

 Fact Sheet

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Sales Tax Deduction Option

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The American Jobs Creation Act of 2004 gives taxpayers the option to claim state and local sales taxes instead of state and local income taxes when they itemize deductions. This option is available for the 2004 and 2005 returns only.

IRS Publication 600, *Optional State Sales Tax Tables*, helps taxpayers determine their sales tax deduction amount in lieu of saving their receipts throughout the year. Taxpayers use their income level and number of exemptions to find the sales tax amount for their state. The table instructions explain how to add an amount for local sales taxes if appropriate.

Taxpayers also may add to the table amount any sales taxes paid on:

- A motor vehicle, but only up to the amount of tax paid at the general sales tax rate; and
- An aircraft, boat, home (including mobile or prefabricated), or home building materials, if the tax rate is the same as the general sales tax rate.

For example, the State of Washington has a motor vehicle sales tax of 0.3 percent in addition to the state and local sales tax. A Washington state resident who purchased a new car could add the tax paid at the general sales tax rate to the table amount, but not the 0.3 percent motor vehicle sales tax paid.

Taxpayers will claim the deduction on line 5 of Schedule A, checking a box to indicate whether the amount represents sales tax or income tax.

While this deduction will mainly benefit taxpayers with a state or local sales tax but no income tax — in Alaska, Florida, Nevada, South Dakota, Texas, Washington and Wyoming — it may give a larger deduction to any taxpayer who paid more in sales taxes than income taxes. For example, you may have bought a new car, boosting your sales tax total, or claimed tax credits, lowering your state income tax.

Taxpayers may download Pub. 600 from the IRS Web site, or order it by calling (toll-free) 1-800-TAX-FORM (1-800-829-3676). The IRS has mailed Pub. 600 to all taxpayers who received a Form 1040 tax package.