

Crowley & Sons Income Tax
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Tax Bulletin #1

Topic: Federal Tax Withholdings

As many of you know, the Federal Government passed a law in the end of 2017 that drastically changed the tax laws. What many of you don't know is that there has been numerous changes over the last 8 months that changed the original provisions. There has also been changes to NYS tax laws to assist New Yorkers, who for the most part, will be negatively affected by the Federal tax law changes. Lastly, several states have brought a lawsuit against the Federal Government in July arguing that new tax policies violate states' rights and unduly punish their populations. New York was one of the leaders in this suit.

So, what does all this mean to you? The short answer is now, more than ever, you need a tax professional. But it also means you need to take a look at some of the changes that could negatively affect you and make some adjustments to your withholdings, among other things, so that when we file your returns in the winter nobody gets surprised.

In this Tax Bulletin we are addressing federal tax withholdings.

One of our concerns for our clients is that living in states like New York and New Jersey there is a probability that you will end up seeing a reduced refund. This is because the majority of clients from these states will be doing the same or perhaps a little bit worse under the new tax laws, but even if you are doing a little bit better with the new provisions you can still see a reduced refund. "Why is that?" you may ask, the answer is that everybody back in January and February began to see their take home pay increase (whether it was from your job or your pension), and that happened because the IRS required employers to withhold **LESS** federal taxes week to week. Which, at the end of the year, adds up and you could see a drastic reduction in total federal tax withheld. What we are seeing from our studies of our clients is that the amount of federal tax being withheld now (a lot less than prior) will be well beyond any tax benefit you will see from the new laws, if any. Many of our clients will not see a benefit from the new laws. Here is an illustration:

Tax Client #1 usually gets a refund of \$5,000 and with the new tax law changes his tax liability is going down by \$1,000 as a result of the new tax laws. However, he is receiving an additional \$200 every 2 weeks in his paycheck due to the new laws. So, at the end of the year he will be withholding **\$5,200 less** (26 paydays x \$200 less in federal taxes = \$5,200). Tax client #1 thought he would be getting a bigger refund because he is doing \$1,000 better in terms of tax liability however, he already saw \$5,200 extra during the year. The end result is a reduced refund of \$4,200 and Tax Client #1 will end up with a refund of \$800.

So, what we would suggest is to look at your paystubs from early January or late December and compare them to your current paystubs. You will see the difference in what is being withheld. We suggest that you adjust your Federal withholdings (W4 form or online, W4p for pensions) so that you are withholding the same or even MORE than you were withholding back in the end of 2017 and January of this year. This would be done by changing the number of exemptions backwards. So, if you are claiming Single 2 move it back to Single 1 or Single 0 to achieve the goal of withholding at the same rate or more prior to the increased take home pay. If you were a married taxpayer and were claiming Married 5 you would move it back to Married 3 or 4. If you were claiming Married 0 then I would suggest going back to Single 0. It should be noted that the number of places it needs to be moved back is not going to be the same for everybody. I would suggest moving it at least 1 position back but 2 would be a better place to start to play it safe. Once the change takes effect, compare it again to the paystubs back from December or January to see if you are equal or more taxes are being withheld and adjust accordingly.

These steps will be imperative to maintain a refund as you have been used to seeing in the past. So please take the time to look at your withholdings. If no changes are made, you will be in a position where you can see your refund drastically reduced and/or if you typically have a small refund or pay the government, it could lead to a higher tax bill.

Bottom Line:

Make adjustments to your paychecks to withhold more Federal Taxes week to week!

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