Trump calls for eliminating SALT deduction cap

In an unexpected development that could scramble next year's debate over how to address the sunsetting provisions in the Tax Cuts and Jobs Act of 2017 (TCJA, P.L 115-97), former President Donald Trump this week called for eliminating a provision of the signature tax law enacted during his administration that imposed a $10,000 cap on the deduction for state and local taxes (SALT).
URL: https://www.congress.gov/115/plaws/publ97/PLAW-115publ97.htm

Trump, who is the Republican nominee in the 2024 presidential race, initially raised the issue of restoring the SALT deduction in a social media post on September 17. But he reiterated his pledge the following day at a rally he held in Uniondale, N.Y., on Long Island, where SALT cap repeal has been a popular issue.

"I will cut taxes for families, small businesses, and workers, including restoring the SALT deduction, saving thousands of dollars for residents of New York, Pennsylvania, New Jersey, and other high-cost states," he told his audience.

A TCJA revenue raiser

The SALT deduction was unlimited before the TCJA was signed into law, although, as a practical matter, other provisions in the pre-TCJA tax code, such as the individual alternative minimum tax (AMT) and the "Pease" limitation on itemized deductions, reduced the benefit of the deduction for some taxpayers. (In addition to capping the SALT deduction, the TCJA temporarily repealed the Pease limitation and increased the amount of the AMT exemption.)

The SALT deduction cap, which generated revenue to help offset the cost of the TCJA's tax cuts, is set to expire at the end of 2025. The impact of the cap hits the relatively small percentage of taxpayers who itemize their federal taxes (less than 15 percent of filers, according to the IRS) and who generally live in states with high state and local income and property taxes. While this has been felt largely in states and urban districts represented by Democrats, a small but vocal group of Republican House members from New York, New Jersey, and California—known as the SALT Caucus—has sought to repeal or substantially relax the limitation on the deduction since it became law and is making it an issue in the 2024 campaign.

While there has been some discussion in Congress since 2017 about modifying the cap by eliminating or reducing its so-called marriage penalty (the $10,000 limitation applies whether filers are single or married filing jointly and is not indexed for inflation) most Republicans have supported extending the cap—or even ending the SALT deduction altogether—as they contemplate the larger issue of how to address the pending expiration of large swaths of the TCJA next year. (In addition to the SALT deduction cap, TCJA provisions that are scheduled to sunset at the end of 2025 include dozens of tax cuts for individuals, estates, and passthrough businesses.) For that reason, Trump's September 17 declaration on his Truth Social platform that he intends to "get SALT back" was unexpected.

Reactions on Capitol Hill

Senate Majority Leader Charles Schumer, D-N.Y., who has criticized the cap since its implementation but has been stymied by some in his own party who see repealing it as a costly choice that would benefit the wealthiest taxpayers, indicated he saw the former president's turnaround as a politically motivated effort to win votes in November.

"Trump was the one who took away SALT," he told *Punchbowl News* September 17. "It hurt many New Yorkers, including many Long Islanders. Now that he's back on Long Island for the first time, he changes his mind? Come on."

While New York is deemed by political analysts to be a safe Democratic state in the electoral college vote count, there are a number of congressional swing seats in play from the New York City suburbs, and issues around the SALT deduction could prove to be a factor in some of those races.

Trump's pitch to eliminate the cap on the SALT deduction is just one of several new tax proposals he has announced in recent weeks, including calls to cut the corporate tax rate to 15 percent for domestic manufacturers and eliminate federal taxes on Social Security benefits, tips, and overtime pay. None of these has been officially scored by the Joint Committee on Taxation staff or the Congressional Budget Office—the two official nonpartisan scorekeepers on Capitol Hill—but various "think tanks" outside of the government estimate the proposals would significantly add to what the CBO has said will be a $4.6 trillion price tag for extending all of the expiring TCJA provisions. (CBO's estimate includes additional debt service costs.)

While some congressional Republicans have endorsed Trump's recent proposals, at least one key GOP legislator demurred when asked for his reaction to Trump's latest pledge.

"I get asked about everything Trump says, and whether I support it," the Senate Finance Committee's top Republican, Sen. Mike Crapo of Idaho, told *Politico* September 18, "and my answer is always the same: 'We're looking at everything in the tax code right now, getting ready for next year.'" (Crapo presumably would become Finance Committee chairman in the 119th Congress if Republicans reclaim the majority in the Senate this November.)

Johnson outlines 2025 tax agenda for an all-GOP Congress

In other developments, the top House Republican said this week that a number of the GOP's "first 100 days" priorities will touch on the tax code if the party wins control of the White House and both chambers of Congress next year—though he dialed back earlier calls for a full repeal of the energy tax incentives enacted in the Democrats' Inflation Reduction Act of 2022 (P.L. 117-169).
URL: https://www.congress.gov/bill/117th-congress/house-bill/5376/text

In a September 17 speech and discussion with Fox Business host Larry Kudlow before the America First Policy Institute, House Speaker Mike Johnson, R-La., said he is bullish about Republicans' chances of holding the majority in the House and retaking control of the Senate and the Oval Office in November's election. Under this combination, often called the "trifecta," GOP leaders have said they would aim to use the fast-track budget reconciliation process to side-step procedural obstacles and advance certain tax and spending legislation in the Senate without the need for Democratic support—just as they did in 2017 to pass the Tax Cuts and Jobs Act when President Trump was in office.

Johnson highlighted several immediate priorities for Republicans if they win the trifecta, including extending and expanding on the TCJA's tax cuts, using the tax code to secure the border and deter illegal immigration, and rolling back clean energy policies—including tax incentives—that were part of the Inflation Reduction Act. (Rounding out the five priorities Johnson cited were reforming the education system and downsizing the federal government to address the size of the federal debt.)

Some Republicans have long vowed to completely repeal the Inflation Reduction Act, which moved through Congress under budget reconciliation rules on the strength of Democratic votes alone; however, the speaker softened his stance somewhat in an interview with CNBC just before his speech this week, conceding that there are some clean energy tax incentives that are popular within his party.

"You've got to use a scalpel and not a sledgehammer, because there's a few provisions in there that have helped overall," Johnson said.

A group of 18 House Republicans sent a letter to the speaker last month asking him to not support full repeal of the energy provisions in the 2022 law, arguing that certain incentives have driven job creation and that many US companies are using them to invest in energy infrastructure and projects across the country.
URL: https://garbarino.house.gov/sites/evo-subsites/garbarino.house.gov/files/evo-media-document/FINAL%20Credits%20Letter%202024.08.06.pdf

"Prematurely repealing energy tax credits, particularly those which were used to justify investments that already broke ground, would undermine private investments and stop development that is already ongoing," the lawmakers wrote in their August 6 letter. "A full repeal would create a worst-case scenario where we would have spent billions of taxpayer dollars and received next to nothing in return."

Although no taxwriters were among the letter's signatories, at least some Republican members of the House Ways and Means Committee have acknowledged the concerns the letter raises. Rep. Vern Buchanan of Florida recently told *Politico* that he is "not committing to anything" right now but is aware of increased support within the party for some of the incentives; likewise, Rep. Randy Feenstra of Iowa said he would not support repeal of any provision that would harm his district's agriculture industry.

Some members of the ultraconservative House Freedom Caucus, including Reps. Bob Good of Virginia and Chip Roy of Texas, have blasted the idea of preserving any of the Inflation Reduction Act's energy tax incentives and have noted that every Republican voted in 2023 to repeal all of the clean energy tax credits, although that action was a component of the House GOP's offer in negotiations to raise the debt ceiling and was not regarded as something that was likely to become law as part of that process.

The House recently passed legislation that would narrow the scope of new vehicles that qualify for the Inflation Reduction Act's clean vehicle tax credit under section 30D, with the support of seven Democrats and all Republicans. (For prior coverage, see *Tax News & Views*, Vol. 25, No. 27, Sep. 13, 2024.)
URL: https://dhub.deloitte.com/Newsletters/Tax/2024/TNV/240913_3.html

Warren looks to 2025 Democratic tax agenda

Across the Capitol this week, Sen. Elizabeth Warren, D-Mass., who chairs the Senate Banking, Housing, and Urban Affairs Subcommittee on Economic Policy, hinted at the contours of an agenda for an all-Democratic Congress next year, commenting at a September 18 subcommittee hearing that 2025 represents "a big opportunity [for Democrats] to fix the tax code" by increasing the corporate tax rate, closing "loopholes" for "billionaires," and using that revenue "to lower costs for ordinary Americans from housing to child care."

Warren, who also sits on the Senate Finance Committee, cited Vice President Kamala Harris's calls for a 28 percent corporate tax rate (compared to 21 percent under current law), a 25 percent minimum tax on appreciated assets of taxpayers with wealth greater than $100 million, an expanded child tax credit, and incentives for affordable housing as examples of tax policies that would accomplish that objective.

The tax plan Harris has put forward as part of her 2024 presidential bid also calls for retaining the expiring TCJA tax cuts for households with income below $400,000 ($450,000 for joint filers) and allowing them to expire for more affluent individuals.

Warren commented in her opening statement that the decisions Congress makes about taxes reflect "what and who we value enough to collectively invest in." She also argued during the hearing that the economic benefits of the TCJA flowed chiefly to large corporations and high-wealth individuals, and she rejected the notion of fully extending the tax breaks in the TCJA as former President Trump and congressional Republicans have proposed.

"It is better to walk away and let the Trump tax cuts expire than to sign our names to that kind of wealth transfer to help multimillionaires and billionaires at the expense of working families," she said. "But that doesn't have to be where our 2025 tax fight ends. I believe we can do better than that."

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