



# **SALT deduction**

## **Quadrupled SALT deduction limit means more taxpayers will benefit from itemizing on their 2025 returns**

An important decision to make when filing your individual income tax return is whether to claim the standard deduction or itemize deductions. A change under the One Big Beautiful Bill Act (OBBBA) will make it beneficial for more taxpayers to itemize deductions on their 2025 returns. Specifically, if you paid more than \$10,000 in state and local taxes (SALT) last year, you might save tax by itemizing on your 2025 return even if claiming the standard deduction has saved you more tax in recent years.

### **Claiming the standard deduction vs. itemizing**

Taxpayers can choose to itemize certain deductions on Schedule A or take the standard deduction based on their filing status instead. Itemizing deductions when the total will be larger than the standard deduction saves tax, but it makes filing more complicated.

The OBBBA made permanent and, for 2025, slightly increased the Tax Cuts and Jobs Act's (TCJA's) nearly doubled standard deduction for each filing status: \$15,750 for single and separate filers, \$23,625 for heads of household, and \$31,500 for married couples filing jointly. (The new amounts have been adjusted for inflation for 2026 and will continue to be adjusted annually going forward.)

Because of the higher standard deduction and the TCJA's reduction or elimination of many itemized deductions (mostly made permanent by the OBBBA), many taxpayers

who once benefited from itemizing have been better off taking the standard deduction for the last several years. If you're among those taxpayers and you have significant SALT expenses, OBBBA changes could increase your SALT itemized deduction for 2025 enough that your total itemized deductions may exceed your standard deduction, causing itemizing to make sense once again for you.

### **Increased limit on the SALT deduction**

Deductible SALT expenses include property taxes (for homes, vehicles and boats) and either income tax or sales tax, but not both. Historically, eligible SALT expenses were generally 100% deductible on federal income tax returns if an individual itemized deductions. This provided substantial tax savings to many taxpayers in locations with higher income or property tax rates (or higher home values), as well as those who owned both a primary residence and one or more vacation homes.

For 2018 through 2025, the TCJA limited the deduction to \$10,000 (\$5,000 for married couples filing separately). This SALT cap was scheduled to expire after 2025.

Rather than letting the \$10,000 cap expire or immediately making it permanent, the OBBBA temporarily quadrupled the limit. Beginning in 2025, taxpayers can deduct up to \$40,000 (\$20,000 for married couples filing separately), with 1% increases each subsequent year. The \$10,000 cap is scheduled to return in 2030.

The increased SALT cap could lead to major tax savings compared with the \$10,000 cap. For example, a married couple filing jointly in the 32% tax bracket with \$40,000 in SALT expenses and MAGI below the threshold for the income-based reduction (see below) could save an additional \$9,600 in taxes [ $32\% \times (\$40,000 - \$10,000)$ ].

### **Reduced limit for higher-income taxpayers**

While the higher SALT limit is in place, the allowable deduction drops by 30% of the amount by which modified adjusted gross income (MAGI) exceeds a threshold amount. For 2025, the threshold is \$500,000; when MAGI reaches \$600,000, the previous \$10,000 cap applies. (These amounts are halved for separate filers.) The MAGI threshold will also increase 1% each year through 2029.

Here's how the earlier example would be different if the taxpayer's MAGI exceeded the threshold by \$20,000: The cap would be reduced by \$6,000 ( $30\% \times \$20,000$ ), leaving a maximum SALT deduction of \$34,000 ( $\$40,000 - \$6,000$ ). Even reduced, that's more than three times what would be permitted under the \$10,000 cap. The reduced deduction would still save an additional \$7,680 in taxes compared to when the \$10,000 cap applied [ $32\% \times (\$34,000 - \$10,000)$ ].

## Factoring in other itemized deductions

Depending on your 2025 SALT expenses, MAGI and filing status, your SALT deduction alone might be enough for your itemized deductions to exceed your standard deduction. If it isn't, you'll need to review your other potential itemized deductions and see if all of them, in aggregate, will exceed your standard deduction. Other possible itemized deductions include:

**Medical expenses.** This deduction is limited to the amount of eligible medical expenses that, in aggregate, exceeds 7.5% of adjusted gross income (AGI).

**Home mortgage interest.** This deduction is available for acquisition debt of up to \$750,000. (A \$1 million limit still applies to indebtedness incurred on or before December 15, 2017.)

**Charitable donations.** For 2025, cash donations to qualified charities are generally deductible up to 60% of AGI. (Beginning in 2026, the deduction will also be limited to the amount of eligible donations that, in aggregate, exceeds 0.5% of AGI.) Noncash donations may also be deductible, but additional requirements and limits apply.

**Casualty and theft losses.** For 2025, these losses are generally deductible only if they're due to a disaster declared by the President. (Beginning in 2026, losses due to certain state-declared disasters also will be deductible.) The deduction is limited to the amount of eligible losses that, in aggregate, exceeds 10% of AGI.

Keep in mind that additional rules and limits apply to these deductions.

## A return to itemizing?

If you have high SALT expenses but have been claiming the standard deduction in recent years, it's time to revisit itemizing. A return to itemizing on your 2025 return might save you tax. If you've already been itemizing, a larger SALT deduction could also increase your tax savings, perhaps significantly, depending on your SALT expenses, MAGI, filing status and tax bracket.

We can assess the impact of the SALT limit increase — and other OBBBA changes — on your tax situation and help ensure you claim all the tax breaks you're entitled to on your 2025 return. Contact us to set up an appointment.