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Press Release

Attorney General Frosh Joins Suit to Protect State Taxpayers from Increased Taxes Due to Limitations on State and Local Tax Deductions

Drastically Cutting SALT Deduction Could Cost Maryland Taxpayers Estimated $1.7 Billion in 2018 Alone;
New Federal Tax Law Targets and Will Disproportionately Harm Maryland, While Interfering with States' Rights to Make Own Fiscal Decisions

BALTIMORE, MD (July 17, 2018) – Maryland Attorney General Brian E. Frosh today joined a lawsuit to protect Maryland and its taxpayers from the drastic curtailment of the State and Local Tax (SALT) deduction. The lawsuit argues that the new SALT cap was enacted to target Maryland and similarly situated states, that it interferes with states' rights to make their own fiscal decisions, and that it will disproportionately harm taxpayers in these states.

The 2017 federal tax law drastically reduced the deduction by capping it at $10,000. Maryland relies on state property and income taxes to fund a variety of critical services, including education, health care, public safety, and other priorities. More than 500,000 Marylanders will lose $6.5 billion in SALT deductions – an average of $11,800 per taxpayer. These changes will also have harmful collateral consequences for the State and its residents. With the decreased value of the property tax deduction, for example, many Marylanders will see decreases in the value of their homes. Maryland residents will have an incentive to move elsewhere, and attracting young families and skilled workers to the State will become more difficult, putting Maryland at a competitive disadvantage.

"Eliminating the SALT deduction will jack up taxes for more than half a million Marylanders," said Attorney General Frosh. "It is an attack on state sovereignty. It will reduce funding for local law enforcement and for construction of infrastructure statewide, and it will cripple our ability to educate our kids."

As set forth in the complaint, the law flies in the face of centuries of precedent, which establishes constitutional limits on the federal government's ability to use its tax power to interfere with the sovereign authority of the states. For the entire history of the United States, federal income tax law protected the sovereign interests of the states by providing a deduction for all or a significant portion of state and local taxes. This uninterrupted history demonstrates that the cap on the SALT deduction is unconstitutional, as the lawsuit notes.

The lawsuit, filed today in the U.S. District Court for the Southern District of New York, was led by New York Attorney General Barbara Underwood and joined by the Attorneys General of Connecticut, Maryland, and New Jersey.

Among the other evidence cited in the complaint:

- Policymakers openly talked about coercing states like Maryland to change their policy choices. Treasury Secretary Steve Mnuchin said that the change was intended to "send a message" to states to get them to change their taxation and fiscal policies. Stephen Moore, who advised the Trump campaign on tax policy, said it even more bluntly, calling the SALT changes "Death to Democrats."
- The new provision will raise billions of dollars in federal taxes from Maryland and others in similarly situated states.
- By depressing home values, the new provision will hurt taxpayers in Maryland and other states, while also reducing state tax revenues – forcing states to choose between higher tax rates or cutting investments in education, public services, and other vital programs.
- The new cap on the SALT deduction also violates the constitutional principle of equal state sovereignty, by targeting a handful of states for unfavorable treatment based on their sovereign policy choices.

The lawsuit also highlights the enactment history of the Sixteenth Amendment, which confirms that the federal government's tax power has limits, and that it cannot be used to intrude on the sovereign authority of the states to determine their own taxation and fiscal policies.