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The House Passes a Tax Bill Containing a SALT Cap Compromise That Is Slightly Better Than Its Prior Proposal

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As reported on May 16, 2025, the SALT cap proposal contained in the legislation that was pending in the U.S. House of Representatives ("House") aimed at, among other things, dealing with the expiring provisions of the Tax Cuts and Jobs Act ("TCJA") was not well received by lawmakers from high-income tax states such as Oregon, New York, Hawaii and California. That proposal increased the SALT cap from $10,000 to $30,000, but it contained a downward adjustment for taxpayers with "modified adjusted gross income" over $400,000. 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 $30,000 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). However, the SALT cap cannot be reduced below $10,000 ($5,000 in the case of a married taxpayer filing separately).

It appears the SALT cap proposal may have been the last item holding up the passage of the bill by members of the House. After hours of debate and discussion, the proposal was modified, and the House passed the bill on May 22, 2025. It now sits in the U.S. Senate ("Senate"), where it is expected this provision of the bill, among others, will face fierce debate.

The SALT cap, as passed by the House, is marginally better than the original proposal for taxpayers from high-income tax states. It increases the SALT cap from $10,000 to $40,000 (up $10,000 from the previous House proposal). It is, however, 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). The SALT cap cannot be

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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 ten years. If it becomes law, it would be effective for tax year 2025.

If math serves me well, even the enhanced SALT cap provision offers little relief for a significant number of taxpayers from high-income tax states. Here is how it will play out if it becomes 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 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 $650,000. They paid $67,000 in state and local income taxes and $10,000 in local property taxes. Under the House bill, [$650,000 – $500,000 = $150,000 × 20% = $30,000. $40,000 – $30,000 = $10,000]. They get no benefit from the House's enhancement to the current SALT cap.

EXAMPLE 2: Sally and Harry are married and file jointly, and their modified adjusted gross income in 2025 is $600,000. They paid $62,000 in state and local income taxes and $10,000 in local property taxes. Under the House bill, Harry and Sally get some SALT relief. Their SALT deduction is capped at $20,000 [$600,000 – $500,000 = $100,000 × 20% = $20,000. $40,000 – $20,000 = $20,000]. They benefit to the tune of $10,000 from the House's enhancement to the current SALT cap.

EXAMPLE 3: Sally and Harry are married and file jointly, and their modified adjusted gross income in 2025 is $450,000. They paid $49,000 in state and local income taxes and $10,000 in local property taxes. Under the House bill, 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 House bill, 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 House bill, they get to deduct 100% of the SALT they paid (i.e., $23,000).

Whether the SALT provision of the House bill will remain in any legislation passed by the Senate is yet to be determined. My gut sense is that the provision, as passed by the House (and as illustrated above), will marginally help taxpayers in high-income tax states. However, to be eligible for the relief, a taxpayer's modified adjusted gross income must be below

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$650,000. To get the full benefit of the enhanced SALT cap, a taxpayer must have modified adjusted gross income of $500,000 or less. Therefore, if my math is correct, statements saying that the House's enhanced SALT cap only benefits billionaires or ultra-rich taxpayers are not accurate.

Time will tell where the SALT cap comes out.

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