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Why Tax Timing Matters Under the Expanded SALT Deduction Rules

The expanded state and local tax (SALT) deduction has created a planning opportunity for many taxpayers in higher-tax states, but the benefit is not automatic. For households near the income phaseout range, the timing of a bonus, asset sale, Roth conversion, business income, or real estate transaction may determine whether the deduction is fully available, partially reduced, or ultimately lost.

This discussion is most relevant for those taxpayers who itemize deductions, pay meaningful state or local taxes, and may have income near the state and local tax deduction phaseout range in a year with significant taxable income.

From a planning perspective, the issue is not simply how much state or local tax a household pays. It is whether the household's income, deductions, and timing decisions allow them to benefit from the expanded deduction.

WHY THE SALT DEDUCTION IS BACK IN THE PLANNING CONVERSATION

The SALT deduction generally allows taxpayers who itemize to deduct certain state and local taxes from federal taxable income. These may include real estate taxes and either state and local income taxes or state and local sales taxes, subject to applicable limits.

A deduction does not reduce tax liability dollar for dollar. Instead, it lowers taxable income. The value of the deduction depends on the taxpayer's marginal tax rate, whether they itemize, and how the deduction interacts with the rest of the return.

For 2026, taxpayers may be able to deduct up to \$40,400 in state and local taxes, though the deduction remains subject to income phaseouts and can be reduced back toward the \$10,000 minimum for higher-income taxpayers (view our [2026 OBBBA Comparison Guide](#) for reference).

That creates a temporary planning window, but not necessarily a simple one. The larger cap may be meaningful, especially for taxpayers with high property taxes or state income taxes, but the benefit can shrink quickly when income rises into the phaseout range.

WHY TIMING MATTERS

The phaseout can affect taxpayers in two ways. First, additional income may be taxed. Second, that same income may reduce the SALT deduction, which can increase taxable income further.

Example: A taxpayer near the phaseout range may receive a large bonus, sell a highly appreciated investment, complete a Roth conversion, or sell real estate. Each decision may be reasonable on its own. The issue is whether recognizing that income in a single year causes the taxpayer to lose part or all of the expanded SALT deduction.

This does not mean income should always be deferred or that a transaction should be avoided. In many cases, realizing income is necessary and/or unavoidable. The better planning question is whether the timing can be coordinated more thoughtfully.

Instead of only asking, “Should I sell this asset?” a better question may be, “What year is the most tax-efficient year to sell this asset?”

That shift matters. It moves the conversation from a single transaction to a multi-year planning decision.

THE ROLE OF ROTH ACCOUNTS

Roth accounts can be especially valuable because qualified Roth withdrawals generally are not included in taxable income. For this reason, investors sometimes place assets with greater expected long-term growth in Roth accounts, where qualified earnings and withdrawals may benefit from tax-free treatment.

However, this does not mean every Roth account should automatically hold the most aggressive investments available. Risk tolerance, time horizon, liquidity needs, and the overall portfolio still matter. Also, a Roth account should not be managed in isolation, but rather it should support the household’s broader goals and overall investment strategy.

HOW THIS CAN SHOW UP IN PRACTICE

Consider a hypothetical couple in a higher-tax state who itemizes deductions and expects to be near the SALT phaseout range. They are also considering selling an appreciated investment that would create a large capital gain.

If they sell the investment in the same year their income is already elevated, the gain may create additional tax and reduce the amount of SALT deduction they can use. One decision may therefore have two tax effects: more income to report and a smaller deduction to offset income.

That does not automatically mean the couple should avoid selling. The investment may need to be sold for diversification, liquidity, or risk management reasons. But it does mean the timing should be reviewed before the decision is made.

SALT IS PART OF A BROADER TAX PLANNING PICTURE

The SALT phaseout is not the only tax rule affected by income. Medicare premium surcharges, certain investment taxes, Roth IRA eligibility rules, tax credits, and other deductions may also change when income rises.

That comparison is important because taxpayers often focus on the most visible tax cost, such as the capital gains tax on the sale of an investment. But a large income event may also affect deductions, Medicare premiums, credits, or other tax thresholds.

The question is not only whether income is taxable. It is whether additional income changes other parts of the tax return as well.

PLANNING TRADEOFFS TO REVIEW

Several planning areas may be worth reviewing when income is expected to fall near the SALT phaseout range. These should not be viewed as automatic strategies, but as coordination points.

Income timing is often the first consideration. If a taxpayer has flexibility over when to sell an asset, realize a gain, complete a Roth conversion, exercise equity compensation, or receive certain business income, timing may affect both the tax on the income and the availability of the SALT deduction.

Deduction coordination may also matter. Charitable giving, donor-advised fund contributions, and bunching deductions into a single year can affect whether itemizing is beneficial and whether the expanded SALT deduction has practical value.

Investment and transaction decisions should also be reviewed in context. A concentrated investment position may need to be sold all at once, reduced gradually, or coordinated with other planning years. Real estate sales may involve additional considerations when gain recognition, liquidity needs, reinvestment goals, and tax timing intersect.

A transaction that reduces the SALT benefit may still be appropriate if it improves diversification, liquidity, estate planning, or retirement security. Preserving a deduction is not helpful if it delays a necessary financial decision or creates greater risks elsewhere.

WHAT REMAINS UNCLEAR

While the expanded SALT deduction creates a planning opportunity, its practical value remains taxpayer specific. The outcome depends on filing status, itemization, state and local taxes paid, income level, charitable deductions, investment income, and whether income can realistically be timed.

The temporary nature of the rule also matters. The higher cap is currently scheduled to apply only through 2029, then revert under current law unless Congress acts. That uncertainty makes planning more important, but it also argues against overreacting to a single deduction.

For some taxpayers, the expanded cap may provide meaningful tax savings. For others, the standard deduction, phaseout range, or broader tax profile may limit the benefit.

A DISCIPLINED PLANNING PERSPECTIVE

The expanded SALT deduction may create meaningful opportunities, especially for taxpayers in higher-tax states who itemize and have income near the phaseout range. But the deduction should not drive planning decisions by itself.

Selling an asset, realizing a capital gain, completing a Roth conversion, or receiving a large bonus may still make sense even if it reduces the SALT deduction. The key is understanding that tradeoff before the decision is made.

For households that may be affected by the expanded SALT deduction or its income phaseout, this may be an appropriate time to review upcoming income events, charitable plans, investment transactions, and other tax-sensitive decisions with your advisor. A multi-year tax projection can help clarify whether the higher deduction cap creates a meaningful opportunity, or whether other planning priorities should take precedence.

As tax rules, income levels, and planning opportunities evolve, disciplined evaluation, careful monitoring, and long-term restraint remain more valuable than reacting to any single deduction in isolation.

*This article is part of an ongoing series aimed to help build overall financial literacy and was authored by Grimes & Company's 2026 Intern Jared Peterson. While not a comprehensive deep dive into every single topic, it is designed to provide a helpful overview to key topics within the world of investing and financial planning. Please **reach out to connect** with an advisor or expert on the subject to learn more and start planning for your financial future.*

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