Lower Tax Refund This Year? You're Not Alone

Many Americans are getting lower tax refunds this year, in part due to passage of the Tax Cuts and Jobs Act in late 2017. But that doesnt mean they are paying more taxes.

As of mid-February, the average federal tax refund was $2,640, down 16% from last year.

If you were counting on a big tax refund this year, you may be disappointed. In fact, as of February 15, refunds were down significantly from last year. As of that date, the average refund was $2,640, down 16% from $3,169 last year. Although this average climbed later in the month, the number of taxpayers getting refunds is also down.[1] As of February 15, the IRS had issued just 23,485,000 tax refunds, down 26.5% from 31,937,000 for the same period last year. The total amount of tax refunds issued was approximately $62 billion, nearly $40 billion off of the pace from last year -- a drop of almost 40%.[2]

But smaller refunds don't necessarily mean that people are paying more taxes. In fact, the Tax Cuts and Jobs Act (TCJA), passed in late 2017, actually lowered taxes for most Americans. But TCJA changed rates, brackets and -- importantly -- withholding tables, the guides employers follow to deduct the proper amount of income tax from each employee's paycheck. Under the new law, many people saw less money taken out of their paychecks, which has led to smaller tax refunds.

TCJA also made a number of other changes that could result in a lower refund this year. Most significantly, the itemized deduction for state and local taxes, including income and real estate taxes paid, is now limited to a maximum of $10,000. For those in high-tax states such as California, New York, or New Jersey, the change could significantly reduce their total deductions for 2018. Likewise, for homebuyers taking mortgages after December 15, 2017, the amount of mortgage debt that can qualify for an interest deduction is limited to $750,000, although older mortgages are grandfathered. Both changes could actually raise taxes for some individuals.

W-4s and More

If you do get a lower refund, that may be a good thing. It means that your tax withholding is more closely tracking your taxable income for the year. That means bigger after-tax paychecks each pay period.

On the other hand, you may be among the many taxpayers who over-withhold on purpose as a way to save. For many, their tax refund represents the largest lump payment they will receive all year. If you count yourself among this group, you can increase the odds of a larger refund by claiming fewer withholding allowances on

Form W-4 and submitting the change to your employer. The fewer allowances you claim, the more income tax will be withheld from each paycheck, which may result in a refund. You can adjust your W-4 at any time during the year, but adjustments made later in the year will have less impact on your taxes, and potential refund, for that year.

Alternatively, you could save on your own by setting up automatic payroll contributions to a savings or investment account, allowing you to potentially earn interest instead of Uncle Sam.

Lower refunds don't necessarily mean lower taxes. A better gauge of how much taxes you are paying is to compare your total tax on your Form 1040 for 2017 (Line 63) and 2018 (Line 15). To calculate your effective tax rate for both years, divide your total tax by total taxable income (Line 63/Line 43*100 for 2017; Line 15/Line 10*100 for 2018).

[1]CBS News, MoneyWatch, *The average tax refund is down more than $500 this year*, February 26, 2019.

[2]Forbes, *As Tax Season Rolls On, IRS Still Reporting Fewer Returns & Smaller Refunds*, February 25, 2019.