The Repeal of the Deductibility of State and Local Taxes and the Impact on State and Local Governments

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How will the elimination of state and local tax deductibility affect taxpayers and the states in which they live? While taxpayers in all 50 states claim this deduction, the benefits of these deductions are concentrated in relatively few states. These are states with a disproportionate share of high-income households and are in states with relatively high state/local taxes. These taxpayers also pay a higher percent of federal income and are currently more likely to be subject to the AMT. We estimate that disallowing the deduction for state/local taxes would lead to Federal tax savings of about $628 billion under current law or $450 billion if we extend the current tax reforms for the period 2005-2014. We estimate that the average increase for households would be 3.4 percent in 2005, with the largest tax increases occurring for those earning over $100,000. By 2010 the actual tax increases will be lower for many households due to the effective elimination of this deduction by the AMT. In 2010, the average tax change is 1.8 percent but the tax increases largely occurs in households earning over $500,000 – who face an average tax increase of 3.7 percent (and those earning between $50-100,000. Thus for many households, elimination of the deductibility of state and local taxes is already in place as part of the current tax system.

Introduction

When President George W. Bush convened a panel of experts in 2005 to consider options for federal tax reform, he listed a number of goals including tax simplification in a revenue neutral way that would promote long term growth. He did want the reform to maintain the progressivity of the income tax and incentives for home-ownership and charity.

A key provision not explicitly listed for protection is the federal deductibility of state and local (income, general sales, and property) taxes, which is expected to have a tax expenditure cost of $65.8 billion in FY2005 (as compared to $72.6 billion for home mortgage interest and $34.2 billion for individual charitable contributions)[1].

An additional impetus for tax reform is the individual alternative minimum tax (AMT). Although only four percent of taxpayers will owe AMT in 2005 due to a temporary provision that protects most middle-class taxpayers, 20 percent will become AMT taxpayers in 2006 after that provision expires. By 2010, almost one-third of taxpayers will owe AMT. The largest AMT "preference item"—that is, a deduction allowed under the regular income tax but not the AMT—is the deduction for state and local taxes. Thus, as the AMT net widens, more households will get little or no benefit from the state and local tax deduction. In light of that, one possible reform could be the repeal of the deductibility of state and local taxes from federal income taxes in conjunction with the repeal or reform of the AMT.[2]

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[1] Tax Expenditures are taken from Congressional Research Service(2004).

[2] Because the level of property taxes is directly related to the cost of owning a home, an argument could be made that the President's mandate to maintain incentives for home-ownership would protect the deductibility of property taxes.

Before Federal reform is undertaken it is important to understand the possible ramifications to sub-national governments of changes in Federal policy and to understand the theoretical justification for tax deductibility. There are concerns that the removal of the deductibility of state and local taxes will lower support for public services and lead to a "race to the bottom" in terms of state and local expenditures, with governments volleying to be the lowest tax state in order to attract higher income households. The likelihood of this scenario depends crucially on what factors affect the location decisions of households and how large this expected increase in tax price is expected to be for households with different levels of income.

In this paper we will briefly discuss the history and arguments for and against the deductibility of state and local taxes. We will present some summary information on the distribution of state and local tax deductions and explore what factors will affect the future costs of repeal, focusing on who currently benefits most from these deductions across different states and by income. We then present projections of the cost savings to the federal government if the state and local deduction were eliminated under scenarios both with and without the AMT being repealed and explore which groups of taxpayers are expected to see changes in their tax bills over time. We then return to the question of how this is expected to affect state and local governments, examining both current estimates of the subsidy rate and drawing lessons from the aftermath of the Tax Reform Act of 1986. The interaction with the AMT lessens the impact of repeal for many households, thus the effect on states and the question of whether the elimination of deductibility of state and local taxes will lead to a race to the bottom, rests on the influence and mobility of the wealthiest taxpayers.

History of the Deductibility of State and Local Taxes[3].

State and local taxes have been deductible from the federal income tax, since the inception of the federal income tax in 1913. Originally all taxes (including federal, state and local taxes not directly tied to a benefit) were deductible against federal income. Over time, the number and types of taxes that are deductible have changed. Prior to 1964, tax regulations allowed deductions for taxes except for an explicitly enumerated list of nondeductible taxes. 1964 legislation reversed course and created a list of explicit covered taxes, including state/local taxes on: real and personal property, income, general sales and the sale of gasoline and other motor fuels. The Treasury Department's original blueprint for tax reform in 1984 would have eliminated all state and local tax deductions, but the ultimate legislation—the Tax Reform Act of 1986 (TRA86) only eliminated the deductibility of state/local sales taxes. Sales taxes did not survive the cut because the deduction was thought to be inequitable, inefficient, and complex. The inequity issue arises due to the deductibility of general sales taxes but not specific sales taxes and the fact that while sales taxes are thought to be regressive, with lower income households paying a larger percentage of their income on sales taxes, yet they were unlikely to itemize as compared to higher income taxpayers. The deductibility of sales taxes was also seen as inefficient or complex as, keeping receipts as proof of purchase for the deduction was seen as cumbersome while the alternative (using the tax tables provided) was seen as being unrelated to actual purchase patterns by households. Note that many of these arguments still hold, despite the reinstatement of sales tax deductibility *in lieu* of

[3]The discussion of the history of state/local tax deductibility is largely drawn from Maguire(2005).

income tax deductions that was passed as part of the American Jobs Creation Act of 2004 (AJCA 2004).

Pro/Con Arguments About State/Local Tax Deductibility

The arguments for the elimination of state and local tax deductibility rest on the appeal of base broadening and fairness or equity issues. These fairness issues are based on questions of income and geographic equity. Since only itemizers benefit from specific itemized deductions, non-itemizers (who usually have lower incomes) face a higher cost of government services than itemizers. In addition, since states have different levels of tax burden and rely on different types of taxes, the current system benefits itemizers in higher tax states over lower tax states, and specifically benefits taxpayers in states that are more reliant on deductible taxes. Moreover, taxpayers in states whose state and local governments rely heavily on property taxes and either income *or* general sales taxes[4] are subsidized by taxpayers in states that depend more on specific sales taxes and fees. Thus the deductibility of some taxes distorts the choice of tax instruments. In addition, if state and local taxes simply reflect payments for services provided by state and local governments they should be treated no differently from other forms of consumption. Opponents of retaining the deductibility also argue that it is a blunt way of providing intergovernmental assistance, and if the Federal government wanted to subsidize certain sub-national public services it could do so more efficiently by giving direct grants to state and local governments.

[4] The current tax system with the option of deducting either income or sales taxes reduces the inequity across states most notably for the states with no or limited income taxes. (States with no income tax are Alaska, Florida, Nevada, South Dakota, Texas, Washington and Wyoming, while New Hampshire and Tennessee only have a state income tax on dividends and interest. The sales tax deduction is not relevant to tax payers in New Hampshire as it does not have a general sales tax and is of limited benefit in Alaska where there is no state sales tax though cities and boroughs are allowed to impose a general sales tax.)

The argument for retaining the deductibility of state/local taxes is that it is unfair to ask taxpayers to pay taxes on taxes. That is, if another level of government is claiming that revenue, it is not really part of the individual's disposable income and paying taxes on it leads to double taxation. Supporters of the current deductions feel that taxpayers should not be made to pay federal taxes on funds used to pay for state and local government services. In addition, proponents argue that the deduction may be necessary to encourage higher income taxpayers to support programs that primarily benefit lower- and middle-income households.

In sum, arguments for and against the deductibility of state and local taxes rest crucially on whether the state and local taxes a household pays reflect the public goods received to that household or whether taxes paid are not directly related to the benefits received. If taxes reflect benefits received then taxes simply reflect public (as compared to private) consumption and by choosing to live in a community a household is deciding on the level of public services to purchase. In a scenario with enough local communities (as would occur under the Tiebout model[5]) the level of taxes would reflect the level of public services desired and there would be no justification for the deductibility of state and local taxes. However, in communities with mixed levels of income, if it is assumed higher income households pay more taxes than they receive in benefits, the presence of federal deductibility could in fact lead to an equalizing of taxes with benefits across

[5] In his seminal paper, Tiebout (1956) it is hypothesized that voters will perfectly sort into communities that reflect their ideal tradeoff between public and private goods. The pure form leads to perfect sorting by income and assumes all households within a community receive the same level of public services. In practice there are limits to the number of communities (especially when considering states instead of municipalities) and there is mixing of income classes. Bergstrom and Goodman (1973) discuss the factors that influence demand for public goods.

different income classes within a state.[6] If certain taxes are progressive (as the income is in many states) but benefits are distributed equally across all households within a community then deductibility may in fact be an imperfect way of equilibrating taxes to benefits. A similar argument could also be made for an equalizing role of deductibility across geographic jurisdictions as well. Since federal taxes are not indexed to take account of cost-of-living differences across states, the higher tax levels in some states may reflect higher prices of providing both public (and private goods). If a households higher income reflects higher prices in one area – then the higher level of deductions can help equalize the after tax incomes of households. That is, if higher taxes (and higher incomes) across different geographic areas reflect differences in cost of living – deductibility can help offset (albeit again quite imperfectly) some of these geographic price differences.

Geographic and Income Distribution of Current Deductions

To explore the fiscal and distributional effects of eliminating the deductibility of state/local taxes we will first examine the current distribution of these taxes across income and geographic areas and discuss the characteristics of taxpayers that lead to higher deductions. Virtually all of the 46 million households who itemized in 2002 claimed a deduction for state and local taxes paid, totaling $308.7 billion. Eighty-two percent of itemizers deducted state and local income taxes and 87 percent deducted real estate taxes. Table 1 presents information on the number and amount of state and local tax deductions by state. While households who take these deductions are in every state,

[6] Note that from a theoretical perspective, the value of benefits received from state/local governments should be deducted from the taxes paid, and only the net tax payments should be deductible. For a thorough description of different ways of modeling this benefit and a discussion of the case for or against federal deductibility of state and local taxes see Kaplow (1996).

they are concentrated in a few. Tax payers in California and New York make up twenty percent of those claiming deductions for all state and local taxes and 23 percent of those claiming state and local income taxes and almost 30 percent of the value of the total state and local tax deduction and one-third of the deductions from state and local income taxes.[7] Not surprisingly, the states that get a relatively large share of these deductions also pay a relatively large share of federal income taxes.

Figure 1 maps the average deduction claimed in different states, with itemizers in New York, New Jersey and Connecticut listing on average over $10,000 per household in state and local tax deductions, and California and Washington DC not far behind with about $9,000 per itemizer.[8]

This "gross" deduction is only part of the story since the distributional implications of eliminating the deductibility of these taxes is complicated by the fact that under the current system there are limits on overall deductions and phase outs of these deductions under the AMT. Figure 2 maps the percentage of households that are subject to the AMT by state. Not surprisingly the top ten states in the two maps are the same, that is – because of the preference status of state and local tax deductions, it is precisely the states with high average tax deductions that also have more households owing the AMT. In 2002 about two million AMT taxpayers lost part or all of the federal deduction.

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[7] Given that these figures are from 2002, they do not include any costs for sales tax deductibility. Current estimates on the cost of the sales tax deductibility is about $5 billion (Joint Committee on Taxation) or $2.2 to $2.4 billion a year (CRS). These costs are mainly for deductions of taxpayers in states without income taxes or limited income tax. Florida households are estimated to receive a little over 1/3 of these deductions (or about $700 million annually), with taxpayers in Texas and Washington receiving approximately 27 percent and 22 percent of these deductions respectively.

[8] Washington DC also has the highest average amount of income tax deductions listed by those who itemize, followed by New York, Connecticut, California and somewhat surprisingly, Wyoming. Wyoming had few households that itemized their income tax (7315 Wyoming households claimed the state and local income tax deduction and listed over $46 million in deductions.)

Under current tax law, the number of households facing the AMT limit will grow further limiting the benefit of state and local deductions.

The geographic distribution of benefits can be explained in part by the distribution of wealth across states. State and local tax deductions are highest in places where state and local taxes are high, either due to relatively high or progressive income or property tax rates or relatively high incomes and property values or both. Thus, California and New York at the top of the list given they have some of the most expensive real-estate in the country and large concentrations of wealth, and progressive income tax systems. In 2002, the top five percent of California households (those with the highest income) paid 60 percent of California income taxes while the bottom 40 percent paid less than one percent.

Table 2 shows the distribution of returns, and state and local tax deductions by income class. More than half of all state and local tax deductions were claimed by the eight percent of taxpayers with incomes exceeding $100,000 and over sixty percent of state and local income taxes were claimed by households making over $100,000 or more. These are the same households that are most likely to be subject to the AMT with 90 percent of AMT revenues coming from households earning over $100,000 and itemizing deductions. If we examine the distribution of both taxes paid and deductions taken by state, we find that the highest income households are taking the largest deductions. In California the 11% of households that earned $100,000 or more accounted for 46% of state adjusted gross income and claimed 46% of listed deductions. However, they claimed 63% of all state and local tax deductions and 72% of income tax deductions. The higher percent of income tax deductions reflects California's higher reliance on a

progressive income tax and lower property tax rates (due to Proposition 13).[9] Again this is before consideration of the AMT limitations faced by these households. Similar breakdowns exist for other states.

Modeling the Elimination of State and Local Tax Deductions

While examining the current distribution of deductions and AMT is informative, given the changing rules governing both the AMT and the tax system there can be important changes in the impacts of eliminating the deductibility of state and local taxes over time. How much money would eliminating the state and local deductions save the Federal government? Is the deduction already effectively being eliminated by the AMT? Would the elimination of these deductions be enough to offset the revenues lost by eliminating or indexing the AMT? To answer these questions we examine static simulation models of the revenue implications of eliminating the state and local tax deductions over the next 10 years.

Eliminating the deduction for state and local taxes, while leaving the AMT in place would generate $628 billion in federal revenues assuming a current-law baseline over the period 2005-2014. The annual savings is around $45 billion annually until 2010. Beginning in 2011, the revenue gain almost doubles due primarily to the expiration of provisions of the Economic Growth and Tax Relief Reconciliation Acot of 2001 (EGTRRA) and the Jobs and Growth Tax Relief Reconciliation Act of 2003 (JGTRRA), and the resultant increase in top marginal tax rates and sharp reduction of number of taxpayers subject to the AMT. (Top panel, Table 3.) If we assume current EGTRRA and JGTRRA provisions will be extended the annual Federal savings remains about $45

[9] These calculations are based on information available from the IRS, Individual Tax Statistics – State Income for 2002 and 2003, Tax Year 2002: Unpublished Version. Available at

billion a year. Table 4 examines the distribution of tax savings/costs if both state and local tax deductions and the AMT are eliminated. Cumulatively revenues would increase by $343.4 billion for the FY2005-2014 period assuming the president's tax cuts are not extended. The largest revenue gain is in calendar year 2005, because the AMT is temporarily held in check for that year. As AMT revenue jumps in 2006, the cost of repealing it grows relatively to the revenue gain from repealing the state and local tax deduction. The net revenue gain to the federal treasury declines and even becomes negative (i.e., there is a revenue loss) in 2009 and 2010 as the AMT's scope would have expanded. That pattern is reversed in calendar year 2011 after the 2001-2003 tax cuts expire. However, if the tax cuts are extended, net revenue losses to the treasury will continue to grow. On a fiscal year basis, revenues would decline by $18 billion over ten years under the extended baseline, with revenue losses growing dramatically in the out years.[10]

Repealing only the state and local income tax deduction would lead to smaller increases in federal revenues and would leave a larger gap from repealing the AMT. That is there is a Federal revenue increase of $405 billion from FY 2005-2014 if the state/local income tax deduction is eliminated or a savings of about $290 billion if baseline provisions are extended and the AMT is not repealed or changed.[11] If state/local income tax deductibility were eliminated and the AMT was repealed there would be a small

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http://www.irs.gov/taxstats/article/ in file 02in54cm.xls.

[10] Tables for eliminating only state and local income taxes are available from the author.

[11] Note that this does not include an estimate of eliminating the state and local sales tax for people who opt to itemize these taxes in lieu of income taxes. The savings under current law would be about $2.5 billion given the expiration of this provision after 2005. If it is included to the baseline estimates the elimination of it would increase federal savings.

cumulative savings of $48.3 billion over 2005-2014 under current law and a cost of about $300 billion if the tax cuts are extended.

Distributional Implications

We start by examining the effects of eliminating the deductibility of state and local taxes in 2005 as compared to the current-law baseline (or the calculated increase of $45.2 billion in Table 3).[12] Table 5 shows the distribution of federal tax costs and benefits of repealing the deduction for state and local taxes[13]. Low income households are largely unaffected by these changes due to their taking the standard deduction and not being affected by the AMT. However, for households earning $75,000 or more repealing the deduction for state and local taxes is expected to increase the tax bills of a majority of taxpayers in each class. (Table 5, columns 2 and 3). The average federal tax change is 3.4 percent on average with tax increases averaging over 4 percent for those earning between $100 thousand and a million dollars and increasing by 3.6 percent for those earning more than a million dollars. Repealing the AMT has little immediate effect for most taxpayers (Table 6), although it does lower the average cost of repealing the deductibility of state and local taxes for those earning over $200,000. This reflects the fact that the AMT current is affecting a much smaller percentage of households. Thus, the effect of eliminating the deductibility of state and local taxes will affect many households earning over $75,000.

However, the distribution of those affected changes dramatically in the following years due to the increased number of households affected by the AMT. The first two

[12] Breakdown of the distribution of the Federal Tax Costs are also available for other 2014 and for only repealing the state and local income measures from the author.
[13] These estimates are again based on the effect of eliminating the deductibility of income and property taxes.

columns of Table 7 show the percent of tax units with tax cuts or tax increases from eliminating the deductibility of state and local taxes in 2010[14]. Only 21 percent of tax units are actually subject to a tax increase. So while about 35 percent of taxpayers itemized state and local taxes in 2002, by 2010 only 21 percent of households would face a tax increase if these deductions were eliminated. The unaffected taxpayers fall into two broad groups – households that are not itemizers and those that have already lost the value of this deduction due to the AMT. The first group corresponds to the vast majority of the 75 percent of tax units that earn less than $75,000 who are largely non-itemizers and those earning between $200-500 thousand dollars who face little cost of the elimination mainly because of the AMT. (About half of all households in the $75-200 thousand group are also not affected by the elimination of state and local tax deductibility due to either not itemizing or the previous loss of these deductions due to the AMT.) Thus, the two groups of taxpayers who will pay the largest share of this change are those earning $100-200 thousand and those earning over one-million dollars. The average federal tax change would be about 2 percent for households earning between $50-100 thousand and a 3.4 and 4 percent average tax change for households earning over $500,000 and $1,000,000. For households earning a million dollars or more – the loss comes about because they are still eligible for a portion of their state and local tax deductions after the phase-out of deductions. Fully one-quarter of households earning $1 million or more would lose their incentive to itemize if the state/ local income tax was disallowed.

[14] Note that the results for 2006-2009 will be more similar to the 2010 results if we assume that the temporary increase in the AMT exemption is not extended. If the baseline model was one where these increases were maintained then the number of affected households and distribution would fall somewhere in between.

Examining the effects of eliminating the state and local tax deductibility and also repealing the AMT gives a more mixed story both across income classes and within certain groups (Table 8). Lower income households still have little change in their expected tax bills, due to the fact that they are not itemizing (so are not affected by the elimination of state and local tax deductibility) and are not subject to the AMT. About 20 percent of tax units will experience a tax increase while 16 percent will experience a tax cut. The repeal of the AMT translates into tax savings for most households with income of $200-500 thousand. Households with higher incomes still largely face an increase in tax bills and an increase in their taxes of about 3 percent for those earning over a million dollars. Thus by 2010 eliminating the deductibility of state and local taxes is a change that will largely fall on the wealthiest of households compared to current tax law. Thus, the number of taxpayers affected by elimination of deductibility of state/local taxes falls over time due to the *de facto* elimination caused by the AMT.

These results are based on a comparison of changing the deductibility of state and local taxes (and the AMT) in a static model. The size and distribution of these effects will vary depending on what other changes are undertaken. If the higher AMT exemption is extended then the distribution of tax increases across taxpayers and the savings to the Federal government will also change.

The Effects on State Revenues – Will There Be a Race to the Bottom?

Will the wealthiest households leave if state/local deductibility is removed? Currently there are no recent estimates of the tax subsidy currently in place to state and local governments. Tannenwald(1997) estimated (based on 1995 taxes) that the elimination of state and local taxes would lead to an average tax price increase of 8.5

percent, or increase the tax price from $.84 to $.91.[15] The change would vary across states with Wyoming facing less than a one percent change in tax price and Maryland facing a 10 percent increase. However, these estimates assume all current itemizers would lose this deduction. The actual erosion faced by states will be lower due to the effective elimination of these deductions for many households due to the AMT. Thus, under current tax law states are already faced with the potential loss of this deductibility albeit in a less transparent way. The marginal voter is not expected to face a tax increase due to the limit in deductibility – so median voter theory would lead us to expect no change in the level of services. However, taxes will increase for the highest income households. If they have disproportionate influence this could lead to a decline in the level of state and local taxes and services. (This could be due to political power or a fear that high-income households will leave due to the relative increase in their effective tax bills.)

We first explore this question by examining the changes in state and local tax revenues after TRA-86. Recall, it was argued that eliminating the deductibility of sales taxes would raise the effective cost of sales taxes, compared to income and property taxes. Because, federal marginal tax rates also declined this lowered the value of all deductions and end up effectively raising the price of income and property taxes relative to fees and specific sales taxes. Figure 3 shows little change in the aggregate amount of state and local taxes coming from general sales taxes following TRA86. Indeed in the years immediately following TRA86 no state lowered its general sales tax and 15 states

[15] The tax price would still be less than $1.00 due to the continued ability of businesses to deduct state and local taxes as a business expense. Tannenwald(1997) includes a measure of the percent of taxes coming from businesses in his estimates. This work follows on that done by Feldstein and Metcalf (1987) which examined these issues prior to TRA-86.

had higher general sales tax rates in place in 1989 as compared to 1985.[16] However, because marginal tax rates were also lowered this led in general to a decline in overall taxes for wealthy households. It could be that the income effect of paying lower federal taxes offset any pressure from households to change the tax burden in light of the elimination of the sales tax deductibility in 1986.

Even if there is not a direct shift down in state/local taxes will this increase in cost lead the highest income households to vote with their feet and leave higher tax areas? If the highest income households leave this could lead to a decline in revenues especially in states that are more dependent on highly progressive income tax systems. Currently a disproportionate percent of households earning $200,000 or more live in states that have comparatively high taxes and progressive tax systems in place. So now these households are choosing to live in relatively high tax places due either to a belief that their taxes are receiving commensurate levels of benefits or because of other reasons that make their current location optimal for them. (This could be due to restricted job opportunities, other amenities or climate.) The change in effective tax rates caused by the elimination of state and local deductions is small relative to the current discrepancies in marginal tax burdens across different states. In addition, if the goals of tax reform are met – that is simplification of the tax code and broadening the base it is likely that the net tax bill for these households (total federal, state and local) could be lower – as found after TRA86. However, one would have to further evaluate mobility decisions and the tax price faced by households with different income levels to estimate possible migration patterns.

[16] While none of the states that did not have income taxes switched from using sales tax revenues to introducing an income tax, the "fairness issue" was raised by parties in the 7 states without an income tax. This pressure led to the inclusion of the ability to deduct sales taxes *in lieu* of income taxes adopted as part of AJCA (2004).

Conclusion

This paper has examined the way in which the elimination of state and local tax deductibility would affect taxpayers across different states and income classes and also how it would affect state and local government finances. While taxpayers in all 50 states claim this deduction, the benefits of these deductions are concentrated in relatively few states. These are states with a disproportionate share of high-income households and are in states with relatively high state and local taxes. These taxpayers also pay a higher percent of federal income and are currently more likely to be subject to the AMT. Whether the deductibility of state and local taxes is seen as theoretically justified depends crucially on whether taxes are judged to equal the benefits received by each household (in which case tax deductibility encourages public good consumption over private consumption) vs. an argument that taxes paid are not necessarily related to benefits received. If taxes do not equal benefits it is unclear why households locate in the communities they do, but this could be due to other locational considerations. The estimated federal savings and distribution of tax rate increases of eliminating the deductibility of state/local taxes depends crucially on what assumptions are made concerning reform of the AMT. If current law is assumed, by 2010 only 20 percent of households will face an increase in their tax bill if deductibility is eliminated. This is caused by the fact that the AMT will largely eliminate this deduction if no changes are made in the law. Thus for many households, elimination of the deductibility of state and local taxes is already in place as part of the current tax system.

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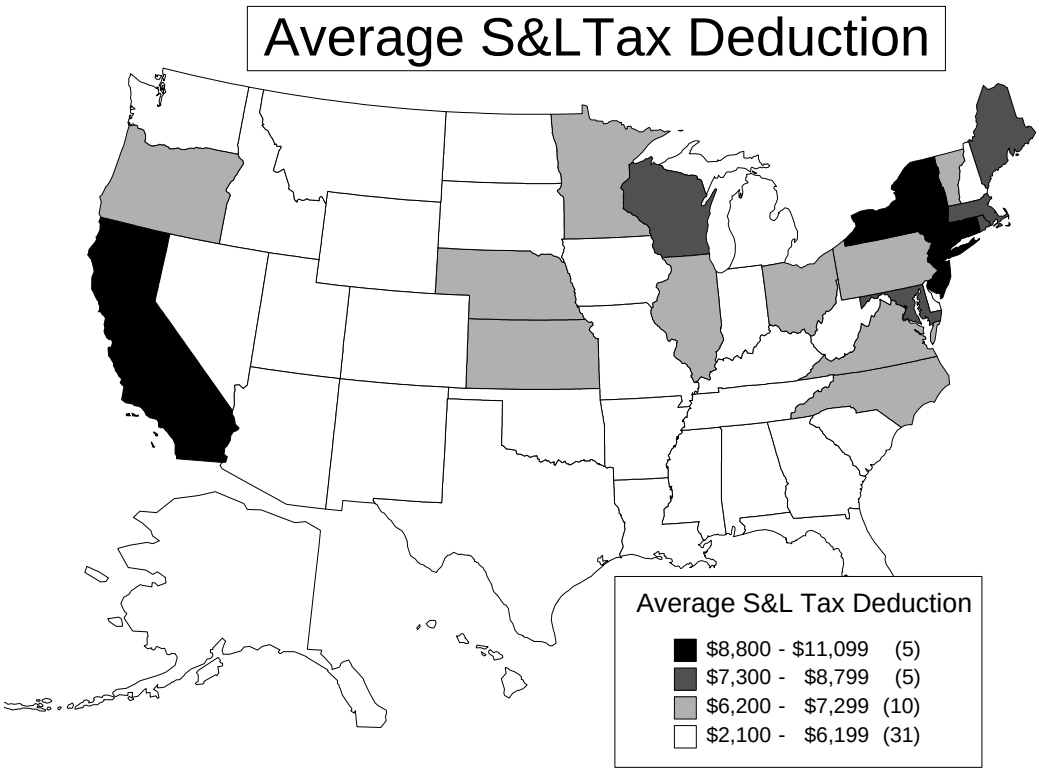
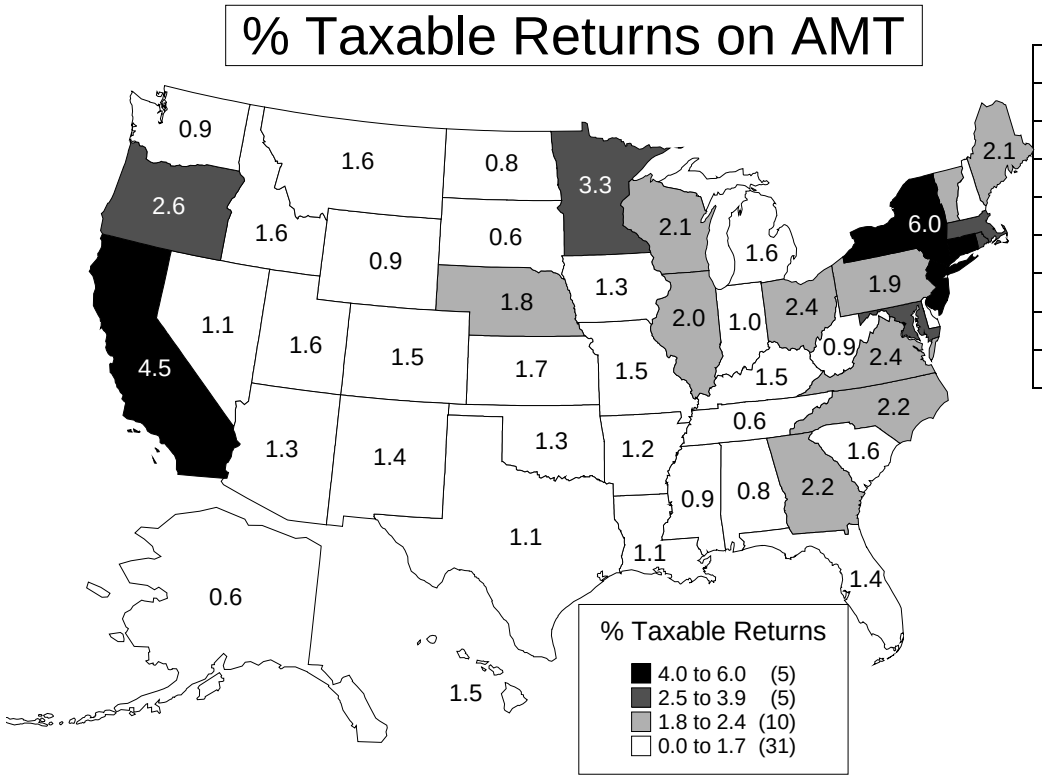


Figure 1: Average Listed State and Local Tax Deduction for Those Claiming Deduction



VT	2.2
NH	1.7
MA	3.8
RI	2.9
CT	4.8
NJ	5.9
DE	1.6
MD	3.8
DC	4.5

Figure 2: Percent of Returns on Alternative Minimum Tax.

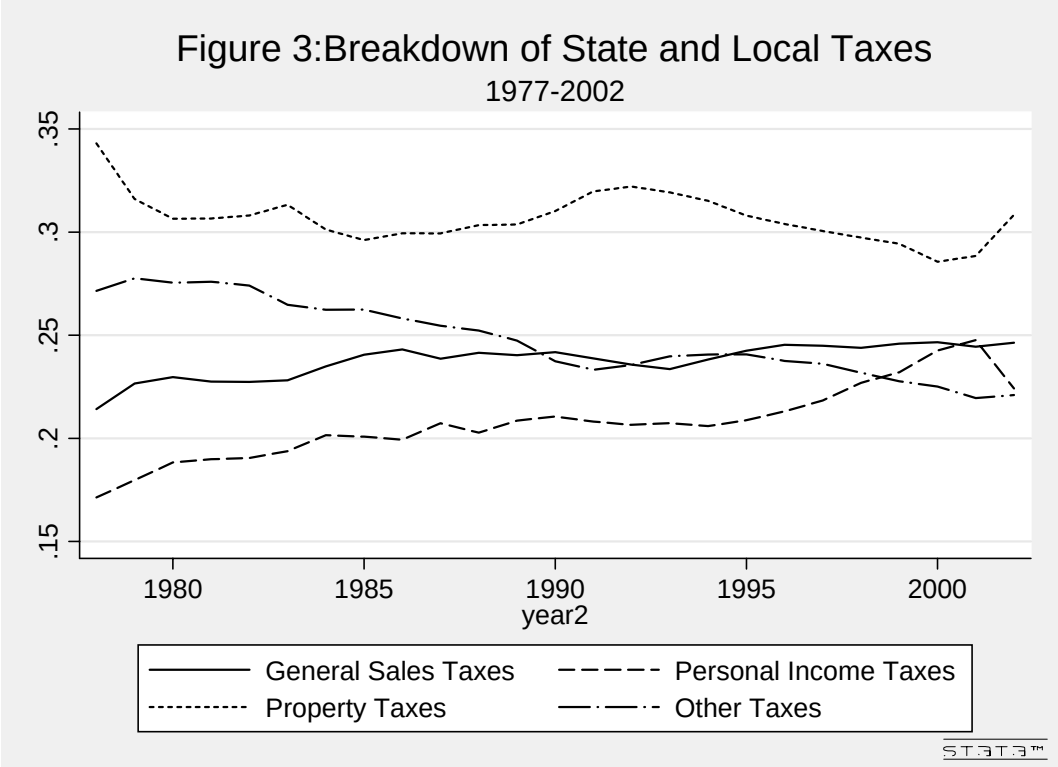


Figure 3:Breakdown of State and Local Taxes
1977-2002
.15
.2
.25
.3
.35
1980
1985
1990
1995
2000
year2
General Sales Taxes
Personal Income Taxes
Property Taxes
Other Taxes

Table 1:State and Local Tax Deductions By State

Tax Year 2002

Rank	State	Number of returns (millions)	Percent of returns claiming deduction	Percent of Returns in State	Amount ($billions)	Percent of Amount Claimed	Average amount	Percent of Federal Income Taxes Paid	State and Local Deduction as Share of State AGI
1	California	5.9	13.0	39.0	52.3	17.0	**$8,884**	13.2	6.8
2	New York	3.3	7.4	38.8	37.1	12.0	**$11,098**	8.7	8.2
3	New Jersey	1.8	4.0	44.6	18.2	5.9	**$10,003**	4.6	7.5
4	Illinois	2.1	4.6	36.3	13.5	4.4	**$6,475**	5.1	4.7
5	Ohio	1.9	4.3	35.2	13.0	4.2	**$6,721**	3.4	5.8
6	Pennsylvania	1.9	4.1	32.5	12.3	4.0	**$6,548**	4.1	4.8
7	Massachusetts	1.2	2.7	40.5	10.8	3.5	**$8,655**	3.3	6.2
8	Michigan	1.7	3.8	38.0	10.5	3.4	**$6,099**	3.2	5.1
9	Maryland	1.3	2.8	48.7	10.0	3.2	**$7,944**	2.3	7.2
10	Virginia	1.4	3.0	40.7	9.2	3.0	**$6,666**	2.9	5.3
11	Texas	2.0	4.5	21.9	8.7	2.8	**$4,288**	6.9	2.2
12	Georgia	1.4	3.2	39.1	8.5	2.8	**$5,960**	2.6	5.2
13	North Carolina	1.4	3.0	37.4	8.5	2.8	**$6,252**	2.2	5.6
14	Florida	2.1	4.7	27.5	7.9	2.6	**$3,707**	6.1	2.3
15	Wisconsin	1.0	2.2	39.3	7.8	2.5	**$7,692**	1.7	6.9
16	Connecticut	0.7	1.6	43.7	7.6	2.5	**$10,424**	2.3	7.0
17	Minnesota	1.0	2.2	42.3	6.9	2.2	**$6,804**	1.9	5.9
18	Oregon	0.7	1.5	42.2	4.8	1.6	**$7,222**	0.9	7.2
19	Indiana	0.9	2.0	32.6	4.8	1.5	**$5,192**	1.7	4.1
20	Missouri	0.8	1.8	32.1	4.7	1.5	**$5,768**	1.6	4.5
21	Colorado	0.9	1.9	42.1	4.6	1.5	**$5,293**	1.7	4.5
22	Arizona	0.9	1.9	39.0	4.2	1.4	**$4,816**	1.5	4.3
23	South Carolina	0.6	1.3	33.4	3.4	1.1	**$5,629**	0.9	4.9
24	Kentucky	0.6	1.2	32.0	3.4	1.1	**$6,028**	0.9	5.0
25	Washington	1.0	2.1	34.3	3.1	1.0	**$3,262**	2.4	2.3
26	Iowa	0.4	1.0	32.9	2.5	0.8	**$5,717**	0.7	4.7
27	Kansas	0.4	0.9	31.8	2.4	0.8	**$6,230**	0.8	4.7
28	Oklahoma	0.5	1.0	31.0	2.3	0.8	**$5,133**	0.8	4.3
29	Alabama	0.6	1.3	30.9	2.1	0.7	**$3,624**	1.0	2.9
30	Utah	0.4	0.9	41.5	2.0	0.7	**$5,089**	0.5	5.1
31	Nebraska	0.2	0.5	30.8	1.6	0.5	**$6,591**	0.5	5.1
32	Rhode Island	0.2	0.4	37.3	1.5	0.5	**$8,259**	0.4	6.7
33	Maine	0.2	0.4	32.3	1.4	0.5	**$7,301**	0.3	6.0
34	Louisiana	0.4	0.9	21.7	1.4	0.5	**$3,523**	1.0	2.1
35	New Hampshire	0.2	0.5	36.1	1.4	0.5	**$6,126**	0.5	4.4
36	Arkasas	0.3	0.6	25.0	1.4	0.4	**$4,883**	0.5	3.4
37	Tennessee	0.6	1.3	22.4	1.2	0.4	**$2,161**	1.6	1.2
38	New Mexico	0.2	0.5	27.3	1.1	0.4	**$5,076**	0.4	3.9
39	Mississippi	0.3	0.6	23.4	1.1	0.4	**$3,966**	0.5	2.8
40	Idaho	0.2	0.5	36.7	1.1	0.3	**$5,135**	0.3	5.0
41	Nevada	0.4	0.8	35.7	1.0	0.3	**$2,904**	0.9	2.2
42	Hawaii	0.2	0.4	33.6	1.0	0.3	**$5,299**	0.3	4.3
43	District of Columbia	0.1	0.2	40.1	1.0	0.3	**$9,234**	0.3	6.7
44	Delaware	0.1	0.3	37.5	0.8	0.3	**$5,492**	0.3	4.3
45	West Virginia	0.1	0.3	18.9	0.8	0.2	**$5,325**	0.3	2.9
46	Montana	0.1	0.3	32.1	0.7	0.2	**$5,296**	0.2	5.0
47	Vermont	0.1	0.2	32.4	0.7	0.2	**$6,926**	0.2	5.5
48	North Dakota	0.1	0.1	19.5	0.3	0.1	**$4,471**	0.1	2.4
49	Alaska	0.1	0.2	24.5	0.2	0.1	**$2,864**	0.2	1.6
50	South Dakota	0.1	0.1	16.4	0.2	0.1	**$2,778**	0.2	1.3
51	Wyoming	0.0	0.1	20.4	0.1	0.0	**$2,761**	0.2	1.3
	United States	45.4	100.0	34.7	308.7	100.0		100.0	5.1

Source: Internal Revenue Service,
Individual Tax Statistics - State Income for 2002 and 2003, Tax Year 2002: Unpublished Version. Available at http://www.irs.gov/taxstats/article/0,,id=103106,00.html

Table 2:State and Local Tax Deductions By Adjusted Gross Income

Tax Year 2002

United States

Adjusted Gross Income (thous.)	All Returns # Returns (millions)	All Returns AGI (billions)	Total Itemized Deductions Number (milllions)	Total Itemized Deductions Amount (billions)	State and Local Taxes Number (millions)	State and Local Taxes Amount (billions)	State and Local Income Taxes Number (millions)	State and Local Income Taxes Amount (billions)
Less than 20	50.25	385.37	3.93	59.40	3.65	10.25	2.24	3.03
20-30	18.65	461.86	3.66	47.90	3.56	9.12	2.77	3.10
30-50	24.32	950.26	9.52	129.03	9.40	30.19	7.91	13.70
50-75	17.63	1081.04	11.29	176.58	11.23	51.12	9.69	26.80
75-100	9.13	784.95	7.52	141.27	7.49	46.23	6.49	25.84
100-200	8.39	1103.52	7.74	201.43	7.72	75.60	6.69	45.68
More than 200	2.47	1248.06	2.32	165.28	2.32	86.15	2.04	66.18
All	130.84	6015.05	45.98	920.89	45.37	308.66	37.83	184.32
Percent for HH over $100,000	8%	39%	22%	40%	22%	52%	23%	61%
Percent for HH over $200,000	2%	21%	5%	18%	5%	28%	5%	36%

California

Adjusted Gross Income (thous.)	All Returns # Returns (millions)	All Returns AGI (billions)	Total Itemized Deductions Number (milllions)	Total Itemized Deductions Amount (billions)	State and Local Taxes Number (millions)	State and Local Taxes Amount (billions)	State and Local Income Taxes Number (millions)	State and Local Income Taxes Amount (billions)
Less than 20	5.48	37.99	0.50	9.79	0.49	1.48	0.29	0.74
20-30	2.08	51.59	0.44	6.82	0.44	1.38	0.37	0.37
30-50	2.79	109.16	1.12	18.51	1.12	3.62	1.06	1.70
50-75	2.01	123.07	1.35	25.83	1.35	6.55	1.32	3.43
75-100	1.12	96.75	0.96	22.04	0.96	6.38	0.95	3.77
100-200	1.23	163.90	1.17	38.04	1.17	14.02	1.17	9.56
More than 200	0.37	191.30	0.36	33.86	0.36	18.92	0.36	15.86
All	15.09	773.76	5.91	154.89	5.89	52.34	5.52	35.43
Percent for HH over $100,000	11%	46%	26%	46%	26%	63%	28%	72%
Percent for HH over $200,000	2%	25%	6%	22%	6%	36%	7%	45%

Table 3
Disallowing the Deduction for State and Local Taxes:
Static Impact on Individual Income Tax Liability and Revenue ($ billions), 2005-14

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	Total 2005-14
Current-Law Baseline											
Calendar Year Liability	60.3	42.4	43.6	44.2	44.9	45.0	89.6	92.2	94.2	95.8	652.3
Fiscal Year Revenue2	45.2	46.9	43.3	44.1	44.7	45.0	78.5	91.5	93.7	95.4	628.3
Extended Baseline3											
Calendar Year Liability	60.3	42.4	43.6	44.2	44.7	44.7	44.8	45.1	45.1	45.3	460.3
Fiscal Year Revenue	45.2	46.9	43.3	44.1	44.5	44.7	44.8	45.0	45.1	45.3	449.0

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0305-1).

(1) Provisions include: repeal the deduction for state and local taxes, effective 01/01/05; repeal the inclusion of state and local tax refunds in adjusted gross income, effective 01/01/06. Note that the estimates do not include the impact of the deduction for state and local general sales taxes enacted by the American Jobs Creation Act of 2004.

(2) Fiscal-year estimates 75-25 split. The actual effect on receipts could differ.

(3) Extended baseline is current law plus the Administration's FY2005 Budget Proposal to extend provisions in the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) and the Jobs and Growth Tax Relief Reconciliation Act of 2003 (JGTRRA) affecting the following: marginal tax rates; the 10-percent bracket; the child tax credit; the child and dependent care credit; the limitation on itemized deductions (Pease); the personal exemption phaseout (PEP); the standard deduction, 15-percent bracket, and EITC for married couples; the AMT; pension and IRA provisions; estate

Table 4
Repealing the AMT and Disallowing the Deduction for State and Local Taxes: Static Impact on Individual Income Tax Liability and Revenue ($ billions), 2005-14

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	Total 2005-14
Current-Law Baseline											
Calendar Year Liability	51.8	17.7	13.3	4.8	-1.4	-13.4	67.7	67.1	65.1	62.0	334.6
Fiscal Year Revenue2	45.9	38.1	17.8	12.3	4.3	-3.8	24.8	69.5	68.5	66.1	343.4
Extended Baseline3											
Calendar Year Liability	51.8	17.7	13.3	4.8	-1.5	-13.4	-24.1	-34.6	-48.2	-63.3	-97.5
Fiscal Year Revenue	45.9	38.1	17.8	12.3	4.0	-3.9	-15.8	-26.3	-38.0	-52.2	-18.1

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0305-1).

(1) Provisions include: repeal the AMT, effective 01/01/05; repeal the deduction for state and local taxes, effective 01/01/05; repeal the inclusion of state and local tax refunds in adjusted gross income, effective 01/01/06. Note that the estimates do not include the impact of the deduction for state and local general sales taxes enacted by the American Jobs Creation Act of 2004.

(2) Fiscal-year estimates assume a 40-60 split for revenue change due to AMT repeal and 75-25 split for revenue change related to state and local tax deductions and refunds. The actual effect on receipts could differ.

(3) Extended baseline is current law plus the Administration's FY2005 Budget Proposal to extend provisions in the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) and the Jobs and Growth Tax Relief Reconciliation Act of 2003 (JGTRRA) affecting the following: marginal tax rates; the 10-percent bracket; the child tax credit; the child and dependent care credit; the limitation on itemized deductions (Pease); the personal exemption phaseout (PEP); the standard deduction, 15-percent bracket, and EITC for married couples; the AMT; pension and IRA provisions; estate tax

Table 5:Repealing the Deduction for State and Local Taxes: Distribution of Federal Tax Benefits by Cash Income Class, 2005 [1]

Cash Income Class (thousands of 2005 dollars)[2]	Percent of Tax Units[3]		Percent Change in After-Tax Income[4]	Share of Total Federal Tax Change	Average Federal Tax Change		Share of Federal Taxes		Average Federal Tax Rate[5]	
	With Tax Cut	With Tax Increase			Dollars	Percent	Change (% Points)	Under the Proposal	Change (% Points)	Under the Proposal
Less than 10	0.0	0.0	0.0	0.0	0	0.0	0.0	0.2	0.0	3.6
10-20	0.0	1.7	0.0	0.1	2	0.3	0.0	1.0	0.0	4.8
20-30	0.0	6.6	-0.1	0.4	13	0.5	-0.1	2.7	0.1	10.1
30-40	0.0	14.7	-0.1	1.0	38	0.8	-0.1	4.1	0.1	14.5
40-50	0.0	27.2	-0.3	2.0	104	1.4	-0.1	4.8	0.2	17.0
50-75	0.1	41.5	-0.5	8.3	246	2.2	-0.2	12.8	0.4	18.9
75-100	0.1	63.7	-0.8	10.4	532	3.1	0.0	11.3	0.6	20.7
100-200	0.1	80.0	-1.3	32.6	1,381	4.6	0.3	24.0	1.0	23.4
200-500	0.2	83.8	-1.4	18.5	2,983	4.1	0.1	15.4	1.0	26.5
500-1,000	0.2	79.5	-1.6	8.5	8,078	4.4	0.1	6.6	1.2	28.5
More than 1,000	0.3	80.7	-1.6	18.2	33,211	3.6	0.0	17.0	1.1	32.5
All	0.0	26.9	-0.9	100.0	423	3.4	0.0	100.0	0.7	21.5

Baseline Distribution of Income and Federal Taxes by Cash Income Class, 2005 [1]

Cash Income Class (thousands of 2005 dollars)[2]	Tax Units[3]		Average Income (Dollars)	Average Federal Tax Burden (Dollars)	Average After-Tax Income[3] (Dollars)	Average Federal Tax Rate[4]	Share of Pre-Tax Income	Share of Post-Tax	Share of Federal Taxes
	Number (thousands)	Percent of Total					Percent of Total	Percent of Total	Percent of Total
Less than 10	19,560	13.5	5,618	199	5,419	3.6	1.3	1.5	0.2
10-20	25,611	17.7	14,885	706	14,179	4.8	4.4	5.2	1.0
20-30	19,953	13.8	24,715	2,487	22,227	10.1	5.6	6.4	2.7
30-40	15,289	10.6	34,863	5,030	29,833	14.4	6.1	6.6	4.2
40-50	11,738	8.1	44,824	7,516	37,307	16.8	6.0	6.3	4.9
50-75	20,700	14.3	61,482	11,365	50,117	18.5	14.5	15.0	12.9
75-100	11,936	8.3	86,246	17,309	68,937	20.1	11.8	11.9	11.4
100-200	14,432	10.0	133,489	29,854	103,635	22.4	22.0	21.6	23.7
200-500	3,797	2.6	287,471	73,283	214,188	25.5	12.5	11.7	15.3
500-1,000	642	0.4	678,426	185,555	492,871	27.4	5.0	4.6	6.6
More than 1,000	335	0.2	2,943,745	922,373	2,021,372	31.3	11.3	9.8	17.0
All	144,573	100.0	60,566	12,587	47,978	20.8	100.0	100.0	100.0

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0305-1).

(1) Baseline is current law. Provisions include: repeal the deduction for state and local taxes, effective 01/01/05; repeal the inclusion of state and local tax refunds in adjusted gross income, effective 01/01/06. Note that the estimates do not include t

(2) Tax units with negative cash income are excluded from the lowest income class but are included in the totals. For a description of cash income, see http://www.taxpolicycenter.org/TaxModel/income.cfm

(3) Includes both filing and non-filing units. Tax units that are dependents of other taxpayers are excluded from the analysis.

(4) After-tax income is cash income less: individual income tax net of refundable credits; corporate income tax; payroll taxes (Social Security and Medicare); and estate tax.

(5) Average federal tax (includes individual and corporate income tax, payroll taxes for Social Security and Medicare, and the estate tax) as a percentage of average cash income.

Table 6: Repealing the AMT and the Deduction for State and Local Taxes: Distribution of Federal Tax Benefits by Cash Income Class, 2005 [1]

Cash Income Class (thousands of 2005 dollars)[2]	Percent of Tax Units[3]		Percent Change in After-Tax Income[4]	Share of Total Federal Tax Change	Average Federal Tax Change		Share of Federal Taxes		Average Federal Tax Rate[5]	
	With Tax Cut	With Tax Increase			Dollars	Percent	Change (% Points)	Under the Proposal	Change (% Points)	Under the Proposal
Less than 10	0.0	0.0	0.0	0.0	0	0.0	0.0	0.2	0.0	3.6
10-20	0.0	1.7	0.0	0.1	2	0.3	0.0	1.0	0.0	4.8
20-30	0.0	6.6	-0.1	0.4	11	0.5	-0.1	2.7	0.1	10.1
30-40	0.0	14.7	-0.1	1.1	38	0.8	-0.1	4.1	0.1	14.5
40-50	0.1	27.2	-0.3	2.3	104	1.4	-0.1	4.8	0.2	17.0
50-75	0.3	41.5	-0.5	9.6	244	2.2	-0.1	12.8	0.4	18.9
75-100	0.6	63.7	-0.8	11.8	520	3.0	0.0	11.4	0.6	20.7
100-200	2.0	79.7	-1.3	36.0	1,317	4.4	0.4	24.0	1.0	23.4
200-500	10.6	81.8	-1.0	15.7	2,175	3.0	0.0	15.3	0.8	26.3
500-1,000	14.6	76.8	-1.1	6.8	5,552	3.0	0.0	6.6	0.8	28.2
More than 1,000	13.6	78.6	-1.3	16.3	25,691	2.8	0.0	17.0	0.9	32.2
All	0.7	26.8	-0.8	100.0	365	2.9	0.0	100.0	0.6	21.4

Baseline Distribution of Income and Federal Taxes by Cash Income Class, 2005 [1]

Cash Income Class (thousands of 2005 dollars)[2]	Tax Units[3]		Average Income (Dollars)	Average Federal Tax Burden (Dollars)	Average After-Tax Income[3] (Dollars)	Average Federal Tax Rate[4]	Share of Pre-Tax Income	Share of Post-Tax	Share of Federal Taxes
	Number (thousands)	Percent of Total					Percent of Total	Percent of Total	Percent of Total
Less than 10	19,560	13.5	5,618	199	5,419	3.6	1.3	1.5	0.2
10-20	25,611	17.7	14,885	706	14,179	4.8	4.4	5.2	1.0
20-30	19,953	13.8	24,715	2,487	22,227	10.1	5.6	6.4	2.7
30-40	15,289	10.6	34,863	5,030	29,833	14.4	6.1	6.6	4.2
40-50	11,738	8.1	44,824	7,517	37,307	16.8	6.0	6.3	4.9
50-75	20,700	14.3	61,482	11,365	50,118	18.5	14.5	15.0	12.9
75-100	11,936	8.3	86,246	17,309	68,937	20.1	11.8	11.9	11.4
100-200	14,432	10.0	133,489	29,852	103,636	22.4	22.0	21.6	23.7
200-500	3,797	2.6	287,471	73,282	214,189	25.5	12.5	11.7	15.3
500-1,000	642	0.4	678,426	185,558	492,868	27.4	5.0	4.6	6.6
More than 1,000	335	0.2	2,943,745	922,375	2,021,370	31.3	11.3	9.8	17.0
All	144,573	100.0	60,566	12,587	47,979	20.8	100.0	100.0	100.0

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0305-1).

(1) Baseline is current law. Provisions include: repeal the AMT, effective 01/01/05; repeal the deduction for state and local taxes, effective 01/01/05; repeal the inclusion of state and local tax refunds in adjusted gross income, effective 01/01/06. Note

(2) Tax units with negative cash income are excluded from the lowest income class but are included in the totals. For a description of cash income, see http://www.taxpolicycenter.org/TaxModel/income.cfm

(3) Includes both filing and non-filing units. Tax units that are dependents of other taxpayers are excluded from the analysis.

(4) After-tax income is cash income less: individual income tax net of refundable credits; corporate income tax; payroll taxes (Social Security and Medicare); and estate tax.

(5) Average federal tax (includes individual and corporate income tax, payroll taxes for Social Security and Medicare, and the estate tax) as a percentage of average cash income.

Table 7: Repealing the Deduction for State and Local Taxes: Distribution of Federal Tax Benefits by Cash Income Class, 2010 [1]

Cash Income Class (thousands of 2005 dollars)[2]	Percent of Tax Units[3]		Percent Change in After-Tax Income[4]	Share of Total Federal Tax Change	Average Federal Tax Change		Share of Federal Taxes		Average Federal Tax Rate[5]	
	With Tax Cut	With Tax Increase			Dollars	Percent	Change (% Points)	Under the Proposal	Change (% Points)	Under the Proposal
Less than 10	0.0	0.0	0.0	0.0	0	0.0	0.0	0.2	0.0	4.1
10-20	0.4	1.3	0.0	0.1	2	0.2	0.0	0.8	0.0	5.0
20-30	1.0	5.8	-0.1	0.7	14	0.5	0.0	2.4	0.1	10.4
30-40	1.7	12.6	-0.1	1.3	35	0.6	0.0	3.7	0.1	14.5
40-50	2.0	22.4	-0.2	2.6	90	1.1	0.0	4.4	0.2	17.2
50-75	2.5	36.8	-0.4	11.7	236	1.8	0.0	11.9	0.4	19.7
75-100	1.9	50.2	-0.6	13.2	430	2.1	0.0	11.3	0.5	21.5
100-200	5.3	48.6	-0.5	20.3	507	1.4	-0.1	26.0	0.3	24.3
200-500	1.2	20.0	-0.2	3.8	347	0.4	-0.2	16.4	0.1	26.8
500-1,000	1.4	67.4	-1.2	11.7	6,661	3.4	0.1	6.5	0.9	27.3
More than 1,000	2.1	74.8	-1.7	34.6	38,237	4.0	0.3	16.3	1.2	31.4
All	1.8	21.0	-0.5	100.0	292	1.8	0.0	100.0	0.4	22.2

Baseline Distribution of Income and Federal Taxes by Cash Income Class, 2010 [1]

Cash Income Class (thousands of 2005 dollars)[2]	Tax Units[3]		Average Income (Dollars)	Average Federal Tax Burden (Dollars)	Average After-Tax Income[3] (Dollars)	Average Federal Tax Rate[4]	Share of Pre-Tax Income	Share of Post-Tax	Share of Federal Taxes
	Number (thousands)	Percent of Total					Percent of Total	Percent of Total	Percent of Total
Less than 10	17,298	11.2	6,190	256	5,934	4.1	0.9	1.2	0.2
10-20	24,828	16.1	16,653	829	15,824	5.0	3.6	4.4	0.8
20-30	21,679	14.1	27,490	2,832	24,659	10.3	5.3	6.0	2.5
30-40	16,440	10.7	38,628	5,573	33,056	14.4	5.6	6.1	3.7
40-50	12,893	8.4	49,638	8,449	41,189	17.0	5.6	6.0	4.4
50-75	22,442	14.6	68,192	13,196	54,996	19.4	13.5	13.9	12.0
75-100	13,870	9.0	95,865	20,206	75,659	21.1	11.7	11.8	11.3
100-200	18,051	11.7	149,322	35,827	113,495	24.0	23.7	23.1	26.1
200-500	4,875	3.2	317,752	84,729	233,023	26.7	13.6	12.8	16.7
500-1,000	794	0.5	752,123	198,830	553,293	26.4	5.3	4.9	6.4
More than 1,000	408	0.3	3,203,897	966,271	2,237,626	30.2	11.5	10.3	15.9
All	154,170	100.0	73,696	16,080	57,616	21.8	100.0	100.0	100.0

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0305-1).

(1) Baseline is current law. Provisions include: repeal the deduction for state and local taxes, effective 01/01/05; repeal the inclusion of state and local tax refunds in adjusted gross income, effective 01/01/06. Note that the estimates do not include t

(2) Tax units with negative cash income are excluded from the lowest income class but are included in the totals. For a description of cash income, see http://www.taxpolicycenter.org/TaxModel/income.cfm

(3) Includes both filing and non-filing units. Tax units that are dependents of other taxpayers are excluded from the analysis.

(4) After-tax income is cash income less: individual income tax net of refundable credits; corporate income tax; payroll taxes (Social Security and Medicare); and estate tax.

(5) Average federal tax (includes individual and corporate income tax, payroll taxes for Social Security and Medicare, and the estate tax) as a percentage of average cash income.

Table 8: Repealing the AMT and the Deduction for State and Local Taxes: Distribution of Federal Tax Benefits by Cash Income Class, 2010 [1]

Cash Income Class (thousands of 2005 dollars)[2]	Percent of Tax Units[3]		Percent Change in After-Tax Income[4]	Share of Total Federal Tax Change	Average Federal Tax Change		Share of Federal Taxes		Average Federal Tax Rate[5]	
	With Tax Cut	With Tax Increase			Dollars	Percent	Change (% Points)	Under the Proposal	Change (% Points)	Under the Proposal
Less than 10	0.0	0.0	0.0	0.0	0	0.0	0.0	0.2	0.0	4.1
10-20	0.4	1.3	0.0	-0.4	2	0.2	0.0	0.8	0.0	5.0
20-30	1.1	5.8	0.0	-1.8	11	0.4	0.0	2.5	0.0	10.3
30-40	3.1	12.6	-0.1	-3.8	29	0.5	0.0	3.7	0.1	14.5
40-50	6.5	22.2	-0.1	-5.9	58	0.7	0.1	4.5	0.1	17.1
50-75	16.6	36.3	-0.2	-17.0	97	0.7	0.2	12.1	0.1	19.5
75-100	39.8	46.9	0.2	18.9	-174	-0.9	0.0	11.3	-0.2	20.9
100-200	52.6	42.6	0.5	73.9	-524	-1.5	-0.3	25.8	-0.4	23.6
200-500	80.1	17.7	1.6	138.5	-3,635	-4.3	-0.6	16.0	-1.1	25.5
500-1,000	30.9	64.3	-0.4	-14.9	2,396	1.2	0.1	6.5	0.3	26.8
More than 1,000	22.6	71.9	-1.2	-88.1	27,612	2.9	0.5	16.5	0.9	31.0
All	16.0	19.8	0.1	100.0	-83	-0.5	0.0	100.0	-0.1	21.7

Baseline Distribution of Income and Federal Taxes by Cash Income Class, 2010 [1]

Cash Income Class (thousands of 2005 dollars)[2]	Tax Units[3]		Average Income (Dollars)	Average Federal Tax Burden (Dollars)	Average After-Tax Income[3] (Dollars)	Average Federal Tax Rate[4]	Share of Pre-Tax Income	Share of Post-Tax	Share of Federal Taxes
	Number (thousands)	Percent of Total					Percent of Total	Percent of Total	Percent of Total
Less than 10	17,298	11.2	6,190	256	5,934	4.1	0.9	1.2	0.2
10-20	24,828	16.1	16,653	829	15,824	5.0	3.6	4.4	0.8
20-30	21,679	14.1	27,490	2,832	24,659	10.3	5.3	6.0	2.5
30-40	16,440	10.7	38,628	5,573	33,055	14.4	5.6	6.1	3.7
40-50	12,893	8.4	49,638	8,449	41,189	17.0	5.6	6.0	4.4
50-75	22,442	14.6	68,192	13,196	54,996	19.4	13.5	13.9	12.0
75-100	13,870	9.0	95,865	20,206	75,659	21.1	11.7	11.8	11.3
100-200	18,051	11.7	149,322	35,827	113,494	24.0	23.7	23.1	26.1
200-500	4,875	3.2	317,752	84,729	233,023	26.7	13.6	12.8	16.7
500-1,000	794	0.5	752,123	198,833	553,291	26.4	5.3	4.9	6.4
More than 1,000	408	0.3	3,203,897	966,274	2,237,623	30.2	11.5	10.3	15.9
All	154,170	100.0	73,696	16,080	57,616	21.8	100.0	100.0	100.0

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0305-1).

(1) Baseline is current law. Provisions include: repeal the AMT, effective 01/01/05; repeal the deduction for state and local taxes, effective 01/01/05; repeal the inclusion of state and local tax refunds in adjusted gross income, effective 01/01/06. Note

(2) Tax units with negative cash income are excluded from the lowest income class but are included in the totals. For a description of cash income, see http://www.taxpolicycenter.org/TaxModel/income.cfm

(3) Includes both filing and non-filing units. Tax units that are dependents of other taxpayers are excluded from the analysis.

(4) After-tax income is cash income less: individual income tax net of refundable credits; corporate income tax; payroll taxes (Social Security and Medicare); and estate tax.

(5) Average federal tax (includes individual and corporate income tax, payroll taxes for Social Security and Medicare, and the estate tax) as a percentage of average cash income.