



September 26, 2024

The Honorable Charles Schumer
Majority Leader
U.S. Senate
Washington, D.C. 20510

The Honorable Mitch McConnell
Republican Leader
U.S. Senate
Washington, D.C. 20510

The Honorable Mike Johnson
Speaker
U.S. House of Representatives
Washington, D.C. 20515

The Honorable Hakeem S. Jeffries
Democratic Leader
U.S. House of Representatives
Washington, D.C. 20515

Wayne A. Harper

President, NCSL
Senate President
Pro Tempore, Utah

John Snyder

Staff Chair, NCSL
Transportation Committee
Staff Administrator,
Kentucky Legislative
Research Commission

Tim Storey

Chief Executive Officer,
NCSL

RE: Federal Tax Legislation

Dear Majority Leader Schumer, Speaker Johnson, Republican Leader McConnell, and Democratic Leader Jeffries,

On behalf of the National Conference of State Legislatures, the bipartisan organization representing the legislatures of our nation's states, territories, and commonwealths, we write to you expressing support for comprehensive federal tax legislation and share with you tax principles developed by state lawmakers of NCSL's Budgets and Revenue Committee and State and Local Taxation Task Force. These principles are supported by current NCSL policy, which require a three-fourths adoption by states via delegates appointed by legislative leaders.

We acknowledge that any forthcoming tax legislation will have immense impact on the American household, working citizens and business entities as members of Congress consider far-reaching policies. To that end, NCSL has developed the following core principles and ask for their consideration. These issues, which include fiscal stability, child tax credit, SALT deductions and affordable housing, among other pertinent topics, are intricately linked to state policies and are often complementary in providing successful government services and economic opportunities to Americans.

As Congress moves forward, NCSL asks lawmakers to consider the following:

Fiscal Stability and Debt Reduction

NCSL recognizes the fiscal challenges of the federal government and continues to call on both the administration and Congress to consider serious, long-term reforms that will reduce the national debt and put the country on more sustainable fiscal footing. NCSL urges all options be on the table—discretionary and non-discretionary spending while also ensuring states are not disproportionately or unreasonably burdened by federal deficit reduction, including the preservation of financial commitments to state-federal programs and that any legislation be analyzed thoroughly for its potential impact on state and local governments.

Furthermore, any tax measure must not exacerbate the federal deficit nor widen the gap between the federal government's revenues and its spending obligations. The acceleration of federal debt threatens the ability of the federal

government to maintain its financial commitments and will result in higher costs for both the federal and state governments, especially due to the economic turmoil experienced during the threat of a federal default.

Child Tax Credit

NCSL supports tax credits for taxpayers with dependents under compulsory school age. The Child Tax Credit provides needed support to working families and NCSL supports its inclusion in any federal tax legislation.

State and Local Taxation Deduction

NCSL seeks a strong federal-state partnership and to preserve the ability of state and local governments to adopt fair and effective tax systems.

NCSL urges Congress to provide state and local income tax, sales tax and property tax deductions for federal income tax purposes and increase the current cap from \$10,000 to \$20,000 for joint filers while preserving the IRS' determination that pass-through entity tax election is a viable option to allow business owners to be able to deduct state taxes paid over the \$10,000 cap.

State Tax Sovereignty

NCSL seeks to preserve the ability of state and local governments to adopt fair and effective tax systems. This includes authorizing states with sales and use taxes to require interstate sellers to collect and remit those taxes. This ability is supported by court decisions, including *Wayfair v. South Dakota*. NCSL also supports states and the business community working together to continue to simplify and make their sales and use taxes more uniform to remove any undue burdens and encourages them to consider membership in the Streamlined Sales and Use Tax Agreement.

NCSL opposes any expansion of Public Law 86-272, the Interstate Income Act of 1959, and believes that states have the fundamental right to impose income tax on entities doing business within the state, subject to the limits imposed by the U.S. Constitution. NCSL strongly opposes any action by Congress which expands the prohibition of state taxation, such as H.R. 8021 introduced in the House on April 15, 2024.

Affordable Housing

NCSL is encouraged by and supportive of public private partnership programs and initiatives that increase the availability of financing for homeownership opportunities. NCSL supports first-time home buyer tax credits to promote homeownership prospects, preserving the mortgage interest deduction, efforts to assist families who lose their sole household due to national economic downturns and low-income housing tax credits that produce new affordable housing. NCSL supports the inclusion of the More Affordable Housing provisions under Title V of the Tax Relief for American Families and Workers Act.

Municipal Bonds

NCSL supports the need to maintain the tax-exempt status of state and local government bonds and lift existing restrictions on state and local government use of tax-exempt bonds.

Federal Postponement of Tax Deadlines

Hurricanes, wildfires, floods, and other natural disasters impact states across the country and a combined and coordinated federal, state and local government response brings quick relief to impacted Americans. One such measure is the IRS' ability to extend federal tax deadlines for personal and business federal remittances during an emergency declaration that allows assets destined for tax payments to be diverted to needed disaster response. NCSL recognizes federal responses to disasters begin with a state's own declaration, however, an unintended consequence exists with the IRS' ability to extend federal deadlines. Currently, an extension is statutorily at the discretion of the Secretary of

Treasury and does not require agreement by the impacted state after the state asks for an emergency declaration. As states' tax policies and deadlines are often tied to federal tax policy and deadlines, such a decision can have adverse consequences on states, including hampering a state's ability to pass a budget in a timely manner, as it cannot fully understand its receipts from the preceding tax year in the event of an extended delay. NCSL asks federal policymakers to pass legislation, after consultation with states, which reduces adverse consequences by allowing states to have greater input in the extension decisions that ultimately strengthen a combined, coordinated response by federal, state and local governments.

Social Security

NCSL strongly believes the federal government has an obligation to preserve the financial integrity of the Social Security system and assure the long-term solvency of the program. State legislatures believe Social Security must ensure a safety net for low-income older retirees as well as provide survivor benefits and disability insurance. It is critical that all workers paying into the system have confidence that Social Security will continue to be available to them at retirement or to provide for their survivors after their death. NCSL believes efforts to assure solvency should strengthen the existing program upon which so many beneficiaries and their families rely. In addition to protecting and strengthening Social Security, Congress should continue to encourage private savings and employer-provided pension plans as important components of retirement savings.

American Innovation and Growth

NCSL encourages the use of smart federal tax policy to promote economic growth and business-friendly climates. We urge the adoption of legislation under Title II of the Tax Relief for American Families and Workers Act of 2024, including policies that support research and development (Section 174), bonus depreciation (Section 179), Pass-Through Business Deduction (Section 199A), and allowing depreciation, amortization or depletion expense to be excluded from the calculation of adjusted taxable income in determining the interest expense limitation (Section 163(j)).

Support for Lower-Income and Working Families

NCSL encourages the preservation of federal tax policy that provides support to lower income and working families, such as a generous standard deduction rate proportionate with itemized deduction incentives.

Earned Income Tax Credit

The Earned Income Tax Credit (EITC) primarily aims to improve the financial security of working families with low incomes and increases work incentives. NCSL supports an extension of the EITC to workers with low incomes who have no dependents regardless of age, including those ages 65 and older, provided they are not dependents themselves.

However, the current structure of the federal EITC limits its effectiveness to provide financial security and work incentives for childless and older workers. The maximum size of the credit for those individuals is much smaller than for families with children. Income eligibility limits are several times lower as well. On top of that, eligibility is restricted by age to those between the ages of 25 and 64. In 2021, under the American Rescue Plan, policymakers repealed the age restrictions and increased the amount of the credit almost threefold for childless workers; these modifications expired at the end of 2021. NCSL recommends more effective inclusion of workers aged 65 and over with low incomes who do not have a qualifying child and are without dependents. NCSL also recommends federal efforts to help promote education and counseling programs to facilitate awareness and utilization of credit.

Caregiving

NCSL supports the federal government providing tax credits, other financial assistance, or both to caregivers. NCSL advocates that the federal government encourage employers to use existing tax incentives, such as flexible spending accounts for dependent care, to provide dependent- or family-care benefits. This is critical for America's more than 48

million family caregivers who assist their older parents, spouses, siblings, grandparents and other loved ones so they can live independently in their own homes—where they want to be.

State legislative leaders stand ready to work with Congress in ensuring passage of comprehensive federal tax legislation. If you have any questions regarding the principles, please contact Brian Wanko, Senior Legislative Director for Budgets and Revenue, State-Federal Affairs at brian.wanko@ncsl.org.

Sincerely,



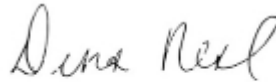
Representative April Berg
Member, Washington House of Representatives and
Co-Chair, NCSL Budgets and Revenue Committee



Senator Tim Reed
Member, South Dakota Senate and
Co-Chair, NCSL Budgets and Revenue Committee



Senator Curtis Bramble
Member, Utah Senate and
Co-Chair, NCSL State and Local Taxation
Task Force



Senator Dina Neal
Member, Nevada Senate and
Co-Chair, NCSL State and Local Taxation
Task Force

Cc: The Honorable Ron Wyden, Chair, U.S. Senate Committee on Finance
The Honorable Mike Crapo, Ranking Member, U.S. Senate Committee on Finance
The Honorable Jason Smith, Chair, U.S. House Committee on Ways & Means
The Honorable Richard Neal, Ranking Member, U.S. House Committee on Ways & Means