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Some Solutions for State and Local Tax Deductibility.

When the 2017 tax law expires next year, Congress will revisit the limits on SALT deductions on federal returns. With elections approaching, it's time for governors and mayors to offer some viable new policy options — and ways to pay for them.

To help pay for middle-class tax cuts in 2017, Congress put a $10,000 limit on itemized deductions for state and local taxes, known as the "SALT" deduction. Although only some 10 percent of federal income tax returns included itemized deductions last year, fewer yet exceed the SALT ceiling — mostly a subset of taxpayers with six-figure incomes.

Yet when it was enacted, this move prompted more vocal complaints than almost any other tax law provision. Its impact is felt mostly by homeowners in jurisdictions where a combination of above-average state income taxes and hefty local property taxes puts them over the deduction limit.

Along with other provisions of the 2017 tax law, the SALT cap is set to expire next year, guaranteeing that it will become a political football. Even though this is a non-issue to 90 percent of the tax-paying population, it's a heated topic along partisan lines, with anti-tax conservatives claiming that an uncapped SALT deduction rewards spendthrift state and local politicians while others argue that the cap penalizes too many middle-class households. Public officials in the most affected states and localities have a clear interest in finding a way to provide some extra tax relief to households that pay out more than the $10,000 deduction limit. The problem is how to pay for it.

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