
SALT Cap Isn't Driving an Exodus From High Tax States, Ratings Agency Says.

At least not yet.

Throwing some cool water on claims by politicians and commentators on the left and right, a credit ratings agency said this week there are no signs yet that people have been fleeing higher tax states due to a new cap on a federal deduction for state and local taxes.

Migration rates out of California, Connecticut, Maryland, New Jersey and New York—states where taxpayers have used the "SALT" deduction heavily—are below pre-recession levels and generally track with the U.S. as a whole, says a report from Moody's Investors Service.

"Compared with the nation, states with high state and local taxes do not have especially elevated rates of out-migration," the report says.

"Many people are moving from one high-tax state to another," it adds, noting that, in 2017, about 25 to 30 percent of people who left New York, Connecticut and New Jersey moved to another one of the five higher-tax states that have had the leading levels of SALT deductions.

It's possible trends could change in future years and people could start pulling up stakes for places where state and local taxes are lower. The authors of the report say it's too early to know, as although the $10,000 deduction cap was set in 2017 this is the first tax season when people will file their taxes with the limit in place.

But they also suggest job opportunities and demographic trends will influence moving patterns more than tax burdens. Slower economic growth and an aging population across the U.S., their report says, means people will be less likely to move than in past years.

The report does caution that Connecticut and New Jersey, with lackluster job growth and few booming cities, may not be able to make up for the departure of older, wealthier residents.

Even though older residents are less likely to move, the report says, departures by older taxpayers who are wealthier can put a disproportionate dent in a state's tax base.

Gov. Andrew Cuomo earlier this year suggested one of the reasons New York was seeing slippage in income tax collections was because of the $10,000 cap on SALT deductions.

He's described the policy as an "economic civil war" that helps Republican states at the expense of Democratic ones and has formed a coalition to try to get the SALT limit scrapped.

The governor was not alone in drawing a connection between the tax deduction cap and interstate migration.

For instance, conservative economists Arthur Laffer and Stephen Moore last year penned a Wall

Street Journal editorial predicting millions of people and thousands of businesses would exit “high-tax blue states” in coming years, with the SALT cap helping fuel the trend.

Route Fifty

by Bill Lucia

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