- By default, employers and payroll processing companies withhold on bonuses at a flat rate based on the middle tax bracket (currently 24%).
- If you are in a high tax bracket and/or your bonus is significant in relation to your other wage income, this can cause under-withholding, even if your W-4 has been properly completed.
- You may request additional withholding on your bonuses.

And now, it's time for a breakdown...

~ The Tax Cuts and Jobs Act was significant, but impacted taxpayers inconsistently.

~ Review withholding regularly and adjust as needed.

~ If you complete a new W-4, be sure to review the outcome prior to submitting to your employer. After you receive your first paycheck with the new withholding, review again.

~ Tax planning is essential. Waiting until you file your return to discover issues generally means it's too late to fix.

Any questions?