

# One Big Beautiful Bill Act, H.R. 1 - 119th Congress (2025-2026): Part I - The SALT Deduction

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On July 1, 2025, the One Big Beautiful Bill Act, H.R.1 - 119th Congress (2025-2026) (the "Act") was passed in the U.S. Senate ("Senate"). On July 3, 2025, it was passed in the U.S. House of Representatives ("House") and presented to President Trump to be signed into law. On July 4, 2025, the President signed the Act into law.

I intend to present several installments on my blog featuring some of the most important tax provisions of the Act, allowing us to break down these provisions in detail. This first installment is a continuation of my coverage of the SALT deduction provision of the Act.

## **Background**

### **TCJA**

Prior to the Tax Cuts and Jobs Act ("TCJA"), there was no direct limitation on an individual taxpayer's deduction of his or her state and local taxes ("SALT") on the federal individual income tax return. Of course, for high-income taxpayers, the SALT deduction often triggered the alternative minimum tax.

As of 2018, as a result of the TCJA, the SALT deduction for individuals was capped at \$10,000 per year for both single and married taxpayers filing jointly (\$5,000 for married taxpayers filing separately). Hence, the cap contains an inherent "marriage penalty."

The SALT cap was added to the TCJA, in part, as a compromise for an increase in the standard deduction (almost doubling it from pre-TCJA days). It was, however, scheduled to sunset at the end of this year.

The impact of the SALT cap is dramatic. Following the enactment of the TCJA, individual federal income tax returns claiming a SALT deduction decreased from 37% (2017) to roughly 9% (2022).

The Joint Committee on Taxation ("JCT") projects that, if the SALT cap was allowed to expire, the limited deduction, which is currently estimated to cost the federal government \$23 billion for 2025, will increase to

a cost of \$197 billion for 2027, as a much broader population of taxpayers will be eligible for the deduction (which, in essence, will not be directly limited).

Proponents of the TCJA's SALT cap pronounce that the deduction, unless capped, puts too much of the burden of state and local taxes on the federal government. By reducing the deduction's value, the SALT cap, in essence, shifts much of the burden of state and local taxes to the taxpayers rather than the federal government.

In high-tax states such as Oregon, California, Hawaii and New York, the impact of the SALT cap has been significant, especially on high-income taxpayers. In both the Senate and the House, there was lots of debate about eliminating, modifying, extending or making this provision of the TCJA permanent.

### **Original House Proposal**

As reported on [May 16, 2025](#), the SALT cap proposal contained in legislation that was originally introduced in the House increased the SALT cap from \$10,000 to \$30,000 (one half such amount in the case of a married taxpayer filing separately), but it contained a downward adjustment for taxpayers with "modified adjusted gross income" over \$400,000 (one half such amount in the case of a married taxpayer filing separately). For this purpose, modified adjusted gross income is adjusted gross income plus any amounts excluded from income under Code Sections 911, 931 and 933. Under that proposal, the increased cap is reduced by 20% of a taxpayer's modified adjusted gross income to the extent it exceeds \$400,000 (\$200,000 in the case of a married taxpayer filing separately).<sup>[1]</sup> However, the SALT cap cannot be reduced below \$10,000 (\$5,000 in the case of a married taxpayer filing separately). Under the original House proposal, taxpayers who are single or married filing jointly get some relief from the SALT cap if their modified adjusted gross income is below \$500,000. At the \$500,000 and above level, the taxpayer reverts to a maximum SALT deduction of \$10,000.

### **House Proposal Passed**

The SALT cap that was passed by the House, however, is marginally better than the original proposal for taxpayers from high-income tax states. As reported on [May 27, 2025](#), it increased the SALT cap from \$10,000 to \$40,000 (up \$10,000 from the previous House proposal). It continued, however, to be subject to a rather harsh downward adjustment for taxpayers with "modified adjusted gross income" over \$500,000 (up \$100,000 from the previous House proposal). Like the prior proposal, the cap is reduced by 20% of a taxpayer's modified adjusted gross income to the extent it exceeds the income threshold (\$500,000 in the case of married taxpayers filing jointly and single taxpayers, and \$250,000 in the case of a married taxpayer filing separately).<sup>[2]</sup> The SALT cap cannot be reduced below \$10,000

(\$5,000 in the case of a married taxpayer filing separately). Interestingly, both the cap and the income threshold increase by 1% annually for 10 years.

If math serves me well, even the House's enhanced SALT cap provision offers little relief for a significant number of taxpayers from high-income tax states. Here is how it would have played out if it had become law: taxpayers who are single or married filing jointly get some relief from the SALT cap if their modified adjusted gross income is below \$650,000. At the \$650,000 and above level, the taxpayer has a maximum SALT deduction of \$10,000.

### **Survival in the Senate**

Once the Act reverted to the Senate, the debate about several provisions, including the SALT deduction, continued. In the end, the bill, passed by the Senate on July 1, 2025, retreated from the House version with respect to the SALT cap.

While the Senate retained the \$40,000 cap (one half of such amount in the case of married taxpayers filing separately) and the other aspects of the provision from the House version, it makes the downward adjustment for taxpayers with modified adjusted gross income over \$500,000 for married couples filing jointly and single taxpayers, and \$250,000 for married taxpayers filing separately<sup>[3]</sup> steeper. Rather than reducing the cap by 20% of a taxpayer's modified adjusted gross income to the extent it exceeds the income threshold, it increased the downward adjustment to 30%.

### **House Approval**

The House passed the bill containing the Senate's version of the SALT cap on July 3, 2025. It became law when President Trump signed the Act on July 4, 2025.

### **The SALT Deduction Under the Act**

Section 70120 of the Act retains a SALT cap. The following are the key elements of the provision:

1. The provision applies to any taxable year beginning after 2024.
2. The provision is temporary. The SALT cap continues but reverts to \$10,000 in the case of married taxpayers filing jointly or single taxpayers, or \$5,000 in the case of married taxpayers filing separately.
3. The \$40,000 cap (\$20,000 in the case of a married taxpayer filing separately) increases by 1% each year until it reverts to \$10,000 (\$5,000 in the case of a married taxpayer filing separately) in 2030.
4. The cap is reduced by 30% of a taxpayer's modified adjusted gross income to the extent it exceeds the threshold amount (\$500,000 for married taxpayers filing jointly and single taxpayers, and \$250,000 in the case of a married taxpayer filing separately). However, the SALT cap cannot be reduced below \$10,000 (\$5,000 in the case of a married taxpayer filing separately).
5. The threshold amount is increased by 1% each year.

The temporary relief brought about by Section 70120 of the Act, unlike what has been reported by many commentators, does not help the ultra-wealthy. In fact, it offers little relief for a significant number of taxpayers from high-income tax states. Here is how it currently plays out: taxpayers who are single or married and filing jointly get some relief from the SALT cap if their modified adjusted gross income is below \$600,000. At the \$600,000 and above level, the taxpayer reverts to a maximum SALT deduction of \$10,000.

**EXAMPLE 1:** Sally and Harry are married and file jointly, and their modified adjusted gross income in 2025 is \$600,000. They paid \$67,000 in state and local income taxes and \$10,000 in local property taxes. Under the Act, [ $\$600,000 - \$500,000 = \$100,000 \times 30\% = \$30,000$ .  $\$40,000 - \$30,000 = \$10,000$ ]. They get no benefit from the House's enhancement to the TCJA SALT cap.

**EXAMPLE 2:** Sally and Harry are married and file jointly, and their modified adjusted gross income in 2025 is \$550,000. They paid \$62,000 in state and local income taxes and \$10,000 in local property taxes. Under the Act, Sally and Harry get some SALT relief. Their SALT deduction is capped at \$20,000 [ $\$550,000 - \$500,000 = \$50,000 \times 30\% = \$15,000$ .  $\$40,000 - \$15,000 = \$25,000$ ]. They benefit to the tune of \$15,000 from the Act's enhancement to the TCJA SALT cap.

**EXAMPLE 3:** Sally and Harry are married and file jointly, and their modified adjusted gross income in 2025 is \$500,000. They paid \$49,000 in state and local income taxes and \$10,000 in local property taxes. Under the Act, their SALT deduction is capped at \$40,000. There is no downward adjustment in the enhanced SALT cap. So, they fully benefit from the House provision.

**EXAMPLE 4:** Sally and Harry are married and file jointly, and their modified adjusted gross income in 2025 is \$290,000. They paid \$25,000 in state and local income taxes and \$9,000 in local property taxes. Under the Act, they get to deduct 100% of the SALT they paid (i.e., \$34,000).

**EXAMPLE 5:** Sally and Harry are married and file jointly, and their modified adjusted gross income in 2025 is \$190,000. They paid \$18,000 in state and local income taxes and \$5,000 in local property taxes. Under the Act, they get to deduct 100% of the SALT they paid (i.e., \$23,000).

**EXAMPLE 6:** Sally and Harry are single but are a couple. They each have modified adjusted gross income in 2025 of \$500,000 (a total of \$1M household income). They each paid \$49,000 in state and local income taxes and \$10,000 in local property taxes. Under the Act, they each get a SALT deduction of \$40,000 (for a total household SALT deduction of \$80,000). The marriage penalty is illustrated by this example.

**EXAMPLE 7:** Sally and Harry are married but file separately. Sally's modified adjusted gross income in 2025 is \$250,000. She paid a total of \$20,000 in state and local taxes. Harry's modified adjusted gross income in 2025 is \$360,000. He paid a total of \$28,000 in state and local taxes. Under the Act, Sally gets to deduct 100% of the SALT she paid (i.e., \$20,000) [ $\$250,000 - 250,000 = 0 \times 30\%$  is 0, so her cap remains \$20,000]. Under the Act, Harry gets to deduct \$5,000 of the \$33,000 in SALT he paid [ $\$360,000 - \$250,000 = \$110,000 \times 30\% = \$33,000$ .  $\$20,000 - \$33,000 = -\$13,000$ , but the deduction cannot be reduced below \$5,000 in the case of a married taxpayer filing separately]. Together, Sally and Harry get a SALT deduction of \$25,000. If they filed jointly, the result would have been a SALT deduction of \$10,000 [ $\$610,000 - \$500,000 = \$110,000 \times 30\% = \$33,000$ .  $\$40,000 - \$33,000 = \$7,000$ , but the reduction cannot take the deduction below \$10,000]. This example illustrates what appears to be a quirk in the Act that requires married taxpayers to carefully examine whether they should file jointly or separately.

**EXAMPLE 8:** Sally and Harry are married and file jointly. They are retired and expect to have household modified adjusted gross income in 2025 of \$1.25 million. They will pay \$160,000 in state and local taxes. With the assistance of their estate planner, Sally and Harry set up a non-grantor trust for each of their three children and transfer assets to each trust that will result in each trust having \$250,000 of annual modified adjusted gross income and paying \$25,000 in state and local taxes. After the establishment of the trusts and the asset transfers, Sally and Harry expect to have annual modified adjusted gross income of approximately \$500,000 and pay \$85,000 in state and local taxes. Prior to the trust transfers, under the Act, Sally and Harry would be limited to a \$10,000 annual SALT deduction. However, under the scenario outlined above, by transferring assets to non-grantor trusts for the benefit of their children, Sally and Harry may deduct \$40,000 in state and local taxes, and each of the trusts may deduct \$25,000 in state and local taxes (100% of the state and local taxes they paid), thereby increasing the SALT deduction Sally and Harry are allowed post-Act from \$10,000 to \$115,000 ( $\$40,000 + \$25,000 + \$25,000 + \$25,000 = \$115,000$ ). This example illustrates that creative estate planning may be a means to increase the allowable SALT deduction.

## Conclusion

The SALT deduction, as temporarily modified by the Act, does not benefit ultra-high-income earners. For taxpayers in high state and local tax jurisdictions with modified adjusted gross income of \$600,000 or more will continue to feel the pain of the TCJA with respect to the SALT deduction (i.e., subject to a SALT deduction cap of \$10,000).

Stay tuned for more discussion about other provisions of the One Big Beautiful Bill Act.

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[1] There is an inherent marriage penalty. A single person gets the same deduction of a married couple filing jointly.

[2] The marriage penalty continued.

[3] Again, the marriage penalty was left in place.

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