

## UNDERSTANDING HOW THE TAX CUTS AND JOBS ACT AFFECTS LOW- AND MODERATE-INCOME TAX FILERS

In December 2017, the Tax Cuts and Jobs Act was signed into law, bringing about some of the most sweeping changes to the U.S. tax code in more than three decades. Although a bulk of the law's changes focused on the corporate and business side of the federal tax code, several significant changes were also made to the individual side of the code as well.

As low- and moderate-income workers and families file their 2018 taxes, some of the new changes to the individual tax code that may impact these tax returns this year include:

### New Individual Tax Rates

| Rate                          | Individuals            | Married Filing Jointly | Heads of Households    |
|-------------------------------|------------------------|------------------------|------------------------|
| 10% (same as 2017)            | Up to \$9,525          | Up to \$19,050         | Up to \$13,600         |
| 12% (down from 15% in 2017)   | \$9,526 to \$38,700    | \$19,051 to \$77,400   | \$13,601 to \$51,800   |
| 22% (down from 25% in 2017)   | 38,701 to \$82,500     | \$77,401 to \$165,000  | \$51,801 to \$82,500   |
| 24% (down from 25% in 2017)   | \$82,501 to \$157,500  | \$165,001 to \$315,000 | \$82,501 to \$157,500  |
| 32% (down from 28% in 2017)   | \$157,501 to \$200,000 | \$315,001 to \$400,000 | \$157,501 to \$200,000 |
| 35% (same as 2017)            | \$200,001 to \$500,000 | \$400,001 to \$600,000 | \$200,001 to \$500,000 |
| 37% (down from 39.6% in 2017) | over \$500,000         | over \$600,000         | over \$500,000         |

*In 2019, the Volunteer Income Tax Assistance (VITA) program offers free tax preparation to people who made \$54,000 or less in 2018.*

### Doubling of Standard Deduction

- Single or married filing separately is now \$12,000, up from \$6,350 for tax year 2017.
- Married filing jointly and qualified widow(er) is now \$24,000, up from \$12,700 for tax year 2017.
- Head of household is now \$18,000, up from \$9,350 in 2017.
  - Changes to the standard deduction means that even if a low- and moderate-income family usually itemized deductions in the past, it may be more beneficial for them to now take the standard deduction.
  - For most low-income families, the impact of this change is minor since often their income is below the standard deduction.

### Elimination of the Personal Exemption

- Beginning with tax year 2018 returns, individuals will no longer be able to reduce taxable income based on personal exemptions (for themselves and their spouse), or dependency exemptions (for their children and other relatives).
  - This change has a more significant impact on taxpayers with several children and multi-generational families.

### Child Tax Credit

- The maximum per child tax credit has increased from \$1,000 to \$2,000 per qualifying child, but the maximum amount of the *refundable* portion of the child tax credit—which would result in a tax refund even if a worker is paying no income tax—is limited to \$1,400 per qualifying child.
  - The limit on the refundable portion of the child tax credit is [new](#) this year. Before the 2017 tax law, in most cases a child's parents could qualify for the full \$1,000-per-child tax credit.
  - Beginning with tax year 2018, most working families need to earn at least \$2,500 to qualify for the additional child tax credit, down from \$3,000 in 2017.
- Workers with Social Security Numbers (SSNs) or Individual Taxpayer Identification Numbers (ITINs) can claim the child tax credit for a qualifying child. However, the new tax law now requires the qualifying child for the child tax credit to have a Social Security Number. A child with an ITIN cannot be a qualifying child for the child tax credit.
  - **Example:** Mary is a single mom with an ITIN. She has three children under age 17. One child has an ITIN and the other two children have SSNs. Mary can claim the child tax credit for the two children who have SSNs and cannot claim child tax credit for the child with an ITIN.
    - It is [estimated](#) that the new social security number requirement for claiming the child tax credit could deny the credit to one million children.
- Starting in 2018, families with a dependent who is not a qualifying child for the child tax credit may qualify for a new "nonrefundable" \$500 Credit for Other Dependents. Qualifying dependents include dependents age 17 or older and dependent children with ITINs.

### Self-Employment

- Starting with tax year 2018, self-employed workers may qualify for a new deduction, the Qualified Business Income Deduction, that would reduce the taxable amount of self-employment income. While this new deduction will reduce a self-employed workers income tax, it will not reduce their self-employment tax.

### Other Issues That May Impact Low- and Moderate-Income Taxpayers This Year

#### Earned Income Tax Credit (EITC)

- No direct changes were made to the EITC in the Tax Cuts and Jobs Act.
  - However, like tax years 2016 and 2017, if a taxpayer receives the Earned Income Tax Credit (EITC) or Additional Child Tax Credit (ACTC), the Internal Revenue Service (IRS) is required by the Protecting Americans from Tax Hikes Act of 2015 (the PATH Act) to hold the processing of their refund until after February 15.

#### Health Insurance Mandate

- For 2018 tax returns, the health insurance mandate is still in effect. This means that for all of 2018, taxpayers must have health insurance or a health insurance exemption to avoid a penalty.

#### Individual Taxpayer Identification Number (ITIN)

- More than 2 million ITINs expired at the end of 2018. This includes:
  - Any ITIN not used to file a tax return for last three years (2015, 2016 or 2017); and
  - Any ITINs with middle digits 73, 74, 75, 76, 77, 81 or 82 (Example: 9NN-**75**-NNNN, 9NN-**76**-NNNN, etc.)
    - ITINs with middle digits of 70, 71, 72, 78, 79 or 80 expired on Dec. 31, 2017.
- Expired/Expiring ITINs can be renewed any time.
- If a tax return is filed with an expired ITIN, refunds will be held until the ITIN is renewed.
  - The IRS will send these filers a notice in the mail advising them of the change to their tax return and their need to renew their ITIN.
- The ITIN renewal process is similar to the original application, with a taxpayer required to complete a Form W-7 (checking off the “Renew Existing ITIN” box) and submitting all required documentation, including:
  - Identity and foreign status documents. (i.e. passport, national ID card w/photo, birth certificate)
  - For dependent ITINs, proof of residency in U.S. (i.e. passport, birth certificate, school records)
    - See the Form W-7 instructions for detailed information.
- It can take the IRS up to 7 weeks to process a taxpayers Form W-7.
  - During peak tax processing periods or when filling from aboard, it can take the IRS 9-11 weeks to process a taxpayers Form W-7.
    - Unlike the original application, the renewal application does not require a tax return to be attached.
- Taxpayers can submit their Form W-7 application renewal three ways:
  - Mail application to IRS address listed at the end of Form W-7:
    - Internal Revenue Service
    - ITIN Operation
    - P.O. Box 149342
    - Austin, TX 78714-9342
  - Some IRS Taxpayer Assistance Centers (TAC) can verify identity documents in person to avoid sending originals (by appointment only).
  - Certified Acceptance Agents (CAA) can help renew applications and also verify certain documents to avoid sending originals.

### About the Asset Building Policy Network

The Asset Building Policy Network (ABPN) is a coalition of the preeminent civil rights and asset-building organizations, together with a financial institution. Through research, programs and policy solutions aimed at generating savings and strengthening household financial resiliency, the ABPN is committed to expanding economic opportunities for low-income members of communities of color and closing the racial wealth gap.

### About the Taxpayer Opportunity Network

Prosperity Now’s Taxpayer Opportunity Network (TON) connects, strengthens and inspires community tax programs so that they can more effectively and efficiently deliver critical tax assistance to low- and moderate-income (LMI) taxpayers, couple that assistance with complementary financial capability services, and advocate for fairer tax policy in the United States.