The Tax Cuts and Jobs Act and the individual taxpayer

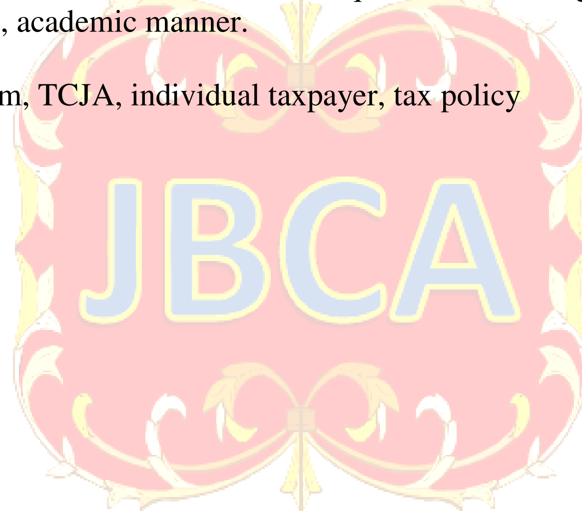
Joanna L. Garcia
John Carroll University

Tripp Petzel
John Carroll University

ABSTRACT

This case examines the effects of the Tax Cuts and Jobs Act of 2017 on individual taxpayers. In the context of a small accounting firm whose clients are asking questions about how the new tax law will affect them, four taxpayer scenarios are presented, and students are asked to determine the taxpayers' taxable income and tax liability under current and new tax law. Students are then asked to compare the results and draw some conclusions about how the new law affects taxpayers in a broader sense. Discussion questions encourage students to think about tax reform in an unbiased, academic manner.

Keywords: Tax, tax reform, TCJA, individual taxpayer, tax policy



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THE CASE

Cordell Hayward and Claudia Jansen are partners in a small, boutique accounting firm, C&C CPAs, LLP. After working for a Big 4 public accounting firm for several years, they decided fifteen years ago to start their own firm. Over time, they have built up a sizeable clientele of individual and private company clients. Their firm is located in Cleveland, Ohio, and most of their clients are local. They do have several out of state clients, mainly individuals who have moved out of the area but continue to have C&C prepare their tax returns.

Following the passage of the Tax Cuts and Jobs Act of 2017, C&C has been fielding many questions from their clients about what the new law will mean for their taxes. Cordell and Claudia have been following the legislation for several months, but now that the Act has been signed, they realize that they need to be able to provide solid answers to their clients.
As clients are beginning to send in their 2017 tax information, Cordell and Claudia have decided to select a few of their clients and prepare their taxes under both the old and new tax laws. They have chosen clients with a range of personal situations, which they expect will give them a clearer picture of the impact of the new legislation.
The clients Cordell and Claudia selected are:

1. Mark and Mary Watson, a couple with two adult children
2. Jason and Jocelyn Pederson, a couple with two young children
3. Renata Cruz, a young, single woman with no children
4. Darryl Hubbard, a single father of three children

Mark and Mary Watson

Mark and Mary Watson (age 56 and 58, respectively) are empty nesters who reside outside of Houston, Texas in a master-planned community named The Woodlands. Their two children, Michael (age 23) and Martha (age 22) have graduated from college and they both live and work in Dallas. While the Watsons miss having their children at home, they are enjoying their newfound financial freedom. They have started thinking about retirement and possibly relocating to their favorite vacation destination, Hilton Head Island, South Carolina, for their golden years. The Watsons have been responsible savers and have more than enough money in their 401(K) accounts to enjoy a comfortable retirement.

Mary is the operations manager of Hook'em Forever (an S Corporation for tax purposes), a Houston-based marketing firm, and is very active in the business. Two years ago, Mary was also presented with a 2% ownership stake in Hook'em Forever as a reward for being with the company for 25 years. She started her career in the Cleveland office of the firm, then transferred to the main Houston office several years ago. Mark is a financial analyst for Buzz Energy, a Houston-based energy company. Mark and Mary first retained the services of C&C CPAs when they lived in Cleveland, and have continued to work with them since moving to Texas.

During 2017, Mary earned a salary of $174,000 from her position at Hook'em Forever. Additionally, her share of Hook'em Forever's ordinary income was $25,000. Mark earned a salary of $129,000 from Buzz Energy. Although both Mark and Mary graduated from college with business degrees, they are not overly active with making investments. They contribute to their employer-sponsored 401(K) accounts, but do not have any other sources of income. In

2017, both Mark and Mary contributed the maximum amount to their 401(k)s, including the catch-up contribution for taxpayers over the age of 50.

The Watsons purchased their current home in 2009 for $450,000. To purchase the home, they took out a $360,000, 30-year fixed-rate mortgage. In 2017, they paid $9,650 in mortgage interest and $10,400 in property tax on the house. They also paid approximately $1,900 of sales tax on their purchases during the year. In 2014, the Watsons took out a home equity loan of $75,000 to pay for a major kitchen renovation in their home. They paid $1,200 in home equity interest in 2017. The Watsons donated $2,000 to the business school at their alma mater.

Jason and Jocelyn Pederson

Jason and Jocelyn (age 35 and 34, respectively) Pederson met in college and lived in downtown Cleveland for several years before getting married and moving to the suburbs. After a few years of enjoying the quiet life, the Pedersons decided to start a family. Their daughter, Emma, was born in 2014. They recently welcomed their second child, Ethan, to the family in July 2017. The Pedersons live in Bainbridge, Ohio. Bainbridge is a beautiful, somewhat rural setting located about 45 minutes southeast of Cleveland. They are considering moving to a larger home closer to the home office of Jason's employer, Private Capital Advisors, Inc., a private equity advising company located in Akron, Ohio. Jason's mother is good friends with Claudia Jansen, and he and Jocelyn have been clients of C&C CPAs for about 10 years.

During 2017, Jason earned a salary of $325,000 from his position at Private Capital Advisors, Inc. Jocelyn was an elementary school teacher before Emma was born, but has since decided to be a stay at home parent until Ethan reaches kindergarten age. Jason and Jocelyn have some investments, which earned $4,750 of qualified dividends and $420 of interest income in 2017.

The Pedersons purchased their current home in Bainbridge in 2011 for $525,000 and took out a $400,000, 30-year fixed-rate mortgage to acquire the residence. In 2017, the Pedersons paid $12,250 in mortgage interest. The real estate taxes on their current home are $9,180 per year. Jason had $10,160 of Ohio income tax withheld from his paycheck.

The Pedersons are very active with their church and contributed $5,150 in 2017. They also contributed $1,000 to join the booster club at nearby Erie State University. The Pedersons are big football fans, and Erie State has one of the top football programs in the Midwest. Membership in the booster club gives them the right to purchase tickets for home games.

Renata Cruz

Renata Cruz graduated from Bayshore University in California four years ago, with a degree in graphic design. Since then, she has been working in marketing in San Francisco. She has been struggling a bit financially, so when a position opened up with a well-respected design firm in her native Cleveland, she decided moving back to the Midwest made a lot of sense. Her parents still live there, as do several of her high school friends, and the cost-of-living is much lower than in California. She got the job, and moved to Ohio in May of 2017. She expects the move will help her get a more solid financial foundation before she gets older and wants to start a family.

Renata generally prepares her own taxes, but she is a feeling a little nervous this year, with the move, splitting the year between California and Ohio, and all the talk she has been

hearing about new tax laws. Her parents have been clients at C&C CPAs for many years, and suggested she have them prepare her returns this year.

Renata is 26 years old, and single with no children. In 2017, she earned a salary of $12,000 from her old job in California and $32,000 from her new job in Ohio. She also received dividend income of $800 from some stock her parents gave her when she was a child. For the last few years, she has been steadily paying off the loans she took out to pay her tuition at Bayshore University. In 2017, her payments totaled $5,500, of which $2,600 was for interest.

As part of the new job offer, the firm committed to reimburse Renata up to $5,000 for her moving expenses. She kept all of her receipts, and submitted the following:

Packing and transportation of household goods	$4,500
Hotel stays while she drove her car from CA to OH	480
Meals during the trip	140
Security deposit for her new apartment	1,000
Fees to get an Ohio driver's license and plates	60

She also tracked her mileage. She drove 2,500 miles from San Francisco to Cleveland. Renata was reimbursed the full $5,000.

During 2017, Renata paid dues of $200 to the American Association of Graphic Design and $180 to the Ohio Graphic Arts Society, two professional associations for designers. She also paid $400 for a continuing education workshop she attended, and $100 for a subscription to Design Weekly. None of these costs were reimbursed by her employer.

Renata makes regular contributions to the Humane Society of $50 per month. Before moving, she donated $500 worth of clothing and household items to Goodwill. In January of 2017, she paid $150 of personal property tax to the state of California for her car for the prior year. She had $230 withheld from her California salary for state taxes, and $740 withheld from her Ohio salary. She did not pay any other state or local income tax.

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Darryl Hubbard

Darryl Hubbard (age 46) has been a client of C&C CPAs for several years. His wife, Kim, was a CPA and always prepared their tax returns herself. She passed away in 2011, and Darryl found he needed some help with the taxes. He had met Cordell Hayward several times at professional events he attended with Kim, and he decided to engage C&C to prepare his returns starting in 2012. Darryl is a high school chemistry teacher in Beachwood, Ohio, a suburb of Cleveland. He has three children— Dwayne, Devin, and Kallie.

Dwayne is 20 years old and a sophomore at Buckeye University in Cincinnati, Ohio. He lives on-campus with two roommates during the school year, but comes home during breaks. He had a summer job in 2017 and earned $4,500, which he uses for personal expenses like clothes and going out with friends. Darryl pays Dwayne's tuition, room, and board. Dwayne expects to graduate in the spring of 2020 with a degree in computer science. Devin is 16 years old and a high school student. He plays football and will probably get a scholarship to go to college when he graduates. Kallie is 10 years old and in 5th grade.

Beachwood is one of the highest-paying school districts in Ohio, and having taught in the district for over 20 years, Darryl earns a salary of $86,000. Though the school covers most of the costs for supplies in his classroom lab, he sometimes has to spend his own money for extras, like

a classroom subscription to an online chemistry simulation website that his students use to run experiments they cannot do in the classroom. He estimates that he spent $600 on supplies this year. Darryl frequently stays after school to help students, prepare lessons, and grade papers. Devin also stays late for football practice, and even though Kallie is very mature for her age, Darryl is not comfortable with her being home alone after school. Her elementary school provides after-school care for students, and Kallie goes there until Darryl picks her up on his way home. He paid $4,500 for after-school care in 2017.

Darryl paid $6,250 of interest for the mortgage on their home in 2017, as well as $4,140 in property taxes. He and Kim bought the house in 2007, taking out a 30-year fixed-rate mortgage for $200,000. He had $2,980 withheld from his salary for state and municipal income taxes. He had to pay a small additional amount, $160, to the state when he filed his 2016 taxes in April. He paid C&C CPAs $1,500 for preparing his 2016 returns. He also makes a regular monthly donation of $150 per month to the Boys & Girls Clubs of Cleveland.

In August, Darryl was in a car accident on his way home from work. No one was hurt, but his car, a 2012 Lincoln Navigator, was totaled. According to Kelley Blue Book, the car was worth $22,000, but unfortunately, the insurance company only reimbursed him for $12,000. He bought the Navigator for $30,000 in 2013.

CASE REQUIREMENTS

1. Based on the information provided above, calculate the 2017 taxable income and tax liability for each of the clients under the rules currently applicable to the 2017 tax year.
2. Calculate each client’s 2017 taxable income and tax liability under the rules of the Tax Cuts and Jobs Act of 2017 (the Act), as if those rules were applicable to the 2017 tax year.
3. For each client, compare your calculations. How does the Act affect their tax situation?

DISCUSSION QUESTIONS

1. Many people who opposed the Tax Cuts and Jobs Act (the Act) argued that it is unfair to lower and middle income taxpayers, even though most taxpayers will pay less tax under the new rules. Explain their reasoning. Do you agree or disagree?
2. Many of the individual provisions of the Act are set to expire in 2025. One permanent change is the adoption of a new standard for measuring inflation, the chained consumer price index. What is the consumer price index? How does this new method compare to the traditional CPI method? How will this impact taxpayers?
3. What are the qualities of a “good tax”? Evaluate the TCJA based on these criteria.
4. Both the Watsons and the Pedersons are considering moving in the near future. How might the Act affect the tax planning around buying and selling a primary residence? How might this affect the U.S. housing market?
5. How would the Watsons’ situation be different (under both the old and new rules) if their children lived at home and were supported by their parents? How would Darryl Hubbard’s situation be different if his son Devin was 17 years old instead of 16? Discuss the trade-off between personal exemptions and the increased child tax credit under the Act.

CASE LEARNING OBJECTIVES AND IMPLEMENTATION GUIDELINES

Case Learning Objectives

This case has relevant applications for both graduate and upper-level undergraduate students studying tax policy and tax reform. The case compares four individual taxpayer scenarios under both the prior tax law applicable to 2017 tax returns and the new tax law enacted in the Tax Cuts and Jobs Act of 2017, which is effective beginning with 2018 tax returns. Whether students learned individual taxation under the old or new regimes, the comparisons they prepare for this case will highlight the differences between the two regimes, and enable students to examine the impact of those differences on individual taxpayers. By studying the differences, they will be better able to assess the TCJA specifically, as well as develop critical thinking skills to assess future tax reform proposals.

The primary objective of this case is to facilitate a discussion of tax reform and tax policy among graduate and upper-level undergraduate students. Specifically, the learning objectives are to:

1. Compare the individual income tax laws in effect during pre- and post-TCJA periods using different real world based scenarios.
2. Investigate various components of the TCJA and their impact on taxpayers.
3. Communicate the results with their professor and classmates. Students should be able to leverage the requirements of the case to respond to the discussion questions outlined above.
4. Develop critical tax thinking skills to assess tax policy changes. Rather than relying on political rhetoric, students should be able to realize the consequences (both positive and negative) of tax policy changes for individual taxpayers through computations and independent research.

Implementation Guidelines

The authors suggest that upper-level and graduate courses use the case to support a discussion of tax policy, including how and why the TCJA was enacted, and how it affects various taxpayers. Instructors should welcome students to question tax policy changes and to offer suggestions on how they would structure such changes. Approximately 45 to 60 minutes should be a sufficient amount of time for students to discuss their findings and to have a discussion on the fairness of tax policy changes.

In-Class or Out-of-Class

Instructors may choose to use this as an in-class, out-of-class, or hybrid assignment. Most of the instructors that piloted the case assigned it as take-home project that students turned in. Some included a class discussion of the results after the assignment was due. One of the authors, in a 2 hour and 45 minute class session, had students prepare the tax calculations in class and then discuss.

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Group or Individual

Instructors may choose to designate this project as an individual assignment or a group project. In either context, they may choose to assign any or all of the taxpayers to each individual or group of students. One of the authors assigned each taxpayer scenario to two groups of three or four students. One group calculated the tax liability under pre-TCJA law and the other group calculated the tax liability under the TCJA. In an in-class situation, this will reduce the amount of time required to complete the initial tax calculations, leaving more time for discussion. The author gave students approximately one hour to calculate the tax liability for their assigned taxpayer. If an instructor chooses to assign different taxpayers to different students, note that the first two scenarios (the Watsons and the Pedersons) are slightly shorter than the last two scenarios (Ms. Cruz and Mr. Hubbard), though they do include AMT calculations if instructors choose to have students consider AMT.

Additional Applications

For more senior students (including graduate students) who have already taken an individual tax course under the prior tax regime, and may receive no formal instruction in the new law, this case could be used as a research project, by having the students investigate the Act independently and then apply their findings to the case scenarios. This will assist them in preparing for the CPA Exam, which will incorporate the TCJA in the Regulation section beginning in January 2019 (AICPA 2018).

Beyond completing the case as described above, instructors could introduce additional elements as appropriate to their class. For example, students could be required to write a memo to communicate their findings. This could be a memo to a specific client, or a more general memo that C&C CPAs could send to all of their clients describing the impact of the Act. Students could also be required to give a presentation of their findings relative to the client scenarios or the discussion questions. One of the authors had each group in their class calculate the tax liability for their assigned taxpayer scenario and law period, and then present their findings using Microsoft Excel. The group with the lowest tax liability error (calculated as 1 minus (Student Group Calculated Taxpayer Liability / Actual Taxpayer Liability) was given a prize.

Additional Implementation Suggestions

The use of Excel is highly recommended for this case study. Instructors can provide a tax calculation template similar to what we have provided for this case or ask their students to develop their own template. Typically, students struggle with the overall structure of the individual tax return and we believe that an Excel-based template provides an effective learning tool for students. Whether instructors provide a template or ask students to prepare a template, students will gain a better understanding of how to use Excel, the flow of the individual tax return, and the terminology used in individual taxation.

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TEACHING NOTES

This section provides some potential responses students may provide to the discussion questions, though they may bring up other points. This information may also provide points for the instructor to raise during an in-class discussion.

Discussion Questions

1. Many people who opposed the Tax Cuts and Jobs Act (the Act) argued that it is unfair to lower and middle income taxpayers, even though most taxpayers will pay less tax under the new rules. Explain their reasoning. Do you agree or disagree?

- Although percentage increases in after-tax income are somewhat constant across income levels, percentage decreases in tax dollars are not. Those individuals or families with higher income levels receive greater percentage reductions in overall tax. This suggests a potential tax burden shift to lower and middle-income taxpayers, and in decrease in the progressivity of the tax system (Kurtzleben 2017).
- The federal corporate tax rate is reduced with the Act. Instead of enabling corporations to use their tax savings to increase wages for lower-income employees, this could lead companies to increase salaries for executives or pay more dividends to shareholders. Those individuals with the ability to invest in corporations would benefit from the increase in amount and frequency of dividend payments.
- The Act is not revenue neutral, which suggests that it will lead to an increase in the federal debt over time, which may lead to slower wage growth and hurt the economy as a whole, which will disproportionately affect lower and middle-income taxpayers (Congressional Budget Office 2018).
- Students' opinions about the TCJA may differ, and they should be encouraged to support their opinion with facts, regardless of whether they supported the legislation.

2. Many of the individual provisions of the Act are set to expire in 2025. One permanent change is the adoption of a new standard for measuring inflation, the chained consumer price index. What is the consumer price index? How does this new method compare to the traditional CPI method? How will this impact taxpayers?

- The consumer price index (CPI) is a measure of how prices are changing for consumers. It is determined by the Bureau of Labor Statistics, based on a basket of consumer goods and services (Ng & Wessel 2017). The basket of goods is updated periodically based on Consumer surveys about purchasing habits. The traditional CPI (CPI-U) has been criticized for not recognizing that consumer adjust their purchasing behavior as prices change. For example, if the price of beef increases, consumers may buy less beef and more chicken. The chained CPI (C-CPI-U) takes the average price of baskets from two successive periods, which will reflect changes in consumer purchasing behavior from one period to the next (e.g., the second basket will give more weight to the price of chicken and less to the price of beef as consumers substitute chicken for beef). This generally results is a slower increase in overall purchasing costs for consumers (Ng & Wessel 2017).
- The use of chained CPI to measure inflation typically has a reducing effect on future growth estimations. Traditionally, CPI was used by the Department of Treasury to

establish the taxable income floors and levels for each tax bracket. If Chained CPI is used to measure inflation rather than Traditional CPI, the magnitude of increase in taxable floors and levels for each tax bracket would be reduced. Therefore, the use of chained CPI could force certain taxpayers into higher tax brackets earlier than if traditional CPI is used to measure inflation. It will also slow the indexing of credits and the standard deduction (Gleckman 2017). Though several economists argue that the chained CPI is a better measure of inflation than traditional CPI, the change will disproportionately affect taxpayers in the lower brackets.

- Policy analysts have also suggested that introducing the chained CPI in the tax code will make it easier for Congress to use it in other areas, including the social security cost of living adjustment (COLA). Reducing COLA in social security and other federal spending programs could save the government $182 billion through 2026, but will also reduce real-dollar benefits for recipients (Johnson 2018).

3. What are the qualities of a “good tax”? Evaluate the TCJA based on these criteria.

- Accountants and economists generally agree that a “good tax” should have certain characteristics. Though theorists may describe these characteristics differently, they generally include some discussion of sufficiency, efficiency, equity, and convenience (Jones and Rhoades-Catanach 2010). These characteristics at least provide a neutral starting point for evaluating the TCJA.
- Sufficiency. A sufficient tax provides enough revenue to the government to allow for the provision of public goods and services. A comprehensive analysis of the long-term economic outlook is beyond the scope of this case, but the Congressional Budget Office has projected a cumulative deficit increase $1.6 trillion over the 2018-2027 period. This increase reflects reduced revenues (primarily driven by decreased individual income tax rates) and increased spending, partially mitigated by faster than expected growth in the general economy, wages, and corporate profits (Congressional Budget Office 2018).
- Efficiency. An efficient tax is one that raises revenue without distorting taxpayer behavior. Reduction of the corporate tax rate, changes in taxation of foreign–source income, and the qualified business income deduction are intended to increase efficiency, but will likely spur taxpayers to seek new methods of exploiting the boundaries between ordinary income and preferentially-taxed business income (Galper 2018). Some researchers have predicted that the increase in the standard deduction will reduce charitable donations by 4%, or $17.2 billion, as not itemizing deductions raises the after-tax cost of donating (Brill and Choe 2018). Others have noted that only 20% of taxpayers claimed the charitable deduction before the TCJA, though many more made donations, and that donations from low and middle-income taxpayers have been declining for years (Gleckman 2018).
- Equity. An equitable tax requires that people with more means pay more taxes (vertical equity), and that people of equal means pay equal taxes (horizontal equity). Equity is very much in the eye of the beholder. High-income taxpayers will receive a larger share of tax cuts, both through the changes in individual rules and changes to the taxation of business income, from which they are more likely to benefit. This allocation of benefit may be seen as making the tax law more or less equitable, depending on one’s beliefs about the distribution of tax liability.

- Convenience. Changes to the individual tax rules are largely intended to simplify the tax code. The alternative minimum tax has been scaled back and will apply to far fewer taxpayers. The increased standard deduction is expected to greatly reduce the number of taxpayers that itemize deductions, which reduces the administrative burden of tax preparation and decreases the opportunity for accidental or intentional misstatements of taxable income. On the other hand, taxation of foreign-source income and pass-through business income are significantly more complex, and will increase the compliance burden on affected taxpayers. In addition, the uncertain future of the individual provisions of the TCJA, which are set to expire after 2025, may make it difficult for taxpayers to plan for the long-term.

4. Both the Watsons and the Pedersons are considering moving in the near future. How might the Act affect the tax planning around buying and selling a primary residence? How might this affect the U.S. housing market?

- The mortgage interest deduction has been reduced from mortgage indebtedness of $1 million to $750,000. Existing mortgages are grandfathered under the old ceiling, so taxpayers who own expensive homes (or multiple homes) will not be affected. Taxpayers who buy after Dec. 14, 2017 will be affected if their total mortgage debt exceeds $750K, assuming they continue to itemize.
- Interest on home equity loans (new and existing) was eliminated by the Act, which may affect some taxpayers' ability to make renovations to their home before putting it on the market.
- The Act did not change any of the primary residence gain exclusion rules.
- A 2018 survey of real estate professionals found that most do not expect the TCJA to affect housing supply or demand. They were split on whether it would affect appreciation, with most who expected the Act do hinder appreciation working in high cost markets, like Washington D.C., New York, and California. Most agreed that they Act effectively eliminates tax differences between owners and renters (Fleming 2018).

5. How would the Watsons' situation be different (under both the old and new rules) if their children lived at home and were supported by their parents? How would Darryl Hubbard's situation be different if his son Devin was 17 years old instead of 16? Discuss the trade-off between personal exemptions and the increased child tax credit under the Act.

- Under the old law, taxpayers claim exemptions for their dependents. The Watsons' children are not full time students, so they no longer meet the requirements to be qualifying children, which is why the Watsons cannot claim them. However, if they lived at home and were supported by their parents, Michael and Martha would meet the requirements to be qualifying relatives, and the Watsons would be able to claim exemptions for them. Under the new law, the dependency exemption has been eliminated. Since both Michael and Martha are over age 16, the Watsons cannot claim child credits, regardless of where the children live.
- Under the old law, Devin meets the requirements to be a qualifying child, so Darryl would be able to claim a dependency exemption for him. Under the new law, Devin qualifies for the child credit as a 16-year-old, but not as a 17-year-old. Darryl would lose the $2000 child credit, and only be able to claim the $500 credit for other qualifying relatives.

- Under the old law, taxpayers can claim a dependency exemption for qualifying children up to age 18 or full-time college students up to age 24, or a qualifying relative of any age that they house and support. Under the new law, the child credit is intended as a replacement for, and an improvement to, the dependency exemption. For taxpayers with young children, this is generally beneficial, especially when combined with lower tax rates. However, the child credit only extends to children below age 17. This means that taxpayers with older children, whom they may still be completely or largely supporting financially, receive little to no tax benefit.

CLASSROOM VALIDATION

Four instructors at different universities used the case in their classes during the Spring 2018 semester. One of the authors also used the case during the Fall 2018 semester. The authors provided each instructor with pre- and post-case student surveys, which are used to assess the efficacy of the case in addressing the learning objectives stated above. The instructors that administered the case provided feedback that they thought it was helpful and that students both enjoyed and benefited from the case. One instructor strongly recommended providing the students with a template, to facilitate grading.

Pre-case surveys were received from 171 students, while post-case surveys were received from 159 students. Sixty percent of students that submitted post-case surveys were juniors, 23 percent were seniors, 15 percent were graduate students, and 2 percent were sophomores. The majority (88 percent) were in their first tax class. Results from the pre- and post-case surveys are reported in Table 1. Before and after completing the case, students were asked about their knowledge of current tax law (Question 1) and the new law enacted in the TCJA (Question 2). For both of these questions, student responses increased significantly in the post-case survey (Q1: $t = 11.49$, $p = 0.0000$; Q2: $t = 12.29$, $p = 0.0000$). They were also asked about their knowledge of calculating taxable income and tax liability for individual taxpayers (Question 3), as well as their comfort in applying classroom learning to hypothetical client scenarios (Question 4). Student responses also increased significantly for these questions in the post-case survey (Q3: $t = 5.63$, $p = 0.0000$; Q4: $t = 5.74$, $p = 0.0000$).

Students were also asked their impressions of the case (See Table 1). Using a 5-point Likert scale, with 1 = Strongly disagree and 5 = Strongly agree, students' responses were above 3.80 for all questions. Specifically, students were asked if they found the case to be interesting ($m = 3.84$); if the case included sufficient information to complete requirements ($m = 4.11$); if the case improved their ability to calculate taxable income and tax liability for individuals ($m = 4.25$); if the case helped them understand how the TCJA applies to individual taxpayers ($m = 4.17$); and if the case helped them think critically about the introduction of new tax policy ($m = 4.19$).

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TABLE 1
Comparison of Pre- and Post-Case Questionnaire Results

	Pre-Case		Post-Case		Difference	
	Mean	Std Dev	Mean	Std Dev	t-value	p-value
1. How knowledgeable are you about the current (pre-2018) individual tax rules in the U.S.?	2.60	0.95	3.68	0.75	11.49	0.0000
2. How knowledgeable are you about the provisions of the Tax Cuts and Jobs Act of 2017?	2.05	0.96	3.33	0.93	12.29	0.0000
3. How knowledgeable do you feel about calculating taxable income and tax liability for individuals?	3.35	0.88	3.85	0.76	5.63	0.0000
4. How comfortable do you feel applying what you've learned in class to hypothetical client scenarios?	3.20	0.83	3.69	0.73	5.74	0.0000
5. I found this case to be interesting.			3.84	0.94		
6. The case included sufficient information to complete the requirements.			4.11	0.86		
7. The case improved my ability to calculate taxable income and tax liability for individuals.			4.25	0.78		
8. The case helped me understand how the Tax Cuts and Jobs Act applies to individual taxpayers.			4.17	0.80		
9. The case helped me to think critically about the introduction of new tax policy.			4.19	0.71		

For Questions 1-4, n=171. For Questions 5-9, n is between 146 and 159. Fewer students turned in the post-case surveys than the pre-case surveys, and some questions were left blank. This was primarily due to 13 students that did not complete the questions on the back page of the survey.
For Questions 1-3, 1 = Not at all knowledgeable, 5 = Very knowledgeable. For Question 4, 1 = Not at all comfortable, 5 = Very comfortable. For Questions 5-9, 1 = Strongly disagree, 5 = Strongly agree.

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CASE SOLUTIONS

Mark and Mary Watson

	2017 Law			**2018 Law**	
Income					
Wages	255,000			255,000	a
Flow Through	25,000			25,000	
Investment	-			-	
Moving	-			-	
Total AGI	280,000			280,000	
Mortgage Interest	9,650			9,650	
Real Estate Taxes	10,400			10,000	b
Home Equity Interest	1,200			1,200	
Income & Sales Tax	1,900			-	c
Charitable Contributions	2,000			2,000	
Total Itemized Deductions	25,150			22,850	
Standard Deduction	12,700			24,000	
Total Exemptions	8,100			-	
Flow-through Deduction	-			5,000	d
Deductions From AGI	33,250			29,000	
Total Taxable Income	246,750			251,000	
Federal Income Tax	56,645			48819	
Federal Income Tax Difference			7,826		
			13.82%		
After-tax Income	271,356	e		279,181	e
Increase in After-tax Income			2.88%		

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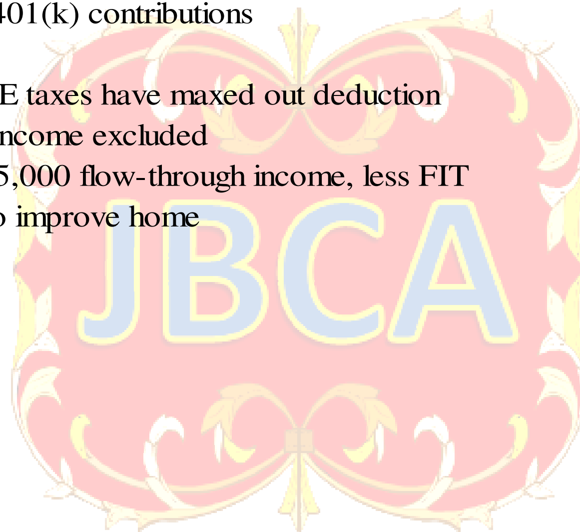
Alternative Minimum Tax (2017)		
Regular TI	246,750	
Exemptions	8,100	
Real Estate Taxes	10,400	
State Income Tax	1,900	
Home Equity Interest	-	f
AMTI	267,150	
AMT Exemption	57,938	
AMTI subject to tax	209,212	
TMT	54,823	
Regular tax	56,645	
AMT	-	

a. $303,000 - $48,000 401(k) contributions
b. Capped at $10,000
c. Disallowed because RE taxes have maxed out deduction
d. 20% of flow-through income excluded
e. $303,000 salary + $25,000 flow-through income, less FIT
f. No adjustment, used to improve home



Jason and Jocelyn Pederson

	2017 Law		2018 Law	
Income				
Wages	325,000		325,000	
Flow Through	-		-	
Investment	5,170		5,170	
Moving	-		-	
Flow Through Exclusion	-		-	
Total AGI	330,170		330,170	
Mortgage Interest	12,250		12,250	
Real Estate Taxes	9,180		-	a
Home Equity Interest	-		-	
Income & Sales Tax	10,160		10,000	b
Charitable Contributions	5,950		5,150	c
Total Itemized Deductions	37,049		27,400	
Standard Deduction	12,700		24,000	
Total Exemptions	13,932		-	
Deduction From AGI	50,981		27,400	
Total Taxable Income	279,189		302,770	
Qualified divs	(4,750)		(4,750)	
TI taxed at regular tax rates	274,439		298,020	
Regular tax	65,782		60,104	
Tax on dividends	713		713	
Net investment income tax	196		196	
Federal Income Tax Before Credits	66,691		61,013	
Child Tax Credit	-		4,000	
Federal Income Tax After Credits	66,691		57,013	
Federal Income Tax Difference		9,678		
		14.51%		
After-tax Income	263,479		273,157	
Increase in After-tax Income		3.67%		

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Alternative Minimum Tax (2017)

Regular TI	279,189
Exemptions	13,932
Real Estate Taxes	9,180
State Income Tax	10,160
Item. Ded. Phaseout	(491)
AMTI	311,970
AMT Exemption	46,733
	265,237
Qualified divs	(4,750)
AMTI taxed at AMT rates	260,487
Tax on AMTI less divs	69,180
Tax on dividends	713
TMT	69,893
Regular tax	66,691
AMT	3,202

Itemized Deduction Phaseout (2017)

AGI	330,170
Income limit	313,800
Excess AGI	16,370
Phaseout %	0.03
Phaseout	491
Item. Ded. (pre-phaseout)	37,540
Item. Ded. (post-phaseout)	37,049

Exemption Phaseout (2017)

AGI	330,170	
Income limit	313,800	
Excess AGI	16,370	
Exemptions (pre-phaseout)	16,200	
Phaseout %	0.02	
Phaseout	2,268	d
Exemptions (post-Phaseout)	13,932	

a. Disallowed because State and local income taxes have maxed out deduction
b. Capped at $10,000
c. 80% of $1,000 booster club donation allowed in 2017, fully disallowed in 2018
d. Reduced 2% for each $2500 of AGI in excess of threshold

Renata Cruz

	2017 Law		2018 Law	
Income				
Wages	44,000		44,000	
Dividends	800		800	
Student loan interest	(2,500) a		(2,500) a	
Moving expenses	(405)		-	
Moving expense reimbursement	-		5,000	
Total AGI	41,895		47,300	
Personal property taxes	150		150	
Income & Sales Tax	970		970	
Charitable Contributions	1,100		1,100	
2% miscellaneous	42		-	b
Total Itemized Deductions	2,262		2,220	
Standard Deduction	6,350		12,000	
Total Exemptions	4,050		-	
Deduction From AGI	10,400		12,000	
Total Taxable Income	31,495		35,300	
Qualified divs	(800)		(800)	
TI taxed at regular tax rates	30,695		34,500	
Regular tax	4,138		3,950	
Tax on dividends	-		-	
Federal Income Tax	4,138		3,950	
Federal Income Tax Difference		189		
		4.56%		
After-tax Income	40,662 c		40,851 c	
Increase in After-tax Income		0.46%		

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Moving expenses (2017)		
Household goods	4,500	
Hotels	480	
Meals	-	d
Security dep	-	d
License fees	-	d
Mileage	425	e
	5,405	
Reimbursement	(5,000)	
Deduction	405	

2% Misc Item Deds (2017)	
Dues	380
Education	400
Subscription	100
Total	880
2% AGI	838
Deduction	42

a. Capped at $2,500
b. Disallowed
c. $44,000 Salary plus $800 dividends, less FIT
d. Not deductible
e. 2500 miles x 0.17

Darryl Hubbard

	2017 Law			2018 Law	
Income					
Wages	86,000			86,000	
Educator expenses	(250)	a		(250)	a
Total AGI	85,750			85,750	
Mortgage interest	6,250			6,250	
Property tax	4,140			4,140	
Income tax	3,140			3,140	
Charitable Contributions	1,800			1,800	
Casualty loss	1,325			-	b
2% miscellaneous	135			-	b
Total Itemized Deductions	16,790			15,330	
Standard Deduction	9,350			18,000	
Total Exemptions	16,200			-	
Deduction From AGI	32,990			18,000	
Total Taxable Income	52,760			67,750	
Regular tax	7,443			9,453	
Child and dependent care credit	(600)			(600)	
Child tax credit	(1,450)			(4,500)	
Federal Income Tax	5,393			4,353	
Federal Income Tax Difference			1,040		
			19.28%		
After-tax Income	80,608			81,647	
Increase in After-tax Income			1.29%		

Exemptions	**2017**	
Darryl	4,050	
Dwayne	4,050	c
Devin	4,050	
Kallie	4,050	
	16,200	

Child Tax Credit	**2017**		**2018**	
Dwayne	0		500	d
Devin	1,000		2,000	
Kallie	1,000		2,000	
	2,000		4,500	
Phaseout	(550)	e	-	f
	1,450		4,500	

Child and Dependent Care Credit (2017 and 2018)		
Qualified expense	3,000	g
	0.2	h
	600	

2% Miscellaneous		
Tax prep fees	1,500	
Educator	350	i
Total	1,850	
2% AGI	1,715	
Deduction	135	

Casualty loss	
Cost	30,000
Decline in FMV	22,000
Lesser	22,000
Insurance	12,000
Unreimbursed	10,000
$100 floor	100
	9,900
10% AGI	8,575
Deduction	1,325

a. Limited to $250
b. Disallowed
c. Under age 24 and a full-time student
d. Family credit for other qualified dependents
e. $50 per $1,000 of AGI above $75,000
f. Phaseout begins at AGI=$200K
g. Limited to $3,000
h. 20% for AGI over $43K
i. Excess not deducted for AGI