

VITA

TAX REFORM CHANGES

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MINISTRIES

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Pierce County Asset Building Coalition

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Goodwill
Because jobs change lives 

Who MUST File?



It's based on Filing Status, Age, and Income

- Single people with no dependents
 - If under 65, if your income was \$12,000 or more
 - If over 65, if your income was \$13,600 or more
- Married couples, filing jointly
 - If under 65, if your income was \$24,000
 - If one is 65+ plus, if your income was \$25,300
 - If both were 65+, if income was \$26,600
- **Heads of household**
 - If under 65, if your income was \$18,000
 - If over 65, if your income was \$19,600
- Married filing separately: any age, **income over \$5**

Who is a Head of Household?

- A Single person with at least one dependent (or married with kids, but separated at least 6 months)
 - Dependents must be related to you
 - Dependents have to live with you for at least 6 months of the tax year
 - You must provide at least half the costs to support the household
 - If the dependent is not a child*, their 2018 income must be less than \$4,150
 - * A child is under age 19, under age 24 if a full-time student, or any age if totally disabled.

Who SHOULD File?

People who worked

- If you had federal taxes withheld from your paycheck, you might be able to get a refund of those taxes!
- You may qualify for the Earned Income Credit and increase your refund!
- Self-employed taxpayers who have any amount of income during the year must file a tax return.



People who paid for college (for you or your dependents)

- If you had out-of-pocket expenses for college, you may qualify for the American Opportunity Credit

People who purchased ACA private insurance from Healthcare.gov or www.wahealthplanfinder.org and/or a local healthcare navigator or broker

- You should receive Form 1095-A
- You have to determine if you received the correct premium tax credit for insurance

Penalty still in effect for this tax season!

Changes: Tax Rates and W2 Withholdings

- Most tax rates have been reduced.
- Tax rates for the unearned income of a child no longer affect the child's parents.

Due to tax reform, many employees' withholding decreased in early 2018, giving them more money in their paychecks during the year.

Ever since the revised withholding tables went into effect, the IRS has been urging employed taxpayers to perform a Paycheck Checkup. The fastest and easiest way to do that is to use the Withholding Calculator, available on IRS.gov.

www.irs.gov/paycheck-checkup

To use this tool most effectively, have a copy of last year's tax return handy, as well as recent paystubs.

Changes: Deductions & Exemptions

Standard deductions have nearly doubled:

- \$12,000 for single or married filing separately (up from \$6,350)
- \$24,000 for married filing jointly or qualifying widower with dependent children (up from \$12,700)
- \$18,000 if head of household (up from \$9,350)
- Standard deduction is slightly higher for those over 65 or blind, and a lot lower for dependents

Big change: no more exemptions!

- Taxpayers are no longer able to deduct an exemption amount for themselves, their spouse if married, and their dependents

Changes: Itemized Deductions

With the increase in the standard deduction, most people **WON'T** need to itemize any more!

But there are changes to the rules for various categories of Itemized Deductions.

| | |
|------------------|--|
| Medical Expenses | Certain out-of-pocket medical expenses for taxpayer, spouse or dependents can be deducted if total exceeds 7.5% of AGI (down from 10% last year) . This rate will return to 10% in 2019. |
| Deductible Taxes | State & local taxes OR sales taxes; real estate & personal property taxes (for a vehicle). Capped at \$10,000 for 2019. |
| Interest Paid | Home mortgage interest. Home equity loan interest only deductible if used to buy, build or improve main home; 2018 buyers can only deduct interest on first \$750,000 of qualifying debt. |
| Charitable Gifts | Gifts (cash or donated goods) to tax-exempt religious, charitable, educational, scientific, or literary organizations. Limit has increased from 50% to 60% of AGI, so people can deduct more of charitable gifts. |
| Miscellaneous | Deductions for job-related expenses such as union dues and uniforms has been suspended , as well as deductions for tax preparation fees, safe deposit boxes, etc. |

Deductions & Non-refundable Tax Credits

Common deductions and non-refundable credits:

- Student loan interest (up to \$2,500)
- Half of your self-employment taxes –no change
- Childcare expenses for children under 13 (or any age, if totally disabled) if needed to work, look for work, or go to school –no change
- Contributions to a retirement plan –no change
- **NEW:** For payments required under divorce or separation instruments (alimony) *reached and/or modified after December 31, 2018*, the tax deduction and income report requirement for alimony payments is eliminated. Pre-2019 divorce or separation instruments remain unchanged.
- **NEW! Credit for other dependents:** \$500 per qualifying person for dependents other than children, such as kids ages 17-18, college students, kids with ITINs, and other dependent relatives.



Deductions & non-refundable credits

- Deductions reduce your taxable income.
- Non-refundable credits reduce the tax you owe even more but stop at zero
- Designed to bring down your tax liability!

Refundable Credits

Remember that deductions reduce your taxable income, and credits reduce the taxes you owe. A **refundable credit** gives you money back as a refund, even if you don't owe any taxes!

Most common:

- **Child tax credit:** is now doubled to \$2,000 per child under age 17.
 - This credit reduces the tax you owe. Up to \$1,400 per child may be refundable.
 - Children must have a valid Social Security number to claim this credit.
- **American Opportunity Credit – no change**
 - For *out-of-pocket* higher education expenses for you or your dependents
 - The student must be enrolled at least half time in the first four years of a degree or certificate program at an accredited educational institution and have no felony drug convictions.
 - The credit is up to \$2,500, and up to \$1,000 is refundable.
- **Earned Income Credit:** next slide!



Earned Income Credit

This is the largest refundable credit available to lower-income working families.

The maximum amount of credit for Tax Year 2018 is:

- \$6,431 with three or more qualifying children
- \$5,716 with two qualifying children
- \$3,461 with one qualifying child
- \$519 with no qualifying child



| EIC Income Limits | Qualifying Children Claimed | | | |
|--------------------------------------|-----------------------------|----------|----------|---------------|
| | Zero | One | Two | Three or more |
| Single, Head of Household or Widowed | \$15,270 | \$40,320 | \$45,802 | \$49,194 |
| Married Filing Jointly | \$20,950 | \$46,010 | \$51,492 | \$54,884 |

Because of the value of the Child Tax Credit and Earned Income Credit, laws require the IRS to scrutinize returns claiming these credits. As a result, **refunds are no longer released until Feb. 15th no matter how early you file.**

Affordable Care Act

Rules are still in effect for 2018 tax year, this tax season!



- Taxpayers will still need to indicate whether or not they and their dependents had health insurance during the 2018 tax year on their returns.
- People who received the Premium Tax Credit to pay for health insurance should receive Form 1095-A and will need to reconcile the credit on their return.
- Taxpayers or their dependents who were uninsured for all or part of the tax year, will need to have an exemption, or make a Shared Responsibility Payment.

The Shared Responsibility Payment is reduced to zero for 2019 and future tax years.

Changes: 1040 Form Re-Design



- **The new 1040 is the size of a postcard.** If your tax situation is straightforward, it is the only form you will need. Taxpayers with more complex situations will use schedules to provide additional tax information.
- As part of the Tax Cuts and Jobs Act signed in December 2017, this new form **will replace the current Form 1040, the 1040A and the 1040EZ.**
- **There are now just 23 lines on the Form 1040, instead of 79.** Because the new tax act reduced or eliminated many deductions, several line items have likewise been removed or consolidated.
- **There are 6 new Schedules** to report certain types of income, tax, credits and more previously reported on form 1040.



VITA (Volunteer Income Tax Assistance)

- As a free service, VITA saves families hundreds of dollars each year. There are **about 22 free tax sites** around Pierce County.
- Goal is to serve **households with incomes of \$55,000 or less, and seniors.**
 - Due to IRS rules, we are unable to do Married Filing Separate returns, or some complicated tax situations.
- The average household spent about \$300 last year on tax preparation. For households qualifying for EIC, it was closer to \$400. With added schedules in 2019, it could cost even more! **VITA is free!**
- Refunds are processed at the same speed by the IRS for VITA sites as for paid tax preparers.
 - We don't pressure you to sign up for other services, such as opening an account to deposit your refund into. We **don't** do refund advances, which often cost people money. **Our service is free!**
- VITA partners are able to connect taxpayers to other services as needed, such as banking, employment, or financial education.



How to be served by a VITA site

To find a VITA site near you,
starting in January, you can:

Call 2-1-1



Or visit www.VolunteerTaxHelp.org

MyFreeTaxes.com

(Facilitated Self-Assistance)

- Free “do it yourself” online software for taxpayers under \$66,000, in partnership with United Way Worldwide.



What documents do you need?

Identification & People

- Social Security Card or ITIN card for **all** family members (or official document from Social Security)
- Photo ID for primary taxpayer & spouse
- Birthdates for all household members



Income & Benefits

- W-2 form for each job worked
- 1099 forms for other income (interest, dividends, unemployment, etc.)
- Year-end documents for Social Security and other benefits
- Health insurance card, form 1095A, or exemption certificate number

Expenses

- Childcare expenses and provider name, address and tax ID number
- Mortgage and real estate taxes if you own a home
- Higher education expenses
- Business expenses, if self-employed
- Charitable donation receipts

Refund Savings Options



U.S. Savings Bonds:

- Purchased in \$50 increments
- Can be purchased on the tax return from the refund amount
- Tax time purchases are the only way to get a paper bond (all others are electronic)

Split Refunds:

- Refunds can be split into various types of accounts, using Form 8888 on the return
- Types of accounts: checking, savings, or prepaid cards

Savings Incentive Programs:

- **Save Your Refund:** taxpayers who save at least \$50 of their refund using Form 8888 can enter online. www.SaveYourRefund.com
 - Weekly drawings for \$100 prizes, and a grand prize drawing of \$10,000 at end of tax season.
- **Saver Life:** A program that allows you to link your savings account. For each month you save at least \$20 over a 6-month period, it matches \$10 (up to \$60 total). www.SaverLife.org