PRODUCT & SERVICE GUIDE

Year-End Insights for State and Local Taxes

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Ken Berry • Nov. 02, 2015

(This is part of our series of “sweet 16” year-end tax planning ideas.)

Usually, taxpayers who itemize their deductions can write off most of the state and local taxes they pay in 2015, providing an opportunity to lower their federal income tax bill. In fact, you might even accelerate payments so you can increase your current deduction.

But one year-end tax planning strategy remains in limbo: Until Congress moves to reinstate the alternative deduction for state sales taxes – if it ever does — this option is not available.

The deduction for taxes claimed on Schedule A includes amounts paid for state and local income taxes such as the taxes withheld from your paychecks and any estimated taxes paid during the year. It also includes property taxes if you’re a homeowner. For many taxpayers, the deduction for state and local taxes is one of the biggest writeoffs they have on Form 1040.

Prior to 2015, taxpayers had another choice. In lieu of deducting state and local income taxes, you could elect to deduct the state and local sales taxes you paid during the year. It was one or another, but not both. The sales tax deduction was claimed in one of two ways.

1. **You deduct the actual sales tax paid during the year.** To prove the amount, you had to keep receipts or other documentation of purchases.
2. **You could deduct an amount under the IRS sales tax table.** The deduction varied from state to state and was also based on family size. Practically speaking, the table amount was often lower than the actual amount of annual sales tax paid, but less of a hassle for busy taxpayers.

Icing on the cake: In addition to the IRS table amount, you could add the sales tax for these "big-ticket items":

- Lease or purchase of a vehicle,
- Purchase of a boat or aircraft; and
- Purchase or substantial addition or renovation to a home.

Sometimes, the extra sales tax paid for qualified big-ticket items was enough to justify taking the state sales tax deduction. In any event, the state sales tax option was a no-brainer for taxpayers in states with no or a very low state income tax.

However, the alternative deduction for state and local sales taxes expired after 2014. Now you have to wait-and-see what happens in Congress. Don't throw out any sales tax receipts you've been keeping during the year. If the optional deduction is revived retroactively, as is generally expected, you can crunch the numbers at tax return time and choose the best alternative.

Regardless of your personal situation concerning state and local income taxes versus sales taxes, you can prepay property taxes due on January 1, 2016 so the extra taxes are deductible in 2015. But be aware that this might cause alternative minimum tax (AMT) complications for some taxpayers. The best approach is to develop an overall year-end strategy that makes sense.

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