



The Daily Dish

Trump Flavors the Debate With SALT

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Last week, candidate Trump contradicted President Trump, [promising](#) in a [Truth Social post](#) that he would “get SALT back, lower your Taxes, and so much more.” SALT refers to the provision of the 2017 Tax Cuts and Jobs Act (TCJA) that caps the deductibility of state and local taxes at \$10,000. The flip-flop with a full twist (whatever “so much more” means) is interesting from at least four perspectives.

Since this is the latest in a long line of freebies on the Trump Handout Tour (THT; no tax on tips, no tax on Social Security, no tax on overtime, etc.) it is clearly motivated by politics. Politico [notes](#): “Donald Trump’s surprising reversal on a contentious piece of his own signature tax law won’t help him win any swing states — but some Republicans believe it could help them hold the House.” As it turns out, the politics cuts other ways as well. Axios [pointed out](#) that “Trump’s surprise post on [SALT deductions](#) Tuesday has forced Senate Republicans into a pickle: contradict their party’s leader or their old positions.”

So, yes, in an election year, there is a large dose of politics. But there are the usual tax policy issues, too. From an efficiency perspective, this is a step in the wrong direction. 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. This causes the mix of state-local finance to shift toward deductible sources such as income taxes and away from user fees and other non-deductible revenues. The empirical evidence is quite firm on this undesirable distortion of state-local decision-making. Notice that it also lowers the overall cost of financing state-local spending, thereby subsidizing the size of those sub-federal governments. From this efficiency perspective, the right solution is to eliminate all deductibility of state-local revenues. The original SALT cap was an uncomfortable halfway house; 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.