



BETTY T. YEE
California State Controller

June 7, 2017

The Honorable Orrin Hatch, Chairman
U.S. Senate Committee on Finance
104 Hart Senate Office Building
Washington, DC 20510

The Honorable Ron Wyden, Ranking Member
U.S. Senate Committee on Finance
221 Dirksen Senate Office Building
Washington, DC 20510

SUBJECT: Preservation of the Federal Tax Deduction for State and Local Taxes

Dear Chairman Hatch and Ranking Member Wyden:

As California's chief fiscal officer and leading tax official, I write to express my strong objection to the president's tax reform proposal that would eliminate the federal deduction for state and local taxes. California is an economic powerhouse accounting for nearly 14 percent of the nation's total gross domestic product and is the top contributor to the national economy. Subjecting our taxpayers to several billion dollars in additional federal tax liability will hamper the economic growth of our nation. Every extra dollar of state and local taxes not recaptured by taxpayers is money not available to purchase goods and services or support local businesses. Jobs will be lost, new jobs will not be created, and our current economic expansion will likely be blunted or reversed entirely. Ironically, hobbling California's economy – the nation's most prolific – will likely only reduce income tax revenue received by the federal government.

The proposal also puts California companies at a national and international disadvantage in competing for highly skilled workers. Employment will be less attractive in states with high income tax rates compared to states that have no income tax. I especially am concerned the proposal may disproportionately affect California's technology sector, which relies heavily on highly skilled and highly compensated individuals to thrive. Under this proposal, California taxpayers will bear a heavier burden than all other states with nearly 20 percent of all new tax revenue going to the federal government. In comparison to other large states, New York's share is 13.3 percent, Texas 3.9 percent, Pennsylvania 3.7 percent, Ohio 2.9 percent, and Florida 2.8 percent.

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Due in part to the federal tax deduction, California's state and local governments have the ability to levy taxes at an appropriate rate to support vital public services such as education, health care, transportation, and public safety. Additionally, local governments have the ability to fund infrastructure projects necessary for economic development that help maintain the quality and vitality of communities for residents and businesses. The president's proposal puts these investments directly at risk by increasing the cost of state and local expenditures and "crowding out" available capacity to tax.

A tax system that incentivizes economic opportunity, supports strong financial management, and provides sustainable revenues to fund current expenditures is a concept I value deeply. Meaningful efforts to achieve these goals through state tax reform will become more complicated by federal budget recommendations that fundamentally seek to alter the long-standing federal-state relationship relating to the power of taxation. Indeed, the argument supporting the federal deduction for state and local taxes can be attributed to the *Federalist Papers*, with the idea that governments must have the ability to adequately provide for their local communities.

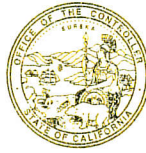
Thank you for your consideration, and please feel free to contact me at (916) 445-2636, or your staff may contact my Chief of Staff Karen Greene Ross at (916) 327-1361, if there is any further information you need.

Sincerely,



BETTY T. YEE

cc: Members, U.S. Senate Committee on Finance



BETTY T. YEE
California State Controller

June 7, 2017

The Honorable Kevin Brady, Chairman
U.S. House Committee on Ways and Means
1011 Longworth House Office Building
Washington, DC 20515

The Honorable Richard Neal, Ranking Member
U.S. House Committee on Ways and Means
341 Cannon House Office Building
Washington, DC 20515

SUBJECT: Preservation of the Federal Tax Deduction for State and Local Taxes

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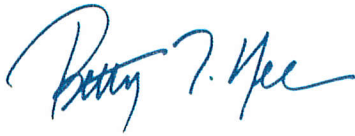
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