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Democrats Aim for SALT Write-Off Expansion in Stimulus Bill.

- **New Jersey lawmakers unified on repealing tax break limits**
- **Yellen has said SALT write-off impact warrants more study**

Two New Jersey Democrats are leading an effort to expand a valuable tax break for state and local levies in the next virus-relief package, a long-shot effort as lawmakers continue to squabble over the size and scope of the next round of stimulus.

Representatives Josh Gottheimer and Bill Pascrell, both Democrats representing northern New Jersey districts, are calling on House Speaker Nancy Pelosi, Senate Majority Leader Chuck Schumer and Treasury Secretary Janet Yellen to include a full repeal of the \$10,000 limit on deductions for state and local taxes, or SALT, that was part of the tax law former President Donald Trump signed in 2017.

“This is key to the health of our economy, key to keeping our state strong,” Gottheimer said at a press conference in Paterson, New Jersey, on Wednesday. “It’s essential to hardworking middle class families who have been crushed by this pandemic and crushed by the SALT cap.”

The effort is likely to be a hard sell, at least in the short run, as Democrats and Republicans struggle to agree on an economic stimulus package that goes beyond more vaccine funding. Democrats are already making moves that would allow them to use the budget reconciliation process, a fast-track procedure to pass some economic relief with only Democratic votes.

Even then, SALT could be controversial because the benefits largely flow to higher-income households in high-tax states, while the pandemic’s toll has been concentrated on lower earners. Yellen said at her confirmation hearing this month that the SALT cap’s impact on municipal governments and residents warrants more study before taking action.

Yellen has appeared to downplay the possibility that a repeal of limit on the SALT deduction could be included in the upcoming stimulus bill. In follow-up answers to Senate questions after her confirmation hearing, she said Biden’s rescue plan does not include a proposal to expand the SALT deduction.

Repealing the SALT cap is a costly proposition. To allow unlimited deductions just in 2021 would cost \$88.7 billion, according to Congress’s non-partisan scorekeeper the Joint Committee on Taxation. Permanently repealing the limitation, as Gottheimer and Pascrell are proposing, would cost many multiples of that.

All 12 of New Jersey’s House members, including the state’s two Republican Representatives — Chris Smith and Jeff Van Drew — support a fully restored SALT deduction, Gottheimer said. However, it’s unclear whether the Republicans would sign onto a broader stimulus bill that included the SALT cap repeal.

Still, with Democrats now in control in Washington, this is the first plausible opportunity lawmakers from high tax states like New Jersey have had to reclaim one of their favorite tax breaks. House efforts to expand the SALT tax break failed to gain any traction when the Senate was under Republican leader Mitch McConnell's control.

Why Are They Moving?

Representatives from states where residents were more likely to claim the SALT deduction, like New York and California, say the loss of the tax break has caused some of their residents to leave. Gottheimer pointed to data that show New Jersey residents leaving the state since the SALT cap has been in place.

Nearly half - 49.2% — of the United Van Lines LLC customers who booked moves out of New Jersey in 2020 reported earning more than \$150,000 a year. But many of those people might have left even if the SALT deduction had been instated — 32.3% said they were leaving to retire, whereas only 19% reported moving for “lifestyle” reasons.

AMERCO's U-Haul says that New Jersey, Illinois and California, all relatively high tax states, are their bottom ranking states for migration growth, based on their truck rental data.

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By Laura Davison

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