

What does the GOP Tax Scam mean to Wayland taxpayers?

Topic: Federal Tax changes that take effect in 2018

(Full disclosure – this is not tax advice. Please consult a tax accountant for your tax returns.)

As the GOP Tax changes make headlines, you may wonder what impact this has on you in Wayland. Here is an example of a married couple filing jointly, with Wayland's 2016 median income of \$146K, a single-family house assessed at \$700K, and a mortgage of \$500K. Three scenarios are presented below (with 0, 1 and 2 children). The results may surprise you.

Assuming this couple itemizes on Federal taxes, here are 3 major items:

- Personal Exemptions – goes away in 2018
- State and Local Taxes – capped to 10K in 2018
- Mortgage Interest on \$500K mortgage – assume interest of \$28k a year

Let's compare what they would pay using old (2017) itemized deduction rules versus new (2018 GOP Tax Plan) itemized deduction rules.

OLD	2017 Tax Rules		
Couple Married filing jointly, \$146K income	2 Kids	1 Kid	0 Kids
Personal Exemption \$4,050 per person	\$16,200	\$12,150	\$8,100
State and Local Taxes*	\$18,607	\$18,607	\$18,607
Mortgage interest on \$500K	\$28,000	\$28,000	\$28,000
Total of above 3 itemized deductions	\$62,807	\$58,757	\$54,707
Adjusted Gross Income (AGI)	\$83,193	\$87,243	\$91,293
Federal Income Tax	\$12,106	\$13,118	\$14,131
Child Tax Credit	\$2,000	\$1,000	\$0
Amount Fed Taxes to pay	\$10,106	\$12,118	\$14,131
*Wayland property tax rate in 2018 is \$18.01/\$1,000 assessed value. Assume \$4k in State Taxes.			
NEW	2018 Tax Rules		
Couple Married filing jointly, \$146K income	2 Kids	1 Kid	0 Kids
Personal Exemption \$4,050 per person (gone in 2018)	\$0	\$0	\$0
State and Local Taxes*	\$10,000	\$10,000	\$10,000
Mortgage interest on \$500K	\$28,000	\$28,000	\$28,000
Total of above 2 itemized deductions	\$38,000	\$38,000	\$38,000
Adjusted Gross Income (AGI)	\$108,000	\$108,000	\$108,000
Federal Income Tax	\$15,639	\$15,639	\$15,639
Child Tax Credit	\$4,000	\$2,000	\$0
Amount Fed Taxes to pay	\$11,639	\$13,639	\$15,639
Variance	\$1,533	\$1,521	\$1,508

Comparing 2017 Tax Laws to 2018 Tax Laws, our hypothetical couple's Federal taxes increases in all 3 scenarios by about \$1.5K. The biggest impact is in the \$10K

cap on State and Local Taxes (aka State and property taxes) and the \$4K Personal Exemption that went away.

Potential Impact on Wayland Home Value

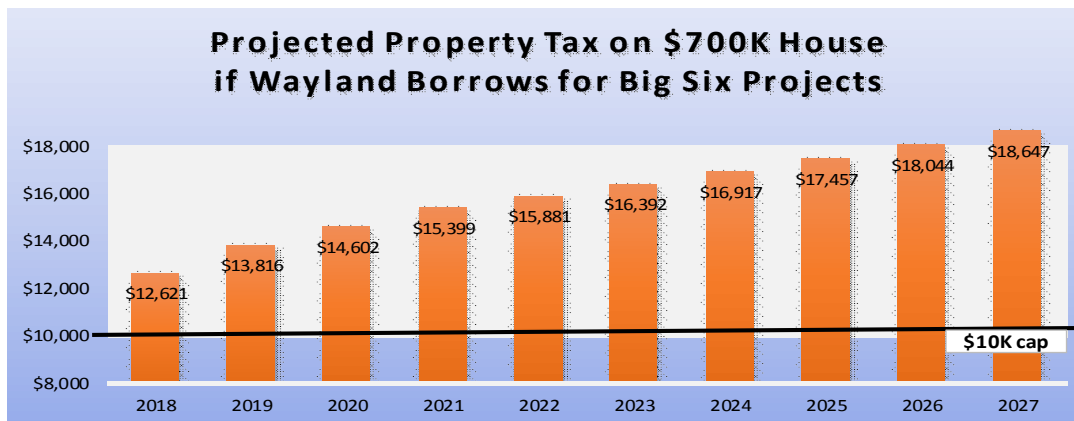
Some argue that the GOP Tax changes, and it is GOP since not a single Democrat voted for these changes, were designed to punish Democrat states such as California, New York and Massachusetts. This refers to the State and Local Taxes line, where in our examples it goes from \$18K to a capped \$10K. In our examples, the \$18K consists of \$6K in State taxes and \$12K in Wayland Property Taxes.

In Wayland, our taxes support our excellent schools and the tax rate is higher than some of the adjacent towns.

	Sample Home Price	2018 Tax Rate	Real Estate Taxes
Wayland	\$ 700,000	18.03	\$ 12,621
Sudbury	\$ 700,000	17.93	\$ 12,551
Lincoln	\$ 700,000	13.60	\$ 9,520
Weston	\$ 700,000	12.51	\$ 8,757

Source of town tax rates: Town websites

The Wayland tax rate did decrease from 18.1 in 2017 to 18.03 in 2018. However, there are several proposed Town projects that will require approximately \$38 million in additional debt borrowing. Although the dust has not settled on what does get funded and what does not, if the 6 capital projects listed at the 1/29/18 Board of Selectmen meeting are authorized, tax rates are projected as below. The table takes a \$700K assessed value house, applies a 2% increase per year, then multiplies it by the potential tax rate to estimate taxes per year. The \$10K cap refers to the new limit on State and Local Taxes.



Source of projected Wayland Tax Rates, slide 23:

https://www.wayland.ma.us/sites/waylandma/files/uploads/6._debt_exclusion_presentation_v7.1.pdf

Single Family Home Assesed at 700K		2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Tax Rate		18.03	19.35	20.05	20.73	20.96	21.21	21.46	21.71	22.00	22.29
Asses value w/ 2% adjmt		\$700,000	\$714,000	\$728,280	\$742,846	\$757,703	\$772,857	\$788,314	\$804,080	\$820,162	\$836,565
Property Taxes		\$12,621	\$13,816	\$14,602	\$15,399	\$15,881	\$16,392	\$16,917	\$17,457	\$18,044	\$18,647

Estimated tax rates presented by Finance Committee at 1/29/18 presentation to BoS.

*This assumed Town would approve borrowing additional debt for Big Six

The concern is that the \$10K cap will make it harder for home buyers to purchase in Wayland, especially given the expected upward trajectory of property taxes. In other words, potential home buyers could offer lower prices to offset higher property taxes in Wayland, creating a downward pressure on Wayland properties.

Potential Impact on Charitable Contributions

The new tax law also doubles the standard deduction. In our Wayland example, the mortgage deduction is \$28K a year, so it makes sense for many in Wayland to itemize instead of taking the 24K standard deduction. It is expected, however, that fewer people across MA and the US will itemize their taxes and therefore not be able to take tax deductions for any charitable contributions. The Joint Committee on Taxation estimates that 94% of households nationwide will claim the standard deduction in 2018, up from about 70% now. This would impact the 33,000 nonprofit organizations in Massachusetts, including their employment capacity. So overall, the nonprofit sector will be hurt at the same time the median household in Wayland is paying higher taxes.

So, who are the major winners under this new GOP Tax Plan?

According to Congressional Budget Office, the national deficit will increase by \$1.7 trillion and “As a result of those higher deficits, debt held by the public [in 2027]...would be about 6 percent greater, reaching 97.1 percent of gross domestic product”. How did we get to such a large number? And why is it the 3 couples in our scenarios didn’t get a tax break?

Corporate tax rates went from 35% down to 21%. Furthermore, the corporate tax break does not “sunset”; which means the 14% decrease for corporations is permanent, unlike individual income tax reductions that primarily impact top tier incomes with a 3% decrease.

So, the short answer is that corporations and the wealthy received a massive tax-break, and our hypothetical Wayland families actually pay about \$125 more a month. But it gets worse. To finance this tax break for the wealthy and corporations, House Speaker Paul Ryan, a Republican, has already commented that entitlement programs (i.e. Medicare/Medicaid and Social Security) need to be reduced.

Entitlement programs is a writeup for another time, but suffice to say, middle class households in Massachusetts, and Waylanders in particular, are not getting a tax break. And don’t be surprised if changes are coming to make life worse for the sick, the elderly, and the poor. That’s why this GOP Tax Plan has approval ratings of 29%. (<http://fortune.com/2017/12/06/gop-tax-plan-trump-approval-ratings-poll/>)