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Defend our deductions

BY RUSSELL GOLDSMITH

Since the U.S. income tax was established in 1913, Americans have been able to avoid paying federal taxes on money they already paid out in state and local tax. But the Trump administration and congressional Republicans are looking to change that.

Among their proposed tax reforms is an end to the federal deduction for state and local income and property taxes. If enacted, this radical change would not only punish California and other productive and high-tax states, but also endanger their vital, job-creating urban economies.

In 2014 alone, the state and local tax deduction allowed Californians to reduce their taxable income by \$101 billion, according to an analysis by the nonpartisan Tax Foundation. Eliminating this deduction would increase California's tax burden by tens of billions of dollars each year.

Many mistakenly believe that this deduction favors only the very wealthy. More than 55% of taxpayers earning over \$75,000 a year take the deduction. And it is substantial. Consider a hypothetical California couple who have a combined adjusted gross income of \$150,000: Without the option to deduct state and local taxes, their federal tax liability would increase by \$3,450. If they own their home, they would lose the property



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Proposed tax reforms are an assault on California's economy.

tax deduction too, raising their federal tax burden even more.

Some defend the proposal by promoting the myth that the deduction means Washington is essentially subsidizing high-tax states such as California. In fact, it is the other way around. In 2015, New York's state comptroller analyzed this fiscal relationship and found that for every dollar California paid in total federal tax, it received 99 cents in federal spend-

ing. That sounds OK, except states on average receive \$1.22 per dollar of taxes paid — with the leading beneficiaries being sparsely populated, low-economic-output states such as New Mexico, Alabama and Kentucky. In fact, Mississippi receives the most: \$2.57 per dollar of taxes.

A second Republican assertion — that eliminating this deduction will make state and local governments more efficient — is also a myth. It won't cut state tax receipts or remove pension obligations or reduce the expense of union contracts. It will simply raise the cost to California taxpayers of ensuring their state can maintain its higher level of social services and education.

The GOP tax proposal represents an assault on the economies and taxpayers of California and other largely Democratic states such as New York, Illinois, New Jersey and Massachusetts. According to the Tax Policy Center, ending the deduction would put \$1.3 trillion more in federal coffers over 10 years — 30% of that coming from California and New York taxpayers.

These same "blue" states, however, generate most of the jobs and economic growth in the United States. Eliminating the deduction would make them less appealing to the kind of residents they need, such as high-income retirees and entrepreneurs. In

California, some small businesses, not to mention major corporations such as Toyota, Wells Fargo and Chevron, are already moving or hollowing out their workforce. If the state and local tax deduction is eliminated, that trend will accelerate, creating serious economic problems here.

The billions of dollars that Californians pay in state and local taxes fund important things, including education, public safety, healthcare, water and transportation projects, and economic and workforce development. If Californians lose this federal deduction, the state's ability to tax will be undermined over the long term, threatening support for these key priorities.

House Republicans from California need to stand up for our state — and their constituents need to voice their opposition to this dangerous proposal. At minimum, voters should demand there be a comprehensive and objective study of the economic impact of eliminating these deductions before Congress votes on such a change.

The fight to preserve this deduction is a fight for our state's economy and the future Californians are building here.

Russell Goldsmith is chairman and CEO of City National Bank and chairman of RBC Wealth Management-U.S. He also heads the Los Angeles Coalition for the Economy and Jobs.

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