Politicians in High Tax States Blame New Cap on SALT Deduction for Taxpayer Exodus

President Trump signed the Tax Cuts and Jobs Act into law in 2017, which went into effect with the 2018 tax year. The most significant part of this new tax law was that it put a $10,000 cap on the state and local tax (SALT) deduction that taxpayers can claim. (Previously, there was no limit on this deduction.)

The new law does not have much impact on residents of states with low or modest taxes or on lower income taxpayers who do not itemize their deductions. The Tax Foundation has found that people with incomes over $100,000 received more than 88 percent of SALT deduction benefits.

Interestingly, when the House passed the final version of the Tax Cuts and Jobs Act on Dec. 20, 2017, by a vote of 224-201, twelve Republicans and every Democrat in the House opposed the legislation. It is ironic that Democrats, who are always proclaiming themselves as the champions of the "little guy," would oppose a bill that benefited low-income earners and reduced a benefit for high earners.

Taxpayers who take advantage of the SALT deduction tend to be high-income earners in states and cities with high income and property taxes such as California, New York, New Jersey, and Illinois.

Residents have been fleeing those high-tax states and moving to more tax-friendly states like Nevada, Texas, and Florida, much to the chagrin of the tax-and-spend politicians (mostly Democrats) who run those states. Instead of accepting the blame for their actions, however, they would rather blame the Trump administration for placing the cap on SALT. (See: "New York Governor Cuomo Blames Exodus of Wealthy on Trump.")

Writing about the SALT deduction in 2017, columnist Veronique de Rugy observed in a column published by The New American:

> Indeed, the [SALT] deduction provides an indirect federal subsidy to state and local governments in high-income areas by decreasing the net cost of nonfederal taxes to those who pay them. As the Tax Policy Center notes, in some instances these state and local governments effectively "export a portion of their tax burden to the rest of the nation."
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> Estimates show that by sheltering state and local taxpayers from the spending decisions of their lawmakers, the deduction encourages anywhere between 2 and 20.5 percent more spending.

In other words, the SALT deduction makes it easier for high tax states to impose higher taxes on their residents. De Rugy cited Alaska Governor Bill Walker as an example of how this worked by observing that in 2017, Walker named SALT as a key factor in proposing a hike in income taxes over a hike in the sales tax. He said, "We selected an income tax over a sales tax for a couple of reasons.... State income taxes are deductible from your federal taxes."

De Rugy offered this translation of that statement: "Thanks to SALT, we can increase your taxes without upsetting you as much as we should."

She continued: "You don't have to be a genius to understand that when taxpayers are less vigilant about policy changes and lawmakers' spending behaviors, we don't get the best policies implemented."

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