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CBPP: House Tax Bill's Changes to State and Local Tax Deductions Would Hurt States.

The House tax bill released today ends the federal deduction for state and local income and sales taxes and limits the deduction for state and local property taxes to taxes under $10,000 — all to pay for marginal income-tax rate cuts. That would be a bad deal for most Americans. It would likely harm state budgets nearly as much in the coming years as full repeal of state and local tax deductions, would likely shift more of the load for paying state and local taxes from high-income people to low- and middle-income families, and would fall much harder on some states than others. The proposal also probably would hurt local government budgets over time because states would likely shift costs to localities and because in some states such as New Jersey and New York a sizeable share of taxpayers pay more than $10,000 in local property taxes.

Property taxes are almost all levied by local governments and aren't a major source of revenue for states, while income and general sales taxes are the two main sources of state tax revenue. Property taxes account for only 2 percent of state tax revenue nationally, while income and sales taxes account for 37 percent and 31 percent, respectively.

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