PAUL CRANEY: Dissecting Patrick's tax deduction elimination plans

By Paul Craney
Posted Feb 04, 2013
Taunton Daily Gazette and Fall River Herald

Since Gov. Deval Patrick released his budget a couple of weeks ago, much has been said about his proposal to increase the income tax rate and decrease the sales tax rate. However, what hasn't received as much attention are the 45 personal tax deductions the governor wants to get rid of. These deductions are important to working-class families and young professionals, where a little goes a long way.

Eliminating these deductions is an underhanded way to increase taxes without calling it a new tax or an increase. Despite the doubling of the personal tax exemption, eliminating these 45 deductions would likely do more harm. In order to get an idea of the effect, it is important to see how nixing some of these tax deductions could affect the average Massachusetts family.

Take a family of five living in Townsend, "the most average town in Massachusetts," according to a 2011 Boston Globe article. Let's say their household income is $116,000 a year, an average according to one professional staffing website for a secretary and contractor in Townsend. The family has two children under the age of 12 and one that is a 19-year-old who lives at home and is a commuter student at Fitchburg State.

They were previously able to write off two of their children as dependents under the age of 12 for $7,600. In addition to this, one of their employers provided a good deal on daycare due to the tax exemption the company received for providing this service. This was a big help, seeing that Massachusetts has the highest rate for daycare expenses in the entire country, according to a Boston Business Journal article written last August. In 2011, full-time daycare cost $14,980 a year. Both the child tax credit and exemption of dependent care expenses for companies are up for elimination. Without the tax deduction incentive for a company to provide daycare, they may decide to eliminate the benefit, leaving the family on the hook for finding a new daycare.

In order to save money, their 19 year old decided to live at home and commute to school rather than pay room and board. The family could previously receive a $1,000 personal exemption for claiming a student age 19 or over which they would no longer be able to do. This 19 year old has a part-time job working 20 hours a week, getting paid minimum wage, making about $160 a week. Because of this part-time job, the family can no longer receive the $1,000 dependent exemption when the child earns income either.

The family has also made a commitment to giving 10 percent to charities. In the past, they have been able to write this $11,600 a year donation as a charitable contribution but no longer will.

In an attempt to be smart investors, they took advantage of the housing market crash and bought an older house at a great deal, assuming this would be their retirement nest egg they could cash out on in the future.

However, one of the tax exemptions up for elimination is an exemption on capital gains for home sales. Now when they sell their house, they will be taxed on their nest egg.

Along the same lines, since it was an older house they had to update the septic system to pass inspection and address the lead paint since they have young children. Previously, they were able to get a credit of $1,500 a year and up to $6,000 total to replace the septic and $1,500 for lead paint removal or treatment. These incentives that benefit families and our state's housing market will no longer apply.

When all is said and done, when they were previously paying about $3,906 in taxes with their deductions, current income tax rate of 5.25 percent and personal exemption of $8,800, they would pay $6,150 with the new income tax rate of 6.25 percent, double the personal exemption to $17,600, and elimination for the 45 tax expenditures, all proposed in the governor's budget.

Yes, this is a hypothetical situation and may not apply to everyone; however these examples are only a handful of the deductions up for elimination under the governor's proposed budget. Others that could hurt working families include premiums on accident and accidental death insurance, life insurance interest, exemption of workers' compensation benefits, health savings accounts and exemption of interest on savings in Massachusetts banks.

Ironically, the new revenue proposal in the governor's budget is intended to fund education and transportation. Yet some of the tax deductions up for elimination include exemption of scholarships and fellowships, employer provided education assistance, tuition tax deduction, parking, t-pass, and vanpool fringe benefits, commuter deduction and clean fuel vehicle and certain refueling prop.

In retrospect, the doubling of the personal exemption and lowering of the sales tax doesn't look as appealing in exchange for the proposed trade-offs and how they specifically hurt working class families and the industries that keep our state economy strong.

Paul D. Craney is the executive director of Massachusetts Fiscal Alliance, a nonprofit organization that advocates for right of center economic policies, fiscal and good government issues. For more information on Massachusetts Fiscal Alliance, visit www.massfiscal.org. Email tips and comments for this column to paul@massfiscal.org or Tweet @PaulDiegoCraney.