

Beacon Hill Byline by Mary Rogeness

July 30, 1998

Taxes Reduced!

People have waited all year for an answer from Boston to the question, "What kind of tax cut will we receive from the surplus revenues of the state?" The senate wanted an increased exemption for taxpayers; the House of Representatives wanted a rate deduction for wage and investment income and a return of the capital gains tax; the governor wanted to retain the capital gains phase-out and a return to the 5 percent income tax rate of 1990. The result is in. The tax cut bill signed into law last week by Governor Cellucci took parts from all parties to the discussion.

This is what the law provides:

Personal exemptions will be doubled by the 1999 tax year. Presently a single tax filer is entitled to a personal exemption of \$2,200. Joint filers have an exemption of \$4,400. When we file tax returns for 1998 those exemptions will be \$2,815 and \$7,630, respectively. By 1999 the exemptions will rise to \$4,400 and \$8,800. When fully implemented the reduction will be tax cuts of \$131 and \$262.

Unearned income will be taxed at 5.95 percent rate of ordinary income as of January 1999. This provision changes the state's traditional prejudice against the savings of taxpayers. That prejudice is shown in the term "unearned income" that refers to savings account interest as well as dividends. In a time when families are saving to buy homes or educate their children, when retirees rely on investments for their income, lawmakers have finally recognized the basic unfairness of taxing investments at twice the rate other income. Taxpayers will have to pay the old 12 percent rate in 1998 for the last time.

Roth IRA tax status is now aligned with the federal tax treatment of this new savings instrument. Federal tax law has authorized new IRAs for some taxpayers that earn tax-deferred interest on after-tax dollars and can be used for some purposes earlier than a traditional IRA. Until Massachusetts changed our law, Roth IRAs were treated as ordinary investments by the state.

Capital gains will continue the phase-out that was enacted in the state in 1994.

What is the bottom line for taxpayers? We all emerge as winners. There are tax reductions for all and the state continues to strengthen its financial balance sheet. When fully implemented the people of Massachusetts will retain \$700 million that now goes to the state.

As I see it, the biggest winners are the taxpayers with the lowest incomes. A doubled exemption will significantly reduce their rate of taxation. Middle and upper income taxpayers will benefit proportionately less from the same exemption, but their effective rates will be reduced to the extent that they have investment income.

The state wins by losing its dubious distinction as the state with the highest tax on income, and we have now taken another step away from the old and fading name of Taxachusetts.