

Who Itemizes Deductions?

By **Benjamin H. Harris** and
Daniel Baneman

Many taxpayers can lower their taxable income by itemizing deductions, which in turn lowers tax liability. Itemized deductions reduce tax burdens for taxpayers with decreased ability to pay taxes, such as those experiencing a catastrophic loss, or for taxpayers who spent funds on activities the tax code deems worthwhile, such as contributing to charity. In recent years, the largest itemized deductions were those for mortgage interest paid, state and local taxes paid, and charitable contributions.

Taxpayers may either claim a standard deduction or itemize deductions separately. In 2010 the standard deduction was \$5,700 for single filers and \$11,400 for married filers. More taxpayers claim the standard deduction than itemize: Tax Policy Center estimates that about 70 percent of taxpayers will claim the standard deduction on their 2010 tax returns.

Taxpayers in higher tax brackets are more likely to itemize than those in lower brackets (see table). Just 3.9 percent of taxpayers in the 0 percent bracket and 16.2 percent of taxpayers in the 10 percent bracket itemize. In sharp contrast, 70.9 percent of

taxpayers in the 33 percent bracket and 89.4 percent of taxpayers in the 35 percent bracket itemize. Almost all taxpayers on the alternative minimum tax itemize.

While taxpayers in higher brackets are more likely to itemize, most itemizers are in lower tax brackets. Nearly three-fourths of all itemizers are in either the 15 or 25 percent brackets, while just over 1 percent of itemizers are in the top two brackets.

Itemized deductions are worth more to taxpayers in higher marginal rates, because the value of a deduction is simply the deduction multiplied by the tax rate.¹ Itemization raises after-tax income by 4.4 percent for taxpayers in the top bracket and by more than 3.5 percent for those on the AMT, compared with 2.4 percent for taxpayers in the 33 and 28 percent brackets. Taxpayers in lower tax brackets benefit much less: Itemization boosts after-tax income by less than 1 percent for those in the bottom two brackets.

¹Sometimes the contribution can push a taxpayer into a lower tax bracket. In that case, the tax benefit is the *average* marginal tax rate on contributions times the contribution amount.

Itemization Characteristics and Benefits by Statutory Tax Rate, 2010

Statutory Tax Rate	Number of Tax Units (Thousands)	Percentage of Tax Units That Itemize Deductions	Distribution of Itemizers by Tax Rate (Percent)	Increase in After-Tax Income Due to Itemization (Percent) ^a
0	48,468	3.9	4.1	0.7
10	24,987	16.2	8.8	0.8
15	49,381	37.0	39.6	1.3
25	23,077	65.5	32.7	2.4
26 (AMT)	1,807	97.9	3.8	3.7
28 (regular)	2,914	79.6	5.0	2.4
28 (AMT)	2,277	98.6	4.9	3.6
33	165	70.9	0.3	2.3
35	396	89.4	0.8	4.4
All	153,472	30.1	100.0	2.1

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0509-7).

^aAfter-tax income is cash income less individual income tax net of refundable credits, corporate income tax, and payroll taxes.