ESTIMATING THE IMPACT OF THE CAP ON SALT DEDUCTIONS: A CROSS-CITY ANALYSIS OF ILLINOIS

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The Tax Cuts and Jobs Act of 2017 limits individual deductions for certain state and local taxes (SALT) to $10,000 per year. Using the Internal Revenue Service's 2017 Statistics of Income data, this research estimates the impact of the cap on SALT deductions across municipalities in the State of Illinois. The results indicate that municipalities with higher incomes and heavier property tax burdens will be hit harder because the magnitude of the impact rises with median household income and municipal property tax level. Municipal governments may reduce their reliance on deductible local taxes and incorporate other alternate revenue sources to mitigate the impact.

INTRODUCTION

In the U.S., the federal government provides substantial financial assistance to state and local governments through a variety of federal grant programs and deductions of SALT from federal individual income tax. The Tax Cuts and Jobs Act of 2017 (TCJA) limits the SALT deduction to $10,000 per filer each year. The law still allows taxpayers to deduct state and local property tax, as well as income tax or general sales tax, from their federal taxable income within the limit. While this provision reduces federal tax expenditures, it adversely affects state and local finances as it substantially decreases the federal assistance that has been an important pillar of fiscal federalism in the U.S.

Given the substantial variation in the number of affected taxpayers and the amounts of SALT deductions they claim, the impact of this cap is likely to vary across states and localities. Using the Statistics of Income (SOI) data from the Internal Revenue Service (IRS), we estimate the impact of the cap on SALT deductions at the municipal level in the State of Illinois. The purpose is to identify communities most likely to be impacted based on the location of taxpayers who would be most affected by the limitation. The results indicate

that more taxpayers residing in wealthier municipalities will be negatively affected, and taxpayers will bear large negative impacts of the cap if their communities have larger median household incomes and higher levels of local property taxation.

This study improves the understanding of the TCJA's impact on municipal government finances. It is expected that the cap on SALT deductions will reduce public support for the deductible state and local taxes, and state and local governments will face pressure to lower taxes or forgo tax increases. Our findings suggest that communities with substantial affluence and heavy property tax burden will particularly face opposition to tax increases because a large number of their residents will feel relatively significant effects of the cap on deductible SALT.

RESEARCH CONTEXT

The federal government allows tax filers to deduct certain state and local taxes through the federal income tax system. Under federal tax law, tax filers may deduct state and local property taxes and general sales or income taxes from their federal taxable income. The SALT deduction decreases a taxpayer's federal taxable income and thus reduces that taxpayer's ultimate federal tax liability. For instance, if one federal income tax filer paid $15,000 in state and local property and income taxes, and the marginal federal income tax rate is 22%, that taxpayer can reduce federal income tax liability by $3,300. In other words, the $3,300 state and local taxes in that particular state and locality are paid by the federal government and become a part of federal tax expenditure.

The TCJA places a $10,000 cap on itemizers' deductions of SALT from their taxable income.[1] The law still allows filers who choose to itemize deductions to subtract SALT from their federal taxable income within the $10,000 limit. This means that state and local taxes paid in excess of $10,000 can no longer be deducted on a filer's federal income tax. While the provision will reduce federal tax expenditures, it will also affect some taxpayers because they will have to claim a smaller amount of taxes they pay to state and local governments. As a result, federal income tax liabilities for those who itemize their taxes and have state and local tax payments above $10,000 would rise and their after-tax incomes would shrink, all else being equal.

The impact of the new SALT deduction cap, however, is alleviated somewhat by two other provisions in the law. First, the new law raises the standard deductions for tax filers. Under the new law, the standard deduction will be $12,000 for single filers, $18,000 for heads of household, and $24,000 for married individuals filing joint returns starting in tax year 2018.[2] As a result of the increased standard deductions, some taxpayers will no longer itemize deductions, which will eliminate the potential negative effects those taxpayers may have incurred from the new SALT deduction cap. In addition, the law enacts a slightly lower tax rate structure. For example, the highest marginal tax rate under the new law is reduced from 39.6% to 37%. These lower rates may also reduce the potential negative effects of the SALT deduction cap, particularly for taxpayers with high incomes.

The TCJA has received a great deal of attention from scholars and practitioners regarding how it will affect taxpayers. Gordon (2018), for example, points out that the cap on SALT deduction exacerbates the penalty for workers living in high-cost, high-productivity areas. Chernick (2018) and Reschovsky (2018) expect that the new tax law will reduce support for state income and local property taxes and that state and local governments will face pressure to lower taxes or forgo tax increases, even in periods of economic recession. Reschovsky (2018) further anticipates that the tax law may induce some high-income taxpayers in higher-tax states to migrate to lower-tax states. According to a recent analysis from Pew Charitable Trusts (Oliff and Samms 2018), the impact of the cap on SALT deductions could be far-reaching because it would affect federal income tax filers in many states.

The cap will create changes in state and local tax burdens across communities and will likely lead to mobility of affluent taxpayers. Although the existing literature suggests that people do not generally migrate in response to tax changes (Day and Winer, 2006; Coomes and Hoyt, 2008), some empirical studies find that wealthy individuals are more likely to respond to tax changes than other groups (Saez, Slemrod, and Giertz, 2009). A study by Young and Varner (2011) reports little responsiveness of millionaires to a New Jersey state tax on millionaires. However, a subsequent reevaluation of Young and Warner's 2011 study identifies some issues in their modeling of migration effects (Cohen, Lai, and Steindel, 2015). After correcting those modeling issues, Cohen, Lai, and Steindel (2015) report a significant increase in the out-migration of taxpayers in the years following the tax change in the state. Young and his colleagues

(2016) later found that millionaires migrate from high-tax states to low-tax ones but only at the margins of statistical and social-economic significance.

Although the empirical evidence is not conclusive about the tax-induced migration, scholars tend to agree that affluent taxpayers are more likely to migrate to avoid a higher tax burden. This further validates state and local governments' concern with the potential negative effects of the capped SALT deduction on their tax base. The communities that are affected most will likely face a larger challenge in protecting their wealthy population and tax base.

DATA AND METHODOLOGY

Given the substantial variation in the percentage of filers who claim the SALT deduction and the size of their deductions, the impact of the new cap is likely to vary across municipalities. The SALT cap will increase federal income tax liabilities for certain tax filers because under the new law, they will not be allowed to claim a SALT deduction beyond the $10,000 limit. More affluent and higher-tax municipalities will likely witness larger increases in federal tax liabilities. We estimate the impact of the SALT deduction cap on various communities in the State of Illinois. In particular, we examine: 1) the number of tax filers who are likely to be negatively impacted; and, 2) the magnitude of the impact on the tax liabilities and incomes of tax filers who are likely to be negatively affected by the new cap. We examine the two issues at the municipal level to understand the geographic variation in the impact of the SALT deduction cap.

We use the IRS's data of individual income tax statistics for tax year 2017.[3] The data are based on administrative records of individual income tax returns (Form 1040) from the IRS Individual Master File system. Included in the data are tax returns filed during the 12-month period of calendar year 2018.[4] The TCJA was signed into law by President Donald Trump on December 22, 2017, and took effect on January 1, 2018. The 2017 income tax statistics, therefore, provide the best possible data to examine the impact of the new cap for two reasons: First, as the immediately preceding year, 2017 is most comparable to 2018 in all relevant aspects except for the new law taking effect in 2018. Second, it is reasonable to assume that taxpayers' behavior did not change during 2017 in response to the TCJA because it became law at the very end of the year.

One major challenge to using the IRS data is that the data are not available at the municipal level. The IRS only produces the data of income tax statistics at state, congressional district, county, and ZIP code levels. Moreover, individual

public-use microdata files are only available, at a charge, for tax years 2009-2013. The only feasible option is to aggregate the ZIP code-level data to the municipal level. We use the 2010 ZIP Code Tabulation Area (ZCTA) to Place Relationship File that matches all ZIP codes to municipalities in Illinois. For instance, if one municipality contains two ZCTAs, all population of ZCTA A and 30% of the population in ZCTA B, the data of the municipality is the sum of the data of entire ZCTA A and 30% of the data of ZCTA B for each variable in the IRS's data file.

For tax year 2017, the total number of federal income tax returns from the State of Illinois was 6,060,080, and about 33% (or 1,988,200) of those returns included itemized deductions. After excluding taxpayers who would most likely take the standard deduction under the new tax law, we estimate that 1.48 million filers would continue to choose itemized deductions.[5] In 2017, 1,932,880 filers claimed the SALT deduction, totaling $26.3 billion.[6] Under the new tax law, we estimate that 1.44 million filers would still itemize and claim the SALT deduction.[7] The total SALT deductions would have been reduced to $22.9 billion had the new, higher standard deductions been in effect in 2017.[8]

The IRS data are available for six levels of adjusted gross income (AGI) including $1 to $25,000, $25,000 to $50,000, $50,000 to $75,000, $75,000 to $100,000, $100,000 to $200,000, and $200,000 or more. Because the likelihood of taxpayers' choice to itemize deductions and the amount of SALT deductions generally increase with income, the number of affected filers should rise with AGI. As shown in Table 1, larger proportions of filers at higher levels of AGI would choose itemized deductions and more likely deduct state and local taxes. We estimate that 4.3%, 10.4%, 18.3%, 21.3%, 75.9%, and 95.5% of tax filers at the six AGI levels would choose to itemize deductions, and 3.7%, 9.9%, 17.9%, 20.9%, 75.0%, and 94.3% would deduct SALT in their federal income tax returns under the new law.

We expect the amount of SALT more than the new $10,000 cap will vary by level of AGI. We divide the total amount of SALT deduction by the number of filers who would claim that deduction to calculate the average SALT deduction per filer for each level of AGI. Table 1 shows that the average SALT deduction per filer rises with the level of AGI, and the amount of SALT deducted per filer that is in excess of the new $10,000 SALT deduction cap also increases for filers with higher AGIs. In particular, the average SALT deduction per filer is below $10,000 if the filer's AGI is under $100,000. On average, tax filers with AGI at or above $100,000 will possibly experience an increased federal tax liability due

to the new SALT deduction cap.[9] Therefore, we estimate that the new SALT deduction cap would negatively affect approximately 16% of all 2017 Illinois federal income tax filers.

TABLE 1

DISTRIBUTION OF SALT DEDUCTIONS – STATE OF ILLINOIS

LEVEL OF AGI	FILERS	FILERS WHO WOULD ITEMIZE DEDUCTIONS	FILERS WHO WOULD DEDUCT SALT	AVERAGE SALT DEDUCTION PER FILER	AVERAGE SALT DEDUCTION PER FILER IN EXCESS OF THE CAP
$1 – $25,000	2,057,530	88,514	76,334	$5,236	$0
$25,000 – $50,000	1,387,340	144,302	137,839	$5,386	$0
$50,000 – $75,000	854,670	156,158	152,700	$6,789	$0
$75,000 – $100,000	568,340	121,324	118,531	$8,660	$0
$100,000 – $200,000	866,880	658,369	650,049	$12,570	$2,570
$200,000 or more	325,320	310,670	306,870	$37,620	$27,620

ANALYSIS AND FINDINGS

We expect that more filers in some municipalities will experience a higher federal tax liability than others due to substantial variation in the geographical distribution of high-income individuals in the state as well as variation in local tax rates. We, therefore, calculate the number of filers whose federal tax liability would be increased by the SALT deduction cap for each municipality in Illinois. The data show an uneven geographic impact of the SALT deduction cap. Among the 1,164 Illinois municipalities for which we have data, the cap will affect some filers in 671 municipalities while no taxpayers in the remaining 493 municipalities will feel any financial effect.

To examine the magnitude of the impact, we follow a four-step approach to estimate the effects on the federal tax liability and income of the filers who would be affected. First, the amount of 2017 SALT deductions in excess of the new $10,000 cap (the "excess SALT deductions") is determined for each AGI bracket. Second, we calculate a weighted average marginal tax rate for each level of AGI by multiplying the shares of different types of filers (single, head of

household, and married filing jointly) and the corresponding marginal federal income tax rates in 2018. Third, we multiply the excess SALT deductions and the weighted average marginal tax rate. This estimate would be the increased federal income tax liability or reduced personal income if the TCJA were effective in 2017. Last, for those who would be affected by the new cap, we divide the increased federal income tax liability by their 2017 federal income taxes to calculate the percent increase in federal tax liability and the reduced personal income by their AGIs to approximate the percent reduction in personal incomes.

The estimates suggest that, on average, the SALT deduction cap will have a significant impact on a large number of taxpayers in some communities. For the 671 municipalities that will be affected, the estimated average increase of federal income tax liability would be over 8% for 234,000 affected filers in 100 municipalities. Table 2 presents the 100 municipalities, the percent of filers whose federal income tax liability would increase, and the estimated average percentage increase of federal tax liability for those who will be affected by the cap. The data show that 2,717 or nearly 66% of tax filers in Glencoe, Cook County, would have an average SALT deduction exceeding $10,000, meaning their federal tax liability would most likely increase under the new SALT deduction cap as compared with their federal tax liability when the SALT deduction was not capped. The majority of taxpayers in 32 municipalities (about 3% of all municipalities in Illinois) would see higher federal income tax liabilities.

As for the magnitude, the 2,717 tax filers residing in Glencoe who would be affected would have to pay a total of $55.3 million, or about $20,400 per filer, higher federal income taxes than they paid in 2017. Such an increase in federal taxes would lead to an average of 10.6% increase of their federal income tax liabilities or 2.6% reduction of their AGIs under the SALT deduction cap as compared with tax year 2017, when the SALT deduction was not capped. About 32,000 taxpayers in 15 municipalities would see an increase of more than 10% in their federal income tax liabilities. It should be noted that the estimated increase of federal tax liability and reduction in income of the affected filers are based only on the SALT deduction cap, not the net effects of the TCJA. For example, the lower federal income tax rates may offset the negative impact of the cap. On the other hand, the increase of Illinois' income tax rate in the middle of 2017, which is only partially incorporated in the estimates, may counter the offsetting effects of the lower federal tax rates to a certain extent.

TABLE 2

ESTIMATED IMPACT OF SALT CAP, MUNICIPALITIES WITH LARGE PERCENTAGE INCREASES IN FEDERAL TAX LIABILITY

MUNICIPALITY	NUMBER OF FILERS WHOSE FEDERAL TAX LIABILITY WOULD INCREASE	PERCENT OF FILERS WHOSE FEDERAL TAX LIABILITY WOULD INCREASE	ESTIMATED AVERAGE INCREASE IN FEDERAL TAX LIABILITY (%)
Glencoe	2,717	65.8%	10.6%
Lake Forest	5,720	61.3%	9.4%
Kenilworth	700	60.3%	9.8%
Hinsdale	4,612	59.3%	9.2%
Lincolnshire	2,251	59.0%	9.9%
North Barrington	891	58.9%	9.4%
Northfield	1,552	58.0%	10.4%
Winnetka	3,486	58.0%	10.4%
Mettawa	155	57.6%	9.2%
Western Springs	3,674	57.1%	9.0%
Port Barrington	426	56.6%	9.4%
Barrington	2,893	56.4%	9.4%
South Barrington	1,277	56.3%	9.5%
Barrington Hills	1,173	56.1%	9.4%
Deer Park	891	56.0%	9.4%
Riverwoods	1,046	56.0%	10.4%
Tower Lakes	358	56.0%	9.5%
Deerfield	5,202	56.0%	10.4%
Bannockburn	452	55.9%	10.4%
Highland Park	8,431	55.9%	10.5%
Lake Barrington	1,374	55.6%	9.4%
Wilmette	7,397	55.6%	9.8%
River Forest	2,829	53.2%	9.9%
Campton Hills	2,743	52.8%	9.2%
Oak Brook	2,223	51.9%	8.6%
Northbrook	9,224	51.8%	8.7%
Lake Zurich	4,955	51.3%	9.5%
Libertyville	5,238	51.2%	8.9%

MUNICIPALITY	NUMBER OF FILERS WHOSE FEDERAL TAX LIABILITY WOULD INCREASE	PERCENT OF FILERS WHOSE FEDERAL TAX LIABILITY WOULD INCREASE	ESTIMATED AVERAGE INCREASE IN FEDERAL TAX LIABILITY (%)
Hawthorn Woods	1,925	51.1%	9.5%
Kildeer	996	51.0%	9.6%
Green Oaks	993	51.0%	8.9%
Long Grove	1,993	50.3%	9.5%
Inverness	1,858	48.7%	9.2%
Park Ridge	9,011	45.9%	9.3%
Lake Bluff	1,341	45.7%	9.4%
Geneva	4,747	42.9%	8.8%
Glenview	9,877	42.5%	8.5%
Lily Lake	188	40.8%	9.1%
Flossmoor	1,976	39.8%	8.6%
Naperville	27,507	39.6%	8.2%
Glen Ellyn	5,275	38.9%	9.3%
Clarendon Hills	1,589	37.9%	9.0%
Prairie Grove	346	37.6%	8.8%
Elmhurst	7,782	36.3%	8.3%
Palos Park	896	35.7%	8.3%
Elburn	998	35.6%	9.1%
Oak Park	9,018	35.3%	10.3%
Buffalo Grove	7,441	34.7%	9.4%
Lincolnwood	2,160	34.2%	9.2%
Vernon Hills	4,199	33.4%	8.7%
Wheaton	8,592	33.3%	9.0%
Indian Creek	76	32.8%	8.3%
Indian Head Park	632	31.9%	8.3%
Wadsworth	591	30.9%	8.2%
Old Mill Creek	27	30.3%	8.8%
Willowbrook	1,366	29.5%	8.7%
Burr Ridge	1,682	29.3%	8.6%
Hodgkins	289	29.3%	8.4%
Riverside	1,351	29.2%	8.2%

MUNICIPALITY	NUMBER OF FILERS WHOSE FEDERAL TAX LIABILITY WOULD INCREASE	PERCENT OF FILERS WHOSE FEDERAL TAX LIABILITY WOULD INCREASE	ESTIMATED AVERAGE INCREASE IN FEDERAL TAX LIABILITY (%)
La Grange	2,365	29.2%	8.4%
North Riverside	1,015	29.2%	8.2%
Countryside	896	29.2%	8.4%
Evanston	9,769	28.2%	8.5%
Palatine	9,441	26.8%	8.2%
Mundelein	3,876	24.5%	8.4%
Big Rock	133	24.3%	8.1%
Prospect Heights	1,631	19.8%	8.7%
Westmont	2,187	17.5%	8.1%
Greenwood	18	14.3%	8.6%
Highwood	308	12.9%	8.6%
Hudson	84	9.1%	8.1%
Geneseo	204	6.2%	8.5%
Newark	27	6.1%	8.3%
Peoria Heights	183	5.8%	8.3%
Mapleton	7	5.5%	8.4%
Oakbrook Terrace	58	5.2%	8.8%
Lexington	49	5.0%	8.1%
Villa Park	560	4.9%	9.1%
Hampton	44	4.6%	8.5%
Aviston	46	4.4%	10.4%
North Chicago	373	4.2%	8.8%
Papineau	3	3.8%	8.7%
Cordova	12	3.6%	11.3%
Sullivan	70	3.4%	8.4%
Lanark	21	2.8%	8.1%
Sun River Terrace	6	2.5%	10.1%
Grafton	7	2.4%	10.2%
Marine	11	2.3%	11.2%
St. Anne	13	2.3%	10.5%
Marshall	37	2.1%	10.3%

MUNICIPALITY	NUMBER OF FILERS WHOSE FEDERAL TAX LIABILITY WOULD INCREASE	PERCENT OF FILERS WHOSE FEDERAL TAX LIABILITY WOULD INCREASE	ESTIMATED AVERAGE INCREASE IN FEDERAL TAX LIABILITY (%)
Wyoming	13	2.0%	8.2%
Carthage	19	1.6%	9.3%
Greenville	41	1.6%	9.6%
Harrisburg	56	1.5%	8.8%
Athens	15	1.5%	8.2%
Hamilton	16	1.2%	8.9%
Grandview	5	0.8%	8.8%
Chicago Ridge	32	0.5%	8.4%
Ford Heights	5	0.4%	8.3%
Dolton	1	0.0%	8.1%

Note: Municipalities are sorted by the percent of all filers whose federal tax liability would increase due to the SALT deduction cap. The estimated average percentage increase in federal tax liability is only calculated for taxpayers who would be affected by the cap on SALT deductions.

The impact of the cap is different across communities in Illinois, so it is important to explore which municipalities will be most affected. The increased federal income tax liability and reduced after-tax personal income depend on the excess of SALT deductions beyond $10,000 and the marginal federal income tax rates. The federal income tax rate structure is progressive, meaning that taxpayers with larger AGIs face higher marginal tax rates. Therefore, we expect that wealthier communities be affected even more because they are likely to have more higher-income taxpayers facing top tax rates. We also expect that municipalities with higher levels of property tax will be more affected by the cap because tax filers in those municipalities generally have larger property tax payments included in their itemized deductions.

Based on the prior discussion, three indicators are used to measure the impact of the SALT deduction cap: the percent of filers who are negatively affected by the cap, the estimated percentage increase in federal tax liability due to the cap, and the estimated percentage reduction in income due to the cap. For the independent variables, we use a municipality's median household income and its property tax revenue per dollar of equalized assessed valuation to measure community wealth and the level of property tax, respectively. The data on

median household income are from the U.S. Census Bureau's American Community Survey. The data on municipal property tax revenue and equalized assessed valuation are from the Illinois Office of the Comptroller.

We regress each of the three impact indicators on the two explanatory variables: median household income in logarithm form and municipal property tax revenue per dollar of equalized assessed valuation. The regression is implemented using the ordinary least squares (OLS) estimator with robust standard errors. The regression results in Table 3 suggest that the scope of the impact as measured by a municipality's affected filers as a percentage of all filers of federal income tax returns is only affected by median household income. The estimated effect of the municipal property tax burden is not statistically significant. It makes sense that an affluent municipality has a larger proportion of taxpayers affected by the new cap because more tax filers in wealthier communities are likely to choose itemized deductions and pay relatively larger property tax bills. On the other hand, the level of municipal property tax only determines the amount of property tax a filer may pay. As one of the deductible expenses, a property tax payment alone is not sufficient for a taxpayer to choose itemized deduction. The level of municipal property tax does not matter if a tax filer chooses the standard deduction.

TABLE 3

DETERMINANTS OF SALT CAP EFFECTS

VARIABLE	FILERS NEGATIVELY AFFECTED (%)	ESTIMATED INCREASE IN FEDERAL TAX LIABILITY (%)	ESTIMATED REDUCTION IN INCOME (%)
Median household income (in logarithm)	0.249***	0.053***	0.010***
	(0.012)	(0.002)	(0.000)
Property tax revenue per dollar of equalized assessed valuation	-0.101	0.131**	0.025**
	(0.093)	(0.051)	(0.010)
Constant	-2.643***	-0.540***	-0.107***
	(0.124)	(0.019)	(0.004)
Number of observations	1,151	1,151	1,151
R-squared	0.551	0.328	0.300

*Note: Dependent variables in columns. Ordinary Least Squares (OLS) regression model. Robust standard errors in parentheses. *** denotes statistical significance level p < 1%, ** for p< 5%, and * for p <10%.*

Median household income and the level of municipal property tax burden affect the magnitude of the impact as measured by the cap's effects on federal income tax liability and after-tax income. The increase in federal tax liability and the reduction in after-tax personal income are larger in wealthier municipalities than other communities. More tax filers in wealthier communities are likely to pay relatively larger property tax bills. Moreover, higher-income tax filers also face higher income tax rate brackets and therefore see larger increases of their federal income tax liability and decreases in after-tax incomes. The level of property tax also matters because filers are likely to deduct more property tax if they reside in a community with higher property tax rates, others being constant.

CONCLUSION

This paper estimates the impact of a newly established cap on SALT deductions at the municipal level in order to understand the varied impact on different municipalities. This analysis suggests that more taxpayers in higher-income municipalities will feel the adverse impact of the new cap. Municipalities with higher incomes and a heavier property tax burden will be hit hard because the magnitude of the impact rises with median household income and municipal property tax rates. The estimates are static because the analysis does not consider a variety of possible behavioral changes due to this federal income tax change.

The new cap will reshape the landscape of fiscal federalism in the U.S. as the federal government shrinks its financial assistance to state and local governments through the deduction of SALT. State and local governments will see fading support of any increase in broad-based taxes. For high-tax communities that are likely facing out-migration of affluent taxpayers, one policy option is to reduce their reliance on deductible local taxes and incorporate other alternate revenue sources such as user charges and fees into municipal revenue system.

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ENDNOTES

[1] Accessed on May 25, 2019, from https://www.congress.gov/bill/115th-congress/house-bill/1.

[2] The standard deduction for tax year 2017 was $6,350 for single filers, $9,350 for heads of household, and $12,700 for married individuals filling joint returns.

[3] Accessed on November 22, 2019, from https://www.irs.gov/statistics/soi-tax-stats-individual-income-tax-statistics-zip-code-data-soi

[4] While the bulk of tax returns filed during the 12-month period are primarily for tax year 2017, the IRS also received a limited number of returns for tax years before 2017, and these have been included in the data.

[5] We first calculate the average itemized deduction amount per filer for each bracket of adjusted gross income (AGI). Then we exclude the filers who would switch from itemized deduction to standard deduction according to the filing status and the average itemized deduction amount. For example, married individuals filing joint returns would be excluded if the average itemized deduction is at or below $24,000; heads of household would be excluded if the average itemized deduction is at or below $18,000; and single filers would be excluded if the average itemized deduction is at or below $12,000.

[6] We focus only on the filers who itemized and claimed a SALT deduction. Filers who chose the alternative minimum tax were excluded from our estimates because they were not allowed to deduct SALT.

[7] We assume that the number of filers who would itemize SALT is reduced in the same proportion as the number of filers who would still choose itemized deduction under the new law.

[8] We assume that the amount of SALT deduction is reduced in the same proportion as the number of filers who would still itemize SALT under the new law.

[9] This is based on the statewide data of the average SALT deduction. The more detailed data indicate that while the affected taxpayers are still concentrated in the income brackets at or above $100,000, a few filers in brackets lower than $100,000 would also be affected by the cap.

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