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THE TAX CUTS AND JOBS ACT HURTS SINGLE PARENTS WITH CHILDREN PURSUING A COLLEGE EDUCATION

Michelle Susong Freeman[*] and Alyssa Reed[**]

This article highlights some instances where the Tax Cuts and Jobs Act (TCJA) increased taxes for single parents at the moment their children are pursuing a college education. The article further recaps education credits that were saved (but not increased) by the TCJA and a deduction that was lost. The authors also discuss an implication of the TCJA that could cause the burden on families sending children to college to increase further. Finally, the article captures items that legislators could enact to relieve the additional burden on families with students pursuing a college education.

Keywords: Trump Tax Plan; TCJA; College Education Tax Incentives

INTRODUCTION

As with any new tax law, there are winners and losers. However, upon examination of the Tax Cuts and Jobs Act (TCJA), some middle-class families (who would supposedly benefit greatly from tax cuts in TCJA) actually lost. As one of the authors sat in her living room and watched a recent ad from a political candidate in Tennessee proclaim to constituents how she backed this tax plan because it would help single mothers raising children, the author found the incensed motivation to inform taxpayers that TCJA does NOT help all those it proclaims to benefit.

[*] Dr. Michelle Susong Freeman is an Assistant Professor and Graduate Coordinator of the M.Acc. program at East Tennessee State University. She also currently serves as the Appalachian Chapter President of the Tennessee Society of Certified Public Accountants. E-mail: freemanms@etsu.edu.

[**] Miss Alyssa M. Reed will soon be licensed as a CPA, having passed all parts of the CPA exam. She is a recent graduate of the ETSU M.Acc. program, and she works as a staff accountant for Blackburn, Childers, and Steagall, CPAs in Johnson City, Tennessee. E-mail: areed@bcscpa.com.

The candidate touted the reduction in tax rates for all Americans. The provisions of the TCJA temporarily through 2025 replace the existing tax brackets for individuals (10%, 15%, 25%, 28%, 33%, 35%, and 39.6%) with new brackets (10%, 12%, 22%, 24%, 32%, 35%, and 37%) and specify the income levels that apply for each bracket (Tax Cuts and Jobs Act of 2017, § 11001). The TCJA did in fact reduce tax rates, but this did not result in an automatic decrease in taxes as most people were initially led to believe.

This article highlights instances where the TCJA increased taxes for single parents at the moment their children were attending college. Furthermore, the authors summarize education credits still available after the TCJA and an education tax deduction that is no longer available. The authors also offer proposals that legislators could implement to relieve the additional burden placed on families with students pursuing a college education.

I. TCJA Additional Burden on Single-Parent Families with College-Bound Children

Let's first paint the picture of the middle-class voters. Numerous citizens would like to help others with donations to charitable organizations. Some also value home ownership. Given these two items, many of these voters would probably itemize their deductions, assuming they give approximately 10 percent (a biblical standard level of giving) or more of their income to charity, pay mortgage interest, and pay property tax. The single parent who falls into this scenario may be surprised to see their taxes increase instead of decrease beginning in 2018 with the implementation of the provisions of the TCJA.

In an effort to simplify tax calculations, the TCJA increased the standard deduction (Stossel 2017). Specifically, Section 11021 of the TCJA increases the standard deduction to $18,000 for head-of-household filers, while under prior law the standard deduction was $9,350 (Tax Cuts and Jobs Act of 2017, Part III, § 11021). As a result, more taxpayers will choose the standard deduction instead of the complex calculation of itemized deductions, thus achieving tax simplification to some degree (Stossel 2017). At first glance, most taxpayers would believe that this nearly doubling of the standard deduction results in tax savings. However, if the taxpayer formerly itemized deductions (predominantly due to their choices to give to charitable organizations and to own a home as in the scenario described in the paragraph above), the increase in the standard deduction may not have reduced taxable income significantly or at all, because their itemized deductions were already very close to or at the same level as the new standard deduction. As a result, choices to give to charity or to own a home are no longer rewarded by the tax code for most middle-class single parents.

Moreover, taxable income increases with the loss of the deduction for personal exemptions, which are suspended by the TCJA through 2025 (Tax Cuts and Jobs Act of 2017, § 11041). As a result, the personal exemption of $4,050 that could be taken for the taxpayer, the taxpayer's spouse, and the taxpayer's eligible dependents (up to age 24 if they were attending college) is temporarily eliminated. The picture darkens more for taxpayers with multiple children and the loss of the personal exemption for each one (Losing the $4,050 Personal Exemption in 2018).

Other provisions of the TCJA somewhat offset the loss of personal exemptions with an increased child tax credit through 2025 that applies dollar for dollar against the final tax calculation. TCJA Section 11022 modifies the child tax credit to temporarily (1) increase the credit to $2,000 from $1,000 per qualifying child under the age of 17 and (2) allow a $500 nonrefundable credit for each dependent of the taxpayer under age 17 who is not a qualifying child (Tax Cuts and Jobs Act of 2017, § 11022; I.R.C. § 24(h)). However, the $2,000 credit only applies to children less than age 17, the same age as under the law in effect before the TCJA. Therefore, families with children between the ages of 17 and 24 who are attending college lost the personal exemptions and are ineligible for the $2,000 credit. The TCJA does allow a $500 tax credit for other dependents that would apply to a relative who qualifies as a dependent (other than a qualifying child) attending college between ages 17 and 24, but the qualifying relative cannot earn more than $4,050 in income per year (Tax Cuts and Jobs Act of 2017, § 11022). If a qualifying relative has a part-time job and earns more than this amount, they are not eligible for the credit. Therefore, the credit for other dependents does not apply to many college students.

Let us now examine the specifics of how the provisions of the TCJA apply to a single taxpayer with children who attend college. Assume the taxpayer is a single mother with three children aged 17, 19, and 21. She is a homeowner and a charitable giver with income of $80,000 and itemized deductions of approximately $17,000 per year.

Under prior law, she would have deducted $17,000 of itemized deductions and one personal and three dependent exemptions of $4,050 each ($16,200 in total exemptions) for a total deduction of $33,200, leaving taxable income of $46,800. The resulting tax under head of household rates would have been approximately $6,353. (See Figure I below.)

Figure I: Tax Liability for Head of Household Status Parent with Three Children under Prior Tax Law

Taxpayer Status	Head of Household
Number of Children	3
Ages of Children	17, 19, and 21
Number of Exemptions	4
Exemption Amount	$ 4,050
Income	$80,000
Itemized Deductions:	
Mortgage Interest	$ 6,000
Taxes	1,500
Charitable 10% income	8,000
Sales Tax	1,500
Total Itemized	$17,000
Standard Deduction	$ 9,350
Exemptions:	
Number of Exemptions	4
Exemptions Amount	$ 4,050
Total Exemptions	$16,200
Taxable Income	$46,800
Tax Before Credits	$ 6,353
Child Tax Credit	0
Tax	$ 6,353

Under changes enacted by the TCJA, the head of household taxpayer gets an $18,000 standard deduction (increased from $9,350 in 2017) without any personal exemptions, leaving taxable income of $62,000 (an increase in taxable income of $15,200) (Tax Cuts and Jobs Act of 2017, §§ 11021, 11041). The tax under head of household rates on this taxable income is approximately $6,688 after the additional tax credit. The increase in taxable income of $15,200 is not offset by the reduction in tax rates cited in the Introduction. The $2,000 child tax credit (previously $1,000) does not

help reduce taxes during traditional college years because it does not apply once a child turns 17. If the children are ineligible for the $500 additional credit for a qualifying relative tax credit, the tax is reduced by $1,500 for the three children (Tax Cuts and Jobs Act of 2017, § 11022). (See Figure II below.)

Figure II: Tax Liability for Head of Household Status Parent with Three Children under the TCJA

Taxpayer Status	Head of Household
Number of Children	3
Ages of Children	17, 19, and 21
Number of Exemptions	4
Exemption Amount	$ 0
Income	$80,000
Itemized Deductions:	
Mortgage Interest	$ 6,000
Taxes	1,500
Charitable 10% income	8,000
Sales Tax	1,500
Total Itemized	$17,000
Standard Deduction	$18,000
Exemptions:	
Number of Exemptions	4
Exemptions Amount	0
Total Exemptions	$ 0
Taxable Income	$62,000
Tax Before Credits	$ 8,188
Child Tax Credit	0
Credit for Other Dependents ($500 per child)	1,500
Tax	$ 6,688

As a result, the tax increases by approximately $335 in each year that the three children are under age 24 and attending college due to the loss

of the personal exemption. This increase is not pocket change to a single parent with college-bound children, especially when multiplied by the number of years they are in school. Therefore, the TCJA did not cut taxes for many single parents whose children attend college, but rather it increased them. At $85,000 of income, the difference in the tax liability between the old tax law and the TCJA is $710 per year. Ironically, if income continues to increase, the tax difference under the old tax law and the TCJA begins to decrease and become a tax savings.

II. EDUCATION BENEFITS UNDER THE TCJA

One would have hoped that, with the increases in taxes for single parents with college-bound children, Congress would have considered increasing college tax incentives to relieve the extra burden placed on them. However, not only did the education credits not increase, but one of the education tax deductions was allowed to expire at the end of 2017. Let us examine what remains after the TCJA as far as education tax benefits are concerned.

The most popular education tax benefit is probably the student loan interest deduction. It is incredibly beneficial considering the average student graduates from college with over $30,100 in student debt (DiGangi 2017). As individuals pay interest on this debt, they can deduct up to $2,500 of the interest to lower their taxable income (I.R.C. § 221(b)(1)). Some preliminary versions of the bill proposed removal of this deduction (Perez 2018b). However, with over 12 million Americans utilizing the deduction, Congress relented and the TCJA did not alter the deduction (Schwartz 2017; Tax Cuts and Jobs Act 2017).

Another education tax benefit, the American Opportunity Credit, is usable during the first four years of a student's post-secondary education for tuition and related education expenses. This credit lowers tax liability by up to $2,500 and is refundable up to 40 percent, with a maximum refund of $1,000 subject to phase-outs based on income (I.R.C. § 25A(i)). In addition, the Lifetime Learning Credit is available to students at qualified education institutions for 20 percent of qualified tuition and related expenses paid by the taxpayer up to a maximum of $2,000 (I.R.C. § 25A(c)(1)). These credits remained after the enactment of the TCJA, but the maximum credit does not increase for inflation.

Unfortunately for parents, the Tuition and Fees Deduction, which allowed for a tax deduction for up to $4,000 of qualified tuition and related expenses, perhaps the most well-known education tax benefit, was allowed to expire at the end of 2017. The expiration of this tax deduction is estimated to increase the tax liability for individuals who would have claimed the deduction by up to $880, based on a $4,000 increase to taxable income taxed at 22 percent (using 2018 tax brackets), which is the maximum tax bracket a taxpayer could be in to claim the tax deduction (Perez 2018a).

III. ANOTHER POSSIBLE DISMAL EFFECT OF TCJA

Parents of students might also notice an *indirect* impact on the education expenses of their children. As discussed above, the amount of the standard deduction almost doubled under the provisions of the TCJA, providing less of an incentive for parents to itemize deductions (Mishkin 2017). Many religious institutions are concerned regarding the projected decrease in donations as a result of fewer people itemizing deductions due to the increase in the standard deduction. In fact, total charitable giving is expected to decrease by about $20 billion in 2018 as approximately 20 million fewer Americans will take charitable contribution deductions (Gleckman 2018).

Should universities be concerned? Many alumni donate to the university they attended through tax-deductible charitable contributions. With the increase in the standard deduction and less need to itemize, there is less incentive to donate. Will higher education institutions need to seek funding elsewhere? If this is the case, students may have higher tuition costs as the university seeks to recover lost charitable contributions. This presents an interesting argument that the TCJA not only directly increases education expenses by eliminating personal exemptions and its allowance of the expiration of the Tuition and Fees deduction, but the TCJA might also have indirect consequences on education expenses. This indirect effect would be the higher tuition universities may have to charge to fund their operations in an environment of fewer charitable donations.

IV. IS THERE A FIX TO THE PROBLEM?

Legislators who want to continue to encourage college education for American families should jump on the opportunity to fix this problem in the TCJA. At a minimum, the $2,000 child tax credit should continue for dependents enrolled in college in the same way that the dependency exemption was allowed for dependents who were students. Other possible solutions would be to increase the American Opportunity and Lifetime Learning Credit amounts and reduce their phase-outs. Still yet, congress could reinstate the tuition and fees deduction. There are solutions available if Congress desires to alleviate the inadvertent increase to the middle-class tax burden.

CONCLUSION

The question becomes, who benefitted? Robert Flach (2018) stated the following in a recent article:

> While not the disaster that the Democrats insist it is, the Tax Cuts and Jobs Act is not the "massive tax cut" the Republicans claim. For a large portion of the middle class, the benefit of lower tax rates is wiped out by the loss and limitation of deductions, and, in some states, can actually result in a net tax increase. And the bill most certainly does

> provide substantial, if not "massive," tax cuts for wealthy taxpayers like President Trump and his family. (para. 2 and 3)

Wealthy individuals with children who are too old for the parents to claim a personal exemption will see a huge decrease in their taxes. Their tax rates decreased profoundly, and they had no dependency exemptions to claim. They can also choose between an almost doubled standard deduction or itemized deductions, both of which are no longer subject to phase-outs based on income levels. Both their tax rates and their taxable incomes decreased under the TCJA. Those individuals definitely came out ahead at the expense of single parents with children attending college. The TCJA does NOT reward many middle-class taxpayers. It does not motivate, or even reward, charitable giving. Furthermore, it does not reward or motivate home ownership. It does not help single parents trying to send their kids to college. The TCJA actually hurts the single parent at a stage in life when they need the most assistance.

The political ads on television that espouse the TCJA to be the best thing ever for middle-class taxpayers are misleading. The willingness of candidates to prey on the lack of knowledge on behalf of the taxpayers to push their own agendas is disturbing. Single individuals (with college-bound children) who once itemized deductions on their returns are funding tax breaks to corporations and wealthy Americans. Unfortunately, Congress allowed this shift to become law. They should now move quickly to rectify the undue burden it has created for single parents with children pursuing a college education.

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