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Deduct This.

How states can undo one of the most potentially destructive elements of the Republican tax law.

One of the most controversial—and ill-conceived—changes in the new federal tax law passed last month is a $10,000 cap on the deduction that households can claim for tax payments to state and local governments. The provision—which primarily penalizes residents of blue states—has prompted officials in some of the areas most affected by the cap to consider new tax credit programs that would, in essence, transform now nondeductible state and local tax payments into deductible charitable contributions to state and local government organizations. Such a credit program, if well crafted, would stand on solid legal ground and moreover would represent an effective state response to a destructive new federal tax law.

Let's consider how such a charitable credit program might work.
Imagine a city—let's call it Springfield—that funds its schools, parks, police and fire departments, and other public services through local property taxes. Springfield could set up a Springfield Schools Fund, a Springfield Parks Fund, a Springfield First Responders Fund, and so on to support various branches of the city government. For every dollar that a resident voluntarily donates to such a fund, she would qualify for a tax credit that would reduce her property tax liability by 80 cents.

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