

Comparing the Deduction for State Income Tax vs. State Sales Tax for Taxpayers Who Itemize

If the taxpayer is itemizing deductions on Schedule A, He/she/they can deduct the greater of State Income Taxes paid (Line 5a) or State Sales Tax actually paid (Line 5b), whichever is greater. In general, the State Income Taxes, Schedule A, Line 5a will be best. However there are situations where the taxpayer itemizes deductions on Schedule A, but pays very little in the way of NC State Income Taxes, such as a taxpayer whose retirement income is subject to Bailey, or who has a substantial amount of income from Treasury notes or bonds, or one who pays substantial sales tax on the purchase of a vehicle, aircraft, etc., or who has significantly remodeled a home and paid sales tax on the building materials. In these situations, the Sales Tax deduction, Line 5b of Schedule A may be to their advantage. To determine the higher deduction – income tax paid or sales tax paid – use the Sales Tax Worksheet in TaxWise

In order to open the Sales Tax Worksheet, open Schedule A, then click on the Line 5b (RED) box of Schedule A, then press F9 and choose “NEW Sales Tax Worksheet”. (TaxWise will have already filled in the Line 5a Income Tax paid.)

Taxes You Paid			
5	State and local taxes. Only one box can be checked.		
a	<input checked="" type="checkbox"/> Income taxes	317.	
b	<input type="checkbox"/> General sales tax	0.	317.

Lines 1 through 4 on part 1 of the Sales Tax Worksheet will have been filled in by TaxWise from the information on the taxpayer’s Form 1040. For TY 2009, much of the heavy lifting is done by TaxWise. To complete the worksheet, follow these steps:

1. Enter the taxpayer’s state of residency (NC) on Line 1.
2. Also in the Line 1 area, fill in the dates of residency (if other than full-year).
3. On Line 2, click the Yes box and fill in the letter A (not C!) for the tax table to use.
4. On Line 3, click the Yes box and fill in the number 2.375, the pro-rated local tax rate (9 months@2.5%, 3 months@2.0%) for NC.
5. If the taxpayer bought a NEW vehicle after 2/16/2009:
 - a. On Line 8a, enter the total sales tax on any vehicle purchased after 2/16/2009.
 - b. On Line 8b, enter the total cost of the vehicle.
 - c. On Line 8c, enter the amount of the sales tax attributable to the first \$49,500 of the purchase price
6. On line 8D, enter the sales tax paid on other major items including vehicles bought before 2/17/2009 (see worksheet and instructions for allowable sales tax).

And you are done.

TaxWise will have completed the remaining lines on the worksheet using appropriate tables. A completed worksheet is shown below. You can now close the worksheet.

4	Income for sales tax chart	48,534.
Be sure to review the Schedule A instructions for the sales tax deduction.		
1	Enter the taxpayer's state of residency for 2009 If the taxpayer was a part-year resident, enter the dates resided in this state to <i>Press Shift F10 to duplicate this form for multiple states.</i> State sales tax from the applicable table	NC 516.
2	Did you live in Alaska, Arizona, Arkansas, California (Los Angeles County only), Colorado, Georgia, Illinois, Louisiana, Missouri, New York State, North Carolina, South Carolina, Tennessee, Utah, or Virginia in 2009? Check here if the taxpayer lived in Los Angeles County <input type="checkbox"/> <input checked="" type="checkbox"/> No. Line 2 should be -0-. <input checked="" type="checkbox"/> Yes. Enter the letter (A - D) for the optional local sales tax table you want to use	A 93.
3	Did your locality impose a local general sales tax in 2009? Residents of California and Nevada, see the Schedule A instructions. <input type="checkbox"/> No. Go to line 7. <input checked="" type="checkbox"/> Yes. Enter the local general sales tax rate. If the rate is 2.5%, enter 2.5	2.3750
4	Did you enter -0- on line 2 above? <input checked="" type="checkbox"/> No. Skip to line 6. <input type="checkbox"/> Yes. Enter the state general sales tax rate from the table headed by the state in the Schedule A instructions. Enter 6.5 % as 6.5	0.0000 0.0000
5	Divide line 3 by line 4	0.0000
6	Did you enter -0- on line 2 above? <input checked="" type="checkbox"/> No. Multiply line 2 by line 3. <input type="checkbox"/> Yes. Multiply line 1 by line 5	221.
7	Total of lines 1 and 6 - prorated for part-year residents	737.
8	General sales tax paid on specified items. Motor vehicles - If the tax rate is higher than the general sales tax rate, only include the amount of tax at the general sales tax rate. Amounts entered on lines 8a, 8b, and 8c will transfer to Schedule A, page 2.	
a	Enter the state or local sales tax you paid in 2009 for the purchase of a NEW motor vehicle AFTER February 16, 2009	600.
b	Enter the purchase price (before taxes) of the new motor vehicles	29,995.
c	If the amount on line 8b is more than \$49,500, enter the portion of the tax from line 8a that is attributable to the first \$49,500 of the purchase price of each new motor vehicle	0.
d	Sales tax paid on motor vehicles not included on 8a and sales tax paid on aircraft, boats, homes, including mobile and prefabricated, or home building material - only Only deductible if the sales tax charged is at the general sales tax rate	300.
9	Total sales tax using the sales tax chart	1,637.
10	Sales tax using actual receipts	0.
11	Sales tax deduction for Schedule A, line 5	1,637.

TaxWise will compare the “bottom line” of the Sales Tax Worksheet with the State Income Tax paid, and will choose the greater amount to be deducted on Schedule A, Line 5b.

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