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Tax changes will have negative impact on some transport workers

Popular itemized deductions either capped or suspended starting with filings for 2018 and beyond

In December, the United States Congress passed and President Donald Trump signed into law the Tax Cuts and Jobs Act (TCJA) that made sweeping changes to the nation's tax code, providing tax cuts to individual taxpayers as well as to businesses and corporations, both large and small. After its signing, proponents said that the TCJA also would benefit the middle class.

Some workers employed in the transportation industry may actually see their taxes increase as a result of the TCJA.

"Our massive tax cuts provide tremendous relief for the middle class and small businesses," President Trump stated at the time.

Tax experts say the middle-class benefits derive mostly from an increase in what is known as the standard deduction that individual taxpayers can claim when they file in 2019. As a result of that increase, the standard deduction will nearly double from $12,700 in 2017 to $24,000 in 2018 for a married couple filing jointly, increase from $6,350 to $12,000 for single filers and go from $9,350 to $18,000 for heads of household. These increases

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OVER-THE-ROAD WORKERS FACE DEDUCTION LOSSES*

A married, working train service employee with no children and younger than 65 could lose more than $3,000*

	2017 tax law	2018 TCJA
Standard deduction	$12,700	$24,000
ITEMIZED DEDUCTION BREAKDOWN		
Total taxes (property, sales, etc.)	$11,796	$10,000
Interest	$12,530	$12,530
Charitable contributions	$1,460	$1,460
Job expenses/unreimbursed business expenses	$16,304	$0
Total itemized deductions:	$42,090	$23,990
Greater of standard or itemized deductions:	$42,090	$24,000
Tax result:	**$333 REFUND**	**$2,749 OWED**

Example 2: Another married over-the-road employee under age 65 could lose $891*

	2017 tax law	2018 TCJA
Standard deduction	$12,700	$24,000
ITEMIZED DEDUCTION BREAKDOWN		
Total taxes (property, sales, etc.)	$10,711	$10,000
Interest	$7,693	$7,693
Charitable contributions	$2,545	$2,545
Job expenses/unreimbursed business expenses	$9,720	$0
Total itemized deductions:	$30,669	$20,238
Greater of standard or itemized deductions:	$30,669	$24,000
Tax result:	**$1,691 REFUND**	**$800 REFUND**

** These examples of the effects of the TCJA on deductions were provided by SMART TD Alumni Association member Bill Smith of Smitty's Tax Solutions in North Platte, Neb. Members' individual tax situations will vary. Members are urged to consult a professional adviser to see how the TCJA may change your tax situation. These figures are not intended to project total tax due on the 2018 return.*

Tax changes will have a negative impact on the returns of some transportation workers

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"Don't get me wrong, some people get small tax cuts, but anyone on a train loses. This is an attack on unions and on the working class of the United States."

Bill Smith,
owner of Smitty's Tax Solutions,
which serves more than 300 rail clients

will no doubt benefit taxpayers who utilize the standard deduction to prepare their taxes.

However, experts advise that some workers employed in the transportation industry may actually see their taxes increase as a result of the TCJA. While the standard deduction was increased, other deductions commonly used by SMART Transportation Division members were eliminated. Many of our members will be paying higher taxes, especially over-the-road workers, when they file a year from now.

Individual tax situations among SMART TD members vary greatly, and it's imperative that members consult with a tax professional to discover how these changes may affect them.

Why will some transportation workers be paying more in tax after implementation of the TCJA? There are many factors involved. For example, what was known as the personal exemption is now gone — a tax filer used to be able to reduce about $4,000 off their taxable income per person in his or her household. This is somewhat offset by a doubling of the tax credit by the TCJA from $1,000 to $2,000 per dependent child.

But the biggest issue is that the increase in the standard deduction, when coupled with the reduction and elimination of other deductions commonly used by transportation workers, will knock a lot of people out of itemizing, said Nathan Rigney, lead tax research analyst at The Tax Institute at H&R Block. According to data from H&R Block, about 30 percent of Americans itemize deductions to reduce their tax burden. To do that, taxpayers' itemizations must exceed the standard deduction. Those higher standard deductions and two other substantial changes by the TCJA to itemizations are where SMART TD members might see more coming out of their pockets, Rigney said.

First, miscellaneous itemized deductions such as unreimbursed employee expenses are eliminated. These unreimbursed out-of-pocket expenses are things such as away-from-home meals, union dues and work clothes which are usually filed on Form 2106. For employees, Rigney said, "Those cannot be deducted. That's the big deal — all unreimbursed business expense deductions go away." Elimination of the away-from-home meal deduction is a loss of about $50 per day, a total of up to $13,000 to $14,000 per year for a worker who was previously entitled to claim the deduction.

Rigney advises that another major blow to itemizers is a limit on the ability to deduct state and local taxes (SALT). "For those who would otherwise still itemize – all state and local taxes they were previously able to deduct will be subject to a $10,000 cap. This includes state, locality and property taxes they pay – real property and personal property taxes as well," Rigney said.

Some of the states with the highest individual income taxes include California, Iowa, Oregon, Minnesota, Maine, New Jersey, New York and Vermont. States with the highest median property values where homeowners pay more in property taxes are on both coasts with a couple in between: Alaska, California, Colorado, Connecticut, Delaware, Florida, Massachusetts, New Hampshire, New Jersey, New York, Oregon, Rhode Island, Utah, Virginia and Washington.

Members in all those states can look forward to an increase in tax over what they had previously paid if their SALT taxes exceed that $10,000 cap.

Of course, the railroads' business expenses are still tax-free. "If an employer reimburses employees for out-of-pocket travel expenses, the employer can deduct the reimbursed amount," Rigney said. In addition, unlike individuals, businesses and corporations have no limit on the amount of SALT taxes that they can deduct from their income.

This favoring of corporations over workers was confirmed in testimony given in November before the U.S. House Ways and Means Committee by Thomas Barthold, the chief of staff for the nonpartisan Joint Committee on Taxation that assists Congress on tax policy. When asked about the ability of corporations to deduct the cost of materials, property taxes and other expenses from their tax bills by U.S. Rep. Suzan DelBene, a Democrat from Washington's 1st District, Barthold responded that "as ordinary and necessary business expenses, the taxes attributable to earning income would be deductible."

The inequitable outcome of preserving the deduction of employee business expenses for corporations while taking the same deduction away from workers is something that doesn't sit well with Bill Smith, of North Platte, Neb., a SMART TD Alumni Association member from Local 286 who has been doing taxes for more than 300 rail clients since his retirement in 2011.

"Don't get me wrong, some people get small tax cuts, but anyone on a train loses," Smith said. "This is an attack on unions and on the working class of the United States." Bottom line: "Companies get to save, workers foot the bill," Smith said.

What to do?

Rigney said that there are things members can do to avoid a nasty surprise a year from now in the form of a balance due courtesy of the TCJA. "First thing they can do – find a calculator. These changes will affect virtually all taxpayers," Rigney said. "Do research and see how their situation is affected."

Both the IRS (https://www.irs.gov/payments/tax-withholding) and H&R Block (https://www.hrblock.com/tax-calculator/) offer tax calculators that, based on data entered, tell users how the TCJA affects them.

Members should then go to their employer and redo their W-4 form based on the calculator's findings so that the correct amount is withheld. "They may have been withholding enough before, but If they don't revisit their W-4, they could end up with a bigger refund or — worst case — a balance due," Rigney said.

For those in high income or property tax states such as the ones listed above, Rigney tells taxpayers to be vigilant.

A thorough review of prior returns and deductions, measured against the changes imposed by the tax act, is absolutely necessary to ensure no unwelcome surprises. In addition, there could be remedies to save some credits that would otherwise be lost under the TCJA's cap. "They should keep an eye on the state level," Rigney said. "New Jersey and California, in particular, are looking at a way to soften the blow."