



Sales tax break advances

Deductions could save Texans an average \$310 yearly on IRS returns

12:22 AM CDT on Thursday, October 7, 2004

By PAMELA YIP and KATHARINE GOODLOE / The Dallas Morning News

Congressional negotiators agreed Wednesday that Texans should be able to deduct state sales taxes on their federal tax returns – saving about \$310 a year.

A provision to temporarily reinstate the deduction of sales taxes was approved by a conference committee as part of a wide-ranging tax package that now goes back to the House and Senate for final approval. Supporters hope for quick passage before Congress adjourns to campaign for the elections.

However, a provision that wasn't included in the package could throw a wrench in the works. Senate Democrats were considering a filibuster to protest the exclusion of a provision granting the Food and Drug Administration authority to regulate tobacco products.

That possibility didn't stop Texas officials from celebrating Wednesday.

"This is a huge economic boost for Texas, where taxpayers will save approximately \$1 billion a year, and it's also an issue of fairness for states like ours," said Rep. Kevin Brady, R-The Woodlands, who led the effort in the House with Majority Leader Tom DeLay to support the initiative. "The tax code shouldn't be biased in favor of income taxes."

"The logic is simple," Mr. DeLay said. "If state income taxes are deductible on your federal income tax return, then your sales tax should be deductible, too, if that's how your home state chooses to generate revenue."

The sales tax deduction was eliminated in the Tax Reform Act of 1986. Restoration of the deduction affects 55 million taxpayers in the seven states that don't have a state income tax.

Under the legislation, residents in all 50 states could choose to deduct either their state and local income tax or their sales tax, whichever is higher, starting this year. However, Congress would have to extend the provision beyond 2005.

"This legislation corrects this inequity for two years, and I will continue to try to make it permanent," said Republican Sen. Kay Bailey Hutchison.

Those choosing to deduct sales taxes could opt to take an average deduction from Treasury Department tables, or figure the total from their actual sales receipts. The tables would be based on taxpayers' filing status, number of dependents, adjusted gross income, and state and local sales-tax rates.

Savings ideas

Taxpayers who use the tables could also deduct taxes paid on the purchase of motor vehicles, boats and other big-ticket items.

"I'm absolutely delighted," said Texas Comptroller Carole Keeton Strayhorn. "I have been advocating for years for restoration of the sales-tax deduction."

The provision would save the average Texas family \$310 a year in taxes, Ms. Strayhorn said. It would put \$740 million a year into Texans' pockets, creating \$623 million in new investments and \$923 million in increased gross state product, she said.

Poor may not benefit

Taxpayers would have to itemize in order to take advantage of the benefit, a requirement that economists said would leave out many low-income consumers.

"I don't see this as particularly helping the poor," said Birny Birnbaum, executive director of the Center for Economic Justice in Austin. "You have to have enough deductions in order to be able to itemize, but if you're not paying any federal tax anyway, then additional deductions don't help you."

Economists say sales taxes are regressive, meaning they hit lower-income taxpayers harder than those with a higher income. The poor spend a larger percentage of their income on items that are subject to sales tax, such as food and clothing.

Staff writer Pamela Yip reported from Dallas, and Katharine Goodloe reported from Washington

E-mail pyip@dallasnews.com

or kgoodloe@dallasnews.com

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