

Are State and Local Taxes Reasons for Relocation?

As many people are all too aware, some states and localities impose higher income and property taxes than others. Residents of high tax areas may have taken some solace by itemizing deductions on their tax returns and reducing federal income tax obligations by deducting the taxes paid.

Example: Jennifer Knight deducted \$25,000 worth of state income tax and local property tax on her 2017 tax return. Assuming Jennifer was in a 25% tax bracket, she reduced her net outlay for those taxes with \$6,250 in tax savings (her 25% tax rate times the \$25,000 tax deductions).

In this scenario, Jennifer's actual tax cost was \$18,750, not \$25,000, because she cut her federal tax bill by \$6,250.

New Rules

Under the TCJA, there is still an itemized deduction for taxes paid, but it is now capped at \$10,000 a year, starting in 2018. Some people refer to this as the SALT deduction for state and local taxes. It mainly covers property and income taxes, although taxpayers can choose to include sales tax instead of income tax towards the \$10,000 cap. (The \$10,000 limit is the same for single filers and couples filing jointly, so there is a true "marriage penalty" here.)

As might be expected, taxpayers and politicians in high tax states and localities have loudly protested the cutback in the deduction for taxes paid. Is this the final straw? The added burden that will drive people to move to areas where income and property tax (and perhaps estate tax) are less of a burden?

Relocation may make sense, but such a decision should be made with care. Calculate how much extra you'll be paying in tax now, considering the loss of the taxes paid deduction and all the other features of the TCJA. Don't forget to include the alternative minimum tax (AMT), which still impacts many individuals. People who owe the AMT get no tax benefit from deducting state or local taxes. Our office can help with this computation.

Then, find out how much you'd owe after a move to a different area. Include income taxes and, assuming you'll be a homeowner, likely property tax. Find out if sales tax will be meaningful in the new

area. Determine the state's estate tax exemption and estate tax rates, if you expect to leave assets to loved ones.

Typically, you'll discover that relocating is a puzzle with many different parts of varying sizes. Effectively paying more in state and local tax under the TCJA may be a key piece of that puzzle, but it's just one thing to consider before calling the movers.