

**Federal Update: P.L. 119-21
State and Local Tax Deduction Limit Increased to \$40,000
Phased Out Beginning at Income of \$500,000
Individual Income Tax**

	FY 2026	FY 2027	FY 2028	FY 2029
			(\$000s)	
General Fund	(\$17,600)	(\$19,800)	(\$22,000)	(\$24,400)

Effective beginning tax year 2025.

Under current law, taxpayers are allowed to claim Minnesota itemized deductions for property taxes and personal property taxes up to \$10,000 (\$5,000 for married separate returns).

The proposal would increase the limit to \$40,000 (\$20,000 for married separate returns) beginning with tax year 2025. The limit is reduced by 30% of modified adjusted gross income over a threshold amount but cannot be reduced below \$10,000 (\$5,000 for married separate returns).

The threshold amounts are \$500,000 (\$250,000 for married separate returns) for 2025. The limit and the phase-out thresholds are adjusted for inflation beginning in tax year 2026. The deduction limit reverts back to \$10,000 (\$5,000 if filing separately) beginning in tax year 2030.

Modified adjusted gross income is adjusted gross income without regard to the exclusion for foreign earned income.

- There are two groups of returns that would benefit from the proposal:
 1. Returns that are itemizers under current law whose itemized deduction of property taxes is limited by the current SALT limit;
 2. Returns that currently claim the standard deduction but would benefit from switching to itemized deductions because the proposed SALT limit would allow them to claim higher itemized deductions than their standard deduction.
- For the first group of returns, the House Income Tax Simulation (HITS 7.5) Model was used to estimate the tax year revenue impact. These simulations assume the same economic conditions used by Minnesota Management and Budget for the forecast published in February 2025. The model uses a stratified sample of tax year 2022 individual income tax returns compiled by the Minnesota Department of Revenue.
- For non-itemizers, information on homestead property taxes is used to estimate their itemized deduction for property taxes. The estimated tax was increased by 16% to take into account other property taxes that are not homestead property tax.
- Other itemized deductions for those returns were estimated using the average itemized deductions by item for itemizers. Because non-itemizers are likely to have lower itemized deductions compared to itemizers, it is assumed that their itemized deductions would be about 50% of the average itemized deduction by itemizers.
- Tax year impacts were allocated to the following fiscal year.

- About 61,500 taxpayers would benefit from the proposal, including 40,500 current itemizers and 21,000 non-itemizers. The average tax change for itemizers would be \$339 for tax year 2025. The average tax change for current non-itemizers would be \$186.

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