



CITY OF CAMBRIDGE
INTEROFFICE CORRESPONDENCE

To James L. Sullivan
City Manager
Date April 6, 1979
From George E. O'Brien *George E. O'Brien*
Reference
Subject Assistant City Manager for Fiscal Affairs
Homeowner's deduction for water and sewer bills

Enclosed is a response to Councillor Crane's order dated April 2, 1979, concerning the homeowner's tax deduction for a portion of water and sewer bills.

Enclosure

RECEIVED

APR 6 4 29 PM '79

OFFICE OF THE
CITY MANAGER

The fact that homeowners are able to deduct a portion of their water and sewer bills on their federal income tax returns was brought to the City's attention by a letter from Southside Neighbors. Mr. Laurence May of that organization provided the City with a copy of the February 26, 1979, issue of Executives Tax Report. A copy is enclosed for your examination.

The tax report cites IRS code (Sec. 164 (c)(1)) as the basic authority for this deduction. The report further cites a Revenue Ruling (76-45, 1976-1 CB 5) as confirming this deduction.

The City was unable to obtain a copy of the IRS code from the Boston IRS office. Instead, they provided us a copy of Revenue Ruling 76-45. A copy is enclosed for your reference.

The seventy (70) percent figure used as a basis for deduction was arrived at by examining the budgets for fiscal year 1977 and 1978. The City's fund accounting system and program budget format make it relatively easy to arrive at the repair, maintenance and interest for bonding costs for the City's water and sewer system.

For the last half of 1978, a total of \$1,020,250 was budgeted for water system maintenance and repairs, one half of the FY 79 budget for these categories. This was 70.4% of the total water budget. A similar percentage was arrived at for the first half of 1978.

The sewer expenses for system maintenance, repairs and bonded interest was arrived at in the same manner.

As soon as the City verified the information contained in the Executives Tax Report, it released the information to be printed in the next three editions of the Cambridge Chronicle. The Boston Herald was also given the information. Enclosed is the notice that appeared on April 5th in the Chron-

icle and will appear on April 12th. The City also instructed General Data/TAP, who does the data processing for the water/sewer accounts, to include the following message on the water and sewer bills through April 1979:

INCOME TAX DEDUCTION: A homeowner who itemizes his deductions can deduct 70 percent of water/sewer charges paid in 1978.

A form letter was also prepared and sent to all CPA's and tax preparation offices located in Cambridge that are listed in the telephone yellow pages. A copy of this letter is enclosed.

The best means of communicating this information in the future will be through the end of year water and sewer bills. It is hoped that adjustments can be made to our existing billing system to readily calculate and identify the actual dollar amounts that are deductible for the 1979 income tax returns.

Michael Moreau, Project Director of the Delinquent tax Operation for the City, interpreted the IRS Code and with the cooperation of the City Budget Office, ran the calculations. Mr. Moreau then took the initiative to arrange local publicity regarding the opportunity for Cambridge Taxpayers.



CITY OF CAMBRIDGE

CITY HALL, CAMBRIDGE, MASSACHUSETTS 02139

(617) 876-6800

OFFICE OF
GEORGE E. O'BRIEN
ASSISTANT CITY MANAGER
FISCAL AFFAIRS

March 22, 1979

Dear Tax Preparer:

The enclosed copy of a recent article from Executive's Tax Report should be of interest to you.

The portions of water and sewer service charges in 1978 that went to support system maintenance, repairs, and interest was 70 percent of the amount billed. Therefore, 70 cents of each \$1.00 water and sewer service charge seems to be an eligible tax deduction according to the Executive's Tax Report. Please note that many water/sewer bills are paid by tenants and not necessarily homeowners. The article implies that this is only a homeowner's deduction.

Sincerely yours,

A handwritten signature in cursive script, appearing to read "George E. O'Brien", is written over the typed name.

George E. O'Brien
Assistant City Manager

Enclosure



EXECUTIVES TAX REPORT

& What's Happening IN TAXATION

PRENTICE-HALL, INC.
Englewood Cliffs • New Jersey

February 26, 1979

HOMEOWNER'S TAX BREAK:

A Deduction for Your Water Bill?

It Just May Well Be!

It's not often you run into a deduction that isn't new—yet you've never heard of it.

»»**SURPRISE DEDUCTION**→ Some or all the municipal utility charges you pay for water and sewers can be deducted on your tax return.

How many dollars are at stake? The residents of one town in New Jersey save anywhere from \$50 to \$150 in taxes. That isn't a lot these days, but it's better off in your pocket than Uncle Sam's. Why not take it if you have it coming to you?

The basic authority is right in the Internal Revenue Code [Sec. 164(c)(1)].

»»**TAX BASICS**→ A homeowner who itemizes his deductions can deduct the property taxes on his home. However, no tax deduction is allowed for special assessments for local benefits such as streets and sidewalks. Exception: A special assessment is deductible to the extent it is used to pay for maintenance, repairs or interest for local benefits.

In some towns, a large part of the utility bill from a municipally owned system represents assessments for maintenance, repairs and interest charges. Can these assessments be deducted as a property tax?

Revenue Service answer: Yes, they can [Rev. Rul. 76-45, 1976-1 CB 5]. The interesting point is that these three items—maintenance, repairs and interest—can

Other Highlights of This Issue

Uncle Sam May Owe You Money—Here's How to Get It	p. 66
How to Build a Nest Egg for Your Children That's Free of Estate Tax—And Get an Income Tax Break Right Now	p. 67
How Your Company Can Use Paper Profits to Pay Tax-Sheltered Dividends	p. 69
How You Can Get Big Tax Breaks Even Though You Provide Less-Than-Half Support	p. 70
You May Be Able to Save More Tax Dollars Than Ever Because of New Tax Credit Changes	p. 70
Quick Looks at Other Happenings	p. 71
What's Ahead in Taxes	p. 72

come to as much as 100% of your water bill. In other words, you may be able to take your entire bill as a property tax deduction. Deductible percentages we know of: The residents of one town deduct 39% of their water bill and 48% of sewer; 83.6% of water was permitted in another town; 90% of water payments and 92% of sewer is written off in still another. In addition, the residents of towns where electricity is supplied by a municipal facility are deducting a good part of their electric bill. All kinds of homeowners get the writeoff—condominium residents, stockholders of cooperative apartments as well as vacation homeowners.

»»**IMPORTANT**» The key word here is "municipal". If your local water, sewer and electricity are provided by a privately-owned facility, you're out of luck—no deductions.

How do you find out the percentages in your town? That's where your local government plays a part. If your utilities are municipally owned, it's up to the town authorities to tell you what percentage of your water or sewer bill is deductible. One community includes the information in a box in the lower left hand corner of the January 15 bill.

»»**WHAT TO DO**» Send a copy of this article to your town government (again, assuming your utilities are owned by the town). Ask your mayor or town council whether you and you neighbors are entitled to the deduction. If so, have the appropriate town official analyze the books to determine the deductible percentages in your community. It may be too late in the tax season for 1978 returns, but it's not too soon to contact town authorities for your 1979 return—the sooner, the better.

TAX RETURN MOVE:

Uncle Sam May Owe You Money—Here's How to Get It

Right now you're most concerned about your 1978 tax return. But this is also the time of the year that you may discover that you made an error on a previous year's return. For example, you may have overpaid your 1977 tax because you failed to carry over an unused capital loss from your 1976 return. Or, while looking over your old returns, you notice that you could have used five-year income averaging in 1976.

If the mistake was made on your 1975, 1976 or 1977 return, there's still time to correct the mistake. You can file a refund claim as late as three years after the tax return's due date (or two years after you paid the tax, if that's later). So you have until April 16, 1979 to file a refund claim for 1975.

»»**HOW TO HANDLE IT**» To claim a refund, file an amended return for the year in question. There's no special form for claiming a refund. You simply file Form 1040X. If it's your company that has the refund coming, file Form 1120X.

Suppose you find an error on your *state* income tax return. You can file for a refund here too, but the time limit varies from state to state—from two years after payment (in Tennessee) to five years after the return due date (in Hawaii, Iowa

Executives Tax Report & What's Happening in Taxation is published weekly by Prentice-Hall, Englewood Cliffs, N.J. 07632. Vol. XLII, No. 9, February 26, 1979. Subscription rate \$120 per year. Second-class postage paid at Englewood, N.J. 07631. © Copyright 1979 by Prentice-Hall, Inc.

CAMBRIDGE CHRONICLE ADVERTISEMENT

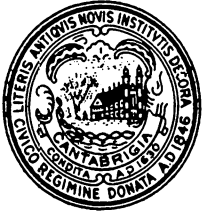
March 29, April 5 and 12, 1979

**NOTICE
HOMEOWNER'S
TAX DEDUCTION
FOR WATER AND SEWER BILLS**

A homeowner who itemizes his deductions for his federal income tax return can deduct 70 percent of water-sewer charges paid in 1978. This deduction is the amount allocated for system maintenance, repairs, and interest. Interest amounts paid as a result of late payments are treated differently. The 70 percent deduction is applicable only to City of Cambridge homeowners. For more specific information consult your attorney, accountant, or tax preparer. The basic authority is contained in the Internal Revenue Code (Sec. 164, (c) (1)).

GEORGE O'BRIEN
Assistant City Manager
for Fiscal Affairs

(C)Apr5,12



CITY OF CAMBRIDGE

CAMBRIDGE, MASSACHUSETTS 02139
Tel. 498-9011

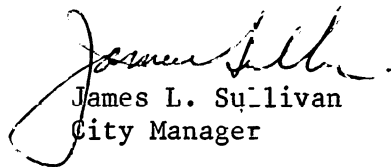
EXECUTIVE DEPARTMENT
JAMES L. SULLIVAN
City Manager

April 9, 1979

To the Honorable, the City Council:

With reference to Awaiting Report No. 19, City Council Order of April 2, 1979, I transmit herewith communication, with enclosures, received from George E. O'Brien, Assistant City Manager for Fiscal Affairs relative to homeowners' deduction for water and sewer bills.

Very truly yours,


James L. Sullivan
City Manager

JLS/b

Agenda # 15

S-199

Response to Awaiting Report No. 19 re:
homeowner's deduction for water and sewer
bills.

In City Council,

April 9, 1979

4/9/1979

Placed on File