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Member Alert: GFOA Priorities See Action on Capitol Hill

In the final days of the first session of the 116th Congress, two GFOA legislative priorities saw action as party leaders attempted to navigate a narrow timeframe in which they could advance bills before adjourning for the holidays. The first priority, full repeal of the 40 percent excise tax on employer-sponsored health care (also known as the Cadillac Tax) managed to find itself on one of the last legislative vehicles moving in 2019. The second, repealing the cap on the deduction for state and local taxes (SALT), will potentially see a floor vote in the House before the end of the week.

Cadillac Tax
On the first priority, GFOA supports full repeal of the Cadillac Tax and has called on Congress to take action since it hinders one of the primary tools to attract and retain public employees – health benefits. Congress has delayed implementation of the tax twice before. But GFOA and other stakeholders have pushed for full repeal of the tax because it is flawed in design and does not actually address rising health care costs. Instead, it penalizes the very initiatives implemented by employers to ensure adequate health care benefits to employees while also attempting to mitigate health care costs. GFOA recently joined a nationwide letter signed by more than 1,000 stakeholders calling on Congress to act.

Momentum to repeal the Cadillac Tax received a major boost in July when the House of Representatives passed a stand-alone bill by a strong bipartisan vote of 419-6. As the final legislative days of 2019 wound down, repeal champions on both sides of the aisle made the case for its inclusion among the select policy riders to the final spending deal that set federal funding levels for the remainder of FY 2020. Language to repeal the Cadillac Tax was ultimately added in the proposed spending package (see page 1481) released on December 16. **Both chambers will be voting on the omnibus bill in the coming days, therefore GFOA members are encouraged to reach out to their delegation members and express support for repealing the tax.**

SALT Deduction
Regarding the second priority, a bill addressing limits on the amount of state and local taxes an individual can deduct from their federal income taxes could be ready for a floor vote this week. As of 2018, the Tax Cut and Jobs Act of 2017 (TCJA) placed a $10,000 cap on the SALT deduction for taxes paid by individuals who itemize their taxes. This provision of the TCJA was opposed by representatives of state and local government, and a conversation over raising or eliminating the cap started shortly after the new law was enacted.

For well over a century, there was no limit to the amounts available for the SALT deduction under the federal tax code. The deduction is a key component of our system of federalism and preserves the ability of state and local governments to raise revenues and to invest in services for their communities. By capping the SALT deduction, some state and local governments have been compelled to reduce services or rely more heavily on other tax revenue sources.

The Restoring Tax Fairness for States and Localities Act (H.R. 5377) doubles the SALT deduction to $20,000 for 2019 and removes the cap for 2020 and 2021 while bringing back the top 39.6% income tax bracket.

GFOA has long opposed the elimination, in whole or in part, of the deductibility provision of the federal income tax code. **GFOA members are encouraged to reach out to their delegation members and express support to suspend the cap on the SALT deduction**. For the GFOA SALT Resource Center, click here.