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Repealing “SALT” Cap Would Be Regressive and Proposed Offset Would Use up Needed Progressive Revenues.

A bill from House Ways and Means Chairman Richard Neal and others would modify and then repeal for two years the 2017 tax law’s cap on the federal deduction for state and local taxes (SALT) and offset the cost over ten years by returning the top individual tax rate to 39.6 percent. By itself, repealing the SALT cap would overwhelmingly benefit high-income households, since most low- and middle-income taxpayers don’t face the SALT cap. In addition, paying for repeal by raising the top rate would use up a source of progressive revenue that would no longer be available to fund other, more critical priorities.

As a result, the Ways and Means bill would not address two central flaws of the 2017 tax law overall: its steep cost and its heavy tilt toward wealthy individuals and profitable corporations. Chairman Neal and the Ways and Means Committee have separately advanced legislation, the Economic Mobility Act, that would expand refundable tax credits to help low- and moderate-income families, as a down payment on beginning to restructure the 2017 law.[1] Given the steep cost of full repeal of the SALT cap, however, more modest proposals to modify the SALT cap offer a superior approach; such proposals can be designed to exempt the vast share of taxpayers from the cap and at far less cost.

The 2017 tax law imposed a $10,000 cap on the state and local taxes that filers can deduct on their federal tax returns. The Ways and Means bill would raise the cap in 2019, to $20,000 for married couples, and repeal it altogether in 2020 and 2021; the bill would offset the cost by reversing the 2017 tax law’s reduction in the top income tax rate from 39.6 percent to 37 percent.[2]

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