

STATE AND LOCAL TAX (SALT) DEDUCTION

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TOPLINE: The One Big Beautiful Bill (OB BB) capped state and local tax (SALT) deductions at about \$40,000 (single/married joint filers) for tax years 2025-2029 and \$10,000 beginning in 2030.

BACKGROUND: Taxpayers can deduct certain state and local tax payments when determining their taxable income on their federal tax returns. Taxpayers may deduct property taxes, and they may either deduct income taxes or sales taxes (but not both). A taxpayer in the 28% tax bracket claiming a deduction for \$10,000 of state and local taxes paid could, for example, reduce his federal tax liability by as much as \$2,800. This creates a perverse incentive, in which states, cities, and counties can *reduce* the federal tax liability of their residents by *raising* their state or local taxes. Low-tax states are effectively forced to foot part of the bill when high-tax states raise their taxes.

Recognizing the pitfalls of the SALT deduction, lawmakers enacted a \$10,000 limit on SALT deductions in the 2017 [Tax Cuts and Jobs Act](#) (previously SALT deductions were uncapped). However, the \$10,000 cap was set to expire after 2025, and the SALT deduction would have reverted to being uncapped starting in 2026.

What OB BB Did:

- [Set](#) the cap on the SALT deduction at \$40,000 for tax year 2025, with a 1% annual increase in the cap for each year through 2029.
- [Added](#) an income-based phasedown starting at \$500,000 in income, so that the highest-income taxpayers can still only claim a \$10,000 SALT cap in 2025-2029.
- [Scheduled](#) the SALT cap to revert to \$10,000 beginning in 2030.

Why It Matters?

- Tax returns filed in 2017 (before the cap) included about ***\$625 billion*** of SALT deductions, nearly as much as *all* itemized deductions in 2019 (post-TCJA).
- The SALT deduction cap was the single biggest pay-for in both TCJA and OB BB.
 - Based on JCT estimates, compared to unlimited SALT, the cap could [reduce](#) the deficit by as much as about ***\$80 billion*** per year when the \$40,000 cap is in effect, and by about ***\$140 billion*** per year after that.

Where Can I Find the Changes? OB BB Section [70120](#); [26 U.S.C. § 164\(b\)\(6\)-\(7\)](#).

BOTTOMLINE: The SALT cap was the most contentious provision in OB BB. While conservatives may oppose the temporary SALT cap increase, some SALT compromise may have been necessary to ensure OB BB passed. If OB BB didn't pass, TCJA would have expired, and SALT deductions would now be unlimited.

