Will SALT cap stop Washington shoppers?

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The state and local tax (SALT) deduction allows taxpayers to deduct expenses like property, income, or sales taxes from their federal income tax. It primarily benefits high-income households in high cost-of-living states. Under the new tax law, the SALT deduction is subject to a cap of $10,000 – it previously had no limit – a change that could affect the spending patterns of affluent taxpayers, including nearly a third of households in Washington state.

What's changing

The SALT deduction has two parts:

- A deduction for property taxes
- A deduction for state income tax *or* state sales tax, whichever is greater

The $10,000 cap applies to the total of the two parts.

In states like California and New York, where high state income taxes will eat up most of the SALT deduction, the cap is likely to affect homebuying decisions, as prospective home purchasers seek to minimize their property taxes. But in states like Washington, which have no state income tax and therefore rely on high sales taxes to generate revenue, the cap will likely impact the purchase of such items as luxury cars and high-end jewelry, as buyers discover they cannot deduct the full amount of the sales tax on these pricey goods. That said, in Washington state the average SALT deduction has historically been about $7,400, which means most Washington households that take the deduction are not likely to be affected.

Immediate impact

Because the cap took effect on January 1, 2018, car dealers in Washington saw a rush in business at end of 2017, as homeowners with high property taxes tried to finalize auto purchases before the new law kicked in. At the average U.S. effective property tax rate of 1.08%, a home would have to be worth nearly $926,000 for property tax to max out the entire SALT deduction. In Washington's King County – home to Seattle and many affluent suburbs – the average home price is nearly $700,000; thus property taxes could eat up the entire SALT deduction for many homeowners, rendering the sales tax deduction useless.

Got loopholes?

Almost 90 percent of the SALT deduction benefit goes to taxpayers with income higher than $100,000, which makes it a non-issue for most Americans. But middle class is a relative term, and in Seattle and many of its suburbs, a million-dollar house is not necessarily a mansion. Amid claims that the new tax law targets the administration's political enemies, some states are looking for workarounds, although so far Washington is not one of them.

Reduced spending?

For anyone who didn't get a new car for Christmas, the Washington state sales tax is 6.5%; add county and city sales taxes and surcharges, and car buyers may pay up to 10.7% in sales tax. With Seattle traffic entering a "period of maximum constraint," the owner of a million-dollar 1970's ranch house (or "rambler," as the locals call them) may hesitate to spring for that new SUV this year.

But what about the true big spenders? Will a cap on the SALT deduction change how people shop for a $100,000 starter-yacht? Probably not.

Tagged money, state and local tax, state tax, tax law, taxes, taxpayer, Washington State

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