

## Itemized Deductions

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### WHAT ARE ITEMIZED DEDUCTIONS?

To reduce the taxable income on a federal income tax return, a taxpayer can either take a standard deduction or itemize deductions. In 2016, the standard deduction was \$6,300 for individual filers, \$12,600 for joint returns, and \$9,300 for heads of household. The amounts are indexed annually for inflation.

[Itemized deductions include](#) state and local taxes, mortgage interest, charitable contributions, medical and dental expenses, and miscellaneous expenses such as legal fees and tuition. [The total cost](#) of itemized deductions will exceed \$250 billion in 2017. Table 1 shows some of the biggest.

### WHO ITEMIZES DEDUCTIONS?

In 2014, approximately 30 percent of taxpayers itemized deductions (44 million out of 148.6 million returns), while the rest claimed the standard deduction. Most taxpayers

This year, Congress will consider what may be the biggest tax bill in decades. This is one of a series of briefs the Tax Policy Center has prepared to help people follow the debate. Each focuses on a key tax policy issue that Congress and the Trump administration may address.

choose the standard deduction because it is larger than the deductions they can itemize. However, some do so because it is simpler or because they do not realize that itemizing would reduce their tax liability.

High-income taxpayers are more likely to itemize than other households. In 2014, more than 90 percent of households reporting adjusted gross income (AGI) over \$500,000 chose to itemize, compared to fewer than half of those with AGI between \$50,000 and \$100,000 and only 7 percent with AGI under \$30,000 (figure 1).

**TABLE 1**

## Cost of Selected Itemized Deductions

\$ billions, 2017



Deduction	Cost
Mortgage interest on owner-occupied residences	84.3
State and local income, sales, and personal property taxes	68.4
Charitable contributions	48.5
Property taxes on real property	36.9

**Source:** Joint Committee on Taxation, "Estimates of Federal Tax Expenditures for Fiscal Years 2015-2019," (JCX-141R-15), December 7, 2015, Table 1.

Some itemized deductions are limited for high-income taxpayers.

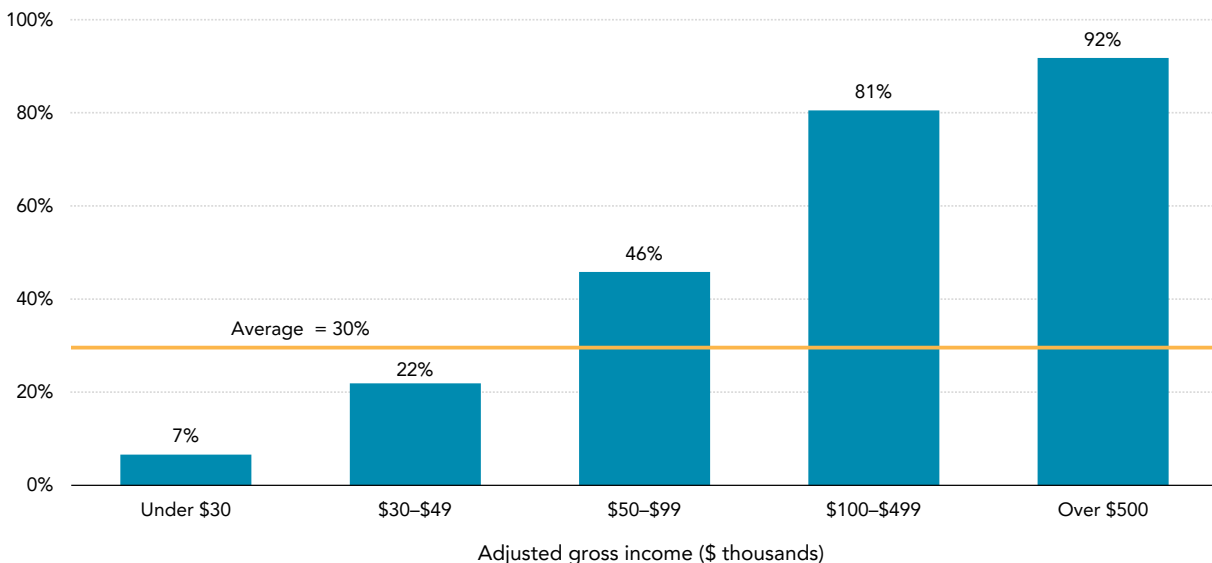
Under the limit on itemized deductions (often called "Pease" after former Ohio congressman Donald Pease), taxpayers must reduce itemized deductions by 3 percent

of every dollar of taxable income above \$259,400 for singles and \$311,300 for married couples. The phaseout is capped at 80 percent of the total value of itemized deductions. It functions much like a hidden income tax surcharge.

**FIGURE 1**

## High-Income Taxpayers Were More Likely to Itemize Deductions

Share of tax units claiming itemized deductions, 2014



**Source:** Internal Revenue Service, *SOI Tax Stats—Individual Income Tax Returns Publication 1304 (Complete Report)*, "Table 1.2: All Returns: Adjusted Gross Income, Exemptions, Deductions, and Tax Items," August 31, 2016, <https://www.irs.gov/uac/soi-tax-stats-individual-income-tax-returns-publication-1304-complete-report>.

The Pease limitation applies to common deductions such as state and local taxes, home mortgage interest, and charitable contributions. However, deductions such as medical expenses and investment interest are exempt from this phaseout.

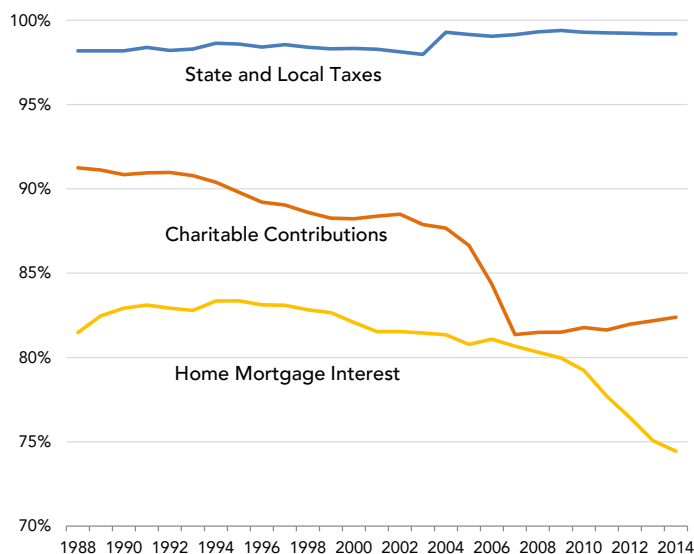
Many middle- and high-income taxpayers are subject to the Alternative Minimum Tax (AMT), which limits the benefit of some itemized deductions. The AMT is a supplemental income tax that requires many taxpayers to calculate their liability twice—once under the regular income tax and once under the AMT rules—and then pay the higher amount. Some itemized deductions, such as state and local taxes, are not allowed under the AMT. Others are limited. However, taxpayers who pay the AMT are not subject to the Pease limitation.

## WHY HAS THE SHARE OF ITEMIZERS CHANGED?

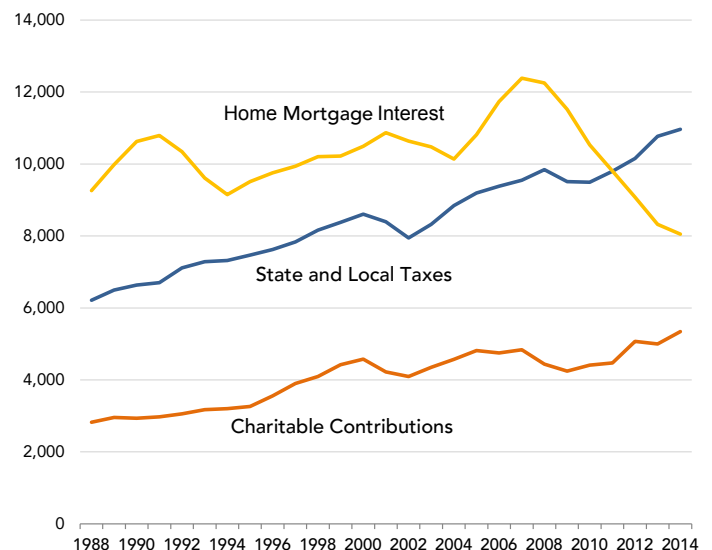
The share of returns that itemize deductions [climbed](#) from a low of 28 percent in 1994 to a peak of 36 percent in 2005 before dropping to 30 percent in 2014. A closer look at the three largest deductions—state and local taxes, home mortgage interest, and charitable contributions—helps explain why (figure 2).

- State and local taxes:** Nearly all itemizers deduct state and local taxes. A 2004 law that allowed taxpayers to deduct state and local sales taxes in lieu of income taxes slightly increased the number of itemizers taking this deduction.
- Home mortgage interest:** Before 2006, between 81 and 83 percent of itemizers deducted mortgage interest. But that share steadily dropped to a low of 74 percent in 2014, consistent with the decline in homeownership following the housing bubble collapse and falling mortgage interest rates. The amount of mortgage interest deducted by taxpayers increased sharply from 2004 to 2008 but fell through 2014 because of falling housing values and historically low mortgage rates.
- Charitable contributions:** The share of itemizers reporting charitable contributions declined from 91 percent in 1988 to 82 percent in 2014. Much of that drop occurred between 2005 and 2007, after Congress required written confirmations of cash gifts and limited deductions for donations of clothing and used vehicles.

**FIGURE 2.1**  
Returns Itemizing Selected Deductions as a Share of Total Itemizers  
1988–2014



**FIGURE 2.2**  
Average Amount Claimed of Selected Deductions (in 2009 dollars)  
1988–2014



A change in any one of these deductions could affect the overall number of itemizers. For example, a decline in home mortgage interest might be enough to discourage a taxpayer from itemizing at all. Thus, the number of taxpayers itemizing state and local taxes or charitable contributions would also decrease.

## HOW MIGHT TAX REFORM IMPACT ITEMIZED DEDUCTIONS?

Congress could limit itemized deductions in several ways:

- **Changing specific deductions:** Congress could target specific itemized deductions. For example, the tax plan proposed by House Republicans in June 2016 would repeal all itemized deductions except those for charitable contributions and home mortgage interest. This repeal would reduce the number of itemizers.
- **Capping total itemized deductions:** For example, the Trump plan would cap itemized deductions at \$100,000 for single filers and \$200,000 for joint filers. Such a cap could apply to all deductions, or only some deductions.
- **Replacing some itemized deductions with tax credits:** The Bipartisan Policy Center has recommended converting the mortgage interest and charitable deductions to 15 percent refundable credits, which would benefit lower-income taxpayers. Flat-percentage credits provide the same tax savings to all taxpayers for a given creditable expense, while deductions are worth less per dollar deducted for those in lower tax brackets.
- **Increasing the standard deduction:** A larger standard deduction would reduce the number of itemizers because fewer taxpayers would have itemizable deductions exceeding the standard deduction. The change would cut taxes for many households and reduce paperwork, but would raise the after-tax cost of activities such as charitable contributions.
- **Reducing individual tax rates:** Lowering rates would reduce the value of itemized deductions. For instance, someone in the top 39.6 percent bracket would save \$39.60 on every \$100 in itemized deductions, while someone in the 33 percent bracket would save only \$33.