The Los Angeles Coalition

A COALITION FOR THE ECONOMY & JOBS IN LOS ANGELES

A bipartisan group of House members from high-tax states recently launched [a caucus] focused on advocating for undoing the $10,000 limit on the state and local tax deductions (SALT), as lawmakers press to include repeal of the cap in infrastructure legislation.

Because this issue has an enormous impact on California's taxpayers and impacts the foundation of our progressive state and local tax system, the LA Coalition, the Bay Area Council and the CA Business Roundtable, have developed an advocacy agenda that supports those members of CA's Congressional delegation who have taken a lead role on this issue and pushes the other members to join them.

Talking Points to Eliminate SALT Cap

- The 2017 Tax Cut and Jobs Act's capping of the federal deductibility of state and local taxes at $10,000 is having a substantially negative impact on California and Californians. A recent analysis by the Bay Area Council's Economic Institute found that ***Californians paid an additional $11.2 billion in federal taxes since the cap was enforced***.

- That substantial increase has only added to California's leading role as our nation's top sender of income taxes to our federal government. ***Prior to the cap and based on 2017 figures, Californians sent $234.5B to the federal government***. To put this into perspective ***Texas and Florida, combined, sent $250.4B in that same year***.

- Californians' investment in our federal government is not reciprocated. Research shows that ***California is one of the largest donor states in the U.S. with a negative balance of payments of $6.65B (2021)***. In other words, for every dollar Californians send the federal government, they receive only $0.97 back. Virginia is at the opposite end of the spectrum, with the highest positive balance of payments. Virginia's balance of payments is $111.8B, and residents receive $2.24 for every dollar sent to the federal government and Kentucky follows with $63.2B and the highest expenditure per dollar of receipts at $2.89.

- ***California's progressive state and local tax policies have had to fill this revenue gap throughout the years*** (a decade ago CA only received $.78 back for every dollar sent to WDC) in order to pay for the growing demand for investments in public sector programs, services and economic and physical infrastructure. In exchange, California's taxpayers, at all income levels, were able to benefit from SALT, based on the 100-year-old premise that our nation's tax system allowed taxpayers to deduct what they pay in state and local real estate, personal property and income taxes. The capping of SALT is effectively a new form of "double taxation" on California's wage earners and homeowners and an inappropriate use of U.S. tax policy that undermines the basic concept of federalism by trying to influence the residency choices of entrepreneurs and professionals looking to invest in state economies and job creation.

- California has long been one of our nation's great "laboratories of democracy" based on its progressive tax system established on the SALT deduction, which has made it less reliant on the federal government then 47 other states. ***Other progressive and high-powered GDP states like New York, Massachusetts and New Jersey are similar in nature. The manipulation of U.S. tax policy through the capping of the SALT deduction stands out as a partisan attack on these states specifically***. **Of the top 40 congressional districts throughout the U.S. that have the largest SALT deductions disallowed under the 2017 Jobs and Tax Cut Bill, 39 are represented by Democrats.**Many of CA congressional districts made this list: CA-33 (Ted Lieu), CA-45 (Katie Porter), CA-17 (Ro Khanna) and CA-18 (Anna Eshoo) made the list. Michelle Steel, a newly elected Republican representative from Newport Beach, California, whose district is the most affected of any held by the GOP. About 23% of taxpayers in her district lost an average deduction of $26,254. is a cosponsor of two bills in Congress that would repeal SALT, the Salt Fairness Act sponsored by Rep. Mike Garcia (CA-25) and the SALT Deductibility Act sponsored by Rep. Thomas Suozzi (NY-3).

- Capping SALT punished hundreds of thousands of Californians with a "double taxation" on their earnings. According to IRS data, this is not just a tax penalty for the 1%: in 2014, 33.86% of California taxpayers claimed the deduction and ***with the passage of the SALT cap starting in 2018 an estimated 1 million CA taxpayers were expected to pay more on their personal income taxes. 619,000 of those taxpayers made between $100,000 to $250,000.*** When the SALT cap was introduced in 2017, 5 million out of 6.4 million California taxpayers who utilized the SALT deduction were making less than $200,000 and during the last year in which the SALT deduction was uncapped, more than 3 million families in California with an adjusted gross income below $100,000 claimed the deduction.

- Opponents who do not want to lift the SALT cap or increase the Corporate Tax Rate essentially want taxpayers in Democratic districts to continue to pay more in taxes rather than pay for federal programs on a more fair, and equitable national basis including higher corporate tax rates for America. ***The corporate rate was 36% before the cap was imposed*** and/or sharing the burden of federal programs across all individual taxpayers. ***Why should taxpayers in democratic states be penalized so that corporations can have a lower rate?*** Even at 28% the corporations are getting enormous tax benefits at the expense of democratic states.

- More than 150,000 households in a state of 40 million people now pay nearly half of the state's total annual state income tax and California's middle-class were already paying a state tax rate that is higher than what millionaires pay in 47 other states, while corporations – which are still able to fully deduct SALT as business expenses – are profiting because of the same law.

- The compromise of putting a cap on SALT while lowering the top income tax rate for individuals was a strong benefit to all taxpayers, but was only partial relief for the cap in Blue States, like CA. ***Now the Biden administration is proposing to reverse even this modest compromise by restoring the 39.6% rate, but without restoring the full SALT deduction.*** This unfair compromise should be undone by raising the individual rate to 39.6%, while removing the cap on the SALT deduction.

State of CA Update

- California lawmakers and Gov. Gavin Newsom (D) are proposing different ways to reach the same goal: help residents get around the federal $10,000 cap on deductions for state and local taxes. A new California Senate bill (SB 104) would give pass-throughs—partnerships, limited liability companies, and S corporations—the option to pay an entity-level income tax that would be fully deductible. The bill doesn't specify a tax rate yet. Individuals who are members of those businesses would exclude the amount the entity pays from their gross income. About 1.5 million business owners could benefit from the bill, author Sen. Mike McGuire (D) said. It is most like measures in Connecticut, Louisiana, New Jersey, and Oklahoma. Newsom's proposal is narrower, applying only to S corporations. It would give those businesses the option to pay a 13.3% income tax rather than the 1.5% that California currently imposes on S corporations. Shareholders would get a tax credit equal to 13.3% of their passed-through income. Under current California law, an S corporation's income is also taxable at the shareholder level. About 640,000 S corporations filed California returns in 2018, according to tax board data.