April 27, 2022

The Honorable Mike Quigley
Chairman
House Appropriations Subcommittee on Financial Services and General Government
2000 Rayburn HOB
Washington, D.C. 20515

The Honorable Steve Womack
Ranking Member
House Appropriations Subcommittee on Financial Services and General Government
1036 Longworth HOB
Washington, D.C. 20515

Dear Chairman Quigley and Ranking Member Womack,

As the Financial Services and General Government Subcommittee prepares its Fiscal Year (FY) 2023 appropriations bill, we write to express our support for the inclusion of language prohibiting the Internal Revenue Service from using funds appropriated by this Subcommittee for the purpose of restricting state governments from delivering state and local tax (SALT) relief to hard-working families. For our constituents and millions of Americans nationwide, the SALT deduction cap enacted under the Tax Cuts and Jobs Act has imposed a harmful double tax and has created one of the largest marriage penalties in the federal tax code. By providing SALT relief to taxpayers, we can strengthen economic growth in our communities, boost state and local investments in key public services such as K-12 education and law enforcement, and reduce distortions in our tax code.

Following the enactment of the SALT deduction cap in 2018, many states moved to pass policies that would provide billions of dollars in relief to affected taxpayers. In New Jersey and New York, for example, state lawmakers passed legislation that permitted localities to establish charitable funds to support local services and offered property tax credits to homeowners who contributed, allowing those taxpayers to claim their payment as a charitable deduction on their federal taxes and thereby not lose the deduction that they would have received from SALT prior to the passage of the TCJA. More recently, these states also passed legislation to allow pass-through entities to pay income taxes at the entity level instead of the personal level, where there is no $10,000 SALT cap. This would allow thousands of small business owners, who were greatly impacted by increased costs from the SALT cap, to claim their full SALT deduction and use that relief to invest in and grow their businesses.

However, the IRS has responded to these innovative state policies in many cases by issuing new regulatory guidance prohibiting their implementation, thereby depriving millions of taxpayers from receiving needed relief. In 2019 for example, in response to states creating charitable funds to help taxpayers claim an additional deduction in the absence of SALT, the IRS issued rules that reduced the amount of the federal deduction that a taxpayer can claim by contributing to one of these charitable funds. The result of this guidance was to eliminate the ability of families to receive this relief from the SALT deduction cap, a critical issue for districts like ours where a large percentage of taxpayers claimed the SALT deduction prior to 2018.
Particularly at a time when high cost of living states continue to see prices skyrocket, the IRS should not be using appropriated funds to prevent those very states from delivering critical relief to their residents. This is not just an individual taxpayer issue, but also one significantly affecting the availability of high-quality public services for years to come. The SALT deduction cap specifically punishes states and localities that make large investments in public goods such as K-12 education, green infrastructure, and first responders. By acting to keep the burden of the SALT deduction cap on our communities, the IRS is making it even more difficult for states to make these important investments.

For these reasons, we ask that you include the following report language prohibiting the IRS from using funding appropriated by this Subcommittee for activities that restrict state governments from providing SALT deduction cap relief to taxpayers:

“IRS Restrictions on State Policies Providing SALT Deduction Cap Relief -- The Committee prohibits funding appropriated to the Internal Revenue Service in the FY 2023 Financial Services and General Government Subcommittee bill from being used to issue regulatory guidance or rulings that restrict the ability of state governments to enact legislation or policies that provide relief to taxpayers from the state and local tax (SALT) deduction cap as enacted under the Tax Cuts and Jobs Act. Such prohibited funding shall apply to IRS rulings in opposition to the development of state-level charitable funds that allow taxpayers to claim their full federal charitable deduction and state-level policies allowing pass-through entities to pay taxes at the entity level, among others.”

Thank you for taking the time to consider the importance of SALT deduction cap relief for families and public investment in districts like ours. We look forward to working with the Committee to ensure that states have the flexibility necessary to implement innovative approaches to ensuring that families are not subject to double taxation or marriage penalties as a result of the SALT deduction cap.

Sincerely,

Mikie Sherrill
MEMBER OF CONGRESS

Josh Gottheimer
MEMBER OF CONGRESS

Tom Malinowski
MEMBER OF CONGRESS

Katie Porter
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Thomas R. Suozzi
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