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Inflation and the tax code

Although much the tax code is indexed for inflation, several key thresholds are not. These include the \$10,000 cap on the SALT deduction, the exemption from capital gains taxes for sales of primary residences, the mortgage interest deduction cap, and the threshold for tax Social Security benefits.

The recent increase in inflation to levels not seen in 40 years is likely to create pressure for change in the tax-writing committees. For example, the SALT deduction cap has already declined to \$8,736 in constant dollar value since it was enacted. The dramatic nationwide increase in home values mean more home sellers will be facing a major capital gains tax. In constant dollars since 2018, the value of the \$250,000 exemption for a sale of a principal residence has fallen to \$218,411.

Garrett Watson of the Tax Foundation told Tax Notes, “I think, overall, higher inflation has definitely got to put more pressure on policymakers to think about indexing the provisions that haven’t been indexed.”

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