TAX POLICY CENTER
URBAN INSTITUTE & BROOKINGS INSTITUTION

TCJA and the States
Responding to SALT Limits

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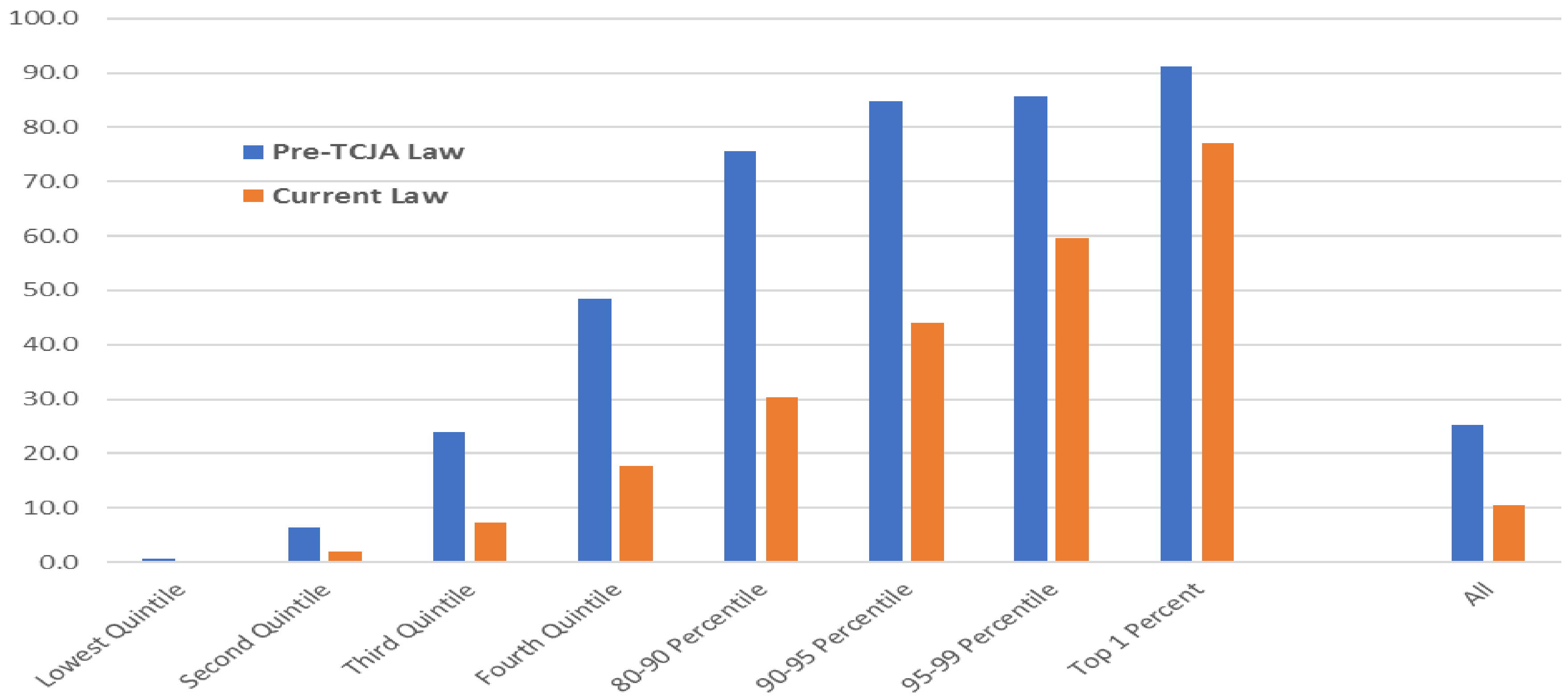
What does this mean for Individuals under TCJA

- About two-thirds of taxpayers will receive a tax cut with the largest changes for higher income taxpayers
- The differences in size of tax cuts and number of households facing tax increases across states is concentrated in top quintile and largely related to the limit on the SALT deduction.
- Taxes will increase for 6% of taxpayers, largely concentrated in the top 3 quintiles also related to SALT deduction.
  - But not everyone who thinks they will be affected because of AMT changes
- Number of taxpayers itemizing projected to drop from 47 million or 26% tax units to 19 million (11%)
- So why do it? We need the money ($650 billion over 10 years)

TCJA will reduce the number of taxpayers with a tax benefit from the SALT deduction by more than half.

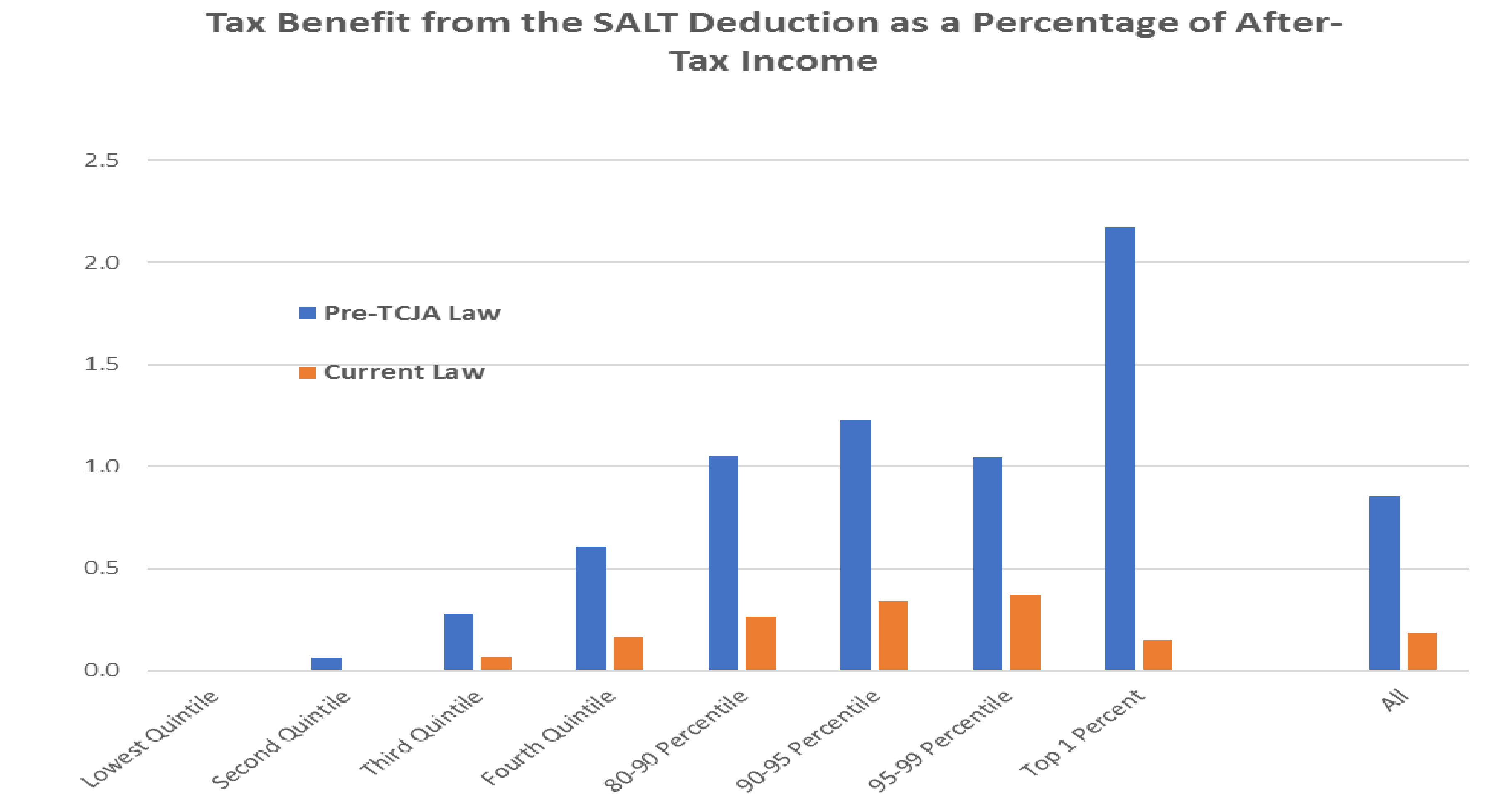
About 60 percent of taxpayers in the 95-99 percentiles will continue to benefit from the deduction as will more than three-quarters of taxpayers in the top 1 percent.



Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0217-1) Table T18-0006

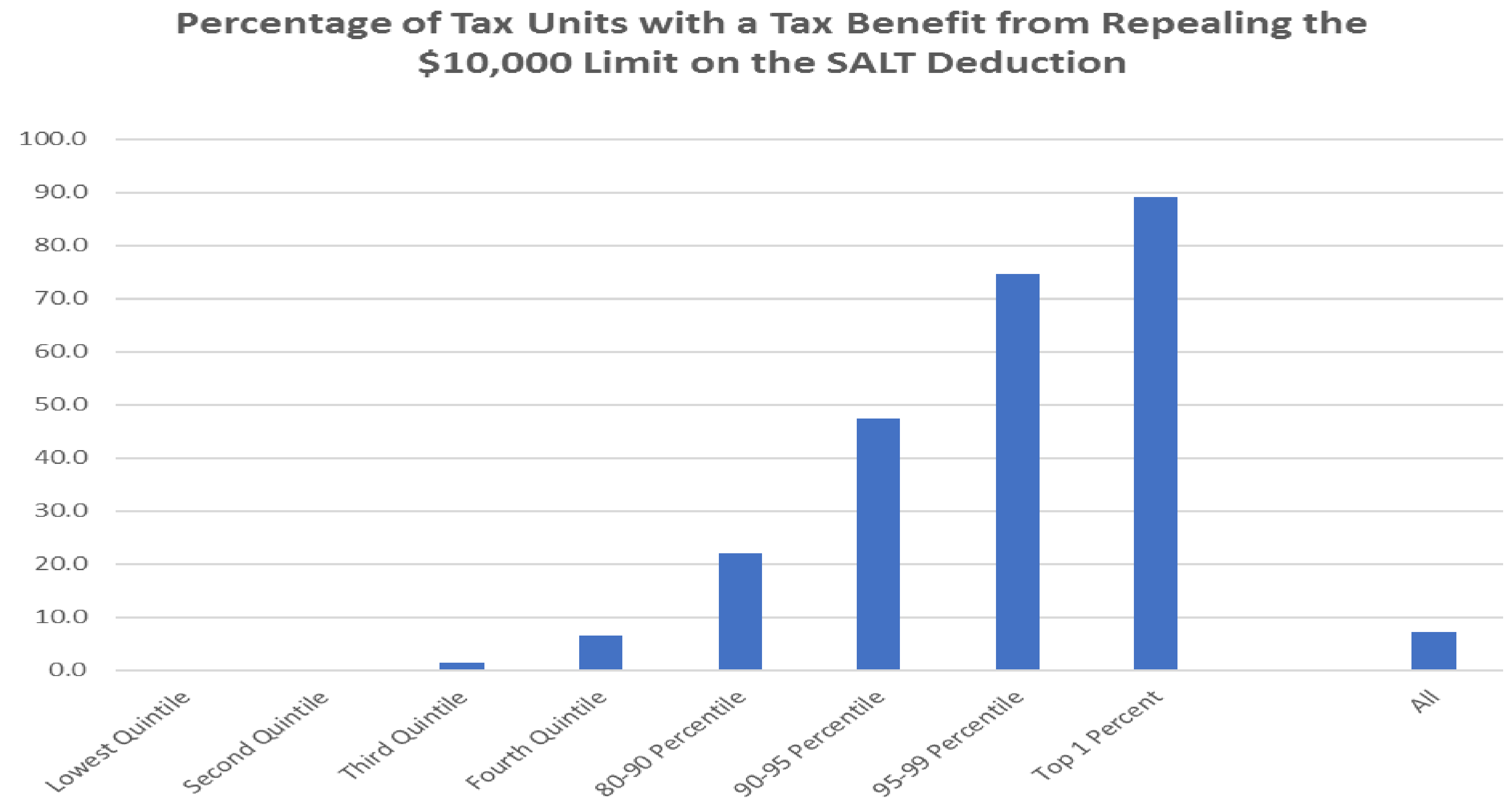
The tax benefit from the SALT deduction will fall by over 70 percent for most income groups.

It will fall by more than 90 percent for taxpayers in the top 1 percent and by about 65 percent for taxpayers in the 95-99 percentiles.



Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0217-1) Table T18-0006

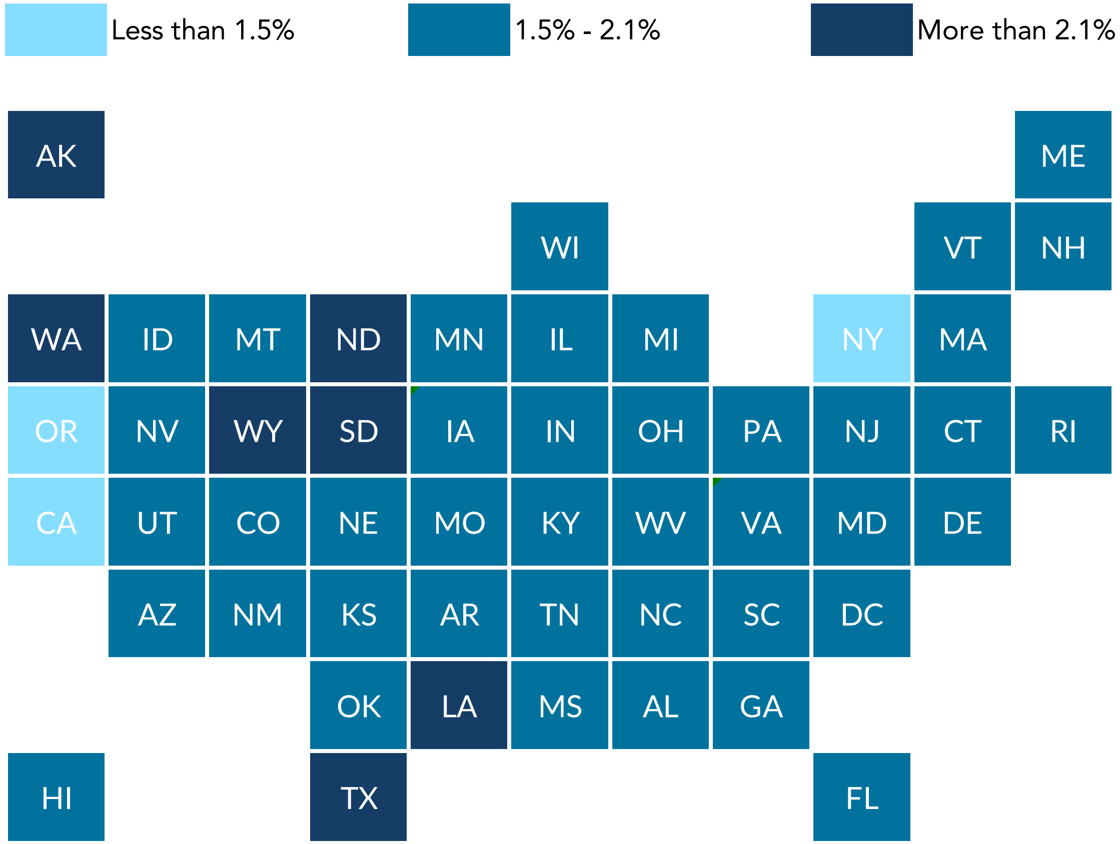
Repealing the limit on the SALT deduction would benefit 7 percent of taxpayers overall, but three-quarters of taxpayers in the 95-99 percentile, and about 90 percent of taxpayers in the top 1 percent.



Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0217-1) Table T18-0338

The average tax cut differs by state. It is highest in AK, LA, ND, SD, TX, WA, and WY, and lowest in CA, NY, and OR.

Percentage Change in After-Tax Income, 2018

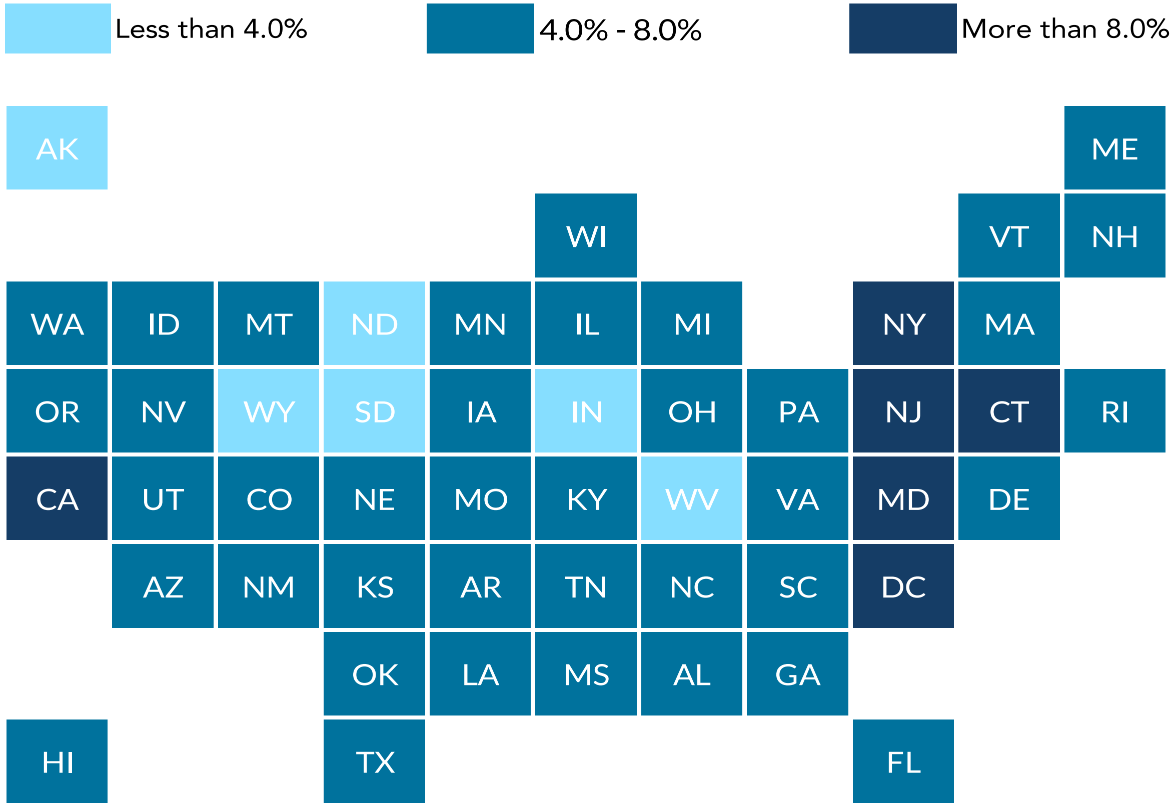


Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0217-1), Table T18-0028.

[See: The Effect of The TCJA Individual Income Tax Provisions Across Income Groups and Across the States]

The percentage of taxpayers with a tax increase is highest in CA, CT, DC, MD, NJ, and NY, jurisdictions with above average state and local taxes.

Percentage of Tax Units with Tax Increase, 2018



Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0217-1), Table T18-0029.

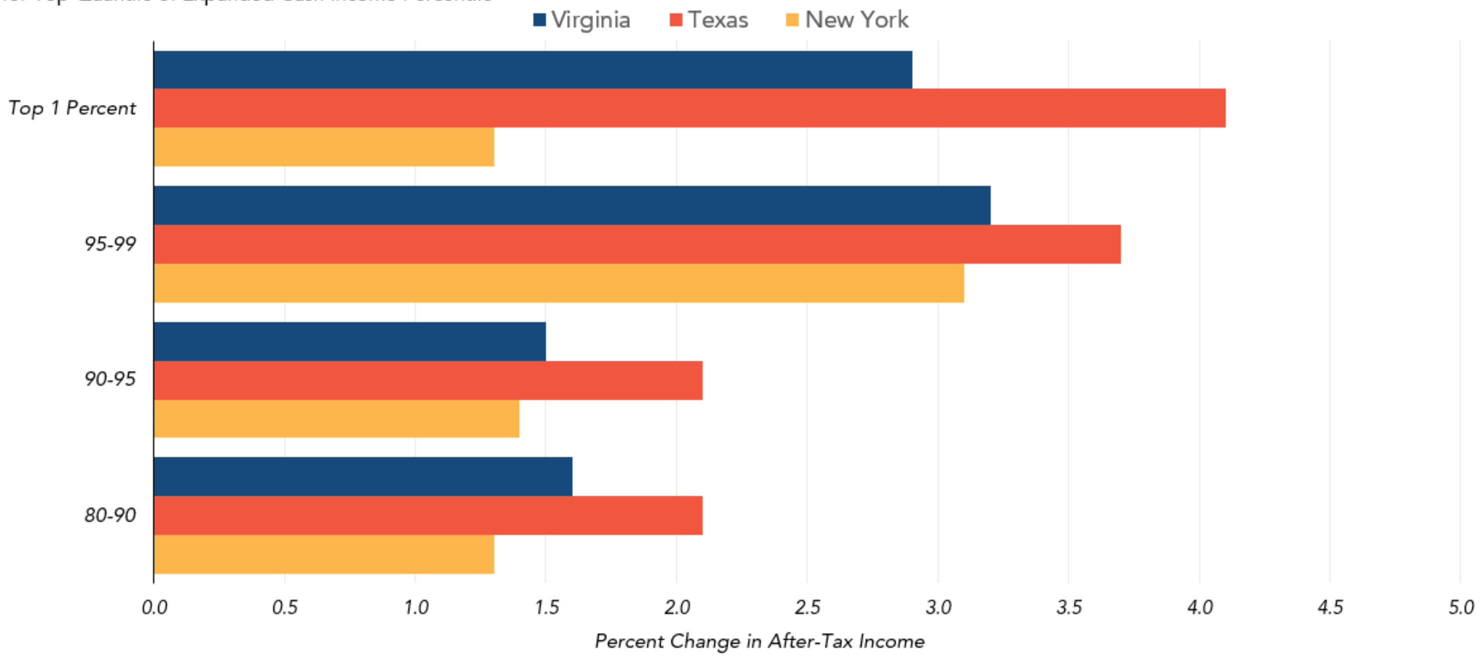
[The Effect of The TCJA Individual Income Tax Provisions Across Income Groups and Across the States]

Changes in After-Tax Income Varies Across States for High Income Taxpayers

FIGURE 3

Percentage Change in After-Tax Income from the Major Individual Income Tax Provisions in H.R.1, The Tax Cuts and Jobs Act (TCJA), 2018

for Top Quantile of Expanded Cash Income Percentile



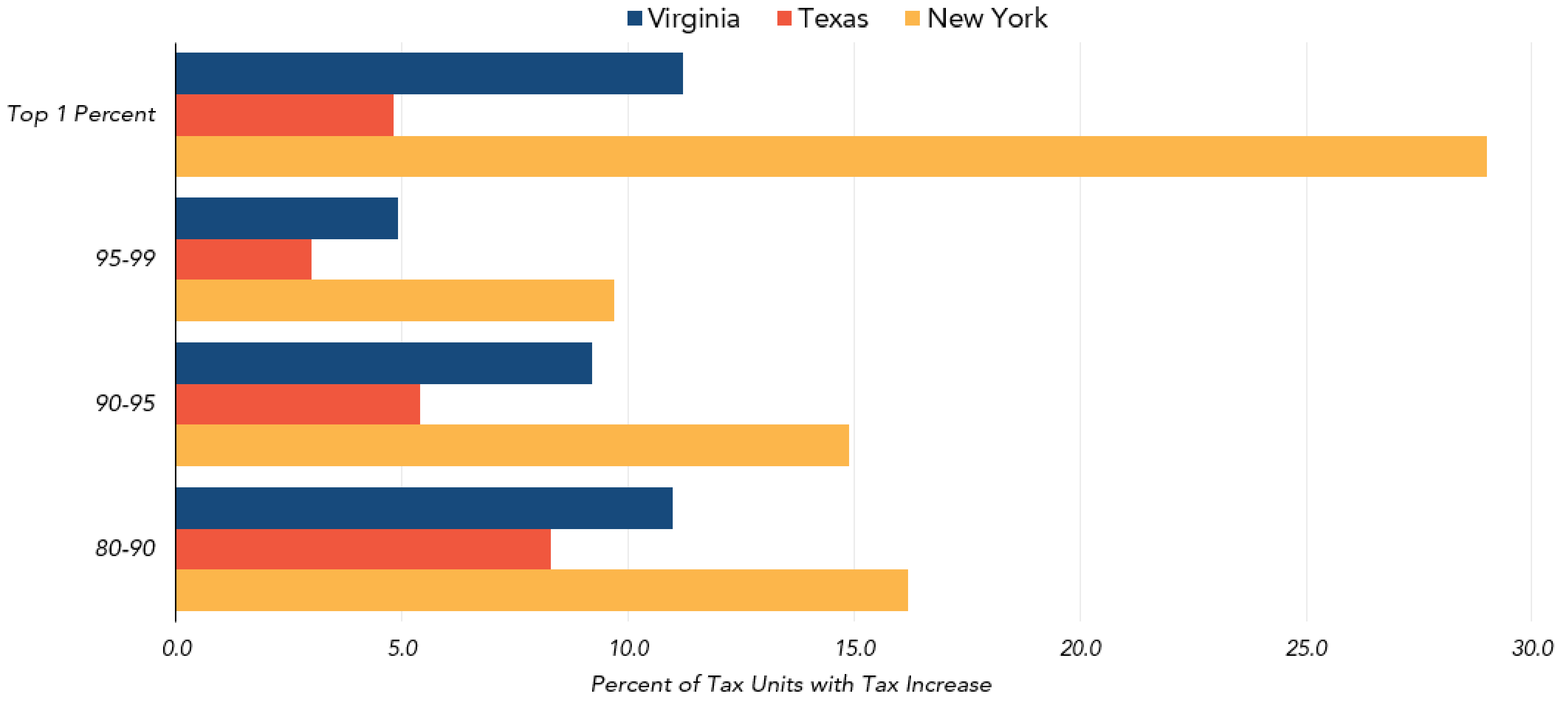
Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0217-1).

Share of Taxpayers with Tax Increases also Varies; Largest in New York

FIGURE 4

Tax Units with a Tax Increase from the Major Individual Income Tax Provisions in H.R.1, The Tax Cuts and Jobs Act (TCJA), 2018

for Top Quantile of Expanded Cash Income Percentile



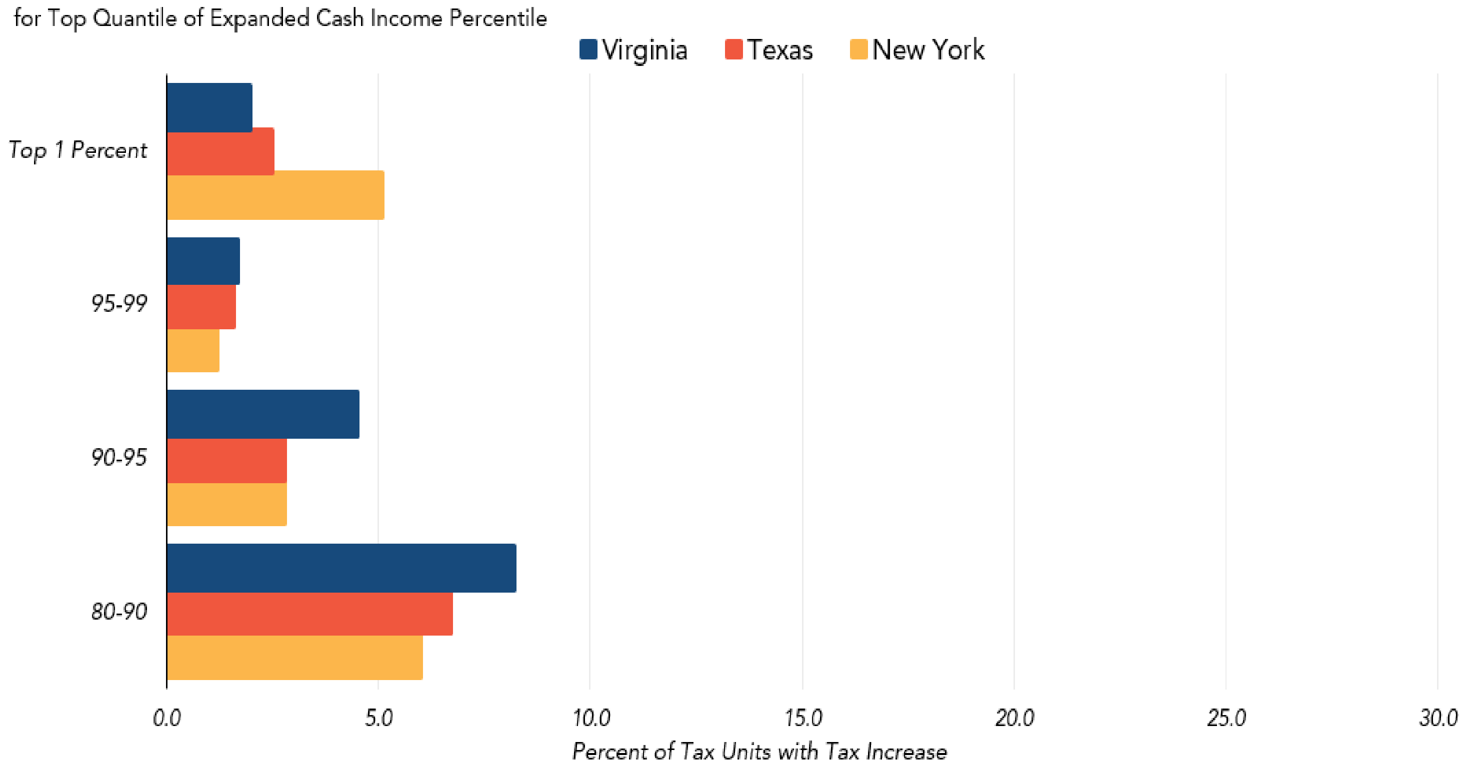
Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0217-1).

Differences Largely From Limit on SALT Deduction

FIGURE 6

Tax Units with a Tax Increase from the Major Individual Income Tax Provisions in H.R.1, The Tax Cuts and Jobs Act (TCJA), 2018

Excluding the $10,000 Limit on State and Local Tax (SALT) Deductions



Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0217-1).

So Should We Care?

- Is this about incidence?
  - Is it only benefiting those receiving lower taxes?
    - If so small percent see increases
  - Or does it affect states ability to redistribute and provide services within state?
    - Hinders ability for states to provide services
- Or is this about salience?
  - The SALT deduction had effectively been limited for many people because of AMT
  - But they didn't notice
  - More people feel like they are hurt than are
- The politics of how the bill was past and rhetoric involved singled out specific states

Bottom Line

- Federal Perspective
  - The $10,000 limit on the SALT deduction is one progressive element of a law that disproportionately benefits the rich. More than 95 percent of the additional tax from the limit falls on the top 20 percent of taxpayers and 57 percent on the top one percent.
  - It raises a lot of money—nearly $650 billion over 10 years.
- State and Local Perspective
  - The $10,000 limit on the SALT deduction is an unfair provision that singles out certain states and jeopardizes the ability of states to raise revenue.
  - A limit on the SALT deduction will discourage progressive state taxes and jeopardize state and local spending on health, education, and social welfare services that disproportionately benefit lower-income households.
- Unintended Consequences
  - A limit on the SALT deduction with no comparable cap on charitable contributions creates and incentive for state and local governments to recharacterize tax payments as charitable contributions.
  - Limiting the SALT deduction for taxes paid by individuals but not for taxes paid by business encourages state and local governments to shift more of their taxes to businesses.
  - If states are unable to raise or maintain revenues to support social welfare programs, will they look to the federal government to expand its role?