

IRS Fact Sheet

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Recently Enacted Tax Law Extends State Sales Tax Deduction

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The American Jobs Creation Act of 2004 gave taxpayers the option to claim state and local sales taxes instead of state and local income taxes when they itemize deductions. Under the law the option was available for the 2004 and 2005 returns only, but recent legislation has extended the availability of this deduction through 2007.

Because of the late passage of the Tax Relief and Health Care Act of 2006, the IRS was unable to include the sales tax tables in the Form 1040 instructions, as it did last year. Instead, the IRS has posted the tables to IRS.gov and is mailing 6 million copies of Publication 600, to taxpayers who are receiving a Form 1040 and instruction booklet in the mail. Additionally, the IRS will not begin accepting paper or e-filed returns of taxpayers claiming the state sales tax deduction until early February 2007 because updates are being made to the IRS processing systems.

Taxpayers claiming state and local sales tax should do so on line 5 of Schedule A (labeled state and local income taxes) and write the letters "ST" on the dotted line to the left of line 5.

IRS Publication 600, State and Local General Sales Taxes, helps taxpayers determine their sales tax deduction amount in lieu of saving their receipts throughout the year and deducting the actual amount of their sales taxes. Taxpayers use their income level and number of exemptions to find the sales tax amount for their state. The publication explains 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 in certain cases, a substantial addition to or major renovation of a home, if the tax rate is the same as the general sales tax rate.

For example, the Washington State 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.

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.