

FACT SHEET: State and Local Tax Deduction

Office of Senator Maria Cantwell

State and Local Tax Deduction

Middle class families across Washington state and across the country use the state and local tax deduction taxpayers to deduct their state income taxes, sales taxes, real estate taxes, and property taxes.

In 2015, 44 million Americans claimed the state and local tax deduction. The state and local tax deduction is claimed by 30 percent of taxpayers and is more widely used than both the mortgage interest deduction (21 percent) and the charitable donation deduction (15 percent).¹

President Trump's plan eliminates this deduction to offset larger tax cuts for large corporations and the wealthy.

The state and local tax deduction is a middle class tax break. According to IRS data, 86 percent of taxpayers claiming the state and local deduction make under \$200,000 and 56 percent of taxpayers claiming the deduction make under \$100,000.

Repealing this deduction would make it harder to purchase a home put pressure on states and towns to collect revenues they depend on to fund schools, roads, and vital public resources.

Washington State Impact

According to the IRS, 1 million Washington households, deduct their state and local taxes with an average deduction of \$7,402 in 2015. In total, the deduction helped Washington state taxpayers deduct \$7 billion from their federal income taxes.

The state and local sales tax deduction alone provides an average of \$600 back to Washington state taxpayers.²

Without this important deduction, many families will find it harder to purchase larger items or have less money to spend on essentials like school supplies and groceries.

Impact of Repealing the State and Local Tax Deduction on Washington State Families³

- *Seattle*: Family of four earning \$56,605 would face an increase of \$1,677.04
- *Spokane*: Individual taxpayer earning \$63,314 would face an increase of \$2,511.60
- *Vancouver*: Family of four earning \$68,000 would see a tax increase of \$2,269.82
- *Yakima*: Individual taxpayer earning \$52,400 would see a tax increase of \$1,311.36

¹ Government Finance Officers Association, [Impact of Eliminating the State and Local Tax Deduction](#)

² Pew Trusts, [State Impact of Expired State and Local Sales Tax Deduction](#)

³ Americans Against Double Taxation/GOFA, [Tax Calculator](#)

State and Local Tax Deduction By Washington State Congressional District

Cong. District	Percent of Taxpayers Claiming Deduction	Total Tax Filers	Taxpayers Claiming Deduction	Average State and Local Tax Deduction
1 (DelBene)	33.31%	462,057	153,917	\$7,606
2 (Larsen)	31.88%	245,547	78,292	\$6,301
3 (Herrera Beutler)	30.13%	374,345	112,805	\$6,901
4 (Newhouse)	19.13%	314,550	60,175	\$5,318
5 (McMorris Rodgers)	23.23%	293,315	68,145	\$5,702
6 (Kilmer)	29.46%	308,730	90,938	\$6,238
7 (Jayapal)	34.50%	384,647	132,722	\$7,867
8 (Reichert)	31.75%	424,760	134,883	\$7,840
9 (Smith)	33.30%	361,085	120,243	\$8,074
10 (Heck)	29.77%	173,735	51,723	\$6,048

Property Taxes/Impact on Housing

The ability to deduct both local property taxes and mortgage interest has been a strong incentive for home ownership.

Accord to the Government Finance Officers Association, over 60% of the state and local deductions for taxpayers earning less than \$50,000 comes from property taxes. This highlights how important the property tax deduction is to middle class homeownership.

Home prices have been set assuming the deductibility of state and local taxes. Any increase from repealing the state and local tax deduction would drive significant changes in the housing market.

Eliminating this deduction would harm home prices and disrupt industries that depend on a strong housing economy.⁴

A report from Price Waterhouse Coopers and the National Association of Realtors found that more than 40 million taxpayers deduct their property taxes as part of the state and local tax deduction, 70 percent of which fall in the middle income category.⁵

The report also found a number of homeowners would see their taxes increase as part of the Republican tax reform plan. The report found a family earning between \$50,000 and \$75,000 with a mortgage balance between \$100,000 and \$500,000 will see a tax increase of \$2,500 under the Republican tax plan.⁶

⁴ Government Finance Office Association, [The Impact of Eliminating State and Local Tax Deduction](#)

⁵ National Association of Realtors, [Impact of Tax Reform Options on Owner Occupied Housing](#)

⁶ National Association of Realtors, [Impact of Tax Reform Options on Owner Occupied Housing](#)

State Sales Tax Deductibility

Washington state taxpayers were allowed to deduct their sales taxes up until 1986.

In 1986, the Tax Reform Act eliminated the deduction for sales taxes, but kept in place the deduction for state income taxes and property taxes.

From 1986 to 2003, Washington state taxpayers were not able to deduct their state sales taxes, but taxpayers from states with an income tax were allowed to deduct their state income taxes.

In 2004, the state sales tax deduction was temporarily reinstated for 2004 – 2006. It was then temporarily extended five more times (2006, 2008, 2010, 2013, 2014).

At the end of 2015, Senator Cantwell ensured tax fairness for Washingtonians by making the sales tax deduction a permanent part of the tax code.

National State and Local Tax Deduction Impact by Income Level

Income Level	Percentage of Taxpayers Claiming Deduction	Average State and Local Tax Deduction	Average Tax Increase if Eliminated
\$50,000 to \$75,000	38%	\$5,500	\$825
\$75,000 to \$100,000	53%	\$7,246	\$1,811
\$100,000 to \$200,000	76%	\$11,102	\$2,868

Impact of Local Government

This tax deduction helps state and local governments raise revenue for vital services such as schools, hospitals, firefighters, and police officers.

Eliminating this deduction would put a strain on state and local budgets and would force state and local governments to potentially increase taxes or cut spending by \$135 billion a year.⁷

Washington state's general fund spends half its money on education and invests heavily in health and hospital care, veterans affairs, and corrections programs.⁸ Repealing the deduction would inevitably lead to cuts in critical state and local services.

Prevent Double Taxation

The state and local tax deduction is designed to ensure taxpayers are not double taxed on their income by both the federal and state and local governments.

Both working families and businesses currently benefit from the deduction for state and local taxes. The current Republican plan would preserve deductions for businesses that prevent double taxation, but would eliminate the state and local deduction for families.

⁷ Tax Policy Center, [Revisiting the State and Local Tax Deduction](#)

⁸ National Association of Budget Offices, [Summaries of FY2018 Budgets](#)