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**Tax Reform: Repealing State and Local  
Income Tax + Property Tax Deductibility**

*Winners / Losers*

August 2017

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# Conclusions and Methodology

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## Conclusions:

- When combined with lower individual income tax rates and an increase in the standard deduction, repealing the tax deductibility of State and Local Income and Real Estate taxes (collectively = SALT) would likely result in:
  - Winners: Generally, taxpayers with incomes of less than ~\$1mm (~99.7% of filers) would likely pay less tax. Even high income itemizers in 7 states would likely benefit. Lower rates and an increased standard deduction make up for the loss of SALT deductibility
  - Most positively impacted states: Alaska, Texas, Tennessee, South Dakota, Alabama
  - Losers: Generally, only the highest earning taxpayers with incomes of \$1mm+ (~0.3% of filers) in 43 states would likely pay more tax. Losers could potentially be overstated, however, as SALT payments are not deductible against the individual alternative minimum tax (AMT), which is prevalent in high-income states, and the Pease limitation on itemized deductions would likely be more than offset by the benefit of the rate reduction for the highest earners
  - Most negatively impacted states: New York, California, Connecticut, Minnesota, New Jersey

## Methodology:

- Data is individual income tax return data from the IRS Statistics of Income Historic Table 2 State Data Tax Year 2014 (most recent year available)
- Excluded returns with no Adjusted Gross Income (AGI) stub, with income under \$1, and returns from the District of Columbia
- The remaining returns were bucketed by range and size of AGI
- The report only looks at today's itemizers. Today's non-itemizers are clear winners going forward due to higher standard deduction and potentially lower rate<sup>1</sup>
- For buckets with AGI of ~\$500k and greater, assumed the Pease limitation reduced the amount of itemized deductions by 3% of the amount of AGI exceeding ~\$300k, which was the 2014 income threshold for filers with status of married filing jointly (status of ~85% of filers in respective buckets)
- The value of the tax rate on AGI, SALT, and Other itemized deductions was calculated using estimated 2014 tax rates
- Assumed filers lose the ability to deduct SALT from their AGI and retain the ability to deduct Other itemized deductions
- For itemizers in each bucket, assumed they would choose to deduct the greater of Other itemized deductions or the estimated weighted average of the new larger standard deduction, which was calculated based on amounts in the GOP Blueprint and the filing status of each bracket's returns
- After determining whether taxpayers would continue to itemize or take the estimated weighted average of the new larger standard deduction, economic impacts were determined. Under the tax reform scenario, the value of the tax rate on AGI and deductions was calculated using tax rates from the GOP Blueprint and a rate of 35% for taxpayers in the 39.6% bracket. The status quo value of the estimated 2014 tax rates on AGI and deductions was then subtracted to determine whether a taxpayer would experience a gain or loss in value
- The process was repeated to determine Winners and Losers among states with itemizers in the highest income bracket assuming an AGI of \$1mm

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<sup>1</sup>Per GOP Blueprint, taxpayers who are currently in the 25% and 33% brackets will see no change in rates.

# Value Gain/Loss from Repeal of SALT Deductibility + Lower Rate + Larger Standard Deduction by Income Bracket

## Key takeaways:

- In general, nearly all filers (~99.7%) would likely benefit from a lower rate and increased standard deduction notwithstanding the loss of SALT
- Highest income bracket comprising ~0.3% of the total number of individual income tax returns would likely pay more taxes, though the degree to which they would depends on interactions between the upper ends of AGI, AMT, and the Pease limitation
- Despite a lower rate and increased standard deduction, taxpayers with incomes of \$1MM+ (~0.8% of itemizers) would likely continue to itemize
- Incomes greater than ~\$200k: ~80%+ are itemizers
- Incomes greater than ~\$500k: ~90%+ are itemizers

High-end of AGI Income Bracket (\$)	Individual Income Tax Returns (MM)	% of Total Individual Income Tax Returns	Cumulative % of Total Individual Income Tax Returns	Individual Income Tax Returns w/ Itemized Deductions (MM)	Individual Income Tax Returns w/ Itemized Deductions as % of AGI Income Bracket Returns	Status Quo			Tax Reform			(C+D)-(A+B) Value Gain or (Loss) per Itemized Return (\$)*	Will Continue to Itemize?
						Est. Tax Rate (%)	(A) Value of Tax Rate on AGI per Itemized Return (\$)	(B) Value of Deductions per Itemized Return (\$)	Est. Tax Rate (%)	(C) Value of Tax Rate on AGI per Itemized Return (\$)	(D) Value of Max of Avg. Other Itemized Ded. or Est. Wtd. Avg. of New Std. Deduction per Itemized Return (\$)		
\$9,999	21.9	15.1%	15.1%	0.7	3.4%	10.0%	(\$1,000)	\$1,539	10%	(\$1,000)	\$1,342	-	No
\$24,999	33.1	22.8%	38.0%	2.4	7.3%	15.0%	(\$3,750)	\$2,255	12%	(\$3,000)	\$1,820	\$315	No
\$49,999	34.2	23.7%	61.6%	6.8	19.8%	15.0%	(\$7,500)	\$2,325	12%	(\$6,000)	\$1,937	\$1,112	No
\$74,999	19.5	13.5%	75.1%	7.7	39.6%	25.0%	(\$18,750)	\$4,367	25%	(\$18,750)	\$4,512	\$145	No
\$99,999	12.6	8.7%	83.8%	6.9	55.2%	25.0%	(\$25,000)	\$4,971	25%	(\$25,000)	\$5,058	\$87	No
\$199,999	17.3	12.0%	95.7%	13.3	77.0%	28.0%	(\$56,000)	\$7,033	25%	(\$50,000)	\$5,439	\$4,406	No
\$499,999	5.0	3.4%	99.2%	4.6	93.6%	39.6%	(\$198,000)	\$14,515	35%	(\$175,000)	\$7,809	\$16,294	No
\$999,999	0.8	0.5%	99.7%	0.7	93.4%	39.6%	(\$396,000)	\$24,766	35%	(\$350,000)	\$7,790	\$29,024	No
\$1,000,000	0.4	0.3%	100.0%	0.4	91.5%	39.6%	(\$396,000)	\$159,610	35%	(\$350,000)	\$51,146	(\$62,465)	Yes

\*Per GOP Blueprint, taxpayers who are currently in the 10% bracket always will pay lower taxes than under current law.

# Winners: States with Value Gain from Repeal of SALT Deductibility + Lower Rate

## Key takeaways:

- Even the high income itemizers (only ~0.03% of the total number of individual income tax filers) in 7 states would likely pay less taxes

		Status Quo				Tax Reform				
State	Itemized Returns with Income \$1MM+ as % of Total State Income Tax Returns	Value of Avg. SALT Deductions at Tax Rate of 39.6% per Itemized Return (\$000s)	Value of Avg. Other Itemized Deductions at Tax Rate of 39.6% per Itemized Return (\$000s)	Value of Tax Rate of 39.6% on AGI per Itemized Return (\$000s)	(A) Value of Deductions + Value of Tax Rate per Itemized Return (\$000s)	Value of Avg. Other Itemized Deductions at Tax Rate of 35% per Itemized Return (\$000s)	Value of Tax Rate of 35% on AGI per Itemized Return (\$000s)	(B) Value of Deductions + Value of Tax Rate per Itemized Return (\$000s)	(B-A) Value Gain or (Loss) per Itemized Return (\$000s)	Value Gain or (Loss) % of AGI
AK	0.1%	\$9.8	\$35.6	(\$396.0)	(\$350.6)	\$27.8	(\$350.0)	(\$322.2)	\$28.4	2.8%
TX	0.2%	\$19.3	\$90.0	(\$396.0)	(\$286.8)	\$75.9	(\$350.0)	(\$274.1)	\$12.6	1.3%
TN	0.1%	\$26.1	\$84.9	(\$396.0)	(\$285.0)	\$71.4	(\$350.0)	(\$278.6)	\$6.4	0.6%
SD	0.2%	\$20.6	\$146.1	(\$396.0)	(\$229.3)	\$125.5	(\$350.0)	(\$224.5)	\$4.8	0.5%
AL	0.1%	\$34.5	\$51.4	(\$396.0)	(\$310.1)	\$41.8	(\$350.0)	(\$308.2)	\$1.9	0.2%
ND	0.3%	\$37.4	\$33.5	(\$396.0)	(\$325.1)	\$25.9	(\$350.0)	(\$324.1)	\$1.0	0.1%
WA	0.2%	\$22.4	\$165.1	(\$396.0)	(\$208.4)	\$142.3	(\$350.0)	(\$207.7)	\$0.7	0.1%

Note: Assumes AGI of \$1MM and that the Pease limitation reduces the amount of itemized deductions by 3% of the amount of AGI that exceeds \$305,050, which was the 2014 Pease income threshold for joint filers (filing status of ~85% of bracket).

Source: IRS Statistics of Income, Tax Foundation.

# Losers: States with Value Loss from Repeal of SALT Deductibility + Lower Rate

## Key takeaways:

- High income itemizers (comprising ~0.3% of the total number of individual income tax filers) in 43 states would likely pay more taxes
- The penalty ranges from ~0.1% of AGI (Louisiana) to ~15.3% of AGI (New York)

State	Itemized Returns with Income \$1MM+ as % of Total State Income Tax Returns	Status Quo				Tax Reform				
		Value of Avg. SALT Deductions at Tax Rate of 39.6% per Itemized Return (\$000s)	Value of Avg. Other Itemized Deductions at Tax Rate of 39.6% per Itemized Return (\$000s)	Value of Tax Rate of 39.6% on AGI per Itemized Return (\$000s)	(A) Value of Deductions + Value of Tax Rate per Itemized Return (\$000s)	Value of Avg. Other Itemized Deductions at Tax Rate of 35% per Itemized Return (\$000s)	Value of Tax Rate of 35% on AGI per Itemized Return (\$000s)	(B) Value of Deductions + Value of Tax Rate per Itemized Return (\$000s)	(B-A) Value Gain or (Loss) per Itemized Return (\$000s)	Value Gain or (Loss) % of AGI
NY	0.5%	\$185.9	\$78.6	(\$396.0)	(\$131.5)	\$65.8	(\$350.0)	(\$284.2)	(\$152.7)	-15.3%
CA	0.4%	\$168.8	\$63.9	(\$396.0)	(\$163.3)	\$52.8	(\$350.0)	(\$297.2)	(\$133.9)	-13.4%
CT	0.6%	\$125.6	\$50.6	(\$396.0)	(\$219.8)	\$41.1	(\$350.0)	(\$308.9)	(\$89.1)	-8.9%
MN	0.2%	\$108.7	\$37.1	(\$396.0)	(\$250.2)	\$29.2	(\$350.0)	(\$320.8)	(\$70.7)	-7.1%
NJ	0.4%	\$108.3	\$15.4	(\$396.0)	(\$272.3)	\$10.0	(\$350.0)	(\$340.0)	(\$67.7)	-6.8%
HI	0.1%	\$96.8	\$46.9	(\$396.0)	(\$252.3)	\$37.8	(\$350.0)	(\$312.2)	(\$59.9)	-6.0%
OR	0.2%	\$93.3	\$73.1	(\$396.0)	(\$229.6)	\$61.0	(\$350.0)	(\$289.0)	(\$59.4)	-5.9%
MD	0.3%	\$93.8	\$39.7	(\$396.0)	(\$262.5)	\$31.4	(\$350.0)	(\$318.6)	(\$56.1)	-5.6%
MA	0.4%	\$87.4	\$60.1	(\$396.0)	(\$248.5)	\$49.5	(\$350.0)	(\$300.5)	(\$52.0)	-5.2%
VT	0.2%	\$88.9	\$46.7	(\$396.0)	(\$260.4)	\$37.7	(\$350.0)	(\$312.3)	(\$52.0)	-5.2%
RI	0.2%	\$89.4	\$34.0	(\$396.0)	(\$272.6)	\$26.4	(\$350.0)	(\$323.6)	(\$51.0)	-5.1%
WI	0.2%	\$82.1	\$47.0	(\$396.0)	(\$266.9)	\$37.9	(\$350.0)	(\$312.1)	(\$45.2)	-4.5%
MO	0.2%	\$79.7	\$63.4	(\$396.0)	(\$252.9)	\$52.4	(\$350.0)	(\$297.6)	(\$44.7)	-4.5%
AR	0.1%	\$78.5	\$65.7	(\$396.0)	(\$251.7)	\$54.4	(\$350.0)	(\$295.6)	(\$43.8)	-4.4%
WY	0.2%	\$48.7	\$303.1	(\$396.0)	(\$44.2)	\$264.2	(\$350.0)	(\$85.8)	(\$41.6)	-4.2%
MT	0.2%	\$72.1	\$69.1	(\$396.0)	(\$254.8)	\$57.4	(\$350.0)	(\$292.6)	(\$37.7)	-3.8%
ID	0.1%	\$73.3	\$36.5	(\$396.0)	(\$286.2)	\$28.6	(\$350.0)	(\$321.4)	(\$35.2)	-3.5%
IL	0.3%	\$71.6	\$45.7	(\$396.0)	(\$278.7)	\$36.8	(\$350.0)	(\$313.2)	(\$34.6)	-3.5%
NV	0.2%	\$56.4	\$176.7	(\$396.0)	(\$162.9)	\$152.6	(\$350.0)	(\$197.4)	(\$34.5)	-3.5%
NE	0.2%	\$70.3	\$52.9	(\$396.0)	(\$272.8)	\$43.1	(\$350.0)	(\$306.9)	(\$34.1)	-3.4%
ME	0.1%	\$70.0	\$26.3	(\$396.0)	(\$299.7)	\$19.6	(\$350.0)	(\$330.4)	(\$30.7)	-3.1%

Note: Assumes AGI of \$1MM and that the Pease limitation reduces the amount of itemized deductions by 3% of the amount of AGI that exceeds \$305,050, which was the 2014 Pease income threshold for joint filers (filing status of ~85% of bracket).

Source: IRS Statistics of Income, Tax Foundation.

# Losers: States with Value Loss from Repeal of SALT Deductibility + Lower Rate (continued)

		Status Quo				Tax Reform				
State	Itemized Returns with Income \$1MM+ as % of Total State Income Tax Returns	Value of Avg. SALT Deductions at Tax Rate of 39.6% per Itemized Return (\$000s)	Value of Avg. Other Itemized Deductions at Tax Rate of 39.6% per Itemized Return (\$000s)	Value of Tax Rate of 39.6% on AGI per Itemized Return (\$000s)	(A) Value of Deductions + Value of Tax Rate per Itemized Return (\$000s)	Value of Avg. Other Itemized Deductions at Tax Rate of 35% per Itemized Return (\$000s)	Value of Tax Rate of 35% on AGI per Itemized Return (\$000s)	(B) Value of Deductions + Value of Tax Rate per Itemized Return (\$000s)	(B-A) Value Gain or (Loss) per Itemized Return (\$000s)	Value Gain or (Loss) % of AGI
VA	0.2%	\$66.5	\$39.3	(\$396.0)	(\$290.1)	\$31.1	(\$350.0)	(\$318.9)	(\$28.8)	-2.9%
NC	0.2%	\$65.2	\$47.8	(\$396.0)	(\$283.0)	\$38.6	(\$350.0)	(\$311.4)	(\$28.4)	-2.8%
UT	0.2%	\$61.8	\$75.9	(\$396.0)	(\$258.3)	\$63.4	(\$350.0)	(\$286.6)	(\$28.3)	-2.8%
KS	0.2%	\$61.0	\$76.0	(\$396.0)	(\$259.0)	\$63.5	(\$350.0)	(\$286.5)	(\$27.5)	-2.8%
GA	0.2%	\$61.5	\$70.1	(\$396.0)	(\$264.4)	\$58.3	(\$350.0)	(\$291.7)	(\$27.3)	-2.7%
WV	0.1%	\$67.5	\$14.9	(\$396.0)	(\$313.6)	\$9.5	(\$350.0)	(\$340.5)	(\$26.9)	-2.7%
OH	0.2%	\$65.3	\$29.9	(\$396.0)	(\$300.8)	\$22.8	(\$350.0)	(\$327.2)	(\$26.4)	-2.6%
DE	0.2%	\$63.9	\$38.2	(\$396.0)	(\$293.9)	\$30.1	(\$350.0)	(\$319.9)	(\$26.0)	-2.6%
KY	0.1%	\$62.5	\$34.1	(\$396.0)	(\$299.4)	\$26.5	(\$350.0)	(\$323.5)	(\$24.1)	-2.4%
CO	0.3%	\$59.6	\$49.6	(\$396.0)	(\$286.8)	\$40.2	(\$350.0)	(\$309.8)	(\$23.0)	-2.3%
AZ	0.2%	\$53.7	\$59.2	(\$396.0)	(\$283.1)	\$48.7	(\$350.0)	(\$301.3)	(\$18.2)	-1.8%
OK	0.2%	\$45.5	\$112.8	(\$396.0)	(\$237.8)	\$96.0	(\$350.0)	(\$254.0)	(\$16.2)	-1.6%
MI	0.2%	\$53.4	\$31.3	(\$396.0)	(\$311.3)	\$24.0	(\$350.0)	(\$326.0)	(\$14.7)	-1.5%
PA	0.2%	\$52.1	\$38.7	(\$396.0)	(\$305.3)	\$30.6	(\$350.0)	(\$319.4)	(\$14.2)	-1.4%
IA	0.1%	\$52.4	\$32.5	(\$396.0)	(\$311.0)	\$25.1	(\$350.0)	(\$324.9)	(\$13.9)	-1.4%
IN	0.1%	\$52.2	\$32.4	(\$396.0)	(\$311.5)	\$25.0	(\$350.0)	(\$325.0)	(\$13.6)	-1.4%
SC	0.1%	\$49.4	\$36.5	(\$396.0)	(\$310.1)	\$28.7	(\$350.0)	(\$321.3)	(\$11.3)	-1.1%
NH	0.2%	\$46.6	\$59.4	(\$396.0)	(\$289.9)	\$48.9	(\$350.0)	(\$301.1)	(\$11.2)	-1.1%
FL	0.3%	\$43.6	\$83.9	(\$396.0)	(\$268.5)	\$70.5	(\$350.0)	(\$279.5)	(\$11.0)	-1.1%
NM	0.1%	\$48.9	\$38.0	(\$396.0)	(\$309.1)	\$29.9	(\$350.0)	(\$320.1)	(\$10.9)	-1.1%
MS	0.1%	\$43.3	\$40.4	(\$396.0)	(\$312.3)	\$32.1	(\$350.0)	(\$317.9)	(\$5.6)	-0.6%
LA	0.2%	\$38.9	\$38.1	(\$396.0)	(\$319.0)	\$30.0	(\$350.0)	(\$320.0)	(\$1.0)	-0.1%

Note: Assumes AGI of \$1MM and that the Pease limitation reduces the amount of itemized deductions by 3% of the amount of AGI that exceeds \$305,050, which was the 2014 Pease income threshold for joint filers (filing status of ~85% of bracket).

Source: IRS Statistics of Income, Tax Foundation.