

## How will itemizers be affected if deductions are cut to solve deficit woes?

The soon-to-convene Joint Select Committee on Deficit Reduction (JSC) is supposed to come up in short order with \$1.5 trillion in deficit reduction. How the JSC will accomplish this goal is unknown, but it may consider fundamental tax changes, including cutbacks in itemized deductions for individuals, such as the mortgage interest deduction. This article provides a frame of reference for the revenue potential of such cutbacks, and shows how individuals may be affected (i.e., how many deductions dollars would be lost, on average, if there are Schedule A cutbacks). It is based on the latest preliminary statistical data that IRS has compiled for 2009 individual returns (i.e., those filed in 2010).

**2009 itemized deduction overview.** IRS's Winter 2011 Statistics of Income Bulletin indicates that total deductions—the sum of the standard deductions and total itemized deductions (after limitation)—amounted to \$1,918.3 billion in 2009. The standard deduction was claimed on 65.8% of all returns filed (accounting for 39.2% of the total deductions amount). Itemized deductions were claimed on 32.5% of all returns filed (accounting for 60.8% of the total deduction amount).

**Observation:** The number of itemizers and nonitemizers doesn't add up to 100%, presumably because some low-income taxpayers who file only to get wage withholding refunds and/or the earned income tax credit may not claim any deductions.

Overall, 45.6 million taxpayers claimed total itemized deductions (after limitation) of \$1,165.9 billion. The interest paid deduction was the largest deduction, making up 36.7% of total itemized deductions (before limitation) or \$432.8 billion. For 2009, an estimated 10 million taxpayers elected to deduct State and local general sales taxes instead of local income taxes. The total taxes paid deduction accounted for 35.8% of all itemized deductions. The deduction for medical and dental expenses amounted to \$78.5 billion, while the charitable contributions deduction was \$148.6 billion in 2009.

**Average itemized deductions.** The 2009 averages shown on the table below are for those itemizers within the income range who claimed a deduction for that particular category. For example, while itemized deductions were claimed on 11,455,714 returns reporting adjusted gross income (AGI) in the \$100,000 to \$200,000 range, the medical expense deduction was claimed on only 947,851 of them—only 8.3%. Thus, the \$9,269 average medical deduction for that AGI category represents the average claimed on those 947,851 returns. In the \$200,000 to \$250,000 range, only about 3.3% of itemizers claimed medical and dental deductions. As income dropped, the percentage claiming the medical expense deductions rose. For certain other categories and income ranges, the averages are based on almost all itemizers claiming deductions. For example, 99.9% of itemizers with AGI of \$100,000 to \$200,000 or more claimed deductions for taxes paid.

**Observation:** Because of the averaging within categories and the fact that not all deduction categories are listed (e.g., miscellaneous itemized deductions are not included), the total amount of average itemized deductions for an AGI range does not equal the sum of the averages for the categories above it. Also, all filers may not claim itemized deductions in a particular category.

**Observation:** The amount shown as total itemized deductions reflects the reduction in allowable itemized deductions for high-income taxpayers that occurs when their AGI exceeds a specified amount. For 2009, 5.7 million higher income taxpayers lost a total of \$12.1 billion of itemized deductions on account of this limitation.

**Caution:** The figures in the table are merely averages. Only amounts actually paid for expenses that are deductible may be claimed.

**Observation:** Computed these averages from preliminary statistical data posted on the IRS website (see <http://www.irs.gov/pub/irs-soi/11winbul.pdf>). The data, which is based on a statistical sampling of returns, estimates the number of taxpayers in each income category that claimed the particular itemized deduction and the total amount deducted.

**2009 Average Deductions Claimed Based on Adjusted Gross Income**

Dollars		Adjusted Gross Income in Thousands of					
		\$0-15	\$15-30	\$30-50	\$50-100	\$100-200	\$200-250 & up
Medical	8,414	7,783	7,028	7,269	9,269		
21,599	38,149						
Taxes paid	3,337	3,184	3,943	6,247	11,069		
18,524	48,317						
State & local tax<*>	802	961	1,644	3,125	6,302		
11,624	37,612						

Income

taxes only	1,276	1,139	1,865	3,512	7,003
12,949	43,519				
Gen. sales					
tax only	522	723	1,057	1,509	2,382
3,685	5,237				
Contri-					
butions	1,496	2,048	2,274	2,775	3,888
5,947	18,488				
Interest	8,839	8,434	8,699	10,133	13,456
17,572	25,527				
Total					
itemized					
(after					
limitation)	16,164	15,608	16,404	20,350	28,952
41,595	89,432				

-----

<\*> State and local taxes are the total of both income taxes and general

sales taxes.

**Observation:** The fact that approximately 4% of filers with AGI of \$200,000 or more did not itemize is likely due to their living in states with no income tax or a small income tax, having no mortgage interest expense, and having all or most of their medical expenses covered by health insurance of one kind or another. Another factor could be that the overall limitation on itemized deductions at higher income ranges, which can cause loss of certain itemized deductions, results in some high-income taxpayers taking the standard deduction.