Ask an Expert: Five Things That Can Change Your 2017 Taxes

April 17 is tax day for 2018, and even though it is almost 6 months away, you are nearly out of time to put important tax preparation measures into place.

Many taxpayers fail to consider the tax impacts of life events that occurred during the year. Unfortunately, many of these events will likely increase their tax bill. For example, a decrease in the number of dependents or a change in filing status can increase your tax obligation. As your kids get older, you may lose the eligibility for tax credits that have helped reduce your tax liability on past returns.

Many taxpayers prefer to increase the amount their employer withholds from their regular paychecks to cover such a tax increase. However, there are only a few weeks left in the year for those changes to be effective. Even if you have previously planned your withholding amounts so that you receive a small refund, you may find that now you have to write a check. If nothing else, you should know before you file that your tax return may look different.

Consider these life events that will affect your taxes.

Dependent decline. This happens if one of your children can no longer be claimed as a dependent on your tax return. If a son or daughter no longer qualifies as your dependent, you cannot use his or her exemption of $4,050 to reduce your taxable income. That could easily mean an $800 increase in your tax obligation. If you were happy to finally get the kid married and out of the house, you likely overlooked this benefit loss. The dependent decline may also apply if your child has such a great part-time or summer job income that they no longer meet required guidelines to be claimed as a dependent.

If you are a single parent and lose your last at-home child’s dependency, there is a triple whammy. In addition to the loss of that exemption, your filing status will change from the more tax friendly “head of household” to “single.” Not only will you lose the $4,050 exemption, there’s a decrease of $3,000 in your standard deduction, and your tax rate will be higher.

Filing Status. A change from “married filing jointly” to “head of house” or “single” means a lower standard deduction and a higher tax rate beginning at lower income thresholds.

Kids’ milestone birthdays. Two popular credits available to many families are impacted as their children get older. If your family has previously qualified to claim a credit for child care expenses, you will be unable to claim the credit if the child turned 13 this year. Similarly, eligibility for the child tax credit ends for that child the year he or she turns 17, even if other qualifications are met.

Another instance when age can make a difference is with the Earned Income Tax Credit. Generally when a child turns 19, he or she can no longer be a qualifying child for EITC purposes, although there are some exceptions for full-time students and children who are permanently and totally disabled.

Better income. Well sure, the more you make the more taxes you will owe. That’s understood. But it may be more complicated. As your family income increases, you may exceed the maximum income allowed for benefits you have received in the past. The child care expense credit, the child tax credit and the earned income tax credit all have maximum income qualifications.

The tax impacts of a second job or new self-employment income may also cause problems for taxpayers. Often not enough federal and state taxes are withheld from second jobs. When the tax math is done, the extra income is taxed at the highest marginal rate.

For taxpayers with self-employment income, many have been dismayed to learn that not only do they have to pay the income tax on their net self-employment income, but also self-employment tax if they earned more than $400.

Marketplace Insurance. Here’s a reminder to taxpayers who have coverage through the Health Insurance Marketplace. Always report changes in family size or income to avoid errors in your advance payments of the premium tax credit that must be reconciled at tax time.
Of course, not all life events result in a higher tax liability, but good news at filing time is generally met with a smile, while an unexpected tax payment is not. Contact a tax professional if you experienced any of these life events and have questions about how they may impact you.

Come filing time this spring, qualifying households (generally those with less than $54,000 income) may call 2-1-1 to find a VITA site near them for free assistance in preparing and filing their tax return.

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