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The One Big Beautiful Bill: SALT Deduction Workarounds Under Fire

Tax Talks on **May 14, 2025**

On May 12, 2025, House Republicans unveiled a comprehensive 389-page package of tax provisions, setting the stage for a significant tax bill to be debated in the coming weeks. Dubbed the "One Big Beautiful Bill," this proposal aims to extend and modify many key provisions of the Tax Cuts and Jobs Act of 2017 (TCJA). One specific proposal would aim to restrict the use of workarounds that taxpayers have used to bypass the state and local tax (SALT) deduction limits established by the TCJA.

A key provision targets partners in service-related and investment management partnerships, restricting their ability to leverage state laws – specifically pass-through entity tax (PTET) provisions – to deduct state income taxes paid by partnerships. This move is designed to close the gap that allows these entities to sidestep the SALT deduction cap. Additionally, the proposal seems to disallow deductions for state and local taxes generally required to be paid at the entity level (such as the New York City unincorporated business tax), marking a significant departure from the TCJA's SALT provisions.

The proposal advanced on May 14 through the House Ways and Means Committee without change, although certain key New York State Republicans continued to express their concerns over the SALT-related provisions. Investment manager clients currently benefiting from PTET provisions should be aware that these deductions may become unavailable starting in 2026.

We'll continue to monitor this proposal and share updates. For more details, please contact a member of your Proskauer tax team.

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