“Writing Off” Tax Giveaways

How States Can Help Balance Their Budgets By Reforming or Repealing Itemized Deductions

August 2010

INSTITUTE ON TAXATION AND ECONOMIC POLICY

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About ITEP

Founded in 1980, the Institute on Taxation and Economic Policy (ITEP) is a non-profit, non-partisan research organization, based in Washington, DC, that focuses on federal and state tax policy. ITEP's mission is to inform policymakers and the public of the effects of current and proposed tax policies on tax fairness, government budgets, and sound economic policy. Among its many publications on state and local tax policy are *Who Pays? A Distributional Analysis of the Tax Systems in All 50 States* and *The ITEP Guide to Fair State and Local Taxes.* ITEP's full body of research is available at www.itepnet.org.

EXECUTIVE SUMMARY

- Every state that currently allows itemized deductions could enact progressive tax reforms that would raise needed revenues without imposing tax increases on the low- and middle-income families hit hardest by the continuing economic downturn. **This report estimates the yield and tax fairness impact of five different approaches to itemized deduction reform each of which could raise significant revenue to fund vital public services.**

- In 2010, thirty one states and the District of Columbia allow a group of income tax breaks known as "itemized deductions." Itemized deductions are designed to help defray a wide variety of personal expenditures that affect a taxpayer's ability to pay taxes, including charitable contributions, extraordinary medical expenses, mortgage interest payments and state and local taxes.

- Itemized deductions cost states billions of dollars a year while providing little or no benefit to the middle- and low-income families hit hardest by the current economic downturn. The biggest benefits are reserved for the upper-income families who arguably need them the least.

- Federal tax changes enacted during the presidency of George W. Bush have gradually made itemized deductions even more unfair and expensive over the last five years, by repealing a provision that reduces some itemized deductions for upper-income taxpayers. These tax cuts for the best-off Americans have been automatically passed through to almost every state that offers itemized deductions, cutting taxes on each state's wealthiest residents at a time when states face unprecedented budget challenges.

- In recent years, lawmakers in a number of states have ratified bold reforms that phase out or outright repeal itemized deductions. Other states have capped the value of some deductions or converted them into credits—making these tax breaks less unfair and broadening the state's income tax base.

- Lawmakers seeking to enact progressive revenue-raisers without dramatically restructuring state tax laws could also enact less ambitious, lower-yield reform strategies such as "decoupling" from the recent federal tax cuts for itemizers.

Introduction

Itemized deductions are under fire. With the recent passage of a major income tax restructuring in Rhode Island, half a dozen states have recently passed legislation to pare back, or outright repeal, upper-income tax breaks for everything from charitable contributions to mortgage interest. These important reforms are making state tax systems fairer and more sustainable at a time when they are badly in need of such changes: itemized deductions are costly, "upside-down" subsidies for the best-off taxpayers, offering little or no benefit for many low- and middle-income families.

This trend is especially welcome because for most states, the already-unfair impact of itemized deductions has gotten even worse in the past year due to a feature of the Bush tax cuts which increases the itemized deductions available to the best-off taxpayers. In almost every state that offers itemized deductions, this federal tax cut has been passed through directly to state tax laws, reducing state income tax collections at a time when states can ill afford any revenue loss. In the many states that currently allow itemized deductions, lawmakers can take a simple step to "decouple" from these unfair federal tax cuts—but can also take the more aggressive steps pioneered by Rhode Island and other states in recent years.

This paper discusses the rationale for the various itemized deductions currently provided by most states, surveys recent legislative activity at the state level designed to restructure itemized deductions in a fairer way, and estimates the impact of potential reform options in each of the states that currently allow itemized deductions. Appendices to the report provide detailed state-by-state estimates of the impact of these reform proposals and describe the methodology used to derive those estimates.

What are itemized deductions?

Itemized deductions are the collective name for a motley group of about a dozen separate personal income tax deductions available on federal tax forms and in most states. Itemized deductions are allowed for various categories of personal expenditures, including charitable contributions, mortgage interest payments, extraordinary medical expenses and taxes paid to state and local governments. These special deductions were, in general, created in the belief that each of these types of expenditures reduce a taxpayer's ability to pay taxes.

Federal tax law also provides a basic "standard deduction," available to all individuals and families, to shelter a baseline level of income from tax. In 2010, the federal standard deduction for a non-elderly married couple is $11,400-- which means that a family whose potential itemized deductions are less than this basic amount can choose to simply claim the standard deduction. Families whose potentially-deductible expenses add up to more than the basic standard deduction can choose to itemize instead. In many states, taxpayers choose whichever is larger, the standard or itemized deduction, however in other states, taxpayers must take the same deduction that was taken on their federal returns. Low-income families typically don't have enough expenditures on potentially deductible items to make itemizing worthwhile. And among middle- and upper-income taxpayers, it's typically expenses related to homeownership (mortgage interest and property taxes) that make itemizing worthwhile.

Itemized deductions are also offered as a way of encouraging certain types of behavior. For example, on the federal income tax return:

- Charitable contributions are deductible to encourage charitable giving, and because people who give to charities have less money left over with which to pay income taxes.
- Mortgage interest paid by homeowners is deductible to encourage home ownership, and because the interest paid on mortgages is one of the principal costs associated with owning a home.
- State and local income and property taxes are deductible at the federal level because families that pay a lot in those taxes have less ability to pay federal income taxes than those who pay little. Sales and excise taxes are generally not deductible, however.[1]
- Very large medical expenses are deductible to reflect taxpayers' reduced ability to pay taxes under adverse medical circumstances. At the federal level and in most states, medical expenses exceeding 7.5 percent of a taxpayer's income are deductible.[2]

Itemized deductions make income taxes less fair

Fig 1: Itemized Deductions Are Regressive

Income Group	Mortgage Interest	Federal Tax Rate	Tax Break from Itemizing
Middle-Income	$10,000	15%	$1,500
Upper-Income	$10,000	35%	$3,500

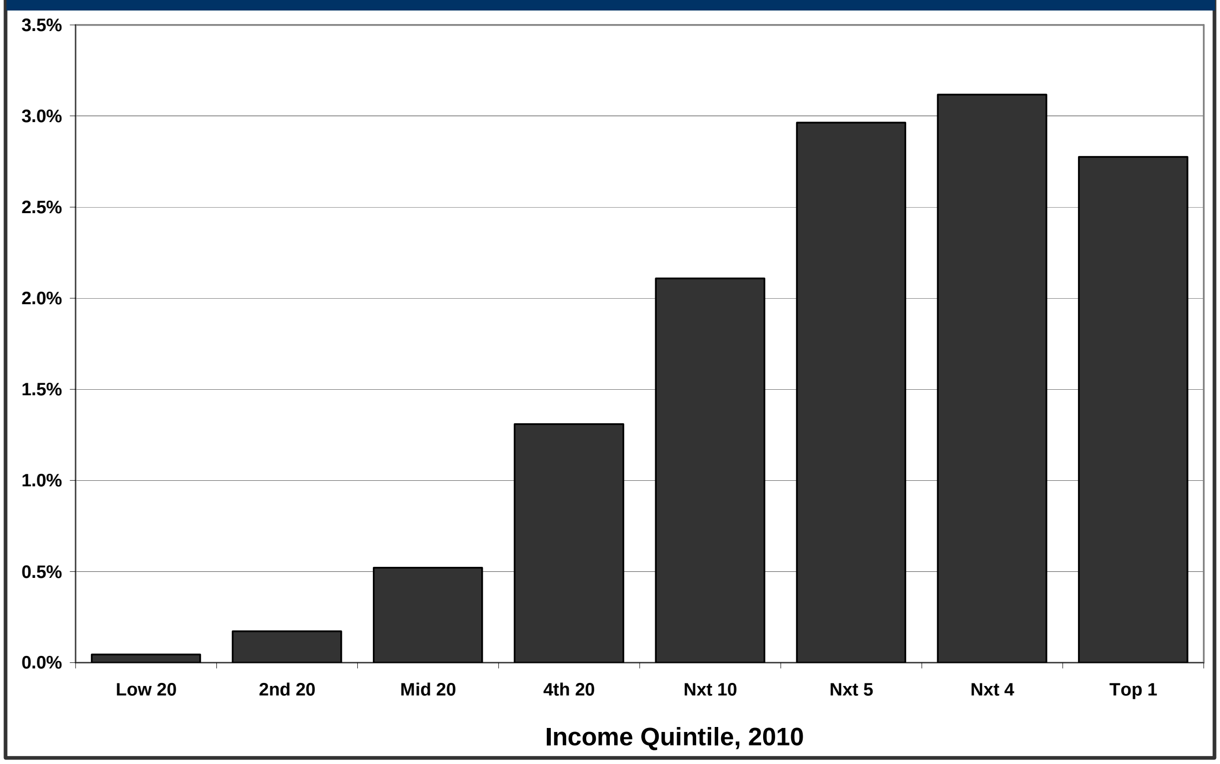
Each of the itemized deductions allowed by states are frequently defended as an important means of offsetting large household expenses that reduce a family's ability to pay taxes. But because low-income families rarely have potentially deductible expenses that exceed the basic standard deduction amount, the ability to itemize offers little or no tax cuts to fixed-income families. And, because itemized deductions are structured as deductions from taxable income, they typically provide much larger tax breaks to the best-off families than to middle-income taxpayers. This is because the tax cut you get from an itemized deduction depends on your federal income tax rate: imagine two New York families, each of which has $10,000 in mortgage interest payments that they include in their itemized deductions (**Figure 1**). If the first family is a middle-income family paying at the 15 percent

[1] Federal legislation enacted in 2004 allows a temporary deduction for sales taxes, but taxpayers claiming the deduction cannot write off their state income taxes—which means that this temporary deduction is generally only useful for residents of non-income tax states.
[2] Federal health care reform legislation enacted in 2010 will increase this threshold from 7.5 percent to 10 percent in 2013 for most taxpayers.

federal tax rate, the most they can expect is a $1,500 federal tax cut from this deduction ($10,000 times 15 percent). But if the second family is much wealthier and pays at the 35 percent top rate, they could expect a tax cut of up to $3,500 from this deduction, even though they spent exactly the same amount on mortgage interest as the first family.[3] It is unlikely that a lawmaker would ever propose a direct spending program designed to make home-ownership more affordable that excluded low-income families entirely and gave the biggest subsidies to the richest families—yet that is the inexorable impact of itemized deductions.

Figure 2 shows how the ability to itemize deductions affects Americans at each income level in 2010. Low-income families, who virtually never earn enough to itemize, receive little benefit from these tax breaks[4]; Americans in the middle 20 percent of the income distribution received a tax cut averaging $210 while upper-income families enjoyed substantially larger tax cuts. The very best-off Americans saw slightly smaller tax cuts, as a share of income, because itemized deductions represent a smaller share of income for the best-off families and because many of these taxpayers had some itemized deductions disallowed through the federal Alternative Minimum Tax (AMT).

Figure 2: Federal Tax Benefits from Itemized Deductions in 2010
As % of Income, by Income Quintile



[3] The federal Alternative Minimum Tax disallows certain itemized deductions, so for some upper-income families the tax benefit of these deductions is somewhat reduced.
[4] Most low-income families, and many middle-income taxpayers, claim the standard deduction.

Because state income taxes are typically less progressive than the federal income tax, the "upside-down" nature of itemized deductions is less pronounced at the state level—but these deductions still make income taxes less fair in every state that allows them. This is especially problematic because the personal income tax is the only major progressive option for states. ITEP's recent study, *Who Pays? A Distributional Analysis of the Tax Systems in All 50 States*, found that nearly every state and local tax system takes a much greater share of income from middle- and low-income families than from the wealthy. That is, when all state and local income, sales, excise and property taxes are added up, most state tax systems are regressive. Reforming itemized deductions would not only raise needed state revenues, but would also make state tax systems fairer and more sustainable.

Which States Allow Itemized Deductions in 2010?

Thirty one states and the District of Columbia allow itemized deductions patterned after federal rules in tax year 2010 (Figure 3).[5] 27 states closely follow federal guidelines for itemized deductions (with the exception of the federal deduction for state income taxes paid, which most states have sensibly chosen to disallow). Four other states use the same federal guidelines, but impose their own limits on some (or all) of these deductions. In general, these 31 states allow the same categories of itemized deductions that are claimed by their residents on federal returns. Ten states either do not allow any itemized deductions (or standard deduction) or only allow a very narrow set of deductions, and therefore, they were not included in the report. The remaining nine states do not have a broad-based state income tax.

Fig. 3: State Treatment of Federal Itemized Deductions- Tax Year 2010
27 States and DC Generally Follow Federal Rules for Itemized Deductions*
Alabama, Arizona, Arkansas, Colorado, Delaware, District of Columbia, Georgia, Hawaii, Idaho, Iowa, Kansas, Kentucky, Louisiana, Maine, Maryland, Minnesota, Mississippi, Missouri, Montana, Nebraska, New Mexico, North Carolina, North Dakota, Oklahoma, Oregon, South Carolina, Vermont & Virginia
** Before 2010, Hawaii had a separate phaseout, however, it was directly linked to federal Pease rules and does not exist in 2010.*
4 States Follow Federal Rules for Itemized Deductions, but limit them Using 1 or More of ITEP's Suggested Reform Options
California, New York, Utah & Wisconsin
10 States Do Not Allow Any Itemized Deductions**
Connecticut, Illinois, Indiana, Massachusetts, Michigan, New Jersey, Ohio, Pennsylvania, Rhode Island, & West Virginia
*** Itemized Deductions were repealed in Rhode Island starting Tax Year 2011.*
9 States Do Not Have a Broad-Based State Income Tax
Alaska, Florida, Nevada, New Hampshire, South Dakota, Tennessee, Texas, Washington & Wyoming

Sources: Individual state Department of Revenue websites and *Individual Income Tax Provisions in the States*, Wisconsin Legislative Fiscal Bureau, January 2009

[5] This count excludes Rhode Island, where itemized deductions will no longer be allowed starting in 2011.

How States Impose Limits on Itemized Deductions in 2010

States have enacted a wide variety of reforms to limit the cost and unfairness of itemized deductions. These range from low-yield "phaseouts" of certain itemized deductions for a small number of the best-off taxpayers to outright repeal of all itemized deductions. This section provides a brief overview of these strategies.

Phaseout Based on Federal Rules: The approach most commonly used by states in the past decade imposes a partial phaseout of these tax breaks for the best-off families. As recently as 2009, almost every state allowing itemized deductions used this mechanism to enhance tax fairness. This phaseout was, in general, based on a federal law that reduces the benefit of some (but not all) itemized deductions for upper-income taxpayers.

Before the Bush tax cuts gradually repealed this federal law, known as the "Pease" provision in honor of its original Congressional sponsor, it worked like this: a taxpayer's itemized deductions were split into two groups, only one of which could be disallowed. (This was done because certain deductions are viewed as more vital than others.) Disallowable deductions included state and local taxes, mortgage interest, and charitable contributions. By contrast, deductions for medical expenses and casualty/theft loss could not be disallowed. Taxpayers whose federal Adjusted Gross Income (AGI) exceeded a certain amount ($166,000 in 2009 for most taxpayers) would lose 3 cents of their disallowable itemized deductions for each dollar of AGI in excess of these limits. The impact of this phaseout was limited by a rule that said no taxpayer could lose more than 80 percent of their otherwise disallowable itemized deductions in this way.

The Bush tax cuts are most widely known for reducing the income tax rates on capital gains, repealing the estate tax and cutting the top income tax rate to 35 percent. But they also quietly repealed the Pease disallowance gradually between 2006 and 2009, with full repeal coming into effect for the first time in 2010. When the first round of the Bush tax cuts were enacted in 2001, almost every state with itemized deductions had adopted the federal Pease disallowance as well—which meant that almost every one of these states would see their version of the Pease tax cut go away over time as well. As a result, when state residents file their 2010 tax forms next April, they will face a set of itemized deduction rules that are more tilted toward the best-off taxpayers than at any time in the last decade: **every state that follows the federal Pease disallowance rules will have no itemized deduction disallowance at all in 2010**.[6]

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[6] Technically, the Bush tax cuts are set to expire in calendar year 2011—which means that the Pease provision will be re-introduced starting next January. But tax writers in Congress have shown little appetite for repealing the Bush tax cuts, and in particular have shown little interest in bringing back the Pease provision.

Separate Phaseouts: Not all states are affected by the disappearing federal Pease rules: a few states have chosen to enact their own itemized deduction phaseouts that are similar in design to the now-expired federal phaseout, but that have different starting points. For example:

- California's tax law includes a phaseout that starts at a much higher income level than the federal Pease rule-- $321,000 in 2009, compared to $166,000 in the states following federal rules—but that phases out the deduction twice as fast as federal law (6 cents per dollar of excess income instead of the federal 3 cents) for those subject to the disallowance.
- Since 1987, New York has had an additional phaseout on top of the federal disallowance rules which phases in over the AGI range of $475,000 to $525,000. As of 2009, disallowable itemized deductions (other than the charitable contribution deduction) are entirely phased out for New Yorkers with adjusted gross incomes of $1 million or more.

Tax Credit in Lieu of Deduction: A small number of states have chosen to make the itemized deduction option less unfair by converting it into a tax credit. For example, Wisconsin allows taxpayers to claim a tax credit equal to 5 percent of selected federal itemized deductions. This is a straightforward way of ensuring that the value of the credit is the same for middle-income families as for upper-income taxpayers: in the example on page three, both families with $10,000 in mortgage interest payments would receive the same $50 tax credit (that is, 5 percent of $10,000) in Wisconsin in 2010.

Utah allows a similar credit equal to 6 percent of the greater of either the federal standard deduction or itemized deductions (the credit also includes the personal exemption), but this credit is completely phased out at higher income levels (see Appendix I). Legislation enacted by the Maine legislature, but rejected in June by Maine voters, would have repealed all itemized deductions and created a credit based on just one of these deductions—the charitable contributions deduction.

Capping Deductions: A few states have chosen to put dollar limits on the value of specific itemized deductions—or on the total amount of all itemized deductions. Hawaii lawmakers recently passed a law that caps the aggregate amount of itemized deductions that can be claimed by upper-income taxpayers at $50,000 for married couples and $25,000 for single taxpayers; however, Governor Linda Lingle vetoed the bill.

New York and Vermont recently took narrower approaches to capping deductions. In 2009, New York lawmakers capped the charitable contribution deduction at a maximum of 50 percent of the federal deduction for taxpayers with adjusted gross incomes of $1 million or more. For tax years 2010-2012, New Yorkers with adjusted gross income of $10 million or more will have their charitable contributions deduction capped at 25 percent of the federal deduction. Starting in 2009 in Vermont, a given taxpayer can only claim the state income tax deduction for the first $5,000 of state income tax liability.

Outright repeal: The most all-encompassing reform strategy used by states is to repeal itemized deductions entirely. Six states have never followed the federal itemized deduction rules. In 2010, Rhode Island enacted personal income tax reforms that repeal itemized deductions entirely. Notably, Rhode Island lawmakers also increased the standard deduction significantly to hold low- and moderate-income taxpayers harmless from the change. The standard deduction is fully phased out for upper-income taxpayers.

The Neverending Deduction:
State Tax Writeoffs for State Income Taxes

As previously noted, virtually every state allowing itemized deductions uses federal itemized deductions as a starting point for administrative convenience. But because these federal deductions include state income taxes—and because there is no clear rationale for allowing a state income tax deduction to reduce the state income tax itself—most states require resident itemizers to add back any state income tax deduction in calculating their itemized deductions for state purposes. Oddly, half a dozen states have not adopted this simple addback rule. Each of these states – Arizona, Georgia, Hawaii, Louisiana, Oklahoma, and Vermont—could make their itemized deductions fairer (and less dizzying) by making this change. Most recently, New Mexico adopted this addback in a February 2010 special legislative session.

Options for Reforming Itemized Deductions

Each of the reforms discussed above could play a positive role in making state tax systems fairer and more sustainable. This section describes the details of five specific options for itemized deduction reform that are based on these existing reforms, and the appendix which follows presents state-by-state revenue estimates and details for each option.

The baseline against which these tax changes are measured in this report assumes that the current state of the federal Pease disallowance—repealed in tax year 2010—will be made permanent for years after 2010. Because most of the states discussed here have incorporated the federal Pease disallowance into their income tax laws, and because federal law currently provides that the Pease disallowance will be restored in tax year 2011 with the expiration of the Bush tax cuts, there is a possibility that the revenue yield of reforming deductions will be less than the estimates presented here.[7]

[7] All reform options presented here assume states will continue to follow their current rules in regards to the choice between taking standard and itemized deductions. This is of importance mainly in those states where taxpayers are required to itemize if they did so on their federal returns. Under current law in these states, some taxpayers are being forced to take an itemized deduction that is actually smaller than the standard deduction. Some of the report's reform options slightly enlarge

Option 1: Repealing Itemized Deductions Entirely-The Rhode Island Approach

The most comprehensive reform approach available to states is simply to repeal all itemized deductions, a step taken this year by the Rhode Island legislature. This option clearly does more to increase state income tax revenues and broaden the income tax base than any of the partial reform options discussed so far.

There are, however, caveats to this approach. In states with especially low standard deductions, a large majority of state taxpayers may currently claim the itemized deduction—which means that a reform that simply repeals all itemized deductions would have some impact on many middle-income families. This is one reason why the Rhode Island law enacted earlier this year also increased the basic standard deduction to $15,000 for married couples ($7,500 for single taxpayers).

Option 1 shows the impact in each state in 2010 of a reform that takes two steps: repealing all itemized deductions and increasing the basic standard deduction. In each state, this option was tailored to yield a state income tax increase of about 4 percent of current revenues. This approach generally results in small tax cuts for many lower- and middle-income families, while still raising income tax collections overall. For example, in Minnesota more than half of the state's taxpayers would receive a tax cut from repealing itemized deductions and increasing the standard deduction, yet it still would raise an estimated $270 million a year.

Option 2: Capping the Total Value of Itemized Deductions

Itemized deductions typically have no caps—so the well-off taxpayers who have the largest mortgages, for example, are able to use these deductions to an extent that is unavailable to lower- and middle-income taxpayers. States can pare back deductions for the best-off taxpayers by limiting the total amount of itemized deductions of all kinds that can be claimed.

Option 2 shows the impact of capping itemized deductions at $40,000 for married couples ($20,000 for singles) in 2010. Overall, state income tax revenues would typically increase by more than three percent under option 2. In general, this approach would increase state taxes for less than five percent of a state's residents. For example, enacting option 2 in Alabama would raise state income tax revenue by approximately 3.6 percent and would impact 4 percent of the state's taxpayers.

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this problem. These states could consider ending these requirements as part of itemized deduction reform, though doing so would slightly reduce the revenue yield of reform.

Option 3: Converting Itemized Deductions to Credits

As previously noted, one important reason for the "upside-down" nature of itemized deductions is that they give bigger benefits to the upper-income taxpayers who pay at higher marginal tax rates. (This upside-down impact is, of course, bigger in states with more graduated income tax rate structures, and is minimal in states with flat-rate income taxes.) Converting the deduction to a credit, as Utah and Wisconsin have done, is one way to ensure that the tax impact of itemized deductions depends more directly on the amount of deductions you claim—not on your marginal income tax rate.

Option 3 converts each state's itemized and standard deductions to a credit equal to a percentage of the value of the deduction and decouples the state from the federal Pease repeal. The credit is set to generally equal between 3 and 6 percent of the deduction in each state (based on differences in current top marginal income tax rates) to result in broadly similar tax increases across the states. With a few exceptions, the standard deduction was also increased in each state. Like option 1, option 3 was tailored in each state to yield a state income tax increase of about 4 percent of current revenues.

Like Option 1, this approach results in small tax cuts for many lower- and middle-income families, while still raising income tax collections overall. In Iowa, for example, more than half of the state's taxpayers would receive a tax cut from converting deductions to a 4 percent credit coupled with an increase in the standard deduction.

Option 4: Enacting Stand-Alone Phaseouts

States seeking to phase out itemized deductions for the best-off taxpayers can also choose to set their own income limits and phaseout rules in lieu of the constantly-evolving federal rules. Option 4 shows the impact of a reform that would create a disallowance starting at $150,000 of federal AGI for married couples ($75,000 for single taxpayers), and would reduce the total amount of itemized deductions by 5 cents for each dollar of AGI over these thresholds. Unlike federal law which reduces but does not eliminate itemized deductions, Option 4 would completely disallow most itemized deductions for the best-off taxpayers.

Overall, state income tax revenues would typically increase by 1 to 2 percent under option 4. In general, this approach would increase state taxes for less than seven percent of a state's residents. For example, enacting option 4 in Oregon would raise state income tax revenue by approximately 1.5 percent and would impact 6.5 percent of the state's taxpayers.

The Federal Offset

A little-noticed, but vitally important feature of progressive state income tax reforms is that a substantial part of their cost will essentially be paid for by the federal government. Because the reforms outlined in this paper would leave intact federal itemized deductions - including the federal deduction for state income taxes - any upper-income taxpayer who pays more state income taxes under these reforms will likely be able to claim these tax hikes as an itemized deduction on their federal returns. Put another way, if an upper-income taxpayer paying at the 35 percent federal income tax rate sees a $10,000 state income tax hike under these reforms, as much as $3,500 of that tax hike could be offset directly by federal income tax cuts. This "federal offset" means that state income tax hikes on upper-income families are always substantially less burdensome than they may appear at first glance.

For example, repealing itemized deductions entirely in Virginia (Option 1) would raise Virginians' state tax bills by $400 million, while at the same time reducing their federal tax bills by $124 million. Put another way, a full 31% of the additional revenue generated by repealing itemized deductions would come not out of the pockets of Virginians, but from the federal government. Enacting the other reform options would result in a similar effect. Capping deductions (Option 2) would cut Virginians' federal taxes by $40 million, or 13% of the amount raised by the state. Converting deductions into a credit (Option 3) would result in an $80 million federal tax cut, or 21% of state revenue raised by this option. A stand-alone phaseout would cut federal taxes by $20 million, or 14% of state revenue raised. And decoupling from the repeal of the federal government's "Pease" provision would cut Virginians' federal taxes by $11 million, again 14% of state revenue raised.

Option 5: Decoupling from Federal Pease Repeal

The most straightforward (and lowest-yield) step available to state lawmakers seeking to make their itemized deductions less unfair is to "decouple" from the federal tax change that gradually repealed the Pease provision. This could be done by enacting a law specifying that the state's itemized deduction phaseout will follow federal law as of January 1, 2001—before the Bush tax cuts were enacted. In 2010, this would mean that taxpayers with adjusted gross income (AGI) over $167,000 would lose some of their itemized deductions. No states currently take this approach—but most states routinely review the linkage between their tax rules and those of the federal government, so this would be a straightforward change in these states. Of course, if Congress enacts a tax change that brings back the full Pease provision as it existed before 2005, most states will realize the full yield of this option without having to enact anything

This approach is relatively simple in that it relies on pre-existing federal rules, but it also would have a relatively small impact on state revenues. Overall, state income tax revenues would typically increase by 0.5 to 1.5 percent under this option. In general, this approach would increase state taxes for less than four percent of a state's residents. Enacting option 5 in Arkansas would raise state income tax revenue by approximately 0.6 percent and would impact 1.8 percent of the state's taxpayers.

Conclusion

With continued budget deficits in the offing for dozens of states in 2011, state policymakers around the nation are searching for solutions to mounting budget deficits. Whenever possible, these solutions should allow them to fund vital public services without placing additional responsibilities on those individuals and families hit hardest by the current system.

For a majority of the states currently allowing itemized deductions, reforming itemized deductions is a sensible strategy for achieving these goals: and the reforms enacted by a number of states in recent years offer useful guideposts for reform strategies. Itemized deductions are costly, inequitable, and ineffective, depriving states of billions of dollars in needed funds and making state income taxes less fair. In the current fiscal and economic climate, state policymakers cannot afford to maintain these tax breaks in their current form any longer.

Appendix I. Detailed State-by-state Estimates

All estimates are based on projected 2010 income levels.

ALABAMA

Current Treatment of State Itemized Deductions: Allows itemized deductions patterned after federal rules. Significant differences: Medical expenses are limited to an amount by which medical costs exceed 4% of Federal AGI; all long-term care premiums are fully deductible; state income taxes and state and local sales taxes are not deductible.

2010 Income Group	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Income Range	Less Than $16,000	$16,000 – $26,000	$26,000 – $46,000	$46,000 – $78,000	$78,000 – $150,000	$150,000 – $373,000	$373,000 – Or More
Average Income in Group	$ 10,000	$ 20,000	$ 34,000	$ 58,000	$ 98,000	$ 198,000	$ 958,000

Option 1: Repeal Itemized Deductions and Increase the Standard Deduction

	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Tax Change as % Income	–0.5%	–0.6%	–0.3%	–0.0%	0.2%	0.5%	0.4%
Average Tax Change	–49	–115	–99	–28	+241	+954	+4,255

State Tax Change ($1,000)	+125,000
% Revenue Increase	4%
% SD Increase=	102%

% Alabamians w/Tax Cut	52%
% Alabamians w/Tax Increase	28%

Option 2: Cap Itemized Deductions

	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Tax Change as % Income	—	—	—	0.0%	0.0%	0.1%	0.3%
Average Tax Change	—	—	—	+10	+44	+294	+3,212

State Tax Change ($1,000)	+112,000
% Revenue Increase	3.6%

% Alabamians w/Tax Increase	4%

Option 3: Turn Deductions into Credit, Increase Standard Deduction and Decouple from Federal Pease Repeal

	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Tax Change as % Income	–0.1%	–0.1%	–0.0%	0.1%	0.2%	0.2%	0.1%
Average Tax Change	–13	–19	–1	+40	+175	+431	+1,359

State Tax Change ($1,000)	+124,000
% Revenue Increase	4%
Credit=	3.62%
% SD Increase=	60%

% Alabamians w/Tax Cut	48%
% Alabamians w/Tax Increase	31%

Option 4: Stand-Alone Phaseout

	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Tax Change as % Income	—	—	—	—	0.0%	0.0%	0.2%
Average Tax Change	—	—	—	—	+4	+99	+1,527

State Tax Change ($1,000)	+42,000
% Revenue Increase	1.4%

% Alabamians w/Tax Increase	5%

Option 5: Decouple from Federal Pease Repeal

	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Tax Change as % Income	—	—	—	—	—	0.0%	0.1%
Average Tax Change	—	—	—	—	—	+36	+896

State Tax Change ($1,000)	+22,000
% Revenue Increase	0.7%

% Alabamians w/Tax Increase	3%

Note: Alabama's current standard deduction phases down between $0 and $30,000 AGI ($15,000 for single filers) from $7,500 ($3,750 single) to $4,000 ($2,000 single). In Options 1 and 3, Alabama's standard deduction phase down was eliminated and the deduction is a flat amount

ARIZONA

Current Treatment of State Itemized Deductions: Allows itemized deductions patterned after federal rules. Significant differences: Medical expenses are fully deductible; gambling losses are adjusted to reflect lottery exclusion; itemizers cannot take the charitable contribution deduction and the Arizona state contribution credit. Arizona also allows itemizers to deduct state income taxes.

2010 Income Group	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Income Range	Less Than $20,000	$20,000 – $32,000	$32,000 – $49,000	$49,000 – $78,000	$78,000 – $153,000	$153,000 – $362,000	$362,000 – Or More
Average Income in Group	$ 12,000	$ 26,000	$ 40,000	$ 62,000	$ 104,000	$ 220,000	$ 1,128,000

Option 1: Repeal Itemized Deductions and Increase the Standard Deduction

	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Tax Change as % Income	–0.3%	–0.4%	–0.3%	–0.1%	0.1%	0.4%	0.5%
Average Tax Change	–41	–108	–105	–87	+96	+882	+5,854

State Tax Change ($1,000)	+108,000
% Revenue Increase	3.8%
% SD Increase=	130%

% Arizonans w/ Tax Cut	53%
% Arizonans w/ Tax Increase	21%

Option 2: Cap Itemized Deductions

	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Tax Change as % Income	—	0.0%	0.0%	0.0%	0.1%	0.2%	0.5%
Average Tax Change	—	+2	+2	+11	+56	+464	+5,177

State Tax Change ($1,000)	+222,000
% Revenue Increase	7.9%

% Arizonans w/ Tax Increase	7%

Option 3: Turn Deductions into Credit, Increase Standard Deduction and Decouple from Federal Pease Repeal

	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Tax Change as % Income	–0.1%	–0.1%	–0.0%	–0.0%	0.1%	0.2%	0.2%
Average Tax Change	–7	–20	–19	–10	+68	+420	+2,585

State Tax Change ($1,000)	+113,000
% Revenue Increase	4%
Credit=	3.2%
% SD Increase=	n/a

% Arizonans w/ Tax Cut	44%
% Arizonans w/ Tax Increase	28%

Option 4: Stand-Alone Phaseout

	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Tax Change as % Income	—	—	—	—	0.0%	0.0%	0.1%
Average Tax Change	—	—	—	—	+4	+98	+1,582

State Tax Change ($1,000)	+55,000
% Revenue Increase	1.9%

% Arizonans w/ Tax Increase	5%

Option 5: Decouple from Federal Pease Repeal

	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Tax Change as % Income	—	—	—	—	—	0.0%	0.1%
Average Tax Change	—	—	—	—	—	+39	+914

State Tax Change ($1,000)	+29,000
% Revenue Increase	1%

% Arizonans w/ Tax Increase	3%

ARKANSAS

Current Treatment of State Itemized Deductions: Allows itemized deductions patterned after federal rules. Significant differences: Additional state charitable contribution deduction allowed for value of artistic, music, or literary creations and post-secondary tuition expenses; state income taxes and state and local sales taxes are not deductible.

2010 Income Group	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Income Range	Less Than $15,000	$15,000 – $27,000	$27,000 – $44,000	$44,000 – $72,000	$72,000 – $138,000	$138,000 – $333,000	$333,000 – Or More
Average Income in Group	$ 9,000	$ 21,000	$ 35,000	$ 56,000	$ 93,000	$ 193,000	$ 803,000

Option 1: Repeal Itemized Deductions and Increase the Standard Deduction

	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Tax Change as % Income	–0.1%	–0.3%	–0.3%	0.0%	0.2%	0.4%	0.5%
Average Tax Change	–9	–60	–105	+19	+155	+719	+3,909

State Tax Change ($1,000)	+86,000
% Revenue Increase	4.2%
% SD Increase=	135%

% Arkansans w/Tax Cut	48%
% Arkansans w/Tax Increase	21%

Option 2: Cap Itemized Deductions

	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Tax Change as % Income	—	—	—	0.0%	0.0%	0.1%	0.3%
Average Tax Change	—	—	—	+1	+16	+105	+2,640

State Tax Change ($1,000)	+46,000
% Revenue Increase	2.3%

% Arkansans w/Tax Increase	1%

Option 3: Turn Deductions into Credit, Increase Standard Deduction and Decouple from Federal Pease Repeal

	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Tax Change as % Income	–0.1%	–0.3%	–0.3%	0.0%	0.2%	0.3%	0.4%
Average Tax Change	–5	–61	–89	+6	+172	+666	+3,438

State Tax Change ($1,000)	+81,000
% Revenue Increase	3.9%
Credit=	4.1%
% SD Increase=	150%

% Arkansans w/Tax Cut	46%
% Arkansans w/Tax Increase	23%

Option 4: Stand-Alone Phaseout

	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Tax Change as % Income	—	—	—	—	0.0%	0.0%	0.2%
Average Tax Change	—	—	—	—	+3	+60	+1,457

State Tax Change ($1,000)	+24,000
% Revenue Increase	1.2%

% Arkansans w/Tax Increase	3%

Option 5: Decouple from Federal Pease Repeal

	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Tax Change as % Income	—	—	—	—	—	0.0%	0.1%
Average Tax Change	—	—	—	—	—	+18	+860

State Tax Change ($1,000)	+13,000
% Revenue Increase	0.6%

% Arkansans w/Tax Increase	2%

CALIFORNIA

Current Treatment of State Itemized Deductions: Allows itemized deductions patterned after federal rules. Significant differences: Different treatment of investment interest expense, employee business expense and disaster/casualty and theft loss; lottery losses not deductible;. adoption-related expenses and mortgage interest used to claim state credits cannot also be claimed as deductions; state, local and foreign income taxes and state and local sales taxes are not deductible. California currently has a free-standing phaseout on itemized deductions (Option 2) which starts at higher income levels than the federal rules ($321,483 AGI for MFJ in 2009), but the deduction phases out faster than federal law (6 cents per dollar of excess income above federal AGI limits). The phaseout is based on Federal AGI and indexed annually.

2010 Income Group	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Income Range	Less Than $22,000	$22,000 – $37,000	$37,000 – $58,000	$58,000 – $96,000	$96,000 – $208,000	$208,000 – $535,000	$535,000 – Or More
Average Income in Group	$ 14,000	$ 29,000	$ 47,000	$ 75,000	$ 135,000	$ 308,000	$ 1,813,000

Option 1: Repeal Itemized Deductions and Increase the Standard Deduction

	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Tax Change as % Income	–0.2%	–0.4%	–0.4%	–0.1%	0.4%	0.6%	0.3%
Average Tax Change	–22	–109	–175	–102	+503	+1,821	+5,294

State Tax Change ($1,000)	+1,849,000
% Revenue Increase	4%
% SD Increase=	214%

% Californians w/Tax Cut	44%
% Californians w/Tax Increase	22%

Option 2: Cap Itemized Deductions

	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Tax Change as % Income	—	0.0%	0.0%	0.1%	0.2%	0.4%	0.2%
Average Tax Change	—	+1	+15	+76	+313	+1,226	+4,033

State Tax Change ($1,000)	+2,392,000
% Revenue Increase	5.1%

% Californians w/Tax Increase	10%

Option 3: Turn Deductions into Credit, Increase Standard Deduction and Decouple from Federal Pease Repeal

	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Tax Change as % Income	–0.2%	–0.5%	–0.3%	–0.1%	0.5%	0.5%	0.2%
Average Tax Change	–23	–132	–151	–41	+664	+1,425	+3,115

State Tax Change ($1,000)	+1,832,000
% Revenue Increase	3.9%
Credit=	5.5%
% SD Increase=	195%

% Californians w/Tax Cut	42%
% Californians w/Tax Increase	22%

Option 4: Stand-Alone Phaseout

	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Tax Change as % Income	—	—	—	0.0%	0.0%	0.1%	0.1%
Average Tax Change	—	—	—	+3	+39	+428	+1,016

State Tax Change ($1,000)	+520,000
% Revenue Increase	1.1%

% Californians w/Tax Increase	9%

Option 5: Decouple from Federal Pease Repeal

Option 5 was not modeled in California because the state's stand-alone phaseout is already decoupled from the Federal Pease Repeal.

Notes: Options 2 and 3 were modeled with California's current stand-alone phaseout. Option 4 in the report is a more aggressive phaseout than the current one in place in California with one exception: the option reduces reduce the total amount of itemized deductions by 5 cents for each dollar of AGI over these thresholds, the current CA phaseout reduces itemized deductions by 6 cents.

COLORADO

Current Treatment of State Itemized Deductions: Allows itemized deductions patterned after federal rules (uses federal taxable income as starting point for state taxable income). Significant differences: State income taxes and state and local sales taxes are not deductible.

2010 Income Group	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Income Range	Less Than $20,000	$20,000 – $38,000	$38,000 – $57,000	$57,000 – $98,000	$98,000 – $195,000	$195,000 – $491,000	$491,000 – Or More
Average Income in Group	$ 12,000	$ 28,000	$ 48,000	$ 75,000	$ 130,000	$ 283,000	$ 1,487,000

Option 1: Repeal Itemized Deductions and Increase the Standard Deduction

	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Tax Change as % Income	–0.2%	–0.3%	0.0%	0.0%	0.1%	0.2%	0.3%
Average Tax Change	–25	–77	+7	+16	+192	+606	+4,284

State Tax Change ($1,000)	+183,000
% Revenue Increase	3.9%
% SD Increase=	45%

% Coloradans w/Tax Cut	49%
% Coloradans w/Tax Increase	27%

Option 2: Cap Itemized Deductions

	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Tax Change as % Income	—	—	0.0%	0.0%	0.0%	0.1%	0.2%
Average Tax Change	—	—	+12	+13	+52	+210	+3,502

State Tax Change ($1,000)	+128,000
% Revenue Increase	2.7%

% Coloradans w/Tax Increase	5%

Option 3: Turn Deductions into Credit, Increase Standard Deduction and Decouple from Federal Pease Repeal

	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Tax Change as % Income	–0.1%	–0.1%	0.0%	0.1%	0.1%	0.2%	0.2%
Average Tax Change	–16	–38	+23	+57	+178	+432	+2,630

State Tax Change ($1,000)	+173,000
% Revenue Increase	3.7%
Credit=	2.85%
% SD Increase=	106%

% Coloradans w/Tax Cut	44%
% Coloradans w/Tax Increase	30%

Option 4: Stand-Alone Phaseout

	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Tax Change as % Income	—	—	—	0.0%	0.0%	0.1%	0.1%
Average Tax Change	—	—	—	+1	+12	+182	+2,170

State Tax Change ($1,000)	+71,000
% Revenue Increase	1.5%

% Coloradans w/Tax Increase	8%

Option 5: Decouple from Federal Pease Repeal

	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Tax Change as % Income	—	—	—	—	0.0%	0.0%	0.1%
Average Tax Change	—	—	—	—	+1	+84	+1,289

State Tax Change ($1,000)	+21,000
% Revenue Increase	0.8%

% Coloradans w/Tax Increase	5%

DELAWARE

Current Treatment of State Itemized Deductions: Allows itemized deductions patterned after federal rules. Significant Differences: Additional charitable contribution deduction for miles driven to volunteer; federal foreign tax credit deductible; state income taxes are not deductible.

2010 Income Group	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Income Range	Less Than $19,000	$19,000 – $34,000	$34,000 – $55,000	$55,000 – $90,000	$90,000 – $167,000	$167,000 – $378,000	$378,000 – Or More
Average Income in Group	$ 11,000	$ 25,000	$ 45,000	$ 71,000	$ 117,000	$ 239,000	$ 1,260,000

Option 1: Repeal Itemized Deductions and Increase the Standard Deduction

	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Tax Change as % Income	–0.3%	–0.4%	–0.0%	0.0%	0.1%	0.3%	0.4%
Average Tax Change	–37	–111	–12	+16	+166	+776	+5,425

State Tax Change ($1,000)	+35,000
% Revenue Increase	4%
% SD Increase=	142%
% Delawareans w/Tax Cut	43%
% Delawareans w/Tax Increase	25%

Option 2: Cap Itemized Deductions

	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Tax Change as % Income	—	—	0.0%	0.0%	0.0%	0.1%	0.4%
Average Tax Change	—	—	+5	+14	+36	+321	+4,442

State Tax Change ($1,000)	+28,000
% Revenue Increase	3.2%
% Delawareans w/Tax Increase	4%

Option 3: Turn Deductions into Credit, Increase Standard Deduction and Decouple from Federal Pease Repeal

	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Tax Change as % Income	–0.3%	–0.3%	–0.1%	0.1%	0.2%	0.3%	0.3%
Average Tax Change	–36	–77	–23	+40	+272	+646	+3,468

State Tax Change ($1,000)	+35,000
% Revenue Increase	4%
Credit=	4.25%
% SD Increase=	54%
% Delawareans w/Tax Cut	41%
% Delawareans w/Tax Increase	35%

Option 4: Stand-Alone Phaseout

	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Tax Change as % Income	—	—	—	—	0.0%	0.1%	0.2%
Average Tax Change	—	—	—	—	+9	+139	+2,633

State Tax Change ($1,000)	+14,000
% Revenue Increase	1.6%
% Delawareans w/Tax Increase	5%

Option 5: Decouple from Federal Pease Repeal

	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Tax Change as % Income	—	—	—	—	0.0%	0.0%	0.1%
Average Tax Change	—	—	—	—	+1	+59	+1,638

State Tax Change ($1,000)	+8,000
% Revenue Increase	0.9%
% Delawareans w/Tax Increase	3%

DISTRICT OF COLUMBIA

Current Treatment of State Itemized Deductions: Allows itemized deductions patterned after federal rules. Significant Differences: DC income and sales taxes are not deductible.

2010 Income Group	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Income Range	Less Than $22,000	$22,000 – $41,000	$41,000 – $62,000	$62,000 – $108,000	$108,000 – $268,000	$268,000 – $1,228,000	$1,228,000 – Or More
Average Income in Group	$ 13,000	$ 30,000	$ 52,000	$ 82,000	$ 159,000	$ 460,000	$ 2,645,000

Option 1: Repeal Itemized Deductions and Increase the Standard Deduction

	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Tax Change as % Income	–1.0%	–1.3%	–0.8%	–0.2%	0.4%	0.5%	0.8%
Average Tax Change	–134	–403	–414	–154	+623	+2,376	+21,525

State Tax Change ($1,000)	+55,000
% Revenue Increase	4.1%
% SD Increase=	260%

% DC Residents w/ Tax Cut	64%
% DC Residents w/ Tax Increase	24%

Option 2: Cap Itemized Deductions

	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Tax Change as % Income	—	0.0%	0.0%	0.1%	0.3%	0.3%	0.7%
Average Tax Change	—	+9	+11	+85	+414	+1,384	+19,637

State Tax Change ($1,000)	+98,000
% Revenue Increase	7.4%

% DC Residents w/ Tax Increase	12%

Option 3: Turn Deductions into Credit, Increase Standard Deduction and Decouple from Federal Pease Repeal

	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Tax Change as % Income	–0.9%	–0.7%	–0.3%	0.2%	0.3%	0.3%	0.4%
Average Tax Change	–123	–198	–144	+183	+459	+1,406	+10,954

State Tax Change ($1,000)	+52,000
% Revenue Increase	3.9%
Credit=	5.5%
% SD Increase=	140%

% DC Residents w/ Tax Cut	53%
% DC Residents w/ Tax Increase	35%

Option 4: Stand-Alone Phaseout

	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Tax Change as % Income	—	—	—	0.0%	0.1%	0.2%	0.3%
Average Tax Change	—	—	—	+19	+146	+795	+7,699

State Tax Change ($1,000)	+39,000
% Revenue Increase	3%

% DC Residents w/ Tax Increase	19%

Option 5: Decouple from Federal Pease Repeal

	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Tax Change as % Income	—	—	—	—	0.0%	0.1%	0.2%
Average Tax Change	—	—	—	—	+23	+412	+4,547

State Tax Change ($1,000)	+19,000
% Revenue Increase	1.4%

% DC Residents w/ Tax Increase	8%

GEORGIA

Current Treatment of State Itemized Deductions: Allows itemized deductions patterned after federal rules. Significant differences: Investment interest for the production of exempt income is not deductible. Georgia also allows itemizers to deduct state income taxes.

2010 Income Group	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Income Range	Less Than $15,000	$15,000 – $28,000	$28,000 – $46,000	$46,000 – $77,000	$77,000 – $161,000	$161,000 – $400,000	$400,000 – Or More
Average Income in Group	$ 10,000	$ 21,000	$ 36,000	$ 60,000	$ 106,000	$ 232,000	$ 1,076,000

Option 1: Repeal Itemized Deductions and Increase the Standard Deduction

	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Tax Change as % Income	–0.5%	–1.2%	–0.5%	–0.1%	0.3%	0.6%	0.6%
Average Tax Change	–49	–245	–183	–56	+361	+1,389	+6,748

State Tax Change ($1,000)	+303,000
% Revenue Increase	3.8%
% SD Increase=	390%
% Georgians w/Tax Cut	45%
% Georgians w/Tax Increase	27%

Option 2: Cap Itemized Deductions

	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Tax Change as % Income	—	—	0.0%	0.0%	0.1%	0.2%	0.5%
Average Tax Change	—	—	+4	+20	+54	+483	+5,472

State Tax Change ($1,000)	+373,000
% Revenue Increase	4.7%
% Georgians w/Tax Increase	5%

Option 3: Turn Deductions into Credit, Increase Standard Deduction and Decouple from Federal Pease Repeal

	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Tax Change as % Income	–0.5%	–1.0%	–0.3%	0.0%	0.3%	0.5%	0.5%
Average Tax Change	–47	–208	–117	+10	+363	+1,084	+5,021

State Tax Change ($1,000)	+325,000
% Revenue Increase	4.1%
Credit=	3.65%
% SD Increase=	550%
% Georgians w/Tax Cut	40%
% Georgians w/Tax Increase	31%

Option 4: Stand-Alone Phaseout

	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Tax Change as % Income	—	—	—	—	0.0%	0.1%	0.2%
Average Tax Change	—	—	—	—	+6	+163	+2,046

State Tax Change ($1,000)	+120,000
% Revenue Increase	1.5%
% Georgians w/Tax Increase	6%

Option 5: Decouple from Federal Pease Repeal

	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Tax Change as % Income	—	—	—	—	—	0.0%	0.1%
Average Tax Change	—	—	—	—	—	+69	+1,189

State Tax Change ($1,000)	+63,000
% Revenue Increase	0.8%
% Georgians w/Tax Increase	3%

HAWAII

Current Treatment of State Itemized Deductions: Allows itemized deductions patterned after federal rules. Significant differences: Federal itemized deduction amounts limited based on federal AGI are recalculated to be limited based on HI AGI; cannot deduct gambling losses; additional state deduction for political contributions ($250 for single/$500 for married filing jointly per candidate up to $1000 total). Hawaii had a separate phaseout which started at a lower income level (HI AGI greater than $100,000 for MFJ filers), but since it was coupled to federal rules it does not exist in 2010. Hawaii also allows itemizers to deduct state income taxes.

2010 Income Group	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Income Range	Less Than $19,000	$19,000 – $36,000	$36,000 – $52,000	$52,000 – $87,000	$87,000 – $176,000	$176,000 – $385,000	$385,000 – Or More
Average Income in Group	$ 11,000	$ 27,000	$ 43,000	$ 68,000	$ 120,000	$ 242,000	$ 979,000

Option 1: Repeal Itemized Deductions and Increase the Standard Deduction

	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Tax Change as % Income	–1.2%	–1.2%	–0.7%	–0.1%	0.4%	0.7%	1.1%
Average Tax Change	–131	–325	–284	–47	+481	+1,784	+10,831

State Tax Change ($1,000)	+58,000
% Revenue Increase	4%
% SD Increase=	360%

% Hawaii Residents w/ Tax Cut	59%
% Hawaii Residents w/ Tax Increase	26%

Option 2: Cap Itemized Deductions

	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Tax Change as % Income	—	—	0.0%	0.1%	0.1%	0.4%	0.9%
Average Tax Change	—	—	+14	+81	+174	+857	+9,149

State Tax Change ($1,000)	+105,000
% Revenue Increase	7.2%

% Hawaii Residents w/ Tax Increase	9%

Option 3: Turn Deductions into Credit, Increase Standard Deduction and Decouple from Federal Pease Repeal

	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Tax Change as % Income	–0.3%	–0.2%	–0.1%	0.1%	0.2%	0.2%	0.5%
Average Tax Change	–37	–46	–28	+39	+202	+603	+5,227

State Tax Change ($1,000)	+57,000
% Revenue Increase	3.9%
Credit=	6.8%
% SD Increase=	40%

% Hawaii Residents w/ Tax Cut	56%
% Hawaii Residents w/ Tax Increase	27%

Option 4: Stand-Alone Phaseout

	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Tax Change as % Income	—	—	—	—	0.0%	0.1%	0.3%
Average Tax Change	—	—	—	—	+12	+213	+3,149

State Tax Change ($1,000)	+26,000
% Revenue Increase	1.8%

% Hawaii Residents w/ Tax Increase	6%

Option 5: Decouple from Federal Pease Repeal

	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Tax Change as % Income	—	—	—	—	—	0.0%	0.2%
Average Tax Change	—	—	—	—	—	+85	+1,807

State Tax Change ($1,000)	+13,000
% Revenue Increase	0.9%

% Hawaii Residents w/ Tax Increase	3%

IDAHO

Current Treatment of State Itemized Deductions: Allows itemized deductions patterned after federal rules. Significant differences: Itemizers cannot both deduct expenses for mortgage interest and foreign taxes and take the Idaho state credit for those expenses; state income taxes and state and local sales taxes are not deductible.

2010 Income Group	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Income Range	Less Than $18,000	$18,000 – $32,000	$32,000 – $48,000	$48,000 – $76,000	$76,000 – $141,000	$141,000 – $360,000	$360,000 – Or More
Average Income in Group	$ 11,000	$ 24,000	$ 40,000	$ 61,000	$ 99,000	$ 209,000	$ 1,021,000

Option 1: Repeal Itemized Deductions and Increase the Standard Deduction

	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Tax Change as % Income	–0.2%	–0.2%	–0.1%	–0.1%	0.1%	0.3%	0.5%
Average Tax Change	–23	–51	–23	–50	+124	+675	+5,199

State Tax Change ($1,000)	+46,000
% Revenue Increase	3.9%
% SD Increase=	37%

% Idahoans w/ Tax Cut	50%
% Idahoans w/ Tax Increase	19%

Option 2: Cap Itemized Deductions

	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Tax Change as % Income	—	—	0.1%	0.0%	0.0%	0.1%	0.4%
Average Tax Change	—	—	+23	+5	+41	+189	+3,979

State Tax Change ($1,000)	+40,000
% Revenue Increase	3.3%

% Idahoans w/ Tax Increase	2%

Option 3: Turn Deductions into Credit, Increase Standard Deduction and Decouple from Federal Pease Repeal

	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Tax Change as % Income	–0.2%	–0.2%	–0.1%	–0.1%	0.1%	0.4%	0.5%
Average Tax Change	–19	–42	–43	–37	+145	+738	+4,759

State Tax Change ($1,000)	+47,000
% Revenue Increase	4%
Credit=	4.5%
% SD Increase=	119.3%

% Idahoans w/ Tax Cut	46%
% Idahoans w/ Tax Increase	36%

Option 4: Stand-Alone Phaseout

	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Tax Change as % Income	—	—	—	—	0.0%	0.1%	0.2%
Average Tax Change	—	—	—	—	+1	+106	+2,044

State Tax Change ($1,000)	+17,000
% Revenue Increase	1.4%

% Idahoans w/ Tax Increase	3%

Option 5: Decouple from Federal Pease Repeal

	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Tax Change as % Income	—	—	—	—	—	0.0%	0.1%
Average Tax Change	—	—	—	—	—	+36	+1,241

State Tax Change ($1,000)	+9,000
% Revenue Increase	0.8%

% Idahoans w/ Tax Increase	2%

IOWA

Current Treatment of State Itemized Deductions: Allows itemized deductions patterned after federal rules. Significant differences: No deduction for health, dental, and long-term care insurance premiums already deducted from Iowa income; additional state deductions for miles driven for volunteer activities; expenses incurred for the care of a disabled relative; adoption expenses; and a portion of automobile registration fee; state income taxes are not deductible, but sales tax is if claimed as a federal deduction.

2010 Income Group	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Income Range	Less Than $21,000	$21,000 – $38,000	$38,000 – $57,000	$57,000 – $85,000	$85,000 – $147,000	$147,000 – $353,000	$353,000 – Or More
Average Income in Group	$ 12,000	$ 30,000	$ 47,000	$ 70,000	$ 107,000	$ 203,000	$ 901,000

Option 1: Repeal Itemized Deductions and Increase the Standard Deduction

	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Tax Change as % Income	–0.4%	–0.3%	–0.2%	0.0%	0.3%	0.5%	0.5%
Average Tax Change	–46	–103	–112	+23	+268	+989	+4,104

State Tax Change ($1,000)	+113,000
% Revenue Increase	4.0%
% SD Increase=	162.0%

% Iowans w/ Tax Cut	46%
% Iowans w/ Tax Increase	27%

Option 2: Cap Itemized Deductions

	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Tax Change as % Income	—	—	—	0.0%	0.0%	0.1%	0.3%
Average Tax Change	—	—	—	+2	+23	+173	+2,578

State Tax Change ($1,000)	+53,000
% Revenue Increase	1.9%

% Iowans w/ Tax Increase	2%

Option 3: Turn Deductions into Credit, Increase Standard Deduction and Decouple from Federal Pease Repeal

	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Tax Change as % Income	–0.5%	–0.2%	–0.1%	0.1%	0.2%	0.3%	0.3%
Average Tax Change	–56	–64	–56	+60	+250	+663	+2,813

State Tax Change ($1,000)	+103,000
% Revenue Increase	3.7%
Credit=	4.0%
% SD Increase=	82.2%

% Iowans w/ Tax Cut	51%
% Iowans w/ Tax Increase	29%

Option 4: Stand-Alone Phaseout

	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Tax Change as % Income	—	—	—	—	0.0%	0.1%	0.2%
Average Tax Change	—	—	—	—	+3	+128	+2,152

State Tax Change ($1,000)	+39,000
% Revenue Increase	1.4%

% Iowans w/ Tax Increase	4%

Option 5: Decouple from Federal Pease Repeal

	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Tax Change as % Income	—	—	—	—	—	0.0%	0.1%
Average Tax Change	—	—	—	—	—	+47	+1,303

State Tax Change ($1,000)	+21,000
% Revenue Increase	0.8%

% Iowans w/ Tax Increase	3%

KANSAS

Current Treatment of State Itemized Deductions: Allows itemized deductions patterned after federal rules. Significant differences: State income taxes are not deductible.

2010 Income Group	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Income Range	Less Than $20,000	$20,000 – $35,000	$35,000 – $57,000	$57,000 – $90,000	$90,000 – $166,000	$166,000 – $412,000	$412,000 – Or More
Average Income in Group	$ 11,000	$ 28,000	$ 46,000	$ 73,000	$ 117,000	$ 240,000	$ 1,102,000

Option 1: Repeal Itemized Deductions and Increase the Standard Deduction

	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Tax Change as % Income	–0.3%	–0.4%	–0.1%	0.0%	0.3%	0.4%	0.4%
Average Tax Change	–34	–98	–36	+8	+325	+848	+4,442

State Tax Change ($1,000)	+121,000
% Revenue Increase	4.4%
% SD Increase=	83.3%

% Kansans w/Tax Cut	55%
% Kansans w/Tax Increase	26%

Option 2: Cap Itemized Deductions

	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Tax Change as % Income	—	—	0.0%	0.0%	0.0%	0.1%	0.3%
Average Tax Change	—	—	+6	+13	+57	+123	+3,065

State Tax Change ($1,000)	+61,000
% Revenue Increase	2.2%

% Kansans w/Tax Increase	3%

Option 3: Turn Deductions into Credit, Increase Standard Deduction and Decouple from Federal Pease Repeal

	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Tax Change as % Income	–0.4%	–0.3%	–0.0%	0.1%	0.3%	0.3%	0.3%
Average Tax Change	–48	–79	–4	+66	+335	+668	+2,922

State Tax Change ($1,000)	+118,000
% Revenue Increase	4.3%
Credit=	3.65%
% SD Increase=	116.7%

% Kansans w/Tax Cut	52%
% Kansans w/Tax Increase	28%

Option 4: Stand-Alone Phaseout

	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Tax Change as % Income	—	—	—	—	0.0%	0.1%	0.2%
Average Tax Change	—	—	—	—	+5	+173	+2,140

State Tax Change ($1,000)	+37,000
% Revenue Increase	1.4%

% Kansans w/Tax Increase	5%

Option 5: Decouple from Federal Pease Repeal

	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Tax Change as % Income	—	—	—	—	—	0.0%	0.1%
Average Tax Change	—	—	—	—	—	+77	+1,292

State Tax Change ($1,000)	+20,000
% Revenue Increase	0.7%

% Kansans w/Tax Increase	3%

KENTUCKY

Current Treatment of State Itemized Deductions: Allows itemized deductions patterned after federal rules. Significant differences: State income taxes and state and local sales taxes are not deductible.

2010 Income Group	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Income Range	Less Than $15,000	$15,000 – $29,000	$29,000 – $46,000	$46,000 – $73,000	$73,000 – $131,000	$131,000 – $304,000	$304,000 – Or More
Average Income in Group	$ 9,000	$ 22,000	$ 36,000	$ 58,000	$ 94,000	$ 184,000	$ 779,000

Option 1: Repeal Itemized Deductions and Increase the Standard Deduction

	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Tax Change as % Income	–0.1%	–0.2%	–0.1%	0.1%	0.2%	0.3%	0.3%
Average Tax Change	–11	–54	–52	+45	+222	+571	+2,722

State Tax Change ($1,000)	+151,000
% Revenue Increase	4.3%
% SD Increase=	100.0%
% Kentuckians w/ Tax Cut	43%
% Kentuckians w/ Tax Increase	24%

Option 2: Cap Itemized Deductions

	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Tax Change as % Income	—	—	—	0.0%	0.0%	0.0%	0.2%
Average Tax Change	—	—	—	+3	+16	+52	+1,604

State Tax Change ($1,000)	+45,000
% Revenue Increase	1.3%
% Kentuckians w/ Tax Increase	1%

Option 3: Turn Deductions into Credit, Increase Standard Deduction and Decouple from Federal Pease Repeal

	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Tax Change as % Income	–0.1%	–0.1%	–0.0%	0.1%	0.2%	0.2%	0.3%
Average Tax Change	–13	–25	–13	+47	+157	+439	+2,487

State Tax Change ($1,000)	+140,000
% Revenue Increase	4.0%
Credit=	4.2%
% SD Increase (MFJ)=	260%
% Kentuckians w/ Tax Cut	39%
% Kentuckians w/ Tax Increase	27%
% SD increase (others)	80%

Option 4: Stand-Alone Phaseout

	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Tax Change as % Income	—	—	—	—	0.0%	0.0%	0.2%
Average Tax Change	—	—	—	—	+2	+54	+1,286

State Tax Change ($1,000)	+33,000
% Revenue Increase	0.9%
% Kentuckians w/ Tax Increase	3%

Option 5: Decouple from Federal Pease Repeal

	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Tax Change as % Income	—	—	—	—	—	0.0%	0.1%
Average Tax Change	—	—	—	—	—	+18	+770

State Tax Change ($1,000)	+18,000
% Revenue Increase	0.5%
% Kentuckians w/ Tax Increase	2%

LOUISIANA

Current Treatment of State Itemized Deductions: Allows itemized deductions patterned after federal rules. Taxpayers who itemize deductions for federal tax purposes can deduct 100% of the difference between their federal itemized deductions and the federal standard deduction (Federal itemized deductions- federal standard deduction=Louisiana itemized deductions). Louisiana also allows itemizers to deduct state income taxes.

2010 Income Group	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Income Range	Less Than $16,000	$16,000 – $30,000	$30,000 – $46,000	$46,000 – $82,000	$82,000 – $156,000	$156,000 – $375,000	$375,000 – Or More
Average Income in Group	$ 10,000	$ 22,000	$ 38,000	$ 60,000	$ 108,000	$ 218,000	$ 908,000

Option 1: Repeal Itemized Deductions and Increase the Standard Deduction

	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Tax Change as % Income	–0.1%	–0.3%	–0.2%	–0.0%	0.1%	0.3%	0.4%
Average Tax Change	–10	–77	–76	–12	+115	+679	+3,830

State Tax Change ($1,000)	+96,000
% Revenue Increase	4%
% SD Increase=	85%

% Louisianans w/ Tax Cut	54%
% Louisianans w/ Tax Increase	17%

Option 2: Cap Itemized Deductions

	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Tax Change as % Income	—	—	—	0.0%	0.0%	0.1%	0.3%
Average Tax Change	—	—	—	+4	+11	+113	+2,315

State Tax Change ($1,000)	+59,000
% Revenue Increase	2.5%

% Louisianans w/ Tax Increase	2%

Option 3: Turn Deductions into Credit, Increase Standard Deduction and Decouple from Federal Pease Repeal

	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Tax Change as % Income	–0.0%	–0.0%	–0.0%	0.0%	0.1%	0.2%	0.3%
Average Tax Change	–1	–11	–7	+17	+84	+405	+2,423

State Tax Change ($1,000)	+103,000
% Revenue Increase	4.3%
Credit=	3%
% SD Increase=	11.1%

% Louisianans w/ Tax Cut	52%
% Louisianans w/ Tax Increase	18%

Option 4: Stand-Alone Phaseout

	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Tax Change as % Income	—	—	—	—	0.0%	0.0%	0.2%
Average Tax Change	—	—	—	—	+5	+99	+1,580

State Tax Change ($1,000)	+40,000
% Revenue Increase	1.7%

% Louisianans w/ Tax Increase	5%

Option 5: Decouple from Federal Pease Repeal

	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Tax Change as % Income	—	—	—	—	—	0.0%	0.1%
Average Tax Change	—	—	—	—	—	+35	+919

State Tax Change ($1,000)	+21,000
% Revenue Increase	0.9%

% Louisianans w/ Tax Increase	3%

Notes: Louisiana allows 100% of itemized deductions that exceed the federal standard deduction to be deducted. For options 1 & 3 the personal exemption-standard deduction and dependent exemption were increased accordingly.

MAINE

Current Treatment of State Itemized Deductions: Allows itemized deductions patterned after federal rules. Significant differences: State income and sales taxes are not deductible.

2010 Income Group	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Income Range	Less Than $19,000	$19,000 – $32,000	$32,000 – $50,000	$50,000 – $80,000	$80,000 – $147,000	$147,000 – $364,000	$364,000 – Or More
Average Income in Group	$ 12,000	$ 25,000	$ 41,000	$ 63,000	$ 102,000	$ 212,000	$ 831,000

Option 1: Repeal Itemized Deductions and Increase the Standard Deduction

	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Tax Change as % Income	–0.2%	–0.3%	–0.1%	–0.1%	0.2%	0.4%	0.6%
Average Tax Change	–23	–67	–47	–52	+248	+878	+5,099

State Tax Change ($1,000)	+54,000
% Revenue Increase	4%
% SD Increase=	41%

% Mainers w/ Tax Cut	51%
% Mainers w/ Tax Increase	22%

Option 2: Cap Itemized Deductions

	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Tax Change as % Income	—	—	0.0%	0.0%	0.0%	0.1%	0.4%
Average Tax Change	—	—	+8	+7	+30	+230	+3,606

State Tax Change ($1,000)	+34,000
% Revenue Increase	2.5%

% Mainers w/ Tax Increase	3%

Option 3: Turn Deductions into Credit, Increase Standard Deduction and Decouple from Federal Pease Repeal

	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Tax Change as % Income	–0.3%	–0.2%	–0.0%	0.1%	0.3%	0.3%	0.3%
Average Tax Change	–32	–42	–7	+51	+290	+577	+2,762

State Tax Change ($1,000)	+56,000
% Revenue Increase	4.1%
Credit=	5.75%
% SD Increase=	50%

% Mainers w/ Tax Cut	45%
% Mainers w/ Tax Increase	26%

Option 4: Stand-Alone Phaseout

	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Tax Change as % Income	—	—	—	—	0.0%	0.0%	0.2%
Average Tax Change	—	—	—	—	+2	+92	+1,270

State Tax Change ($1,000)	+11,000
% Revenue Increase	0.8%

% Mainers w/ Tax Increase	4%

Option 5: Decouple from Federal Pease Repeal

	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Tax Change as % Income	—	—	—	—	—	0.0%	0.1%
Average Tax Change	—	—	—	—	—	+52	+1,210

State Tax Change ($1,000)	+9,000
% Revenue Increase	0.7%

% Mainers w/ Tax Increase	3%

MARYLAND

Current Treatment of State Itemized Deductions: Allows itemized deductions patterned after federal rules. Significant differences: Amounts deducted from federal taxes for preservation and conservation easement contributions must be added back if taxpayer opts instead to take the Maryland state conservation credit; state and local income taxes are not deductible.

2010 Income Group	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Income Range	Less Than $23,000	$23,000 – $42,000	$42,000 – $66,000	$66,000 – $109,000	$109,000 – $211,000	$211,000 – $474,000	$474,000 – Or More
Average Income in Group	$ 13,000	$ 32,000	$ 53,000	$ 85,000	$ 146,000	$ 304,000	$ 1,521,000

Option 1: Repeal Itemized Deductions and Increase the Standard Deduction

	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Tax Change as % Income	–0.9%	–0.7%	–0.4%	0.2%	0.4%	0.5%	0.5%
Average Tax Change	–112	–208	–196	+151	+616	+1,568	+7,802

State Tax Change ($1,000)	+429,000
% Revenue Increase	4%
% SD Increase=	340%

% Marylanders w/ Tax Cut	42%
% Marylanders w/ Tax Increase	33%

Option 2: Cap Itemized Deductions

	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Tax Change as % Income	—	0%	0.0%	0.0%	0.0%	0.1%	0.4%
Average Tax Change	—	+12	+23	+79	+193	+708	+6,350

State Tax Change ($1,000)	+385,000
% Revenue Increase	3.6%

% Marylanders w/ Tax Increase	10%

Option 3: Turn Deductions into Credit, Increase Standard Deduction and Decouple from Federal Pease Repeal

	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Tax Change as % Income	–0.3%	–0.2%	0.0%	0.2%	0.3%	0.3%	0.3%
Average Tax Change	–38	–55	+9	+182	+370	+822	+4,672

State Tax Change ($1,000)	+415,000
% Revenue Increase	3.9%
Credit=	3.7%
% SD Increase=	170.0%

% Marylanders w/ Tax Cut	31%
% Marylanders w/ Tax Increase	43%

Option 4: Stand-Alone Phaseout

	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Tax Change as % Income	—	—	—	0.0%	0.0%	0.1%	0.3%
Average Tax Change	—	—	—	+6	+39	+427	+4,440

State Tax Change ($1,000)	+183,000
% Revenue Increase	1.7%

% Marylanders w/ Tax Increase	12%

Option 5: Decouple from Federal Pease Repeal

	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Tax Change as % Income	—	—	—	—	0.0%	0.1%	0.2%
Average Tax Change	—	—	—	—	+5	+214	+2,629

State Tax Change ($1,000)	+96,000
% Revenue Increase	0.9%

% Marylanders w/ Tax Increase	7%

MINNESOTA

Current Treatment of State Itemized Deductions: Allows itemized deductions patterned after federal rules (uses federal taxable income as starting point for state taxable income). Significant differences: State income taxes and

2010 Income Group	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Income Range	Less Than $23,000	$23,000 – $40,000	$40,000 – $60,000	$60,000 – $93,000	$93,000 – $184,000	$184,000 – $440,000	$440,000 – Or More
Average Income in Group	$ 13,000	$ 31,000	$ 51,000	$ 76,000	$ 122,000	$ 267,000	$ 1,320,000

Option 1: Repeal Itemized Deductions and Increase the Standard Deduction

	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Tax Change as % Income	–0.3%	–0.3%	0.0%	–0.0%	0.2%	0.4%	0.4%
Average Tax Change	–42	–107	+3	–11	+281	+1,053	+5,841

State Tax Change ($1,000)	+270,000
% Revenue Increase	3.9%
% SD Increase=	50%

% Minnesotans w/ Tax Cut	53%
% Minnesotans w/ Tax Increase	27%

Option 2: Cap Itemized Deductions

	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Tax Change as % Income	—	—	0.0%	0.0%	0.0%	0.1%	0.3%
Average Tax Change	—	—	+22	+14	+54	+338	+4,597

State Tax Change ($1,000)	+181,000
% Revenue Increase	2.6%

% Minnesotans w/ Tax Increase	5%

Option 3: Turn Deductions into Credit, Increase Standard Deduction and Decouple from Federal Pease Repeal

	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Tax Change as % Income	–0.4%	–0.4%	–0.0%	0.1%	0.3%	0.3%	0.3%
Average Tax Change	–55	–130	–2	+66	+335	+919	+4,046

State Tax Change ($1,000)	+251,000
% Revenue Increase	3.6%
Credit=	4.25%
% SD Increase=	110.5%

% Minnesotans w/ Tax Cut	50%
% Minnesotans w/ Tax Increase	29%

Option 4: Stand-Alone Phaseout

	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Tax Change as % Income	—	—	—	0.0%	0.0%	0.1%	0.2%
Average Tax Change	—	—	—	+1	+14	+255	+2,880

State Tax Change ($1,000)	+100,000
% Revenue Increase	1.4%

% Minnesotans w/ Tax Increase	7%

Option 5: Decouple from Federal Pease Repeal

	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Tax Change as % Income	—	—	—	—	0.0%	0.0%	0.1%
Average Tax Change	—	—	—	—	+1	+123	+1,890

State Tax Change ($1,000)	+58,000
% Revenue Increase	0.8%

% Minnesotans w/ Tax Increase	4%

MISSISSIPPI

Current Treatment of State Itemized Deductions: Allows itemized deductions patterned after federal rules. Significant differences: business and gambling losses and state income and sales taxes are not deductible.

2010 Income Group	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Income Range	Less Than $14,000	$14,000 – $24,000	$24,000 – $39,000	$39,000 – $70,000	$70,000 – $129,000	$129,000 – $306,000	$306,000 – Or More
Average Income in Group	$ 9,000	$ 19,000	$ 31,000	$ 53,000	$ 90,000	$ 174,000	$ 708,000

Option 1: Repeal Itemized Deductions and Increase the Standard Deduction

	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Tax Change as % Income	–0.1%	–0.4%	–0.2%	–0.0%	0.2%	0.3%	0.4%
Average Tax Change	–6	–71	–65	–10	+159	+472	+2,604

State Tax Change ($1,000)	+58,000
% Revenue Increase	4.3%
% SD Increase=	120%

% Mississippians w/ Tax Cut	46%
% Mississippians w/ Tax Increase	19%

Option 2: Cap Itemized Deductions

	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Tax Change as % Income	—	—	—	0.0%	0.0%	0.1%	0.2%
Average Tax Change	—	—	—	+6	+13	+96	+1,665

State Tax Change ($1,000)	+33,000
% Revenue Increase	2.4%

% Mississippians w/ Tax Increase	2%

Option 3: Turn Deductions into Credit, Increase Standard Deduction and Decouple from Federal Pease Repeal

	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Tax Change as % Income	–0.0%	–0.2%	–0.0%	0.0%	0.1%	0.2%	0.2%
Average Tax Change	–5	–33	–0	+21	+131	+273	+1,282

State Tax Change ($1,000)	+56,000
% Revenue Increase	4.2%
Credit=	3.4%
% SD Increase=	70.0%

% Mississippians w/ Tax Cut	45%
% Mississippians w/ Tax Increase	18%

Option 4: Stand-Alone Phaseout

	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Tax Change as % Income	—	—	—	—	0.0%	0.0%	0.1%
Average Tax Change	—	—	—	—	+1	+26	+836

State Tax Change ($1,000)	+13,000
% Revenue Increase	1%

% Mississippians w/ Tax Increase	3%

Option 5: Decouple from Federal Pease Repeal

	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Tax Change as % Income	—	—	—	0.0%	0.0%	0.0%	0.1%
Average Tax Change	—	—	—	+1	+3	+9	+503

State Tax Change ($1,000)	+8,000
% Revenue Increase	0.6%

% Mississippians w/ Tax Increase	2%

MISSOURI

Current Treatment of State Itemized Deductions: Allows itemized deductions patterned after federal rules. Significant Differences: Additional state deduction for FICA, railroad retirement, self-employment and city earnings taxes and cultural contributions; state and local income taxes are not deductible.

2010 Income Group	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Income Range	Less Than $17,000	$17,000 – $32,000	$32,000 – $51,000	$51,000 – $80,000	$80,000 – $152,000	$152,000 – $377,000	$377,000 – Or More
Average Income in Group	$ 11,000	$ 24,000	$ 40,000	$ 64,000	$ 105,000	$ 217,000	$ 1,028,000

Option 1: Repeal Itemized Deductions and Increase the Standard Deduction

	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Tax Change as % Income	–0.2%	–0.5%	–0.2%	–0.0%	0.2%	0.4%	0.4%
Average Tax Change	–24	–110	–77	–32	+251	+976	+4,565

State Tax Change ($1,000)	+202,000
% Revenue Increase	4.3%
% SD Increase=	57.9%
% Missourians w/ Tax Cut	50%
% Missourians w/ Tax Increase	24%

Option 2: Cap Itemized Deductions

	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Tax Change as % Income	—	—	0.0%	0.0%	0.0%	0.1%	0.3%
Average Tax Change	—	—	+2	+14	+46	+320	+3,513

State Tax Change ($1,000)	+159,000
% Revenue Increase	3.3%
% Missourians w/ Tax Increase	4%

Option 3: Turn Deductions into Credit, Increase Standard Deduction and Decouple from Federal Pease Repeal

	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Tax Change as % Income	–0.2%	–0.2%	–0.0%	0.1%	0.2%	0.2%	0.2%
Average Tax Change	–19	–46	–14	+59	+226	+506	+2,261

State Tax Change ($1,000)	+199,000
% Revenue Increase	4.2%
Credit=	4.45%
% SD Increase=	57.9%
% Missourians w/ Tax Cut	46%
% Missourians w/ Tax Increase	27%

Option 4: Stand-Alone Phaseout

	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Tax Change as % Income	—	—	—	—	0.0%	0.1%	0.2%
Average Tax Change	—	—	—	—	+5	+123	+1,936

State Tax Change ($1,000)	+68,000
% Revenue Increase	1.4%
% Missourians w/ Tax Increase	5%

Option 5: Decouple from Federal Pease Repeal

	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Tax Change as % Income	—	—	—	—	—	0.0%	0.1%
Average Tax Change	—	—	—	—	—	+49	+1,135

State Tax Change ($1,000)	+36,000
% Revenue Increase	0.8%
% Missourians w/ Tax Increase	3%

MONTANA

Current Treatment of State Itemized Deductions: Allows itemized deductions patterned after federal rules. Significant differences: Some taxpayers can deduct 100% of insurance premiums, including long-term care insurance; state income taxes are not deductible; additional state child and dependent care deduction; motor vehicle taxes and fees are deductible. Montana allows a partial state deduction for federal income taxes paid.

2010 Income Group	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Income Range	Less Than $17,000	$17,000 – $31,000	$31,000 – $48,000	$48,000 – $80,000	$80,000 – $142,000	$142,000 – $385,000	$385,000 – Or More
Average Income in Group	$ 10,000	$ 23,000	$ 38,000	$ 61,000	$ 102,000	$ 220,000	$ 945,000

Option 1: Repeal Itemized Deductions and Increase the Standard Deduction

	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Tax Change as % Income	–0.4%	–0.4%	–0.5%	–0.0%	0.4%	0.4%	0.4%
Average Tax Change	–39	–99	–172	–14	+363	+974	+4,048

State Tax Change ($1,000)	+32,000
% Revenue Increase	4.2%
% SD Increase=	100.0%

% Montanans w/ Tax Cut	52%
% Montanans w/ Tax Increase	25%

Option 2: Cap Itemized Deductions

	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Tax Change as % Income	—	—	0.0%	0.0%	0.0%	0.1%	0.3%
Average Tax Change	—	—	+1	+21	+37	+298	+2,845

State Tax Change ($1,000)	+24,000
% Revenue Increase	3%

% Montanans w/ Tax Increase	4%

Option 3: Turn Deductions into Credit, Increase Standard Deduction and Decouple from Federal Pease Repeal

	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Tax Change as % Income	–1.0%	–0.6%	–0.4%	0.2%	0.4%	0.3%	0.3%
Average Tax Change	–98	–149	–147	+134	+410	+718	+2,532

State Tax Change ($1,000)	+29,000
% Revenue Increase	3.8%
Credit=	4.3%
% SD Increase=	73.9%

% Montanans w/ Tax Cut	53%
% Montanans w/ Tax Increase	32%

Option 4: Stand-Alone Phaseout

	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Tax Change as % Income	—	—	—	—	0.0%	0.1%	0.1%
Average Tax Change	—	—	—	—	+3	+129	+1,410

State Tax Change ($1,000)	+9,000
% Revenue Increase	1.2%

% Montanans w/ Tax Increase	4%

Option 5: Decouple from Federal Pease Repeal

	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Tax Change as % Income	—	—	—	—	—	0.0%	0.1%
Average Tax Change	—	—	—	—	—	+49	+924

State Tax Change ($1,000)	+5,000
% Revenue Increase	0.7%

% Montanans w/ Tax Increase	2%

Notes: Montana's current standard deduction phases down over specific income levels. In options 1 & 3 Montana's standard deduction phase down was eliminated and the deduction is a flat amount.

NEBRASKA

Current Treatment of State Itemized Deductions: Allows itemized deductions patterned after federal rules. Significant differences: State and local income taxes are not deductible.

2010 Income Group	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Income Range	Less Than $20,000	$20,000 – $34,000	$34,000 – $55,000	$55,000 – $84,000	$84,000 – $152,000	$152,000 – $346,000	$346,000 – Or More
Average Income in Group	$ 11,000	$ 27,000	$ 44,000	$ 68,000	$ 110,000	$ 211,000	$ 1,110,000

Option 1: Repeal Itemized Deductions and Increase the Standard Deduction

	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Tax Change as % Income	–0.2%	–0.2%	–0.1%	0.0%	0.2%	0.3%	0.4%
Average Tax Change	–26	–57	–35	+4	+185	+633	+4,874

State Tax Change ($1,000)	+70,000
% Revenue Increase	4.2%
% SD Increase=	27.2%

% Nebraskans w/ Tax Cut	61%
% Nebraskans w/ Tax Increase	22%

Option 2: Cap Itemized Deductions

	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Tax Change as % Income	—	—	—	0.0%	0.0%	0.1%	0.3%
Average Tax Change	—	—	—	+2	+31	+126	+3,832

State Tax Change ($1,000)	+42,000
% Revenue Increase	2.5%

% Nebraskans w/ Tax Increase	2%

Option 3: Turn Deductions into Credit, Increase Standard Deduction and Decouple from Federal Pease Repeal

	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Tax Change as % Income	–0.7%	–0.5%	–0.1%	0.1%	0.3%	0.4%	0.4%
Average Tax Change	–77	–137	–57	+38	+307	+762	+4,621

State Tax Change ($1,000)	+69,000
% Revenue Increase	4.1%
Credit=	4%
% SD Increase=	75.4%

% Nebraskans w/ Tax Cut	54%
% Nebraskans w/ Tax Increase	27%

Option 4: Stand-Alone Phaseout

	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Tax Change as % Income	—	—	—	—	0.0%	0.0%	0.2%
Average Tax Change	—	—	—	—	+5	+96	+2,035

State Tax Change ($1,000)	+22,000
% Revenue Increase	1.3%

% Nebraskans w/ Tax Increase	5%

Option 5: Decouple from Federal Pease Repeal

	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Tax Change as % Income	—	—	—	—	—	0.0%	0.1%
Average Tax Change	—	—	—	—	—	+39	+1,235

State Tax Change ($1,000)	+12,000
% Revenue Increase	0.7%

% Nebraskans w/ Tax Increase	3%

NEW MEXICO

Current Treatment of State Itemized Deductions: Allows itemized deductions patterned after federal rules. Significant differences: There is an additional medical care expense deduction at the state level. Itemizers can deduct medical expenses not included in federal itemized amount due to the 7.5% floor. In 2010, New Mexico eliminated its deduction for state income taxes.

2010 Income Group	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Income Range	Less Than $18,000	$18,000 – $30,000	$30,000 – $49,000	$49,000 – $79,000	$79,000 – $154,000	$154,000 – $388,000	$388,000 – Or More
Average Income in Group	$ 11,000	$ 24,000	$ 38,000	$ 62,000	$ 106,000	$ 219,000	$ 883,000

Option 1: Repeal Itemized Deductions and Increase the Standard Deduction

	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Tax Change as % Income	–0.0%	–0.1%	–0.1%	0.0%	0.1%	0.2%	0.3%
Average Tax Change	–3	–24	–33	+2	+115	+443	+2,433

State Tax Change ($1,000)	+44,000
% Revenue Increase	3.9%
% SD Increase=	31.6%

% New Mexicans w/ Tax Cut	46%
% New Mexicans w/ Tax Increase	18%

Option 2: Cap Itemized Deductions

	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Tax Change as % Income	—	—	0.0%	0.0%	0.0%	0.1%	0.2%
Average Tax Change	—	—	+1	+27	+20	+149	+1,750

State Tax Change ($1,000)	+29,000
% Revenue Increase	2.6%

% New Mexicans w/ Tax Increase	3%

Option 3: Turn Deductions into Credit, Increase Standard Deduction and Decouple from Federal Pease Repeal

	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Tax Change as % Income	–0.1%	–0.1%	–0.0%	0.1%	0.1%	0.1%	0.1%
Average Tax Change	–6	–16	–3	+49	+137	+271	+1,230

State Tax Change ($1,000)	+44,000
% Revenue Increase	3.9%
Credit=	3.5%
% SD Increase=	40.4%

% New Mexicans w/ Tax Cut	36%
% New Mexicans w/ Tax Increase	27%

Option 4: Stand-Alone Phaseout

	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Tax Change as % Income	—	—	—	—	0.0%	0.0%	0.1%
Average Tax Change	—	—	—	—	+5	+98	+1,007

State Tax Change ($1,000)	+14,000
% Revenue Increase	1.2%

% New Mexicans w/ Tax Increase	5%

Option 5: Decouple from Federal Pease Repeal

	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Tax Change as % Income	—	—	—	—	—	0.0%	0.1%
Average Tax Change	—	—	—	—	—	+35	+585

State Tax Change ($1,000)	+7,000
% Revenue Increase	0.6%

% New Mexicans w/ Tax Increase	3%

NEW YORK

Current Treatment of State Itemized Deductions: Allows itemized deductions patterned after federal rules. Significant Differences: State, local and foreign income and state and local sales taxes are not deductible; there is an additional deduction/credit for college tuition expenses. New York has an additional 4-tier phaseout on top of the federal disallowance rules starting at AGI of $200,000 for MFJ taxpayers. Starting in 2009, taxpayers with AGI greater than $1 million are limited to taking 50% of the federal deduction for charitable contributions and all other itemized deductions are reduced to 0 (For tax years 2010-2012, taxpayers with AGI greater than $10 million are limited to taking 25% of the charitable contributions deduction).

2010 Income Group	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Income Range	Less Than $17,000	$17,000 – $33,000	$33,000 – $55,000	$55,000 – $93,000	$93,000 – $199,000	$199,000 – $553,000	$553,000 – Or More
Average Income in Group	$ 10,000	$ 24,000	$ 43,000	$ 71,000	$ 129,000	$ 312,000	$ 2,354,000

Option 1: Repeal Itemized Deductions and Increase the Standard Deduction

	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Tax Change as % Income	–0.2%	–0.5%	–0.3%	–0.0%	0.4%	0.7%	0.2%
Average Tax Change	–23	–130	–136	–3	+464	+2,046	+4,209

State Tax Change ($1,000)	+1,230,000
% Revenue Increase	3.9%
% SD Increase=	55%

% New Yorkers w/ Tax Cut	49%
% New Yorkers w/ Tax Increase	22%

Option 2: Cap Itemized Deductions

	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Tax Change as % Income	—	0.0%	0.0%	0.1%	0.2%	0.4%	0.1%
Average Tax Change	—	+1	+16	+67	+222	+1,204	+3,421

State Tax Change ($1,000)	+1,204,000
% Revenue Increase	3.8%

% New Yorkers w/ Tax Increase	9%

Option 3: Turn Deductions into Credit, Increase Standard Deduction and Decouple from Federal Pease Repeal

	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Tax Change as % Income	–0.3%	–0.5%	–0.2%	0.1%	0.4%	0.6%	0.1%
Average Tax Change	–28	–130	–100	+59	+485	+1,923	+3,383

State Tax Change ($1,000)	+1,306,000
% Revenue Increase	4.2%
Credit=	4.85%
% SD Increase=	80%

% New Yorkers w/ Tax Cut	45%
% New Yorkers w/ Tax Increase	25%

Option 4: Stand-Alone Phaseout

	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Tax Change as % Income	—	0.0%	0.0%	0.2%	0.3%	0.5%	0.1%
Average Tax Change	—	+2	+20	+107	+377	+1,476	+1,682

State Tax Change ($1,000)	+1,440,000
% Revenue Increase	4.6%

% New Yorkers w/ Tax Increase	30%

Option 5: Decouple from Federal Pease Repeal

	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Tax Change as % Income	—	0.0%	0.0%	0.1%	0.3%	0.4%	0.1%
Average Tax Change	—	+2	+20	+107	+365	+1,378	+1,563

State Tax Change ($1,000)	+1,375,000
% Revenue Increase	4.4%

% New Yorkers w/ Tax Increase	30%

Notes: Options 2-5 were modeled with the current NY phaseout rules in addition to the reform options.

NORTH CAROLINA

Current Treatment of State Itemized Deductions: Allows itemized deductions patterned after federal rules (uses federal taxable income as starting point for state taxable income). Significant differences: State income taxes and state and local sales taxes are not deductible.

2010 Income Group	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Income Range	Less Than $17,000	$17,000 – $30,000	$30,000 – $48,000	$48,000 – $77,000	$77,000 – $158,000	$158,000 – $375,000	$375,000 – Or More
Average Income in Group	$ 11,000	$ 23,000	$ 38,000	$ 62,000	$ 105,000	$ 224,000	$ 969,000

Option 1: Repeal Itemized Deductions and Increase the Standard Deduction

	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Tax Change as % Income	–0.5%	–0.5%	–0.2%	0.1%	0.3%	0.5%	0.5%
Average Tax Change	–53	–112	–69	+75	+268	+1,042	+4,481

State Tax Change ($1,000)	+404,000
% Revenue Increase	4%
% SD Increase=	120%

% North Carolinians w/ Tax Cut	50%
% North Carolinians w/ Tax Increase	27%

Option 2: Cap Itemized Deductions

	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Tax Change as % Income	—	—	0.0%	0.0%	0.0%	0.1%	0.3%
Average Tax Change	—	—	+2	+18	+28	+267	+3,225

State Tax Change ($1,000)	+218,000
% Revenue Increase	2.2%

% North Carolinians w/ Tax Increase	3%

Option 3: Turn Deductions into Credit, Increase Standard Deduction and Decouple from Federal Pease Repeal

	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Tax Change as % Income	–0.4%	–0.3%	–0.0%	0.2%	0.3%	0.3%	0.3%
Average Tax Change	–41	–67	–16	+102	+276	+709	+2,809

State Tax Change ($1,000)	+398,000
% Revenue Increase	4%
Credit=	4.5%
% SD Increase=	93%

% North Carolinians w/ Tax Cut	46%
% North Carolinians w/ Tax Increase	30%

Option 4: Stand-Alone Phaseout

	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Tax Change as % Income	—	—	—	—	—	0.1%	0.2%
Average Tax Change	—	—	—	—	—	+165	+2,192

State Tax Change ($1,000)	+124,000
% Revenue Increase	1.2%

% North Carolinians w/ Tax Increase	4%

Option 5: Decouple from Federal Pease Repeal

	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Tax Change as % Income	—	—	—	—	0.0%	0.0%	0.1%
Average Tax Change	—	—	—	—	+1	+67	+1,388

State Tax Change ($1,000)	+71,000
% Revenue Increase	0.7%

% North Carolinians w/ Tax Increase	3%

NORTH DAKOTA

Current Treatment of State Itemized Deductions: Allows itemized deductions patterned after federal rules (uses federal taxable income as starting point for state taxable income). Significant differences: State and local income taxes are not deductible.

2010 Income Group	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Income Range	Less Than $23,000	$23,000 – $39,000	$39,000 – $69,000	$69,000 – $95,000	$95,000 – $175,000	$175,000 – $396,000	$396,000 – Or More
Average Income in Group	$ 15,000	$ 31,000	$ 51,000	$ 80,000	$ 120,000	$ 234,000	$ 978,000

Option 1: Repeal Itemized Deductions and Increase the Standard Deduction

	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Tax Change as % Income	–0.1%	–0.1%	–0.0%	–0.1%	0.0%	0.2%	0.4%
Average Tax Change	–9	–32	–19	–49	+39	+396	+3,902

State Tax Change ($1,000)	+12,000
% Revenue Increase	3.9%
% SD Increase=	38%

% North Dakotans w/ Tax Cut	62%
% North Dakotans w/ Tax Increase	17%

Option 2: Cap Itemized Deductions

	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Tax Change as % Income	—	—	—	0.0%	0.0%	0.0%	0.3%
Average Tax Change	—	—	—	+1	+11	+101	+3,041

State Tax Change ($1,000)	+11,000
% Revenue Increase	3.5%

% North Dakotans w/ Tax Increase	3%

Option 3: Turn Deductions into Credit, Increase Standard Deduction and Decouple from Federal Pease Repeal

	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Tax Change as % Income	–0.1%	–0.2%	–0.0%	–0.0%	0.1%	0.1%	0.3%
Average Tax Change	–17	–48	–6	–12	+108	+339	+2,738

State Tax Change ($1,000)	+12,000
% Revenue Increase	4%
Credit=	2.5%
% SD Increase=	25%

% North Dakotans w/ Tax Cut	45%
% North Dakotans w/ Tax Increase	35%

Option 4: Stand-Alone Phaseout

	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Tax Change as % Income	—	—	—	—	0.0%	0.0%	0.1%
Average Tax Change	—	—	—	—	+3	+63	+1,281

State Tax Change ($1,000)	+5,000
% Revenue Increase	1.6%

% North Dakotans w/ Tax Increase	4%

Option 5: Decouple from Federal Pease Repeal

	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Tax Change as % Income	—	—	—	—	0.0%	0.0%	0.1%
Average Tax Change	—	—	—	—	+0	+27	+742

State Tax Change ($1,000)	+3,000
% Revenue Increase	0.8%

% North Dakotans w/ Tax Increase	3%

OKLAHOMA

Current Treatment of State Itemized Deductions: Allows itemized deductions patterned after federal rules. Oklahoma allows itemizers to deduct state income taxes.

2010 Income Group	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Income Range	Less Than $16,000	$16,000 – $30,000	$30,000 – $49,000	$49,000 – $82,000	$82,000 – $167,000	$167,000 – $365,000	$365,000 – Or More
Average Income in Group	$ 10,000	$ 22,000	$ 39,000	$ 63,000	$ 108,000	$ 227,000	$ 1,168,000

Option 1: Repeal Itemized Deductions and Increase the Standard Deduction

	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Tax Change as % Income	–0.1%	–0.3%	–0.3%	–0.1%	0.1%	0.3%	0.5%
Average Tax Change	–11	–66	–99	–40	+142	+761	+5,542

State Tax Change ($1,000)	+104,000
% Revenue Increase	3.9%
% SD Increase=	43%

% Oklahomans w/ Tax Cut	48%
% Oklahomans w/ Tax Increase	21%

Option 2: Cap Itemized Deductions

	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Tax Change as % Income	—	—	0.0%	0.0%	0.0%	0.1%	0.4%
Average Tax Change	—	—	+1	+16	+43	+265	+4,461

State Tax Change ($1,000)	+106,000
% Revenue Increase	3.9%

% Oklahomans w/ Tax Increase	4%

Option 3: Turn Deductions into Credit, Increase Standard Deduction and Decouple from Federal Pease Repeal

	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Tax Change as % Income	–0.1%	–0.1%	–0.0%	0.1%	0.1%	0.2%	0.2%
Average Tax Change	–6	–17	–9	+42	+162	+420	+2,577

State Tax Change ($1,000)	+112,000
% Revenue Increase	4.1%
Credit=	4%
% SD Increase=	50%

% Oklahomans w/ Tax Cut	42%
% Oklahomans w/ Tax Increase	26%

Option 4: Stand-Alone Phaseout

	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Tax Change as % Income	—	—	—	—	0.0%	0.0%	0.2%
Average Tax Change	—	—	—	—	+3	+95	+2,036

State Tax Change ($1,000)	+40,000
% Revenue Increase	1.5%

% Oklahomans w/ Tax Increase	4%

Option 5: Decouple from Federal Pease Repeal

	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Tax Change as % Income	—	—	—	—	—	0.0%	0.1%
Average Tax Change	—	—	—	—	—	+36	+1,182

State Tax Change ($1,000)	+22,000
% Revenue Increase	0.8%

% Oklahomans w/ Tax Increase	3%

OREGON

Current Treatment of State Itemized Deductions: Allows itemized deductions patterned after federal rules. Significant differences: Special medical expense deduction for taxpayers 62 and older; gambling losses limited to those in OR; state income taxes and state and local sales taxes are not deductible.

2010 Income Group	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Income Range	Less Than $18,000	$18,000 – $32,000	$32,000 – $53,000	$53,000 – $84,000	$84,000 – $167,000	$167,000 – $378,000	$378,000 – Or More
Average Income in Group	$ 10,000	$ 24,000	$ 41,000	$ 65,000	$ 109,000	$ 225,000	$ 943,000

Option 1: Repeal Itemized Deductions and Increase the Standard Deduction

	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Tax Change as % Income	–1.1%	–1.1%	–0.4%	0.1%	0.5%	0.6%	0.8%
Average Tax Change	–121	–271	–164	+92	+562	+1,358	+7,617

State Tax Change ($1,000)	+218,000
% Revenue Increase	4%
% SD Increase=	219%

% Oregonians w/ Tax Cut	49%
% Oregonians w/ Tax Increase	29%

Option 2: Cap Itemized Deductions

	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Tax Change as % Income	—	—	0.0%	0.0%	0.1%	0.2%	0.6%
Average Tax Change	—	—	+2	+19	+81	+364	+5,236

State Tax Change ($1,000)	+162,000
% Revenue Increase	3%

% Oregonians w/ Tax Increase	4%

Option 3: Turn Deductions into Credit, Increase Standard Deduction and Decouple from Federal Pease Repeal

	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Tax Change as % Income	–0.7%	–0.6%	–0.1%	0.2%	0.4%	0.4%	0.5%
Average Tax Change	–77	–154	–45	+147	+423	+841	+4,956

State Tax Change ($1,000)	+215,000
% Revenue Increase	4%
Credit=	6%
% SD Increase=	220%

% Oregonians w/ Tax Cut	43%
% Oregonians w/ Tax Increase	34%

Option 4: Stand-Alone Phaseout

	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Tax Change as % Income	—	—	0.0%	0.0%	0.0%	0.1%	0.3%
Average Tax Change	—	—	+4	+9	+9	+203	+2,920

State Tax Change ($1,000)	+81,000
% Revenue Increase	1.5%

% Oregonians w/ Tax Increase	6%

Option 5: Decouple from Federal Pease Repeal

	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Tax Change as % Income	—	—	—	—	—	0.0%	0.2%
Average Tax Change	—	—	—	—	—	+71	+1,775

State Tax Change ($1,000)	+41,000
% Revenue Increase	0.8%

% Oregonians w/ Tax Increase	3%

SOUTH CAROLINA

Current Treatment of State Itemized Deductions: Allows itemized deductions patterned after federal rules (uses federal taxable income as starting point for state taxable income). Significant differences: State income taxes and state and local sales taxes are not deductible.

2010 Income Group	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Income Range	Less Than $16,000	$16,000 – $27,000	$27,000 – $43,000	$43,000 – $73,000	$73,000 – $142,000	$142,000 – $341,000	$341,000 – Or More
Average Income in Group	$ 10,000	$ 22,000	$ 34,000	$ 56,000	$ 97,000	$ 202,000	$ 864,000

Option 1: Repeal Itemized Deductions and Increase the Standard Deduction

	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Tax Change as % Income	–0.1%	–0.1%	–0.0%	0.0%	0.1%	0.3%	0.4%
Average Tax Change	–5	–17	–9	+23	+63	+597	+3,642

State Tax Change ($1,000)	+148,000
% Revenue Increase	4.5%
% SD Increase=	22.8%

% South Carolinians w/ Tax Cut	46%
% South Carolinians w/ Tax Increase	18%

Option 2: Cap Itemized Deductions

	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Tax Change as % Income	—	—	0.0%	0.0%	0.0%	0.1%	0.3%
Average Tax Change	—	—	+4	+9	+8	+140	+2,459

State Tax Change ($1,000)	+74,000
% Revenue Increase	2.2%

% South Carolinians w/ Tax Increase	2%

Option 3: Turn Deductions into Credit, Increase Standard Deduction and Decouple from Federal Pease Repeal

	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Tax Change as % Income	–0.1%	–0.2%	–0.0%	0.1%	0.1%	0.2%	0.3%
Average Tax Change	–14	–35	–0	+55	+107	+470	+2,366

State Tax Change ($1,000)	+129,000
% Revenue Increase	3.9%
Credit=	4%
% SD Increase=	92%

% South Carolinians w/ Tax Cut	42%
% South Carolinians w/ Tax Increase	22%

Option 4: Stand-Alone Phaseout

	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Tax Change as % Income	—	—	—	—	0.0%	0.0%	0.2%
Average Tax Change	—	—	—	—	+2	+86	+1,530

State Tax Change ($1,000)	+42,000
% Revenue Increase	1.3%

% South Carolinians w/ Tax Increase	3%

Option 5: Decouple from Federal Pease Repeal

	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Tax Change as % Income	—	—	—	—	—	0.0%	0.1%
Average Tax Change	—	—	—	—	—	+33	+882

State Tax Change ($1,000)	+22,000
% Revenue Increase	0.7%

% South Carolinians w/ Tax Increase	2%

UTAH

Current Treatment of State Itemized Deductions: Allows itemized deductions patterned after federal rules. Significant differences: State income taxes are not deductible. Utah converts its standard and itemized deductions into a credit (Option 3) coupled with personal exemptions equal to 6% of either federal standard or itemized deductions (minus state taxes paid) + personal exemption total. The credit is phased out by 1.3% (option 4) of Utah taxable income starting at $25,022 for MFJ filers.

2010 Income Group	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Income Range	Less Than $20,000	$20,000 – $34,000	$34,000 – $53,000	$53,000 – $85,000	$85,000 – $165,000	$165,000 – $383,000	$383,000 – Or More
Average Income in Group	$ 12,000	$ 27,000	$ 43,000	$ 68,000	$ 113,000	$ 230,000	$ 1,165,000

Option 1: Repeal Itemized Deductions and Increase the Standard Deduction

	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Tax Change as % Income	–0.3%	–1.1%	–0.3%	0.4%	0.5%	0.3%	0.0%
Average Tax Change	–35	–288	–113	+268	+525	+681	+433

State Tax Change ($1,000)	+84,000
% Revenue Increase	3.6%
% SD Increase=	254%

% Utahns w/ Tax Cut	32%
% Utahns w/ Tax Increase	37%

Option 2: Cap Itemized Deductions

	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Tax Change as % Income	—	0.0%	0.0%	0.0%	0.1%	0.2%	0.0%
Average Tax Change	—	+2	+0	+25	+80	+400	+399

State Tax Change ($1,000)	+41,000
% Revenue Increase	1.7%

% Utahns w/ Tax Increase	5%

Option 3: Turn Deductions into Credit, Increase Standard Deduction and Decouple from Federal Pease Repeal

Option 3 was not modeled in Utah because the state has already turned its deductions into a credit. Option 5 models current credit structure decoupled from Pease.

Option 4: Stand-Alone Phaseout

	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Tax Change as % Income	—	—	—	—	0.0%	0.0%	0.0%
Average Tax Change	—	—	—	—	+3	+59	+105

State Tax Change ($1,000)	+4,000
% Revenue Increase	0.2%

% Utahns w/ Tax Increase	3%

Option 5: Decouple from Federal Pease Repeal

	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Tax Change as % Income	—	—	—	—	—	0.0%	0.0%
Average Tax Change	—	—	—	—	—	+24	+72

State Tax Change ($1,000)	+2,000
% Revenue Increase	0.1%

% Utahns w/ Tax Increase	1%

Notes: Options 1,2,4 & 5 were modeled with the current credit structure.

VERMONT

Current Treatment of State Itemized Deductions: Allows itemized deductions patterned after federal rules (uses federal taxable income as starting point for state taxable income). Vermont allows a partial deduction for state and local income taxes paid (maximum of $5,000).

2010 Income Group	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Income Range	Less Than $20,000	$20,000 – $36,000	$36,000 – $55,000	$55,000 – $86,000	$86,000 – $165,000	$165,000 – $387,000	$387,000 – Or More
Average Income in Group	$ 12,000	$ 28,000	$ 45,000	$ 68,000	$ 112,000	$ 232,000	$ 981,000

Option 1: Repeal Itemized Deductions and Increase the Standard Deduction

	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Tax Change as % Income	–0.2%	–0.3%	–0.2%	–0.1%	0.2%	0.4%	0.6%
Average Tax Change	–31	–91	–76	–43	+171	+998	+5,516

State Tax Change ($1,000)	+22,000
% Revenue Increase	4.1%
% SD Increase=	55%

% Vermonters w/ Tax Cut	60%
% Vermonters w/ Tax Increase	4%

Option 2: Cap Itemized Deductions

	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Tax Change as % Income	—	—	0.0%	0.0%	0.1%	0.1%	0.4%
Average Tax Change	—	—	+5	+8	+57	+267	+4,163

State Tax Change ($1,000)	+19,000
% Revenue Increase	3.5%

% Vermonters w/ Tax Increase	4%

Option 3: Turn Deductions into Credit, Increase Standard Deduction and Decouple from Federal Pease Repeal

	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Tax Change as % Income	–0.3%	–0.4%	–0.3%	–0.1%	0.3%	0.5%	0.4%
Average Tax Change	–39	–106	–131	–58	+369	+1,068	+4,318

State Tax Change ($1,000)	+22,000
% Revenue Increase	4.1%
Credit=	4.25%
% SD Increase=	46%

% Vermonters w/ Tax Cut	48%
% Vermonters w/ Tax Increase	29%

Option 4: Stand-Alone Phaseout

	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Tax Change as % Income	—	—	—	0.0%	0.0%	0.1%	0.3%
Average Tax Change	—	—	—	+1	+10	+202	+2,622

State Tax Change ($1,000)	+11,000
% Revenue Increase	2%

% Vermonters w/ Tax Increase	6%

Option 5: Decouple from Federal Pease Repeal

	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Tax Change as % Income	—	—	—	—	—	0.0%	0.2%
Average Tax Change	—	—	—	—	—	+85	+1,520

State Tax Change ($1,000)	+6,000
% Revenue Increase	1%

% Vermonters w/ Tax Increase	3%

VIRGINIA

Current Treatment of State Itemized Deductions: Allows itemized deductions patterned after federal rules. Significant differences: Some modifications due to fixed date conformity; state income taxes and state and local sales taxes are not deductible.

2010 Income Group	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Income Range	Less Than $20,000	$20,000 – $37,000	$37,000 – $60,000	$60,000 – $100,000	$100,000 – $206,000	$206,000 – $478,000	$478,000 – Or More
Average Income in Group	$ 12,000	$ 28,000	$ 48,000	$ 78,000	$ 137,000	$ 287,000	$ 1,348,000

Option 1: Repeal Itemized Deductions and Increase the Standard Deduction

	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Tax Change as % Income	–0.4%	–0.5%	–0.2%	0.1%	0.3%	0.4%	0.3%
Average Tax Change	–53	–143	–109	+53	+422	+1,200	+4,661

State Tax Change ($1,000)	+400,000
% Revenue Increase	4.2%
% SD Increase=	180%

% Virginians w/ Tax Cut	43%
% Virginians w/ Tax Increase	29%

Option 2: Cap Itemized Deductions

	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Tax Change as % Income	—	0.0%	0.0%	0.0%	0.1%	0.2%	0.3%
Average Tax Change	—	+3	+8	+36	+107	+491	+3,703

State Tax Change ($1,000)	+306,000
% Revenue Increase	3.2%

% Virginians w/ Tax Increase	7%

Option 3: Turn Deductions into Credit, Increase Standard Deduction and Decouple from Federal Pease Repeal

	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Tax Change as % Income	–0.1%	–0.1%	0.0%	0.1%	0.2%	0.2%	0.2%
Average Tax Change	–17	–29	+10	+111	+275	+582	+2,417

State Tax Change ($1,000)	+386,000
% Revenue Increase	4%
Credit=	4.35%
% SD Increase=	80%

% Virginians w/ Tax Cut	35%
% Virginians w/ Tax Increase	36%

Option 4: Stand-Alone Phaseout

	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Tax Change as % Income	—	—	—	0.0%	0.0%	0.1%	0.2%
Average Tax Change	—	—	—	+2	+23	+282	+2,463

State Tax Change ($1,000)	+148,000
% Revenue Increase	1.5%

% Virginians w/ Tax Increase	10%

Option 5: Decouple from Federal Pease Repeal

	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Tax Change as % Income	—	—	—	—	0.0%	0.0%	0.1%
Average Tax Change	—	—	—	—	+3	+135	+1,454

State Tax Change ($1,000)	+76,000
% Revenue Increase	0.8%

% Virginians w/ Tax Increase	6%

WISCONSIN

Current Treatment of State Itemized Deductions: Allows itemized deductions patterned after federal rules. Significant differences: Interest paid on a second home outside of WI, a boat, or to purchase U.S. securities is not deductible; mortgage interest premiums not treated as interest, miscellaneous deductions, state income and state and local sales taxes, and all casualty and theft losses except casualty losses that are directly related to a federally-declared disaster are also not deductible. Wisconsin converts allowable itemized deductions into a credit equal to 5% of taxpayers allowable itemized deductions minus their WI standard deduction amount (sliding scale based on filing status and WI total income)

2010 Income Group	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Income Range	Less Than $19,000	$19,000 – $34,000	$34,000 – $55,000	$55,000 – $82,000	$82,000 – $148,000	$148,000 – $339,000	$339,000 – Or More
Average Income in Group	$ 13,000	$ 27,000	$ 44,000	$ 67,000	$ 104,000	$ 204,000	$ 989,000

Option 1: Repeal Itemized Deductions and Increase the Standard Deduction

	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Tax Change as % Income	–0.0%	–0.1%	–0.1%	0.0%	0.3%	0.4%	0.2%
Average Tax Change	–4	–28	–32	+3	+276	+784	+2,176

State Tax Change ($1,000)	+242,000
% Revenue Increase	3.9%
% SD Increase=	11.7%

% Wisconsinites w/ Tax Cut	49%
% Wisconsinites w/ Tax Increase	24%

Option 2: Cap Itemized Deductions

	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Tax Change as % Income	—	—	—	0.0%	0.0%	0.0%	0.1%
Average Tax Change	—	—	—	+2	+14	+83	+898

State Tax Change ($1,000)	+43,000
% Revenue Increase	0.7%

% Wisconsinites w/ Tax Increase	1%

Option 3: Turn Deductions into Credit, Increase Standard Deduction and Decouple from Federal Pease Repeal

Option 3 was not modeled because the state already allows taxpayers to claim a credit equal to five percent of selected federal itemized deductions that exceed the standard deduction.

Option 4: Stand-Alone Phaseout

	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Tax Change as % Income	—	—	—	—	0.0%	0.0%	0.1%
Average Tax Change	—	—	—	—	+2	+75	+1,237

State Tax Change ($1,000)	+45,000
% Revenue Increase	0.7%

% Wisconsinites w/ Tax Increase	5%

Option 5: Decouple from Federal Pease Repeal

	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Tax Change as % Income	—	—	—	—	—	0.0%	0.1%
Average Tax Change	—	—	—	—	—	+29	+790

State Tax Change ($1,000)	+26,000
% Revenue Increase	0.4%

% Wisconsinites w/ Tax Increase	3%

Notes: Options 1,2,4 & 5 were modeled with the current credit structure.

Source: Institute on Taxation and Economic Policy Microsimulation Tax Model, August 2010

Information on state treatment of itemized deductions is from states' revenue department websites and *Individual Income Tax Provisions in the States*, Wisconsin Legislative Fiscal Bureau, January 2009

Appendix II. The ITEP Microsimulation Model

The Institute on Taxation & Economic Policy has engaged in research on tax issues since 1980, with a focus on the distributional consequences of both current law and proposed changes. ITEP's research has often been used by other private groups in their work, and ITEP is frequently consulted by government estimators in performing their official analyses. Over the past several years, ITEP has built a microsimulation model of the tax systems of the U.S. government and of all 50 states and the District of Columbia.

Microsimulation Model

The ITEP model is a tool for calculating revenue yield and incidence, by income group, of federal, state and local taxes. It calculates revenue yield for current tax law and proposed amendments to current law. Separate incidence analyses can be done for categories of taxpayers specified by marital status, the presence of children and age.

In computing its estimates, the ITEP model relies on one of the largest databases of tax returns and supplementary data in existence, encompassing close to three quarters of a million records. To forecast revenues and incidence, the model relies on government or other widely respected economic projections.

The ITEP model's federal tax calculations are very similar to those produced by the congressional Joint Committee on Taxation, the U.S. Treasury Department and the Congressional Budget Office (although each of these four models differs in varying degrees as to how the results are presented). The ITEP model, however, adds state-by-state estimating capabilities not found in those government models.

Below is an outline of each area of the ITEP model and what its capabilities are:

The Personal Income Tax Model analyzes the revenue and incidence of current federal and state personal income taxes and amendment options including changes in:

- rates—including special rates on capital gains,
- inclusion or exclusion of various types of income,
- inclusion or exclusion of all federal and state adjustments,
- exemption amounts and a broad variety of exemption types and, if relevant, phase-out methods,
- standard deduction amounts and a broad variety of standard deduction types and phase-outs,
- itemized deductions and deduction phase-outs, and
- credits, such as earned-income and child-care credits.

The Consumption Tax Model analyzes the revenue yield and incidence of current sales and excise taxes. It also has the capacity to analyze the revenue and incidence implications of a broad range of base and rate changes in general sales taxes, special sales taxes, gasoline excise taxes and tobacco excise taxes. There are more than 250 base items available to amend in the model, reflecting, for example, sales tax base differences among states and most possible changes that might occur.

The Property Tax Model analyzes revenue yield and incidence of current state and local property taxes. It can also analyze the revenue and incidence impacts of statewide policy changes in property tax—including the effect of circuit breakers, homestead exemptions, and rate and assessment caps.

The Corporate Income Tax Model analyzes revenue yield and incidence of current corporate income tax law, possible rate changes and certain base changes.

Local taxes. The model can analyze the statewide revenue and incidence of aggregate local taxes (not, however, broken down by individual localities).

Data Sources

The ITEP model is a "microsimulation model." That is, it works on a very large stratified sample of tax returns and other data, aged to the year being analyzed. This is the same kind of tax model used by the U.S. Treasury Department, the congressional Joint Committee on Taxation and the Congressional Budget Office.

The ITEP model uses the following micro-data sets and aggregate data:

Micro-Data Sets: IRS Individual Public Use Tax File, Level III Sample; IRS Individual Public Use Tax File; Current Population Survey: Consumer Expenditure Survey; U.S. Census, 1990.

Partial List of Aggregated Data Sources: Miscellaneous IRS data; Congressional Budget Office and Joint Committee on Taxation forecasts; other economic data (Commerce Department, WEFA, etc.); state tax department data; data on overall levels of consumption for specific goods (Commerce Department, Census of Services, etc.); state specific consumption and consumption tax data (Census data, Government Finances, etc.); state specific property tax data (Govt. Finances, etc.); American Housing Survey 1990; 1990 Census of Population Housing; etc.

A more detailed description of the ITEP Microsimulation Tax Model can be found at www.itepnet.org.