

## **State Income Tax Deductions for Federal and Local Taxes**

By: John Rappa, Chief Analyst  
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### **Issue**

Which states allow taxpayers to deduct federal and local taxes from state personal income taxes?

### **Summary**

Of the 41 states that levy personal income taxes, six—Alabama, Iowa, Louisiana, Missouri, Montana, and Oregon—allow taxpayers to deduct federal taxes from their state income taxes.

All of the states that levy personal income taxes also allow municipalities to levy income, sales, or property taxes, and 29 of these allow taxpayers to deduct one or more of these local taxes from their state income taxes. Most (23) do so by incorporating in their tax structure the federal deduction for one or more of the local taxes.

Twelve states that levy personal income taxes allow no state income tax deductions for any municipal taxes. These states are Connecticut, Illinois, Louisiana, Massachusetts, Michigan, North Carolina, Ohio, Oregon, Pennsylvania, Rhode Island, West Virginia, and Wisconsin.

Attachment 1 lists the 41 states that levy personal income taxes and identifies the ones that allow state income tax deductions for federal and local taxes.

## **States Authorizing State Income Tax Deductions for Federal Taxes**

Of the 41 states that levy tax personal income taxes, six—Alabama, Iowa, Louisiana, Missouri, Montana, and Oregon—allow taxpayers to deduct the federal taxes they paid from their state personal income taxes. Missouri and Montana limit the amount taxpayers can deduct to \$5,000 for single filers and \$10,000 for joint filers. Oregon limits the amount taxpayers can deduct to \$3,275 for married taxpayers who file separately and \$6,550 for those filing jointly.

## **State Income Tax Deductions for Municipal Taxes**

The states that levy personal income taxes differ as to whether they provide a deduction for a specific municipal tax. The differences partly reflect the types of taxes the states allow municipalities to levy. Although all allow municipalities to levy property taxes, they differ as to whether they also allow local income and sales taxes. Since the federal government allows taxpayers to deduct local (and state) taxes from their federal income taxes, many states incorporate this federal deduction in their tax code, with some modifications, as described in Attachment 1 below. Other states provide their own deductions in lieu of the federal deduction.

## ***States Incorporating the Federal Deduction for State and Local Taxes***

Of the 29 states that provide an income tax deduction for municipal taxes, most (23) do so by incorporating in their tax code the federal deduction for municipal taxes and applying it to one or more of these state authorized local taxes. Since these states vary in the types of municipal taxes they authorize, we grouped the states based on the range of municipal taxes they authorize and, for each group, indicated whether the state allows each tax to be deducted from the state income tax.

The first group comprises the seven states that allow municipalities to levy income, sales, and property taxes. In this group, Colorado and Delaware allow taxpayers to deduct the same amount of municipal income, sales, and property taxes they deducted from their federal taxes; Iowa, Missouri, and Virginia allow them to deduct only that portion of the federal deduction attributable to municipal sales and property taxes; and the remaining states allow taxpayers to deduct only the amount of property taxes they deducted from their federal taxes. Table 1 identifies the states and the deductible municipal taxes.

**Table 1: Application of Federal Income Tax Deduction for Municipal Taxes in States Authorizing Municipal Income, Sales, and Property Taxes**

State	State Deductible Municipal Income, Sales, or Property Taxes		
	Income	Sales	Property
Colorado	X	X	X
Delaware	X	X	X
Idaho			X
Iowa		X	X
Missouri		X	X
New York			X
Virginia		X	X

The second group comprises the 15 states that authorize municipal sales and property taxes. As Table 2 shows, seven allow taxpayers to deduct from their state income taxes the same amounts they deducted for both taxes from their federal income taxes (Arizona, Georgia, Hawaii, Montana, Nebraska, New Mexico, and North Dakota). The remaining 12 states allow taxpayers to deduct only the amount of property taxes they deducted from their federal income taxes.

**Table 2: Application of Federal Income Tax Deduction for Municipal Taxes in States Authorizing Municipal Sales and Property Taxes**

State	State Deductible Municipal Sales or Property Taxes	
	Sales	Property
Arizona	X	X
California		X
Georgia	X	X
Hawaii	X	X
Maine		X
Minnesota		X
Mississippi		X
Montana	X	X
Nebraska	X	X
New Mexico	X	X
North Dakota	X	X
Oklahoma		X
South Carolina		X
Utah		X
Vermont		X

Maryland authorizes municipalities to levy income and property taxes, but allows taxpayers to deduct only the amount of property taxes they deducted from their federal taxes.

***State Defined Income Tax Deductions for Specified Municipal Taxes***

Six states allow state income tax deductions for specified local taxes that are not based on or tied to the federal deduction. Table 3 identifies these states and the income tax-deductible municipal taxes.

**Table 3: State Defined Income Tax Deductions for Specified Municipal Taxes**

<b><i>State</i></b>	<b><i>Income Deductible Municipal Tax</i></b>
Alabama	Occupational and property
Arkansas	Property
Indiana	Property
Kansas	Property
Kentucky	Income and property
New Jersey	Property

### Attachment 1: States Providing Personal Income Tax Deductions for Federal and Local Taxes

State	Personal Income Tax Itemized Deductions	
	Federal Taxes <sup>1</sup>	Local Taxes <sup>2</sup>
Alabama	Yes	Occupational and property taxes
Arizona	No	Same as federal
Arkansas	No	Property taxes
California	No	Same as federal for property taxes, but no deduction for income or sales and use taxes
Colorado	No	Same as federal
Connecticut	No	No
Delaware	No	Same as federal
Georgia	No	Same as federal
Hawaii	No	Same as federal
Idaho	No	Same as federal for property taxes, but no deduction for income or sales and use taxes
Illinois	No	No
Indiana	No	Up to \$2,500 property tax deduction for principal residence
Iowa	Yes	Same as federal for property taxes and, if deducted from federal taxes, sales and use taxes
Kansas	No	Up to 50% of property taxes deducted from federal income
Kentucky	No	Local income and property taxes
Louisiana	Yes	No
Maine	No	Same as federal, except no deduction for sales and use taxes
Maryland	No	Same as federal, except no deduction for income taxes
Massachusetts	No	No
Michigan	No	No
Minnesota	No	Same as federal, except no deduction for sales and use taxes
Mississippi	No	Same as federal, except no deduction for sales and use taxes
Missouri	Yes, up to a specified amount depending on filing status	Same as federal, except no deduction for income taxes, excluding Kansas City and St. Louis city earnings taxes
Montana	Yes, up to a specified amount depending on filing status	Same as federal
Nebraska	No	Same as federal
New Jersey	No	Property tax deduction up to specified limits based on income
New Mexico	No	Same as federal
New York	No	Same as federal, except no deduction for income and sales taxes

## Attachment 1 (continued)

State	Personal Income Tax Itemized Deductions	
	Federal Taxes <sup>1</sup>	Local Taxes <sup>2</sup>
North Carolina	No	No
North Dakota	No	Same as federal
Ohio	No	No
Oklahoma	No	Same as federal, except no deduction for sales and use taxes
Oregon	Yes, up to a specified amount depending on federal AGI	No
Pennsylvania	No	No
Rhode Island	No	No
South Carolina	No	Same as federal, except taxpayers must add back all or a portion of sales taxes deducted from federal income taxes
Utah	No	Same as federal, except no deduction for income taxes
Vermont	No	Same as federal, except no deduction for income taxes
Virginia	No	Same as federal, except no deduction for income taxes
West Virginia	No	No
Wisconsin	No	No

Sources: <sup>1</sup>[Individual Income Tax Provisions in the States: Informational Paper 4](#), Wisconsin Legislative Fiscal Bureau, January, 2017

<sup>2</sup>Same as above, plus CCH AnswerConnect and state tax department websites