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# The SALT Workaround for Eligible Pass-Through Entities May Be Dead in Oregon

02.26.26

**Background**

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.

**The TCJA**

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

**The OBBBA**

The SALT cap, which was part of a compromise among lawmakers for an increase in the standard deduction under the TCJA, was scheduled to sunset at the end of 2025. However, as previously reported, the One Big Beautiful Bill Act ("OBBBA") amended and extended the SALT cap.

The following are the key elements of the SALT cap, as extended under the OBBBA:

1. The OBBBA amendment to the SALT cap applies to taxable years beginning after 2024.
2. The cap is now $40,000 ($20,000 in the case of a married taxpayer filing separately). It increases by 1% each year but reverts to $10,000 ($5,000 in the case of a married taxpayer filing separately) in 2030. The cap, as reduced in 2030 to $10,000 ($5,000 in the case of a married taxpayer filing separately), does not appear to sunset. So, it becomes a so-called permanent provision of the Internal Revenue Code.
3. Under the OBBBA, 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).

After the SALT cap was introduced as part of the TCJA, the Internal Revenue Service announced in IRS Notice 2020-75, with respect to pass-through entities (LLCs or other entities taxed as partnerships or S corporations), that, if state law allows or requires the entity itself to pay state and local taxes (which normally pass through and are paid by the ultimate owners of the entity), the entity will not be subject to the

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$10,000 SALT cap. As a consequence, many state legislatures passed so-called SALT cap workarounds for pass-through entities. Oregon was among those states.

**The Oregon SALT Cap Workaround**

As previously reported, on February 4, 2021, Senate Bill 727 ("SB 727") was introduced in the Oregon Legislature. SB 727 was Oregon's response to IRS Notice 2020-75.

On June 17, 2021, after some amendments, SB 727 was passed by the Oregon Senate and referred to the Oregon House. Nine days later, the House passed the legislation without changes. On June 19, 2021, then Oregon Governor Kate Brown signed SB 727 into law, effective September 25, 2021. Interestingly, SB 727 was scheduled to sunset at the end of 2023.

However, in 2023, House Bill 2083 was passed by the Oregon legislature. It extended the SALT cap workaround for eligible pass-through entities through 2025.

On January 13, 2025, Senate Bill 211 ("SB 211") was introduced in the Oregon legislature to extend the workaround until December 31, 2027. Additionally, SB 211, if passed, would have also provided eligible taxpayers who used the workaround to apply any overpayment of tax to subsequent tax years (after the law expired).

Based upon a review of the legislative history, it appears, that SB 211 had no opponents in either the Oregon House or the Oregon Senate, but it died in the Senate (like a lot of bills do) due to the session ending before it was passed and sent to the Governor for signature. The bill was supported by members of the Oregon House Revenue Committee and the Oregon Senate Finance and Revenue Committee. It even passed the Senate on a third reading (June 17, 2025), but it was never voted on in the House. Accordingly, it died when the legislative session ended.

On February 13, 2026, Senate Bill 1507 was introduced in the Oregon Senate to update the tie or connection between the Internal Revenue Code and Oregon tax laws. From a review of the 50-page bill, I found no provision that relates to the SALT workaround. Rather, that bill (Senate Bill 1507) is focused on disconnecting Oregon's tax laws from many of the provisions of the TCJA and the OBBBA considered by lawmakers to be "tax breaks" for businesses and wealthy individuals.

I also cursorily reviewed the 100+ bills introduced in the Oregon Senate and Oregon House this year to determine if any legislative proposal extends the Oregon SALT workaround. Unfortunately, I found no bill has been introduced during the 2026 short session to extend the workaround. Accordingly, unless legislation is introduced and passed by the Oregon legislature and signed into law by Governor Kotek, the Oregon SALT workaround for eligible pass-through entities will be dead.

**Conclusion**

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Tax advisers and owners of Oregon pass-through entities need to be aware of this issue. The owners of entities that historically used the Oregon SALT workaround likely need to make Oregon estimated income tax payments for 2026 and later tax years in order to avoid penalties, should the legislature fail to ultimately attend to this issue. Additionally, the pass-through entities themselves should not be making Oregon estimated income tax payments under the SALT workaround, as that law has expired.

It is mind-boggling. The Oregon SALT workaround (other than some modest administrative burden) costs Oregon nothing. Without it, pass-through business owners will be stuck with the SALT cap as modified by the OBBBA. Time will tell whether Oregon lawmakers will come to the rescue. Taxpayers and tax advisers need to keep a keen eye of the issue.

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*Tagged as federal income tax, OBBBA, Oregon, pass-through entity, SALT cap, SB 1510, Senate Bill 1510 (SB 1510), state and local tax (SALT), Tax Cuts and Jobs Act, Taxpayer, The One Big Beautiful Bill Act*

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