

SALT Deduction Cap Under OBBBA: Key Takeaways for High-Income Taxpayers and Pass-Through Entities

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The One Big Beautiful Bill Act (OBBBA), recently signed into law, contains a number of important federal tax changes, most notably a temporary expansion of the state and local tax (SALT) deduction cap. This provision is of particular interest to taxpayers in high-tax states such as New York, New Jersey, and California, where the current \$10,000 cap has long been a point of contention. While the new rules offer temporary relief, they also introduce new complexities, including income-based limitations that could significantly reduce the benefit for higher earners.

SALT Cap Temporarily Increased

Beginning in tax year 2025, the SALT deduction cap will increase from \$10,000 to \$40,000 for joint filers (from \$5,000 to \$20,000 for separate filers). Starting in 2026, the cap will rise by 1% annually through 2029, after which it will revert to the original \$10,000 level in 2030.

The increased SALT cap comes with a caveat for higher-income taxpayers. Under

the new law, the benefit is reduced by 30% of the amount by which a taxpayer's modified adjusted gross income (AGI) exceeds certain thresholds —starting at \$500,000 for joint filers in 2025 (\$250,000 for separate filers) and increasing by 1% annually through 2029.

As a result, the actual deduction available under the expanded SALT cap could be significantly diminished or even eliminated for high-income individuals. Despite this, the law guarantees all taxpayers a minimum SALT deduction of \$10,000, even if the income-based phaseout would otherwise reduce their allowable deduction below that amount.

The following examples illustrate the impact of the phaseout:

EXAMPLE 1: A couple with \$550,000 of AGI in 2025 would exceed the \$500,000 threshold by \$50,000. Applying the 30% phaseout, \$15,000 of the deduction would be disallowed. Starting from the \$40,000 cap, the taxpayers would still be eligible to deduct \$25,000 in SALT.

EXAMPLE 2: A couple with \$750,000 of AGI would see \$250,000 of income over the threshold. That would result in a \$75,000 reduction in their allowable deduction. Since this exceeds the \$40,000 cap, the deduction would phase down to the minimum guaranteed amount of \$10,000.

Pass-Through Entity Taxes (PTET) Deductibility

Earlier drafts of the legislation had proposed eliminating or severely restricting deductions for PTETs. However, the final version of the bill **does not** include any such restrictions. As a result, the PTET deduction remains fully available under current law—a relief for many business owners and professional service firms that rely on PTET regimes to circumvent the federal SALT deduction cap.

It should be noted that PTET elections are enacted in 36 jurisdictions. 26 states and localities, including New York State/City, New Jersey, and Connecticut, have enacted permanent PTET regimes and five states (Colorado, Iowa, Massachusetts, Michigan, and Minnesota) have regimes linked to the federal SALT cap. Consequently, these regimes will continue to be available with the passage of the OBBBA. However, four

states (Illinois, Oregon, Utah, and Virginia) have PTET programs scheduled to sunset on December 31, 2025, and will need to pass legislation to extend these regimes. California's statute was similarly set to expire but the state recently passed new legislation extending its PTET program for an additional five years.

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Conclusion

While the OBBBA's expansion of the SALT cap provides temporary relief for some taxpayers, especially those below the phaseout threshold, the overall impact is nuanced. High-income individuals may see only marginal benefits due to income-based reductions. However, the final legislation preserves the PTET deduction, which will continue to benefit many taxpayers.

For more information on how the SALT deduction cap changes affect your 2025 tax planning strategies, please contact [Alan Goldenberg](#), Principal and Leader of the State and Local Taxation (SALT) and Tax Controversy groups, or your Anchin Relationship Partner.