TAX TAKE: Will a Corporate SALT Deduction Limitation Be Here and in Effect?

Tax Alert
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One of the significant and most controversial revenue raisers of the Tax Cuts and Jobs Act (TCJA), the $10,000 cap on the individual state and local tax (SALT) deduction, is set to expire at the end of 2025. House Republicans from high-tax states are leveraging their voting power in the slim GOP majority to secure a significant increase in the SALT cap in this year's budget reconciliation bill, although perhaps not as high as the $100,000 (single filers)/$200,000 (joint filers) cap proposed in the SALT Fairness and Marriage Penalty Elimination Act.

Limiting the SALT deduction for corporations was originally raised by the House Freedom Caucus as a funding mechanism for an increase in the individual SALT deduction cap. Although such a proposal might be a big revenue source, it raises significant policy issues. Its practical impact would be a rate increase on U.S.-based companies, which is contrary to the presumed tax relief and economic growth goals of the reconciliation bill. It would also negatively impact the capital available to create jobs, increase wages, and make investments. There have already been a number of thoughtful articles discussing the tax policy concerns and negative economic impacts of a corporate SALT deduction limitation.

To the extent the congressional tax-writing committees are evaluating a potential corporate SALT deduction limitation, they likely are grappling with the scope of any proposed limitation. One key issue is whether any limitation would affect only income taxes or be expansively applied to other non-income taxes. It's an important distinction: while an income tax is a net basis tax on profits, most (if not all) non-income taxes are gross basis taxes that are paid regardless if a business is profitable. These taxes mirror normal "costs of doing business" that qualify as deductible. Thus, while any limitation on corporate SALT deductions is problematic, an extension of such a limitation to non-income taxes would be a vast (and alarming) departure from basic principles of taxation.

Changes to the corporate SALT deduction hinge on its receptivity among congressional Republicans and the need for revenue offsets. As we've noted before, the need for revenue depends on the resolution of larger issues, including the current-law vs. current-policy baseline debate. Other factors include the scope of the president's campaign tax relief proposals to be included in the bill and the use of other potential funding options, such as additional federal spending cuts or limiting the length of the extension for certain expiring provisions. All of this must be resolved in the next two months to meet the GOP's goal of a bill-signing ceremony by Memorial Day. **#TaxTake**

In the News

Marc discussed key tax legislation challenges in *Accounting Today*, noting that while both the House and Senate have passed budget resolutions, "they have to agree to a concurrent budget resolution to unlock the budget reconciliation process."
