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Tax Cuts for the Wealthy Make True Tax Reform More Difficult

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A neighbor has parked his classic Jaguar in front of my apartment building for the last two months. Around it are a new BMW, a Mercedes, and two Audis.

The surfeit of pricey cars on my street is the product of our proximity to two swanky buildings and the fact that Washington D.C., where I live, charges just $25 a year for a resident to park a car in his neighborhood. Meanwhile, the going rate for a private parking space in my neck of the woods is $3,000 a year. In effect, the D.C. government provides a de facto subsidy worth millions of dollars to wealthy people who own nice cars.

A city councilperson recently broached a modest increase in the price of a residential parking permit but was quickly shouted down by constituents and her council colleagues, who insisted that $50 a year would be difficult for the poor people in our neighborhood.

I bring this up because the objections to our federal tax reform ending the deduction for state and local taxes—the current *bete noire* of tax reform's opponents—are not dissimilar, and come from some of the same people. Several friends and neighbors have informed me of their outrage that they will no longer be allowed this tax break, and say that they cannot understand how the Republican party can countenance ending such a *middle class* benefit.

However, a tax break for state and local taxes is economically unproductive and does not affect the middle class at all. At present only 30 percent of all taxpayers itemize their taxes and avail themselves of the deduction. With a doubling of the standard deduction—a central tenet in the tax reform legislation—that number will fall to just the wealthiest 5 percent, economists estimate.

In the hinterlands of Red America, that number is even smaller. In my hometown of Peoria, Illinois, a family earning $150,000 a year and living in the best school district (with the highest property taxes) that gives $1,000 to their church will not be affected by ending the deduction for state and local taxes. There are very few households in the area above this threshold, and those that are will a) have a lower tax rate, b) be able to use the higher standard deduction to offset much of their lost deductions and c) are not in need of government largess.

The $600,000 lawyer in the high-tax confines of Washington, DC—to single out just one of my complainants—will most likely not see lower tax rates make up for his lost tax deductions, but this person is *wealthy*, whether he wants to believe it or not. Making such people whole again should not be a goal of our tax reform, and to insist that not doing so is a flaw of reform is disingenuous.

Tax breaks should primarily be for things the government wants to incentivize: We want people to give to charity and save for retirement, so we have tax breaks for both activities in the tax code that aren't going away.

However, there is no fathomable benefit society gets from allowing taxpayers to deduct state and local taxes, so we ought not provide it a tax break. If we believe eliminating it creates some sort of inequity then we should deal with it by altering tax rates instead of perpetuating an economically dubious tax break.

Few poor people live in my neighborhood and those that do eschew a car—which is easy to do since we're close to mass transit—so the beneficiaries of cheap parking permits are almost exclusively the wealthy.

Likewise, only a small proportion of (wealthy) households would be impacted by the doubling of the standard deduction/elimination of the deduction for state and local taxes. To maintain this tax break for reasons of equity would not only be absurd, but would also make it more difficult to reduce tax rates—which ought to be the ultimate goal of any real tax reform.

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