TAX FILING Q&A

As tax filing season kicks into high gear, things are a little different this year as changes to the tax code implemented in 2018 will now become evident to taxpayers across the country as they go to file their returns prior to April 15.

Question 1: How could a government shutdown impact my tax filing?

Answer: Unfortunately for millions of taxpayers, the uncertainty surrounding a government shutdown has left many wondering what the implications will be with tax refunds commencing on January 28. While it's largely impossible to accurately predict when the government shutdowns will begin and end, there are a few important things to remember. One of those is that the IRS has employees working during shutdowns and, per an order from the Office of Management & Budget, will issue refunds in a timely manner as they have in the past.[1] However, one major caveat that's heavily emphasized on the IRS website is that many points of contact for filing or customer service (think mail, phone requests, or in-person payments) could be limited or non-existent. As a result, the IRS is heavily encouraging all tax returns be filed electronically to ensure faster processing to decrease the potential for fraud and time taken to issue refunds.[2] If your tax preparer isn't already, encourage them to look into filing your return online to help ensure it's received in a timely manner so that your refund can be more quickly processed.

Question 2: My tax refund seems larger this year. That's a good thing, right?

Answer: With the rise of discount and online tax preparers, a narrative has emerged among taxpayers that equates to receiving a large refund being a good thing. At face value, the idea of receiving a large amount of money at one time would indeed have some appeal to many people, but on closer analysis there are a few things to consider.

First, tax refunds received this year by some tax payers may be slightly larger due to the increased

standard deduction of $12,000 for individuals and $24,000 for married couples that came with the Tax Cuts & Jobs Act of 2017 (the standard deduction increasing to $12,200 and $24,400 in 2019) coupled with the fact that many taxpayers have not adjusted their withholding amount since the passage of the Act.[3] Exact refund amounts may vary widely based on the unique circumstances of each taxpayer.

Secondly, while receiving a tax refund is generally better than owing the IRS a large amount of money, having too large of a refund can be equally detrimental to a taxpayer's financial picture. The basic premise is that if someone is receiving a large refund every year, their withholdings are too large, and they are paying too many taxes over the course of the year. That essentially equates to giving the federal government an interest-free loan until tax returns are filed. Instead, those funds could be invested, used to pay off debt, or saved for future use. While it's too late to go back and change 2018 withholdings, keeping this scenario in mind when you receive your refund this year can help guide what your withholding amounts are in 2019.

Question 3: What are some ideas on putting my tax refund to good use?

Answer: In 2017, the average tax refund amounted to roughly $3,000 per return filed.[4] Each year, as millions of Americans receive their tax refunds, the question immediately becomes what to do with those additional funds? Of those surveyed in a recent poll, 27 percent of respondents said they were using their refund to pay off debt, which is generally an advantageous approach, especially if that debt is in the form of high interest credit cards or personal loans.[5] Yet for many individuals that don't carry a balance on their credit card month-to-month, there are multiple efficient uses an excess tax refund can be utilized for.

For those that are adequately prepared for and just entering or nearing retirement, a tax refund can actually be a great way to fund a vacation, make home repairs or improvements, or to fund a large purchase. Since a tax refund is simply a return of excess tax payments, using it to fund an upcoming purchase can be much more efficient than liquidating taxable assets and thereby potentially generating a tax on any existing capital gains. Similarly, drawing on a qualified retirement account like an IRA would trigger ordinary income to the recipient, whereas tax refund proceeds have already been taxed and can therefore be spent without any adverse tax ramifications. While using funds in this manner should be considered in the context of an individual's overall financial plan, sometimes it's important for individuals to enjoy the fruits of their labor, especially when they're unexpected!

[1] https://www.irs.gov/newsroom
[2] https://www.irs.gov/newsroom/irs-operations-during-the-appropriations-lapse
[3] http://fortune.com/2018/10/31/2019-tax-refund-higher/
[4] https://www.irs.gov/newsroom/filing-season-statistics-for-week-ending-november-23-2018
[5] https://www.gobankingrates.com/taxes/refunds/what-americans-do-with-tax-refund/