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GOP Tax Overhaul Will Be Felt by State, Local Governments.

With Congress sending President Donald Trump a tax overhaul, state and local governments are preparing for some fallout.

A look at some of the ways it might affect them:

FEDERAL-STATE CONNECTIONS

The federal tax overhaul will force officials in most states to decide whether to apply similar changes to their own income taxes.

Nearly every state with its own income tax relies on a federal definition of income. About half automatically apply federal tax provisions to their state income taxes unless lawmakers decide against it. In most others, legislators must update state laws to continue linking their tax code to the federal one.

“In essence, all states are going to have some impact from the federal reform and so they’re going to have some questions to confront,” said Nicole Kaeding, an economist at the conservative-leaning Tax Foundation.

Depending on which federal provisions a state follows, the tax overhaul could result in a boom or bust for state revenues.

For example, about dozen states currently link their standard income tax deduction to the federal amount, which is set to double. A similar doubling for states could result in an additional tax cut for their residents and a significant revenue loss for those states. But many of those same states also link their personal income tax exemptions to the federal one, which is due to be repealed. That could trigger a tax increase for their residents and an influx of money for such states.

Michigan Gov. Rick Snyder, a Republican, said Thursday that he wants lawmakers to work on a fix in the coming year. An individual in his state could owe $170 more in state taxes and a married family of four an additional $680 as a result of eliminating the personal exemption.

Many states also use federal tax laws as a basis for their corporate income taxes. So federal changes to business expense deductions could carry over to states.

The Tax Foundation says some states linking to the federal law also could see a windfall from a federal provision imposing a low, one-time tax on the foreign profits of U.S.-based businesses.

LOCAL TAXES

Under the GOP plan, taxpayers will now have a $10,000 cap on all deductions for state and local income, sales and property taxes. There was no cap previously.

Groups like the National Association of Counties and the National League of Cities had opposed any changes to the deductions, arguing they help local governments raise taxes needed to fund essential services, including public safety, community development and infrastructure. Their argument was that taxpayers, no longer able to deduct more than $10,000 of these taxes, will be less likely to support local tax increases — especially borrowing that requires voter approval, like with school construction.

“This represents a fundamental erosion of the federal-state-local balance in taxation and hamstrings counties’ ability to deliver essential services,” said Matthew Chase, executive director of the National Association of Counties, in a statement after the bill was passed.

Both Chase and Mark Stodola, president of the National League of Cities and mayor of Little Rock, Arkansas, said they were grateful the deductions were not eliminated entirely, but said their groups will fight to have them fully restored in subsequent legislation.

In addition to the deductions, the tax bill eliminated the tax-exempt status of so-called “advance refunding bonds,” which are used by local governments to refinance municipal debt. The counties’ association says this had been an important tool that enabled counties to save taxpayer money, particularly on infrastructure projects.

HIGH-TAX STATES

Officials in the highest-tax states know the caps on deductions for taxes paid will hit their residents hardest. They’re still sorting through what it could mean for state finances.

In New Jersey, the Democratic state Senate president announced last month after Democrat Phil Murphy was elected governor that lawmakers would push for higher income taxes on high-earners.

But Senate leader, Steve Sweeney, started rethinking his proposal as the tax changes moved through Congress.

Now, he’s concerned about whether a state tax hike that would be felt more deeply for people who can no longer deduct it from their federal returns might backfire. Could it drive wealthy people out of the state? Will it push down home values?

“I’m not saying I’m walking away from it,” Sweeney told The Associated Press. “I need to put the brakes on it until I know the impact.”

The administrations in both New York and California said they wouldn’t detail how they might respond to federal changes until they release their state budget proposals in January.

In Connecticut, Gov. Dannel Malloy’s spokeswoman, Kelly Donnelly, said it’s too early to tell how the budget might be affected by federal tax changes.

A MILLIONAIRE MIGRATION?

The richest Americans already stand to benefit most from the tax overhaul. But a $10,000 cap on deducting state and local taxes is a blow to high-tax states such as California and New York, where millionaires and retirees may now have more incentive to consider moving.

Most attractive to them would be low-tax states such as Texas, which has spent more than a half-billion dollars over the last decade convincing companies that relocating is better for their bottom line. Texas, Florida or Nevada — already among the fastest-growing states — now have another carrot to woo wealthy individuals.

But some experts call the idea of millionaires moving for lower taxes a myth. A study published last year by Stanford University professor Cristobal Young found less migration among millionaires than the general population, with about 12,000 people with incomes of $1 million or more each year moving to a new state. It concluded that millionaire tax flight occurs, but only “at the margins.”

“It is a little bit more of an incentive to move from a higher-tax state to lower-tax states. But that incentive is already there,” said Larry Sherlock, a tax attorney at Chamberlain Hrdlicka in Houston. “Up until now they’ve decided that it’s worth the cost to live where they are.”

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