SALT Deduction Relief: Big Changes from the One Big Beautiful Bill

By Jacob Linn

For years, the state and local tax (SALT) deduction has been one of the most hotly debated provisions in the federal tax code. Before 2018, taxpayers in high-tax states routinely deducted tens of thousands of dollars in state income and property taxes, dramatically reducing their federal liability. That changed with the 2017 Tax Cuts and Jobs Act (TCJA), which imposed a strict $10,000 cap on combined state and local income, property, and sales tax deductions. For many individuals, especially in states like New York, California, Maryland, and New Jersey, the cap translated into a significant tax hike.

The recently enacted One Big Beautiful Bill (OBBBA) changes the game once again. The legislation lifts the deduction cap, expanding it from $10,000 to $40,000 per year for most taxpayers (or $20,000 for married couples filing separately). While the cap is not fully eliminated, this fourfold increase is the most meaningful SALT relief taxpayers have seen in nearly a decade. For homeowners and high earners in states with steep income and property taxes, the savings potential is substantial.

What Counts Toward SALT Deductions?

The SALT deduction applies to a combination of the following state and local taxes:

- Income taxes: State or local income taxes paid during the year.
- Property taxes: Taxes on your home or non-business real estate.
- Sales taxes (in lieu of income taxes): Taxpayers in states without an income tax, such as Texas, Florida, and Tennessee, may elect to deduct state and local sales taxes instead.
- Personal property taxes: Taxes assessed on personal assets such as cars or boats, if assessed annually and based on value.

To claim these deductions, taxpayers must itemize using Schedule A on Form 1040. If your combined SALT deductions and other itemized deductions (mortgage interest, charitable contributions, medical expenses, etc.) do not exceed the standard deduction, it may not make sense to itemize. But with the new higher SALT cap, many more households may now find itemizing worthwhile.

Why the Expansion Matters

For taxpayers who live in high-tax jurisdictions, the expanded SALT deduction can translate into thousands of dollars in savings. Consider:

- A Maryland couple paying $18,000 in state income taxes and $12,000 in property taxes would previously have been limited to a $10,000 deduction. Under the OBBBA, they can now deduct the full $30,000, reducing their taxable income by an additional $20,000.
- A New York City household with $25,000 in property taxes and $15,000 in state income tax could claim $40,000 under the new law; four times more than the $10,000 they were limited to before.

At a marginal tax rate of 32–37%, these additional deductions equate to thousands of dollars in direct federal tax savings.

State-Level Considerations

The effect of the new federal rules also interacts with state tax laws. Some states tie their tax codes directly to federal itemized deductions, requiring taxpayers to itemize at the federal level in order to itemize on their state return. Others allow more flexibility, permitting itemization at the state level even if the taxpayer takes the federal standard deduction.

This means the decision to itemize federally may also impact your state tax liability. A coordinated review of both federal and state returns is essential to ensure you're maximizing the overall benefit.

Planning Opportunities for 2025

With the expanded SALT deduction now in place, individuals should revisit their year-end planning strategies. Key opportunities include:

- Reevaluating Itemization: Many households that defaulted to the standard deduction in recent years may now benefit from itemizing, especially when combining SALT, mortgage interest, and charitable contributions.
- Timing Payments: If your property taxes or state estimated taxes are close to the new $40,000 threshold, strategically timing when you pay could help maximize the deduction in a particular year.
- Reviewing Escrow Accounts: Homeowners with escrowed property taxes should confirm how much their lender paid out

during the year. Only the amounts actually disbursed to taxing authorities are deductible.

- Coordinating with Other Deductions: Pairing SALT deductions with charitable contributions or deductible medical expenses may push you over the standard deduction threshold and make itemizing even more valuable.

The Bottom Line

The One Big Beautiful Bill provides long-awaited relief for taxpayers who have been constrained by the $10,000 SALT cap. With the new $40,000 deduction limit, many individuals will find themselves able to deduct significantly more of their state and local tax burden, reducing federal taxable income and lowering overall liability.

At Strategic Tax Planning, we are helping clients evaluate the expanded deduction in the context of their broader financial picture. For some, the change may be worth thousands of dollars a year. For others, it may create new opportunities to combine deductions strategically and unlock savings that weren't available in prior years.

We're Here to Help You Take the Next Step

If you're wondering whether the expanded SALT deduction can reduce your 2025 taxes, we're here to guide you through the process.

Our team can review your state and local payments, project your potential savings, and determine whether itemizing makes sense for you.

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Don't miss out on this expanded opportunity. Reach out today — and be sure to join our Individual Tax Planning Webinar on Tuesday, September 16, 2025, where we'll cover the SALT deduction changes in detail along with other powerful strategies.