

Housing & Who's a "Millionaire" according to Proposition 80

By Greg Sullivan



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Pioneer Institute is an independent, non-partisan, privately funded research organization that seeks to improve the quality of life in Massachusetts through civic discourse and intellectually rigorous, data-driven public policy solutions based on free market principles, individual liberty and responsibility, and the ideal of effective, limited and accountable government.



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Executive Summary

In November 2018, Massachusetts voters are scheduled to decide whether to amend the Massachusetts Constitution to impose a 4 percent surcharge on annual taxable income over \$1 million, creating a top state personal income tax rate of 9.1 percent. The proposed amendment stipulates that revenue from the new tax must be expended on public education and the repair and maintenance of roads, bridges and public transportation, subject to legislative appropriation.

RaiseUp Massachusetts, a coalition of labor unions and social advocacy groups that sponsored the petition, contends that Proposition 80 would be a simple way for the Commonwealth to raise revenue. They argue that the tax would fall on only a trifling percentage of taxpayers— those earning seven-figure incomes— and that it would have a negligible effect, if any, on the state's business climate. State leaders who have struggled for decades to restore Massachusetts' appeal to the business community and shed the "Taxachusetts" label should consider the counter-arguments to both of these claims.

In addition to the serious macro-economic risks it poses, the "Fair Share" amendment is anything but fair, despite its sponsors' claims. While a seven-figure annual income may seem remote to most Massachusetts taxpayers, a close analysis of the language of the proposed ballot question reveals that if Proposition 80 passes, it will ensnare many families who few would consider to be "millionaires," but who instead become one-time millionaires due to the sale of a long-owned home or small business.

Proposition 80's language does not include a safeguard to prevent capital gains from the sale of a home or long-held small business property from pushing a taxpayer into the 9.1 percent tax bracket.¹ This is contrary to how capital gains are treated under federal tax rules, under which they are taxed separately and cannot force a taxpayer into a higher bracket. Because of Proposition 80's inclusion of capital gains income, some home and small business owners will be forced to pay an additional tax on decades of accumulated appreciation that make them "one-time millionaires" in the year of sale.

Because it counts years of accumulated appreciation of personal residences and small-business property towards the million-dollar threshold when the property is sold, Proposition 80 is, in effect, a retroactive tax. If, after Proposition 80 was approved, the state Legislature wished to follow the federal example and exempt capital gains from the sale of a personal residence from the 4 percent surtax, it would only be able to do so via a subsequent constitutional amendment.

By including capital gains in the computation of annual income that exceeds the \$1 million threshold, Proposition 80 effectively reaches back in time to tax the extraordinary escalation of Massachusetts housing prices that has occurred over recent decades. One example of such growth occurred in the

city of Cambridge, where the median price of a single-family home grew from \$341,200 in 1996 to \$1.33 million in 2017, according to the Zillow Home Value Index (ZHVI) of Median Single-Family Homes.² Seniors and small business owners who have owned their homes or business property for many years and are relying on decades of appreciation upon retirement will find themselves among those subject to the 4 percent surcharge, even if their ordinary income otherwise falls below the million-dollar threshold.

Another example of Proposition 80's problematic language is its choice of methodology to increase the \$1 million threshold over time to keep up with inflation. The measure would amend the state constitution to increase the million-dollar threshold by using the IRS' method to adjust federal income tax brackets each year, the Consumer Price Index for All Urban Consumers (CPI-U). The problem is that historically, income growth in Massachusetts has consistently outpaced the CPI-U. To demonstrate this trend, the federal CPI-U rose 47.1 percent between 1997 and 2015, an average of 2.19 percent per year. Over the same period, the taxable income of Massachusetts taxpayers rose nearly twice as much, increasing by 105.7 percent, or 4.09 percent per year according to IRS data. If the growth of Massachusetts taxable income continues into the future, the Proposition 80 threshold will effectively decline over time, thereby capturing more taxpayers each year.

Proposition 80's Faulty Inflation Guard

Backers of the initiative petition advertise that it contains a protection "[t]o ensure that the tax continues to apply only to the highest income residents, who have the ability to pay more, the million-dollar threshold would be adjusted each year to reflect cost-of-living increases."³ Proposition 80 would purportedly accomplish this by including in the state constitution a provision to adjust the \$1 million threshold annually by the index that has been used by the federal government to adjust federal income tax brackets since 1986, the Consumer Price Index for All Urban Consumers - U.S. City Average (CPI-U), for the 12-month period ending in August of each year.⁴

This may sound like an effective method of controlling bracket creep, but, as Figures 1 and 2 show, it falls considerably short of capturing the economic realities in a state like Massachusetts, where taxable income has been rising at a pace much faster than the CPI-U. The national CPI-U rose by 47.1 percent between 1997 and 2015 at an average annual rate of 2.19 percent per year.⁵ In contrast, the taxable income of Massachusetts taxpayers rose nearly twice as fast over the same period, according to data published by the IRS, increasing by 105.7 percent at an average rate of 4.09 percent per year.⁶ Figures 1 and 2 compare the histories of the CPI-U and Massachusetts average taxable income from 1997 to 2015

Figure 1. Annualized rate of increase of CPI-U versus average Mass. taxable income, 1997–2015

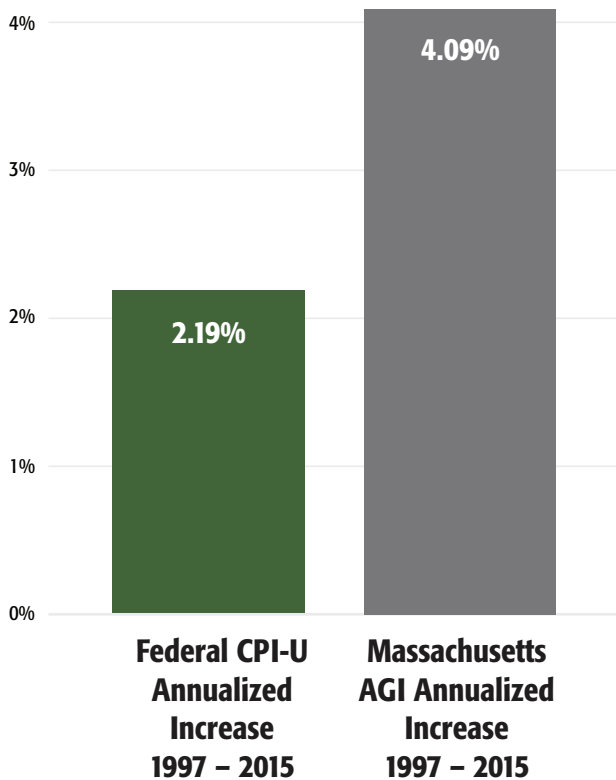
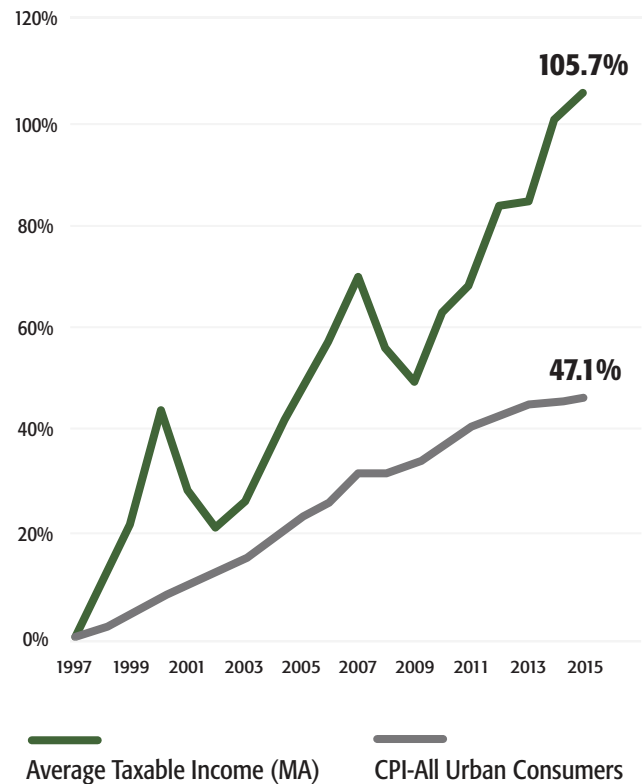


Figure 3 demonstrates that as time passes, many taxpayers who currently have annual taxable incomes well below \$1 million will cross the CPI-U adjusted million-dollar threshold if the differential between the rate of increase of the CPI-U and of Massachusetts taxable income from 1997 to 2015 continues. Although the million-dollar threshold will nominally increase each year by the percentage increase in the CPI-U, an increasing number of individuals will become subject to the Proposition 80 tax if their taxable incomes continue to rise at a historically quicker rate than the CPI-U.

This phenomenon is modeled in Figure 3 by the hypothetical example of a taxpayer with \$850,000 of taxable income in 2019, the year that Proposition 80 would first take effect. He or she would not be subject to the Proposition 80 tax in that year because his/her income would be below the \$1 million threshold in 2019. However, if the taxpayer's taxable income were to rise at 4.09 percent annually and the CPI-U were to rise at 2.19 percent annually (consistent with the average historical rate of change in Massachusetts taxpayer taxable income and the CPI-U from 1997–2015), the taxpayer's income would cross the CPI-U adjusted threshold nine years later in tax year 2028, and the taxpayer would become subject to the Proposition 80 tax.

This example demonstrates the inherent disadvantage of permanently incorporating the national CPI-U escalator into

Figure 2. Annual Rate of Increase: CPI-U and Average MA Taxable Income (1997–2015)



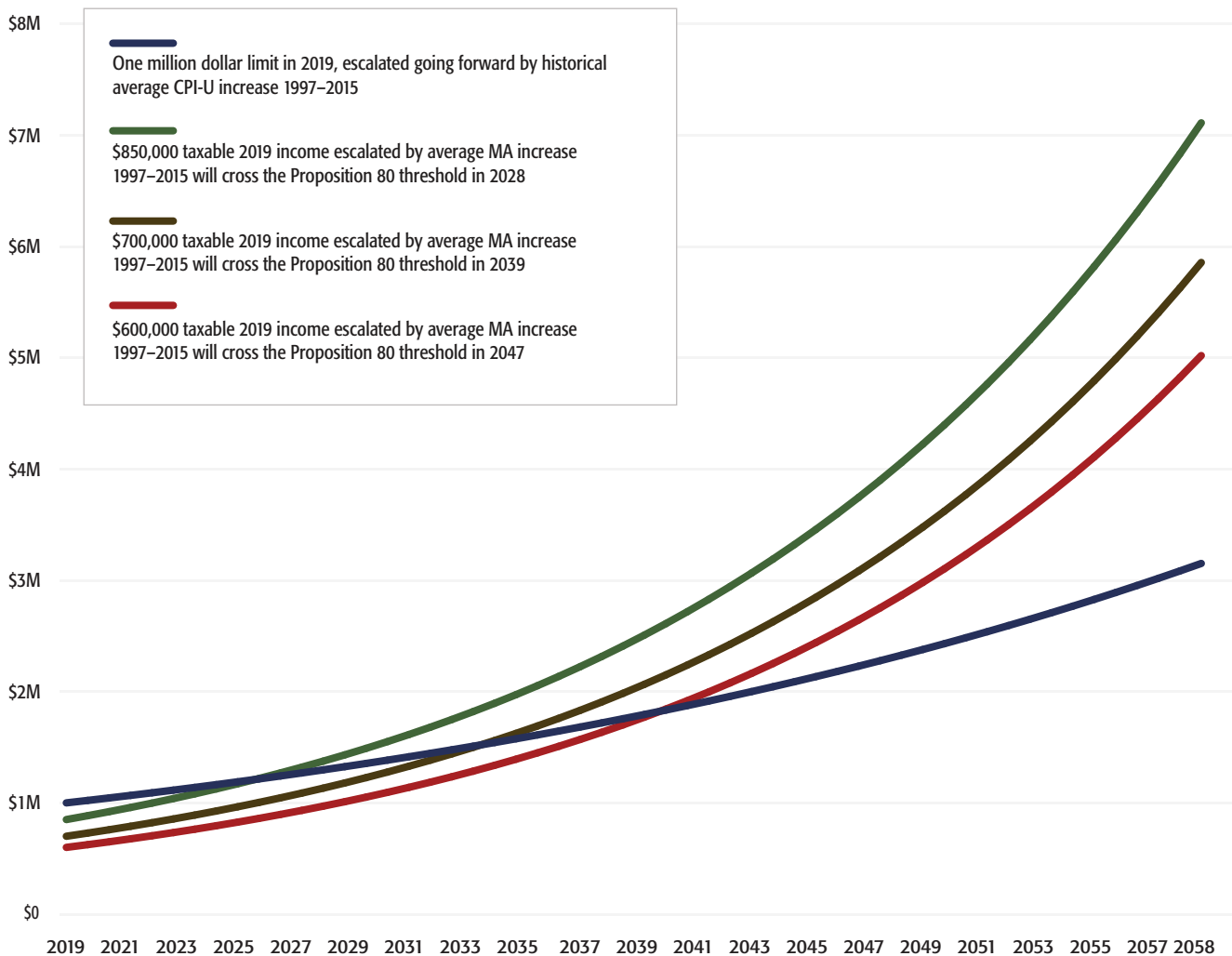
the Massachusetts constitution when it has historically not aligned with the Commonwealth's average rate of increase in taxable income.

By this same calculation, a taxpayer with taxable income of \$700,000 in 2019 would cross the CPI-U adjusted threshold and become subject to the Proposition 80 tax in 2039, 20 years after the tax would take effect, if past trends continue. A taxpayer with \$600,000 in taxable income in 2019 would cross the CPI-U adjusted threshold and become subject to the Proposition 80 tax in 2047, 28 years after enactment.

Figure 3 shows these hypothetical examples and demonstrates that if past CPI-U and Massachusetts taxable income trends continue, the differential between the constitutional CPI-U escalator and the rate of increase in the Commonwealth's average taxable income will subject a growing number of taxpayers to the additional tax going forward. It also demonstrates that if past trends continue, Proposition 80's income threshold will lag far behind the growth in average taxable income.

Similar to its contrast with Massachusetts average taxable income, Proposition 80's inflation mechanism (the national all cities CPI-U) does not accurately reflect the historical escalation of housing prices in Massachusetts from 1977 to 2017. The Federal Housing Finance Administration (FHFA) publishes a quarterly Housing Price Index (HPI), a broad measure of

Figure 3. Income Models and Proposition 80 Million Dollar Threshold (2019 – 2058)



the movement of single-family housing prices in states, metropolitan areas and the nation. The HPI is a weighted, repeat-sales index, which means it measures average price changes in repeat sales or refinancing on the same properties.⁷

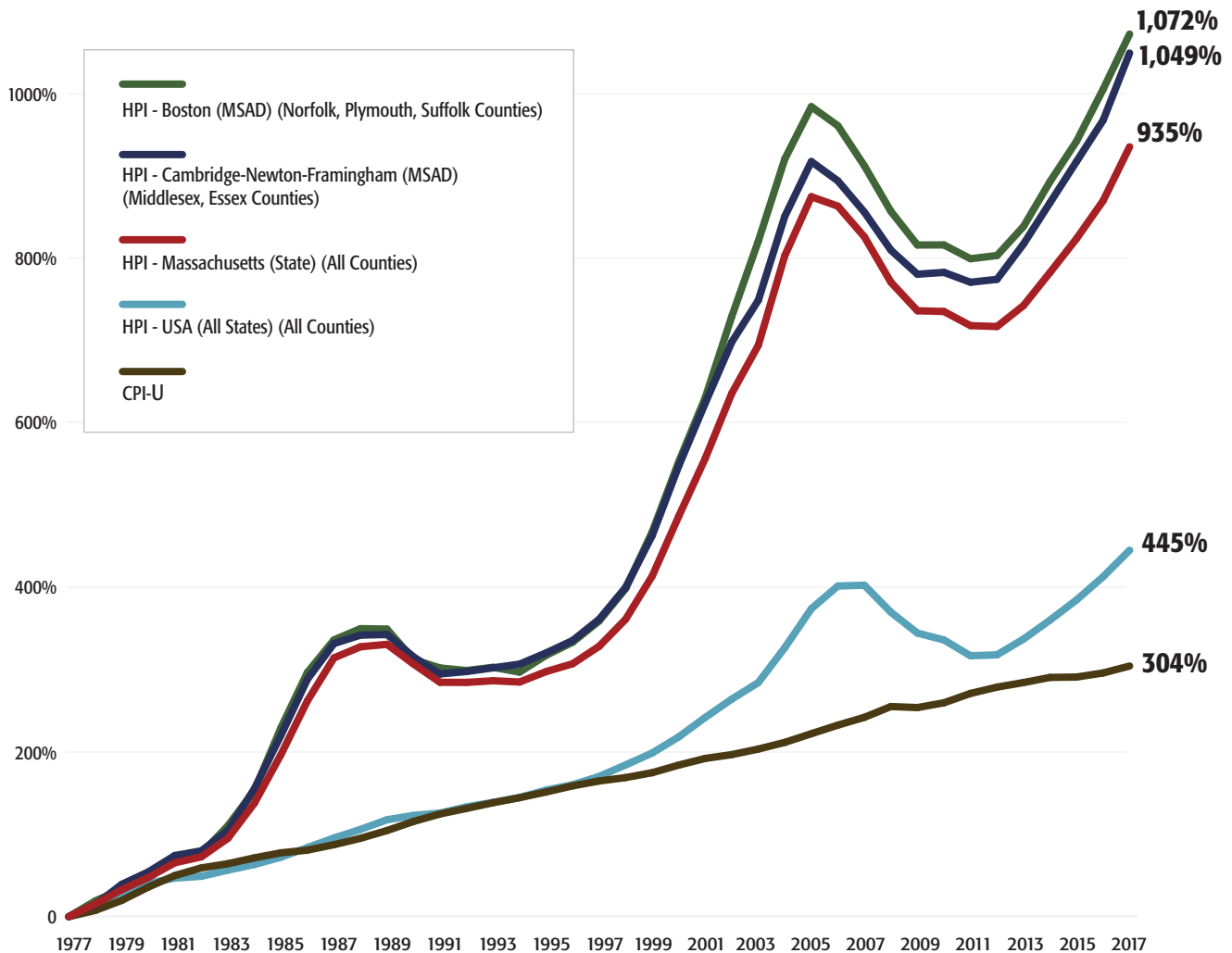
FHFA data shows that U.S. single-family home prices increased by 445 percent between 1977 and 2017.⁸ Over the same period, the CPI-U increased by 304 percent, or only about two-thirds as much as the HPI.⁹ This demonstrates that the CPI-U has not been an accurate indicator of changes in single-family home prices on a national level. With respect to Massachusetts in particular, the CPI-U is even less aligned with actual increases in single-family home prices over the past 40 years.

As a result of a four-decade long boom in single-family home prices, the Massachusetts HPI increased by 935 percent from 1977 to 2017, more than three times faster than the national CPI-U's 304 percent growth over the same period.¹⁰ This is

highly relevant to the Proposition 80 debate, as the proposal seeks to count capital gains from the sale of a home as taxable income towards the million-dollar tax threshold. FHFA data on Massachusetts' extraordinary increase in single-family home values demonstrates that many taxpayers, particularly long-term homeowners, could wind up paying Proposition 80 taxes on the capital appreciation of their homes that occurred long before passage of the ballot measure.

Figure 4 shows the extreme historical mismatch between the CPI-U and the HPI in five Massachusetts counties in particular: Suffolk, Norfolk, Plymouth, Middlesex and Essex. In the Boston Metropolitan Statistical Area Division (MSAD), which includes Suffolk, Norfolk and Plymouth Counties, single-family home values rose by 1,072 percent between 1977 and 2017.¹¹ The CPI-U's 304 percent increase was 72 percent less than HPI growth over the same period. In the Cambridge-Newton-Framingham MSAD, which includes

Figure 4. CPI-U and National, State and Local HPI (1977–2017)



Middlesex and Essex Counties, single-family home values rose by 1,049 percent between 1977 and 2017, three and a half times the growth of the CPI-U.

Within the five counties described in Figure 4, the communities that experienced the greatest increase in median single-family housing prices from 1996 to 2017 were Somerville, Chelsea, Boston, Cambridge, Medford, Everett, Revere, Watertown, Arlington, Malden, Hull, Lawrence, Hingham and Winchester, according to the ZHVI. The growth in median single-family housing prices from 1996 to 2017 in these communities is shown in Figure 5, as well as the CPI-U for comparison purposes.

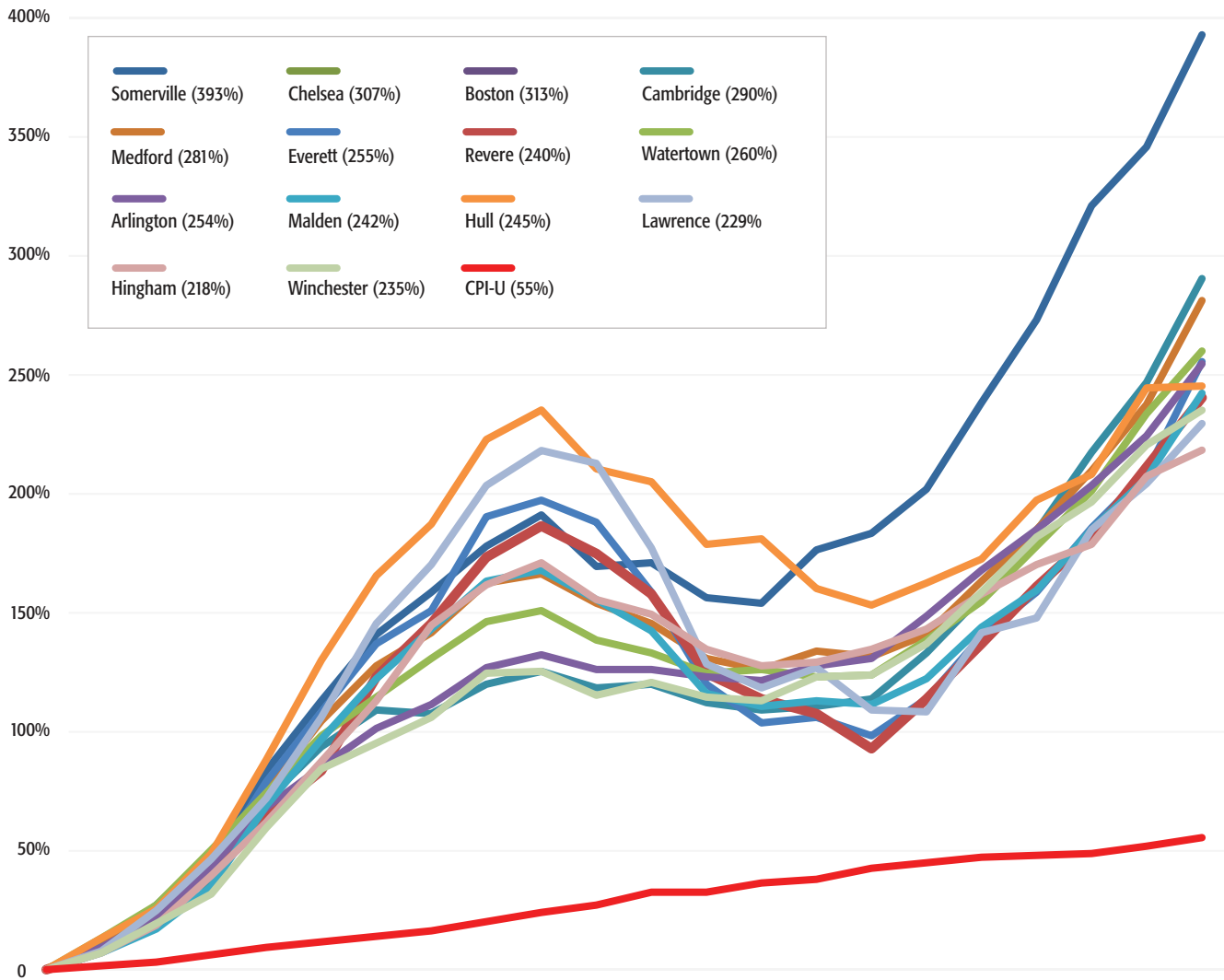
By including income from the sale of a home as taxable income counting towards the million-dollar threshold, Proposition 80 will subject many taxpayers to the additional tax who otherwise would not be considered millionaires in the traditional meaning of the term. Particularly in circumstances where a taxpayer sells a home in which he or she has lived for many

years, and if the home has appreciated considerably in value over those years, the taxpayer may be subject to the Proposition 80 tax for the year in which the home was sold.

To demonstrate the likelihood of this possibility, the following three charts present data derived from the IRS Statistics of Income (SOI) database regarding annual average AGI by zip code. This data, together with historical ZHVI time-series data on median single-family home values in individual communities, helps identify those most likely to be impacted by the Proposition 80 tax.

The data presented in Figures 6A, 6B and 6C have been computed by Pioneer Institute using the following assumptions: for each community listed, the median single-family home value in 1997 was projected forward using the historical rate of increase of single-family home values in that community during the preceding two decades. The average AGI of tax returns by community in 2015 (the most recent IRS data available) was likewise projected forward by the average rate

Figure 5. CPI-U and Single-family Home Prices, by Community (1996–2017)



of AGI increase in each respective community over the preceding two decades. Using these projections, the following three examples present an estimate of the capital gains taxes a homeowner would owe if he or she sells a home after having owned it for 30 years. The taxpayer's tax obligation in the year of sale was projected by calculating the amount of capital gains that would be owed on the sale in the year of sale after exempting \$250,000 of that gain pursuant to federal and state tax rules for single filers, and after escalating the \$1 million Proposition 80 threshold as calculated by the average rate of increase of the CPI-U for the preceding 20-year period.

The results are not applicable to every taxpayer who would sell a home after having owned it for 30 years because the projections present average single-family home prices in the future, as well as projections of average AGI, following the average historical local rate of growth. Some taxpayers, for example, will be selling homes that are above or below average prices for the community and of course, not every home seller has

the average adjusted gross income of the community in which he/she lives. In addition, AGI on federal tax returns does not align perfectly with Massachusetts taxable income, but it is a fairly good approximation as Massachusetts tax law does not allow many itemized deductions allowed by IRS rules, including the mortgage interest deduction. Nevertheless, the results are informative in that they illustrate the problem described in this paper regarding the inadequacy of the CPI-U in providing meaningful protection against Proposition 80's expanding reach if the rates of increase in local taxable income and home prices continue to outpace the CPI-U.

Figure 6A presents the above-described analysis with respect to a hypothetical homeowner who purchases a home in 1997 and sells it 30 years later in 2027. If the average priced single-family home increased in value at the same rate as the respective community average over the previous 20 years, and if the homeowner had the average AGI that increased by the historic average rate for that community, homeowners in the

Figure 6A. Model: Capital Gains and Proposition 80 Taxes after 30-year Ownership, by Community (1997–2027)

Year of median single-family home purchase	1997
Year of median single-family home sale	2027
Years of ownership	30
Years of local home value escalation at historic local rate (from 2017 to sale date)	10
Years of local AGI escalation at historic local rate (from 2015 to sale date)	12
Years of Proposition 80 threshold escalation (from 2019 to sale date)	8

City or Town	Prop 80 tax (4% of taxable income more than escalated limit)	MA cap gain tax at 5.1%	Total MA cap gain + Prop 80 tax	Fed cap gains (20% + 3.8% net investment income tax)	Total fed/state cap gains tax + Prop 80 tax
Brookline	\$58,081	\$116,478	\$174,559	\$543,563	\$718,122
Weston	\$115,115	\$85,423	\$200,538	\$398,640	\$599,177
Cambridge	\$30,891	\$89,474	\$120,365	\$417,545	\$537,911
Wellesley	\$37,255	\$72,745	\$110,001	\$339,479	\$449,480
Winchester	\$22,837	\$69,043	\$91,880	\$322,202	\$414,082
Newton	\$16,226	\$60,944	\$77,171	\$284,408	\$361,578
Belmont	\$14,712	\$61,117	\$75,829	\$285,213	\$361,042
Somerville	\$4,717	\$60,960	\$65,677	\$284,480	\$350,156
Lexington	\$12,171	\$52,542	\$64,713	\$245,197	\$309,910
Dover	\$16,900	\$44,795	\$61,695	\$209,042	\$270,737
Needham	\$17,250	\$42,706	\$59,956	\$199,295	\$259,252
Hingham	\$2,777	\$41,162	\$43,940	\$192,091	\$236,031
Sherborn	\$1,303	\$24,107	\$25,410	\$112,501	\$137,912

communities listed in Figure 5 would be the most likely to be impacted by Proposition 80. Figure 6A represents a short-term effect of the ballot measure because it describes a home sale in 2027, eight years after Proposition 80 would take effect, if enacted. Notably, a hypothetical homeowner would owe a large sum in total federal/state capital gains taxes and Proposition 80 taxes in this scenario. For example, a long-term homeowner in Brookline would owe \$718,122 in total capital gains and Proposition 80 taxes in 2027 under the stated assumptions. The Proposition 80 tax would constitute \$58,081 of that total and ordinary state capital gains taxes would constitute \$174,559.

Figure 6B shows that as time goes by, the differential between the CPI-U index and the home and income indices will continue to increase, causing Proposition 80 to impact more long-term homeowners than it would at first. As in the previous example, the hypothetical homeowner here sells a home after owning it for 30 years. But by this time, the rise of home prices and income brings more home sellers into the scope

of Proposition 80. The homeowner in this example sells his/her single-family residence 22 years after enactment of Proposition 80. Under the assumptions used in Figure 6A, the average single-family homeowner in 40 communities would be impacted by Proposition 80 due to the one-time sale. In addition, the total capital gains and Proposition 80 taxes owed by such home-sellers would increase dramatically.

As a final example, Figure 6C shows the impact of the Proposition 80 tax on homeowners further into the future as, if historical trends continue, the differential between the CPI-U index and the home and income indices expand. As with the previous examples, the hypothetical homeowner here sells a home after 30 years of ownership. But this time the sale occurs 28 years after enactment of Proposition 80. Using the assumptions previously described for Figures 6A and 6B, the average single-family homeowner in 52 communities would be impacted by Proposition 80 due to the one-time sale. In addition, the total amount of federal/state capital gains and Proposition 80 taxes owed would increase dramatically due to the sale.

Figure 6B. Model: Capital Gains and Proposition 80 Taxes after 30-year Ownership, by Community (2011-2041)

Year of median single-family home purchase	2011
Year of median single-family home sale	2041
Years of ownership	30
Years of local home value escalation at historic local rate (from 2017 to sale date)	24
Years of local AGI escalation at historic local rate (from 2015 to sale date)	26
Years of Proposition 80 threshold escalation (from 2019 to sale date)	22

City or Town	Prop 80 tax (4% of taxable income more than escalated limit)	MA cap gain tax at 5.1%	Total MA cap gain + Prop 80 tax	Fed cap gains (20% + 3.8% net investment income tax)	Total fed/state cap gains tax + Prop 80 tax
Brookline	\$184,956	\$278,440	\$463,396	\$1,091,921	\$1,555,317
Cambridge	\$144,074	\$239,083	\$383,158	\$937,581	\$1,320,739
Weston	\$222,862	\$181,600	\$404,462	\$712,156	\$1,116,618
Somerville	\$106,944	\$204,067	\$311,011	\$800,264	\$1,111,275
Winchester	\$110,777	\$172,761	\$283,538	\$677,496	\$961,034
Wellesley	\$125,169	\$167,209	\$292,379	\$655,723	\$948,102
Belmont	\$81,663	\$149,041	\$230,703	\$584,473	\$815,177
Newton	\$80,620	\$144,804	\$225,424	\$567,858	\$793,282
Lexington	\$75,143	\$122,588	\$197,731	\$480,736	\$678,467
Arlington	\$45,778	\$115,992	\$161,770	\$454,871	\$616,641
Boston	\$39,016	\$106,401	\$145,417	\$417,261	\$562,678
Hingham	\$55,617	\$100,318	\$155,935	\$393,405	\$549,340
Needham	\$61,679	\$98,220	\$159,899	\$385,176	\$545,075
Watertown	\$28,787	\$100,989	\$129,776	\$396,037	\$525,813
Dover	\$77,930	\$88,509	\$166,439	\$347,092	\$513,531
Medford	\$23,844	\$97,311	\$121,155	\$381,612	\$502,767
Concord	\$49,349	\$84,576	\$133,925	\$331,670	\$465,595
Cohasset	\$43,299	\$84,744	\$128,043	\$332,330	\$460,373
Melrose	\$21,593	\$88,612	\$110,204	\$347,497	\$457,701
Milton	\$25,240	\$83,394	\$108,634	\$327,037	\$435,671
Waltham	\$9,996	\$78,554	\$88,550	\$308,054	\$396,604
Manchester	\$36,639	\$71,841	\$108,480	\$281,729	\$390,209
Westwood	\$31,533	\$67,554	\$99,087	\$264,918	\$364,005
Winthrop	\$4,099	\$72,578	\$76,677	\$284,619	\$361,296
Bedford	\$13,555	\$69,411	\$82,966	\$272,198	\$355,164
Newburyport	\$9,175	\$69,392	\$78,567	\$272,125	\$350,692
Reading	\$8,580	\$67,703	\$76,283	\$265,501	\$341,785
Wayland	\$32,978	\$59,084	\$92,062	\$231,702	\$323,764
Natick	\$5,060	\$63,893	\$68,953	\$250,561	\$319,514
Carlisle	\$21,908	\$57,894	\$79,802	\$227,035	\$306,838
Medfield	\$15,200	\$58,692	\$73,892	\$230,166	\$304,058

Marblehead	\$12,144	\$58,410	\$70,553	\$229,057	\$299,610
Duxbury	\$10,163	\$55,480	\$65,643	\$217,568	\$283,211
Norwell	\$10,345	\$54,177	\$64,522	\$212,458	\$276,981
Lynnfield	\$3,102	\$52,903	\$56,005	\$207,461	\$263,466
Sherborn	\$38,943	\$45,171	\$84,114	\$177,141	\$261,254
Andover	\$3,598	\$48,063	\$51,661	\$188,484	\$240,145
Sudbury	\$15,719	\$44,569	\$60,288	\$174,781	\$235,069
Hopkinton	\$3,366	\$46,430	\$49,797	\$182,080	\$231,876
Wenham	\$3,844	\$43,594	\$47,438	\$170,956	\$218,394

Figure 6C. Model: Capital Gains and Proposition 80 Taxes after 30-year Ownership, by Community (2017–2047)

Year of median single-family home purchase	2017
Year of median single-family home sale	2047
Years of ownership	30
Years of local home value escalation at historic local rate (from 2017 to sale date)	30
Years of local AGI escalation at historic local rate (from 2015 to sale date)	32
Years of Proposition 80 threshold escalation (from 2019 to sale date)	28

City or Town	Prop 80 tax (4% of taxable income more than escalated limit)	MA cap gain tax at 5.1%	Total MA cap gain + Prop 80 tax	Fed cap gains (20% + 3.8% net investment income tax)	Total fed/state cap gains tax + Prop 80 tax
Brookline	\$253,469	\$385,152	\$638,620	\$1,797,374	\$2,435,994
Cambridge	\$212,212	\$343,031	\$555,243	\$1,600,811	\$2,156,054
Somerville	\$192,052	\$327,590	\$519,642	\$1,528,751	\$2,048,393
Weston	\$248,267	\$250,994	\$499,261	\$1,171,305	\$1,670,566
Winchester	\$153,574	\$247,298	\$400,872	\$1,154,056	\$1,554,928
Wellesley	\$156,211	\$229,561	\$385,772	\$1,071,284	\$1,457,056
Belmont	\$114,136	\$209,152	\$323,288	\$976,041	\$1,299,328
Newton	\$109,323	\$199,915	\$309,238	\$932,937	\$1,242,175
Lexington	\$95,351	\$169,407	\$264,758	\$790,568	\$1,055,326
Arlington	\$74,368	\$169,429	\$243,797	\$790,670	\$1,034,467
Boston	\$70,761	\$162,391	\$233,152	\$757,825	\$990,976
Hingham	\$75,017	\$144,693	\$219,710	\$675,234	\$894,944
Watertown	\$51,600	\$145,729	\$197,330	\$680,071	\$877,400
Medford	\$48,605	\$144,152	\$192,757	\$672,710	\$865,467
Needham	\$74,650	\$136,985	\$211,635	\$639,263	\$850,899
Melrose	\$39,032	\$127,298	\$166,330	\$594,058	\$760,389
Cohasset	\$55,825	\$121,004	\$176,829	\$564,687	\$741,516
Milton	\$42,103	\$122,829	\$164,931	\$573,201	\$738,133
Dover	\$78,574	\$115,260	\$193,834	\$537,880	\$731,714
Concord	\$52,627	\$110,899	\$163,525	\$517,528	\$681,053
Waltham	\$25,235	\$113,361	\$138,595	\$529,016	\$667,611
Manchester	\$44,085	\$101,905	\$145,990	\$475,555	\$621,544

Winthrop	\$18,048	\$105,564	\$123,612	\$492,631	\$616,242
Newburyport	\$21,755	\$101,741	\$123,496	\$474,792	\$598,289
Westwood	\$37,778	\$95,535	\$133,314	\$445,832	\$579,146
Chelsea	\$7,536	\$97,440	\$104,976	\$454,721	\$559,697
Bedford	\$19,819	\$95,067	\$114,885	\$443,644	\$558,529
Reading	\$16,552	\$94,641	\$111,193	\$441,658	\$552,850
Stoneham	\$8,653	\$91,384	\$100,037	\$426,460	\$526,497
Malden	\$4,957	\$91,983	\$96,940	\$429,252	\$526,191
Natick	\$12,049	\$89,682	\$101,731	\$418,516	\$520,247
Hull	\$3,279	\$85,056	\$88,336	\$396,930	\$485,266
Medfield	\$18,199	\$80,906	\$99,105	\$377,561	\$476,666
Quincy	\$190	\$83,628	\$83,819	\$390,265	\$474,084
Wayland	\$28,093	\$78,321	\$106,414	\$365,499	\$471,913
Marblehead	\$15,265	\$80,327	\$95,592	\$374,861	\$470,453
Braintree	\$2,093	\$82,616	\$84,710	\$385,543	\$470,253
Duxbury	\$14,560	\$79,062	\$93,622	\$368,955	\$462,576
Wakefield	\$1,865	\$81,300	\$83,165	\$379,399	\$462,564
Burlington	\$2,146	\$80,865	\$83,011	\$377,368	\$460,379
Carlisle	\$19,751	\$77,081	\$96,833	\$359,714	\$456,546
Rockport	\$2,016	\$79,297	\$81,313	\$370,050	\$451,363
Norwell	\$13,361	\$76,179	\$89,540	\$355,504	\$445,045
Nahant	\$2,828	\$76,829	\$79,657	\$358,536	\$438,192
North Reading	\$216	\$74,777	\$74,993	\$348,959	\$423,952
Lynnfield	\$5,577	\$73,431	\$79,007	\$342,676	\$421,683
Scituate	\$2,358	\$73,906	\$76,264	\$344,893	\$421,157
Andover	\$3,397	\$66,401	\$69,799	\$309,873	\$379,672
Sherborn	\$30,775	\$60,706	\$91,481	\$283,294	\$374,775
Hopkinton	\$3,095	\$64,390	\$67,485	\$300,487	\$367,972
Sudbury	\$11,576	\$59,473	\$71,049	\$277,541	\$348,590
Wenham	\$2,995	\$59,917	\$62,911	\$279,611	\$342,522

An important concern raised by the projections in Figures 6A, 6B and 6C is that the state capital gains tax, regardless of whether Proposition 80's passes, is going to be taking an ever-growing share of homeowners' gains from the sale of a personal residence. The federal and state tax rules that once allowed taxpayers to roll-over the gain on the sale of a personal residence to purchase another residence of equal or greater value within two-years were repealed by the Taxpayer Relief Act of 1997 and replaced by an exclusion of \$250,000 for single individuals and married individuals filing separately and \$500,000 for married couples filing a joint return. Because the rollover rules are no longer available to Massachusetts taxpayers, a long-term homeowner wishing to sell his or her residence and purchase another must first pass through the capital gains/Proposition 80 gauntlet instituted by the federal and state governments. For a long-term homeowner, this is an

inequitable and expensive tax policy because the price of the replacement home he or she would seek to buy will have appreciated at a similar rate as his or her previous home. The intervening extraction of a substantial capital gains tax, and now a substantial Proposition 80 tax, upon the sale of his/her home and before the purchase of a replacement diminishes his/her ability to buy one of equal or greater value.

Conclusion

Fairness is at the core of the argument offered by supporters of Proposition 80. Proponents say the so-called "millionaires' tax" is an effort to force those who have benefited the most from Massachusetts' strong economic growth to pay their "fair share." Just a small subset of the state population – the 19,500, or 0.5 percent, who earn more than \$1 million — would be

subject to the tax, supporters insist, leaving the vast majority of Bay State residents untouched.

But Proposition 80, with its inadequate inflation adjustment mechanism, the CPI-U, would be anything but fair, especially as more time passes. From the start, seniors selling long-held family homes in towns and suburbs that have experienced robust price appreciation over the past few decades would see money that could have been used for retirement siphoned off by the new tax.

The financial impact of Proposition 80 will worsen over time if Massachusetts incomes and housing prices continue to rise faster than the CPI-U, as they have historically. If this occurs, families earning the equivalent of \$600,000 in 2019 dollars would become subject to Proposition 80 by 2047 due to an inadequate guard against inflation. Still others would cross the CPI-U adjusted million-dollar threshold and become one-time millionaires subject to the tax because of the market appreciation of their personal residences.

Supporters of Proposition 80 may argue that it can be modified after passage to alleviate any problems it creates. But if passed by the voters, it would be written into the state constitution, beyond the reach of subsequent legislative amendment. Any changes would require a second constitutional amendment to be passed by both legislative chambers, and then in a statewide popular vote. The best way to spare Massachusetts taxpayers from the adverse consequences of Proposition 80 is to ensure that it never passes in the first place.

Endnotes

1. As explained later in this analysis, federal and state tax rules allow taxpayers to exclude \$250,000 for single individuals and married individuals filing separately and \$500,000 for married couples filing a joint return of capital gains from the sale of a home.
2. "Data," Zillow Research, February 13, 2018, <https://www.zillow.com/research/data/#median-home-value>.
3. "Fair Share Amendment," Raise Up Massachusetts, February 13, 2018, <https://raiseupma.org/campaigns/fair-share-amendment/>.
4. U.S. Bureau of Labor Statistics, "Focus on Prices and Spending," Consumer Price Index: Second Quarter 2010 1, no. 6 (2010): <https://www.bls.gov/opub/btn/archive/the-use-of-the-cpi-in-adjusting-federal-income-tax-brackets-and-other-federal-tax-parameters.pdf>. "Because of ERTA, and modifications made to that act in 1986, federal income tax brackets, as well as personal exemptions and standard deductions, are now tied to changes in the average CPI for All Urban Consumers (CPI-U) for the U.S. City Average for All items for the 12-month period ending in August of each year."
5. "CPI-All Urban Consumers (Current Series)," Bureau of Labor Statistics, February 9, 2018, <https://data.bls.gov/cgi-bin/surveymost?cu>.
6. "SOI Tax Stats – Historic Table 2," Internal Revenue Service, February 13, 2018 <https://www.irs.gov/statistics/soi-tax-stats-historic-table-2>.
7. "House Price Index – HPI," Investopedia, February 13, 2018, <https://www.investopedia.com/terms/h/house-price-index-hpi.asp#ixzz56eqJtpd>.
8. "All-Transactions House Price Index for the United States (USSTHPI)," Federal Reserve Bank of St. Louis, February 9, 2018, <https://fred.stlouisfed.org/series/USSTHPI>.
9. "CPIA-All Urban Consumers (Current Series)," data extracted on: February 9, 2018, <https://data.bls.gov/cgi-bin/surveymost?cu>.
10. "All-Transactions House Price Index for Massachusetts," Federal Reserve Bank of St. Louis, February 10, 2018, <https://fred.stlouisfed.org/series/MASTHPI>.
11. "All-Transactions House Price Index for Boston, MA (MSAD) (ATNHPIUS14454Q)," Federal Reserve Bank of St. Louis, February 9, 2018, <https://fred.stlouisfed.org/series/ATNHPIUS14454Q>.

About the Author

Gregory Sullivan is Pioneer's Research Director. Prior to joining Pioneer, Sullivan served two five-year terms as Inspector General of the Commonwealth of Massachusetts and was a 17-year member of the Massachusetts House of Representatives. Greg holds degrees from Harvard College, The Kennedy School of Public Administration, and the Sloan School at MIT.

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Pioneer Institute is an independent, non-partisan, privately funded research organization that seeks to improve the quality of life in Massachusetts through civic discourse and intellectually rigorous, data-driven public policy solutions based on free market principles, individual liberty and responsibility, and the ideal of effective, limited and accountable government.

