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Has the SALT Cap Shifted Tax Burdens in the United States?

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ABSTRACT

This paper studies how the SALT Cap passed as part of the Tax Cuts and Jobs Act (TCJA) of 2017 impacted tax filing behavior and tax burdens across states and income distributions within the United States. We use publicly available IRS SOI tax data to examine filing behavior such as the itemization rate of tax returns. Our results suggest that the SALT Cap had a large impact on filing behavior for high-income Americans with itemization rates dropping sharply for high-earners. Our quantitative analysis shows statistical significance in the changes in filing behavior and taxable income after the passage of the TCJA in 2017. We examine the itemization rates of different income ranges and analyze the outcomes.

INTRODUCTION

Ever since the 16th Amendment was ratified in 1913 and the Revenue Act of 1913 was passed, Americans have been able to claim a SALT deduction on their federal income tax filings. The state and local tax deduction allows filers who use itemized returns to deduct state and local taxes they have paid. The goal of the SALT deduction is to avoid double taxation by the state and federal government. Since 1944, filers also had the option to claim a standard deduction while filing non-itemized. Before the passage of the Tax Cuts and Jobs Act of 2017, filers were allowed to deduct all state and local taxes from their taxable income meaning that many Americans who paid more state and local taxes along with other deductions like interest on mortgages and charitable donations than the standard deduction, which was $6,300 for single filers in 2016, used itemized returns to take advantage of the SALT deduction. The group of filers whose SALT taxes exceeded the standard deduction consisted of high-earners and people who paid high property taxes, but there was a clear impact of the state filers lived in due to the varying state income tax rates across the United States.

After the Tax Cuts and Jobs Act was passed in 2017, the standard deduction was raised to $24,000 for joint filers and $12,000 for single filers for the following year.[1] Meanwhile, a SALT Cap was established at $10,000 for all filers excluding married individuals who filed separately with a $5,000 cap. This one switch led to a shift of most upper-middle to upper class Americans taking the standard

[1] H.R. 1, Tax Cuts and Jobs Act, 115th Cong. (2017), https://www.congress.gov/bill/115th-congress/house-bill/1/text

deduction instead of itemized returns. The purpose of the SALT Cap was to raise revenue that was lost by the other tax cuts in the TCJA, and in theory it would only affect high earners.

LITERATURE REVIEW

The creation of the SALT Cap was intended to reverse and slow down the widening (post-tax) income disparity in the United States. Critics of the SALT deduction have claimed that its reversal would almost exclusively benefit wealthy Americans with 96% of the benefit going to the top 20% of Americans, and 57% going to the top one percent of Americans.[2] Further, after-tax income of middle-class Americans would not change with the repeal of the SALT Cap while there would be a 1.9% increase in after-tax income for the top one percent of earners.[3] The reversal of the SALT Cap would most likely widen income disparity and allow high-income earners to decrease their tax burdens.[4] This study provides evidence on the magnitude of the SALT deduction on filer's tax liabilities across states and income distributions. In line with these claims, we find that the introduction of the SALT Cap increased the tax burdens of relatively high income filers in states with higher state and local taxes.

Before the passage of the TCJA, the Alternative Minimum Tax was used to ensure that high-income individuals could not use loopholes to avoid paying their share of taxes. When filing taxes, they would calculate their tax liability once following normal rules and a separate time under AMT guidelines. The AMT, which still exists today, was weakened as part of the TCJA by raising the exemption amount and raising the income at which that exemption phases out. The number of AMT filers dropped from around five million in 2017 to 0.2 million in 2018 due to the policy put in place by the TCJA.[5] Because of this, repealing the SALT Cap after the TCJA would be even more beneficial to high-income earners because many of them would pay less taxes than they did before the TCJA was passed.[6]

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[2] Christopher Pulliam and Richard V. Reeves, "The SALT Tax Deduction Is a Handout to the Rich. It Should Be Eliminated Not Expanded," Brookings, September 4, 2020, https://www.brookings.edu/articles/the-salt-tax-deduction-is-a-handout-to-the-rich-it-should-be-eliminated-not-expanded/

[3] Pulliam and Reeves, "SALT Tax Deduction," Brookings.

[4] Jorge Barro and Jack Diamond, *Did the TCJA Reduce Wealth Inequality?*, Issue Brief no. 08.19.21 (Houston: Rice University's Baker Institute for Public Policy, August 19, 2021), https://www.bakerinstitute.org/research/did-tcja-reduce-wealth-inequality.

[5] Leonard E. Burman, "Most AMT Taxpayers Paid Lower Taxes After TCJA, Despite SALT Cap," TaxVox (blog), Tax Policy Center, July 10, 2019, https://taxpolicycenter.org/taxvox/most-amt-taxpayers-paid-lower-taxes-after-tcja-despite-salt-cap.

[6] Howard Gleckman, "High-Income Households Would Benefit Most From Repeal of the SALT Deduction Cap," TaxVox (blog), Tax Policy Center, September 24, 2018, https://taxpolicycenter.org/taxvox/high-income-households-would-benefit-most-repeal-salt-deduction-cap.

The SALT Cap's impact on individuals is also heavily affected by their states. Individuals who live in states with higher income taxes benefit less from the rest of the TCJA than residents of states with lower income taxes because the SALT Cap favors those who live in lower tax states and don't pay as much in SALT taxes. This also makes it more difficult for states with higher taxes to justify and maintain their tax rates without residents receiving a full deduction of their SALT.

Repealing the SALT Cap would also cost the government revenue that would then need to be raised from other taxation. The benefits of repeal are estimated at around $31,000 annually for the top one percent of earners while middle-income Americans would be given an average of about $10 of annual tax cuts.[7] The One Big Beautiful Bill Act of 2025 raised the SALT Cap to $40,000 with the phase-out amount at $500,000.[8] In modeling from before the passage of the Act, the Committee for a Responsible Federal Budget estimated no benefits of the increase of the SALT Cap for those making under $200,000, and the income group most impacted was those making $500,000 annually, with an estimated benefit of $12,800.[9]

DATA AND METHODS

This paper uses publicly available IRS SOI data from the years of 2013 to 2022 with statistics such as itemization rate, standard deduction rate, and taxable income per return being available. We used two primary methods to test the impacts of the SALT Cap on filing behaviors and tax burdens across states and income distributions. First, for descriptive analysis, we show national itemization rates across the income distribution before and after the passage of the TCJA. As figure 2 shows below, these itemization rates were very stable in the lead up to the policy, but they dropped immediately after it took effect and stabilized at lower rates. Though, the magnitude of the drops were different across different income groups.

One concern could be that other changes in time or other aspects of the TCJA could have impacted some of these metrics. In order to isolate the effect of the SALT Cap from other changes, we use a differential exposure design, classifying states as high or low exposure to the SALT Cap based on their relative pre-TCJA state and local tax burdens. We then look at how various tax metrics changed over time in states with relatively high or low policy exposure. Specifically we leverage a continuous exposure difference in differences model of the following form:

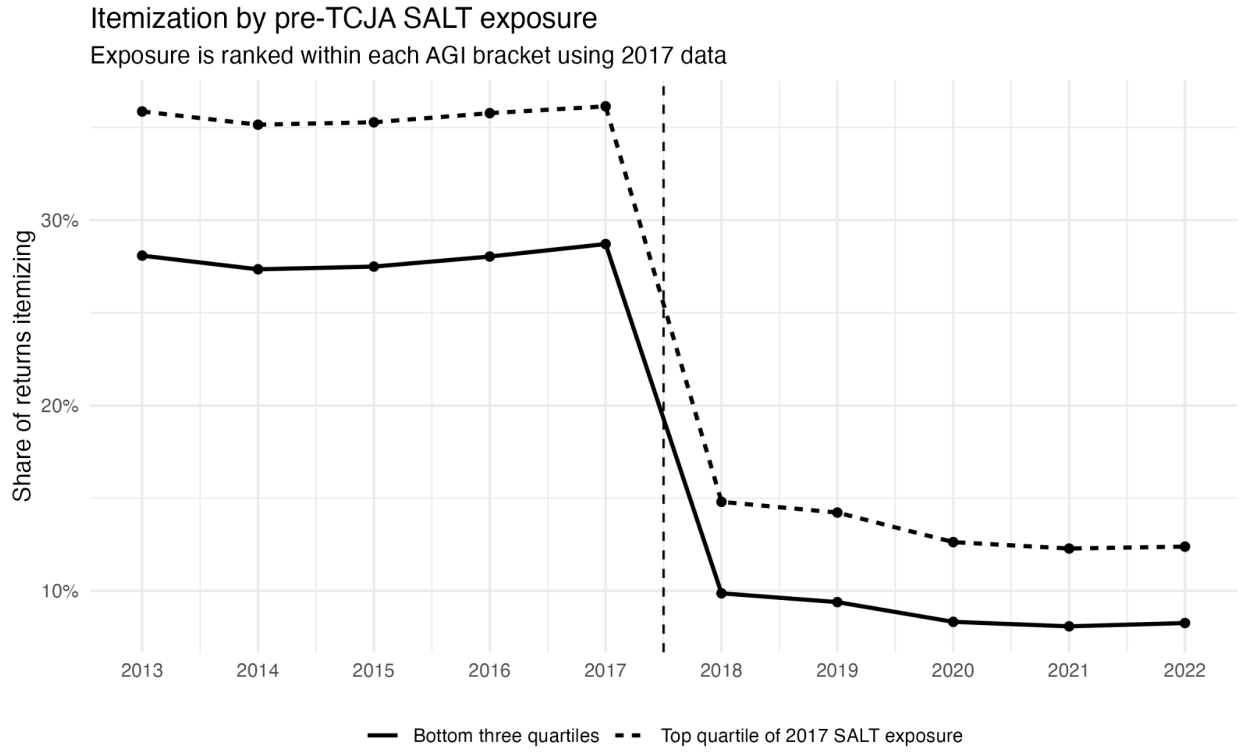
$$Y_{st} = \alpha + \Sigma_{\tau \neq 2017} \beta_{\tau} \cdot SALT_s \times 1[t = \tau] + \gamma_s + \delta_t + \varepsilon_{st}$$

[7] Committee for a Responsible Federal Budget, "Repealing the SALT Cap Would Be More Regressive than the TCJA," April 20, 2021, https://www.crfb.org/blogs/repealing-salt-cap-would-be-more-regressive-tcja.
[8] One Big Beautiful Bill Act, HR 1, 119th Cong., 1st sess. (introduced in House May 20, 2025), https://www.congress.gov/bill/119th-congress/house-bill/1.
[9] Committee for a Responsible Federal Budget, "Further SALT Cap Relief Only Benefits High Earners," May 21, 2025, https://www.crfb.org/blogs/further-salt-cap-relief-only-benefits-high-earners.

Where Y_{st} represents some outcome for state s in year t, $\Sigma_{\tau \neq 2017} \beta_\tau \cdot SALT_s \times 1[t = \tau]$ is a sum of year coefficients interacted with pre-policy state and local tax exposure ($SALT_s$), γ_s are state fixed effects, and δ_t are time fixed effects.[10] β_τ tells us how outcomes change in each year, relative to the omitted year (2017), as SALT exposure changes over time. The Betas for pre-2017 years represent placebo tests, testing whether states with differential SALT exposure were trending differently before the policy while the Betas for after the policy tell us the differential post-treatment effects.

QUANTITATIVE ANALYSIS

Figure 1



As shown in figure 1, the percentage of filers itemizing dropped significantly following the implementation of the TCJA shown by the dashed line. The top quartile's percentage of itemizers also fell more than the bottom three quartiles combined with a drop of around 21% from 2017 to 2018 compared to a drop of around 18%. The decrease in itemization was an expected result of the SALT Cap because of

[10] Daron Acemoglu and Amy Finkelstein, "Input and Technology Choices in Regulated Industries: Evidence from the Health Care Sector," *Journal of Political Economy* 116, no. 5 (October 2008): 837–80, https://doi.org/10.1086/595014.

many people opting to take the standard deduction in place of the SALT Cap if they did not have many other deductions.

Table 1: Table on itemization rate, standard deduction rate, federal income tax per return, effective federal income-tax rate, and taxable income per return in relation to pre-TCJA exposure

	Itemization rate	Standard-deduction rate	Federal income tax per return	Effective federal income-tax rate	Taxable income per return
year = 2013 × exposure_pct_point	−0.002*		48.646	−0.000**	566.738
	(0.001)		(280.952)	(0.000)	(946.541)
year = 2014 × exposure_pct_point	0.000		79.462	−0.000*	860.105
	(0.001)		(237.681)	(0.000)	(740.139)
year = 2015 × exposure_pct_point	0.001		179.897	−0.000*	990.692
	(0.001)		(186.025)	(0.000)	(603.834)
year = 2016 × exposure_pct_point	0.001		182.681	−0.000**	1018.213
	(0.001)		(356.142)	(0.000)	(1176.563)
year = 2018 × exposure_pct_point	−0.018*	−0.004***	985.657**	0.002***	4478.064***
	(0.007)	(0.001)	(310.105)	(0.000)	(1101.231)
year = 2019 × exposure_pct_point	−0.019*	−0.003**	674.301**	0.002***	3140.968***
	(0.007)	(0.001)	(232.199)	(0.000)	(649.019)
year = 2020 × exposure_pct_point	−0.020**	−0.002*	885.871***	0.002***	3696.462***
	(0.007)	(0.001)	(216.348)	(0.000)	(865.149)
year = 2021 × exposure_pct_point	−0.021**	−0.001	933.979***	0.002***	3751.700***
	(0.007)	(0.001)	(220.424)	(0.000)	(848.410)
year = 2022 × exposure_pct_point	−0.022**		206.808+	0.002***	1598.333**
	(0.007)		(103.761)	(0.000)	(497.978)
Num.Obs.	4590	2295	4590	4590	4590
R2	0.996	0.999	0.998	1.000	0.998
FE: state^agi_stub	X	X	X	X	X
FE: state^year	X	X	X	X	X
FE: agi_stub^year	X	X	X	X	X

*+ p < 0.1, * p < 0.05, ** p < 0.01, *** p < 0.001*

$$\text{Exposure} = \frac{SALT2017}{AGI2017} \quad (1)$$

Table 1 shows the itemization rate, standard deduction rate, federal income tax per return, effective federal income-tax rate, and taxable income per return in high versus low state and local tax states in comparison to their 2017 levels, which is when the Tax Cuts and Jobs Act was passed. From 2016 and before, the differences in all of these variables were around zero and/or statistically insignificant, indicating that high and low impact states were on parallel trajectories prior to the TCJA. After 2017, the relative itemization rate dropped an additional 2% per one percent of SALT exposure as calculated in 2017. The other measures on the table follow a similar pattern with federal income tax per return rising significantly after 2017. Taxable income per return also rose significantly, with an increase of over 300% from 2016 to 2018. Another important aspect of this table is that many of the post 2017 statistics are significant. The statistics with asterisks all have p-values under 0.05, and the statistics with two and three asterisks are even more statistically significant meaning that had there been truly no effect, the chance that we would have calculated effects of this size would have essentially been zero. This provides strong evidence that the policy did in fact impact higher SALT exposure states more than low exposure ones.

Figure 2

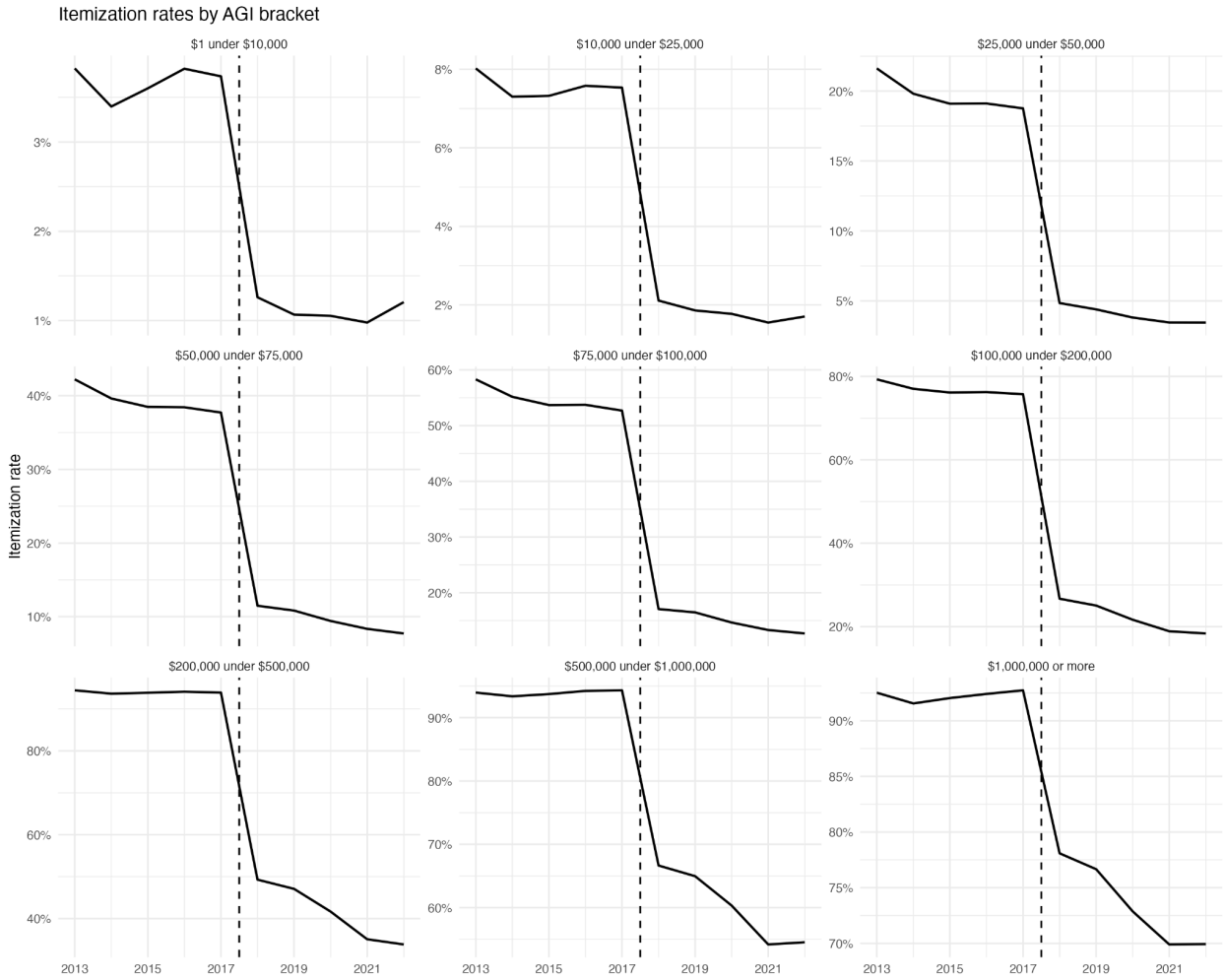


Figure 2 provides a more detailed look at itemization rates for different adjusted gross incomes. The income groups with itemization rates hardest hit by the TCJA are $100,000 to $200,000 and $200,000 to $500,000. While those making over $500,000 still saw their itemization rates sharply decline, they were not impacted as much as other groups due to many high-income individuals filing with other deductions that outweighed taking the non-itemized standard deduction. These figures show that the SALT Cap had a disproportionate effect on the filing behaviors of the upper-middle class while the cap did not negatively affect the majority of middle and low-income Americans. It effectively increased federal tax liabilities for relatively high earners in states with high state and local taxes.

Figure 3

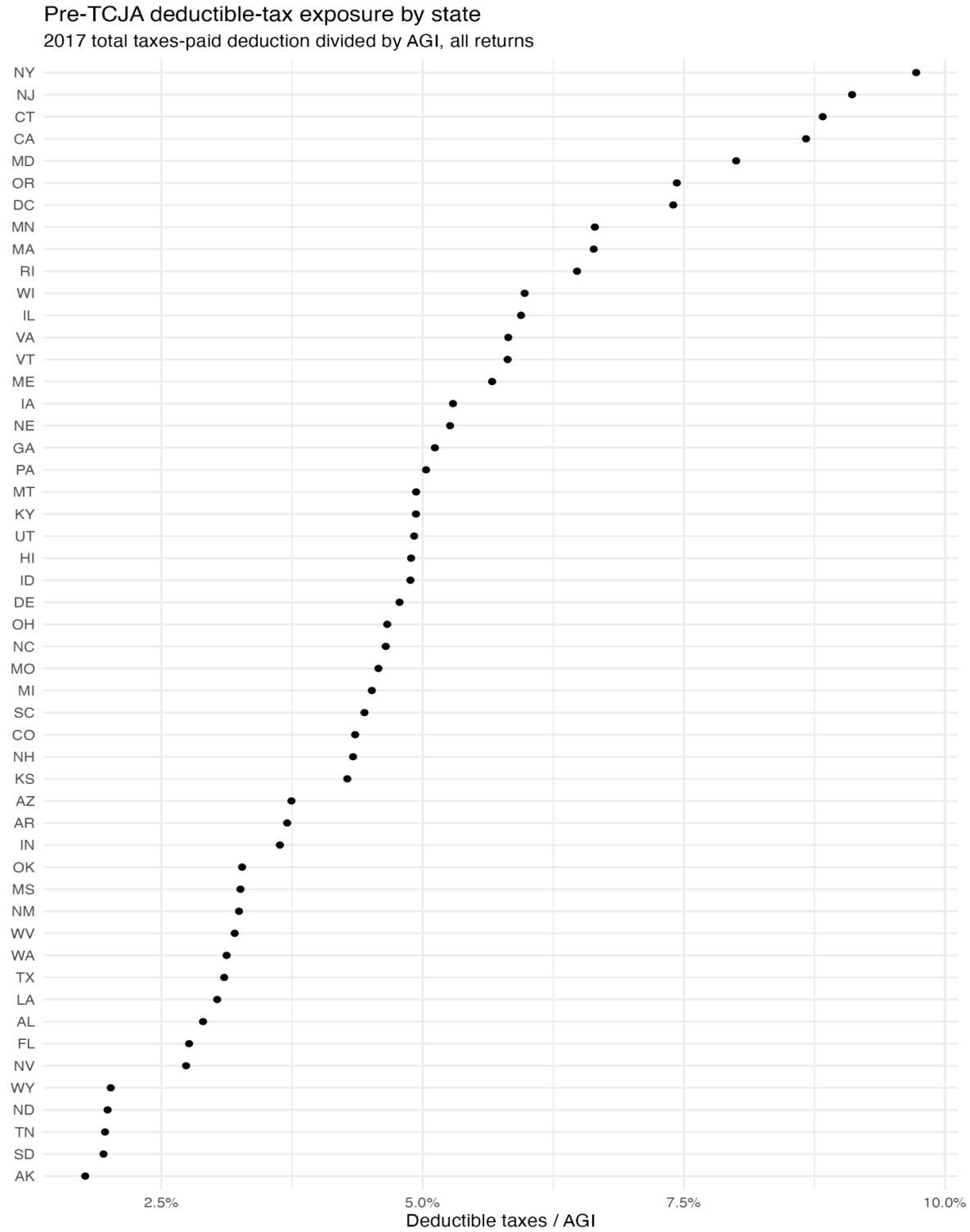

Pre-TCJA deductible-tax exposure by state
2017 total taxes-paid deduction divided by AGI, all returns
NY
NJ
CT
CA
MD
OR
DC
MN
MA
RI
WI
IL
VA
VT
ME
IA
NE
GA
PA
MT
KY
UT
HI
ID
DE
OH
NC
MO
MI
SC
CO
NH
KS
AZ
AR
IN
OK
MS
NM
WV
WA
TX
LA
AL
FL
NV
WY
ND
TN
SD
AK
2.5%
5.0%
7.5%
10.0%
Deductible taxes / AGI

Figure 3 displays how exposed states were to the effects of the SALT Cap pre-TCJA with higher tax states like New York and New Jersey being much more exposed than lower tax states like South Dakota and Arkansas. Individuals who lived in higher exposure states were more heavily impacted by the SALT Cap because they needed to continue paying their elevated state taxes without being able to deduct them from their AGI.

LIMITATIONS

The SALT Cap was just one provision in the TCJA. The policy took many other actions. While we think that our SALT exposure design isolates the impact of that one provision, understanding the total impacts of the TCJA and how it affected post-tax income disparity and the full distribution of tax burdens in the United States requires more data and alternative research designs to fully address the various components of the TCJA.

CONCLUSION

In conclusion, this paper finds that the SALT Cap was a component of the Tax Cuts and Jobs Act of 2017 that had a measurable impact on filing behavior. The itemization rates of filers in states with relatively high state and local taxes dropped significantly relative to those in states with lower state and local taxes. The group of Americans who earned between $100,000-$500,000 per year was the most heavily impacted group in terms of filing behavior given their itemization rate dropped around 60 percentage points, from ~80% to ~20%. States with higher exposures were also impacted more severely than less exposed states with high-income earners in more exposed states facing increased double taxation without being able to deduct all state and local taxes paid. The SALT Cap effectively shifted some of the federal tax burden to high-income earners in states with high state and local taxes.

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