



# Itemized Deductions Taxes Paid

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## Limit on Taxes Paid

The itemized deduction for state and local taxes paid is limited to \$10,000 (\$5,000 MFS). This limitation includes state income taxes or general sales taxes, real estate taxes, and personal property taxes.

## State and Local Income or General Sales Taxes

You can elect to deduct either state and local sales taxes or state and local income taxes, but not both.

### State and Local Income Taxes

Includes the following:

- Withholding reported on Forms W-2, W-2G, 1099-G, 1099-R, 1099-MISC, and 1099-NEC.
- Taxes paid for a prior year, such as the balance due paid when filing the state income tax return or a balance due when amending a prior year state income tax return.
- State and local estimated tax payments made during 2025, including the prior year refund credited to 2025, and prior year estimated payments made during 2025.  
**Example:** The fourth quarter 2024 estimate paid in January 2025.
- Mandatory contributions made to the California, New Jersey, or New York Nonoccupational Disability Funds, the Rhode Island Temporary Disability Benefit Fund, the New Jersey, Pennsylvania, or Alaska Unemployment Compensation Funds, the Washington State Supplemental Workmen's Compensation Fund, or state family leave programs.

### State and Local General Sales Taxes

There are two methods to compute the deduction.

- 1) **Actual taxes paid.** The actual taxes paid (from receipts, invoices, etc.) but only for purchases where the tax rate is the same as the general sales tax rate. For selective sales taxes on food, clothing, medical supplies, and motor vehicles, the actual tax paid is deductible even if the tax rate is less than the general sales tax rate. For motor vehicles, if the tax rate is more than the general sales tax rate, only the portion of the tax that would have been imposed at the general sales tax rate is deductible.

Motor vehicles include cars, motorcycles, motor homes, recreational vehicles, SUVs, trucks, vans, off-road vehicles, and leased motor vehicles.

- 2) **The amount from the optional state sales tax tables.** An additional amount for local general sales taxes is allowed if your locality imposes a general sales tax, plus taxes paid on motor vehicles (described above), aircraft, boats, homes (including mobile and prefabricated homes), or materials to build a home. For motor vehicles only, if the tax rate is more than the general sales tax rate, only the portion of the tax that would have been imposed at the general sales tax rate is deductible. For aircraft, boats, and homes, the tax is deductible only if it was imposed at the general sales tax rate.

### Business Taxes

Under either method, taxes paid on items used in a trade or business are not deductible as itemized deductions. However, these taxes are deductible as a business expense.



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### Real Estate Taxes

Real estate taxes are deductible as itemized deductions only if you own the real estate and the taxes are based on the assessed value of the property. If a mortgage company pays the taxes from an escrow account, deduct the taxes actually paid on behalf of the taxpayer, not the amount the taxpayer paid into escrow.

Unlike mortgage interest, the real estate tax deduction is not limited to the first two homes.

Foreign real property taxes are not deductible.

### Charges for Services

Itemized charges for trash collection, water, sewer, etc. are not deductible as real estate taxes.

### Special Assessments—Principal Portion

Charges for improvements that tend to increase the value of the property are added to the basis of the property and are not deductible. **Example:** An assessment to build a new sidewalk.

Charges to maintain existing public facilities already in service are deductible as real estate taxes. **Example:** An assessment to repair an existing sidewalk.

### Special Assessments—Interest Portion

Deductible as real estate taxes if charged on a deductible assessment.

### Sale or Purchase of House

The real estate tax deduction must be adjusted for the time period you actually owned the property. The seller is treated as paying the property taxes up to, but not including, the date of sale. The buyer is treated as paying the taxes beginning with the date of sale. This rule applies even if the seller or buyer actually pay different amounts at the closing.

**Example #1:** Joseph paid \$2,400 for his 2025 real estate taxes on May 15, 2025 (\$200 per month). Joseph sold his home on June 1, 2025 to Jim, and the closing company gave Joseph a \$1,400 credit for taxes paid for the period June 1, 2025 to December 31, 2025. Joseph can deduct \$1,000 for taxes paid on his old house (\$2,400 paid minus \$1,400 credit shown on his closing statement).

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**Example #2:** Assume the same facts as Example #1, except that Joseph did not receive a credit on his closing statement for the period after the sale. Joseph agreed to pay the entire year in order to encourage Jim to purchase his property. Joseph is allowed to deduct only \$1,000 for taxes attributed to the time he owned the property. Jim is allowed to deduct the \$1,400 attributed to the time he owned the property even though Joseph is the one who actually paid the taxes. Joseph reduces the amount realized on the sale of his home by the \$1,400, and Jim reduces the cost basis of the home he purchased by \$1,400.

### Delinquent Taxes

If the buyer pays delinquent taxes that were imposed on the seller for an earlier year, the buyer must add the taxes paid to basis rather than deduct them.

### Refunds and Rebates

If a refund is received in 2025 for real estate taxes paid in 2025, your itemized deduction is reduced by the amount of the refund. If the refund is for taxes paid in an earlier year, your itemized deduction is not reduced. Instead, the refund or rebate is included as Other Income on Schedule 1 (Form 1040), *Additional Income and Adjustments to Income*, to the extent a tax benefit was received for deducting the taxes in an earlier year.

### Personal Property Taxes

Personal property taxes are deductible if based on value alone and are charged on a yearly basis.

**Example:** Jesse paid \$99 for the registration of his car in 2025. \$64 of the fee was based on the car's value, and \$35 was based on its weight. His deduction is limited to \$64.

### Other Taxes

Taxpayers can choose to deduct foreign income taxes or take a foreign tax credit on Form 1040.

### Contact Us

There are many events that occur during the year that can affect your tax situation. Preparation of your tax return involves summarizing transactions and events that occurred during the prior year. In most situations, treatment is firmly established at the time the transaction occurs. However, negative tax effects can be avoided by proper planning. Please contact us in advance if you have questions about the tax effects of a transaction or event, including the following:

- Pension or IRA distributions.
- Significant change in income or deductions.
- Job change.
- Marriage.
- Attainment of age 59½ or 73.
- Sale or purchase of a business.
- Sale or purchase of a residence or other real estate.
- Retirement.
- Notice from IRS or other revenue department.
- Divorce or separation.
- Self-employment.
- Charitable contributions of property in excess of \$5,000.