# Key Elements of the U.S. Tax System

## What are itemized deductions and who claims them?



**Q. What are itemized deductions and who claims them?**

**A. Taxpayers can choose to itemize deductions on their tax returns in lieu of claiming a standard deduction. In recent years about 30 percent of taxpayers, mostly high income, have chosen to itemize, but increases in the standard deduction and limits to itemized deductions starting in 2018 will greatly reduce the number of itemizers.**

Taxpayers can either take a standard deduction or itemize their deductions to reduce the taxable income on their federal income tax return. Taxpayers typically choose to itemize when the itemized deductions they can claim are greater than the standard deduction. In recent years, about 30 percent of taxpayers chose to itemize (figure 1).

The most common itemized deductions are those for state and local taxes, mortgage interest, charitable contributions, and medical and dental expenses. The revenue cost of those four deductions was just under $240 billion in 2017 (table 1).

### THE EFFECT OF TCJA ON ITEMIZED DEDUCTIONS

The 2017 Tax Cuts and Jobs Act will significantly reduce the number of taxpayers who claim itemized deductions, because it substantially increased the standard deduction while also restricting or eliminating some itemized deductions in 2018 through 2025. The Urban-Brookings Tax Policy Center estimates that the percentage of all households that itemize (including nonfilers) will shrink from 26 percent in 2017 to about 10 percent in 2018.

These changes also will substantially lower the revenue cost of all itemized deductions because fewer taxpayers will claim them and, in some cases, the amount they claim will fall. The revenue cost of the four largest deductions is estimated to fall by about $100 billion (table 1).

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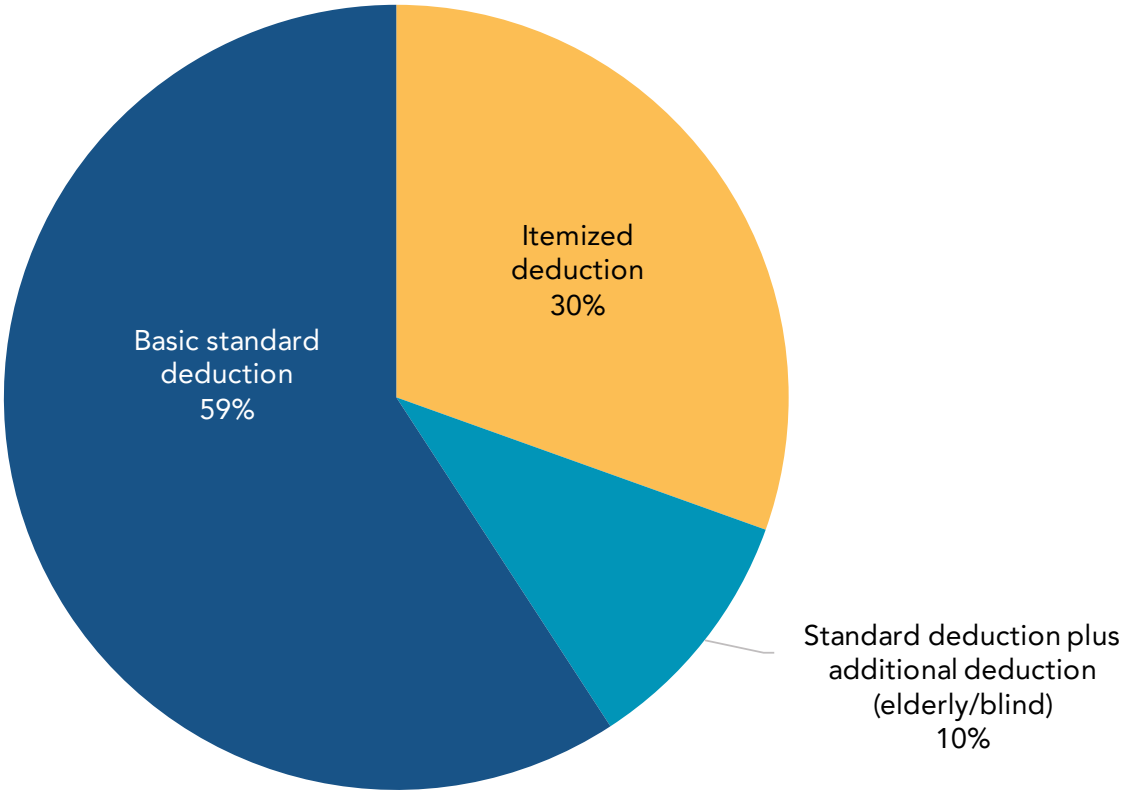
FIGURE 1

### Returns by Type of Deduction, Tax Year 2016




**Source**: Internal Revenue Service. Statistics of Income. Table A. "Selected Income and Tax Items for Selected Years (in Current and Constant Dollars)," Tax Year 2016.

TABLE 1

### Cost of Selected Itemized Deductions

Billions of dollars

| Tax expenditure | FY 2017 | FY 2018 |
|---|---|---|
| Deduction for all nonbusiness state and local taxes | $100.9 | $36.6 |
| Deduction for mortgage interest on owner-occupied residences | $66.4 | $40.7 |
| Deduction for charitable contributions | $57.0 | $54.3 |
| Deduction for medical expenses and long-term care expenses | $13.8 | $10.5 |

**Source:** Joint Committee on Taxation (2018).

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### WHO ITEMIZES?

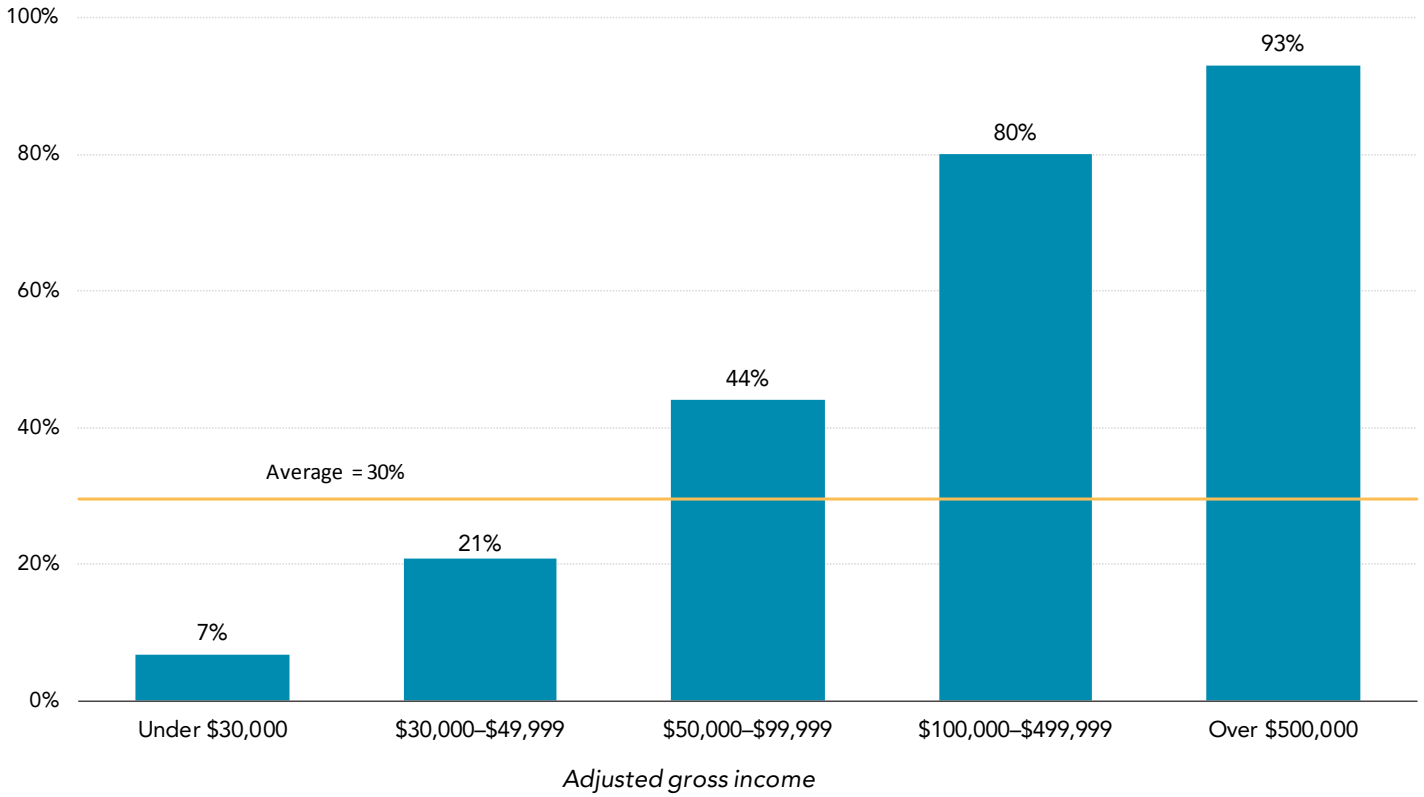
The following sections present 2016 Internal Revenue Service data reporting the percentage of taxpayers who itemized and the type and amount of itemized deductions they claimed. The changes made by the Tax Cuts and Jobs Act will significantly affect comparable estimates for 2018.

High-income taxpayers are much more likely to itemize. In 2016, more than 90 percent of tax returns reporting adjusted gross income (AGI) over $500,000 itemized deductions, compared with under half of those with AGI between $50,000 and $100,000 and less than 10 percent of those with AGI under $30,000 (figure 2).

FIGURE 2

**Distribution of Returns Claiming Itemized Deductions**

Share of All Returns in AGI Class, Tax Year 2016




**Source:** Internal Revenue Service. Statistics of Income. Table 1.2. "All Returns: Adjusted Gross Income, Exemptions, Deductions, and Tax Items, by Size of Adjusted Gross Income and by Marital Status," Tax Year 2016.

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### WHAT EXPENSES DO ITEMIZERS DEDUCT?

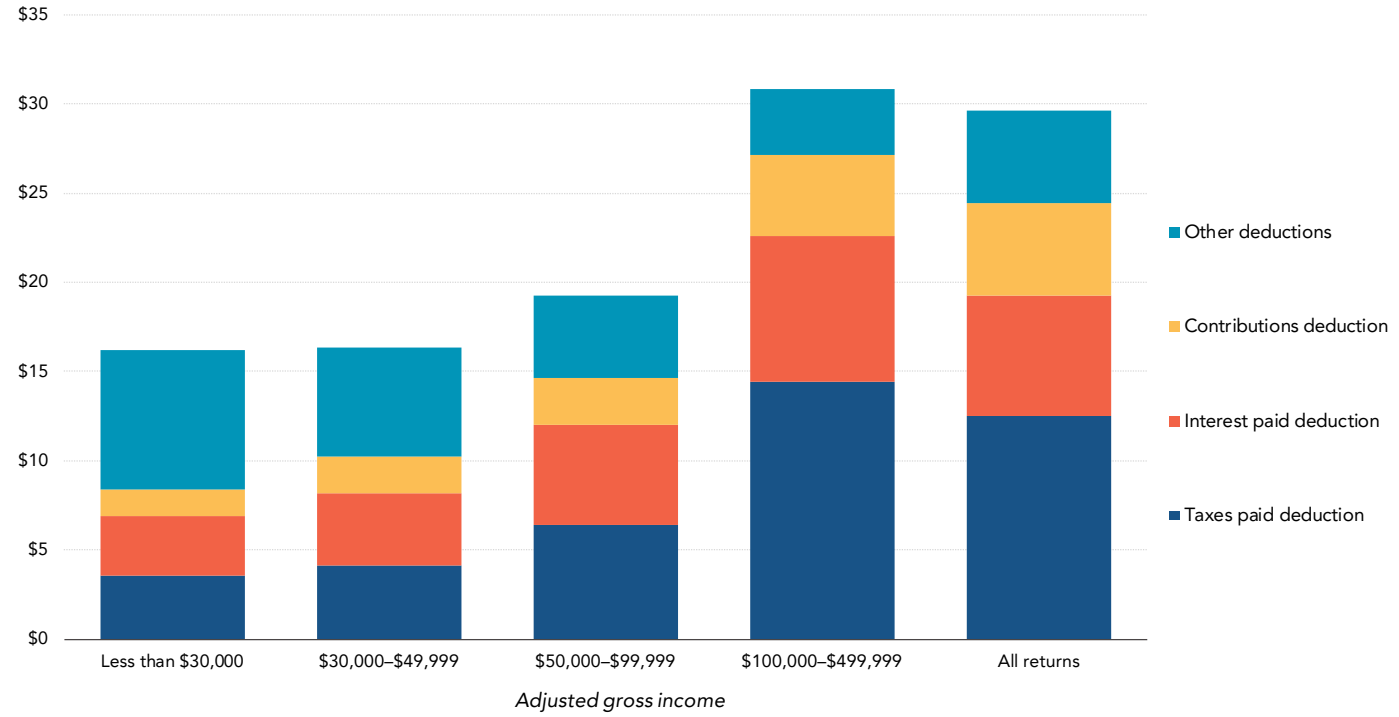
Itemized deductions averaged about $28,600 in 2016 for the 45 million tax units claiming them. The amount claimed rises with income, from about $16,000 for taxpayers with AGI under $50,000, to under $19,000 for those with AGI between $50,000 and $100,000, to over $30,000 for those with AGI between $100,000 and $500,000, to more than $206,000 for those with AGI over $500,000 (figure 3).

State and local taxes accounted for over 40 percent of average itemized deductions in 2016, or about $12,500. The mortgage and other interest deductions made up another 23 percent, averaging about $6,800. Charitable contributions and miscellaneous deductions averaged about $5,200 each, or about 18 percent of total itemized deductions (figure 3).

FIGURE 3

Average Itemized Deductions by Type and Adjusted Gross Income (AGI)

Thousands of dollars, tax year 2016




**Source:** Internal Revenue Service. Statistics of Income. Basic Tables: Exemptions and Itemized Deductions. Table 2.1. "Returns with Itemized Deductions: Sources of Income, Adjustments, Itemized Deductions by Type, Exemptions, and Tax Items by Size of Adjusted Gross Income," Tax Year 2016.
**Note:** This figure omits the "over $500,000" AGI class due to scaling; average of total deductions for those with AGI over $500,000 exceeds $200,000.

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### HOW HAS THE SHARE OF ITEMIZERS CHANGED OVER TIME?

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 2016. A closer look at the three largest deductions—state and local taxes, home mortgage interest, and charitable contributions—helps explain why (figure 4.1).

- **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 73 percent in 2016, 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 2016 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 2016. 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.

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.

FIGURE 4.1

Returns Itemizing Selected Deductions

Share of All Itemizers, 1988–2016

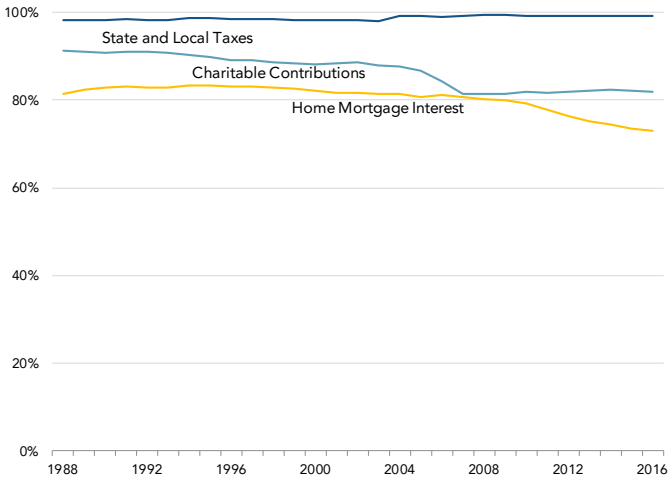
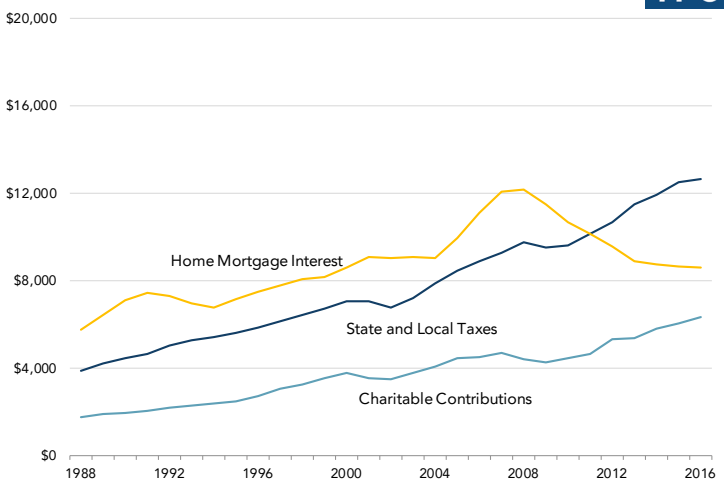



FIGURE 4.2

Average Amount Claimed of Selected Deductions

2016 dollars, 1988–2016




**Source:** Internal Revenue Service. Statistics of Income. Basic Tables: Exemptions and Itemized Deductions. Table 2.1. "Returns with Itemized Deductions: Sources of Income, Adjustments, Itemized Deductions by Type, Exemptions, and Tax Items by Size of Adjusted Gross Income," Tax Year 2016.

**Note**: Real amounts are calculated using GDP deflators (Federal Reserve Bank of St. Louis, "Gross Domestic Product: Implicit Price Deflator," https://fred.stlouisfed.org/series/GDPDEF#0).

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### Data Sources

Federal Reserve Bank of St. Louis. "Gross Domestic Product: Implicit Price Deflator."

Internal Revenue Service. *Statistics of Income*. Table A. "Selected Income and Tax Items for Selected Years (in Current and Constant Dollars)," Tax Year 2016; Individual Income Tax Returns. Table 1.2. "All Returns: Adjusted Gross Income, Exemptions, Deductions, and Tax Items, by Size of Adjusted Gross Income and by Marital Status," Tax Year 2016; Table 1.3. "All Returns: Sources of Income, Adjustments, Deductions, Credits, and Tax Items, by Marital Status," Tax Year 2016; and Basic Tables: Exemptions and Itemized Deductions. Table 2.1. "Returns with Itemized Deductions: Sources of Income, Adjustments, Itemized Deductions by Type, Exemptions, and Tax Items by Size of Adjusted Gross Income," Tax Year 2016.

Urban-Brookings Tax Policy Center. *Statistics*. "Personal Exemption and Standard Deduction: 2001–2017."

### Further Reading

Joint Committee on Taxation. 2001. *Study of the Overall State of the Federal Tax System and Recommendations for Simplification, Pursuant to Section 8022(3)(B) of the Internal Revenue Code Of 1986*, vol. 2. JCS-3-01. Washington, DC: Joint Committee on Taxation. (especially individual income tax proposals 5, 6, 7, and 10)

———. 2007. "Selected Data Related to the Federal Tax System." JCX-11-07. Washington, DC: Joint Committee on Taxation. (especially tables 6, 7, and 8)

———. 2011. "Present Law and Historical Overview of the Federal Tax System." JCX-1-11. Washington, DC: Joint Committee on Taxation.

———. 2018. "Estimates of Federal Tax Expenditures for Fiscal Years 2017–2021." JCX-34-18. Washington, DC: Joint Committee on Taxation.

President's Advisory Panel on Federal Tax Reform. 2005. *Simple, Fair, and Pro-Growth: Proposals to Fix America's Tax System*. Washington, DC: President's Advisory Panel on Tax Reform. (especially chapters 3 and 5)