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Commitment to Cutting Corporate Tax Rates Should Guide Congress on C-SALT

by

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Congress is negotiating a reconciliation bill to extend 2017 tax cuts that are set to expire later this year along with additional tax reforms to promote investment and job growth. Reportedly, some members of Congress have proposed eliminating or reducing corporate state and local tax (C-SALT) deductions. However, curbing or doing away with C-SALT deductions could result in higher tax burdens that undermine long-term U.S. economic output and job opportunities.

To improve America's economic competitiveness with foreign nations and promote U.S. job markets, Congress should steadfastly seek to lower the corporate income tax rate to 15% or less. Importantly, Congress should not reduce C-SALT deductions – unless it also lowers the federal corporate tax rate commensurately and thereby reduces the overall tax burden on American businesses.

The narrow Republican majorities in the U.S. House of Representatives and the Senate are negotiating tax reforms using a fast-track procedure known as budget reconciliation. Reforms being considered include extending certain tax cuts established by the 2017 Tax Cuts and Jobs Act that are set to expire at the end of this year. Likely changes also include eliminating individual income tax cuts on Social Security benefits, overtime pay, and tips. Additionally, many members of Congress are looking at reducing the federal corporate income tax rate from 21% down to 15% to enhance American economic investment and growth.

In his February 5, 2025, *Perspectives from FSF Scholars*, "Low Corporate Tax Rates Attract Global Capital, Drive Economic Growth," Free State Foundation Senior Fellow Andrew Long explained that reducing the federal corporate tax rate to 15% would bring the average combined federal-state corporate income tax rate below the roughly 24% average rate among 37 non-U.S. nations in the Organization for Economic Co-operation and Development (OECD). (Currently, the average state corporate income tax rate is 6.5%). If passed by Congress, the corporate tax rate reduction would make America more economically competitive with numerous foreign nations and improve private market investment in our nation.

Additionally, my April 1 *Perspectives from FSF Scholars*, "Cut Corporate Tax Rates to Help American Consumers and Workers" highlighted economic studies showing that a significant portion of the costs of corporate taxes ultimately fall on consumers and workers. Reducing the corporate income tax rate to 15% or less would reduce the tax cost burdens that are passed on to American consumers and workers.

President Donald Trump's endorsement of a federal corporate income tax rate reduction to 15% during his 2024 presidential campaign most likely has helped to ensure the inclusion of such a reduction among the tax reforms being negotiated in the congressional budget reconciliation process.

However, extending the 2017 tax cuts and adding new tax cuts reduces projected tax revenues, at least under the static accounting methodology employed by the Congressional Budget Office. Some members of Congress reportedly propose to partially "offset" revenue reductions by eliminating or reducing existing corporate state and local tax deductions. Under the federal tax code, individuals and corporations can deduct their annual state and local tax payments from their federal income tax obligations. The corporate state and local sales tax deduction is known as "C-SALT." According to an analysis published by the Tax Foundation on March 24, 2025: "Disallowing a deduction for state and local corporate income tax paid would raise $209 billion in revenue over 10 years if the deduction is fully repealed. Applying the limit to property taxes would raise an additional $223 billion over the same period."

However, increasing tax revenues by eliminating C-SALT deductions has definite negative consequences for economic growth and jobs. A prospective C-SALT elimination would amount to an effective rate hike. The Tax Foundation concluded that eliminating the C-SALT for state and local income taxes paid would raise the "all-in rate" or effective marginal tax rate by about 1.2% and thereby "reduce long-run economic output by 0.1 percent, roughly the same economic impact as a 1 percentage point increase of the corporate income tax." Also, the Tax Foundation determined that C-SALT elimination would "reduce hours worked by 28,000 full-time equivalent jobs." Moreover, the negative effects were even more pronounced if deductions for state and local property taxes were to be cut out. The Tax Foundation found that "eliminating the deduction for income and property taxes would reduce output by 0.6 percent and hours worked by 147,000 full-time equivalent jobs."

Determining the right policy approach for C-SALT is a concededly complex task because it involves balancing different considerations, at least some of which appear to be in tension. For instance:

- C-SALT has been characterized as integral to the design of the federal corporate income tax – as a tax on *net* income (and not a tax on gross receipts), and thus state and local taxes paid are business costs that should not be subject to federal taxation.

- C-SALT has been described as functionally different from individual SALT deductions – which under the 2017 Act are capped at $10,000 per individual – because SALT deductions benefit high-income earners in high-tax states and localities, thus making limits on individual deductions necessary to curb implicit subsidies to high-income earners in high-tax jurisdictions.

- C-SALT deductions have been described as particularly important when it comes to state and local property taxes because those taxes fall the hardest on improvements to property, and property taxes are especially burdensome to the manufacturing industry.

- C-SALT has been criticized as part of a system that treats business entities differently for tax purposes – as C-SALT is generally applied to businesses like C corporations that are taxed at the entity level, whereas it is not generally applied to partnerships and limited liability companies (LLCs) which are subject to pass-through tax treatment.

It will be up to members of Congress engaged in the budget reconciliation process to navigate those complex, sometimes competing, concerns regarding C-SALT and reach a proper resolution. A compromise involving C-SALT likely could come in one of numerous potential options. However, finding optimum solutions when it comes to C-SALT ought to be a second-order concern of Congress.

A first-order concern should be to reduce the *overall* marginal tax rate for corporations to ensure that the U.S. can compete globally against OECD and other nations. A federal corporate income tax rate reduction to 15% would enhance America's global competitiveness with foreign countries. In addition to such a rate reduction, Congress could join new C-SALT limits with pro-growth reforms such as making permanent 100% bonus depreciation expensing and also making permanent the research and development (R&D) deduction.

The all-important point is that Congress should pare back C-SALT *only if* it is part of a larger reform framework that reduces the effective corporate tax rate and thereby promotes U.S.

economic growth. Without such a rate cut, any elimination or reduction of the C-SALT almost certainly would result in effective marginal rate tax increases that would be detrimental to economic output and jobs. In no event should members of Congress engaged in the budget reconciliation negotiations consider raising the effective corporate income tax rate above the current level.

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