

STATE OF NEW JERSEY

GOVERNOR PHIL MURPHY

AG GREWAL SUES OVER FEDERAL CAP ON SALT DEDUCTION; COMPLAINT SEEKS TO INVALIDATE “DRASTIC” FEDERAL TAX LAW

From the New Jersey Office of the Attorney General:

Double Taxation Is Unconstitutional and Has No Historical Basis, States Explain

TRENTON – Acting to protect New Jersey residents in the face of an unprecedented and harmful change to the federal tax code, Attorney General Gurbir S. Grewal today joined three other states in suing the Trump Administration over its \$10,000 cap on the federal tax deduction for state and local taxes (SALT).

Joining New Jersey in suing both the Internal Revenue Service and the Treasury Department were New York, Connecticut and Maryland. The lawsuit seeks to prevent the federal government from enforcing the SALT deduction cap, and to have the cap declared invalid.

Governor Phil Murphy welcomed the action.

“What the Trump Administration enacted with the SALT deduction cap was nothing more than a tax hike on our working and middle-class families and seniors,” **said Governor Murphy**. “I made a commitment to New Jerseyans to provide long-term property tax relief when I signed legislation to preserve deductibility by enabling municipalities to create charitable funds. We will continue to fight to protect local taxpayers and businesses and I applaud Attorney General Grewal and the states of New York, Connecticut and Maryland for their leadership and action in challenging the constitutionality of this assault on our states.”

“Today we are making good on our promise to fight for New Jersey taxpayers – by taking legal action to protect our residents and restore fairness to the tax code,” **said Attorney General Grewal**. “Simply put, the federal government violated the constitution when it imposed new, arbitrary limits on the amount of state and local taxes that residents could deduct on their federal tax returns.”

In 2017, the Federal Government adopted a significant change to the federal tax code. Previously, taxpayers who itemized their deductions could deduct from their federal tax liability all money paid for state and local income, property and sales taxes. Under the new code, however, the same taxpayers are only permitted to claim a comparatively small deduction of up to \$10,000 for those taxes.

The lawsuit filed today notes that the so-called SALT deduction on individual federal tax liability has historically been recognized by Congress as essential under the Constitution. “A SALT deduction has been a part of every federal income tax law since the first federal income tax was enacted in 1861,” the complaint explains.

The lawsuit adds that the SALT deduction is necessary to prevent federal taxes from interfering with each state’s right to determine its taxation and fiscal policies, because federal taxes crowd the states out of traditional revenue sources like income, property and sales taxes.

The suit asserts that the federal government’s “drastic” decision to cap the SALT deduction at \$10,000 will significantly increase the federal tax liability for residents of each of the plaintiff states, including New Jersey. Homeowners who could once deduct the full cost of their local property taxes now can only deduct a fraction of those taxes. That will increase the cost of owning a home, which in turn will depress home values.

To make matters worse, the states explain, the federal government went after these states deliberately. Treasury Secretary Steven Mnuchin even said, the point of the changes to the SALT deduction was to “send a message to the[se] state governments” that Washington wants them to change their spending policies. That effort to coerce states, the complaint notes, is another reason why the latest SALT changes are illegal.

Today’s joining of the federal lawsuit by Attorney General Grewal is the Attorney General’s latest action aimed at protecting New Jersey residents from oppressive new federal tax policies under the Trump Administration.

In May, Attorney General Grewal wrote the U.S. Internal Revenue Service (IRS) urging that it stop “playing politics” and drop its plan to enact a rule that would prevent New Jersey residents from claiming deductions for charitable contributions made to their local governments. Governor Phil Murphy had previously signed a law allowing residents to receive property tax credits for such charitable contributions.

SALT_COMPLAINT.pdf (https://urldefense.proofpoint.com/v2/url?u=https-3A__t.e2ma.net_click_vdomw_nrddit_rm41kf&d=DwMFaQ&c=4BTEw-1msHjOY4ITcFLmDM6JB8x6ZgbU2J24IH0HZLU&r=xF3DPDNEH8rwpTwktOjb4MHQ0EgF6v3M0zt3hszQvyU&m=M452q9Urs-2gZEuz23pCehMvBcy50uTH8fZAltQFvdE&s=2IBI0QaPSsLbFU59-vW70ImKDo1MBUN8x3Z2a-PekMA&e=)

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