

State and Local Tax (SALT)

Overall Tax Reform

- As city leaders we know our federal tax code is complicated and in need of simplification.
- We are supportive of tax reform, but reform cannot strip tax exemptions that many of our middle-class families rely on,
 - And as cities across the country fight against state preemption efforts,
Washington cannot deny cities the flexibility to raise the revenues needed to meet our communities' needs decided at the local level.
 - We are **strongly opposed to the elimination of state and local tax deduction as well as the tax-exempt status of municipal bonds.**
 - **We believe that no federal law or regulation should preempt, limit or interfere with the constitutional or statutory rights of state and local governments to develop and operate their own tax systems to benefit their constituents.**

State and Local Tax Deduction

- SALT is the most popular deduction in tax code, claimed by more than 43 million taxpayers (2014 data).
- SALT is strongly tied to home ownership since the overwhelming number of itemizers who claim SALT (43M) deduct property taxes (40.7M) and mortgage interest (35.4M)
- SALT is fundamental to protection of fiscal federalism and supports provision of state and local services -- infrastructure, education, public safety – that benefit everyone
- Elimination of SALT is a \$1.2 trillion revenue grab by Washington at the expense of state and local governments
- Elimination or capping federal deductability for state and local property, sales and income taxes would represent double taxation on local residents, as these taxes are mandatory payments for all taxpayers
- By allowing taxpayers the ability to deduct state and local taxes, taxpayers avoid being taxed twice on the same income

- Without the SALT deduction, homeowners with AGI 50k-200k would pay higher taxes even with lower rates and a double standard deduction
- Also, the deduction on property taxes, along with the deduction on the mortgage interest, provides a strong incentive for homeownership; housing prices would fall if SALT is eliminated
- SALT protects financial base of state/local government and support for:
 - Infrastructure
 - Public education
 - Police, fire and other safety and emergency services
- It is a myth that SALT results in high tax states being subsidized by others;
- To the contrary, states that get the highest return on taxes they send to Washington are mostly lower tax states – with SALT in place
- This is not a red state versus blue state issue or a high tax state versus low tax state issue
 - This would be an ill-advised attempt to change a basic part of our tax code that has served us well since the tax code was established in 1913.
- Coupled with the declining federal support in cities, and budget battle after budget battle to protect core basic funding for cities nationwide,
 - Removing the SALT deduction would only further strain already-stressed budgets.
- As city leaders, we stand with the National League of Cities and united in urging Congress to not use local budgets to pay for tax reform, and to preserve the state and local tax deduction.

SALT Deductibility in New Hampshire – (using GFOA data)

- **New Hampshire Statewide Numbers — 2015**
 - **\$1,033,078:** Total amount of taxes deducted by SALT filers in NH
 - **31%:** percent of filers who claimed SALT deduction
 - **\$10,121:** average SALT deduction
 - **343,150:** Total Number of SALT deduction filed
- **NH Congressional District 1 (Dover, NH)**
 - **31%:** Percent of families in district who claim SALT deduction
 - **\$9,613:** Average SALT deduction for SALT claimers in district

- **\$1,055,557:** Total amount of SALT deductions for filers in district
- **348,940:** Total number of filers in district who claim SALT
- SALT Calculator Findings:
 - For average home-owning family with married couple and two children in Dover, NH
 - **\$1,865: Expected average tax INCREASE** under the tax guideline proposal — even if the standard deduction is doubled.
- **NH Congressional District 2**
 - **31%:** Percent of families in district who claim SALT deduction
 - **\$9,711:** Average SALT deduction for SALT claimers in district
 - **\$999,609:** Total amount of SALT deductions for filers in district
 - **102,940:** Total number of filers in district who claim SALT
 - SALT Calculator Findings:
 - For average home-owning family with married couple and two children in Concord, NH
 - **\$2,194: Expected average tax INCREASE** under the tax guideline proposal — even if the standard deduction is doubled.

Latest on Tax Reform Legislation

- In the last week, Senate and House approved the \$4 trillion fiscal year 2018 Senate Budget Resolution, which includes reconciliation instructions that removes the threat of filibuster from forthcoming tax reform legislation.
- While the resolution is non-binding, it also contains language that further threatens the deductibility of state and local taxes and clears the line way for party-line passage of tax reform.
- To be clear, the budget resolution did not enact any change to the deductibility of state and local taxes. It only cleared the way for debate on tax reform without the threat of filibuster in the Senate.
- The House vote on Thursday, October 26th is encouraging for our effort to preserve SALT given the singular importance that successful tax reform has for the majority party. 20 Republicans joined Democrats in voting NO for a final vote of 216-212.
- A handful of Republicans that should have been NO votes have stated they voted yes on their conviction that a deal on the SALT deduction could still be struck.
- We expect for the House Ways and Means Committee to release a tax reform bill as early as November 1. No details have been shared publically or internally. House GOP leaders hope to bring the bill to the floor for a vote by Thanksgiving.

- Our objective is to prevent the elimination of state and local tax deduction from being included in the tax reform package proposed by the Ways and Means Committee.
- NLC along with the “Big 7” state and local groups formed a coalition, Americans Against Double Taxation (AADT), to protect SALT.
- AADT Coalition includes: National League of Cities, National Governors Association, National Association of Counties, U.S. Conference of Mayors, International City/County Management Association, Government Finance Officers Association, Council of State Governments, National Conference of State Legislatures, National Association of REALTORS, AASA, The School Superintendents Association, National School Boards Association, Association of Educational Service Agencies, Association of School Business Officials, International, National Rural Education Association, National Rural Education Advocacy Consortium, National Education Association, American Federation of State, County and Municipal Employees, International Association of Fire Fighters, International Association of Fire Chiefs, American Federation of Teachers, National Sheriffs’ Association, Service Employees International Union, National Association of Towns and Townships

Why should city leaders care:

1. Opens the door to federal preemption efforts
2. Republicans have gone on record to state that this will force local governments to curtail their spending and need to increase taxes (Every single CA Republican MOC voted in support of the budget resolution regardless of the significant economic impact on CA’s taxpayers)
3. State and cities will raise less revenues or face difficulty increasing sales, property or income tax revenues as a result of greater tax burden on a city’s residents
4. In states where cities remit all or a significant percentage of the property or sales taxes to the state, they will have to tap into city reserves or budgets to cover the costs of uncollected revenue