Experts Warn New IRS Tax Rules Are a ‘Double Whammy’ for Families

Description

After the Internal Revenue Service issued several releases warning about potentially lower tax refunds this filing season, some analysts say that it could put strain on some families who may have anticipated an expanded child tax credit.

Analysts Sound Off

Financial expert Lynnette Khalfani-Cox told NPR on Jan. 22 that there are “four main reasons” that cause will cause 2022’s returns to be smaller.

“The first is: no more stimulus checks. The second is that what was called the enhanced child credit—that’s gone,” she noted. A third reason is that a pandemic-era tax break for charitable deductions was killed for this year, she said, noting that the fourth reason is because some individuals might face taxes on investment gains.

Joe Buhrmann, a financial planner and senior financial planning consultant at eMoney Advisor, told CNBC on Friday that the smaller refunds this season and relatively high inflation could be a “double whammy” and “nasty surprise” for some people, namely families.

Tax breaks that were implemented for 2021’s taxes have returned to prior levels, the Internal Revenue Service (IRS) has said. The child tax credit dropped back to a maximum of $2,000 per child.

The Consumer Price Index, a key metric used to measure inflation, went up by 5 percent in December 2022, according to the Department of Labor’s latest statistics published last week. That’s down from the 5.5 percent year-over-year increase that was seen in November of last year.

“That’s money out of refunds right there,” Buhrmann noted, referring to the child tax breaks.

“But a whole bunch of taxpayers actually received what’s called a recovery rebate credit,” Khalfani-Cox also said. “And they got $1,400 per person on their 2021 taxes,” plumping their tax refund or lowering their bill. “But now that’s gone,” she remarked.

What the IRS Says

In a recent news release, the IRS said that some taxpayers should expect a smaller refund due to the expiration of pandemic-related stimulus payments and changes to child credits.

For example, the child tax credit is one benefit that will shrink when parents file their 2022 taxes. Normally, parents get about $2,000 for each of their children, but in 2021, the benefit increased to $3,600 for every child under 6 and $3,000 for minor children aged 6 and older.

The IRS has already issued notices about potentially smaller tax refunds, noting in November that “taxpayers will not receive an additional stimulus payment with a 2023 tax refund because there were no economic impact payments for 2022.”

Additionally, the agency said, it will be more difficult to claim a deduction for a charitable contribution on a 2022 tax return.

“The IRS cautions taxpayers not to rely on receiving a 2022 federal tax refund by a certain date, especially when making major purchases or paying bills,” the agency said. “Some returns may require additional review and may take longer.”

How to Get the $2,000 Child Tax Credit

Families can still claim the full $2,000 child tax credit when they file their 2022 return. However, only up to $1,500 of the credit is refundable, noted TurboTax in a recent release. The increased child tax credit was fully refundable under 2021’s rules.

For 2022’s tax year, a “child must have been under age 17 (i.e., 16 years old or younger) at the end of the tax year for which you claim the credit,” the tax company says. And the child has to be either your own child, an adopted child, a stepchild, or a foster child.

The parent or guardian has to claim that child—who must either be a U.S. citizen or U.S. resident alien—as a dependent on the 2022 tax return. The child must have lived with the parent for more than six months, be under the age of 19 or under the age of 24 and a full-time student or disabled, and the child cannot have provided more than half of his or her own financial support during the tax year.

by Jack Philips

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