



Modification of Limitation on Deduction for State and Local Taxes

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<https://budgetmodel.wharton.upenn.edu/estimates/2022/1/18/modification-of-limitation-on-deduction-for-state-and-local-taxes>

Summary: Under current law, individuals can deduct up to \$10,000 in state and local taxes (SALT) from taxable income through 2025, after which no limitation applies. The proposal would make two permanent changes to the deduction. First, it would set the maximum deduction value to \$50,000. Second, it would introduce a phase-out range for the deduction: from \$400,000 to \$800,000 in AGI, the maximum deduction would decrease from \$50,000 to \$10,000.

We estimate the proposal would raise \$355 billion in revenue over the 10-year budget window. In 2022, taxpayers in the top quintile of incomes would see 95 percent of the benefits from this policy. In 2026, when a deduction cap represents a tax increase relative to current law, nearly all of the additional tax burden would fall on the top 5 percent of taxpayers. After-tax incomes for the top 1 percent of taxpayers by income would decrease by more than 3 percent.

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Table 1: Revenue estimate (FY2022-31)

Billions of Dollars, Change from Current-Law Baseline

2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	Budget window
-26.4	-35.2	-36.2	-37.5	49.3	78.6	83.6	88	92.4	98.7	355.3



Table 2: Distributional effects (CY2022)

Income group	Average tax	Share with tax	Share with tax	Average tax	Percent change		
	change	cut	Average tax cut	increase	in after-tax	Share of tax	
					income	change	
Bottom quintile	\$0	0.0%	-\$20	0.0%	\$0	0.0%	0.0%
Second quintile	\$0	0.3%	-\$440	0.0%	\$0	0.0%	0.0%
Middle quintile	-\$5	1.3%	-\$520	0.0%	\$0	0.0%	0.4%
Fourth quintile	-\$60	7.6%	-\$755	0.0%	\$0	0.1%	4.3%
80-90%	-\$390	30.4%	-\$1,280	0.0%	\$0	0.3%	14.1%
90-95%	-\$1,370	60.1%	-\$2,285	0.0%	\$0	0.8%	24.8%
95-99%	-\$3,840	78.9%	-\$4,870	0.0%	\$0	1.3%	55.6%
99-99.9%	-\$220	13.4%	-\$1,660	0.0%	\$0	0.0%	0.7%
Top 0.1%	\$0	0.0%	\$0	0.0%	\$0	0.0%	0.0%



Table 3: Distributional effects (CY2026)

Income group	Average tax	Share with tax	Share with tax	Average tax	Percent change		
	change	cut	Average tax cut	increase	in after-tax	Share of tax	
				increase	income	change	
Bottom quintile	\$0	0.0%	\$0	0.0%	\$0	0.0%	0.0%
Second quintile	\$0	0.0%	\$0	0.0%	\$0	0.0%	0.0%
Middle quintile	\$0	0.0%	\$0	0.0%	\$565	0.0%	0.0%
Fourth quintile	\$0	0.0%	\$0	0.0%	\$2,560	0.0%	0.0%
80-90%	\$0	0.0%	\$0	0.2%	\$1,400	0.0%	0.0%
90-95%	\$20	0.0%	\$0	0.5%	\$3,785	0.0%	0.2%
95-99%	\$1,330	0.0%	\$0	22.6%	\$5,880	-0.4%	8.9%
99-99.9%	\$30,520	0.0%	\$0	85.7%	\$35,595	-3.4%	46.2%
Top 0.1%	\$248,330	0.0%	\$0	88.8%	\$279,495	-3.1%	44.6%