Federal Tax / State and Local Tax Deductions

NAR Committee:

Federal Taxation Committee

What is the fundamental issue?

Real property taxes, along with other state and local taxes paid, have traditionally been deductible for federal income tax purposes. Without a State and Local Tax (SALT) deduction, taxpayers would be paying federal tax on money already paid as taxes to state or local governments, which would be tantamount to double taxation.

The Tax Cuts and Jobs Act (TCJA), enacted in December 2017, made some significant changes to the SALT deduction. The law currently limits the itemized deduction at $10,000 for the total of state and local property taxes and income or sales taxes paid. This $10,000 limit applies for both single and married filers and is not indexed for inflation. When the House and Senate bills for TCJA were first introduced, the deduction for SALT was completely eliminated. The final version provided for the limited $10,000 deduction. Thus, while it is far less beneficial than the prior law, the final bill represented a significant improvement over the original proposals.

I am a real estate professional. What does this mean for my business?

A limited SALT deduction increases the after-tax costs of homeownership for those who have more than $10,000 in combined state and local property and income or sales taxes. Moreover, because the limit is not indexed for inflation, more current and prospective homeowners will be hurt by this limit each year. In addition, the marriage penalty that is inherent in the limitation could discourage some couples from marrying and is also unfair.

NAR Policy:

NAR strongly supports full deductibility of state and local real estate taxes, as well as other state and local taxes paid. If this cannot be achieved, NAR supports an increase in the SALT deduction limit that at least doubles the current $10,000 limit for married couples filing a joint tax return.

Opposition Arguments:

The deduction for state and local taxes paid subsidizes irresponsible spending by certain higher-tax states, and forces taxpayers in lower-tax jurisdictions to pay more federal tax.

Legislative/Regulatory Status/Outlook

As the unindexed SALT deduction limit impacts more taxpayers in various states, many members of Congress on both sides of the political aisle are supporting an increase in the limit or a return to the unlimited deduction that was in the law prior to 2018. The SALT limit has particularly become a hot political issue in higher-tax states where more taxpayers are affected by it. Over recent years, many bills have been introduced to increase the deduction limit or to remove it altogether. In this current year (2025) when tax reform is likely, a group of Republican House members have indicated that they will not support any tax reform bill that does not include a substantial increase in the SALT deduction limit. Thus, the current outlook is that an increase in the SALT deduction limit is quite likely, though having the cap removed altogether is much less probable, due to the high cost in terms of lost revenue of returning to an unlimited deduction.

Current Legislation/Regulation (bill number or regulation)

None at this time.

Legislative Contact(s):

Joe Harris, jharris@nar.realtor, 202-383-1226
Evan Liddiard, eliddiard@nar.realtor, 202-383-1083

Regulatory Contact(s):

Evan Liddiard, eliddiard@nar.realtor, 202-383-1083