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Trump's Plan to Eliminate State, Local Tax Deductions Puts Dems in Difficulty

Two tax policy groups — the Urban-Brookings Tax Policy Center and the Tax Foundation — agree on at least one thing in President Trump's tax proposal: The elimination of favorite tax deductions used by the wealthy [would cost them dearly](#). The Tax Policy Center calculated that it would cost the rich \$1.3 trillion over the next 10 years, while the Tax Foundation put the figure at more than \$1.8 trillion.



The law currently allows state and local income and property taxes to be deducted in calculating an individual's federal tax liability. But as both tax groups noted, those benefitting the most from the deductions happen to live in liberal, Democrat-leaning and -supporting states. This forces Democrats to face a conundrum: Though they usually have no problem supporting a tax increase on the rich, this time it's their rich who would get hammered.

According to the Tax Foundation, about 88 percent of the benefits enjoyed in 2014 flowed to those earning more than \$100,000, while just one percent went to those earning less than \$50,000. Furthermore, a mere six states — California, New York, New Jersey, Illinois, Texas, and Pennsylvania — got more than half.

The Tax Policy Center came up with very similar results: 90 percent of the present deductions are enjoyed by those earning over \$100,000. Said the Center:

What is clear is that residents in states that impose the highest combination of property taxes and individual and corporate income taxes would pay the most. Taxpayers in 10 states — California, Illinois, Maryland, Massachusetts, New Jersey, New York, Ohio, Pennsylvania, Texas and Virginia — claim more than half the total amount deducted.

Most of those are dark blue Democrat states, and Democrat support of Trump's tax reform could have significant negative political blowback. But without elimination of that deduction, Trump would have more difficulty keeping his proposal revenue-neutral.

If it passes, it would have negative consequences for those liberal-leaning states, as it would crimp their ability to raise taxes. This would, according to critics of Trump's plan, "undermine the ability of cities and states to raise [additional] revenue" and that would not allow them to expand government services even more.

On the other hand, if Trump's tax reform bill passes with these deductions eliminated (for the first time since the federal income tax was initiated), it would, according to the *Wall Street Journal*, have at least two benefits: First, it would create a more equitable income tax code with a broader base and lower rates, and second, it would spur "tax reform in states that are long overdue for a better tax climate."

If it passes, it would make Connecticut Governor Dannel Malloy's problem even more acute. As major corporations and wealthy individuals continue to escape his high-tax state, he is working to create



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incentives for them to stay. Trump's tax reform, if it passes, will only accelerate that exit to low- and no-income tax states such as Florida.

Democrats love to tax the rich. It's only when it's their rich who are being targeted that they have a change of heart. Groups such as the National Governors Association, the United States Conference of Mayors, and the National Conference of State Legislatures are actively denouncing Trump's plan, calling it unfair and claiming that it would upset the "balance" between local and federal interests.

This is all part of the sausage-making process that will ultimately birth tax reform. But for conservatives it might be pleasant to contemplate the difficulty Democrats are having in resolving their interests.

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