The tax proposal President Trump outlined in late April includes many significant changes, including some to standard and itemized deductions. Taxpayers can choose a standard deduction or itemize deductions, with either form then subtracted from taxable income. A larger deduction means a lower tax bill. The tax proposal intends to double the standard deduction and eliminate many eligible expenses from itemized deductions, keeping deductions only for mortgage interest payments and charitable contributions.1 These proposed changes to tax deductions are likely to affect residents in some states more than others, as the fraction of taxpayers who itemize deductions and the composition of the deductions claimed vary significantly across states.

Using tax return data for 2014 (the latest available), Figure 1 maps the percentage of tax returns that itemize deductions. States with a darker shade of blue have a larger share of residents who itemize. The percentages range from 17.1 percent in West Virginia to 45.4 percent in Maryland. Whereas the standard deduction is a flat amount, total itemized deductions vary according to eligible deduction expenses, so itemized deductions will be claimed at a higher rate where residents tend to have higher levels of eligible expenses. For example, mortgage interest payments tend to rise with housing prices and state and local taxes vary.2

A doubling of the amount of the standard deduction obviously would benefit taxpayers who take the standard deduction. From this angle, states with a higher percentage of taxpayers taking the standard deduction would have more people benefit from the proposed changes. However, the impact of the proposed changes on itemized deductions is less obvious. Not only does the fraction of taxpayers who itemize deductions vary widely across states, but the composition of eligible expenses deducted also varies widely.

We examine mortgage interest payments and charitable contributions, the two eligible expenses remaining under the tax proposal, relative to the total amount of itemized deductions claimed. Many taxpayers who now itemize...
information on households who paid taxes under the AMT, which is not available in this dataset. The president’s tax proposal puts forth many changes to the individual income tax codes. Despite the fact that U.S. federal tax codes are applied uniformly to all taxpayers, the changes to the deductions are likely to have different impacts at the state level. Changes to the tax code may alter the incentive to incur those deductible expenses. Our estimates use tax data from 2014 and thus do not take into account these possible changes in behavior. Without a concrete economic model, it is difficult to evaluate the impact of taxpayers’ responses to the tax code changes. However, the fact remains that the impact of the proposed changes to the tax code will vary significantly across states.

Notes

Figure 2
Mortgage Interest Payments and Charitable Contributions as a Share of Total Itemized Deductions for Those Making $200,000 or More, 2014

SOURCE: Internal Revenue Service 2014 individual income and tax data and authors’ calculations.