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Save the SALT Deduction.

Do congressional Republicans and President Trump want to undertake a multitrillion-dollar federal bailout of states and cities? If not, the Senate and House should squelch their competing proposals to reduce or eliminate Americans' ability to deduct state and local taxes on their federal tax forms.

Curtailing tax breaks is generally a good idea. Subsidies for certain activities distort the economy. When the mortgage-interest deduction spurs a family to buy a more expensive home than they would have otherwise, it keeps that money from more productive parts of the economy.

But state and local tax deductions do not fall into this category. Since the nation's founding, American citizens have safeguarded small-scale democracy. The Bill of Rights prescribes that "the powers not delegated to the United States by the Constitution, nor prohibited by it to the states, are reserved to the states."

Scholars and judges differ over where state control ends and federal oversight starts. But no scholar argues that states, cities and towns don't possess the right and obligation to staff schools, pave roads, purify water and put out fires.

For this, local and state governments need money — which they mostly get from their own taxpayers, not from Washington. To assert that the federal government has the primary claim on this tax dollar, as Republicans are doing, is to claim that the federal government bears the primary responsibility for these tasks.

That's not a conservative argument, but a European one. In France, the national government, not Paris, stands behind a \$37 billion "Grand Paris" plan to improve public transportation. In America, by contrast, Washington expects New York and New Jersey to bear half the cost of a new tunnel under the Hudson River, even though Amtrak, the national railroad, depends on this critical piece of infrastructure. Similarly, New York has received only \$1.3 billion toward the \$4.2 billion cost of the first three stops of the Second Avenue subway. The rest comes from New York taxpayers.

Wealthier taxpayers do disproportionately benefit from these tax deductions, because they pay the most in taxes. In New York City, just 1 percent of tax filers — 37,273 households — pay 49.3 percent of city income taxes. But their ability to deduct these taxes from federal taxable income is an indirect subsidy to New York's poorer and middle-class residents, who benefit from state and local spending on education, Medicaid, public safety and homeless services.

If Congress were going to diminish America's local-governance model anyway, now is not the time. Nearly a decade into the economic recovery, state and local governments remain under fiscal stress, particularly when it comes to pension and health care promises to retirees.

Chicago owes \$45.2 billion to current and future public-sector pensioners, but had set aside only \$9.5 billion as of the city's latest audited annual report. New Jersey and its local governments owe \$122.2 billion, but have set aside just \$53.7 billion. Even healthier governments, such as New York State and New York City, owe tens of billions of dollars in future health care payment obligations to

retirees.

As retirement costs have grown, state and local governments have cut back on infrastructure investments. Municipal debt — the mechanism through which governments borrow to build and maintain infrastructure — is 17 percent below its 2007 level after inflation.

Republicans characterize this issue as a blue-state problem because blue states have higher taxes. But red states are struggling too. Texas owes \$39.1 billion for pensions, but has set aside just \$25 billion. Gulf states, including Florida and Louisiana, must invest in flood-protection measures. Houston voters approved new borrowing for such infrastructure this month — borrowing enabled by local tax deductions.

Republicans also characterize the issue as one of local mismanagement. “I don’t think it’s up to the federal government to save New York from its bad decisions,” said Mick Mulvaney, Mr. Trump’s budget director, last week. True, governments from Chicago to New Jersey have made poor fiscal decisions. In a system that grants citizens great autonomy to govern themselves at the local level, disparities in financial management are inevitable. But it is none of Washington’s business that New York’s taxes are too high.

One reality remains — somebody must pay. Three sources exist: taxpayers; public-sector retirees, via pension and health-benefits cuts; and municipal investors, via Detroit-style debt defaults in severe cases. Congress is making the first more difficult for state and local governments, and in most places, legal protections prevent governments from cutting pension benefits.

That leaves bondholders. As the Standard & Poor’s rating agency said this week, the overall impact of a tax plan that curtails state and local tax deductions “could be costly and detrimental to the credit quality of many public-finance issuers.”

Signing a bill into law that creates systemic distress for a financial market that affects the lives of all Americans is hardly the best way to improve the economy. And it may result in eventual tax increases, not tax cuts, at the federal level. Global investors may grow tired of America’s lurching from crisis to crisis and raise the cost of federal borrowing, as well.

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By NICOLE GELINAS

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Nicole Gelinas is a contributing editor to the Manhattan Institute’s City Journal.