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Taxpayers who declare adjusted gross income in excess of a certain threshold must reduce their itemized deductions by 3% of that excess. Itemized deductions include state and local taxes, mortgage interest, and other itemized deductions, as well as charitable deductions. The reduction is limited to no more than 80% of the taxpayer's total itemized deductions.

**Example:** The threshold taxable income in 2013 is \$300,000 when married filing jointly. If a taxpayer declared \$400,000 of taxable income in 2013, his excess income is  $\$400,000 - \$300,000 = \$100,000$ . 3% of \$100,000 is \$3,000. If the taxpayer declared \$50,000 in itemized deductions, he would be able to deduct only  $\$50,000 - \$3,000 = \$47,000$ .

### 3% Deduction Reduction Threshold Amounts

Year	Married filing jointly and surviving spouses	Married filing separately	Head of household filers	Single filers
1997	\$121,200	\$60,600	\$121,200	\$121,200
1998	\$124,500	\$62,250	\$124,500	\$124,500
1999	\$126,600	\$63,300	\$126,600	\$126,600
2000	\$128,950	\$64,475	\$128,950	\$128,950

<b>2001</b>	\$132,950	\$66,475	\$132,950	\$132,950
<b>2002</b>	\$137,300	\$68,650	\$137,300	\$137,300
<b>2003</b>	\$139,500	\$69,750	\$139,500	\$139,500
<b>2004</b>	\$142,700	\$71,350	\$142,700	\$142,700
<b>2005</b>	\$145,950	\$72,975	\$145,950	\$145,950
<b>2006</b>	\$150,500	\$75,250	\$150,500	\$150,500
<b>2007</b>	\$156,400	\$78,200	\$156,400	\$156,400
<b>2008</b>	\$159,950	\$79,975	\$159,950	\$159,950
<b>2009</b>	\$166,800	\$83,400	\$166,800	\$166,800
<b>2010</b>	n/a	n/a	n/a	n/a
<b>2011</b>	n/a	n/a	n/a	n/a
<b>2012</b>	n/a	n/a	n/a	n/a
<b>2013</b>	\$300,000	\$150,000	\$275,000	\$250,000

Source: Revenue Procedures 2008-66, 2007-66, 2006-53, 2005-70, 2004-71, 2003-85, 2002-70, 2001-59, 2001-13, 99-42, 98-61, 97-57, 96-59, ATRA 2012.

# Phaseout of the 3% Deduction Reduction under the 2001 Tax Act

The Economic Growth and Tax Relief Reconciliation Act of 2001 contained a provision that phased out the 3% deduction reduction as described below.

The amount of the deduction reduction computed in the usual way was reduced by 1/3 in taxable years beginning in 2006 and 2007, by 2/3s in taxable years beginning in 2008 and 2009, and was eliminated in taxable years beginning in 2010. If the deduction reduction was computed to be \$9,000 in 2006, for example, the actual reduction was  $\$9,000 - (1/3 \times \$9,000) = \$6,000$ . The [Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010](#) extended elimination of the deduction reduction through 2012. The American Taxpayer Relief Act of 2012 revived the phaseout for 2013 and beyond.

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