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[WSJ: The SALT Deduction Cap Is Due to Expire. How Taxpayers Can Prepare for What's Next.]

Whether the deduction limit is raised, eliminated or extended, there are steps taxpayers can take to minimize their tax burden

As Congress debates tax policy this year, the state and local tax-deduction cap is in the crosshairs.

The SALT deduction cap is set to expire at year's end, along with a host of other tax-policy changes enacted as part of the Tax Cuts and Jobs Act of 2017. Currently, households that itemize may deduct up to $10,000 of property, sales or income taxes paid to state and local governments.

Before 2017, there was no limit to how much in state and local taxes taxpayers could deduct from their federally taxable income. This limit hit high-income people who live in states with high state and local tax rates, such as New York, California and Connecticut. To partially offset capping the state and local tax deduction, Congress doubled the standard deduction (currently $29,200 for married filing jointly)—causing many people who previously itemized and took the SALT deduction to use the elevated standard deduction.

President Trump on the campaign trail called for restoring the tax break. And several lawmakers on both sides of the aisle, primarily from high-tax states where residents are affected by the deduction cap, have proposed modifications, including doubling the current cap, increasing it to $20,000 for married filing jointly, or eliminating it.

It isn't clear how the SALT deduction cap will play out this year, but one of three scenarios will occur: it's modified, allowed to expire, or is made permanent. Whatever happens, here is how financial professionals say taxpayers can prepare.

1. The cap is modified

A modified cap may be the likeliest outcome, financial pros say, but how much it is adjusted matters.

For taxpayers in the highest tax bracket—currently 37%—who itemize their deductions, the SALT cap of $10,000 means a decrease of $3,700 on a tax bill. Some lawmakers suggest doubling the deduction to $20,000. That would decrease the taxpayer's bill by $7,400, says Jason Katz, wealth adviser and certified public accountant at Bartlett Wealth Management in Cincinnati.

While not insignificant, a $3,700 or $7,400 tax break may not make much of a difference for high-income earners. If the cap is lifted to $100,000 for single filers, which is one proposal, the tax cut is $37,000, or $33,300 more compared with current law, Katz says; the same proposal would increase the cap to $200,000 for married couples filing jointly, doubling the tax cut to $74,000. A higher cap could allow more people to itemize and make a bigger difference for high-income earners.

Once policy is made final, this may be the year that people who use tax preparers to file their annual taxes should schedule a fourth-quarter meeting to review how the new laws will affect them. If the policy is settled early enough, there are opportunities to maximize deductions by making moves such as postponing income or expenses for the following year, says Miklos Ringbauer, founder of MiklosCPA, in Southern California.

It's also a chance to do tax planning around major life events such as getting married, moving, or retiring now or in the next few years. Tax preparers can run scenarios that show different tax implications of these events and offer guidance to potentially reduce tax burdens.

2. The cap expires

If the SALT cap expires, state and local income taxes would be fully deductible again on Internal Revenue Service form Schedule A, where taxpayers itemize deductions.

Kat Grier, wealth adviser and CPA at Merit Financial Advisors in Atlanta, says taxpayers should watch the policy effective date, since state, local and property taxes are deducted in the year paid, which may differ from the year when they were assessed.

If policy reverts to pre-2017 levels on Jan. 1, 2026, for example, taxpayers should defer paying as much of their state income taxes as possible until January, says Bill Smith, national director of tax technical services at CBIZ's national tax office, in Washington, D.C. Taxpayers who opt for this strategy should keep in mind that there may be a penalty for underpayment of the 2025 state estimated tax payments; however, if the cap is eliminated, the penalty may be offset by a larger federal deduction in 2026.

Grier added that, if possible, people who directly pay their property taxes to their municipality instead of their mortgage company should also defer until January to capture the deduction. If the law is made to be retroactive to December, deferring payments won't matter, she adds.

Grier warns that eliminating the SALT cap won't be all good news if the income threshold for the alternative minimum tax—which was designed to reduce a taxpayer's ability to avoid taxes by using deductions or other tax benefits—reverts to previous levels. The current AMT income threshold is about $1.15 million for a married couple filing jointly, but pre-2017 the income threshold was $160,900. If the AMT income threshold reverts to previous levels, high-income taxpayers may see little benefit from SALT deductions.

3. The cap is made permanent

For formally employed, high-income people paid through a W-2 tax form who take the standard deduction, there are a few strategic ways to get over the threshold to start itemizing, Grier says. A common tactic is for taxpayers to increase their charitable deductions so that the combined deductions of mortgage interest, and state income and real-estate taxes gets them over the minimum to itemize.

A less common strategy is to look at unreimbursed medical and dental expenses to get over the threshold. If those unreimbursed costs are greater than 7.5% of a taxpayer's adjusted gross income, these can be deducted for taxpayers who itemize.

Business owners who are treated as partnerships for federal tax purposes, or are S corporations, may be able to use a pass-through entity, known as a PTET, to get a tax deduction, says Ringbauer. More than 30 states allow these tax elections, and they have state-specific rules.

Pass-through entities, which began as a workaround to the SALT cap, allow businesses the option to pay the state income tax on behalf of the business's owners and it is applied against the business's income and it becomes a business deductible expense. The taxpayer then can recognize the tax payment/credit on a state personal income tax return, which bypasses the Schedule A tax payments/SALT limitation calculation. States usually credit the owner's share of the tax paid by the business, giving the owners a way to deduct their state income taxes without the SALT cap restriction.

This deduction is only on income related to the profits from the business itself, so if a married couple has both W-2 income and flow-through business income on their state tax return, they can deduct only the business income on their state returns, Grier says. Setting up a PTET is complex, so it is best done by a tax professional.

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