



NEW YORK CITY COMPTROLLER
BRAD LANDER

**FISCAL
NOTE**

5-2025

The SALT Deduction in the House Budget Bill: A Tax Increase on High-Income NYC Taxpayers

June 2025



Introduction

One of the sticking points in the House of Representatives' [Budget Reconciliation Bill](#) was the increase of the cap on the State and Local Tax (SALT) deduction from federal taxable income. In general terms, the cap was quadrupled in 2025 from \$10,000 to \$40,000 for incomes up to \$500,000 but left unchanged for those with income above \$600,000. The cap and income thresholds increase by 1% each year until 2033 and remain in effect afterwards. This will benefit many NYC taxpayers but not the top 2.3%, which represent more than 40% of total taxable income among residents.

Starting in 2026 the bill includes changes that reduce the SALT deduction for the owners of pass-through entities, specifically partnerships and S-corporations. This is the result of an effort to curtail the use of SALT cap workarounds called Pass-Through Entity Taxes (PTETs). The taxes were allowed by the IRS in 2020 and have been adopted by NY State and NYC as well as by dozens of states around the US. However, the bill also affects the City's business income taxes imposed directly on pass-through entities—S-corporations (the General Corporation Tax – GCT) and partnerships (the Unincorporated Business Tax – UBT)—which are currently deductible in full and would be subject to federal income tax going forward. To be clear, neither GCT nor UBT, which have been in effect since 1966, are SALT cap workarounds. The change would affect the economic sectors that represent the majority of the City's personal income and unincorporated business income tax bases: finance, law, professional services, health care, and others. Because the income from pass-through entities is disproportionately concentrated among high-income residents and non-resident partners and shareholders, the end result would be a significant federal tax increase for those taxpayers.

This fiscal note provides preliminary estimates of potential federal tax increases for high-income NYC taxpayers. Taxable PTET payments by NYC residents, combined with taxable UBT and GCT payments by NYC partnerships and S-corporations, will add an estimated \$2.7 billion to federal tax liabilities for high-income taxpayers. For a typical high-income New Yorker with partnership income, this would mean a 2.5% increase in their effective federal tax rate. The tax increases on high-income taxpayers appear to outweigh the tax benefits from the increase of the SALT cap.

The Senate has punted in the reconciliation process and signaled that the \$40,000 cap may be scaled back. However, nothing in the reported "[major revisions](#)" has transpired regarding the provisions increasing taxes on the owners of pass-through businesses.

While the intent of this fiscal note is to provide a description of the potential impact of the legislation, it is worth remarking that the tax increases therein target the bulk of NYC's personal income and pass-through business income taxes without a corresponding benefit in terms of local services. Should the provisions in the House budget bill become law, the impact would be deleterious to the competitiveness of NYC's economy and businesses, and to the tax base.

The Comptroller's Office work focusing on federal policy during the Trump administration is accessible at the [Protect NYC](#) portal.

The SALT cap and its Workarounds

The SALT deduction from federal taxable income had been unlimited until the passage of the Tax Cuts and Jobs Act (TCJA) of 2017. TCJA capped the SALT deduction for individuals to \$10,000 through 2025. However, corporations and pass-through entities remained able to deduct their state and local taxes in full. The cap most strongly affected higher income filers in high-tax jurisdictions. In NYC, filers with more than \$1 million in adjusted gross income saw their effective federal tax rate increase after the passage of TCJA, despite lower marginal tax rates.¹

Since the passage of TCJA, NYS, NYC and [many other states](#) created workarounds to the individual cap called Pass-Through Entity Taxes (PTETs).² The NYS and NYC taxes are elective and are levied, as the name suggests, on pass-through entities such as partnerships and S-corporations. The mechanism is simple:

1. The business elects to pay PTET. Because the SALT deduction for businesses is unlimited, the tax reduces the income distributed to partners/shareholders that is subject to federal tax in their individual tax returns.
2. NYS and NYC each give a credit on their Personal Income Taxes (PITs) equal to the amount of PTET paid.
3. As a result, the State's and the City's tax collections are unchanged but SALT deductions increase for partners and shareholders whose businesses opt into the PTETs.³

NY [State PTET](#) was first enacted for tax year 2021 while the [NYC PTET](#) was first enacted for tax year 2022. Their creation distorted tax collection data, as analyzed in detail in the [June 2023](#) and [November 2023](#) Newsletters and in the [Annual State of the City's Economy and Finances in 2024](#). Based on preliminary data (which tends to undercount high-income filers), partners and shareholders residing in NYC paid \$7.0 billion in State and City PTET in tax year 2023. Nearly all of the amount was paid by taxpayers with income above \$600,000, as shown in Table 1 below.

SALT deduction in the Reconciliation Bill

The reconciliation bill makes several changes to the SALT deduction, some decreasing and some increasing federal taxes. It should be noted that the specifics of certain provisions are delegated to rulemaking and this office lacks access to taxpayer information that would allow for more

¹ Other components of TCJA benefited disproportionately high-income individuals, such as the lower federal income tax on C-corporations, and changes to the estate tax. The reduction of the individual Alternative Minimum Tax generally impacted filers with less than \$1 million in income.

² The IRS allowed such taxes in a [notice](#) issued in 2020.

³ The mechanism is not too dissimilar from that used by the NY State Managed Care Organization tax to unlock additional Medicaid funding. The tax was [approved](#) by the Center for Medicare and Medicaid Services (CMS) in December 2024. In May, CMS moved to [promulgate rules](#) to disallow the tax.

detailed modeling. As such, the estimates in this fiscal note are intended to be directional, rather than exact. However, it is clear that high-income partners and shareholders of S-corporations are unequivocally made worse off by the House bill in two ways: their SALT cap remains unchanged while both PTETs and other business income taxes lose their deductibility.

SALT cap increased and made permanent

The House Bill increases the SALT cap from \$10,000 to \$40,000 (\$20,000 for married filing separately – MFS) already in 2025, one year before it was set to expire. The cap is reduced by 30% of the Modified Adjusted Gross Income (MAGI – see further down for the definition) exceeding \$500,000 (\$250,000 for MFS) until it reaches \$10,000 (\$5,000 for MFS). In essence, filers with income above \$600,000 will see no change to their SALT deduction cap in 2025.

After 2025, the monetary amounts listed above increase by 1% each year through 2033, with the exception of the \$10,000/\$5,000 floor. This means that in 2026, except for MFS, the SALT cap is \$40,400 and the phase-down starts at MAGI of \$505,000. The cap hits the \$10,000 floor for MAGI of \$606,333 or higher ($\$505,000 + \$30,400/.3$). The cap remains in effect in tax years after 2033 without indexation.

While the SALT cap is unchanged for high-income taxpayers, its value is reduced. For filers with taxable income in the 37% tax bracket (which in 2025 starts at \$626,350 for singles and \$751,600 for married filing jointly), the deductions allowed by IRC section 164 (which include the SALT deductions) are reduced by 5/37 times the lesser of: 1) the amount of section 164 deductions or; 2) the excess of income (after adding back all itemized deductions) over the 37% bracket's threshold.⁴ In essence this means that, instead of 37%, the federal tax benefit of the SALT deduction for these taxpayers is 32%. This is a relatively minor downward adjustment because, as remarked above, the cap remains at \$10,000 for filers in this tax bracket.

SALT deductions reduced for partnerships and S-corporations.

Starting in 2026, partners and shareholders of businesses that elected to pay PTETs will, with some exception, see those payments subject to federal income tax. Furthermore, it appears that substantial fractions of GCT and UBT payments will also be subject to the federal individual income tax, once allocated to partners and shareholders.⁵ GCT and UBT are not SALT cap workarounds and have been in effect since 1966.

⁴ Additional itemized deduction beyond those of section 164 are reduced by 3/27 times the lesser of their amount or the excess of income (after adding back all itemize deductions) over the 37% bracket's threshold.

⁵ The General Corporation Tax (GCT) and the Unincorporated Business Tax (UBT) are levied at the entity level, regardless of partners and shareholders' residence. New York State does not tax unincorporated businesses and only has a fixed dollar minimum tax on S-corporations that may not be classified as a "specified" tax per the definition of the House bill (see further below in the fiscal note). The City also has a Banking Corporation Tax on the income of banks

In NYC, the vast majority of income from S-corporation and partnerships (and, therefore, PTET payments) is concentrated among taxpayers that would see no change in the SALT cap as shown in Table 1 based on preliminary 2023 tax data (preliminary data tends to under-report high-income filers). NYC resident taxpayers (those with positive liability after adding back PTET credits) with adjusted gross income higher than \$600,000—who receive no increase in their SALT caps in 2025—account for 86.5% of total partnership, rent, and royalty payments, 97.4% of NYS and NYC PTET paid, and 88.1% of UBT paid by NYC residents.

Table 1. Preliminary 2023 Personal Income Tax Data for New York City Taxpayers

AGI	NYC Taxpayers ¹		NY State Taxable Income		Partnership, Rent, and Royalty Income		PTET Credit Amount		UBT of NYC Residents ²	
	Returns	Share	\$ Bil	Share	\$ Bil	Share	\$ Bil	Share	\$ Bil	Share
Under \$600k	2,934,799	97.7%	221.5	57.3%	3.6	13.5%	0.2	2.6%	0.1	11.9%
Over \$600k	68,638	2.3%	165.3	42.7%	23.0	86.5%	6.8	97.4%	0.6	88.1%
Total	3,003,437	100%	386.7	100%	26.6	100%	7.0	100%	0.7	100%

Source: NY State Office of Tax Policy Analysis and Office of the New York City Comptroller.

1/ Includes only returns with positive NYC personal income tax liability (before PTET credits). The total number of filers in 2023 from preliminary data is 3.9 million (see the [May 2025 Newsletter](#)).

2/ Calculated from UBT credits claimed on individual returns.

Depending on the sector the business operates in, the House bill excludes the SALT deduction for income taxes on partnerships and S-corporations, including PTETs, if they exceed the individual SALT cap when allocated to partners and shareholders. The sectors where the deduction would be limited are, in general, finance, legal services, professional services (except engineering and

structured as S-corporations. As the number of taxpayers and their liability is minor, this tax is not discussed. A quick primer on the City’s business income taxes is available in [one of our fiscal notes](#). More details and legislative history are available in NYC OMB’s annual [Tax Revenue Forecasting Documentation](#) and from NYC Department of Finance’s website.

architecture), health care, performing arts, and others. Sectors that can continue to deduct taxes paid by their pass-through entity include retail and wholesale trade, restaurants, and real estate. The full definition is provided below in the more detailed analysis of the legislation.

According to 2023 data from the NYC Department of Finance, the tax liability in finance and insurance, legal services, health care, other professional and technical fields, and performing arts represents:

- Nearly 80% of UBT partnerships liability (\$2.0 billion out of the \$2.5 billion total).
- One third of GCT liability (\$500 million out of the \$1.5 billion total).
- Nearly 80% of NYS and NYC PTET paid by NYC residents (\$5.4 billion out of \$7.0 billion).⁶

The full SALT deduction (including PTETs payments) could be allowed if, after businesses with common control are consolidated, the share of gross receipts attributable to the sectors listed above does not exceed 25%. The legislation assigns the specification of combined reporting to rulemaking and, in any case, modeling this provision with some degree sophistication would require access to confidential tax information. It may be worth noting that the provision could both exclude and capture additional businesses in the deduction limitation.

Given these data constraints, the estimates below simply allocate sectoral estimates of GCT, UBT, and PTET payments to taxpayers with income above \$600,000 in proportion of their share of income or PTET credit based on NYS AGI of NYC residents. It should be noted that not all partners and shareholders of businesses subject to UBT and GCT are NYC residents. Conversely, the PTET payments in Table 1 are those of NYC residents whose businesses elected to pay NY State and/or NYC PTET, regardless of where the businesses are located.

The results indicate that partners and shareholders of NYC businesses with income above \$600,000 could be subject to federal tax on the following amounts:

- \$5.3 billion in NYS and City PTET (97.4% of \$5.4 billion) paid by NYC residents.
- \$2.1 billion in UBT and GCT liability (86.5% of the estimated UBT and GCT tax liability of \$2.5 billion of the affected sectors) paid by partners and shareholders, regardless of NYC residence.

Given the proximity of \$600,000 AGI to the top federal tax bracket, most of these amounts could be taxed at 37%, generating up to \$2.7 billion in additional federal liability annually.⁷

⁶ This estimate applies the sectoral distribution of NYC PTET to both NYS and NYC PTET payments.

⁷ An additional provision that is not evaluated here relates to the changes to the Alternative Minimum Tax (AMT) in the House bill. TCJA increased the AMT exemptions and their income phase-out thresholds starting in tax year 2018. Furthermore, for tax years 2019 to 2025, exemptions and phase-out thresholds were indexed to the change in the Consumer Price Inflation (CPI) relative to the 2017. Because, in addition, TCJA limited many deductions (including through the SALT cap) that need to be added back to income to calculate AMT, most taxpayers were effectively exempted from it. The TCJA changes to the AMT are set to expire in 2026. The House bill makes the higher exemptions and phase-out thresholds permanent but resets them at their 2018 level and restarts indexation going

While available tax return data does not permit knowledge of whether or not a particular taxpayer will be allowed to exclude PTET, UBT, or GCT paid from their taxable income under the proposed law, the magnitude of the changes to a taxpayer is illustrated by looking at the median effect under certain assumptions. Table 2 shows the median tax change resulting from PTET and UBT inclusion in taxable income without regard to economic sector, for high-income NYC resident taxpayers with partnership income based on preliminary tax year 2023 data.

Table 2. Illustrative Federal Tax Increases for High-Income New York City Taxpayers with Partnership Income and Entity-Level Tax Paid

Adjusted Gross Income	Median Federal Tax Change ¹	Median Increase in Effective Federal Tax Rate
\$600k - \$1m	\$12,980	1.8%
\$1m - \$2m	\$29,725	2.2%
\$2m - \$5m	\$85,036	3.1%
\$5m - \$10m	\$255,132	4.0%
Above \$10m	\$583,050	3.7%
All above \$600k	\$32,887	2.5%

Source: NY State Office of Tax Policy Analysis and Office of the New York City Comptroller.

1/ Shows median modeled tax change for NYC residents with positive NYC tax liability (before PTET credits), positive partnership income, and non-zero PTET or UBT credits. Assumes 100% of PTET and UBT paid by taxpayer will be counted toward federal SALT deduction cap. Assumed 37% tax marginal federal tax rate used for all taxpayers.

Taxpayers with incomes lower than \$600,000 account for a much smaller share of PTET, UBT, and GCT payments and will see their SALT limitation caps increased compared to current law. These taxpayers would in general be likely to benefit from the increase, particularly if they have no partnership or S-corporation income or if their business is exempted from the new deduction limits. Even so, the aggregate tax benefit for these taxpayers appears smaller than the tax increase on high-income NYC residents and businesses.

forward from the 2025 CPI. These changes will subject more taxpayers to the AMT but likely impact more heavily taxpayers that would benefit from the increase in the SALT cap.

A More Detailed Look at the Legislation and Its Implications

A more technical (but still streamlined) summary of the provisions affecting partnerships and S-corporations is provided below. The discussion revolves around SALT deduction limitation for the new category of “specified taxes.” More extensive analyses are available from the [Joint Committee on Taxation](#) as of the May 12th draft of the Ways and Means House Committee, [KPMG](#) for provisions including the changes to the May 12th draft that passed the House on May 22nd, Santamaria M. (2025) “[The Proposed New SALT Regime and Pass-throughs: More SALTY than Sweet?](#)” *Tax Notes*, 6/10/2025, and NYU’s Tax Law Center [blog posts](#).⁸

SALT DEDUCTION LIMITATION (IRC new section 275(b)). This section provides that no deduction is allowed for the entire amount of specified taxes (see below) if such amount exceeds the SALT cap in effect in that year for the filer’s MAGI (e.g., in 2026, \$40,400, phasing down to \$10,000 for incomes above \$500,500, except for MFS for whom these amounts are halved).

MAGI is calculated by adding the following components to AGI: foreign earned income and housing cost (IRC section 911), income from sources within Guam, American Samoa, or the Northern Mariana Islands (IRC section 931), and income from sources within certain US possessions (IRC section 933).

Specified taxes. Unless “excepted” (see below), this new category of taxes includes property taxes, income taxes, and sales taxes (if the latter are claimed as a deduction on individual tax returns), as well as PTETs (as “substitute payments,” defined below). For NYC businesses, the category includes the City’s income taxes: the GCT on S-corporations and the UBT on partnerships, which (like PTETs) are currently deductible in full.⁹

Substitute payments. Specified taxes include substitute payments, which are amounts paid to state and local governments that provide a tax benefit of at least 25% of the amount paid. These payments are counted toward the SALT cap, unless excepted. Substitute payments include the State and City PTET, which receive PIT credits equal to 100% of the PTET paid.¹⁰

⁸ The House bill contains SALT-related provisions for pass-through businesses that are not addressed in this fiscal note. They involve changes to partnership income loss carryforward, limits to the capitalization of specified taxes, and provisions to tax “state and local tax allocation mismatch” which occurs when the tax benefit received by a partner is higher than their distributive share of the specified tax payment.

⁹ The definition also includes foreign property and income taxes; state/local/foreign war profits and excess profit taxes, and state/local personal property taxes. In general, foreign property taxes are altogether disallowed, unless excepted.

¹⁰ Partners that are NYC residents also receive a NYC PIT credit for the amount of UBT paid. The UBT paid credit is 100% for taxable incomes up to \$42,000 and gradually declines until it reaches a floor of 23% for taxable incomes above \$142,000. It appears that UBT could be classified as a substitute payment for individual tax filers receiving a PIT credit of 25% or more. The distinction may not be consequential since UBT would be included in the deduction

Excepted taxes. These are specified taxes that are not subject to the deduction limitation. The main components of the exception are:

1. **Taxes paid or accrued in carrying a trade or business or in producing or managing income.** This category includes property taxes and sales taxes (if claimed as deduction instead of income taxes). For instance, a business that owns the location where it operates, can deduct the amount of property taxes. Because both NYS and NYC tax personal income, sales taxes are not in general claimed as an itemized deduction on federal returns and the exception of sales taxes is largely moot.
2. **State and local income taxes incurred by a qualifying entity with respect to carrying on a qualified trade or business.** The components of the definition are:
 - **Qualified trade or business (QTB) per the definition of the IRC section 199A deduction (without regard to the income thresholds for qualifying for a section 199A deduction).** QTB is any trade or business other than a Specified Service Trade or Business (SSTB) or the trade or business of performing services as an employee.
 - **SSTB businesses are those whose partners and shareholders will be subject to the deduction limitation.** They are: (1) any business involving the performance of services in the fields of health, law, accounting, actuarial science, performing arts, consulting, athletics, financial services, or brokerage services, but specifically excluding engineering and architecture; (2) any trade or business where the principal asset is the “reputation or skill” of one or more of its employees or owners; or (3) any trade or business which involves the performance services that consist of investing and investment management, trading, or dealing in securities, partnership interests or commodities.
 - **Qualifying entity.** A partnership or S-corporation that derives 75% or more of gross receipts from a QTB, once all trades and businesses under control are consolidated. This calculation appears to be one of the provisions more in need of further guidance and rule-making.

STATE AND LOCAL INCOME TAXES TAKEN INTO ACCOUNT SEPARATELY BY PARTNERS AND SHAREHOLDERS (for partnerships: IRC amended section 702(a)(6), new subsection 702(d), amended section 703(a)(2)(B); for S-corporations amendments to sections 1366(a)(1) and 1363(b)(2) referring to those for partnerships). Under these provisions, partnerships and S-corporations would not be able to deduct specified (non-excepted) state and local income taxes from their income and partners/shareholders would be required to list their allocation of state and local income taxes separately on their returns.

To summarize, these provisions introduce a strong tax disadvantage in the treatment SSTB pass-throughs relative to both QTBs (which is compounded by the proposed increase of the 199A deduction from 20% to 23%) and to C-corporations. The disadvantage leaves the bulk of the income produce by NYC pass-throughs newly subject to federal taxation at the individual level.

limitation either as an income tax or as a substitute payment. Data on the UBT paid PIT credit is available from NYC Department of Finance’s [Annual Report on Tax Expenditures](#).

Conclusions

The House Budget Reconciliation Bill has been criticized on many grounds, including most recently by Governor Hochul in a [letter](#) to Senate leaders that highlighted its impacts on health care, food security, renewable energy, education, and others (including not repealing the SALT cap altogether). Reportedly, the Senate is considering amendments to the House bill to scale back the proposed \$40,000 SALT cap for incomes below \$500,000. But little or no debate has surfaced on the limitations on deductibility for pass-through entity taxes, regardless of whether they are SALT cap workarounds or not.

By disallowing the deduction of the vast majority of NY State and City's PTETs and of the City's GCT and UBT payments, the bill puts the NYC's economy and businesses at a competitive disadvantage and threatens the local tax base.

Acknowledgements

This fiscal note was prepared by Francesco Brindisi, Executive Deputy Comptroller for Budget and Finance and Jonathan Siegel, Chief Economist. Archer Hutchinson, Creative Director, and Addison Magrath, Graphic Designer, led the report design and layout. The authors are thankful for the comments received on earlier drafts and are responsible for any errors.