State and Local Tax (SALT) Deduction increased for Tax Years 2025 through 2029

On July 4, 2025, the President signed the One Big Beautiful Bill Act (often called the OB3, OBBBA, or Public Law 119-21). The law has many beneficial tax extensions from the Tax Cuts and Jobs Act of 2017 (TCJA) and ends some other tax benefits.

This update includes the possible deduction of state and local taxes (SALT) if a taxpayer itemizes instead of taking the Standard Deduction. The below is an outline of the new law which affects 2025 tax returns.

OBBBA Enhances Your SALT Deductions

If you pay a lot of state income taxes and property taxes on your personal homes you might like this new law. Under the TCJA of 2017 there was a $10,000 cap on state and local tax (SALT) deductions. If you paid $50,000 in SALT, you could only deduct $10,000. This limits your write-offs. Here's good news: the OBBBA temporarily increases the cap starting in 2025.
From 2025 through 2029, you may deduct up to

- $40,000 if filing as Single, Head of Household or Married Filing Jointly, or
- $20,000 if married filing separately.

These figures increase slightly each year through 2029. But, unless extended by Congress, the cap returns to $10,000 ($5,000 if filing married separately) in 2030.
There's a catch. The increased deduction phases out if your adjusted gross income (AGI) exceeds

- $500,000 if filing as Single, Head of Household or Married Filing Jointly, or
- $250,000 if married filing separately.

The phaseout reduces your SALT deduction by 30 percent of AGI in excess of the threshold, but never below the old limits of $10,000 or $5,000 (if MFS).

For example, if your AGI is $550,000, you are over the threshold by $50,000, and 30% of that is $15,000. So, your maximum deduction is reduced from $40,000 and you can deduct up to $25,000 of SALT.

You can still choose to deduct sales taxes instead of income taxes—useful if your income taxes are low but sales taxes paid are higher.

Importantly, for owners of business entities such as S corporations, partnerships, or multi-member LLCs, the pass-through entity tax (PTET) deduction remains in place. This allows business entities to pay state taxes on the entity income and pass through the deduction to owners—effectively bypassing the federal cap.

For taxpayers in the 24% tax bracket, this extra $30,000 of itemized deductions could save up to **$7,200,** and even more if they are in a higher tax bracket but below the phaseout thresholds.

Example: Popeye and Olive Oyl earned around $250,000 a year and paid over $20,000 in property taxes on their home and $12,000 in California income taxes, or a total of $32,000 in

SALT. Because of the $10,000 cap on SALT due to the TCJA of 2017, they could not deduct all $32,000 of SALT--a potential $22,000 loss in tax deductions. They still itemized due to large charitable donations and mortgage interest. The loss of $22,000 in potential deductions cost them over $4800 in federal taxes since they were in the 22% marginal tax bracket.

This upset Olive Oyl as they could only afford to buy Popeye Swiss chard, day old arugula and the most bitter kale instead of the semi-savory and baby spinach Popeye enjoyed. Popeye was heard to say “Shiver me timbers” when the bitter kale was served.

But good news. With the passage of the One Big Beautiful Bill Act, their tax accountant called them and said, “get your electric can opener ready, for tax years 2025 through 2029 you can now deduct up to $40,000 of your SALT which will save you taxes”. Olive Oyl and Popeye celebrated by going to the local all you can eat spinach bar, and he was overheard saying “I'm strong to the finish, 'cause I eats me spinach”.