State and Local Tax Deductions

By Yuri Shadunsky

Federal taxpayers choose between itemizing deductions and claiming the standard deduction. Itemizers can claim deductions for state and local income and property taxes paid. (Through 2013, taxpayers may deduct state and local sales taxes paid in lieu of income taxes.) In 2011, 46.6 million taxpayers claimed the deduction for state and local taxes paid, deducting almost $470 billion from their tax returns. Nearly all itemizers — more than 99 percent in 2011 — claimed some type of state and local taxes paid. Ninety-seven percent of itemizers deducted either income or sales tax. Three itemizers deducted income tax for every one who deducted sales tax. Eighty-six percent of itemizers deducted property tax.

Proponents of the deduction argue that taxing state taxes paid is a form of double taxation; they also argue that the deduction — which is regressive in isolation — encourages more progressive fiscal policies at the state level. Critics of the deduction argue that taxes paid for state and local services represents consumption and should not be granted a special tax preference. Another criticism is that the deduction disproportionately benefits those with high incomes and taxpayers in high-tax states: 13 percent of returns with incomes exceeding $100,000 account for two-thirds of the total amount of the deduction.

According to the Joint Committee on Taxation, the deduction for state and local taxes paid lowered federal tax receipts by an estimated $42 billion in 2011 and will cost the federal government $259 billion in receipts over 2012-2016, making it one of the largest federal tax expenditures. The effect of the deduction varies substantially by state. California and New York taxpayers comprise about 19 percent of total tax returns filed and 20 percent of the returns taking the deduction, but claim more than 30 percent of the value of the listed deduction (see table). However, some taxpayers receive less than the full amount of the deduction reported due to limitations by the alternative minimum tax. Taxpayers in 10 states comprise slightly more than half the returns taking the deduction and claim more than 60 percent of the aggregate amount deducted.

Deduction for State and Local Taxes Paid (2011)

State	Percent of Total Returns	Percent of U.S. Returns With Deduction in State	Percent of In-State Returns Claiming Deduction	Percent of Total Amount of Deduction Claimed	Percent of Federal Income Taxes Paid	Amount of Deduction ($ billions)	Average Amount Claimed Per Claimant ($)
California	11.7	12.9	35.2	17.3	14.7	$81.1	$13,506
New York	6.4	7.2	35.8	13.0	6.6	$61.0	$18,157
New Jersey	3.0	4.0	42.7	6.0	3.3	$28.3	$15,342
Illinois	4.2	4.6	34.6	5.0	4.0	$23.4	$11,047
Texas	7.8	5.9	24.1	4.0	8.9	$18.7	$6,772
Pennsylvania	4.2	4.1	30.7	3.8	3.4	$18.0	$9,496
Massachusetts	2.2	2.7	39.2	3.5	2.8	$16.2	$12,719
Maryland	1.9	2.9	47.7	3.3	2.0	$15.4	$11,374
Ohio	3.8	3.6	30.4	3.2	2.8	$15.2	$9,105
Virginia	2.6	3.2	39.7	3.1	2.6	$14.4	$9,538
All Other	52.3	48.9	29.8	37.7	48.9	$176.8	$7,760
United States	**100.0**	**100.0**	**31.8**	**100.0**	**100.0**	**$468.6**	**$10,061**

Source: IRS Statistics of Income division.