Question for the Record for Ms. Huang

Submitted by Ranking Member Senator Lee
Joint Economic Committee

"Building Back Better: Raising Revenue to Invest in Shared Prosperity"

Hearing Date: October 6, 2021

Ms. Huang:

In your testimony, and in past work, you have each emphasized the importance of addressing income and wealth inequality. Yet, there is a contingent of lawmakers who are openly advocating for either lifting or repealing the $10,000 cap on the SALT deduction. Ironically, the success of the *Build Back Better Act* may hinge on whether changes to the cap are included.

According to the Brookings institution, "the SALT tax deduction is a handout to the rich."[i] Eliminating or raising the cap on this deduction is a policy change that would not meaningfully benefit middle-class households—or even upper-middle class households. Repealing the SALT cap would cost hundreds of billions of dollars in tax revenues and the top 5 percent of households would receive over 80 percent of the benefit.[ii]

- What is your perspective on lifting or repealing the SALT deduction cap? Would including this change improve inequality or make it worse?

Thank you for your question, Senator Lee.

The Brookings estimate and Center on Budget analysis of the direct distribution and revenue impact of repealing the SALT cap are sound.

In the 2017 tax law, however, capping the SALT deduction was used to help offset the cost of tax cuts that were, overall, even more tilted to the wealthiest filers than the benefits of the SALT deduction, so this was not a sound trade.

However, repealing the SALT cap now in the context of a package with a limited size is likely to mean less robust investments in other policies like the Child Tax Credit that directly benefit low- and moderate-income families, so that, too would be an unsound trade.[iii]

Some proponents of repealing the SALT cap are concerned that the cap constrains the ability of states to raise progressive revenues and fund state investments with widely shared benefits. That is a reasonable concern, especially because in 2017, some supporters of capping the SALT deduction explicitly hoped that it would limit state revenue collection and investments.

However, the evidence on the SALT deduction's impact on state budgets is inconclusive.[iv] For example, since the 2017 tax law went into effect, New Jersey has raised income taxes for households with incomes over $1 million, New York has extended and increased an existing millionaires' tax, and three states (Connecticut, New York, and Washington state) have increased real estate transfer taxes on high-value homes.[v] While it impossible to know precisely what states would have done without the cap in place, this does at least show that states can continue to raise progressive revenues and invest with the cap in effect.

Further, *even if* repealing or weakening the SALT cap were to make it somewhat easier to raise revenues for investments at the state level, that is likely to be a far less effective and cost-efficient way of delivering economic and budgetary benefits to states than alternatives proposed in President Biden's Build Back Better agenda. For example, the proposed package makes critical investments in infrastructure, green jobs, community colleges and other areas of deep need.[vi] These investments would likely be far more effective, per dollar spent, at boosting strong and inclusive economic growth in states. Along with investments in areas like the CTC and child and elder care, these would be a far better use of the revenues raised by progressive tax changes.

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[i] Christopher Pulliam and Richard Reeves, "The SALT deduction is a handout to the rich. It should be eliminated not expanded," Brookings Institution, September 4, 2020, https://www.brookings.edu/blog/up-front/2020/09/04/the-salt-tax-deduction-is-a-handout-to-the-rich-it-should-be-eliminated-not-expanded/.

[ii] Chuck Marr, Kathleen Bryant, and Michael Leachman, "Repealing 'SALT' Cap Would Be Regressive and Proposed Offset Would Use up Needed Progressive Revenues," CBPP, December 10, 2019,

https://www.cbpp.org/research/federal-tax/repealing-salt-cap-would-be-regressive-and-proposed-offset-would-use-up-needed.

[iii] Ibid.

[iv] Congressional Research Service, "Tax Expenditures: Compendium of Background Material on Individual Provisions," Senate Committee Print #116-53, December 2020, https://www.govinfo.gov/content/pkg/CPRT-116SPRT42597/pdf/CPRT-116SPRT42597.pdf

[v] Wesley Tharpe, "New Jersey Budget Deal Advances Equity With Millionaires' Tax and More," CBPP, October 7, 2020, https://www.cbpp.org/blog/new-jersey-budget-deal-advances-equity-with-millionaires-tax-and-more; Ashlea Ebeling, "New York's 'Temporary' Millionaire Tax Extended 5 More Years," Forbes, April 9, 2019, https://www.forbes.com/sites/ashleaebeling/2019/04/09/new-yorks-temporary-millionaire-tax-extended-5-more-years/?sh=53926abe59bd; Carmen Reinicke, "New York is raising taxes for millionaires. Will other states follow?", CNBC, April 8, 2021, https://www.cnbc.com/2021/04/08/new-york-is-raising-taxes-for-millionaires-will-other-states-follow.html; Michael Leachman and Samantha Waxman, "State 'Mansion Taxes' on Very Expensive Homes," CBPP, October 1, 2019, https://www.cbpp.org/research/state-budget-and-tax/state-mansion-taxes-on-very-expensive-homes.

[vi] Adam S. Hersch, "'Build Back Better' agenda will ensure strong, stable recovery in coming years," Economic Policy Institute, September 16, 2021, Elizabeth McNichol, "It's Time for States to Invest in Infrastructure," CBPP, updated March 19, 2019, https://www.cbpp.org/research/state-budget-and-tax/its-time-for-states-to-invest-in-infrastructure.