

# Tax Season Is Here and a Lot of People Didn't Withhold Enough From Their Paychecks

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Photograph by Ian Tyas/Getty Images

With the April 15 deadline approaching, many taxpayers will find they didn't withhold enough money for Uncle Sam in their 2018 paychecks, thanks to the tax law Congress passed in 2017.

The biggest issue is the law's reduction and elimination of some itemized deductions. "With the dropping of itemized deductions, the IRS encouraged people to revise their W4 forms, but probably a lot of people didn't," says Mark Luscombe, principal analyst at tax information provider Wolters Kluwer Tax & Accounting in Riverwoods, Illinois.

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The Government Accounting Office estimated last year that the number of taxpayers who failed to withhold enough money to cover their 2018 tax liability would total about 30 million. That equals about 20 percent of all taxpayers, and represents an increase of about 3 million from 2017.

If your 2017 Adjusted Gross Income (AGI) was \$150,000 or less, your 2018 withholding had to equal either 90% of your 2018 tax liability or 100% of your 2017 liability to avoid a penalty. For AGIs above \$150,000, the requirement is 90% of your 2018 liability or 110% of your 2017 liability.

As for the itemization shrinkage in the 2017 Tax Cuts and Jobs Act, perhaps the most important was the \$10,000 cap placed on state and local income, sales and real estate taxes, also known as the SALT deduction. "That's huge up here in the Northeast," where those taxes are high, says Merrick Shukan, a tax principal at Berdon LLP, an accounting firm in New York City.

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The new tax law also eliminated the miscellaneous itemized deductions category. That includes work-related expenses, such as a home-office, education and subscriptions to professional publications. Miscellaneous deductions also included investment advisory fees, tax preparation fees, and hobby expenses.

"Some people had significant expenses in the miscellaneous area," Luscombe says.

The elimination of the dependent exemption also may be playing a role in under-withholding, Shukan says. This may be offset for some by an increase in the child tax credit, but that only applies to children under 17, he explains.

Many people may not have realized that they are now entitled to less allowances for their withholding payments and thus didn't have enough money taken out of their paychecks last year. Moreover, the IRS gave employers until March 2018 to implement the new withholding tables, making it easier to under-withhold, Luscombe points out.