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IRS forbids blue state tax gimmicks in another victory for taxpayers

By: Alfredo Ortiz

This month, the IRS announced new rules forbidding high tax states like New York, New Jersey, and California from implementing gimmicks to shield their wealthy residents from federal taxes.

It outlawed nascent state maneuvers to try to bypass the new state and local tax deduction (SALT) limit of $10,000 that took effect this year as part of tax cuts passed with the help of California Rep. Mimi Walters. The wealthy in high tax states have long used SALT to reduce their federal tax liability. And high tax state legislators have long relied on SALT to blunt the impact of their tax-and-spend policies.

In a desperate attempt to make their high tax rates more digestible with less SALT, several states have tried enacting dubious provisions to allow residents to claim their state taxes as charity, making them eligible for a full federal tax deduction. In California, for instance, state Senate leader Kevin de Leon tried to create a loophole where state income tax payments would be considered a donation into a new California Excellence Fund.

While the IRS has already indicated that it would forbid this practice and other similar gimmicks, today's rules remove all doubt. This will only increase the anger of blue state legislators, whose donors will now be exposed to the full effects of their high-tax policies.

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Echoing the sentiment of his California brethren, New York Governor Andrew Cuomo recently said that the Republican curtailment of SALT deductions "is totally repugnant and hypocritical of the fundamental conservative ideology which they preach."

As if it weren't already clear, Gov. Cuomo doesn't know the first thing about conservative principles. Lowering tax rates while eliminating special loopholes and deductions that benefit the rich like SALT has been conservative orthodoxy for generations.

The SALT deduction limit eliminates two immoral wealth transfers: First, it eliminates the federal tax subsidization of high tax states by low tax states. According to the Tax Foundation, California and New York together make up about one-third of national SALT deductions.

Second, it eliminates the federal tax subsidization of wealthy taxpayers by ordinary ones. Over 90 percent of those earning more than $200,000 a year take advantage of the SALT deduction to artificially lower their federal taxable income.

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In the longer term, the curtailed SALT deduction will act as a powerful check on the tax-and-spend habits of blue state legislators because residents will feel the full effects of their policies. In fact, this is already occurring. New Jersey's Gov. 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 Heritage Foundation economist Steve Moore: "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."

Last 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." For beleaguered Golden State taxpayers, that means long-overdue relief.

President Ronald Reagan called the SALT deduction "the most sacred of cows." It took President Trump and the Republican Congress to finally slay it. As the IRS confirmed today, the SALT deduction will force California and other high-tax states to rethink their taxing policy – a major victory for their taxpayers.

Alfredo Ortiz is president and CEO of the Job Creators Network.