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Barbara O'Neill
Rutgers University

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The Tax Cuts and Jobs Act: Impact and Options for Extension Professionals

Abstract
The Tax Cuts and Jobs Act (TCJA) will affect Cooperative Extension employees and their clientele starting with 2018 tax returns filed by mid April 2019. Some educators will teach or counsel their target audiences about income taxes, and all will either benefit overall from the TCJA or pay more federal income tax because of it. This article describes key features of the TCJA and the content and impact of a workplace seminar designed to help taxpayers take action in response to it. The article concludes with tax planning strategies to consider for adjusting personal finance decisions and work practices in response to the TCJA.

Keywords: income taxes, business expenses, personal finance, financial planning, tax law

Barbara O'Neill
Distinguished Professor and Extension Specialist in Financial Resource Management
Rutgers Cooperative Extension
New Brunswick, New Jersey
boneill@njaes.rutgers.edu
@moneytalk1

A major event affecting personal financial planning today is the Tax Cuts and Jobs Act (TCJA) that was signed into law in December 2017. Thus, a new "tool of the trade" for Extension professionals is a thorough understanding of the TCJA and TCJA resources. This law will affect individual taxpayers and businesses on a scale not seen in over 30 years (Welker, 2018). Cooperative Extension personnel are affected professionally and personally: as educators (i.e., attending to client education needs), programmatically (i.e., seeking charitable donations to support Extension programs), organizationally (i.e., addressing employee recruitment and retention), and as taxpayers (i.e., paying more or less federal income tax). This article describes key impacts of the TCJA, topics for and results of a TCJA workshop, and strategies for Extension educators and their clientele to consider in response to this legislation.

Key Personal TCJA Impacts

Several key TCJA tax law changes that relate to personal taxes are likely to affect many Extension clients and Extension professionals. Six such changes (Kitces, 2017) occurring from 2018 through 2025 are as follows:

- an 8-year period of lower individual tax rates, ranging from 10% to 37%, and elimination of personal exemptions;
- use of the chained consumer price index for indexing, resulting in lower inflation adjustments than those occurring with the previously used index;
- a near doubling of the standard deduction ($12,000 for singles, $24,000 for couples filing jointly in 2018), resulting in fewer taxpayers benefiting from itemized deductions;
- an enhanced child tax credit of $2,000 per qualifying child, $1,400 of which is refundable;
- a $10,000 cap for state and local taxes (SALT) write-offs (e.g., state income tax and local property tax) for taxpayers who itemize deductions; and
- reduction of the Affordable Care Act shared responsibility payment for not purchasing health insurance to $0 beginning in 2019.

Key Professional TCJA Impacts

Two key TCJA tax law changes that affect employees, including Extension clients and Extension professionals, and could affect employee recruitment and retention within Extension (Strong & Harder, 2009) are

- repeal of miscellaneous deductions previously subject to the 2% of adjusted gross income floor (e.g., union dues, unreimbursed employee business expenses, tax preparation fees) and
- suspension of the moving expense deduction other than for the expenses of service members.

Rutgers Cooperative Extension held a Lunch and Learn workshop in spring 2018 to help Rutgers University employees deal with the post-TCJA income tax landscape. Most live in New Jersey, where residents were more severely affected by the TCJA than those in other states (Salant, 2018). The TCJA has effectively resulted in a pay cut for many employees through the need for increased withholding due to a loss or reduction of itemized deductions, including unreimbursed employee business expenses (e.g., union dues, conference travel expenses, mileage). The workshop can serve as the basis for educational offerings by other Extension professionals (e.g., programs at work sites and at conferences). Topics covered included types of U.S. taxes, income tax terminology, marginal income tax rates, tax credits and tax deductions, charitable gifting, tax withholding and W-4 forms, the alternative minimum tax, key features of the TCJA, and specific tax planning strategies. A follow-up online Qualtrics survey indicated that 86% of 15 responding participants (of 29 attendees) rated the workshop "extremely useful" or "very useful." Planned behavior changes by respondents included tracking medical expenses, using tax withholding calculators, and adjusting W-4 form withholding. PowerPoint slides for the 75-min workshop are available at https://www.slideshare.net/BarbaraONeill/tcja-personal-and-professional-implications-seminar0418.

Tax Planning Strategies to Consider

The suggestions presented here can serve as a "tool kit" of strategies for taxpayers—Extension clients and Extension professionals alike—to use to adjust their personal finances and work practices in response to the TCJA.

- Use a TCJA calculator and the IRS Tax Withholding Calculator (https://www.irs.gov/individuals/irs-withholding-calculator) to estimate the impact of the TCJA on expected tax liability and how much income should be withheld (or estimated) for taxes. Make W-4 form adjustments based on the results (e.g., more or less withholding).

- Consider downsizing to a smaller home with lower property taxes to avoid the SALT cap if at a life cycle stage where doing this makes sense. Another option, subject to employer residency requirements, is moving to another county or a bordering state with lower income and/or property taxes.

- Avoid or reduce actions that result in unreimbursed, nondeductible employee business expenses. For example, hold more conference calls, videoconferences, or "piggyback" meetings to reduce nondeductible unreimbursed employee travel expenses.

- Establish a consulting business, consistent with employer outside employment policies, to deduct expenses against (e.g., professional association dues, certification fees, and travel).

- Negotiate for moving expense reimbursement when considering a new position far from home. If reimbursement is not available, ask to be paid before actually starting work, an approach that has the effect of "absorbing" some of the now nondeductible cost.

- Calculate the cost of the TCJA personally (e.g., lost itemized deductions) and professionally (e.g., lost employee business expense write-offs). Seek offsetting adjustments in work practices to compensate for increased employee business expenses. For example, extra telecommuting days resulting in lower costs for gasoline, tolls, and auto maintenance can help mitigate the loss of tax-deductible mileage.

- Consider alternative ways to make gifts that provide a tax benefit. One option is donating appreciated securities, instead of cash, to reduce capital gains taxes. Another is donating required minimum distribution (RMD) withdrawals from an IRA after age 70½ so that RMD withdrawals are not part of taxable income. A third option is "bunching" charitable gift dollars into target years (e.g., years with higher than normal income), using a donor-advised fund to distribute funds to charities (James, 2018). Donor-advised funds allow donors to make a charitable contribution, receive an immediate tax benefit, and then make charitable donations from the fund over time (National Philanthropic Trust, 2018).

Conclusion

This article describes eight key features of the TCJA, an easily accessible programming resource to help

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clientele respond to the TCJA, and seven recommended tax planning strategies. Many people will not fully appreciate the impact of the TCJA on their personal finances until they file their 2018 tax return sometime before mid April 2019. Knowledgeable Extension educators serve as valuable resources who can help their clients navigate the new post-TCJA financial planning and income tax preparation landscape. Right now is a "teachable moment."

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