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Coalition of Governors Push to Restore State, Local Tax Deduction.

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A coalition of governors from high-tax states hit hardest by a provision of the Republican tax overhaul said Friday they will join together to push Congress to restore the full federal tax deduction for certain state and local taxes.

The eight states are all led by Democratic governors, but New York Gov. Andrew Cuomo said they are also bound by their belief that the $10,000 cap on the so-called SALT deduction is fundamentally unfair. Cuomo said the 2017 GOP tax law hurts states that already pay more in taxes than they get back from the federal government. These states tax citizens to pay for much-desired services like education and health care, he said.

“This is politics masquerading as tax policy,” said New Jersey Gov. Phil Murphy during a news conference at a National Governors Association meeting in Washington, D.C. “It is gutting our middle class. It is just plain wrong.”

Along with New York and New Jersey, governors from Connecticut, Hawaii, Illinois, Oregon, Rhode Island and Washington state have joined the coalition. Many of these states are part of a federal lawsuit that challenges the change. Some, too, have attempted to pass tax workarounds through their legislatures to restore the deduction for residents, but the IRS has ruled those out-of-bounds.

Cuomo met with President Trump earlier in February about the issue, although the White House after the meeting tamped down expectations of a change of heart by the administration.

Now, the focus needs to be on lobbying Congress to make clear that restoring the full deduction should be a priority with a new Democratic majority in the House, Cuomo said. He acknowledged that Republican Sen. Chuck Grassley, a key player on tax issues, a couple weeks ago indicated he would not support reworking the SALT cap.

“We need a change to the law. That has to happen in Washington,” Cuomo said. “It is on Speaker [Nancy] Pelosi’s radar screen.”

Murphy emphasized that there are proposals on the table, such as a bill introduced earlier this month by New Jersey Sen. Bob Menendez and others. In January, two New York House members introduced their own legislation to restore the full deduction.

Tax experts across the ideological spectrum have noted that the SALT problem hits higher-income taxpayers most deeply. The Urban-Brookings Tax Policy Center has estimated that 57 percent of the additional tax from limiting the deduction would be paid by the top 1 percent.

During the news conference, Cuomo emphasized that the state saw a $2.3 billion decline in income tax payments in December and January, a fact that he has tied to the SALT deduction limit. But tax

experts interviewed by the New York Times suggested the revenue shortfall more likely was related to volatility in the stock market, for example, with high earners choosing to write off capital losses to reduce their tax burdens.

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