

**DESCRIPTION OF H.R. 622,
A BILL TO AMEND THE INTERNAL REVENUE CODE OF 1986
TO MAKE PERMANENT THE DEDUCTION OF STATE
AND LOCAL GENERAL SALES TAXES**

Scheduled for Markup
by the
HOUSE COMMITTEE ON WAYS AND MEANS
on February 12, 2015

Prepared by the Staff
of the
JOINT COMMITTEE ON TAXATION



February 11, 2015
JCX-40-15

CONTENTS

	<u>Page</u>
INTRODUCTION	1
A. Deduction for State and Local Sales Taxes.....	2
B. Estimated Revenue Effects.....	4

INTRODUCTION

The House Committee on Ways and Means has scheduled a committee markup of H.R. 622, a bill to amend the Internal Revenue Code of 1986 to make permanent the deduction of State and local general sales taxes on February 12, 2015. This document,¹ prepared by the staff of the Joint Committee on Taxation, provides a description of the bill.

¹ This document may be cited as follows: Joint Committee on Taxation, *Description of H.R. 622, A Bill to Amend the Internal Revenue Code of 1986 to Make Permanent the Deduction of State and Local General Sales Taxes* (JCX-40-15), February 11, 2015. This document can also be found on the Joint Committee on Taxation website at www.jct.gov.

A. Deduction for State and Local Sales Taxes

Present Law

For purposes of determining regular tax liability, an itemized deduction is permitted for certain State and local taxes paid, including individual income taxes, real property taxes, and personal property taxes. The itemized deduction is not permitted for purposes of determining a taxpayer's alternative minimum taxable income. For taxable years beginning before 2015, at the election of the taxpayer, an itemized deduction may be taken for State and local general sales taxes in lieu of the itemized deduction provided under present law for State and local income taxes. As is the case for State and local income taxes, the itemized deduction for State and local general sales taxes is not permitted for purposes of determining a taxpayer's alternative minimum taxable income. Taxpayers have two options with respect to the determination of the sales tax deduction amount. Taxpayers may deduct the total amount of general State and local sales taxes paid by accumulating receipts showing general sales taxes paid. Alternatively, taxpayers may use tables created by the Secretary of the Treasury ("Secretary") that show the allowable deduction. The tables are based on average consumption by taxpayers on a State-by-State basis taking into account number of dependents, modified adjusted gross income and rates of State and local general sales taxation. Taxpayers who live in more than one jurisdiction during the tax year are required to pro-rate the table amounts based on the time they live in each jurisdiction. Taxpayers who use the tables created by the Secretary may, in addition to the table amounts, deduct eligible general sales taxes paid with respect to the purchase of motor vehicles, boats, and other items specified by the Secretary. Sales taxes for items that may be added to the tables are not reflected in the tables themselves.

A general sales tax is a tax imposed at one rate with respect to the sale at retail of a broad range of classes of items.² No deduction is allowed for any general sales tax imposed with respect to an item at a rate other than the general rate of tax. However, in the case of food, clothing, medical supplies, and motor vehicles, the above rules are relaxed in two ways. First, if the tax does not apply with respect to some or all of such items, a tax that applies to other such items can still be considered a general sales tax. Second, the rate of tax applicable with respect to some or all of these items may be lower than the general rate. However, in the case of motor vehicles, if the rate of tax exceeds the general rate, such excess is disregarded and the general rate is treated as the rate of tax.

A compensating use tax with respect to an item is treated as a general sales tax, provided such tax is complementary to a general sales tax and a deduction for sales taxes is allowable with respect to items sold at retail in the taxing jurisdiction that are similar to such item.

² Sec. 164(b)(5)(B).

Description of Proposal

The proposal extends permanently the provision allowing taxpayers to elect to deduct State and local sales taxes in lieu of State and local income taxes.

Effective Date

The proposal is effective upon the date of enactment.

B. Estimated Revenue Effects

Fiscal Years [Millions of Dollars]												
<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>	<u>2015-20</u>	<u>2015-25</u>
-148	-3,332	-3,462	-3,656	-3,872	-4,074	-4,298	-4,539	-4,772	-5,021	-5,267	-18,543	-42,440

NOTE: Details do not add to totals due to rounding.