How the New Federal Tax Law Targets California

Once again, California has a bullseye on its back. The Tax Cuts and Jobs Act is carefully crafted to pile additional punishment on top of what Californians have already endured for many years. It all comes down to the high cost of living in the most desirable state in the country.

Though some of the changes to the tax law may not appear unreasonable on their face, they impact California much harder than most other states.

State and local tax deduction limit of $10,000: California has one of the highest income tax *rates*, but low property tax rates, and localities are largely prevented from levying their own taxes. Overall, according to the Tax Foundation, California has the 6th highest tax *rate* as a percent of income, and the over 34% of individual California taxpayers who claim it will pay hundreds to tens of thousands of dollars more in taxes each year.

Mortgage interest limited to mortgages of $750,000: According to Zillow, the median home price in Los Angeles County as of December, 2017 was $575,700. For the San Francisco Bay Area, the median was $787,000, per CoreLogic. In contrast, the median home price in Janesville, Wisconsin (home of Paul Ryan) is $142,900.

20% deduction for "qualified business income": The terms of this deduction are complicated, but for service businesses it begins to phase out at taxable income of $157,500 per taxpayer. A fortune in Paducah, KY, not so much in Irvine.

Repeal of $20 per month fringe benefit for bicycling to work: A gratuitous slap in the face to all bicycle advocates.

Repeal of deduction for transit and parking benefits: This only hurts people who live in urban areas—which is to say, the vast majority of Californians.

Alternative Minimum Tax (AMT): The AMT is now aimed squarely at incentive stock options (ISOs). Most of the other deductions that used to trigger AMT were repealed in the act. And where is the epicenter of tech stocks and their option plans?

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