Exhibit 90

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To make their tax plan work, Republicans eye a favorite blue-state break

By Mike DeBonis
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As long as there has been a federal income tax, taxpayers have been able to deduct most of the state and local taxes they pay from earnings subject to Uncle Sam's grasp. But that deduction — especially popular in states rich in Democratic voters — could disappear as soon as next year if President Trump and congressional Republicans succeed in their promised rewrite of the tax code.

The state and local tax deduction, or SALT, has long been a target for tax-policy wonks who see it as an unwise federal subsidy that is mainly claimed by the wealthy. But politics have always intervened: Thanks to the opposition of lawmakers in high-tax states, the deduction has survived every effort to clear out loopholes, including the last federal tax overhaul of similar ambition in 1986.

Now, Republican leaders have made clear the SALT deduction is on the table, and it has shaken up a number of blue-state GOP legislators who are warning that it could derail the ambitious tax plan Trump is now pushing.

"I intend to fight it with everything I know how," said Rep. Tom MacArthur (R-N.J.), who represents a district where 43 percent of tax filers claim SALT deductions and signed a bipartisan letter to Treasury Secretary Steven Mnuchin urging him to preserve the break. "It's a big deal for states like ours."

The incentives to eliminate, or at least chip away, at the deduction could be impossible for congressional tax writers to ignore. Republicans are hoping to drive down both individual and corporate tax rates using special congressional procedures that will require their plan to not increase the deficit in the long term. Doing so means offsetting the costs of rate cuts by closing loopholes, and few of them yield more revenue than the SALT deduction.

Last year, the congressional Joint Committee on Taxation estimated the deduction's cost to the Treasury at more than $368 billion through 2020, and the Congressional Budget Office reported that simply capping the deduction would cut deficits by $955 billion over a decade.

The other individual tax provisions whose elimination could generate close to that revenue are even more politically sacred — including the favored treatment for retirement savings, employer-paid health-care premiums, investment income and mortgage interest.

"It's really hard to envision tax reform that's worth writing home about, that's done revenue-neutrally, without including this," said Ryan Ellis, a conservative tax lobbyist. "It's very, very difficult to envision how you would piece it together. We've taken so many hits on everything else."

That is a reference to the demise of other potential "pay-fors" to offset the GOP's rate cuts, including a "border adjustment" tax on corporate expenses. That proposal, favored by House Speaker Paul D. Ryan (R-Wis.), might have raised a trillion dollars over 10 years but generated fierce opposition from some businesses.

Now Ryan, who is eyeing the SALT deduction, has made the conservative policy case for eliminating the deduction at a Sept. 7 event hosted by the New York Times.

"People in states that have balanced budgets, whose state governments have done their job and kept their books balanced and don't have big massive pension liabilities, they're effectively paying for states that don't," he said. "What it is is a fairness issue. . . . Let's let people see their true cost of government."

The deduction clearly favors states where taxes are relatively high, and where incomes are high enough that it is worthwhile for taxpayers to itemize their deductions and claim it. According to the conservative Tax Foundation, filers in six states — California, New York, New Jersey, Illinois, Texas and Pennsylvania — claim more than half of the dollar value of the deduction.

With the exception of Texas, those states are overwhelmingly represented by Democrats, but a handful of Republicans, mainly in the House, are threatening a revolt if the GOP tax plan is balanced on their constituents.

Rep. Peter T. King (R-N.Y.), who represents a middle-class Long Island district, said he could never vote for a tax bill that eliminated the deduction, especially for property taxes.

"These people have 60-by-100 [foot] plots, they're paying about $15,000 a year in property taxes, high state income taxes, not into Wall Street, not into stocks and bonds," he said. "It would be devastating. These are Trump voters. They didn't vote for him to take away the deduction on their main asset."

Both King and MacArthur doubted the GOP bill would be able to reduce rates enough to offset the cost of losing the deduction. And even if it did, they said, that would hardly suffice: "They may leave my residents at a break-even while the rest of the country enjoys tax breaks," MacArthur said. "That's not fair."

Interviews with a broader group of House Republicans representing districts in California, Pennsylvania, Illinois and New York found broad unease with the prospect of the deduction's elimination. But all of them said they would see what would emerge from the "Big Six" negotiators from the White House and

Capitol Hill, who are expected to release an outline later this month and examine how it would affect their constituents.

Ryan suggested "there are ways of ameliorating the effects" of eliminating the SALT deduction, pointing specifically to plans for doubling the standard deduction available to taxpayers who do not itemize. Do that, he said, and "you take care of middle-income people for that tax break, and it's really a high-end, wealthy person's tax break."

Ellis said there are other ways tax writers could choose to scale back the deduction without inflicting too much political pain: by simply capping it, for instance, or by implementing a broader limitation on itemized deductions for high-income earners. Republicans are also proposing to eliminate the alternative minimum tax, he noted, which tends to affect a similar population as those who claim SALT deductions.

Not all legislators from high-tax states are opposed to rolling back the SALT deduction; a few believe it could send a needed message to free-spending legislators in statehouses and city halls.

"The question is: Should taxpayers in low-tax states be subsidizing the taxpayers in high-tax states?" said Sen. Patrick J. Toomey (R-Pa.), a member of the tax-writing Senate Finance Committee. "It's not clear to me why that's good policy."

Steven M. Rosenthal, a senior fellow at the liberal-leaning Tax Policy Center who opposes eliminating the SALT deduction, said it would essentially raise the cost of state taxes and thus increase pressure on officials to cut them — at a time when Washington is transferring more costs, especially health care, to the states.

"They're shifting the expense and kicking them when they're down, making it harder for them to raise the revenue for these new federal mandates," he said.

But Rosenthal said Republicans, having ruled out higher taxes on assets and investment, have few easier choices available to them.

"I think it will have better legs this time," he said. "Republicans need to close a few loopholes and need to hit the rich in some way in order for the package to extend the narrative that it's not just a windfall for the rich. And the noisier the blue-state politicians are at objecting to these loopholes, the better it plays into the narrative."

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Mike DeBonis covers Congress, with a focus on the House, for The Washington Post. He previously covered D.C. politics and government from 2007 to 2015. Follow