FOUR C FINANCIAL

Financial INSIGHT

The SALT cap has long been considered the four-letter word of the tax world. Since 2018, taxpayers in high-tax states have been hitting a $10,000 ceiling on state and local tax deductions (the SALT deduction), which has often left a hefty sum in property and income taxes on the table.

Under the recently enacted One Big Beautiful Bill, that cap increased to $40,000 in 2025 and $40,400 in 2026, with small annual increases through 2029 before reverting to $10,000 in 2030. This is more than a minor tweak; it is a fundamental shift in how to approach your taxes during this window.

The Return of the Itemizing

In recent years, the standard deduction was so high, and the SALT cap so low, that itemizing simply didn't make sense for most households. You likely defaulted to the standard deduction because the math was "simpler," even if it felt like you were losing credit for the high property taxes you pay.

That math has flipped for many households in high-tax states. With a roughly $40,400 SALT limit (rising modestly each year through 2029), combined with your mortgage interest and charitable giving, itemizing is back on the table. For many in this group, the new blueprint could result in a lower taxable income than simply taking the standard deduction, especially in years when state income and property taxes stack up.

Rates, Deductions, and “Tax Alpha”

The 2026 strategy is further bolstered by the fact that the lower TCJA-era brackets (10%, 12%, 22%, 24%, 32%, 35%, 37%) are now permanent instead of expiring. While deductions like SALT reduce how much of your income is taxed, the bracket structure determines the rate at which you pay.

By maximizing your SALT deduction during the years when the enhanced cap is available (2025–2029) and pairing that with the permanently lower brackets, there is an opportunity for greater “tax alpha” than has been available in recent years. Used thoughtfully over several tax years, this could reduce your cumulative tax liability over the medium term, even though the higher SALT cap itself is temporary.

Who this Impacts

- W-2 employees and business owners in high-tax states (MA, NY, NJ, CA, CT, IL, etc.) with significant state income and property tax bills.
- Homeowners whose combined property tax and state income tax have already been above $10,000 and who have effectively been "stuck" at the old cap since 2018.
- Households with a Modified Adjusted Gross Income up to the SALT threshold (about $505,000 in 2026, indexed annually from a $500,000 base in 2025) who receive the full enhanced cap.
- Higher-income households above that threshold, who see the benefit of the higher SALT cap phased down but still protected by a $10,000 floor.
- Existing itemizers who will continue to itemize even against a higher, permanent standard deduction because their SALT, mortgage interest, and charitable giving together exceed the standard deduction.

Understanding the Phase-Down

As with any tax law change, there is a catch: the new SALT cap is not a free-for-all at every income level. For 2025–2029, the law introduces an income-based reduction in the cap once you cross a threshold.

- The Threshold: For 2026, households with a Modified Adjusted Gross Income exceeding about $505,000 (the indexed amount based on a $500,000 threshold in 2025) begin to see their SALT cap phased down.
- The Rate: The deduction is reduced by 30 cents for every dollar of MAGI above that threshold, effectively a 30% phase-down rate.
- The Floor: Even at very high income levels, the cap will not drop below the original $10,000 TCJA cap.

If you fall into this upper-middle- to higher-income bracket, timing your income and deductions over the 2025–2029 period becomes more critical. Coordinating bonuses, capital gains, and large charitable gifts around the SALT threshold can help you preserve more of the enhanced deduction before it phases down to the $10,000 floor.

Next Steps

Would you like to take a closer look at how the new SALT rules could impact your specific situation? Simply reply to this email to schedule a call.

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