



NEWS

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FLORIDA TAXPAYERS CONTINUE TO GET A NEEDED BREAK ***Deducting State Sales Taxes on Federal Returns has been Extended***

TALLAHASSEE — Florida TaxWatch commends the U.S. Congress for recently passing H.R. 6408, and President George Bush for signing the Tax Relief and Health Care Act of 2006 today. This will allow Floridians to continue deducting state and local sales taxes they've paid from their federal tax returns retroactive for January 1, 2006 and all of 2007. U.S. Senators Bill Nelson and Mel Martinez, as well as Florida's congressional delegation, are also commended for helping to lead and secure this much needed and beneficial tax deduction before Congress adjourned for Christmas.

"The reinstatement of the federal personal income tax deduction for state and local sales taxes paid is an excellent accomplishment for basic taxpayer fairness," said Dominic M. Calabro, President & CEO of Florida TaxWatch. "It will continue to bring tax fairness and direct benefit to ordinary citizens and the working families of Florida."

Prior to 1986, taxpayers were permitted to deduct all of their state and local taxes paid, along with some other taxes, when computing their federal income tax liability. The Tax Reform Act of 1986 eliminated the deductions, while reducing tax rates on individuals. State income taxes were still deductible, but seven states – including Florida – have no state personal income tax.

"Taxpayers in 43 states have been able to deduct state personal income tax payments from their federal returns, but Floridians haven't enjoyed comparable tax relief," said Calabro. "As a result, Floridians generally pay a higher percentage of taxes to the federal government than residents of states that were able to deduct their state personal income taxes."

Florida TaxWatch studied the issue and recommended the reinstatement of the deduction in a May 2001 Research *Briefings*, [Reinstatement of the Federal Income Tax Deduction for State and Local Sales Taxes Would Restore Equity Across the States, May 2001](#).

The law allows taxpayers who itemize deductions to deduct either state income or state sales tax on their 2006 federal tax returns. Florida's state sales tax rate is 6%, plus as much as another 1 ½% local option sales tax. U.S. Senator Bill Nelson estimates that this will allow Floridians to deduct \$1.7 billion in state sales tax from their federal income tax returns over two years.

(More)

Florida TaxWatch Release
December 20, 2006
Page Two

The IRS developed standard tables for taxpayers to use in estimating their average state sales tax deduction, based on income and household size. As an alternative, taxpayers could keep their receipts to show the actual amount spent on sales taxes for purchases, both inside and outside of Florida. The IRS also developed a third option, which combines the previous methods, for use on big-ticket items.

These options apply only to taxpayers who itemize their deductions. Some taxpayers may enjoy a greater benefit taking the standard deduction rather than itemizing deductions. "We urge Congress to extend the sales tax deductions permanently beyond the 2007 tax year," said Calabro. "Florida has the second highest proportional reliance on its state sales tax, among the 43 states that have state income tax, behind Tennessee. Thus, this federal tax change really helps Florida's residents more than most."

MEDIA AVAILABILITY: Dominic Calabro will be available tomorrow afternoon (12/21) for interviews.

Florida TaxWatch is a statewide, non-profit, non-partisan government research institute and government watchdog that over its 27 year history has become widely recognized as the watchdog of citizens' hard-earned tax dollars. Our mission is to provide the citizens of Florida and public officials with high quality, independent research and education on government revenues, expenditures, taxation, public policies and programs and to increase the productivity and accountability of Florida Government. On the web at www.FloridaTaxWatch.org.