The Daily Dish

No Cap for CSALT

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CSALT, for those who do not live for the latest tax lingo, is Corporate State and Local Tax deduction, and is named in analogy to SALT, the individual State and Local Tax deduction. The 2017 Tax Cuts and Jobs Act (TCJA) capped SALT at $10,000, which raised taxes for individuals in high-tax states, about which they (both the states and the individuals) have been whining ever since. President Trump took note of the complaints during the campaign and promised some relief – a larger, if not full, deduction for state and local taxes.

As Congress considers tax legislation to address the looming sunset of most of TCJA at the end of 2025, among the considerations is changing the SALT cap by increasing it for individuals, doubling it for married couples, or both. In any event, this reduces the revenue generated by capping SALT. What to do about the lost revenue? In an apparent misunderstanding about their different roles in tax policy (despite the similarity of their names), the idea is "to agree to restrict the state and local tax deduction — commonly known as SALT — for corporations in exchange for easing a cap on the deduction for individuals and families."

This would be a profound tax policy error.

Every contemplated change in the tax should be viewed through the lens of pro-growth tax policy. A SALT cap reduces a subsidy to consumption of state-local government services. If an individual's federal tax rate is, say, 25 percent, then $1 of state-local taxes only "costs" 75 cents because the federal tax code will kick in a 25-cent tax reduction. By subsidizing state-local taxes, it produces incentives for sub-federal governments to grow too large, overtax, and burden growth.

CSALT has no relation to SALT. Firms deduct the costs of generating income – wages, rents, capital costs, etc. – and CSALT is the recognition of those costs. Fully deducting those taxes is necessary to correctly measure net income, and thus necessary to correctly tax firms.

Capping CSALT is professional malpractice.

Put differently, capping CSALT is simply a tax on the most successful U.S. companies and would threaten jobs, investment, and higher real wages. The debate over the desirability of raising the corporate income tax rate has been settled – it should remain untouched at 21 percent. Capping CSALT is just a corporate rate hike in disguise – roughly the equivalent of raising the rate to 23 percent.

The right solution is to go all in: Eliminate SALT entirely while maintaining the full deductibility of CSALT. Eakinomics gets it – the original SALT cap was an uncomfortable halfway house and Trump's proposal is a step in the wrong direction.

There is also the issue of fairness. The SALT cap largely affects those affluent enough to pay a lot of state-local taxes. And the value of the deduction goes up with the tax rate, and thus with income. Other things being equal, it is not usually considered equitable to hand out a tax favor to the affluent and make it most valuable for the richest.

TCJA was pro-growth and great simplification. Its successor should be held to the same standards.