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House panel to hold hearing on $10,000 cap on tax deduction

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WASHINGTON — Young home buyers are asking to see only houses with no more than $10,000 in local taxes. Well-off homeowners are getting estimates of how much they'd save by moving to a low-tax state. And some taxpayers are seeing a bigger federal tax bill.

Those are among the effects on Long Island and in other high-tax areas that real estate brokers, CPAs and government finance officers have observed after the new tax law that went into effect 18 months ago capped the deduction for state and local tax deductions at $10,000.

The impact of what's often called the SALT cap remains anecdotal and impressionistic because many taxpayers have gotten extensions on their 2018 returns, the first under the new law, and the Internal Revenue Service won't release state-level data for more than another year.

Still, Democrats will highlight what they see as its negative and unfair effects, particularly in New York and other high-tax blue states, as they discuss legislation to lift or mitigate the cap in a hearing in a House Ways and Means subcommittee on Tuesday.

"Make America fair again," Rep. Tom Suozzi (D-Glen Cove), a committee member, said in a phone interview, introducing a new slogan for his campaign to lift the SALT cap. "We have to move forward. We have to educate people about what's going on here."

Suozzi said the SALT cap is unfair because New York already subsidizes other states by paying more into the federal government than it gets back, it is a tax on state and local taxes, and it hits the homeowners whose local taxes subsidize police, firefighters and other social services.

Yet the effects are still sinking in. "We have not felt the full impact," Long Island Association President Kevin Law said in a phone interview.

“So far, the majority of Long Islanders are actually benefiting from the tax reform, but that doesn’t mean a great many, many thousands of Long Islanders aren’t being negatively impacted,” he said.

“Households making under $200,000 a year on average doing slightly better,” he said. “And those making over $200,000 — which for Long Island is not a lot of money — are doing worse off because of the inability to deduct the state and local taxes.”

The housing market hasn’t crashed, as some had feared: Median home prices have risen and the number of homes sold since the tax law kicked in hasn’t dropped. “All in all, our market is good, it’s strong.” said Paul Llobel, legislative chair of the Long Island Board of Realtors.

But first-time home buyers are looking for homes with property taxes of $10,000 or less, he said. “Ultimately that’s the sweet spot for young folks.”

And it’s not clear that Long Island has suffered a major flight of high-income families.

“We're starting to see people explore a little bit more,” said CPA Joseph Perry at Marcum LLP, by asking for projected savings from a move to a low-tax state. “We did some calculations. People thought about it. Why didn't they want to move? They don't want to change their life.”

Republicans put the cap on the SALT deduction to pay for the revenue lost by lowering the corporate rate to 21%, effectively shifting a higher burden to higher-income earners in New York, California, New Jersey and other high-tax and Democratic states, Suozzi said.

Suozzi and the other members of the Long Island delegation support a full repeal of the SALT cap. Three bills in Congress lift the cap. A fourth offers a graduated rate.

But the push for lifting the cap faces opposition in the White House from acting chief of staff Mick Mulvaney and the Senate Republican majority, and a major hurdle in finding funds to pay for the lost revenue.

Suozzi said he supports raising the top individual rate back to 39.6 percent from 37 percent and raise the corporate rate to 25 percent from 21 percent, to raise about $600 billion over the next 10 years to pay for the SALT cap repeal.

That would remove the added tax burden on high-tax states and spread the cost by raising the tax rates on higher-income taxpayers in every state, and that, Suozzi said, is important to New York: “This way, there is no incentive to get more out of the state.”