

(BN) Fear of Filing? Some Taxpayers Finding Tax Bills, Not Refunds

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2019-02-11 19:29:54.841 GMT

By Ben Steverman and Laura Davison

(Bloomberg) -- Adam Oleson has enjoyed a tax refund every year for the past couple of decades. He normally counts on it to make an extra house payment, reduce student-loan debts or pay down the credit cards.

But this year, no such luck. Not only won't Oleson get a refund, he said he owes the Internal Revenue Service \$1,500.

A 40-year-old electrician, Oleson lives in Omaha, Nebraska, with his wife and three children. His is the kind of middle-class family that supporters of the 2017 tax overhaul said they were trying to help. But Oleson said the loss of deductions for union dues, tool purchases and continuing education costs have actually made him worse off.

He is one of an estimated 5 million taxpayers who used to rely on a refund every spring. But because of lower rates, the loss of some deductions and the addition of new tax breaks in the overhaul, those taxpayers are not seeing the refunds they're used to.

But that doesn't necessarily mean they didn't benefit from the law. Some tax experts say the benefits are just coming in a different form, such as lower withholding, which translates into a bigger paycheck instead of one refund in the spring.

'Wrong Metric'

"Most people don't know how much they pay in taxes," said Bob Kerr, who leads the National Association of Enrolled Agents, a trade group for tax preparers. "But the refund is the wrong metric to measure it."

Right or wrong, the drop in expected refunds is creating fear and anger in accountants' waiting rooms.

"Every single person" who walks in is dreading how much they're going to owe the IRS, said CPA Gail Rosen, who heads the Martinsville, New Jersey, office of WilkinGuttenplan. "They come in and they worry."

But telling people they paid fewer taxes throughout the

year doesn't help the sticker shock felt by filers who've become accustomed to getting a check, not writing one.

Only about 5 percent of taxpayers -- about 7.8 million people -- are expected to pay more under the new law. But about 5 million, according to the Government Accountability Office, will find their typical tax refund replaced by a tax liability. "A lot of people are going to be surprised," Rosen said.

Refunds Decline

The IRS estimates it will ultimately issue about 2.3 percent fewer tax refunds this year. In the first week of the filing season, the number issued fell about 24 percent, though much of that is likely tied to the government shutdown that left the IRS understaffed as it was preparing for filing season. So far, the average refund is less than at the same point in 2018, averaging \$1,865 compared with \$2,035 last year, according to IRS statistics from the first week of the filing season. The Treasury Department downplayed its own data in a tweet Monday, saying the dip is based on a "small initial sample from only a few days." A few minutes later, Treasury also tweeted a link to the IRS's withholding calculator, encouraging taxpayers to look up how much they should be having taken out of their paychecks.

Treasury Department

@USTreasury

News reports on reduction in IRS filings & refunds are misleading. Refunds are consistent with 2017 levels and down slightly from 2018 based on a small initial sample from only a few days of data.

Sent via TweetDeck.

[View original tweet.](#)

The confusion partly stems from the IRS changing the guidelines that helped employers determine how much to withhold from workers' paychecks. The new withholding formulas put in place last year were more generous, but are a blunt instrument that doesn't reflect the new law's other changes, like the SALT cap as well as an end to the deduction of unreimbursed employee expenses such as home offices and union dues.

For the affluent taxpayers currently preoccupied with SALT limits, the new tax law also frees them from the alternative minimum tax, or AMT, and creates a much more generous credit for children under 17.

Big Surprise

Put it all together and the amount withheld from a paycheck in 2018 could be very different from what a taxpayer will owe the IRS by April 15.

The only way to have prevented a big surprise was to adjust withholding last year. Few people actually did that and it's difficult without professional advice, because so many factors are at play.

"It's a moving target," said Arnold Berman, a CPA at ABD Associates in Valhalla, New York. "Your situation is going to be different from someone else with your income."

The IRS is still encouraging people to check their withholding to make sure their refund expectations align with reality. Tax professionals also say withholding should be adjusted at major life events: marriage, the birth of a child, a significant raise or when changing how much of a salary is allocated to a retirement account.

Child Credit

Middle-class families with simple situations seem most likely to get pleasant news, thanks to the new \$2,000 child tax credit. For more affluent taxpayers, their refund will depend on the complex interplay of lower rates, the easing of the AMT and new deduction limits.

The SALT cap has gotten the most attention from taxpayers in states like New York and California with high income and property taxes, but their angst will be offset by changes to the AMT, which prevented many of them from deducting their full state and local tax burden anyway.

The IRS is trying to soften the blow of all the refund confusion. This year, the IRS will waive the penalties for those who paid at least 85 percent of their tax liability, down from the usual 90 percent.

Taxpayers fearful of how much they owe are better off to file and not pay immediately than not to submit a return at all. "The failure-to-file penalties are the worst," said Harvey Bezosi, a CPA in Boca Raton, Florida.

Middle-Class Woes

The confusion is likely to do little to sway public opinion in favor of the new law. Republicans acknowledged in an internal

poll before the 2018 midterms that they'd lost the messaging battle on tax cuts. The law has consistently struggled to poll above 50 percent approval.

Representative Peter King, a New York Republican who broke from his party and voted against the 2017 tax law, said he has already heard from constituents complaining that they're paying more this year.

The House Ways and Means Committee will spotlight the issue when the tax policy subcommittee meets Wednesday to discuss how the middle class is faring. Democrats are likely to use the opportunity to show that the middle class didn't benefit enough from the law, which they universally opposed. The committee's chairman, Representative Richard Neal of Massachusetts, has been vocal about the desire to upend much of his Republican colleagues' work. And he has some words in response to the confusion caused by refunds this year.

"I told you so."

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