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Abstract: One Big Beautiful Bill Act, signed into law on July 4, allows more taxpayers to deduct their full state and local tax expenses. Here's a rundown.

Enhanced SALT tax break will help many homeowners

The One Big Beautiful Bill Act (OBBBA), enacted on July 4, will allow more taxpayers to fully deduct their state and local tax (SALT) expenses (including property tax), providing much-needed breathing room to many Americans. Here are the details.

SALT deduction expanded

Under the Tax Cuts and Jobs Act, the itemized deduction for state and local tax (SALT) was limited to $10,000 ($5,000 for married individuals who file separately) beginning in 2018.

This limitation negatively affected taxpayers living in locations with high state income tax rates and those who pay high property taxes because:

- They live in a high-property-tax jurisdiction,
- They live in a location with high property values,
- They own an expensive home, or
- They own both a primary residence and one or more vacation homes.

Thanks to the OBBBA, for 2025 through 2029, the SALT deduction limit increases from $10,000 to $40,000 (or $20,000 for separate filers) with 1% annual inflation adjustments. So, for 2026, the cap will be $40,400 ($20,200 for separate filers).

But unless Congress takes further action, in 2030, the SALT deduction limit is scheduled to revert to the prior-law limit of $10,000 ($5,000 for separate filers).

Note: Several states have established SALT deduction workarounds for pass-through entities. These workarounds are not addressed or limited by the OBBBA.

Smaller benefit for some taxpayers

Under OBBBA, for 2025, the higher SALT limit begins to be reduced for taxpayers with modified adjusted gross income (MAGI) over $500,000 ($250,000 for separate filers). These thresholds will also be increased by 1% annually for 2026 through 2029.

When a taxpayer's MAGI exceeds the applicable threshold, the otherwise allowable SALT deduction limitation is reduced by 30% of MAGI above the threshold, but not below $10,000 ($5,000 for separate filers). Here's an example: Greg and Tina are a married couple who file jointly and live in a high-tax state. For 2025, their combined SALT expenses are $60,000. Their MAGI is $550,000 for 2025, which is $50,000 above the applicable threshold. Therefore, their SALT deduction for 2025 is limited to $25,000 [$40,000 minus (30% times $50,000)].

Because of the 30% reduction, the expanded SALT deduction doesn't benefit taxpayers with MAGI at or above $600,000 ($300,000 for separate filers).

Deducting state and local income vs. sales tax

The SALT deduction continues to be available for property taxes *plus* the total state and local income taxes *or* the total of all sales taxes. Choosing to deduct sales taxes is a helpful option if you owe little or nothing for state and local income taxes.

If you opt to deduct sales tax, you don't have to save all of your receipts for the year and manually calculate your sales tax; you can use the IRS Sales Tax Calculator to determine the amount of sales tax you can claim. (It includes the ability to add actual sales tax paid on certain big-ticket items, such as a car.)

Start planning now

If you have high SALT expenses, to get the maximum benefit from the increased deduction limit, you need to plan carefully between now and year end. For example, you may want to take steps to keep your MAGI under the reduction threshold. Or you might want to accelerate property tax payments into 2025. We can help you determine the right strategy for your specific situation.