Hearing on How Recent Limitations to the SALT Deduction Harm Communities, Schools, First Responders, and Housing Values

HEARING

BEFORE THE

SUBCOMMITTEE ON SELECT REVENUE MEASURES

OF THE

COMMITTEE ON WAYS AND MEANS

U.S. HOUSE OF REPRESENTATIVES

ONE HUNDRED SIXTEENTH CONGRESS

FIRST SESSION

June 25, 2019

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COMMITTEE ON WAYS AND MEANS
Subcommittee on Select Revenue Measures
Hearing on How Recent Limitations to the SALT Deduction Harm Communities, Schools, First Responders, and Housing Values
Tuesday, June 25, 2019 – 9:30 AM
Witness List

Honorable David Tarter, Mayor, Falls Church, Virginia

Honorable Bob De Natale, Mayor, Bayville, New York

Honorable Christian Yancik Leinbach, Commissioner, Berks County, Pennsylvania

Dr. Paul Imhoff, Superintendent, Upper Arlington School District

Lt. Mahlon Mitchell, President, Professional Fire Fighters of Wisconsin

Nicole Kaeding, Vice President of Federal and Special Projects, Tax Foundation

HOUSE COMMITTEE ON WAYS & MEANS
CHAIRMAN RICHARD E. NEAL

ADVISORY

FROM THE COMMITTEE ON WAYS AND MEANS

FOR IMMEDIATE RELEASE　　　　　　　　　　　　　CONTACT: (202) 225-5522
June 18, 2019
No. SRM-3

Chairman Thompson Announces Select Revenue Measures Subcommittee Hearing on How Recent Limitations to the SALT Deduction Harm Communities, Schools, First Responders, and Housing Values

House Ways and Means Select Revenue Measures Subcommittee Chairman Mike Thompson announced today that the Subcommittee will hold a hearing, entitled "How Recent Limitations to the SALT Deduction Harm Communities, Schools, First Responders, and Housing Values" on Tuesday, June 25, 2019, at 9:30 A.M., in room 1100 of the Longworth House Office Building. This hearing will be followed by a Member Day Hearing focused on the recent changes made to the federal tax treatment of state and local taxes. Please note that the time has changed from the original advisory.

In view of the limited time available to hear witnesses, oral testimony at this hearing will be from invited witnesses only. However, any individual or organization not scheduled for an oral appearance may submit a written statement for consideration by the Committee and for inclusion in the printed record of the hearing.

DETAILS FOR SUBMISSION OF WRITTEN COMMENTS:

Please Note: Any person(s) and/or organization(s) wishing to submit written comments for the hearing record can do so here: WMdem.submission@mail.house.gov.

Please ATTACH your submission as a Word document, in compliance with the formatting requirements listed below, **by the close of business on Tuesday, July 9, 2019.**

For questions, or if you encounter technical problems, please call (202) 225-5522.

FORMATTING REQUIREMENTS:

The Committee relies on electronic submissions for printing the official hearing record. As always, submissions will be included in the record according to the discretion of the Committee. The Committee will not alter the content of your submission, but reserves the right to format it according to guidelines. Any submission provided to the Committee by a witness, any materials submitted for the printed record, and any written comments in response to a request for written comments must conform to the guidelines listed below. Any submission not in compliance with these guidelines will not be printed, but will be maintained in the Committee files for review and use by the Committee.

All submissions and supplementary materials must be submitted in a single document via email, provided in Word format and must not exceed a total of 10 pages. Witnesses and submitters are advised that the Committee relies on electronic submissions for printing the official hearing record.

All submissions must include a list of all clients, persons and/or organizations on whose behalf the witness appears. The name, company, address, telephone, and fax numbers of each witness must be included in the body of the email. Please exclude any personal identifiable information in the attached submission.

Failure to follow the formatting requirements may result in the exclusion of a submission. All submissions for the record are final.

The Committee seeks to make its facilities accessible to persons with disabilities. If you require special accommodations, please call (202) 225-5522 in advance of the event (four business days' notice is requested). Questions regarding special accommodation needs in general (including availability of Committee materials in alternative formats) may be directed to the Committee as noted above.

Note: All Committee advisories are available [here].

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The Subcommittee met, pursuant to notice, at 9:31 a.m., in Room 1100, Longworth House Office Building, Hon. Mike Thompson [Chairman of the Subcommittee] presiding.

*Chairman Thompson. The subcommittee will come to order.

The Subcommittee on Select Revenue Measures has gathered today to hear testimony on how recent limitations to the SALT deduction harm communities, schools, first responders, and housing values.

Before I begin my opening statement I would like to yield to the chairman of the full Ways and Means Committee, Richard Neal, for his opening remarks.

*Chairman Neal. Thank you, Chairman Thompson, and I want to acknowledge you and the other members of the Subcommittee on Select Revenue Measures for indulging me with some time to speak at this important hearing. Your leadership on both this committee and the SALT working group has proven invaluable to Congress.

I wanted to take just a couple of minutes of time to express my appreciation to the witnesses who have come to share their testimony today. It is a rare occasion here in Congress that we can get to hear from the hardworking folks who make up our state and local governments.

As a former mayor of Springfield, I can tell you firsthand about my experience as to how important the work all of you do is. It is from that lens that I view the issue of state and local tax deductions, or SALT, as we call it. I view it from the vantage point of someone whose life experience has been a testament to the far-reaching impact in the investments made and services provided by local governments, and what those investments can mean, in terms of the lives of our citizenry.

Ensuring that children from all walks of life are provided with high-quality education, revitalizing economically downtrodden neighborhoods, building and maintaining roads, bridges, and tunnels, so that people can get where they need to go safely and efficiently is part of our challenge. Responding to emergencies, providing services for low-income families, the elderly, and countless others who rely upon the safety net is our obligation. That is precisely what local government does.

Mr. Thompson's -- that is why the work that you and Mr. Pascrell, and the rest of the members here who are working tirelessly on this issue of the SALT cap, is so important. And it is the reason that the good folks before us have come here to testify: mayors, commissioners, school superintendents, first responders. You understand what our state and local taxes support. You understand what it means for the Federal Government to undercut the good work that you do by imposing a cap on that deduction. It is the wrong policy, and we need to find a workable solution.

Don't take it from me; take it from Alexander Hamilton, who wrote in Federalist Paper 31, "Revenue is a requisite to the purposes of local administrations, as it is to those of the union. And the former are at least of equal importance with the latter to the happiness of the people. With the creation of a strong central government we warned against the risk that in order to give efficacy to national revenues, all the resources of taxation might, by degrees, become the subjects of federal monopoly to the entire exclusion and destruction of state governments. We must ensure that our state and local governments continue to thrive and prosper.''

So I want to thank all of you on the committee, and particular you, Mr. Thompson, for living up to the promise you made to hold a hearing on this legislation.

[The statement of Chairman Neal follows:]

*Chairman Thompson. Thank you, Mr. Chairman. And with that, welcome to today's hearing on how the recently-enacted cap on state and local tax deduction is affecting communities, schools, first responders, and housing values.

The cap on the SALT deduction was one of the most divisive and controversial provisions arising from the deeply flawed and sloppy Tax Cuts and Jobs Act. The process that brought us the tax law, written behind closed doors and hastily passed a mere 51 days after its introduction, cut corners and skipped important fact-finding hearings like this one today.

State and local government leaders and community members were silenced in 2017, and have been forced to deal with the fallout of the SALT cap since then.

Today's hearing should have taken place two years ago, but it didn't. And so it falls on us today to hear from state and local government leaders, education experts, and first responders about how the SALT cap is affecting their communities, their work, and their decision-making.

The SALT cap raises a host of issues that delivered -- to be fully -- deserve to be fully explored.

First, the cap questions the concept of federalism that underpins our government. In the United States we have a system in which critical public services and responsibilities are allocated among federal, state, and local governments. The Federal Government doesn't aim to meet all of society's needs, and its taxing capacity is significant. For a century our federal income tax has recognized this threat, and has used the

SALT deduction to provide flexibility to state and local governments.

Second, the SALT cap enacts a massive marriage penalty. The $10,000 cap applies per tax filer, whether a single individual or two married taxpayers file jointly.

Third, the SALT cap creates disincentives for home ownership and charitable giving. The 2017 tax law increased the standard deduction to $12,000 for a single filer, and $24,000 for a couple. The increased standard deduction plus the $10,000 SALT cap means that a married couple would need $14,000 in mortgage interest, charitable donations, or other itemized deductions for itemizing to be worthwhile. As millions more families switch over to the standard deduction, they will lose most of the tax incentives for home ownership and charitable contributions, and we all know that home ownership is a crucial way for middle-class families to build wealth. Furthermore, charities are extremely concerned about the potential future impact on their giving.

Fourth, although the direct benefit of SALT deduction primarily fall to upper-income taxpayers, the deduction supports state and local government budgets. Those expenditures support programs with widely-shared benefits like public schools, infrastructure, first responders, and health care programs. And as states try to balance their budgets with less revenue, local leaders likely will make cuts in those very programs.

Concerns about the distributional effect of the SALT cap certainly didn't apply when Republicans were looking at other tax deductions, and can be alleviated by adjusting tax rates, not uprooting a century-old bedrock aspect of public finance in our country.

Finally, the SALT cap punishes high-cost-of-living areas. We heard a lot of talk in this committee about the sins of state and local government that will be pinched by the SALT cap. The charge was made repeatedly that these states and localities were somehow profligate. I beg to differ. The cost of living varies so tremendously from one corner of this nation to another, that the comparison is truly apples-to-oranges.

Every school district in America employs kindergarten teachers, and every law enforcement agency in the country pays its police officers. They need to be able to pay rent or a mortgage wherever they live. It is not reasonable to expect to pay a teacher in New York what a teacher in Mississippi earns. The gross income of the average Mississippi teacher is about the same as the median price of rent in New York. You can't pay them the same amount.

I am pleased that today's panel is a bipartisan one, with elected leaders from across the political spectrum.

Thank you for taking the time away from your heavy responsibilities elsewhere to help us better understand this issue.

[The statement of Chairman Thompson follows:]

*Chairman Thompson. And with that I will recognize the ranking member, Mr. Smith of Nebraska, for an opening statement.

*Mr. Smith. Thank you, Mr. Chairman, and certainly thank you to our witnesses, as well.

Let me begin by saying this: Property taxes and other high state and local taxes are a problem, not just on the coasts, but all across our country.

In Nebraska the problem with property taxes is particularly acute in rural, agriculture areas like the third district, which I represent, where high land values, in concert with a flawed state school funding formula, lead to a massive property tax burden on agricultural producers, regardless of the state of commodity prices.

While the Nebraska legislature has not yet found a solution, we can at least be thankful a preeminent question for Nebraska state senators and governor is, "How can we reduce the tax burden on Nebraskans and make our state a more attractive place to live,'' instead of, "How can we just generate more revenue?''

As we review the impact of Tax Cuts and Jobs Act on Americans and on our economy, it is important we consider provisions and proposed changes within the full context of the law. The SALT cap must also be viewed through the prism of lower overall tax rates for families in TCJA. Even with the SALT cap in place, most families have lower overall federal tax bills now than they did prior to TCJA.

Before TCJA the deductibility of state and local taxes was already limited in various ways, including under AMT and through the Pease limitation. In addition, the SALT deduction is only useful if your itemized deductions exceed the standard deduction. In TCJA we doubled the standard deduction to $12,000 for individuals and $24,000 for married couples, meaning, even with a $10,000 cap on SALT deductions, a married couple could cumulatively spend $24,000 on state and local taxes before they are guaranteed to be affected by this cap.

For example, a married couple with no children in California -- and I am just picking on California because of the high income tax -- high state income tax rates, and not because it is your home, Mr. Chairman -- but if we looked at a married couple with no children in California which rents its home, it wouldn't pay more in state income taxes than the value of their standard federal deduction until -- until -- their income exceeds $300,000 per year -- $300,000 per year. This highlights one of the biggest problems with proposals to repeal or increase the SALT caps. We know the benefit of such a repeal, which is estimated to cost $673 billion over the next 8 years, would accrue largely to the highest income taxpayers in high tax states.

More fundamentally, the SALT deduction is a matter of fairness to taxpayers across the country. Tax reform aims to achieve a principle that is straightforward, at least to folks outside the Beltway: Those with similar levels of income have a similar federal income tax bill. We shouldn't effectively have one federal income tax rate for the wealthiest portions of California, New York, and another, much higher rate, for Nebraska or South Carolina. If some communities want to have high levels of government spending in their community, that is completely fine, so long as they pay for it.

Regressing to the prior SALT deduction instead would tell communities to spend more because they can shift those costs to the rest of the country. Such a policy is both inefficient and unfair.

We also know the largest benefits of SALT -- the SALT repeal would go to the highest earners, with the average family making one million or more -- $1 million or more per year, seeing a tax cut of $67,000, and the average family, over $3 million per year, receiving a tax cut of $140,000 under such a proposal.

Contrast that with our approach when we crafted the SALT limitation under TCJA a single mom with two kids making $50,000 per year has no federal income tax liability, and the SALT cap was specifically designed to ensure a typical family earning up to $200,000 per year would be held harmless, as the average SALT deduction pre-TCJA for that group was in the $7,000 range. The average middle-class family making 50,000 to $75,000 would receive less than $5 per year if the SALT cap were repealed.

In an environment where just last week the majority chose to mark up legislation to expand provisions like the EITC and the deductibility of the Child Tax Credit, this push to enact a giveaway like expanding or repealing SALT caps is simply baffling.

There are many ways we could be working on a bipartisan basis to improve the IRS code, Internal Revenue Code. While I hope we can engage in a constructive conversation today, I struggle to think that this might be one of them. But I will certainly listen and participate.

[The statement of Mr. Smith follows:]

*Mr. Smith. Thank you. I yield back.

*Chairman Thompson. Thank you, Mr. Smith.

Without objection, all members' opening statements will be part of the record.

*Mr. Rice. Mr. Chairman, I would like a point of order real quick.

*Chairman Thompson. Pardon me?

*Mr. Rice. I would like to make a point of order.

*Chairman Thompson. Okay.

*Mr. Rice. And that is I really object to the timing of this hearing, in that there are two very important subcommittee hearings in Ways and Means scheduled simultaneously at 9:30, one on the USMCA, which is horribly important to our economy, and the other on the SALT. And you are requiring us to decide which of these is more important to our constituents. And I just strongly object to it. The -- it should be administered better, and we should be allowed to participate in both of these matters, which are so very important to our entire country. I yield back.

*Chairman Thompson. Thank you. We have a distinguished panel of witnesses here with us today to discuss the important issue of how recent limitations on the SALT deduction harm communities, schools, first responders, and housing values.

First I would like to welcome the Honorable David Tarter, mayor of Falls Church, Virginia. Next is the Honorable Bob De Natale, mayor of Bayville, New York. We have Christian Leinbach, the commissioner from Berks County, Pennsylvania; Dr. Paul Imhoff, who is the superintendent of Upper Arlington School

District in Ohio; Lieutenant Mahlon Mitchell, a firefighter and president of the Professional Firefighters of Wisconsin. And finally, we have Nicole Kaeding, who is the vice president of federal and special projects, Tax Foundation.

Each of your statements will be part of -- made part of the record in its entirety. I would ask that you summarize your testimony in five minutes or less.

To help you with that time, there is a timing light at your table. When you have one minute left, the light will switch from green to yellow, and then finally to red when your five minutes are up.

Mayor Tarter, we will begin with you.

STATEMENT OF THE HON. DAVID TARTER, MAYOR, FALLS CHURCH, VIRGINIA

*Mr. Tarter. Thank you very much, Chairman Thompson, Ranking Member Smith, members of the subcommittee. My name is David Tarter, and I am proud to serve as mayor of Falls Church, Virginia.

Falls Church is a small, independent city of about 14,000 citizens located on the outskirts of Washington. Our local elections are non-partisan, and I was elected as an independent. So I come here today without a political axe to grind.

That being said, let me be clear about the issue at hand. I believe it is a poor idea to cap the SALT deduction. It only hurts hardworking families and municipalities like mine.

In Falls Church we ask a lot of our taxpayers. We have to. As a city in Virginia we are independent of a county, and yet must provide the same full range of municipal services: excellent schools, a trustworthy police force, well-maintained parks, and clean streets. Lacking the economies of scale of our larger neighbors, our property taxes are formidable. People choose to live in Falls Church, anyway, because I am proud to say that our town values the right things, like our award-winning school system.

In recent years we built a new middle school, expanded two elementary schools, and early this month broke ground on a brand-new high school. All that, plus we are renovating our city hall and library. These capital investments are expensive, but our citizens view them as a necessary part of maintaining the Falls

Church way of life and investments in our community's future.

The median cost of a single family home in our town is $825,000. That doesn't buy you a mansion. More likely, a modest brick rambler built in the 1950s. For that our median city mortgage-payer lays out more than $36,000 a year. So, while our household income may appear high, when stacked against the imposing cost of living, many of our residents struggle to make house payments, pay taxes, and make ends meet. There are no yachts in Falls Church, just lots of hardworking families trying to get by in the high rent district.

Most of the folks that I know are two-income families who serve their country through work in government or the military, and want the best education possible for their children. I am not a wealthy man. I have discovered that being a locally-elected official is not a financially lucrative career. But, like many of my fellow citizens, I now face the prospect of paying thousands of dollars in added taxes, because of limitations in the SALT deduction.

Like you, I care about the tax burden of my constituents. Even before this cap I felt our community was at the top end of its taxing capacity. The number-one issue I hear about when campaigning is taxes, our property taxes. And indeed, they are burdensome. The owners of that $825,000 house I mentioned will pay over $11,000 in property taxes this year alone. When you add in Virginia income and car taxes, that same citizen's SALT payments far exceed the new $10,000 dollar cap.

What does that mean? It means that tax dollars that could have gone to the city are now going to the Federal Government, and there is less money available for essential local services like schools, police, and fire protection. The new cap on the SALT deduction doubles -- double taxes citizens in these payments, and penalizes workers in high-cost areas like my cities -- my city, where wages and income are high, but are fully matched by the cost of living.

To us in local government, the recent SALT limitation also has the look and feel of another unfunded mandate, whereby higher levels of government can claim they have reduced taxes, but in reality they are merely shifting the burden downstream.

That high school I mentioned earlier was built in the 1950s with grants and zero-percent loans from the federal and state governments. Today we are on our own, our local taxpayers are getting no assistance from the Federal Government. And worse, with the limitation of the SALT deduction, taxes have been effectively raised.

Back home we agree with that most famous Virginian, Thomas Jefferson, who said that government closest to the people serves the people best. In Falls Church we balance our budgets and we provide necessary services in the most cost-effective manner.

Local government is where the rubber meets the road. We should not be at odds with the Federal Government, but instead working in close partnership to create better outcomes for our citizens. From where I sit, repealing the SALT deduction cap would be a step in the right direction. Thank you.

[The statement of Mr. Tarter follows:]

*Chairman Thompson. Mr. De Natale, you are recognized.

STATEMENT OF THE HON. ROBERT E. DE NATALE, MAYOR, BAYVILLE, NEW YORK

*Mr. De Natale. Yes. I am Robert De Natale, mayor of a small village in Long Island called Bayville. I serve as a volunteer. It is not a paid position. We are also not elected by political parties, although I must admit to being a Republican.

I would like to thank the Chairman Thompson, Ranking Member Smith, and members of the subcommittee, and Congressman Suozzi for the opportunity to share with the committee the hardship caused by the limitation on SALT deductions.

Congress's decision in 2017 to limit taxpayers' state and local tax deduction has hit millions of families in New York with a one-two punch of higher taxes and lower home values. This is harming village bottom-lines, and hurting our ability to provide key services.

The perception that SALT deduction cap is only affecting wealthy families is false.

The village of Bayville, located on Long Island, has some 7,000 residents that are mostly middle-class, hardworking people. They chose to live in Bayville because of its proximity to Long Island Sound and beautiful Oyster Bay, the summer home of our 26th President, Teddy Roosevelt. It is a three-mile peninsula that is home to average citizens. The vast majority of homeowners need two household incomes to afford to live here. It is not a haven for the wealthy.

Another huge attraction to our community is our well-regarded school district that costs the average taxpayer over $10,000 a year. We may soon be faced with reducing local taxes to make up the federal tax increase caused by the SALT deduction limitation, which would have a devastating impact on the services our constituents depend upon.

Combined with county and village taxes, the average modest home has a total tax bill of $20,000. A great many of our residents live in a flood zone that requires flood insurance in order to obtain a mortgage. The cost of flood insurance averages $2,000, annually. The median income for a single person in our village is $68,500, and the median income for a family is $77,800.

The SALT deduction limitation has caused many residents to rethink staying in the village where they grew up or have raised their children. As a result, we have over 60 homes listed as for sale on multiple listing services of Long Island. That is a 30 percent increase since 2017.

The typical resident is having a difficult time balancing personal budgets, maintaining their property, and saving for the future. Indeed, a recent Newsday article documented the fact that most young people are being forced to relocate.

The inability of residents to fully deduct all property taxes is certainly something we have been grappling with since the change was made. Limiting the SALT deduction will have long-term consequences for economic health and vitality of my village. The state and local tax deduction, along with the mortgage interest deduction, are vital for homeowners to maintain a solid financial foundation. Limiting those deductions has hurt homeowners, financially, and it may now be negatively impacting the housing market. Home sales now stand a chance of declining, and home values may soon follow, only further eroding our tax base and reducing the ability of the many families in my community to meet their daily day-to-day basic needs.

Restoring the SALT program to its previous standards would be a huge help to our residents, and I urge the subcommittee to restore the previous provisions of the original program.

I wanted to show you in the little bit of time I have left a few homes in our village listed at, like, $900,000. These are nowhere near palatial residences. These are -- this is the typical residence, and this is what we must pay to live in this community.

So it is not a question of Republican or Democrat, it is a question of fairness. I am a registered Republican, and I actually voted for President Trump. This SALT cap limit is totally unfair to villages like mine and others throughout the country. And I thank you.

[The statement of Mr. De Natale follows:]

*Chairman Thompson. Thank you very much. Commissioner Leinbach?

STATEMENT OF THE HON. CHRISTIAN YANCIK LEINBACH, COMMISSIONER, BERKS COUNTY, PENNSYLVANIA

*Mr. Leinbach. Thank you, Chairman Thompson and Ranking Member Smith, for inviting me to testify before this committee today. My name is Christian Leinbach, and I am an elected county commissioner from Berks County, Pennsylvania. I am also here today representing the National Association of Counties, and 369 counties across the country.

The state and local tax deduction is an integral part of the tax code, and I am glad to be here today to urge Congress to fully restore it.

The history of the SALT deduction establishes a clear precedent for the necessity of the deduction, and it dates back to the principles set down by the nation's founders. In Federalist Paper Number 31 Alexander Hamilton argued that the taxation power of the Federal Government should not intrude on state and local taxing decisions.

To ensure local autonomy and that state and local decisions would be protected, the first federal income taxes included SALT deductions. This was true both of the Civil War income tax in 1862, and when the 16th Amendment was passed in 1913, establishing the original tax code. In both cases there was a fundamental understanding that taxing dollars already paid was double taxation. Including the SALT deduction in these tax codes was the practical application of Federalist Paper Number 31.

Local authority over our own taxing system is vital for counties, given the wide variety of services we provide to our constituents. We support local law enforcement and fire departments who put their lives on the line for our communities every day. Counties also own and maintain a wide variety of public safety infrastructure, and we are the first responders when disasters hit.

We are also major stakeholders in infrastructure development across the country. Collectively, we own 45 percent of American roads, and nearly 40 percent of bridges. We are stewards of the public's health and well-being, operating hospitals, nursing homes, and jails across the country. All of these efforts rely on local tax dollars, primarily from property taxes.

However, 45 states already cap the amount of property and sales taxes counties may levy. The Federal Government's decision to cap or eliminate the SALT deduction would present yet another unwarranted strain on county resources, forcing us to eliminate some of these vital services we provide. After all, counties operate on balanced budgets. Any reduction in tax revenue must be offset by an equal reduction in services.

At the local level this can mean real consequences: reductions in police or fire personnel, a delayed infrastructure project, or a postponed affordable housing project. This is particularly true for public education, as the majority of our property tax dollars are earmarked directly for K through 12 education.

I would like to make one final note before I conclude: capping the SALT deduction will have a particular impact on the middle class, and homeowners in particular. When an individual or family is unable to fully deduct their state and local taxes from their federally taxable income, the result is an exposure to double taxation. This tends to be most true for homeowners who must pay property taxes on top of their state income taxes.

This is particularly true in Berks County. In 2016, the latest year for which data is available, over 60,000 individuals and families in our county filed tax returns utilizing state and local tax deductions. Ninety-one percent of those filers made less than two hundred thousand dollars. According to an evaluation of IRS data by NACo, the average SALT deduction of Berks County in 2016 was above the $10,000 SALT cap set by the recently-enacted Tax Cuts and Jobs Act. This means that many of these filers were potentially exposed to double taxation during the 2013 filing season.

To add insult to injury for these middle-class families, businesses and landlords can still deduct all of their state and local taxes as business expense. Meanwhile, middle-class families must face down double taxation. Of course, when taxpayers see their taxes go up, they turn to the level of government closest to the people for relief, as they do with other issues in the community. Under this new pressure, counties are having to reconsider many of the vital services we provide.

Chairman Thompson and Ranking Member Smith, I appreciate your attention to this issue today. This is not a blue state or a red state issue. Rather, the SALT deduction is an integral part of our governmental system, and counties ask Congress to restore the full deduction as soon as possible.

Thank you, and I will be happy to take questions at the right time.

[The statement of Mr. Leinbach follows:]

*Chairman Thompson. Thank you very much.

Dr. Imhoff, you may begin.

STATEMENT OF PAUL IMHOFF, SUPERINTENDENT, UPPER ARLINGTON SCHOOL DISTRICT

*Mr. Imhoff. Chairman Thompson, Ranking Member Smith, members of the subcommittee, it is an honor to be here and offer testimony in support of removing the cap on the state and local tax deduction referred to as SALT-D.

My name is Dr. Paul Imhoff, and I am the superintendent of the Upper Arlington City School District in suburban Columbus, Ohio. I have been an educator for 29 years, and our district serves over 6,000 students in a community of over 30,000 residents. We are widely considered one of the finest school districts in the State of Ohio. And even though we are a built-out community, enrollment projections call for growth of almost 20 percent in the next decade. In short, we are a community that is attracting families due to the quality and reputation of our public schools.

I am here today because my district is beginning to see how the SALT-D cap threatens our ability to maintain local autonomy over how we raise local revenue, a major source of our funding. In fact, over 80 percent of our funding comes from local property tax levies. Our school district, like many in Ohio, relies upon property taxes to fund our schools. We find that we need to ask for a new property tax levy every three to four years, because our levy collections are fixed and are not allowed to grow with inflation.

The full deductibility of property taxes has long been a key factor passing these levees and funding our schools. Deducting state and local taxes was an original component of the first federal tax code, and that deductibility directly impacts how willing and able local taxpayers are to support changes in local taxes. Without the ability to deduct and to avoid paying double taxes, an increase at the local level is felt twice, and that is not something our taxpayers will readily support.

I and many of my colleagues have followed this debate, and have heard the narrative that SALT-D is a blue state issue, or an issue that only impacts states on the coasts. I am here from Ohio to stress that this issue is not a red-state or a blue-state issue. It is a public education issue.

Public education is the foundation of our republic, and the overwhelming majority of funding for public schools comes from state and local sources. The SALT-D cap threatens to erode our ability to raise those funds at the local level, which could begin to deprive local districts of the resources needed to educate our students.

I am concerned that the unintended consequence of this change will be to provide additional revenue to the Federal Government at the expense of local school districts. You cannot allow this to happen to our students.

The other argument I have heard is this issue only impacts the wealthy people, and they can afford a tax increase. Again, this is not correct. The median home value in our district is $357,000, and the property taxes on this median home value are almost $10,000, meaning that property taxes take the average resident of our community to the new SALT-D cap before even factoring in state taxes and local income and earning taxes. This change is significant for average families in my district and in districts across the State of Ohio.

If you visited my community you would find beautiful tree-lined streets filled with families who care deeply about one another, and invest heavily in public education. If you have heard of Upper Arlington, you may know we are considered an affluent community, and that is correct.

When I shared our median home value, you may think someone who owns a $357,000 home can afford a tax increase. But again, this is not correct. Our community is not one-dimensional, and we have more and more families making financial sacrifices to move to our city to place their students in our schools. These are families living paycheck to paycheck, with less flexibility in their household budget to absorb tax increases.

This change in tax law has meant an increase in federal taxes when they do not have the margin to pay for such an increase. I am concerned that these families will not be able to afford future school tax levies because of this increase in federal taxes.

I urge the committee to restore the full deductibility for state and local taxes, and avoid the negative consequences for average Americans and their children.

Thank you very much.

[The statement of Mr. Imhoff follows:]

*Chairman Thompson. Thank you, Dr. Imhoff.

Lieutenant Mitchell, you may begin.

STATEMENT OF MAHLON MITCHELL, LIEUTENANT, PRESIDENT, PROFESSIONAL FIRE FIGHTERS OF WISCONSIN

*Mr. Mitchell. Thank you, Chairman Thompson, Ranking Member Smith, and distinguished members of the subcommittee. My name is Mahlon Mitchell, I am the state president of Professional Fire Fighters of Wisconsin, I am also a 22-year active-duty firefighter, where I serve as lieutenant with the City of Madison. And I appreciate the opportunity to appear before you today on behalf of the International Association of Fire Fighters, our general president, Harold A. Schaitberger, and IAFF's 316,000 firefighters and EMS personnel.

I come before you today to offer my testimony on the federally-mandated cap to the state and local tax deduction, and its impact on firefighters, fire departments, and public safety.

At its core, this hearing is about fairness: fairness for local public service agencies, like fire departments and schools, to be able to deliver the best possible services to the citizens they serve; fairness for communities to decide how best to fund and deliver local services; and fairness for taxpayers, who are now being double-taxed.

As a lieutenant with the City of Madison I see firsthand how local governments have been forced to tighten their belts, and the impact this has on public safety services. And I hear from fellow firefighters every day about how they are being forced to do more with less, shackled by inadequate staffing, insufficient training, and lax health and safety measures.

By capping the SALT deduction arbitrarily at $10,000 annually, the 2018 tax law threatens not only the livelihoods of hardworking men and women of the fire service, but lives in the communities that we serve, as well.

Fire departments, as you are well aware of, and the services that we provide are largely drawn from state and local property and income taxes, essential investments that give our first responders the tools that we need to get the job done.

In Wisconsin we already experienced significant revenue limitations. This has, in part, been due to downturns in the economy, but also due to a reduction our state shared revenue system. Just last year -- or in 2017, I am sorry, the City of Milwaukee had to close down six fire stations across the city to just fund -- adequately fund the fire department.

And two weeks ago, in Menomonee Falls, a small city north of Milwaukee, they had zero working fire engines in the city. So imagine that you call 911, and you get crickets, or a neighboring community has to come and help you. As a result, in both Milwaukee and Menomonee Falls, response times in emergencies will rise, putting citizens' health and lives at risk. And this is not unusual in Wisconsin, unfortunately. Quite frankly, it is not unusual across the country.

As firefighters we are asked to respond to folks on the worst days of their lives. And when people are at their worst, we have to be at our best. But we cannot be at our best if we do not have adequate staffing, adequate equipment, or adequate training to do so.

So folks always say, well, as firefighters, whenever you guys testify, or gals, you make it personal. Well, it actually is personal. Because what if it were your family needing help? What if it were your mother, your daughter, your brother, your sister? You get my point. So it is personal.

And we are always asked to do more with less, which, quite frankly, is impossible, to do more with less.

So the federal cap on the SALT deduction puts even more financial stress on municipalities charged with providing critical public safety services, and will further exasperate the dire situation for local public safety budgets. This is not a political game. To firefighters and citizens of Wisconsin, this is a matter of life or death.

Capping the SALT deduction not only harms local public sector services like fire and emergency response, it unfairly penalizes hardworking middle-class taxpayers, as we have heard. Allowing a filer to deduct these taxes ensures that they are not unfairly taxed twice on their income. This double taxation scheme is deeply harmful to middle-class taxpayers in many of these same communities that firefighters and other public servants call home.

This is not solely a problem of on the coast, either, or high-cost-of-living states. Taxpayers in all 50 states benefit from the SALT deduction, and middle-class workers make up the clear majority of filers who benefit from this deduction. The deduction is used by Americans living in urban, suburban, and rural communities across congressional districts.

Capping the SALT deduction clearly hurts public services. It comes propped up on the backs of firefighters. The damage is already done, but there is an opportunity to mitigate the situation. In my opinion, Congress must fully restore the deductibility of state and local taxes. Representatives Pascrell and Smith have introduced legislation to do just that with H.R. 1142, the SALT Act. By passing this critical bill, Congress would restore the full ability of state and local governments to deliver vital local services, as well as eliminate the double taxation of firefighters and other middle-class Americans.

In closing, there is no doubt in my mind that the current cap on SALT deductions impairs the ability of local governments to fund fire departments and other vital public services. It will make my job to protect the City of Madison, Wisconsin and its residents much harder and less secure. So I urge Congress to do its job by the people of this great nation, and restore the full deductibility of state and local taxes.

Again, I would like to thank the subcommittee for the opportunity to testify today, and I am happy to answer any questions.

I can't believe I kept that under five minutes. Thank you.

[The statement of Mr. Mitchell follows:]

*Chairman Thompson. Lieutenant Mitchell, thank you for your testimony, and thank you for your service as a first responder.

Ms. Kaeding, you may begin.

STATEMENT OF NICOLE KAEDING, VICE PRESIDENT OF FEDERAL AND SPECIAL PROJECTS, TAX FOUNDATION

*Ms. Kaeding. Chairman Thompson, Ranking Member Smith, members of the committee, thank you for the opportunity to speak to you today about the recent changes to the state and local taxes pay deduction, and its impact on communities.

The Tax Foundation is the nation's oldest organization dedicated to promoting economically sound tax policy at the federal, state, local, and global level. We are a nonpartisan 501(c)(3) organization.

For more than 80 years Tax Foundation's research has been guided by the principles of sound tax policy. Taxes should be neutral to economic decision-making. They should be simple. They should be transparent, and they should be stable. Today I have been asked to discuss recent changes made to the SALT deduction within public law 115-97, known informally as the Tax Cuts and Jobs Act.

The TCJA, passed in 2017, overhauled the federal tax code. It lowered tax rates. It expanded the standard deduction and Child Tax Credit, limited the impact of the Alternative Minimum Tax, and limited deductions, including the SALT deduction. On net, most Americans had a tax cut.

Limiting the SALT deduction was a step to finance broader tax reform, and help maintain progressivity within the tax code. Prior to tax reform, more than 90 percent of the benefits of the SALT deduction accrued to those making more than $100,000 a year, or the top 20 percent of taxpayers. The impacts of limiting the deduction, therefore, is concentrated on high-income individuals.

The SALT deduction is often discussed as benefitting residents of high-tax states. But that analysis obscures the real impact of the SALT deduction. It is better understood as benefitting high-income individuals living in expensive housing, in high-tax jurisdictions within high-tax states. The benefits are not monolithic across the states, even in high-tax states. The mean deduction in Westchester County, New York is seven times that of St. Lawrence County, New York. In other words, the deduction's benefits are focused in areas of high levels of income and well-being, not just high-tax states.

The TCJA limited the SALT deduction, and the Joint Committee on Taxation estimated it would raise $668 billion over the next decade. Sixty-five percent of Americans were projected to have lower taxes in 2018. Those impacted by the SALT cap benefitted from other tax changes. First they received relief from other implicit SALT limitations, such as the AMT. Second, some quit itemizing and switched to the expanded standard deduction. Filers also benefitted from lower tax rates, the expanded tax credit, among other changes.

To the small group of individuals with net tax increases, an estimated 6.5 percent in 2018, it is unlikely that was solely due to the SALT cap. It is often due to interactions with other provisions, such as the repeal of personal exemptions. Very few had a tax increase only due to the SALT cap, and those that did were at the high end of the income spectrum.

Repealing the cap would significantly reduce federal revenues, an estimated $700 billion over the next decade, with that benefit going almost exclusively to the top 20 percent. The tax code would be less progressive.

The deduction cap is frequently cited as impacting state budgets. However, that impact is overstated. States saw an increase in revenue from federal tax reform, because of their conformity to the federal tax code. States like Georgia, Virginia, New York have estimated more than $1 billion in annual new revenue because of the TCJA.

The SALT cap is also highlighted for its impact on housing values. First, the impact on housing values is not due to the SALT cap in isolation. Limits to the mortgage interest deduction play a role here, too. And to the extent that these do -- these two provisions do impact housing values, the impact on low and middle-income households is, again, overstated.

There are important considerations here. First, the limits are progressive. Only high-income individuals can purchase homes that cost more than $750,000. Second, its impact would then be limited to expensive areas in the country. Less than one percent of counties in the United States have median home prices exceeding $750,000. Third, any impact on housing values would actually be beneficial to many, particularly first-time home-buyers.

Tax reform is a difficult task. Limiting deductions and exemptions burdens those that benefit from their existence. But in the context of the TCJA, limiting the SALT deduction was a desirable and strong policy choice.

[The statement of Ms. Kaeding follows:]

*Chairman Thompson. Thank you very much, Ms. Kaeding.

We will now proceed, under the five-minute rule, with questions for the witnesses. I will begin by recognizing myself for five minutes.

Lieutenant Mitchell, as a result of the turn-down of 2008, state and local governments were forced to make difficult choices about which government services to fund and at what levels to fund them. Many of these governments are still operating under those restrictions. Can you speak to how pressure to reduce state and local budgets affects first responders and their ability to adequately provide critical services to the public, especially with the new SALT cap in place?

*Mr. Mitchell. Yes, it greatly affects any state or municipal budget. A majority of municipal budgets -- about 50 to 60 percent, on average -- is police and fire and public safety, and keeping the citizens of a particular community safe. We have seen that a lot in the state of Wisconsin. And the first thing to cut, normally, is staffing.

So we have right now, at least in the City of Madison and what is pretty much standard in Wisconsin, we try to have at least four people on the fire engine or fire truck, because that is what is needed in order to do our job safely and efficiently. In order for us to keep others safe, we have to, obviously, keep ourselves safe.

When we go from four to three on a fire truck, which normally happens when there are staffing cuts, we are putting the lives of not just our community at risk, but us, as well. And we are seeing that a lot within Wisconsin, where we have zero percent levy increases, where a city is not able to raise its levy, as well as, as I spoke to before, shared revenue being cut and haven't -- hasn't been raised in decades.

So I have been -- unfortunately, I have been on the job 22 years, fortunately. But, unfortunately, I have pulled and been part of pulling four civilians out of burning buildings. And I can tell you that we could not do that, and not have done it effectively, if we had three people on our fire truck, as opposed to four. So it is detrimental to our staffing, and also the safety of not just the citizens, but those -- us, as well.

*Chairman Thompson. Thank you very much. The SALT cap harms middle-class communities that make substantial investments in their infrastructure, their schools, first responders, and other important programs. Mayor De Natale, you noted that the median income for a family in Bayville is $78,800.

*Mr. De Natale. That is correct, sir.

*Chairman Thompson. According to the IRS data from 2016, more than half of the tax returns from your zip code itemize, and are likely to be harmed by the SALT cap.

In your opening statement you noted that Bayville's school system costs the average taxpayer over $10,000 a year. Can you expand on some of the other important services funded by your local tax system?

*Mr. De Natale. Well, county-wise, yes, we have a number of facilities, sport facilities, auditoriums, some incredible, beautiful beaches, and the first-rate police department in the county.

The village itself, we run just simply a department of public works, a water department. We fund a local Bayville free library. It costs us $500,000 a year, just to run the library. The -- we have public beaches for residents, and we have a senior community center. And probably -- that is about it, that I could think of at the moment, sir.

*Chairman Thompson. Thank you.

Commissioner Leinbach, you mentioned in your testimony that 70 percent of counties are considered rural. In a state like California, with both large cities and rural areas, state funding is critical to all counties, whether urban or rural. Can you discuss how the SALT cap impacts rural counties?

*Mr. Leinbach. Again, the impact of the actual SALT -- thank you, Congressman. The impact of the actual SALT is only now just being felt, because it only impacted the 2018 taxes.

The core issue, though, for us is the federalism case, that when you look at the issue of SALT, it goes back to the respect that Federal Government should not have tax policy that ignores the states and local government. That is why I cited federal Federalist Paper Number 31.

When you look at our county, Berks County is both rural and urban. And in our particular county, 61 percent of our filers, 90,000 people -- I am forgetting about the number here -- anyhow, filed for a state and local tax deduction of over $10,000 in 2016. That is the latest year that we have data.

Our number-one industry is agriculture in our county. So we are very concerned about the impact on our county, and other rural counties are saying the same thing. And schools are the number-one source of property-tax funding is going to our K through 12 schools (sic).

*Chairman Thompson. Thank you. And Ms. Kaeding, do you think that middle-class taxpayers that were accustomed to taking a sizable charitable deduction for their annual giving were surprised to find that in 2018 their charitable deduction was limited due to the limits on other itemized deductions and the increased standard deduction?

*Ms. Kaeding. I think that many taxpayers are often uncertain about all of the components of the federal tax code. And while they might have been limited slightly in their ability to deduct charitable giving, that is largely because they were taking now the new expanded standard deduction. So on net, they actually were better off than they had been under previous tax law.

*Chairman Thompson. What do you think happens to charitable giving in 2019 for middle-class taxpayers that have now experienced the limitation from this year?

*Ms. Kaeding. I think it will be interesting to watch. We saw a slight increase in 2018 that could also be related to the fact that incomes increased. But I think that, overall, particularly for lower and middle-income individuals, their charitable giving is not motivated by tax policy, but rather by a desire to help their churches and local communities.

*Chairman Thompson. Mr. Leinbach, do you have the same feeling on the impact, possible impact of charitable giving?

*Mr. Leinbach. I think that is a real possibility. But again, until we see the actual data, we are not going to know that.

*Chairman Thompson. But you think that the actual loss of the SALT deductibility is going to impact it?

*Mr. Leinbach. I believe that it can.

*Chairman Thompson. Thank you. I now recognize Ranking Member Smith for five minutes.

*Mr. Smith. Thank you, Mr. Chairman, and thank you again to our entire panel. I appreciate your service, and certainly your sharing your perspective.

Mayor De Natale, again, thank you for your service. Prior to coming here I served on the city council in my hometown of Gering, a similar-sized community in Nebraska. No public beaches, but I certainly appreciate the challenges of operating a village in a small community such as Bayville.

As I was reviewing your testimony a couple of numbers stood out to me. And, as you said in your statement, the median income for a single person in the village is 68,500, and for a family is 77,800, yet the combined county and village taxes on the average modest home is $20,000.

*Mr. De Natale. That doesn't leave you too much left over, does it?

*Mr. Smith. I hear you. For families with these income levels, we would expect the federal income tax liability to be minimal, so the overall federal income tax liability.

For example, a 2-parent household with 3 kids with an income of 77,800 would have federal income tax liability of about $75. Can you help me kind of square those numbers of how there seems to be -- how can someone --

*Mr. De Natale. I am not in the position, but I can certainly get the information for you. I don't have an accounting background. I come from a retail background. I can't answer that question.

*Mr. Smith. Okay. Well, I -- and I look forward to more information, because I struggle to think how someone making $78,000 could afford a home -- the mortgage, not to mention the taxes of $20,000 per year, given that that is the middle point. Does that strike you as a little bit --

*Mr. De Natale. The -- Mr. Smith, the numbers I am giving you I have gotten right off the Internet as published numbers. And further than that I really couldn't comment.

*Mr. Smith. Okay. Ms. Kaeding, I certainly thank you for your testimony. I think that you have obviously processed the bigger picture of the tax policy, and where we were before, where we are now, and certainly what you think is good tax policy. I would share many of the same observations.

You addressed the way in which various states conform with their rules, and the federal tax policy has actually led to a broadening of the base in those states, thanks to the TCJA, and the associated revenue increases actually resulted from that base broadening. For example, New York estimated an increase in revenue of about 1.1 billion -- that is billion, with a B -- for fiscal year 2019, thanks to the broadening.

At the same time, you noted that conformity was not impacted by SALT deduction. Can you elaborate?

*Ms. Kaeding. Sure. Thank you, Ranking Member. In general, states use the federal tax code as the basis of their state's code. It makes it easier for filers when they are filing their tax returns. They can literally copy numbers from their federal 1040 to their state return. It makes it easier for the states to administer the tax code, as well, because they can rely upon federal definitions, IRS guidance, IRS audits, et cetera.

And so we can think about the TCJA, at a very basic level, as lowering tax rates and broadening a tax base, which is, as an economist, what I want you all to do. But states don't conform to the tax rate at the federal level, they only conform to the tax base. So what has happened because of the federal actions under the TCJA, state tax bases have become broader, meaning states have -- are generating more in revenue. Many states have forecasted increases in revenue. You mentioned New York, Georgia, Virginia, Minnesota. Many, many of these states have said they will be better off on a revenue picture.

And what some of those states, therefore, have decided to do is to actually reform their state-level taxes. My current state of Virginia, for instance, has cut taxes for individuals within the Commonwealth because of the new-found revenue from federal tax reform.

*Mr. Suozzi. Will the gentleman yield?

*Mr. Smith. My time is limited, I apologize, but -- well, go ahead, briefly.

*Mr. Suozzi. I just want to point out that the property taxes in New York State, especially on Long Island, are some of the highest property taxes in the United States of America. And when Mr. De Natale pointed out that $20,000 tax bill, that is a real number. And that is what is happening. That is why this is such a crushing blow to places like Bayville and other communities in downstate New York.

*Mr. Smith. Thank you. I just hope that we can continue to focus on these issues. The standard deduction, any show of hands among our witnesses, those opposed to the standard deduction? Anyone in opposition to the standard deduction?

Okay, thank you. I yield back.

*Chairman Thompson. Thank you.

Mr. Larson, you are recognized.

*Mr. Larson. Thank you, Mr. Chairman, and thank you for conducting this hearing.

Look, I don't know anybody that I have met in a lifetime in public service who didn't like a tax cut. The truth of the matter was that President Obama had proposed a major tax cut to 28 percent, overall, and 25 percent for manufacturers. My colleagues on the other side take justifiable pride in the fact that they passed an enormous tax cut. But what they are not prideful of is the fact that they did it without any kind of public hearing.

Dave Camp, whose picture is on the wall over there, did just the opposite. We met in groups and were able to talk this through, so that we would not end up in the god-awful situation that we find ourselves today. And I say god-awful, depending upon the state you live in, and the ramifications that the tax code has had on you.

In my state of Connecticut, a small state, 750,000 people avail themselves to deductions. The average deduction is $19,000. So the $10,000 cap is of little help. And it is not much of a consolation for them to understand that their extra taxes went to pay for 83 percent of the tax cut going to 1 percent of the nation.

And so, you can certainly appreciate and understand how perplexed they are, as witnessed by the number of letters and anecdotal -- and, Mr. Chairman, I would like to submit for the record several letters that I have from citizens in the State of Connecticut --

*Chairman Thompson. Without objection.

*Mr. Larson. -- who feel that they have been unfairly treated in something -- as was pointed out by our witnesses -- that has been in effect since the Civil War, and amounts to double taxation.

[The information follows:]

*Mr. Larson. But the rub is, not only is it double taxation, but when you are barely holding on, and what you are doing is augmenting a tax cut for major corporations that is permanent, while individuals' expire, this is where the problem lies, and why your testimony today is so vitally important.

We can't continue down this path, especially with states that take the responsibility to deliver education and public services, whether it is firefighters and police and emergency medical teams to -- across the board, what individuals have needed to make their states continue to grow and operate.

Mr. Leinbach, you -- in your testimony, would you agree with Ms. Kaeding, that this has a de minimis impact in your state?

*Mr. Leinbach. Again, I think we are arguing, personally, the wrong issue. It is not about winners and losers. It is about the fundamental principle of the SALT deduction.

The SALT deduction is not something that was created 10, 20, 30, 40 years ago. The SALT deduction goes back to the foundation of our country. It goes back to the foundation of federalism that respects the taxing authority of states and local governments. It was reinforced in 1862 by Lincoln's Civil War tax. It was reinforced again in 1913 by the 16th Amendment.

And if we didn't have the SALT deduction in place during World War II, and during the end of the 1970s, when we had an extremely high federal tax rate, we would have had, effectively, people paying in excess of 100 percent of their income in taxes.

The issue isn't about red and blue, it isn't about winners and losers, it is about whether or not the foundation of our country, relative to the SALT deduction in respect of states and local governments --

*Mr. Larson. Which you would characterize as double taxation.

*Mr. Leinbach. Absolutely double taxation.

*Mr. Larson. Well, when you get double-taxed, I assure you that you take it very personal. And if you are double-taxed and in a blue state -- coincidentally or not, and I don't disagree with you, this isn't about blue states and red states, or Democrats and Republicans. This is about what is fair for the country, and what is fair in terms of the load that people are carrying in terms of taxation at the local and state level -- a.k.a. that is why we have the provision, to begin with.

And so, to cap it, depending upon where you hail from the country, and what kind of income -- a schoolteacher and a firefighter in my district make well over $100,000 when you combine their incomes together, and then they end up having to pay additional federal taxes, let alone not even see a tax break. They pay additional taxes and, of course, that goes to helping out major corporations.

I yield back.

*Chairman Thompson. Time has expired. We will go to Mr. Rice.

*Mr. Rice. I think the -- this hearing today is simply astounding. We have spent the last year-and-a-half with my friends on the other side of the aisle pulling their hair and gnashing their teeth about how the Tax Cuts and Jobs Act -- so much of the benefit went to the people who are wealthy. I mean the -- 44 percent, I think, of it went to people in the top 10 percent, where, if you look at this, there was an article in Bloomberg yesterday, just yesterday, that said that 52 percent of the benefit of repealing the SALT deduction would go to the top 1 percent of wage earners, and 92 percent would go to people earning over $200,000 a year.

You know, I represent eight counties, and I represent South Carolina, the coast and the rural areas. And three of my counties are very rural, and they are majority African-American population. Marion County, South Carolina is 57 percent African-American. Median wage is about $30,000 a year. Thirty percent of the people live in poverty.

You know, what you are presenting here is a false narrative. What you are saying is you are taking away -- you are raising taxes on folks that live in these wealthy communities. But the truth is that somebody has got to pay the taxes, right? If you don't apply it to this person, you apply it to that person. So if you restore the SALT deduction, my folks in Marion County aren't getting any SALT deduction. They are going have to pay more taxes.

Now, Mr. Tarter, you live in this federal bubble of federal employees that -- average income is $120,000 a year, 4 times what Marion County, South Carolina is, right?

*Mr. Tarter. Yes.

*Mr. Rice. And your house, your average house, cost 15 times as much as the folks in Marion County. So how do I go home and explain to my rural African-American folks that they should subsidize housing in Fairfax, Virginia? How do I do that?

*Mr. Tarter. Well, I would just say this, sir, that this is a high-rent district. It is an expensive place to live, just like your staffers and I imagine you know, as well.

*Mr. Rice. Okay, so they already subsidize that by paying taxes, because the tax dollars go to pay these people that live in your community. They are federal employees, and now you want them to subsidize their cost of living? I think that is absurd.

*Mr. Tarter. It is an expensive place to live.

*Mr. Rice. Mr. De Natale, you know, you said in your testimony that people moved to your community because of the beautiful area and that -- right next to Oyster Bay. And that is wonderful, and I am glad. I live in a beautiful area, too. I live in Myrtle Beach, and I wouldn't do anything to take away from that.

But what you are asking me to do is go back and tell my folks, the poor rural black folks in South Carolina, that they need to -- because we are going to restore this tax deduction, they have to pay more taxes. Somebody has got to pay it, right? So they are going to be subsidizing these people because you don't want them to pay in Long Island. We want to be -- the Federal Government to subsidize that, to pay part of the true cost.

How do I explain that to them? How do I explain to somebody whose income is one-fourth of what it is in your district, okay, one-fourth, how do I explain to them that they should subsidize part of the cost of living in Long Island?

*Mr. De Natale. Mr. Rice, I only know that my own community is suffering. And I realize you have got your own issues in South Carolina. These folks that I represent and I am trying to protect, I only know them, and I know them to be hardworking people, and they don't believe they are getting a fair shake from the folks in Washington.

*Mr. Rice. All right. Thank you, sir. I have only got a minute left.

You know, it is just fascinating to me that the folks on the other side of the aisle try to paint this picture for the working guy, they are for the downtrodden, when, in fact, what they do is they put their boots on their neck. I mean it is ridiculous.

Mr. Mitchell, do your firefighters understand? What does your average firefighter make? How much money?

*Mr. Mitchell. About 45, $50,000.

*Mr. Rice. He ain't going to get one dime of benefit from the SALT deduction. Does he understand that he is going to have to pay more taxes to give this tax break back to rich people? Do they understand 99 percent of your firefighters are going to get not one benefit from -- they are going to pay more taxes, and rich people are going to pay less? Do they understand that?

*Mr. Mitchell. Every situation is different, but, you know, firefighters, we don't become firefighters to become rich. We do it for the love and the sense of duty that we have in our communities. So we don't ever profess to be tax professionals. We like -- we want to get paid for our work, but when you are married and you have two incomes you are doing okay. But I would say that --

*Mr. Rice. I am sorry, I have got 13 seconds.

*Mr. Mitchell. I yield my time back to you, then.

*Mr. Rice. The thing is I don't think they understand that this hurts them, that they have to pay more taxes, and wealthy people pay less because of this bill.

I yield back.

*Chairman Thompson. Mr. Doggett, you are recognized.

*Mr. Doggett. Well, thanks to all of you, our state and local officials, for coming forward today to share the impact of this Republican tax law.

Republicans here are always really big on state and local rights when it comes to denying something, but when it comes to providing the resources that you need to do your job, and this deduction for state and local taxes, they take a rather different point of view.

I don't believe there is any doubt that the SALT deduction cap was a political attack on states controlled by Democrats. But, in fact, as your testimony indicates, it has had the impact of attacking state and local governments that simply believe -- Democrat or Republican -- in being responsible, and delivering a reasonable level of public services to assure quality public education, adequate health care, and law enforcement and fire services. They were -- the Republicans were sure that the SALT deduction for state and local taxes was maintained for the multinational corporations who got many of the benefits and --

that were provided under this law.

I spoke out against this SALT provision when it was considered, though I come from the State of Texas. Even there, there is some impact from very high and regressive property taxes. But Texas is basically a state that doesn't believe in providing a responsible level of education and public services.

I understand that when you make these kind of investments, you have to pay for them, and have this problem. But the question is what we are going to do to fix it. And I am concerned that, as I understand from the testimony this morning, and from the reports we have, that full repeal of the SALT deduction would cost about $670 billion. Is that right, Ms. Kaeding?

*Ms. Kaeding. Yes, Congressman.

*Mr. Doggett. And we have already had Republicans add $2.3 trillion to our debt from this tax law. We are looking, under President Trump, at about $1 trillion a year of additional debt every year for the foreseeable future.

Last week these guys suggested that the way to deal with this problem in the amendments they offered to a bill we had was to add about another 3 or $4 trillion to our national debt. I believe that every economist that has looked at this objectively realizes that it will slow our economic growth if we have that much in the way of debt.

I also was one of the Democrats who voted against a Democratic proposal that I very much support to expand the Earned Income Credit, the Child Tax Credit to help working and middle-class families, because it was not paid for. And it cost a fraction of what it costs to restore this provision.

At the same time, with all the excesses of the Republican tax law, there are a wide range of provisions that could be altered in order to compensate for restoring some or all of the SALT deduction. We have got their corporate tax rate, which was lowered more than corporations asked for. We have got a provision that was added after the conference committee that lowered the taxes for the wealthiest people in our country. We have got the foreign outsourcing provisions. We have got the Donald Trump provision that was added after the conference committee to provide additional pass-throughs. So there are many places we could look at to pay for this.

I do think that it is notable -- and I believe you had some version of this in your testimony -- that the Joint Committee on Taxation yesterday said that full repeal in isolation would give half of its benefit to Americans that earn $1 million a year or more. I don't believe we ought to be simply rewarding the people that already got rewarded by the Republican tax law with yet another tax reduction.

And so we have got to find a way to fix this that is fiscally responsible, and that recognizes that impact. There -- if Congress is not willing to muster the will to fully offset the $670 billion price tag, then we have to find other reforms in this provision to assure we do it in a fiscally responsible way.

Every one of you, as a local official, have to balance your budget. That is something long ago forgotten here in the

Congress. I believe we should respond to the concerns that all of you raised this morning that are very legitimate. Having been politically targeted -- but we have got to do it in a responsible and fiscally prudent manner to ensure that we don't make matters even worse.

Thank you very much for being here.

*Chairman Thompson. Thank you.

Mr. LaHood, you are recognized.

*Mr. LaHood. Thank you, Mr. Chairman. And I want to thank the witnesses for being here. We have heard a lot of testimony today about how the SALT deduction purportedly affects the so-called middle class. And I want to just reference two articles.

The title of this article is from Bloomberg.com from June 24th this week titled, "SALT Cap Repeal Would be a $40 billion Windfall for Millionaires.'' It goes on to say, "And their getting rid of the so-called SALT cap would lower the burden for households earning at least $1 million by $40 billion, or 52 percent, from the nonpartisan Joint Committee on Taxation.''

And I would like to submit that for the record, Mr. Chairman.

*Chairman Thompson. Without objection.

[The information follows:]

*Mr. LaHood. The second article from Politico, titled, "New JCT Analysis Shows SALT Cap Repeal Benefits the Rich.'' "This analysis is bad news for Democrats,'' it goes on to say, "who have portrayed this limit -- portrayed the limit imposed by the Tax Cuts and Jobs Act as a hit on average Americans.''

So objectively, in two different articles, and by the nonpartisan Joint Committee on Taxation, talks about this benefitting the rich.

Now, we have heard today there is lots of definition of what constitutes --

*Chairman Thompson. Mr. LaHood, would you like to enter that for the record?

*Mr. LaHood. I would, Mr. Chairman.

*Chairman Thompson. Without objection.

[The information follows:]

*Mr. LaHood. Thank you. There is lots of definitions about what constitutes the middle class. Apparently, anyone that doesn't own a yacht qualifies.

But Ms. Kaeding, I wanted to ask you. Can you provide more details about the income levels of those affected by SALT deduction limitation? And, in addition, those who actually have an overall higher tax burden under the TCJA as a result of the limitation.

*Ms. Kaeding. Thank you, Congressman. We can actually look at data from the Internal Revenue Service to figure out where the income thresholds are for the so-called middle class.

Perhaps we define the middle class as being those between 25 and 75 percent of median income. What we find is that the top 25 percent of taxpayers have income of $80,000. The top 10 percent have an income of $140,000. The top 5 percent have income of around $200,000. So many of these examples that have been talked about in relation to the SALT deduction are talking about folks that aren't the so-called middle class, according to IRS definitions along those lines.

But what we see in the data coming out of the Joint Committee on Taxation yesterday, analysis that we have done at the Tax Foundation, analysis coming from the Institute on Taxation and Economic Policy, a group generally considered to be on the left, is that, distributionally, it is pretty clear that repealing the cap on the state and local taxes pay deduction benefits, functionally, the top 20 percent of taxpayers, those making more than about $100,000 a year.

*Mr. LaHood. Thank you for that. The other thing I would like to point out, I didn't hear anything from the witnesses about what the tax bill has done for the economy.

As we sit here today, we arguably have the best economy we have had in 25 years: 7.3 million unfilled jobs; we have moved 5.4 million people off of food stamps; lowest unemployment in 50 years, by all standards; lowest unemployment in the African-American community; lowest unemployment in the Hispanic community; lowest unemployment for women and people with disabilities; 3.2 percent growth in the first quarter, and on track for another quarter of 3 percent growth; private-sector wages are up across the board; more people working in this country than ever before under this tax bill that was passed. You look at the stock market, you look at 401(k)s, you look at the long-term outlook for the economy, it is strong, by every statistic. And I think that needs to be stated. So I appreciate the witnesses being here today.

I am going to yield my last minute to Mr. Rice. Thank you.

*Mr. Rice. Mr. Imhoff, you said earlier that people moved into your wonderful school district, and I am glad you have a great school district. That is -- education is a top priority. But they move there and they sacrifice to -- because they have to pay high taxes to get into that school district.

But don't you understand that, when you reallocate this tax liability, and you give all these millionaires a tax break, that you are raising taxes on the rest of the people, and that my poor folks, my poor African-American folks in Marion County, South

Carolina are being -- you are saying your people are sacrificing to move to that high -- that wonderful school district. You are asking my people in Marion, South Carolina to sacrifice for your wonderful school district.

*Mr. Imhoff. Thank you for the question. And I would not be suggesting a tax increase for the poorest Americans. What I am saying is what is happening in our school district is we have hardworking Americans who are sacrificing to live in our school district, who are being hurt by this, and are being double taxed. And I am asking all of you, as our leaders, to find a way to fix that.

*Mr. Rice. Somebody has got to pay the taxes.

*Chairman Thompson. Thank you. Time is expired.

Ms. Sanchez?

*Ms. Sanchez. Thank you, Mr. Chairman, for your commitment to assess the ongoing effects from the Republican past changes to the state and local tax deduction. And I want to thank each of our witnesses for bringing your unique perspectives on SALT.

Lieutenant Mitchell, I want to begin with you to discuss the impacts on local communities. Now, you are from Wisconsin and I am from California. But the points that you made in your testimony are what I hear every time I go back home to California.

So can you again please tell us what will be the long-term impact of the cap on the SALT deduction to your department, if the law stays the same and is unchanged?

*Mr. Mitchell. Well, the fear is that, if this continues, that state and local municipalities will have to find ways to cut their local and state taxes if people are being double-taxed.

And, of course, as I stated earlier, the majority of our work, our salaries, our staffing, our equipment, our training is derived from state and local taxes. So once we see state and local taxes being cut, well, we know what is going to be the ripple effect of that. And that is that essential services will be cut. And, as I spoke earlier, the first thing cut is staffing, because that is the highest cost for any department. And once you cut staffing, then you are cutting safety for ourselves, as firefighters and EMS personnel. But more importantly, safety for the citizens of any community.

*Ms. Sanchez. Yes.

*Mr. Mitchell. That goes from whether you are in California or Wisconsin.

*Ms. Sanchez. Thank you, yes. What comes through in your testimony is your commitment to public service, and I want to commend you for saying that people in your line of work are not in that line of work to become millionaires.

So, you know, hardworking folks like firefighters in Wisconsin are being squeezed by this policy. The general public is put at risk by this policy if you don't have the equipment and the staffing that you need to provide those emergency services.

I want to talk a little bit about the issue of fairness, because, as was presented earlier, you know, individuals got their SALT cap capped at $10,000. The average SALT deduction in my district is $18,000, and I do not represent a wealthy district. It is a very working-class district. But businesses and corporations can claim the full SALT deduction. Does that seem fair to you, Lieutenant Mitchell?

*Mr. Mitchell. I am not a tax professional, but no, on the basis that that does not seem fair.

*Ms. Sanchez. Okay. And Mr. Imhoff, does it seem fair to you?

*Mr. Imhoff. No, it does not.

*Ms. Sanchez. Mr. Leinbach?

*Mr. Leinbach. No, it does not, but I think it is that way because SALT was never taken into consideration as a foundation piece of any tax policy. If it had, we wouldn't be talking about the idea that, if we reinstate full SALT today, that millionaires would be getting benefits. It should have been a foundational piece in any tax cut bill --

*Ms. Sanchez. Thank you. Mr. De Natale, does it seem fair to you that one person gets to claim unlimited, and individuals have a cap (sic)?

*Mr. De Natale. Hardly.

*Ms. Sanchez. Okay. Mr. Tarter?

*Mr. Tarter. No.

*Ms. Sanchez. Okay. What about the fact that the corporate tax rate was cut 14 percent -- and that was a permanent cut -- and yet on the individual side, the tax cut was about 3 percent, and that is not permanent. Does that seem very fair? Does anybody think that that is very fair? Raise your hand.

Let the record reflect nobody raised their hand. Thank you so much.

Commissioner Leinbach, I can -- can you delve a little bit more into how the SALT limitation impacts budgets at the county level, and the ripple effect that it is going to have on services in your county? And please be brief, we have got about a minute-and-a-half.

*Mr. Leinbach. I reiterate that, until we see the full impact of the tax impact from 2018, we can't do anything other than speculate. I shared that in my testimony, already.

*Ms. Sanchez. Okay, thank you.

I want to push back on this notion that somehow folks in Marion County are paying more taxes so that others could potentially get a full SALT deduction. I just want to remind everybody on the dais and our witnesses that high-income states like California, where -- the high-cost-of-living states, we get back about $.72 for every dollar that we pay into the federal system. And my guess is that folks in Marion County, South Carolina probably get a lot of government benefits and subsidies in rural communities. That typically tends to be how the tax system redistributes money from higher-income, higher-cost-of-living states to lower-income, more rural counties.

So I don't think it is the case that, you know, because our middle-class families in our high-cost-of-living areas make a lot in comparison to those in rural counties -- we also have higher costs, in terms of housing, food, transportation. So it is not that one side benefits or subsidizes the other. And I just wanted to make that point.

And with that I will yield back to the chairman.

*Chairman Thompson. I thank the gentlewoman.

Mr. Arrington, you are recognized.

*Mr. Arrington. Thank you, Mr. Chairman.

And forgive me in advance if I butcher your name, but I would like to just kind of go down the line.

Mayor Tarter, by the way, I lived in Falls Church, not city, and I enjoyed my time there. Would you say that the lowest unemployment in 50 years is a good thing for the country? Yes, or --

*Mr. Tarter. Yes, of course.

*Mr. Arrington. Mr. De Natale, do you think that job participation at a 30-year high is a good thing for the United States of America?

*Mr. De Natale. Absolutely.

*Mr. Arrington. Thank you, sir.

Commissioner Leinbach?

*Mr. Leinbach. Leinbach.

*Mr. Arrington. Leinbach. Would you say that wages being up at historic, decade-high rates, and up more for the lowest-income folk, which equates to about $1,000 a year, do you think that is good for hardworking, middle-class and lower-income families?

*Mr. Leinbach. I don't know anyone that would disagree.

*Mr. Arrington. Well, what about you, Dr. Imhoff? Do you think that the highest consumer confidence and confidence from manufacturers and small businesses is a good thing for this economy, and the prospects for greater prosperity in the future? Would you agree with that?

*Mr. Imhoff. Yes, sir.

*Mr. Arrington. Well, I could go on and on, but I would say this wasn't an accident. This isn't something that just happened. We had a decade of stagnation, a flat economy. The spirits were low. Taxes and regulations and the cost of those were very high, like a big, old, wet blanket on the greatest economy in the world. And all we did was just add a little freedom in the marketplace. We just took a little burden off the backs of the job creators, put a little money in the pockets of hardworking American people. And we have seen a tremendous response, a tremendous response.

And I appreciate what you guys have said today.

And Mr. -- Commissioner Leinbach, I really appreciate you bringing in the Founding Fathers and founding documents. I do think it is important to start there, philosophically, on any discussion we have. I try to.

And I am not an expert on this subject, but you quoted Alexander Hamilton, Federalist Paper Number 31. I am going to quote you Federalist Paper Number 21 from the same author: "If taxes are too high'' -- I am going to paraphrase it -- "If taxes are too high, they lessen the consumption. The collection is eluded, and the product to the treasury is not so great as when they are confined within proper and moderate bounds.''

You know, my suggestion to you is to consider whether or not you are confining within proper and moderate bounds those taxes levied on your good people. And I am sure they are good people, and I am sure it is -- they are good communities. I know one, for sure, because I benefitted from that community.

But golly, did -- can any of you all tell me that there was a provision in the Tax Cuts and Jobs Act that has created this economic renaissance in this country?

Has any provision in there precluded any of you from lowering your tax burden on your people?

Is there anything that you are aware of that precludes you from reducing local taxes, or anything that you know of that would preclude state lawmakers in your respective states from lowering the tax burden?

Is there a mandate in there that says you can't lower your tax burden for your folks? Because I understand taxes are too high. The cost is too great, and you are probably losing folks.

I know states like California -- and I am not picking on California, with all due respect to the chairman, but from 2007 to 2016 they lost 13,000 businesses. The chief beneficiary of that was the great State of Texas. Now, the reason they said that they were leaving was as a result of high taxes, bad lawsuit climate, and heavy regulatory burden.

Now let's talk about federalism. Federalism gives the State of California the right to do whatever they want to do with the respect to their -- the environment they want to create for their businesses. Apparently, it is not a very good environment. At the heart of federalism is division of power. It is sovereignty to the states and to your local jurisdictions.

The federal taxes are there for federal purposes, like providing for common defense. State and local taxes are there for your local and state purposes. And I don't think we do anything to interfere with that. And to say that Washington isn't giving your folks a fair shake, I don't know that their local leaders are giving them a fair shake, if the taxes could be reduced, and that is in your control to do so.

I know I am out of time, Mr. Chairman. Thank you, and thank you guys for your time.

*Chairman Thompson. I thank the gentleman. His time is expired.

Ms. DelBene, you are recognized.

*Ms. DelBene. Thank you, Mr. Chairman, and thank you to all our witnesses for the time you are taking to be with us today.

I have talked pretty extensively about the inequities in the Republicans' 2017 tax bill, and it is very clear, again, in this situation, Republicans prioritize corporations over individuals. This is another example where businesses maintain the ability to deduct state and local taxes, and individual filers saw the cap.

And I think one of the things that all of you have brought up is that that cap is impacting services, services in communities, and how critical it is to people who are looking for these services in their day-to-day life, and the direct impact that this is having. And so I want to thank you for being here to talk about that.

And I want to start with you, Dr. Imhoff. How much of your school district's funding comes from state and local taxes?

*Mr. Imhoff. Local dollars are 80 percent of our funding, and state revenue is 13.2 percent federal dollars, or 1.9 percent.

*Ms. DelBene. So those local dollars are critical to you being able to provide services to the students and the families in your community?

*Mr. Imhoff. Exactly. They are our lifeblood, yes.

*Ms. DelBene. And so, when you look at the cap that has been -- the SALT cap, and the impact, have you seen an impact now? And what kind of -- what impact do you expect to see in the next few years?

*Mr. Imhoff. So I am very active in the community, as one of the most visible leaders in the community. And the result of this -- and this is anecdotal -- people were very pleased when their withholding changed after the tax cut, and they saw more money in their paychecks.

But then, when they went to file their taxes, many of those people were very upset, because they were paying large sums of money because of this change. And the first thing they were saying to me is, "Well, you better not be coming back asking for any more levies for the school, because I just had to pay all of this money to the Federal Government.''

And so we have another levy that is going to be on the ballot in November of 2020. It takes us about a year to manage a campaign for those levees. You know, we are very, very concerned about this change, and how it is going to impact our ability to pass that levee, and to continue to provide services for our students.

*Ms. DelBene. And what type of services would be cut, then, if you are unable to have the resources you need?

*Mr. Imhoff. Well, as soon as we lose dollars, then we have to revert back to the minimums. And you start losing things that are very, very important to our kids, around the wellness of kids, around art, and music, and P.E., and you just offer the basics, which is not in the best interest of students, and which is harmful to their education.

*Ms. DelBene. And I would argue that one of the best investments we make is investments in our students, because that gives us an incredible return, in terms of their contribution --

*Mr. Imhoff. And we are on the same page, yes.

*Ms. DelBene. Commissioner Leinbach, we have heard the argument that the SALT cap primarily impacts high-income taxpayers, but high-income looks different in many of our districts and communities. So what are your concerns about the impact of capping this SALT deduction, the impact it has on middle-class families?

Your mike? I know.

*Mr. Leinbach. Again, I shared the data from Berks County. In 2016 over 60,000 individuals and families filed tax returns utilizing the state and local tax deduction, and 91 percent of those filers made less than $200,000.

If you just look at the area of schools -- we are odd in Pennsylvania -- we have 18 school districts in our county, 17 of the 18, 80 percent of their money comes from local property tax.

The city of Reading is highly subsidized by the Commonwealth of Pennsylvania. Education is the major impact.

*Ms. DelBene. And what are you -- are you hearing similar things from your community, as Dr. Imhoff brought up?

*Mr. Leinbach. Again, right now, based on the results of the 2018 tax year, it is just starting to come out, as far as any concerns of school districts. Not so much municipalities, but our school districts.

*Ms. DelBene. And Lieutenant Mitchell, are you hearing those same concerns now, as you look at funding for important services like fire?

*Mr. Mitchell. Yes, we are starting to hear it. And I think, again, the concern is going -- down the road, the impact it is going to have on our safety of our communities.

*Ms. DelBene. Thank you. Well, I yield back, Mr. Chairman.

*Mr. Rice. Mr. Chairman, a point of order.

*Chairman Thompson. Thank you for yielding back.

*Mr. Rice. I just want -- I am getting ready to leave, because I have to go to the other hearing on NAFTA, and I just want to restate my strong objection to the fact that these hearings were scheduled simultaneously.

*Chairman Thompson. Your point of order was noted. There is a lot going on. Everybody has to balance their day. *Mr. Rice. This is a very --

*Chairman Thompson. Mr. Schweikert, you are recognized.

*Mr. Rice. I have to leave here.

*Mr. Schweikert. Thank you, Mr. Chairman. And just so I don't forget to do it, can I put an article from Bloomberg into the record?

*Chairman Thompson. Without objection, so shall be the order.

[The information follows:]

*Mr. Schweikert. Just -- it has some interesting layouts that the apocalypse did not happen.

And, look, all of you are wonderful.

But, Mr. Chairman, I sort of wish we had actually had a little more of a statistical panel, because I am actually fascinated where the distribution is. I mean, if we are going to have an argument that we all really like a tax system that -- you know, where the wealthy pay substantially more, if we are about to make an argument saying, "But we need adjustments in that for high-cost areas,'' that is a very different discussion than the fact the matter is the new tax reform is more progressive than the previous one on who pays federal taxes.

Also, another point -- then I actually do have a couple of actual questions -- the first eight months of this year, the highest revenues ever; adjusted for constant dollars, second-highest revenues forever. So it turns out the revenues turned out to be dramatically better. So as we all work on our talking points, you may want to go back to things we were saying two years ago, and update them to the mathematical reality.

And you all saw the Bloomberg Wall Street Journal articles yesterday. It turns out repatriation is substantially higher than we both modeled, and even had been reported in January.

So, look, the wheels are on. Things are -- positive things are happening.

In a previous life I was the county treasurer for the fourth most populous county in the United States. So I have -- and in the West you are the tax collector, you are the investment officer, you are the bank, so you touch -- I had 3,300 taxing districts.

But there was a Democrat proposal during the markup of tax reform -- and I believe Congresswoman Sanchez may have just spoken to this -- of removing -- doing the similar SALT mechanisms for businesses. Could you walk me through what that would mean to your communities, if we did that? You know, is that something you would support, if that is -- I mean, do you consider that would -- something that would be equitable in your communities?

States like Arizona, we actually shift part of our property taxes on a higher -- we will call it mil rate, though that is not technically accurate -- to commercial properties to benefit residentials. I don't know if your states' tax systems do that.

Would you support the Democrat proposal of limiting SALT deductions to commercial property? Mr. Tarter?

You better hit the button.

*Mr. Tarter. Okay, sure. I mean I guess I am not sure I totally understood. Are you saying to limit the SALT deduction --

*Mr. Schweikert. Yes, this -- yes, exactly.

*Mr. Tarter. No, I think the better solution would be to restore it as it was for both individuals and --

*Mr. Schweikert. Okay, but that wasn't my question. My question is would you support the one doing the same thing for businesses in your community.

*Mr. Tarter. Are you talking about limiting the --

*Mr. Schweikert. Yes.

*Mr. Tarter. -- to $10,000, or some amount of money? I don't think so.

*Mr. Schweikert. Okay.

*Mr. De Natale. That wouldn't apply to my village. We have probably 95 percent residential.

*Mr. Schweikert. Okay, fascinating.

*Mr. Leinbach. I am not ready to throw out the principle of federalism. So absolutely not. We need SALT restored.

*Mr. Schweikert. Okay, but you wouldn't accept the same equal treatment, shall we say, to businesses in your community?

*Mr. Leinbach. No, because I believe SALT is foundational to our system of taxation.

*Mr. Schweikert. I don't think your federalism argument works, but that is for a different discussion. And, trust me, being someone who cares a lot about that.

Doctor?

*Mr. Imhoff. No, I would not.

*Mr. Schweikert. Okay.

*Mr. Imhoff. I think it was a mistake to put this in place for individuals.

*Mr. Schweikert. Okay, but --

*Mr. Imhoff. And I wouldn't want to double down on that and --

*Mr. Schweikert. But this was a Democrat proposal that --

*Mr. Imhoff. I am not worried about what is R and D, I am worried about what is best for my residents. I am not worried about R and D.

*Mr. Schweikert. And that is your job, as a local -- and thank you for -- how long have you been on the force?

*Mr. Mitchell. Twenty-two years.

*Mr. Schweikert. That is neat. I have a brother-in-law who, I think, now is in the fire boat in Long Beach. I am sorry, the stories are just fascinating.

In working on that distribution, what would -- do you think could happen to your community if we did the same SALT thing on your businesses?

*Mr. Mitchell. I would leave that question to the elected officials.

*Mr. Schweikert. Okay.

*Mr. Mitchell. I put out fires.

*Mr. Schweikert. But do you have a fire boat?

*Mr. Mitchell. We do.

*Mr. Schweikert. You see? I got to come and hang out with you, too.

*Ms. Kaeding. The economic impact of limiting or removing the SALT deduction for corporations would largely depend on what you did with the revenue generated from that. So it is hard to say, in a hypothetical, as to what the economic impact would be.

*Mr. Schweikert. Mr. Chairman, look, this is a discussion of wealthy jurisdictions defending their wealthy jurisdictions. If we want to have an honest conversation about distributional curves on taxes, that would be fascinating. But that would require a very different level of intellectual discourse.

So thank you, Mr. Chairman.

*Chairman Thompson. Your time has expired, but I just want to point out this hearing is to hear from folks at the local level as to how this provision of the tax code affects their district.

As you have heard, there are people here from both red states, blue states, wealthy areas, and medium income areas.

*Mr. Schweikert. Will the chairman yield for one sec?

*Chairman Thompson. No, I am going to call on Mr. --

*Mr. Schweikert. Thank you, Mr. Chairman.

*Chairman Thompson. -- Beyer.

*Mr. Beyer. Thank you, Mr. Chairman, very much, and thank all of you for coming to talk to us.

I really want to thank my mayor, David Tarter. Our family business has been in Falls Church for 46 years. And with your leadership and the careful financial stewardship of generations of city managers and mayors, it has been a wonderful place.

And I want to echo your thoughts that Falls Church is not a ritzy, fancy place with lots of mansions. You know, it is a great, middle-class neighborhood with people of almost all two-parent families working to try to make things get by. And I would love to put up a couple of slides to show the disparity.

If we can, go to number one. Thank you.

[Slide]

*Mr. Beyer. This is $725,000 house in Falls Church, okay? A nice little house, but -- a nice little house.

[Slide]

*Mr. Beyer. If we move to the next slide, we see what the same kind of house -- in fact, a nicer house -- is in Florence, South Carolina, $215,000. I mean less than a third for a much better house. You can imagine what that does.

[Slide]

*Mr. Beyer. And then let's go to the next house in Florence, South Carolina, $799,000 -- $800,000, which, literally, is a mansion. So enormous differences in what you get for the dollar, depending on where you live.

[Slide]

*Mr. Beyer. If we can move again to another Falls Church house -- or, actually, the same Falls Church house again -- and compare it to -- actually, the Bayville, New York house. This is a little cottage, $900,000 in Bayville, New York.

Is that your district?

*Mr. Suozzi. Yes.

*Mr. Beyer. Okay. And then move to Lubbock, Texas. A comparable house, maybe better, actually, but nicer, for $174,000. Or, a comparably-priced house in Lubbock Texas -- once again, if we move ahead one slide.

[Slide]

*Mr. Beyer. That is a 925 -- $825,000 house in Lubbock, Texas.

Mr. Chairman, I would love to submit all these photos for the record.

*Chairman Thompson. Without objection.

[The information follows:]

*Mr. Beyer. And I just point out that you -- where you live depends on, really, dramatically different tax rates that have nothing to do with your income levels, or your richness, or the like.

I also want to take -- I am fascinated by -- and receptive to my Republican friend's arguments of the progressivity of the SALT deduction. But I have incredible trouble reconciling that with the Tax Cuts and Jobs Act that has been referred to.

Let's point out that corporations went from 35 percent to 21 percent, and study after study, including those recently by the Congressional Research Service, shows that 85 percent of that has gone to the top 1 percent of tax -- of wealth in the country.

I saw one study last week that said something that almost -- maybe for the first time in history, 100 percent of corporate profits went to buybacks and dividends for the first time in history, greater than all that was spent on research and development.

And similarly, when the very wealthy complained about the SALT deduction, what we did in the Tax Cuts and Jobs Act is we cut their rate from 39.6 to 37 percent. So, in fact, the wealthiest don't pay much of it. It is the middle class, those folks living in Falls Church, that are paying this deduction.

So -- and then finally, one of the great Republican arguments I have heard for a number of years here, which I am sympathetic to, is that services are best decided at the state and local level. You know, the superintendent in Ohio can make the best decisions, or the mayor of Falls Church. But what the

SALT deduction does is it moves all that money to the Federal Government. So it centralizes financial decision-making here in House Appropriations, rather than in Bayville or Falls Church.

There just seem to be really huge inconsistencies about our argument about progressivity. And I certainly think, you know, Falls Church, people live there and pay these enormous amounts of money for houses because they have a wonderful school system, because they have invested in that. And by taking away the SALT deduction, essentially, makes it so much harder to be able to maintain that effort at the local level for police, for fire, for schools, and things we like.

Mr. Mayor from Falls Church, I have 45 seconds left. Is there any way you would like to augment on my --

*Mr. Tarter. Well, I would just say this. First off, thank you. We -- I would say education is a cornerstone of our community. It is why a lot of people move to Falls Church, and what we value most highly.

Fifty-four percent of our budget goes to education. When there is less money to be able to be used for local services, it cuts education. We view that as foundational. We view that as an investment in our future of our community, but also our children. So it is a critical thing that we are doing. And any money that we don't have to spend on education really hurts our future and, frankly, this country's future.

So I would urge you to reinstate this deduction or, at least, raise it. So anyway, thank you.

*Mr. Beyer. Thank you. Mr. Chair, I yield back.

*Chairman Thompson. I thank the gentleman.

Mr. Suozzi, you are recognized.

*Mr. Suozzi. Mr. Chairman, thank you so much for holding this hearing today. Ranking Member, thank you so much for helping hold the hearing, as well. This is -- you know, I have learned a lot here today.

Mayor De Natale, I have learned a lot from you today. I didn't know you were a Republican who voted for Trump. But I still love you, and you are a great mayor.

*Mr. De Natale. I hope we are still friends.

*Mr. Suozzi. Of course we are, we are great friends. I don't think that people realize some of the different inequities that are going on here. In fairness, there is something I heard a lot here today. I want to make America fair again. I want to see some fairness here.

So do you know that -- Mayor De Natale, do you know that New York State is the biggest net donor to the Federal Government of any state in the United States of America? We send between $36 billion to $45 billion a year more to the Federal Government than we get back in state taxes. Did you know that?

*Mr. De Natale. Yes, I am aware.

*Mr. Suozzi. So we are a huge net donor to the Federal Government.

So Mr. Smith from Nebraska, our colleague, the ranking member here, was incredulous that you would pay such high property taxes. Well, we could reduce our property taxes in New York State if we had more of our own federal money coming back to our state.

But the reality is that just New York and California together pay $400 billion a year in federal taxes to the Federal Government, $400 billion a year in federal taxes, California and New York. Do you know how much Nebraska pays in federal taxes to the Federal Government? About 7 or $8 billion a year -- 400 billion from New York and California, 7 or 8 billion from Nebraska. Now, that is fair, and we are in on that, because we are all in this together. That is what the United States of America is.

*Mr. Smith. Would the gentleman yield?

*Mr. Suozzi. Yes, I will.

*Mr. Smith. Would it be more fair if Nebraska fell under a different federal minimum wage than other states or regions of the country?

*Mr. Suozzi. I am not going to go off topic on that today, though, but I will be happy to discuss that with you at a future time.

So, Mayor Tarter, do you think it is fair that people would be taxed on the taxes they have already paid, the state and local taxes? Do you think that would be fair?

*Mr. Tarter. No, and it hasn't been part of our tax code since the very beginning, since 1913 or 1862, depending on when you consider the first tax --

*Mr. Suozzi. So, Mr. Leinbach, do you think that it is fair that -- my Republican colleague thinks that we should take the long arm of the Federal Government to reach in to state and local governments and say, "Listen, you got to change your taxing policies, because we don't like it in the Federal Government. You have got to change the way you'' -- do you think it is fair that the long arm of the Federal Government has got to reach in and try and change local governments?

*Mr. Leinbach. I do not think it is fair. But let me clarify. NACo has not taken a position for or against the tax cut. We have simply stood up for counties. We fought to preserve tax-free muni bonds, and we will continue to fight to -- double taxation to preserve the entire SALT deduction.

*Mr. Suozzi. And I want to make it clear we are not talking about the whole tax cut today. We are talking about the state and local cap that has been capped at $10,000.

Do you know that it was the chairman of the House Ways and Means Committee, a man named Justin Smith Morrill, one of the founders of the Republican Party, at the time of the enactment of the civil war tax, he said, "It is a question of the vital importance to the states that the general government,'' the Federal Government, "should not absorb all their taxable resources, that the accustomed objects of state taxation should, in some degree, go untouched. The orbits of the United States and the states must be different and conflicting. Otherwise, we might perplex and jostle if we did not actually crush some of the most loyal States in the union.''

That was the -- one of the founders of the Republican Party, who talked about this juxtaposition between the federal and the State Government. But we are putting this pressure on a lot of local governments by doing this.

Dr. Imhoff, Dr. -- Mr. Mitchell, Lieutenant Mitchell, do you think it is fair that local governments would have to cut their taxes, and thereby cut their services, to pay for this giveaway?

*Mr. Mitchell. No.

*Mr. Imhoff. No, sir.

*Mr. Suozzi. So I want to make it clear that earlier Mr. Rice from South Carolina was talking about someone has got to pay the taxes if we restore this. Well, we could pay for this. We could pay for this by increasing the federal tax bracket for the highest taxpayers in America from 37 back to where it was, to 39.6, and raise the corporate tax rate from 21 to 25. That would pay for the reinstatement of the state and local tax deduction.

So I think this is a question of fairness. And if we want to make America fair again, we make it so we don't have double taxation, we want to make it so that we are not pushing pressure on these local governments, we don't want to make it unfair, but the governments, the people that are subsidizing the Federal Government are not getting hit again with a punch in the gut from this state and local cap, then we should reinstate the state and local cap deduction to its entirety. It would be fair to the local governments, it would be fair to the taxpayers of these states, it would be fair to the people of the United States of America. And it would be consistent with the concept of the separation between the Federal Government and the state and local governments.

*Chairman Thompson. Thank you. The gentleman's time has expired.

Mr. Boyle, you are recognized.

*Mr. Boyle. Yes, thank you, Mr. Chairman. And I want to thank all of the panelists for coming forward. It was a great panel.

So that we keep the focus where it should be, on the local level, and the effect that this has happened, Mr. Leinbach, I was especially happy to hear you here. I was having a flashback because, when I was first elected to the state legislature 10 years ago, one of the first things I was contacted about was not representing Berks County. An angry group of Pennsylvanians from Berks County coming to lobby me on high property taxes.

So I am very familiar, even though I live about an hour and 20 minutes or so away from Berks County, I am very familiar with the property tax issue in your neck of the woods, and the fact that the Republican tax bill last term has now only made that significantly worse.

I think that, besides my own personal history, and the fact that I am a Pennsylvanian, I am also happy to have you here because too often this is characterized -- mischaracterized -- as a "blue state issue,'' or a wealthy suburb issue, whether it is suburban Philadelphia or the suburbs of both Philadelphia, and New York, and New Jersey, Connecticut, California, and Northern Virginia, et cetera.

Berks County is not an affluent place. You have a lot of middle-class folks, a lot of senior citizens, a lot of rural areas, some real pockets of poverty, especially around Reading.

So I think you are actually -- your being here is, in many ways, kind of the perfect perspective to show that, in fact, this is a much bigger issue.

Even myself, I was surprised when I went over the statistics some months ago with staff and looked into those who have been impacted by limiting the SALT deduction. We are up to about half of the states in the union. And within the next year or two we will be over 30 states affected. Those are not just "blue states.''

So I was wondering if you could speak specifically about the impact -- you addressed some of this already in your opening statement, but the way at the local level it has now impacted you, your budget, and some of the tough choices that have now been forced on you by this very unwise policy.

*Mr. Leinbach. Thank you, Congressman. Very quickly, we are an unusual county. We voted overwhelmingly for Trump in 2016, and overwhelmingly for Democratic Governor Tom Wolf in 2018. I am a Republican. I chair the board of commissioners, but there is 16,000 more Democrats than Republicans in our county, and Reading is one of the poorest cities in the country.

The impact is one that we see because we are not an area with significant income from residential. We are an area that are impacted by agriculture and by our schools. And you hit the nail on the head. We are ground zero for school property tax elimination in the Commonwealth of Pennsylvania for a reason, and that is we have very high property taxes, with the exception of the City of Reading, because 80 percent of that income comes from our folks.

And I believe our median income is under $50,000 in Berks County, even though we are a little over an hour from Center City, Philadelphia. We are not an affluent area. And again --

*Mr. Boyle. What is -- if I could interrupt --

*Mr. Leinbach. Yes.

*Mr. Boyle. -- because they only give us five minutes.

*Mr. Leinbach. Yes.

*Mr. Boyle. What is the average property tax bill in Berks County?

*Mr. Leinbach. That is hard.

*Mr. Boyle. Sorry, I am quizzing you.

*Mr. Leinbach. There is 18 --

*Mr. Boyle. But approximately.

*Mr. Leinbach. There is 18 school districts. I would say it is probably in the vicinity of 8 to $9,000 and higher, if you take out the 90,000 residents of the City of Reading.

*Mr. Boyle. Right. So you are already at -- with the exception of Reading, in your county, not an affluent place, you are already up at 10,000 --

*Mr. Leinbach. Just at the property tax.

*Mr. Boyle. Just the property tax.

*Mr. Leinbach. That is school.

*Mr. Boyle. Right.

*Mr. Leinbach. That is not --

*Mr. Boyle. County --

*Mr. Leinbach. That is not local municipality, and that is not county proper.

*Mr. Boyle. So then you include that you are over 10,000. Then the three percent state income tax, which Pennsylvania -- we have one of the lower state income taxes. If any municipality charges a personal income tax, you also add that.

*Mr. Leinbach. Most do.

*Mr. Boyle. You can see how this, in fact, was a tax increase for a lot of folks that subsidized what -- essentially, most of the money went to reducing the corporate rate from 35 percent to 21 percent.

Now, a number of us were actually not opposed to the idea of reducing that nominal rate at the very high 35 percent, but going all the way to 21 created the sort of situation where now we are taxing middle-class and lower-income folks in Berks County, and Berks counties all across the country. And, Mr. Chairman, it is just not right. Thank you.

*Chairman Thompson. I thank the gentleman. I recognize Ms. Moore.

*Ms. Moore. Timing is everything. Thank you, Mr. Chairman, and I want to -- you to forgive me for being taken away from other -- I had other responsibilities.

I did get an opportunity to hear all of you make your presentations. So I do have some questions. I guess I will start with Lieutenant Mitchell, describing the situation in Wisconsin.

As we know, the median income in the State of Wisconsin is only $57,000 a year. But yet you raised the fact that, while we have very low median income as compared to some of the other places, like Ms. Kaeding would indicate, are high-valued states, we have a very high property tax, and a property tax collection system which -- where 46 percent of our state and local expenditures on stuff like fire and police relies on property taxes.

So I guess I want you to sort of respond to Ms. Kaeding's analysis that only rich people, only properties with high values are at risk.

*Mr. Mitchell. Yes, well I can talk me, personally. I don't consider myself rich. My property taxes were over $8,500 last year, and plus with state and local taxes, it is over that $10,000 cap.

So personally, as firefighters, like I said earlier, we don't get in this line of work to become rich. But it is definitely -- it has been a hit on not just myself -- and that is not why I am here -- but also the firefighters that I represent, and the men and women that I sit alongside on the fire truck.

So again, our biggest worry and concern, though, is that, when municipalities are already strapped, especially in Wisconsin, when we have zero percent levy limits and shared revenue not coming back to municipalities at the rate it should in 2018 and 2019, that this will be an additional unintended consequence, where --

*Ms. Moore. I did not know about the six firehouses that were closed in Milwaukee where I live.

*Mr. Mitchell. Yes.

*Ms. Moore. That is terrifying.

*Mr. Mitchell. In 2017, yes.

*Ms. Moore. I see Ms. Kaeding is chomping at the bit to say something.

And so I am going to give you a chance to respond. I guess you have an analysis that basically says that only rich people with high property values are affected. What do you say to our exempting corporations from the SALT deductions? Are corporations less capable of paying the SALT deductions than, say, someone with a $57,000-a-year income?

*Ms. Kaeding. I think there is a few points to consider.

So one, I think it is also important -- when we are talking about limiting the SALT deduction, there were other tax changes that occurred simultaneously. And so many of these individuals received net tax cuts. Only 6.5 percent of Americans paid more in taxes under estimates in 2018 than they did -- than they would have under previous law.

*Ms. Moore. Is that -- that is sort of averaging them out.

*Ms. Kaeding. So that is --

*Ms. Moore. Say California and New York. But we have heard here from individual communities that that just isn't the case.

*Ms. Kaeding. So there has been an analysis done by a variety of organizations, including the Tax Policy Center, that -- that is where that 6.5 percent number comes from.

They also re-ran the analysis if you were to have no limit on the SALT deduction, and they said about 5.5 percent of Americans would have --

*Ms. Moore. Well, we hope to put the corporations back in. So thank you so much for that.

I really enjoyed, sir, Mr. Leinbach, your discussion of Alexander Hamilton and the Federalist Papers. And so, our -- is it your testimony that we are departing from our constitutional -- a constitutional principle?

*Mr. Leinbach. The Federalist Papers, obviously, were written in defense of the principles of federalism surrounding our U.S. Constitution. And yes, that is exactly what I am saying. And I believe that if SALT had been viewed from its historic perspective, and had been a foundation principle that was part of the tax cut, I wouldn't be here today, because the SALT would be in place, and the tax cuts would have gone ahead respecting that founding principle.

*Ms. Moore. Well, thank you.

And Mr. De Natale, you say that you were a Trump supporter, but you are today saying you don't agree with this particular initiative.

*Mr. De Natale. I am absolutely opposed to it.

*Ms. Moore. Thank you. And thank you so much, Mr. Chairman, and I yield back.

*Chairman Thompson. Thank you for yielding back.

Mr. Schneider, you are recognized.

*Mr. Schneider. Thank you, and I want to thank our witnesses for being here. Mr. Chairman, thank you for having this hearing.

From my perspective, as I look at tax policy, one of the things I think we should always be driving towards is fairness. And as our witnesses have talked today, this is an unfair burden.

In Illinois we are one of those donor states that Mr. Suozzi talked about, 10 states that are sending more to the Federal Government than we get back. In fact, in Illinois it is estimated that we are sending $40 billion a year more to the Federal Government than we are getting back.

And again, from my perspective, forcing any Americans -- and, in my case, people from Illinois -- to pay federal tax on money they have already paid to fund the priorities of the state and our local communities is double taxation, plain and simple. It is wrong. But because of the new cap, that is exactly the situation thousands of people in our communities and in my district are finding themselves in.

In my district in Illinois alone, 42 percent of the filers use the SALT deduction. And the average deduction is higher than the new cap. This to say the SALT deduction has affected a broad swath of my district, and certainly some of those people are at the upper income levels. But many of those people are working-class families who are struggling to make ends meet.

And I have heard from my constituents consistently stuck this year with a higher tax bill. In fact, one constituent wrote to me after she found out her tax bill increased more than $4,000 under the new GOP tax bill, due to the SALT restriction. She is from Grayslake, a town in my district, and she wrote, "This all goes without saying, it would be so much easier to stomach a tax increase if the increased amounts were actually going towards something like expanded medical coverage for people, or food stamps, or education spending. In our case, however,'' she continues, "we are paying thousands of dollars more for no reason at all, while the rest of the country ,especially those 21 percent tax corporations, get much-needed tax relief.'' Those were her words.

I could not agree with her any more. The burden of this tax law, which overwhelmingly benefits the most fortunate Americans and corporations, was laid on just a handful of states like Illinois. Many of those states, the states that are paying more to the Federal Government than they are getting back, many of those states -- in fact, of the people who have spoken today, we represent the states that are the 10 most highest per capita federal tax states.

Illinois taxpayers already pay significantly more than the national per-capita average in federal taxes. Even though our state receives far less than the national per capita average in federal spending, we are paying around $1.30 for every $1 we receive back. Restricting the SALT deduction exacerbates this problem, and seems to be a measure designed to punish states like Illinois.

I hope we can find a way to work together in a bipartisan way to roll back this damaging cap, and bring tax relief to the constituents I and my colleagues represent. There are multiple proposals in the works, and I want to highlight the work of two of my neighbors in the Illinois delegation, Representatives Underwood and Casten, and thank them for their leadership in introducing H.R. 1757 to fix the SALT cap deduction. It is that kind of leadership we need that will try to bring us together to address this issue.

But the impacts, really, on our communities -- and Commissioner Leinbach, I will start with you. We talk about communities that are closer to the median income, closer to the working class communities that are struggling to fund their schools, their parks, their first responders. What is the impact you are seeing in your county on this SALT deduction to -- the limit on the SALT deduction to those communities?

*Mr. Leinbach. Let me touch on a different aspect. When you look at the county, we don't operate schools in Pennsylvania. We raise $144 million a year from our county property tax. One hundred million of that goes to run our jail, our courts, our sheriff's department, our public defender, our district attorney. That is the bulk of our property tax money. If you want to ask about impact, it is public safety and criminal justice.

*Mr. Schneider. Well, thank you. And maybe I will turn to the mayors. You are seeing your communities -- Bayville, as you described it, is a -- not a wealthy community, but it is a community that is profoundly affected. What do you see as the impact?

*Mr. De Natale. I am sorry, would you repeat the question?

*Mr. Schneider. The impact this cap on the deduction is having on your ability to provide services like schools, libraries, things we all depend upon.

*Mr. De Natale. If we have got to reduce taxes, we have to reduce services. We fund the local firehouse for over $350,000 a year. We have only a $5 million budget. We have roads to take care of, we run a water department, and we are going to have to cut back at various places.

*Mr. Schneider. And I will reclaim my time.

Lieutenant Mitchell, you talked about it, talking about fire departments. It is affecting your ability to protect the community, to protect folks like us, make sure we are safe at night, during the day in our homes. What impact is it having in your community?

*Mr. Mitchell. Well, I think the long-term effect will be the ripple effect, again, of adequate staffing and training for our men and women that serve.

*Mr. Schneider. Thank you. And I am with -- running out of time. But again, I will just emphasize thank you all for being here, sharing the impact this tax is having.

The emphasis should be on having a system that is fair, that is accretive, that is growing our economy, and strengthening our communities. This tax is doing the exact opposite, and that is why I think, together, we are here saying --

*Chairman Thompson. The gentleman's time has expired.

*Mr. Schneider. With that I yield back.

*Chairman Thompson. Mr. Ferguson, you are recognized.

*Mr. Ferguson. Thank you, Mr. Chairman. And first, let me say, Lieutenant Mitchell, thank you for your service and your willingness to make our community safer. For every first responder we are very grateful for your willingness to put your life on the line. So thank you very much for that.

*Mr. Mitchell. Thank you.

*Mr. Ferguson. I am -- I was a former mayor. I am a former mayor. I was elected to office right before this opportunity to run for Congress came up. So it is very interesting, listening to those in local government talk about your communities, because you are talking about trying to provide all of the services that you have on what are remarkably high tax values and property values.

And I was a mayor of a town of about 4,500 trying to do it on the exact opposite side of that, where we had property values -- many of the homes that you showed about a house that was $900,000 may have been closer to 70 or $80,000 in my community. So, as a local mayor, we did the same things that you are doing on a fraction of the budget: paved roads, found ways to fund education, built utility systems, rebuilt utility systems, serviced those utility systems. You know, we provide for fire, EMS, police protection, all in a small community, and we did these things at a very, very high level. And we were able to do it in a fairly low-tax environment.

I think it was just remarkable to hear the differences in our communities. And Mayor Tarter, I think you made the comment, you said people move to our communities because they value being there. Correct? And I think that is why most people do move to a community, is they see themselves as part of that community.

But then you also said that the taxes are burdensome on them, but they make a choice, and they make -- and they -- local communities, I think, dictate what they want and what they are willing to pay for. I have seen that across the board.

So one question. For each of you that has been in local government and been in charge of a budget, have any of you voted to lower property taxes?

*Mr. Tarter. Yes. As a matter of fact, one of the first things I did when I got on council -- our local government had a surplus, and so I proposed a refund check, tax refund, for everybody in the city. And that ultimately passed. So I am very tax sensitive on a personal level and maybe even more --

*Mr. Ferguson. So having lower taxes is something that people generally like.

*Mr. Tarter. They do. I mean, as I said --

*Mr. Ferguson. Okay, very good.

*Mr. Tarter. -- our community values --

*Mr. Ferguson. Do any of you -- let me ask you this. Have any of you voted or proposed budgets that were smaller in one year than they were the previous year? Or each year do the budgets get bigger and bigger?

*Mr. Tarter. So during recessions our city has had budgets that shrank, and our school budgets shrank in periods of time when, you know, things were difficult.

*Mr. Ferguson. So when they are -- there are times where finances get tough, then you find ways to tighten your belt and still provide the excellent services that your community expects.

*Mr. Tarter. Well, I would say this, that our services probably weren't as --

*Mr. Ferguson. Yes or no, Mayor.

*Mr. Tarter. Well, I mean, I guess I can't give you a yes or no. I would say --

*Mr. Ferguson. Okay, reclaiming my time, Ms. Kaeding, we have heard a lot about double taxation. Can you, number one, ask or tell us -- has there ever been a case where there have been limitations on SALT deductions in the past? And can you talk a little bit -- just give me your thoughts on the double taxation issue.

*Ms. Kaeding. I will answer the questions in reverse, if that is okay.

*Mr. Ferguson. Okay, sure.

*Ms. Kaeding. First, I actually would disagree with my former colleagues here, that this is not double taxation. This does not meet the economic definition of double taxation. Instead, what we have is that federal taxes pay for the delivery of federal services, and state taxes pay for the delivery of state services, local taxes pay for the delivery of local services. These are different and distinct taxes, paying for different types of services.

The first question, historically, there have been other limitations at the federal level to the SALT deduction. Namely, the Alternative Minimum Tax, which was passed in 1969, with a concern about high-income individuals using deductions too freely. And so, while this is the first time we have explicitly limited the SALT deduction, we have implicitly limited it for many, many years.

*Mr. Ferguson. Okay, thank you. Real quickly, do you think raising the corporate tax would have a negative impact on the economy? Yes or no.

*Ms. Kaeding. Yes, it would.

*Mr. Ferguson. Okay, with that, Mr. Chairman, I yield the balance of my time to Mr. Smith.

*Mr. Smith. Thank you. There was earlier reference to the honorable service of Dave Camp. And let me just make sure that the record would reflect that the Camp draft actually eliminated all state and local tax deductions -- all. And so, while I appreciate the positive reference to Mr. Camp, he is a good guy, the current policy reflects a compromise and a reflection of input from many folks and jurisdictions all across the country. Thank you.

*Chairman Thompson. I thank the gentleman.

Now, what we have all been waiting for, I yield to Mr. Pascrell for five minutes.

*Mr. Pascrell. Thank you, Mr. Chairman. Now that we know that we are on the greasy path to get rid of all deductions -- if you watch the debate in 2017, that is why you were going to get a tax -- your taxes back on a postcard. Simple. I am glad that everybody in this room agrees that filling out your taxes now is more simple. And you know it is going to be even more simple when you don't have any deductions.

So let's look at some of the things that has been said today, Mr. Chairman, Ranking Member. This has been said. You know, charitable deductions, we agree with that, it helps a lot of people, a lot of country -- a lot of people within our counties. The charitable deduction, would you believe it or not, goes to taxpayers over $1 million, 59 percent of it. Want to end deductions tomorrow morning? They will be one of the ones on the chopping block. We got to make that tax form as short as possible. Charities do good work in our communities. So do state and local governments.

I wish my brother from Georgia was still here, former mayor, 4,500 people. I was the mayor of the third largest city in New Jersey. We have mandatory costs. I know, without asking him, he has a volunteer fire department. There is a big difference in cost between a volunteer fire department and a paid fire department. So there is a big difference in the town that you manage, you operate. This is serious stuff we are talking about today.

I have heard a lot of crocodile tears about all of this money that is in terms of property taxes, and the deduction for state and local taxes that is going to the rich. Well, let's take a look at that.

Chairman Thompson, thank you for having this hearing. We know how far back the SALT deduction goes. In Lincoln's Revenue Act of 1861 it was pronounced. Mind you, it is probably the oldest deduction we have.

The SALT cap is a double tax that is devastating my home state of New Jersey. I have never seen such punitive tax policy since I have been on this earth. It was, literally, designed to pit states against each other.

So these are -- there are those who say SALT is for the rich. I say that is 100 percent poppycock. I will define that, if you are not sure about it.

Last year half of the population of New Jersey lived in middle-income households. Capping the SALT deduction hurt these middle-class families. And I am determined to reverse that policy.

You had to come up with $600 billion to feed the cats at the top. I put it a different way than the report that many of you referred to before. So where were we going to get $600 billion? Let's go to the 12 states that pay the most into the residents, in terms of deduction of the property tax in the state tax.

Every county in New Jersey, except for one, has an average SALT deduction over the $10,000 limit, with 80 percent of the households making under $200,000. The report that was referred to before, the middle class is $100,000. I don't know what middle class we are talking about here, I really don't. Because we know the middle class is more than $100,000. We are not talking about 1962. The average in Bergen County, which is part of my district -- how about this? The deduction, $25,000.

So it is very different, and being the mayor, and trying to put things together when you have 4,500 people in it, than a mayor where there is 160,000 or millions of people. There is a whole different ball game here, a whole different ball game.

So capping SALT is bad for the communities in the State of New Jersey. Who should care? You don't live in New Jersey. But we are all in this together. I don't -- and tax fairness is what this is all about. What is good for the poor and the middle class is good for rich people, too. They pay their taxes.

So I don't want to hear complaints from those who are saying --

*Chairman Thompson. Thank you, Mr. Pascrell, your time is expired.

*Mr. Pascrell. Can I finish my sentence?

*Chairman Thompson. Quickly.

*Mr. Pascrell. Thank you. I don't want to say that I am concerned mostly that the money is going to the rich. That is why my legislation asked for an increase from 37 to 39 percent, to begin to pay for this. We need to start to pay for things.

Thank you, Mr. Chairman. I yield back.

*Chairman Thompson. The gentleman's time has expired.

Mr. Panetta, you are recognized.

*Mr. Panetta. Thank you, Mr. Chairman, Ranking Member Smith. Thank you to the witnesses for this opportunity to talk about a very important issue, not just for my community, but, clearly, as you have heard, for this country. It is one of the great things about this committee, about this Congress. We have a lot of diverse and divergent views. But, obviously, you are here to provide us with evidence upon which we can bring these views together, and hopefully find compromise when it comes to this important issue.

You know, I come from one of these communities that is very expensive to live in: there is no doubt about it, the central coast of California. If you turned on the TV last weekend, and watched the U.S. Open, you saw my district, Pebble Beach. But you also didn't see -- not just -- you saw a lot of beauty there, which we have, but we also have a lot of bounty, a big ag district, number-one industry in my area.

So it is -- so, you know, kind of jumping off what Mr. Ferguson, Drew Ferguson, says, a good friend of mine, about, basically, people making a choice, yes, people make a choice to live in Pebble Beach, but they also make a choice to move to Salinas to work in the fields, because they are looking for opportunity.

But unfortunately, it is a very, very expensive place to live, not just in Pebble Beach, but in the Salinas Valley, in the Pajaro Valley, in the San Juan Valley there in Santa Cruz County and San Bernardino County. In fact, in Monterey County, the median household price is $600,000. In Santa Cruz County the median household price is $937,000.

And so we have been taking advantage of the SALT deduction, there is no doubt about it. It has helped out tremendously. Before the SALT cap was lowered, in Monterey County 53,000 families took that deduction for an average of over $15,000. In Santa Cruz County the deduction was even higher, with 47,000 families and taking an average deduction of $18,000. So we are one of those states that -- one of those communities that clearly relied, not just benefitted, but relied on that deduction in order to live in that place, be it to live there in Pebble Beach, or live there in the Salinas Valley.

And so -- and I apologize if you have already answered these questions. I had another obligation, another hearing, actually, for Ways and Means.

But Mayor Tarter, can you explain, just generally, how capping the SALT deduction has an outsized impact on localities that have that high cost of living?

*Mr. Tarter. Thank you very much. Yes, I can. For us, education, as I mentioned earlier, is really the cornerstone of our community. We spend over half of our budget on educating our children. And, as you know, we take all comers. Whoever wants to come to our community, we have to educate, and our enrollment has increased. Over the past 10 years enrollment has increased 35 percent. Our school budgets have increased commensurate with that.

But -- so it is going to hurt education, frankly, I think, in the long run, because it is the main part of our budget. And so -- but it is a shame, because this is one of the critical reasons why people come to Falls Church. It is our future, it is this country's future. And so I see the major impact happening on education funding.

*Mr. Panetta. Exactly. And Dr. Imhoff, I think you would agree this isn't just a blue state or a red state issue. This issue affects all of us, especially when it comes to education. Can you elaborate on that, as well?

*Mr. Imhoff. I totally agree, sir. And this is about -- largely, about public education, as you have heard about where a lot of this funding goes. And we are being asked to do more and more and more to serve our students, which is right. But that does take money. And at times it is suggested that we can just do more with less. And when we are being asked to do more and more and more, we actually need revenue to do that. And this, I think, is going to hurt that and, ultimately, hurt kids, which is why we need to reverse this decision.

*Mr. Panetta. Thank you. Now, Ms. Kaeding, I am going to save this last question for you for a couple of reasons. One, obviously, because of your expertise. But two, I had heard that it is your wedding anniversary today.

*Ms. Kaeding. It is, thank you.

*Mr. Panetta. And so, obviously, the major issue with the SALT cap is that it penalizes marriages. Married taxpayers and single filers face the same exact cap, $10,000. This allows unmarried couples to double the deduction if they file separately, and discourages marriage. Is this a fair or efficient way to treat married couples versus couples who may be sharing a home, but filing separately?

*Ms. Kaeding. If I was to suggest a possible place to look at revisiting the SALT cap to the committee, I do think that is a fair place to reconsider that decision. There is an implicit marriage penalty within the SALT deduction.

The tradeoff, of course, to fixing that is what level you fix that at. And the sacrifice then becomes revenue. I know that Representative Casten and Underwood have a bill that does this. It still would reduce federal revenues by about 225 billion over the next decade.

*Mr. Panetta. Great. Gentlemen, thank you for your service. Ma'am, happy anniversary. Thank you. I yield back.

*Chairman Thompson. I thank the gentleman for yielding back.

Mr. Gomez, you are recognized for five minutes.

*Mr. Gomez. Mr. Chairman, my district -- so I am not going to ask a question, but I do want to paint a picture. My district, I represent the 34th congressional district in California. And this is a community that runs from Hancock Park, multi-million-dollar homes -- you know, this is where a lot of the consulate generals from -- in Los Angeles live -- to downtown Los Angeles, to Skid Row, to unincorporated East LA, where a per-capita income is $19,000 a year. The prices in homes are skyrocketing. And it is really becoming out of reach for a lot of working-class individuals to even own a home. The SALT deduction has always made it -- and we reach the cap pretty quickly, and the price is going up and up and up.

So one of the things I know is the SALT deduction is a way that helps people get into a house. It is part of their calculation. It is part of the way that they balance their checkbook, so to speak.

So one of the things I want to emphasize is that the working-class people are impacted, but people that are also higher income. And one of the things I learned early on in my tenure as a public servant is that you got to represent everybody. So I represent those poor folks in City Terrace, who are struggling to get by, the working class, as well as the folks that are in Hancock Park. SALT is something that is -- the cap is hurting people, and I want to make sure that we look at it carefully.

I like the idea of the marriage penalty. How do you kind of do that? That is something I think we should look at.

With that, Mr. Chairman, I --

*Mr. Suozzi. Mr. Gomez, could I -- could you yield a minute or two of your time to me?

*Mr. Gomez. Yes, I would like to -- I will yield some time to Mr. Suozzi from New York.

*Mr. Suozzi. Thank you. So, Ms. Kaeding and Ranking Member Smith, I just want to point out one thing. A constituent called me up, a woman who is a full-time nurse. She works 50 or 60 hours a week, and her husband is a retired union supermarket worker. And between the two of them, their tax -- their incomes are $150,000 a year. And she was calling, crying, because her taxes were going up and she is choking.

She owns a $400,000 home with a $200,000 mortgage. Her bathroom has been leaking for the past couple of years. She hasn't been able to fix the bathroom because she lives day to day. And three of her sons have recently graduated from college. She has $200,000 in college debt for those kids. And she -- I asked her to come in. I met with her. I brought my accountant in, actually, to see -- you know, did she have a huge credit card bills? Did she go on big vacations? Does she go out to dinner all the time? No, she is very responsible in the way she lives her life. But she lives in a very expensive place to live in the United States of America. She works very, very hard. She and her husband had great jobs. They are responsible people.

Would you consider the person who is making $150,000 a year between her and her husband to be middle class?

*Ms. Kaeding. Using the IRS definitions of income, she would not fall in that definition. She would be in probably the top 10 percent of all income --

*Mr. Suozzi. Okay. Well, that definition, I think, doesn't apply when you look at people like this woman in my district, who is a hardworking person trying to get by, working 50 or 60 hours a week, and her husband had done the same until he got his small pension from the union supermarket job.

But these people are struggling every single day, and we need our colleagues to understand that in the United States of America we don't want to divide states against each other. We need to be together in this, and we can't separate our different states based upon the different costs of living that we have here.

And if you want to talk about things about middle -- about minimum wage and things like that, and how different things are, I will talk to you about it, and I will try and understand where you are coming from.

But this is hurting middle-class, hardworking families in my community and communities throughout this country that are middle-class people, as far as every single one of us, as a practical way of looking at things, believes. And they are suffering incredibly because of this cap on the state and local tax deduction.

Thank you very much, Mr. Gomez. I yield back my time.

*Mr. Gomez. Mr. Chairman, I yield back.

*Chairman Thompson. I thank the gentleman for yielding back.

Thank you, witnesses, for your testimony today. And Ms. Kaeding, happy anniversary.

Please be advised that members have two weeks to submit written questions to be answered later in writing. Those questions and your answers will be made part of the formal hearing record.

With that, the Subcommittee on Select Revenue Measures stands adjourned.

[Whereupon, at 12:00 p.m., the subcommittee was adjourned.]

Submissions for the Record:

Bill Parks, President, NRS

Michael Binder, Fiscal Equality Center

Phillip Weiden, Hudson Gateway Association of Realtors

Hugh J. Campbell Jr. CPA, CFCS

William C. Daroff, Senior Vice President for Public Policy and Director of the Washington Office, The Jewish Federations

John Smaby, President, National Association of Realtors

Gail J. McGovern, President and CEO, American Red Cross