New York City Independent Budget Office
Director Louisa Chafee

IBO's Calculation of the Impact of Raising the SALT Deduction Cap for New York City Tax Filers

Signed into law in July 2025, the Trump administration's One Big Beautiful Bill (OBBBA) notably raised the cap on how much state and local taxes (SALT) can be deducted in federal tax filings—from an allowable deduction up to $10,000 to a deduction up to $40,000 for married couples, filing jointly and single filers (and from $5,000 to $20,000 for married filers, filing separately). The deduction phases down to $10,000 for filers with incomes above $500,000. IBO presents a report discussing this and other major federal tax changes in OBBBA as they relate to taxpayers in New York City. To enhance that report, IBO used data from the federal Internal Revenue Service (IRS)'s Statistics of Income Tax tables to make a preliminary estimate of the impact raising the SALT deduction cap would have on New York City tax filers. The IRS Statistics of Income Tax data provides aggregated information about the number of filers and amount of adjusted gross income claimed for each itemized deduction, for each county in the country and according to various income categories. IBO specifically focused on the five counties that comprise New York City.

New York City Filers' SALT Payments By Income

Using data for 2022 (the most recent year available), IBO calculated the average per-return amount of eligible SALT paid for each different income category.[1] Because of the way the SALT deduction is structured, this is calculated as the sum of state and local personal income taxes, real estate taxes, and personal property taxes.[2] Personal property taxes are taxes on movable physical property or intangible property, which are separate from taxes associated with real property, captured in the real estate taxes category. Personal property is not taxed in New York state, but filers may have a small amount of liability if moving between or operating amongst multiple states, particularly involving vehicles. Figure 1 provides the average itemized amount of the three SALT categories per filing, broken out by income group.[3] Figure 1 also presents the total taxes that would be eligible to count towards the SALT deduction without any limitation, as well as the amount of deduction, on average, that each of the income groups actually claimed under the existing $10,000 cap on their tax filings.

SALT Payments Not Fully Deductible from Federal Personal Income Under Current Rules For Filers Earning More Than $100,000

As Figure 1 shows, filers in the two highest income categories—incomes over $100,000—were the filers with claims effectively limited to $10,000 by the SALT cap, on average. While income categories below $100,000 were potentially capped by the $10,000 limit based on the average individual income, real estate, and personal property components,

FIGURE 1

Average SALT Reported on Itemized Federal Tax Returns and SALT Claimed by New York City Taxpayers, by Income Category

Dollars in Thousands

	Average				
Federal Income Category	State and Local Income Taxes	State and Local Real Estate Taxes	State and Local Personal Property Taxes	Total Taxes Eligible for SALT Deduction	Total SALT Deducted Under Current $10,000 Cap
Under $1	$0	$0	$0	$0	$0
$1 under $10,000	$5	$8	$3	$16	$5
$10,000 under $25,000	$4	$7	$3	$14	$5
$25,000 under $50,000	$4	$7	$3	$14	$6
$50,000 under $75,000	$6	$6	$2	$15	$8
$75,000 under $100,000	$8	$6	$2	$16	$9
$100,000 under $200,000	$13	$7	$2	$22	$10
$200,000 or more	$184	$19	$2	$205	$10

SOURCE: IBO Analysis of IRS Statistics of Income Data

NOTE: Personal property taxes are taxes on movable physical property or intangible property, which are not taxed in New York State. Income of less than $1 include filers with no taxable income; adjusted gross income can be negative due to refundable credits and deductions.

New York City Independent Budget Office

FIGURE 2

Estimated Increased SALT Claims for Categories Capped by $10,000 Limit

Federal Income Category	Average Claimable SALT Above $10,000 and Below $40,000	Number of Filers	Estimated Increased SALT Deduction Claim
$100,000 Under $200,000	$12,312	122,160	$1.504 billion
$200,000 or More	$30,000	136,950	$4.109 billion
Total			**$5.613 billion**

SOURCE: IBO Analysis of IRS Statistics of Income Data

New York City Independent Budget Office

filers in these income categories did not, in aggregate, itemize in such a way as to claim deductions at or above the $10,000 ceiling for total SALT deductions.

Because of this, IBO chose to focus its estimate of the impact of raising the SALT cap from $10,000 to $40,000 on these top two income categories. For the $100,000 to $200,000 category, the amount of claimable SALT averaged to $22,312, or $12,312 greater than the existing cap. For the $200,000 and higher income category, the amount of SALT paid across personal income, real estate, and personal property averages $205,456—far above the new $40,000 limit. Their SALT deductibility, previously capped at $10,000, would increase by $30,000 to reach the new limit of $40,000. Multiplied by the number of tax returns in each respective income category, as shown in Figure 2, this sums to $5.613 billion.[4] This $5.613 billion estimate represents the amount of total New York City taxpayer SALT payments that would become federally deductible because of the expansion of the cap.

Accounting for PTET, New York State's Current SALT Cap Workaround

The $5.6 billion, however, is not IBO's final estimate, as it represents how much SALT payment would be deductible against federal income taxes if New York's Pass-Through Entity Tax (PTET) did not exist. PTET is a workaround to the SALT limit New York State introduced starting in 2022 tax filings. PTET allows taxpayers to reclassify personal income to be electively paid by a pass-through business (an eligible partnership or S corporation) which is not taxable at the federal level. Filers then receive a personal income tax credit of the same amount. PTET is designed to be revenue-neutral to the State and City, with taxes being shifted from the personal income tax to PTET as a way to not have those taxes count against filer's $10,000 SALT deduction cap.

Because New York State's PTET allows some filers to bypass some or all of the SALT cap currently, IBO next looks at the amount of tax that actually has been reclassified as PTET. Because the program did not go into effect until City fiscal year 2023, and has been variable, IBO averages the first two years of PTET-classified tax payments, as collected and reported in the Comptroller's Annual Comprehensive Financial Report ($2.5 billion in 2023 and $1.8 billion in 2024), reaching an estimate of $2.159 billion.[5] Subtracting out $2.159 billion in PTETfunneled taxes from the $5.6 billion in income that IBO estimated before accounting for PTET yields a net amount of $3.453 billion—the amount of new federally exempt income resulting from the expansion of the cap, in a scenario where PTET continues and is utilized at similar rates.

FIGURE 3

Calculation of Financial Impact of SALT Cap Increase for New York City Filers

Estimated Increased SALT Claim	$5.613 billion
(Less) Amount Already Claimed Through PTET	($2.159 billion)
Increased SALT Claim Excluding PTET	$3.453 billion
Tax Dollar Savings from Increased SALT Deduction Limits	**$1.036 billion**

SOURCE: IBO Analysis of IRS Statistics of Income Data

New York City Independent Budget Office

Estimated Tax Savings From Expanding SALT Cap for New York City Filers

In its final step, IBO applies a federal tax rate to estimate the dollar impact of the SALT cap increase on New York City taxpayers. Because there is variability of the top marginal tax rate throughout this portion of the income distribution, an average effective tax rate of 30% is applied. This yields a total of $1.036 billion. These calculations are depicted in Figure 3.

In summation, IBO estimates that just over a billion dollars would not be paid in federal taxes by New York City filers because the cap was raised from $10,000 to $40,000. Again, this is in the context of around $840 billion in overall income, meaning the increase to the SALT deduction cap increases after federal tax income among all New York City filers by about 0.13%. As discussed in the next section, IBO's estimate—given data limitations—may overstate the impact.

Caveats for Estimation of Impact

There are number of caveats to keep in mind with IBO's estimation of the federal tax benefit for New York City taxpayers resulting from the SALT cap expansion. It relies upon aggregated data with limited income categories, particularly in the highest income brackets where the SALT cap is most relevant. Additionally, the cap may interact with other provisions in the tax code such as the expanded standard deduction, discussed in IBO's overview report. Some marginal filers may opt for the expanded standard deduction, rather than itemizing; however, the expanded SALT cap, for those poised to benefit from it, may cause some marginal filers opt for itemization instead.

Two particular factors suggest that IBO's estimate may overstate the impact. First, there is the potential for greater use of PTET by taxpayers in the future. Additionally, the phase out provisions for those earning over $500,000 reduce the amount of taxable income that is allowed to be deducted under SALT provisions. These elements cannot be modeled with the available data because PTET only been in existence for two city tax years—not long enough to identify a trend in usage—and IRS data does not aggregate income levels to identify the number of New York City filers with incomes above $500,000, who would be subject to the phase out rules. In any event, the relatively small estimate of $1 billion is likely too high, barring greatly increased take up of itemization.

Endnotes

1 All calculations are based on 2022 data and in 2022 dollars.

2 State and local sales tax were excluded because either sales tax or income tax must be selected for deduction. In no category did claimed sales tax exceed personal income tax.

3 This data is for itemizers only; if a filer took the standard deduction their potential SALT claim is not included.

4 This includes all filers with incomes greater than $200,000, and does not capture the phase out provisions for those with incomes greater than $500,000.

5 These values are inflation adjusted to 2022 dollars, for consistency with the 2022 IRS data.

Prepared By:
Cole Rakow
Julie Anna Golebiewski

Taxes and Revenues

Follow IBO
@nycibo

info@ibo.nyc.gov
www.ibo.nyc.gov