Reducing Business State and Local Tax Deductions Should be Off Limits Without a Rate Cut

Business Income Taxes Should Only Head in One Direction: Down, Not Up.

March 26, 2025

Dear Members of Congress,

President Trump campaigned and won on cutting the corporate income tax rate to 15 percent – a position he has held since 2016 – to further increase domestic manufacturing and production in the U.S.

Despite this, some Republican lawmakers are now proposing a reduction or elimination of the corporate state and local tax (C-SALT) deduction as an "offset" in reconciliation. These proposals would increase marginal tax rates on businesses and would move in the opposite direction of the President's campaign promise.

Any limitation on the C-SALT deduction should be rejected by lawmakers unless it is used to cut the corporate income tax rate.

In contrast with President Trump's call to cut the corporate rate to boost domestic manufacturing, "capping C-SALT is a backdoor increase in effective corporate income tax rates," according to the Tax Foundation, with the heaviest tax burden falling on the American manufacturing industry.

A March 24th study conducted by the Tax Foundation found that manufacturers pay the highest share of corporate state and local taxes overall at 6.3 percent of value-added, amounting to $179.2 billion in corporate state and local taxes paid for 2025. Limiting C-SALT would increase tax burdens on manufacturers more than any other industry.

An earlier study conducted by the Tax Foundation released on March 3rd concluded that limiting C-SALT reduces the number of jobs while shrinking the economy:

> "From an economic standpoint, new limits on corporate SALT would increase marginal tax rates on corporate investment, reducing long-run output. We estimate that repealing C-SALT for state and local corporate income taxes paid would reduce long-run

> GDP and American incomes by 0.1 percent and reduce hours worked by 21,000 full-time equivalent jobs. Going further and disallowing corporate property tax payment deductibility would reduce GDP and American incomes by 0.2 percent and reduce hours worked by 46,000 full-time equivalent jobs."

President Trump made it clear that the only direction his administration plans to take taxes on American businesses is down, not up. Americans for Tax Reform agrees with the President. Even at our current 21 percent federal corporate rate, our average state-level rate of 4.6 percent pushes us above the corporate rate of communist China. We must cut the corporate rate to compete. Reducing or eliminating C-SALT without a corresponding corporate rate cut would block the most viable path to reducing the corporate income tax rate for the foreseeable future by removing the most obvious "pay-for."

Trump's corporate rate cut from 35 percent to 21 percent was the most pro-growth provision of the 2017 Trump tax cuts, substantially boosting domestic investment, ending corporate inversions, increasing workers' wages and increasing household take-home pay. **Republicans wisely prioritized this provision in 2017 by making it permanent law.**

Republicans managed to defend Trump's 21 percent corporate rate throughout the entirety of the Biden Administration, including two years of full Democrat control of Washington. They should not abandon that fight now by enacting a de facto corporate rate hike when Republicans control the House, Senate and the White House after President Trump campaigned on cutting the rate further.

Corporate income taxes exist so the government can hide the ball on who really pays taxes. They are hidden taxes on American workers, retirees and households. Businesses do not pay taxes. There is no Mr. General Motors paying taxes.

Studies consistently show that higher corporate taxes disproportionately reduce wages for young workers, the low-skilled, and women due to significant barriers to working, like limited transportation and childcare costs.

I urge Congress to build on the success of the Trump Tax Cuts by enacting pro-growth tax policy and reducing the burden of income taxes on American businesses. Reducing or eliminating the C-SALT deduction runs counter to these goals.

As lawmakers craft tax policy for reconciliation, I urge you to reject reducing or eliminating C-SALT unless it's used for corporate rate reduction.

Similarly, the current ability of pass-through businesses to deduct their state and local taxes paid on business profits should be left alone to maintain parity with corporations. The tax code should not discriminate based on a company's chosen business structure and should instead treat similar sources of business income the same regardless of the business being incorporated or not.

I encourage all members to prioritize making the historic 2017 Trump Tax Cuts permanent law and building upon their success by including the additional pro-growth tax cuts President Trump campaigned and won on.

Onward,

Grover Norquist
President, Americans for Tax Reform