https://www.wsj.com/politics/policy/republican-tax-bill-salt-cap-business-restriction-d7000582

POLITICS | POLICY

Republicans Clamp Down on SALT Workaround for Business Owners

Accountants, dentists and business groups make last-ditch effort to get the GOP to back off in Trump megabill

By Richard Rubin Follow

June 22, 2025 8:00 am ET

The SALT cap's details remain a hurdle in getting tax legislation through the GOP's slim majorities on Capitol Hill. PHOTO: ALLISON ROBBERT/BLOOMBERG

Key Points

What's This?

- Republicans aim to curb business owners' state and local tax deduction cap workarounds, which currently reduce revenue by $20 billion annually.
- The House bill denies workarounds for service businesses like dental and law practices, while the Senate offers smaller deductions across the board.
- Businesses are lobbying for changes as the Senate prepares to vote, with some warning the Senate bill could raise taxes on some businesses.

WASHINGTON—Republicans' tax legislation aims to curtail a popular route for business owners to dodge the cap on the state and local tax deduction, spurring last-ditch attempts by accountants, dentists and business groups to get the GOP to back off.

The House and Senate versions of President Trump's "big, beautiful bill" would both sharply restrict businesses' workarounds to the deduction limit known as the SALT cap. The proposals would shrink a hole in the cap that reduces federal revenue by about $20 billion a year.

The size of the SALT cap—whether it is $10,000, $30,000 or $40,000—matters tremendously to upper-middle-class households and New York Republicans, and it is one of the most difficult political and arithmetic challenges remaining in getting the megabill enacted through the GOP's slim majorities. But what happens on the workarounds matters far more to many high-income people who pay their businesses' income taxes through their personal tax returns.

Limits on SALT cap workarounds would make business owners bear more of the cost of state and local taxes. For some, that would be enough to prompt them to move out of high-tax states, said Timothy Noonan, a law-firm partner at Hodgson Russ in New York City and Buffalo, N.Y., who advises business owners.

"From the high-net-worth community, that's already a concern and already a reaction," he said. "Some of what I'm hearing is, 'OK, I guess I'll just leave then.' "

Cap and a dodge

Congress created the $10,000 SALT cap in the 2017 tax law. The limit raised money to pay for tax-rate cuts, and it reduced what Republicans see as a federal subsidy for high state taxes.

Democratic-run states hated the cap already and began searching immediately for workarounds. But the SALT cap also pinched a core Republican constituency: owners of pass-through businesses whose income passes through to their individual returns. These are the car dealers, lawyers, distributors and manufacturers who are key supporters for many lawmakers.

Red and blue states ultimately found a way around the cap for business owners. They imposed taxes directly on pass-through businesses. Those levies then satisfied the owners' state income tax liabilities without being categorized as state taxes subject to the SALT cap.

The first Trump administration blessed the workarounds in late 2020, and the Biden administration and the Democratic Congress didn't change anything. Now, nearly every state with a state income tax has a SALT cap workaround. The states get their tax revenue, and business owners avoid the cap—all at the expense of the U.S. Treasury.

What happened, without clear direction from Congress, is that the SALT cap became a limit on wage earners and homeowners. Pass-through business owners, like corporations, have been able to get effectively unlimited SALT deductions.

Republicans considered and rejected the idea of limiting corporations' SALT deductions this year. Some corporate income can face the cap—and yield federal revenue—when that income is received by individual investors as dividends or capital gains. Pass-throughs occupy a middle ground between corporations and individuals.

The case for SALT deductibility for pass-through business owners "is far weaker than the case for corporate SALT deductibility," said Jared Walczak, vice president of state projects at the conservative-leaning Tax Foundation.

House and Senate plans differ

The Republican plans are part of the broader effort to extend tax cuts and reduce spending. The changes would narrow the workarounds' scope and provide tens of billions of dollars to pay for tax cuts.

The House bill would largely deny the workarounds to certain service-business owners such as doctors, lawyers, accountants and consultants. That distinction treats those business owners' income as more like labor compensation subject to the SALT cap. Manufacturers, retailers, wholesalers and others could still circumvent the general limit, which the House set at $40,000.

Dentists, lawyers and accountants objected to the House plan.

Jim Schulz, the American Dental Association's chief lobbyist, said the House changes run counter to the Republican push to continue existing tax cuts.

"This is not the dental community asking for something that wasn't there before," he said. "This is saying, it was here and now you're harming businesses that were not harmed five years ago."

The Senate took a different approach in the proposal it released this past week. Under that plan, pass-through business owners could get deductions for state and local taxes—generally, either $40,000 or 50% of the benefit of workarounds, whichever is greater.

The outcome could vary by business and by state, but broadly, the Senate rule would allow full SALT cap workarounds for many smaller businesses while limiting them for high-income business owners. And the Senate wouldn't create an industry-based distinction.

“There are people on all different sides of that issue,” said Senate Finance Committee Chairman Mike Crapo (R., Idaho). “Our approach was to, instead of singling out specific interests or industries, to give a smaller, lighter haircut across all participants.”

Now, with the Senate set to vote as soon as this coming week, businesses are pushing for changes. The opposition now includes the accountants and dentists who disliked the House version as well as other businesses that would get smaller deductions.

“While the Main Street community needs the Big Beautiful Bill to succeed, the House and Senate approaches are not equal,” the S Corporation Association said in an alert to its members this past week that warned that the Senate bill would raise taxes on some businesses. “The House bill is clearly more friendly to Main Street.”

Sen. Ron Johnson (R., Wis.) said he worked with state lawmakers to create Wisconsin’s workaround and opposes the Senate’s limits.

“I’ve got a real problem with that,” he said.

Write to Richard Rubin at richard.rubin@wsj.com

Videos