

"Tax Cuts and Jobs Act" of 2017 Items and Lake County

This memo – which highlights three specific provisions of the new federal tax law that will affect Lake County – was compiled by Finance & Administrative Services Department staff at the request of the Ad Hoc Legislative Committee and Finance and Administrative Committee, respectively, to identify anticipated impacts. It is based on current information and is not intended to provide, and should not be considered, professional tax, legal or accounting advice. This material has been prepared only for informational purposes.

Only one section of the Tax Cuts and Jobs Act affects Lake County government directly. The other two major provisions may impact the residents of Lake County; however, the direct effect on County operations is not as clearly identifiable.

Based on analysis conducted by the County's Finance & Administrative Services Department (FAS), the expected areas of impact are as follows:

I. Impacts on Lake County Government

A. Advance refunding bonds can no longer be issued on a tax-exempt basis (direct impact).

Prior to the most recent change, most municipal bonds were tax exempt, after the tax law change, Advance Refunding Bonds are no longer tax exempt. An Advance Refunding Bond is a method to take advantage of favorable interest rates when bonds are not yet eligible for refunding. Under an advanced refunding, a new bond is issued at a favorable interest rate, and the proceeds are deposited into escrow to pay future payments on the original noncallable bonds. Previously, Lake County could advance refund whenever it made financial sense and still have it tax free, now governments can only do so on the dates specified when the bond is sold and still have them tax free. Public Works has issued such bonds in the past (SSA #13), but it is not a regular practice for Lake County. FAS will work with our Financial Advisor to review current debt, but we do not anticipate a significant impact.

II. Impacts on Lake County Residents

A. \$10,000 cap on the deductibility from the federal income tax of state and local taxes.

Under the new tax legislation, the total state and local tax deduction is limited to \$10,000. This cap includes the combination of local/state income tax as well as property taxes. This is expected to impact many residents in Lake County. However, given the alteration of tax brackets, the doubling of the standard deduction and child tax credits, and the changing of the Alternative Minimum Tax, it is difficult to determine the effect of the change for the County as a whole. The impact will vary greatly by individual situation – some people will undoubtedly pay more, while others less.

Still, there is some objective data to be shared. According to the Treasurer, for the most recent tax year (2016 collected in 2017), there were 55,326 residential homestead properties in the County with real estate taxes greater than \$10,000 – which constitutes approximately 21% of all housing units in

the County. People who live in the greater Chicago area generally deduct between \$4,000 and \$8,000.¹ The \$10,000 cap on state and local tax deductions will be less than the combined total local taxes for many residents in Illinois.

The signing of the bill into law on December 22nd, 2017 led to a rush of over 20,000 County taxpayers prepaying their taxes before the law went into effect in 2018 – resulting in the collection of over \$250 million dollars in prepayments. However, on December 27th, the IRS issued guidance that unassessed pre-payments will not be deductible.² It is unclear at this time how this will affect County residents as there has been no determination if the current levy and assessment process meets the standard of assessment required by the IRS, as residents have not received official notification of their property tax liability.

*B. \$750,000 cap, reduced from \$1 million, on the mortgage interest deduction from the federal income tax for a **NEWLY-PURCHASED** home and eliminated for second homes³.*

Lowering the mortgage interest deduction from \$1,000,000 to a \$750,000 cap may affect the County's real estate market. According to Zillow, the median listing price for Lake County overall is about \$300,000.⁴ Even though assessments and mortgage sizes may differ, according to the County Assessor's Office, there are 13,383 residential properties countywide appraised for more than \$750,000. Zillow has provided some insight: In Lake County, prior to the tax law change, 58% of homeowners were estimated to itemize their tax return in order to take the mortgage interest deduction. After the federal tax law, it is estimated only 20% of homeowners will itemize, rather than taking the new, higher, standard deduction.⁵

As of December 29, 2017, Zillow reported 5,794 homes for sale in Lake County with 681 listed for more than \$750,000. Combined with the 107 lots priced at \$750,000 or above, the market share for properties at or above \$750,000 is 14%. According to Joe Kirchner, the senior economist at Realtor.com, "The mortgage interest deduction change will put downward pressure on prices as well as sales."⁶ It should be noted, however, that even if someone purchases a home valued greater than \$750,000, the

¹ Cole, Alan (2017, April 27). Which Places Benefit Most From State and Local Tax Deductions? Retrieved from: <https://taxfoundation.org/map-state-and-local-deductions/>

² IRS (2017, Dec. 27). IRS Advisory: Prepaid Real Property Taxes May be Deductible in 2017 if Assessed and Paid in 2017. Retrieved from: <https://www.irs.gov/newsroom/irs-advisory-prepaid-real-property-taxes-may-be-deductible-in-2017-if-assessed-and-paid-in-2017>

³ Section 11043 of U.S. Code - Limitation on Deduction for Qualified Interest (a)(F)(i)(III): "...shall not apply to any [mortgage] indebtedness incurred on or before December 15, 2017..." meaning new mortgage debt. Retrieved from: [http://uscode.house.gov/view.xhtml?req=\(title:26%20section:163%20edition:prelim\)](http://uscode.house.gov/view.xhtml?req=(title:26%20section:163%20edition:prelim))

⁴ Zillow (2017, Dec. 31). Lake County Home Prices and Values. Retrieved from: <https://www.zillow.com/lake-county-il/home-values/>

⁵ Casey, Alexander. (2017, Dec. 12). Tax Reform With \$750k Cap on Mortgage Interest Deduction Would Leave 1 in 7 U.S. Homes Eligible. County-by-County Report available via link in Zillow Research story, retrieved from: <https://www.zillow.com/research/mortgage-interest-deduction-750k-17620/>

⁶ Vasek, Kathryn (2017, Dec. 17). Homeowners: Here's what's in the tax bill for you. Retrieved from: http://money.cnn.com/2017/12/17/real_estate/tax-bill-mortgage-property-tax-deductions/index.html

mortgage may be less based on the down payment. For purposes of taking the deduction, IRS policies on the home mortgage interest deduction are explained in IRS Publication 936.⁷

III. Additional Information

There is also a significant change in reducing the top corporate tax rate from 35% to 21%. According to the United States Census, Lake County has approximately 64,000 firms, some of which would undoubtedly benefit. However, it would be conjecturing to say what the specific effect would be, as the other major changes of the tax law, and repeal of the individual mandate within the Affordable Care Act, can be expected to impact tax liability in ways that are beyond the scope of this advisory memo.

The following three sources are provided as additional informational resources on potential impacts on Illinois:

Boak, J. (2017, December 18). *How limit on property, state tax deduction could hurt suburbs*. Retrieved from Daily Herald: <http://www.dailyherald.com/news/20171218/how-limit-on-property-state-tax-deduction-could-hurt-suburbs>

Passman, H. M. (2018, January 10). *Holland & Knight Law Firm*. Retrieved from The New Tax Law: Impact on Illinois Local Governments: <https://www.hklaw.com/publications/The-New-Tax-Law-Impact-on-Illinois-Local-Governments-01-10-2018/>

Schencker, L. (2017, December 18). *What does the tax bill mean for you?* Retrieved from Chicago Tribune: <http://www.chicagotribune.com/ct-lisa-schencker-20160802-staff.html>

⁷ IRS Publication 936. Retrieved from: <https://www.irs.gov/pub/irs-pdf/p936.pdf>