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U.S. states start to address federal tax reform

U.S. states are starting to grapple with the state consequences of federal tax reform.

Recently, lawmakers in two states—California and New York—announced proposals to address one of the key provisions in the federal tax reform bill that was signed by the president on December 23, 2017—the elimination of the uncapped state and local tax (SALT) deduction. Going forward, for federal purposes, taxpayers can deduct up to \$10,000 per year of state income or property taxes. This change may have the greatest impact on residents of states with high individual (personal) income taxes and/or property taxes.

- California state senators on January 3, 2018, introduced amended Senate Bill 227. If enacted, this bill would create a new credit for contributions to a newly created California “excellence fund.” Taxpayers would receive a dollar-for-dollar credit against California individual and corporate income taxes for these contributions that presumably could be deducted for federal purposes as charitable contributions. There would be no state deduction for such payments. Funds in the California excellence fund would be subject to legislative appropriation and limited to use for public purposes.
- New York Governor Andrew Cuomo on January 3, 2018, addressed tax reform in his “State of the State” address. The governor announced his plan to propose legislation that would restructure New York’s tax regime to reduce reliance on individual income taxes by possibly adopting a statewide payroll tax. The governor also mentioned that he believes the new federal tax law (eliminating the ability to fully deduct state and local taxes) may be unconstitutional and that he and several other governors were exploring the option of suing the federal government over capping the SALT deduction. Governor Cuomo said he plans to work with municipal governments and elected officials to lower local property tax rates, noting that combined with “the federal SALT provision, it is an economic cancer.”

Read a [January 2018 report](#) prepared by KPMG LLP

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