October 6, 2017

The Honorable Mitch McConnell
Majority Leader
United States Senate
Washington, D.C. 20510

The Honorable Chuck Schumer
Democratic Leader
United States Senate
Washington, D.C. 20510

Speaker Paul Ryan
Speaker of the House
U.S. House of Representatives
Washington, D.C. 20510

The Honorable Nancy Pelosi
Democratic Leader
U.S. House of Representatives
Washington, D.C. 20510

RE: NCSL Urges Congressional Leadership to Preserve the State and Local Tax Deduction

Dear Senator McConnell, Senator Schumer, Speaker Ryan and Leader Pelosi:

On behalf of the National Conference of State Legislatures (NCSL), the bipartisan organization representing the legislatures of the nation’s states, commonwealths and territories, we strongly oppose any tax reform measure that includes modifying or eliminating the State and Local Tax (SALT) deduction.

As a central tenet of tax reform is to provide tax relief for the middle class, NCSL is dismayed that the released framework will eliminate the SALT deduction, a deduction vital to middle-class taxpayers. The SALT deduction has existed in the federal tax code since its inception, which coincidentally was also when the federal tax code was at its simplest, because federal tax writers have always been cognizant to not tax an individual’s income twice. Eliminating this deduction will lead to higher tax burdens for tens of millions of middle-class taxpayers of every political affiliation, an outcome contrary to the stated goal of providing meaningful relief to taxpayers.

It is disingenuous of proponents of the proposed tax framework, which lowers the top tax rate and repeals the Alternative Minimum Tax (AMT), to justify eliminating the SALT deduction to make the tax code more equitable. The AMT was enacted to prevent the very rich from manipulating the tax code to drastically lower their tax burdens. To calculate AMT, taxpayers do not include certain deductions and exemptions in the calculation of their taxable income, including the deduction of state and local taxes. Because the AMT disallows the SALT deduction, taxpayers who live in high-tax states are the most likely to owe it. Thus, in 2017 taxpayers in high-tax states are more than twice as likely to be on the AMT as those in low-tax states.

Proponents of eliminating the SALT deduction are also painting an incomplete picture of how the federal government collects and spends tax dollars, and are cherry-picking details to support the narrative that repealing the SALT deduction will equalize federal subsidies to the states. In budgeting, tax expenditures – including tax exemptions, deductions, or credits – and governmental spending are treated the same as each allocate governmental funds. Therefore, any discussion of tax deductions and federal subsidies to the states must entail a broader analysis of tax remittance and federal direct and indirect spending.
Unlike the federal government, states do not have the luxury of borrowing hundreds of billions of dollars each year to fund the vital public services that Americans expect from them. Eliminating the SALT deduction will make it even more difficult for states to provide these services and it will impede their ability to invest in infrastructure, fund education, and respond to the needs of their citizenries. Quite simply, it is not sound public policy for Congress to transfer even more tax dollars from local decisionmakers to Washington D.C. State sovereignty, or states’ rights, is not a doctrine of convenience. Rather, it’s the idea that states, and their citizens, know best how to govern themselves.

Ensuring that the incomes of American workers are not taxed twice hardly counts as a special interest tax break or loophole that needs to be closed. NCSL strongly supports preservation of the SALT deduction and opposes any attempt to harm middle-class taxpayers and their communities.

Protect state taxpayers. Protect local decision making. Protect SALT.

Respectfully,

Senator Deb Peters, South Dakota
NCSL President

Senator Toi Hutchinson, Illinois
NCSL President-elect