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Eliminating the SALT Deduction Cap Would Reduce Federal Revenue and Make the Tax Code Less Progressive.

Rep. Nita Lowey (D-NY) and Rep. Peter King (R-NY) introduced a bill in the House of Representatives to repeal the $10,000 cap on the state and local deduction (SALT). The SALT deduction cap was introduced as part of the Tax Cuts and Jobs Act as a means to broaden the individual income tax base and partially fund reductions in statutory tax rates. Repealing this provision of the TCJA would reduce federal revenue by more than $600 billion over the next 10 years. It would also almost exclusively provide tax relief to the top 20 percent of income earners, the largest tax cut going to the top 1 percent of earners.

Under previous law, individuals who itemized their deductions could deduct the amount of state and local taxes against their federal taxable income. The taxes individuals could deduct included state and local individual income taxes (or sales taxes), real estate taxes, and personal property taxes. The amount individuals could deduct was unlimited.

The TCJA broadened the tax base by limiting the amount individuals could deduct in state and local taxes to $10,000. For high-income taxpayers, this cap increased federal taxable income. By itself, this provision would increase federal tax liability. However, high-income taxpayers also received offsetting tax cuts, such as lower statutory tax rates, a much larger Alternative Minimum Tax Exemption, and a reduction in the corporate income tax. On net, these taxpayers tended to have a lower liability under current law, even with the capped SALT deduction.

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