

New SALT Cap Deduction: Unlock Massive Tax Savings With Non-Grantor Trusts

The One Big Beautiful Bill Act's increase of the state and local tax (SALT) deduction cap creates an opportunity to use multiple non-grantor trusts to maximize deductions and enhance estate **planning**.



BY JEFFREY M. VERDON, ESQ.

The increased SALT deduction cap under the One Big Beautiful Bill Act provides a powerful tool for tax and estate planning, particularly through the use of non-grantor trusts.

By strategically transferring income-producing assets into multiple trusts, taxpayers in high-tax states can multiply their [SALT deductions](#), reduce federal tax liability and enhance estate planning outcomes.

The [One Big Beautiful Bill Act](#) reinstated a provision that significantly enhances the state and local tax (SALT) deduction cap for tax years 2025 through 2029, raising it from \$10,000 (set by the TCJA in 2018) to \$40,000 in 2025, with a 1%

annual increase thereafter (i.e., \$40,400 in 2026, \$40,804 in 2027, \$41,212 in 2028 and \$41,624 in 2029).

However, this increased cap is available only to taxpayers with an adjusted gross income ([AGI](#)) of \$500,000 or less. For those exceeding this threshold, the cap is gradually reduced by 30% but not below \$10,000.

However, this increased cap is available only to taxpayers with an adjusted gross income ([AGI](#)) of \$500,000 or less. For those exceeding this threshold, the cap is gradually reduced by 30% but not below \$10,000.

This change offers substantial tax and estate planning opportunities, particularly for residents of [high-tax states](#), by allowing greater deductions for state income taxes, local taxes and property taxes.

Non-grantor trusts as a tax planning tool

The increased SALT deduction cap creates new strategies for optimizing tax savings, especially through the use of non-grantor trusts.

A non-grantor trust is a separate taxable entity, distinct from the grantor, and files its own tax return. This allows the trust to claim its own SALT deduction, up to the enhanced cap of \$40,000 (or higher in subsequent years), as long as its AGI does not exceed \$500,000.

By transferring income-producing assets (e.g., rental properties, investment portfolios) into one or more non-grantor trusts, a taxpayer can multiply the SALT deduction.

Each trust can claim the full SALT deduction cap, effectively allowing the taxpayer to offset state and local taxes on multiple streams of income, provided each trust's AGI remains below \$500,000.

For example, a taxpayer with \$1.5 million in annual income from three rental properties could place each property into a separate non-grantor trust.

If each trust generates \$500,000 or less in AGI, each can claim a \$40,000 SALT deduction in 2025, totaling \$120,000 in deductions across the three trusts, compared to a single \$10,000 deduction under prior law if the taxpayer's AGI exceeded \$500,000.

Managing AGI to maximize deductions

If a trust's income approaches or risks exceeding the \$500,000 AGI threshold, distributions to beneficiaries can be made to reduce the trust's taxable income, keeping it eligible for the higher SALT deduction cap.

Careful planning is required to ensure distributions align with the trust's objectives and the beneficiaries' tax situations.

This strategy is particularly valuable in high-tax states like [New York](#) or [California](#), where state income and property taxes can quickly accumulate, making the \$40,000-plus deduction cap impactful.

Estate planning benefits

Non-grantor trusts not only facilitate tax savings but also serve [estate planning](#) purposes. By transferring assets into these trusts, taxpayers can [remove assets from their taxable estate](#), potentially reducing federal estate tax liability (especially for [high-net-worth individuals](#)).

Looking for expert tips to grow and preserve your wealth? Sign up for [Building Wealth](#), our free, twice-weekly newsletter.

The trusts can be structured to provide income to [beneficiaries](#) (e.g., family members) while preserving the principal for future generations, aligning with [long-term wealth preservation](#) goals.

The five-year window (2025–2029) provides a time-limited opportunity to leverage these enhanced deductions, but taxpayers must plan proactively, as the law may revert or change after 2029.

Practical considerations

Asset selection. Income-producing assets like real estate, businesses or investment portfolios are ideal for non-grantor trusts, as they generate taxable income that can be offset by the SALT deduction. Assets must be carefully selected to ensure each trust's AGI stays below \$500,000.

Trust administration. Setting up and managing multiple non-grantor trusts involves administrative costs, legal fees and compliance requirements (e.g., separate tax filings). Taxpayers should weigh these costs against the tax savings.

State-specific benefits. The increased SALT cap is most impactful in high-tax jurisdictions. For example, in states with high property taxes (e.g., [New Jersey](#), [Connecticut](#)) or high state income taxes (e.g., California, New York), the ability to deduct up to \$40,000-plus per trust can significantly reduce tax liabilities.

Coordination with other deductions. The higher SALT cap may make itemizing deductions more attractive than taking the [standard deduction](#), especially for taxpayers with significant state and local tax liabilities. Taxpayers should evaluate their overall tax situation to optimize deductions.

Example scenario

Suppose a taxpayer in California owns three rental properties, each generating \$400,000 in annual income, for a total of \$1.2 million.

Under the prior \$10,000 SALT cap, the taxpayer's high AGI would limit them to a single \$10,000 deduction, leaving most state and local taxes (e.g., California's 13.3% top income tax rate plus property taxes) non-deductible.

With the new law:

- Each property is placed in a separate non-grantor trust, each with \$400,000 AGI
- Each trust claims a \$40,000 SALT deduction in 2025, totaling \$120,000 across the three trusts
- This offsets a significant portion of the state income taxes (e.g., \$400,000 $\times$ 13.3% = \$53,200 per trust, reduced by \$40,000 per trust) and any property taxes, saving the taxpayer substantial federal taxes
- The trusts also remove the properties from the taxpayer's estate, potentially reducing [estate tax](#) exposure

Limitations and risks

AGI threshold. The \$500,000 AGI limit per trust requires careful income monitoring. Unexpected income spikes could push a trust over the threshold, reducing its SALT deduction to \$10,000.

Temporary nature. The enhanced SALT cap expires after 2029, requiring taxpayers to plan within this window or prepare for potential changes in tax law.

Complexity and costs. Establishing and maintaining multiple non-grantor trusts involves legal, accounting and administrative expenses, which may offset tax savings for some taxpayers.

IRS scrutiny. The IRS may closely examine strategies involving multiple trusts to ensure they are not solely tax-avoidance schemes. Trusts must have a legitimate purpose and economic substance.

This strategy to use non-grantor trusts as tax and estate planning tools requires careful planning to manage AGI thresholds, comply with tax laws and balance administrative costs.

Taxpayers should consult with tax and estate planning professionals to tailor this approach to their specific circumstances, especially given the temporary nature of the law through 2029.