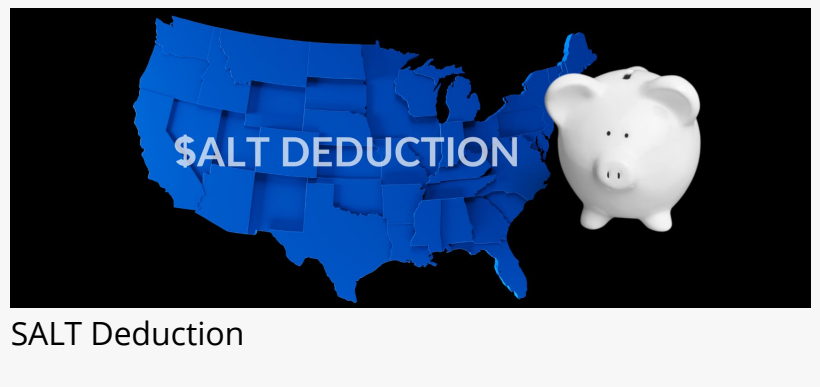


# Tax Challenges With The SALT Deduction

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/EINPresswire.com/ -- The State and Local Tax (SALT) deduction impacts the financial strategies of businesses and high-net-worth individuals every year. The [SALT deduction](#) gets capped at \$10,000, which presents unique challenges for high-net-worth individuals.



Understanding the intricacies of the SALT deduction can help minimize tax liabilities.

What is the SALT Deduction?

The SALT itemized deduction includes three types of taxes:

## 1. Property Taxes

Property taxes include taxes paid on real estate owned by an individual and personal property taxes levied on items like automobiles and boats.

Note: Property taxes paid on rental properties are not factored into the SALT deduction. Instead, these are deducted on Schedule E, page 1, and are not subject to the \$10,000 limit.

## 2. Income Taxes

This category encompasses taxes imposed on the individual paid to state and local governments on wages, salaries, and other forms of income. Income taxes include composite taxes remitted by an entity on an individual's behalf, but only if the entity is not already taking the deduction.

## 3. Sales Taxes

Sales taxes are taxes paid when purchasing goods and services. While the SALT deduction covers income or sales taxes, taxpayers must choose one or the other, not both. For this reason, it is unlikely that sales tax will produce a benefit for taxpayers residing in a state with an income tax.

The SALT deduction is itemized, meaning taxpayers must itemize their deductions on their federal tax return to claim it. Taxpayers who choose the standard deduction cannot claim the

SALT deduction.

## SALT Deduction in the News

The SALT deduction cap, introduced by the Tax Cuts and Jobs Act of 2017, has sparked ongoing debate and policy discussions. Set to expire after 2025, the \$10,000 cap on the federal itemized deduction has prompted policymakers from high-tax states to push for its early repeal due to its effect on businesses and residents.

Several proposals aim to provide relief to taxpayers. The SALT Fairness Act proposes a \$10,000 deduction per spouse for joint filers, effectively eliminating the marriage penalty and increasing the joint deduction to \$20,000. The Tax Relief For Middle-Class Families Act recommends raising the cap to \$100,000 (\$200,000 for joint filers), and would be retroactive to 2018. Other proposals recommend repealing the cap altogether. The outcome of this legislation will significantly impact taxpayers in high-tax states and their tax strategies.

## Who Uses the SALT Deductions?

Taxpayers primarily use the SALT deduction if they are residents or own property in states with high income and property taxes, such as New York, New Jersey, and California. These tax states have a disproportionate tax burden due to the SALT cap.

## How to Calculate the SALT Deduction

Follow these steps to calculate the SALT deduction:

1. **Property Taxes:** Sum the total property taxes paid on real estate (individually owned properties only, not rental properties) and personal property taxes paid on automobiles and boats.
2. **Income Taxes:** Sum all state withholdings and estimated payments made during the calendar year.
3. **Sales Taxes:** If deducting sales taxes instead of income taxes, estimate the total sales taxes paid during the tax year. The IRS provides a Sales Tax Deduction Calculator for assistance.
4. **Total Eligible Taxes:** Add the amounts from steps 1 and 2 (or steps 1 and 3 for sales taxes) to determine the total eligible state and local taxes paid.
5. **Apply the Cap:** The SALT deduction is subject to a \$10,000 cap (\$5,000 for married taxpayers filing separately).

Example:

A taxpayer has paid \$8,000 in property taxes and withheld \$12,000 in state taxes on their W-2:

- Total Eligible Taxes: \$8,000 property tax + \$12,000 wage withholding = \$20,000
- Apply the Cap: The total eligible taxes exceed the cap, so the taxpayer's SALT deduction is \$10,000, the maximum allowed under current tax law.

### State Workarounds for the SALT Cap

In response to the deduction cap, several states have introduced SALT cap workarounds for eligible owners of pass-through entities to provide relief for their residents.

This workaround shifts the tax burden from the individual to the business level, circumventing the cap. These programs often have strict rules for participation, and the effectiveness of these workarounds varies based on individual circumstances and changing tax regulations. An [accounting firm](#) can help assess the potential benefits of participating in these programs.

### File Taxes with Confidence

If itemized deductions, including SALT, exceed the standard deduction for one's filing status, itemizing and claiming the SALT deduction could be beneficial. [Tax professionals](#) can help you assess how the SALT deduction and the current cap fit one's overall tax planning and financial goals.

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