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Congress's Gift to Blue-State Taxpayers

By Alfredo Ortiz

The great American migration out of high-tax states like New York and Illinois may be about to accelerate. The tax reform enacted last month caps the deduction for state and local taxes, known as SALT, at $10,000. This means millions of people will finally feel the full tax burden imposed by state and local politicians. When the SALT shield shrinks, so may people's willingness to put up with these high taxes.

Such states already are losing population, and new Census Bureau data—released the same day tax reform passed the House and Senate—shows the continued migration. Of the seven states that grew the fastest between July 1, 2016, and July 1, 2017, four (Nevada, Washington, Florida and Texas) have no income tax, and the other three (Idaho, Utah and Arizona) have low taxes.

On the flip side, high-tax states like New York, New Jersey, Connecticut, Illinois and Rhode Island either lost residents or stagnated. Pennsylvania quietly became the fifth-most-populous state in the nation, displacing Illinois.

When people move, they take their money with them. The five high-tax states listed above have lost more than $200 billion of combined adjusted gross income since 1992, according to the website HowMoneyWalks.com, which aggregates IRS data. In contrast, Nevada, Washington, Florida and Texas gained roughly the same amount.

If politicians in high-tax states want to prevent this migration from becoming a stampede, they will have to deliver fiscal discipline. At least a few seem to realize this. New Jersey's Gov.-elect Phil Murphy campaigned on a promise to impose a "millionaires' tax." But the Democratic president of the state Senate, Steve Sweeney, said in November that New Jersey needs to "hit the pause button" because "we can't afford to lose thousands of people." His next words could have come from a Republican: "You know, 1% of the people in the state of New Jersey pay about 42% of its tax base. And you know, they can leave."

Limiting the SALT deduction will enforce fiscal discipline.

New York City Mayor Bill de Blasio may need to rethink his proposed millionaires' tax. George Sweeting, deputy director of the city's Independent Budget Office, told Politico in November that eliminating the SALT deduction would "make it a tougher challenge if the city or the state wanted to raise their taxes." New York state Comptroller Thomas DiNapoli added: "If you lose that deductibility, I worry about more middle-class families leaving."

In October, 36 California Democrats in Congress wrote to GOP leaders: "The elimination of SALT would pressure state and local governments to make cuts and take in less revenue." But this fiscal day of reckoning will be a good thing for the beleaguered residents of high-tax states and cities.

If tax reform was Congress's Christmas present to the American people, the limit on the SALT deduction is a gift that will keep on giving. In the years to come it will spur additional tax cuts and forestall tax increases at the state and local level.

Democrats want to use the SALT limitation as a wedge to pick up House seats in 2018. They should be more concerned about losing control of state capitals and city councils once voters at last feel the full effects of their tax-and-spend agendas. Some residents will vote with their feet, but the rest will just vote.

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