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*1st Session* } HOUSE OF REPRESENTATIVES { REPORT  
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RESTORING TAX FAIRNESS FOR STATES AND LOCALITIES  
ACT

DECEMBER --, 2019.—Committed to the Committee of the Whole House on the State  
of the Union and ordered to be printed

Mr. NEAL, from the Committee on Ways and Means,  
submitted the following

R E P O R T

together with

DISSENTING VIEWS

[To accompany H.R. 5377]

[Including cost estimate of the Congressional Budget Office]

The Committee on Ways and Means, to whom was referred the bill (H.R. 5377) to amend the Internal Revenue Code of 1986 to modify the limitation on deduction of State and local taxes, and for other purposes, having considered the same, reports favorably thereon with an amendment and recommends that the bill as amended do pass.

The amendment is as follows:

Strike all after the enacting clause and insert the following:

**SECTION 1. SHORT TITLE.**

This Act may be cited as the “Restoring Tax Fairness for States and Localities Act”.

**SEC. 2. ELIMINATION FOR 2019 OF MARRIAGE PENALTY IN LIMITATION ON DEDUCTION OF STATE AND LOCAL TAXES.**

(a) **IN GENERAL.**—Section 164(b) of the Internal Revenue Code of 1986 is amended by adding at the end the following new paragraph:

“(7) **SPECIAL RULE FOR LIMITATION ON INDIVIDUAL DEDUCTIONS FOR 2019.**—In the case of a taxable year beginning after December 31, 2018, and before January 1, 2020, paragraph (6) shall be applied by substituting ‘(\$20,000 in the case of a joint return)’ for ‘(\$5,000 in the case of a married individual filing a separate return)’.”.

(b) **EFFECTIVE DATE.**—The amendment made by this section shall apply to taxable years beginning after December 31, 2018.

**SEC. 3. ELIMINATION FOR 2020 AND 2021 OF LIMITATION ON DEDUCTION OF STATE AND LOCAL TAXES.**

(a) **IN GENERAL.**—Section 164(b)(6)(B) of the Internal Revenue Code of 1986 is amended by inserting “in the case of a taxable year beginning before January 1, 2020, or after December 31, 2021,” before “the aggregate amount of taxes”.

(b) **CONFORMING AMENDMENTS.**—Section 164(b)(6) of the Internal Revenue Code of 1986 is amended—

(1) by striking “For purposes of subparagraph (B)” and inserting “For purposes of this section”,

(2) by striking “January 1, 2018” and inserting “January 1, 2022”,

(3) by striking “December 31, 2017, shall” and inserting “December 31, 2021, shall”, and

(4) by adding at the end the following: “For purposes of this section, in the case of State or local taxes with respect to any real or personal property paid during a taxable year beginning in 2020 or 2021, the Secretary shall prescribe rules which treat all or a portion of such taxes as paid in a taxable year or years other than the taxable year in which actually paid as necessary or appropriate to prevent the avoidance of the limitations of this subsection.”.

(c) **EFFECTIVE DATE.**—The amendments made by this section shall apply to taxes paid or accrued in taxable years beginning after December 31, 2019.

**SEC. 4. INCREASE IN DEDUCTION FOR CERTAIN EXPENSES OF ELEMENTARY AND SECONDARY SCHOOL TEACHERS.**

(a) **INCREASE.**—Section 62(a)(2)(D) of the Internal Revenue Code of 1986 is amended by striking “\$250” and inserting “\$500”.

(b) **CONFORMING AMENDMENTS.**—Section 62(d)(3) of the Internal Revenue Code of 1986 is amended—

(1) by striking “2015” and inserting “2019”,

(2) by striking “\$250” and inserting “\$500”, and

(3) in subparagraph (B), by striking “2014” and inserting “2018”.

(c) **EFFECTIVE DATE.**—The amendments made by this section shall apply to taxable years beginning after December 31, 2018.

**SEC. 5. ABOVE-THE-LINE DEDUCTION ALLOWED FOR CERTAIN EXPENSES OF FIRST RESPONDERS.**

(a) **IN GENERAL.**—Section 62(a)(2) of the Internal Revenue Code of 1986 is amended by adding at the end the following new subparagraph:

“(F) **CERTAIN EXPENSES OF FIRST RESPONDERS.**—The deductions allowed by section 162 which consist of expenses, not in excess of \$500, paid or incurred by a first responder—

“(i) as tuition or fees for the participation of the first responder in professional development courses related to service as a first responder,

or

“(ii) for uniforms used by the first responder in service as a first responder.”.

(b) **FIRST RESPONDER DEFINED.**—Section 62(d) of the Internal Revenue Code of 1986 is amended by adding at the end the following new paragraph:

“(4) **FIRST RESPONDER.**—For purposes of subsection (a)(2)(F), the term ‘first responder’ means, with respect to any taxable year, any individual who is employed as a law enforcement officer, firefighter, paramedic, or emergency medical technician for at least 1000 hours during such taxable year.”.

(c) **INFLATION ADJUSTMENT.**—Section 62(d)(3) of the Internal Revenue Code of 1986, as amended by section 4, is further amended by striking “the \$500 amount in subsection (a)(2)(D)” and inserting “the \$500 amount in each of subparagraphs (D) and (F) of subsection (a)(2)”.

(d) **EFFECTIVE DATE.**—The amendments made by this section shall apply to taxable years beginning after December 31, 2019.

**SEC. 6. INCREASE OF TOP MARGINAL INDIVIDUAL INCOME TAX RATE UNDER TEMPORARY RULES.**

(a) **IN GENERAL.**—The tables contained in subparagraphs (A), (B), (C), (D), and (E) of section 1(j)(2) of the Internal Revenue Code of 1986 are each amended by striking “37%” and inserting “39.6%” and—

(1) in subparagraph (A)—

(A) by striking “\$600,000” each place such term appears and inserting “\$479,000”, and

(B) by striking “\$161,379” and inserting “\$119,029”,

(2) in subparagraph (B)—

- (A) by striking “\$500,000” each place such term appears and inserting “\$452,400”, and
- (B) by striking “\$149,298” and inserting “\$132,638”,
- (3) in subparagraph (C)—
- (A) by striking “\$500,000” each place such term appears and inserting “\$425,800”, and
- (B) by striking “\$150,689.50” and inserting “\$124,719.50”, and
- (4) in subparagraph (D)—
- (A) by striking “\$300,000” each place such term appears and inserting “\$239,500”, and
- (B) by striking “\$80,689.50” and inserting “\$59,514.50”.
- (b) CONFORMING AMENDMENTS.—
- (1) Section 1(j)(4)(B)(iii) of the Internal Revenue Code of 1986 is amended—
- (A) in the matter preceding subclause (I), by striking “37 percent” and inserting “39.6 percent”,
- (B) in subclause (II), by striking “37-percent bracket” and inserting “39.6-percent bracket”, and
- (C) in the heading, by striking “37-PERCENT BRACKET” and inserting “39.6-PERCENT BRACKET”.
- (2) Section 1(j)(4)(C) of such Code is amended—
- (A) in clause (i)(II), by striking “paragraph (5)(B)(i)(IV)” and inserting “paragraph (5)(B)(iv)”, and
- (B) by amending clause (ii) to read as follows:
- “(ii) the amount which would (without regard to this paragraph) be taxed at a rate below 39.6 percent shall not be more than the sum of—
- “(I) the earned taxable income of such child, plus
- “(II) the maximum dollar amount for the 35-percent rate bracket for estates and trusts.”
- (3) The heading of section 1(j)(5) of such Code is amended to read as follows: “APPLICATION OF ZERO PERCENT CAPITAL GAIN RATE BRACKETS”.
- (4) Subparagraphs (A) and (B) of section 1(j)(5) of such Code are amended to read as follows:
- “(A) IN GENERAL.—Subsection (h)(1)(B)(i) shall be applied by substituting ‘below the maximum zero rate amount’ for ‘which would (without regard to this paragraph) be taxed at a rate below 25 percent’.
- “(B) MAXIMUM ZERO RATE AMOUNT DEFINED.—For purposes of subparagraph (A), the term ‘maximum zero rate amount’ means—
- “(i) in the case of a joint return or surviving spouse, \$77,200,
- “(ii) in the case of an individual who is a head of household (as defined in section 2(b)), \$51,700,
- “(iii) in the case of any other individual (other than an estate or trust), an amount equal to ½ of the amount in effect for the taxable year under clause (i), and
- “(iv) in the case of an estate or trust, \$2,600.”
- (5) Section 1(j)(5)(C) of such Code is amended by striking “clauses (i) and (ii) of”.
- (c) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 2019.
- (d) SECTION 15 NOT TO APPLY.—Section 15 of the Internal Revenue Code of 1986 shall not apply to any change in a rate of tax by reason of any amendment made by this section.

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## **I. SUMMARY AND BACKGROUND**

### **A. Purpose and Summary**

The bill, H.R. 5377, the Restoring Tax Fairness for States and Localities Act, as amended and ordered reported by the Committee on Ways and Means on December 11, 2019 does the following: 1) eliminates for 2019 the marriage penalty imposed by Public Law 115-97 (the “2017 Tax Act”), 2) eliminates for 2020 and 2021 the \$10,000 limitation on deduction of state and local taxes, 3) reinstates the top individual income tax rate to 39.6 percent and lowers the top income bracket to inflation-adjusted levels of the top brackets prior to the enactment of the 2017 Tax Act, 4) increases the above-the-line deduction for certain expenses of teachers, and 5) creates an above the line deduction for certain expenses of first responders.

### **B. Background and Need for Legislation**

This legislation amends the \$10,000 limitation on the deduction for state and local taxes imposed by the 2017 Tax Act. The State and Local Tax (SALT) deduction promotes fairness in the tax code by shielding taxpayers from double-taxation by preventing citizens from owing federal income taxes on dollars that their state and local governments’ have already taxed. In 2017, the most recent year for which data is available, 46.5 million households benefited from the SALT deduction.

Under present law, a taxpayer who itemizes their deductions may deduct only up to \$10,000 in State and local tax payments. The deduction covers real estate taxes, personal property taxes, and either state individual income or general sales taxes. Prior to the passage of the 2017 Tax Act, the SALT deduction had no limit — this had been the case since 1913 and the creation of the Internal Revenue Code. The \$10,000 limit created by the 2017 Tax Act contravenes longstanding Federal tax precedent. H.R. 5377, the Restoring Tax Fairness for States and Localities Act, temporarily eliminates the limit.

The 2017 Tax Act limits all households to \$10,000 in state and local tax deductions whether the household is composed of a single individual or two married taxpayers filing jointly, creating a marriage penalty. H.R. 5377 eliminates the marriage penalty in 2019, allowing married couples filing jointly to deduct up to \$20,000 in SALT payments and married couples filing separately to claim up to \$10,000 each. For the years 2020 and 2021, this legislation removes the \$10,000 limit for all taxpayers. Additionally, this legislation restores the top individual income tax rate to the pre-2017 Tax Act level of 39.6 percent, while restoring the top income bracket at the inflation-adjusted pre-2017 Tax Act levels. For all filers (other than married individuals filing separately), the 39.6 rate begins at taxable income levels in excess of \$400,000.

H.R. 5377 also permanently doubles the above-the-line deduction for educators’ out-of-pocket classroom expenses from \$250 to \$500 and indexes this amount for inflation. Further, this legislation creates a permanent \$500 above-the-line deduction for unreimbursed expenses of

professional first responders related to the cost of uniforms or tuition and fees related to training, partially undoing the 2017 Tax Act’s elimination of miscellaneous itemized deductions.

### **C. Legislative History**

#### **Background**

H.R. 5377, the Restoring Tax Fairness for States and Localities Act, was introduced on December 10, 2019, and was referred to the Committee on Ways and Means.

#### **Committee hearings**

On June 25, 2019, the Committee on Ways and Means Subcommittee on Select Revenue Measures held a hearing entitled “How Recent Limitations to the SALT Deduction Harm Communities, Schools, First Responders, and Housing Values.”

Members heard testimony from witnesses regarding issues surrounding the impacts of the SALT deduction cap on state and local government budgets, first responders, and public schools. Democrats invited five witnesses, including: 1) the Honorable David Tarter; 2) the Honorable Bob De Natale; 3) the Honorable Christian Yanick Leinbach; 4) Paul Imhoff, PhD; and 5) Lt. Mahlon Mitchell (Firefighter). The minority invited Nicole Kaeding.

On June 25, 2019, the Committee on Ways and Means Subcommittee on Select Revenue Measures held a member day hearing to hear member testimony on the consequences of and potential remedies to the recent changes made to the federal tax treatment of state and local taxes.

The committee received testimony from the following members: Rep. Tom Malinowski (D-NJ-07), Rep. Dean Phillips (D-MN-03), Rep. Andy Kim (D-NJ-03), Rep. Sean Casten (D-IL-06), Rep. Maxine Waters (D-CA-43), Rep. Josh Gottheimer (D-NJ-05), Rep. Lauren Underwood (D-IL-14), Rep. Katie Porter (D-CA-45), Rep. Mikie Sherrill (D-NJ-11), Rep. Frank Pallone (D-NJ-06), Rep. Jim Himes (D-CT-04), Rep. Jackie Speier (D-CA-14), Rep. Donald M. Payne, Jr. (D-NJ-10), Rep. Donald Norcross (D-NJ-01), Rep. Joseph Morelle (D-NY-25), Rep. Max Rose (D-NY-11), Rep. Lee Zeldin (R-NY-01), and Rep. Anna Eshoo (D-CA-18).

#### **Committee action**

The Committee on Ways and Means marked up H.R. 5377 on December 11, 2019, and ordered the bill, as amended, favorably reported by a vote of 24 yeas and 17 nays.

## EXPLANATION OF THE BILL

### A. Elimination for 2019 of Marriage Penalty in Limitation on Deduction of State and Local Taxes and Elimination for 2020 and 2021 of Limitation on Deduction of State and Local Taxes

#### Present Law

An individual taxpayer may elect to itemize deductions in lieu of claiming a standard deduction.<sup>1</sup> Itemized deductions include a deduction for certain taxes paid or accrued in a taxable year, including State and local property taxes, income taxes, and sales taxes.<sup>2</sup>

An individual taxpayer<sup>3</sup> not claiming a standard deduction may deduct: 1) State and local real property taxes<sup>4</sup>; 2) State and local personal property taxes;<sup>5</sup> and 3) State and local income, war profits, and excess profits taxes.<sup>6</sup> At the election of the taxpayer, an itemized deduction may be taken for State and local general sales taxes in lieu of the itemized deduction for State and local income taxes.<sup>7</sup>

The 2017 Tax Act limited the deduction of these taxes.<sup>8</sup> For taxable years beginning after December 31, 2017, and before January 1, 2026, the deduction for State and local income, property, and sales taxes is limited to \$10,000 (\$5,000 for a married individual filing a separate return).<sup>9</sup> This limitation does not apply to taxes paid or accrued in carrying on a trade or business, or an activity for the production of income.<sup>10</sup>

The limitation does not apply to taxable years beginning after December 31, 2025.

No itemized deduction for property taxes and income or sales taxes is allowed in determining an individual's alternative minimum taxable income.<sup>11</sup>

#### Reasons for Change

The Committee desires to combat the unfairness caused by the limitation on the deduction for State and local property, income, and sales taxes. The limitation imposes a marriage penalty on taxpayers and unfairly imposes double taxation on taxpayers who have

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<sup>1</sup> Sec. 63.

<sup>2</sup> Sec. 164. An individual taxpayer may also be able to deduct State and local taxes incurred in carrying on a trade or business (under section 162) or an activity relating to expenses for the production of income (under section 212).

<sup>3</sup> Trusts and estates may generally claim a deduction for certain taxes paid or accrued in a taxable year, subject to the same rules that apply to individual taxpayers. See sec. 641(b).

<sup>4</sup> Sec. 164(a)(1).

<sup>5</sup> Sec. 164(a)(2).

<sup>6</sup> Sec. 164(a)(3).

<sup>7</sup> Sec. 164(b)(5).

<sup>8</sup> Pub. L. No. 115-97, sec. 11042.

<sup>9</sup> Sec. 164(b)(6)(B).

<sup>10</sup> Sec. 164(b)(6).

<sup>11</sup> Sec. 56(b)(1)(A)(ii).



already paid taxes to their State and local governments. It undermines the Federal provisions of the American system of government by limiting the ability of States and localities to raise taxes in order to fund essential services such as law enforcement, firefighting, and education.

### **Explanation of Provision**

#### **Increase in limitation for married individuals for 2019**

The provision increases the dollar limitation on the deduction of State and local property, income, and sales taxes to \$20,000 in the case of a joint return and \$10,000 in the case of a married individual filing a separate return for taxable years beginning after December 31, 2018, and before January 1, 2020.

#### **Termination of limitation for 2020 and 2021**

The provision removes the dollar limitation on the deduction for State and local property, income, and sales taxes for taxable years beginning after December 31, 2019, and before January 1, 2022.

The provision contains conforming amendments to provide that the deduction for any State or local income tax imposed for a taxable year beginning after December 31, 2021, paid in a taxable year beginning before January 1, 2022, is treated as paid on the last day of the taxable year for which the tax is imposed. For payments of State or local property taxes during a taxable year beginning in 2020 or 2021, the provision directs the Secretary of the Treasury to prescribe rules to treat all or a portion of taxes paid in those years as paid in other taxable years, as necessary or appropriate in order to prevent avoidance of the dollar limitation applicable to years other than 2020 and 2021.

### **Effective Date**

The provision to increase the dollar limitation on the deduction for State and local property, income, and sales taxes for 2019 applies taxable years beginning after December 31, 2018.

The provision to eliminate the dollar limitation on the deduction for these taxes for 2020 and 2021 applies to taxes paid or accrued in taxable years beginning after December 31, 2019.

**B. Increase in Deduction for Certain Expenses of Elementary and Secondary School Teachers and Above-the-Line Deduction Allowed for Certain Expenses of First Responders**

**Present Law**

Although business expenses of employees are generally not allowed in computing adjusted gross income,<sup>12</sup> certain employee business expenses are so allowed — referred to as “above-the-line” deductions.<sup>13</sup> These include certain expenses of qualified performing artists, expenses of State or local government officials performing services on a fee basis, expenses of eligible educators, and expenses of members of a reserve component of the Armed Forces.<sup>14</sup> Eligible educators are individuals who are elementary or secondary school teachers, instructors, counselors, principals, or aides in a school for at least 900 hours during a school year.<sup>15</sup>

An eligible educator may take an above-the-line deduction for ordinary and necessary expenses incurred: 1) by reason of participation in professional development courses related to the curriculum or students the educator teaches, or 2) in connection with books, supplies, computer and other equipment, and supplementary materials to be used in the classroom.<sup>16</sup> The deduction may not exceed \$250 (for 2019). This dollar amount is indexed for inflation.

**Reasons for Change**

The Committee desires to support the teachers, law enforcement officers, firefighters, paramedics, and emergency medical technicians that educate and protect our State and local communities by allowing them to claim a deduction for certain job-related expenses.

**Explanation of Provision**

The provision increases the maximum dollar amount of the above-the-line deduction for certain expenses of eligible educators to \$500. This dollar amount is indexed for inflation.<sup>17</sup>

The provision also adds an above-the-line deduction for certain expenses of first responders. First responders are individuals who are employed as law enforcement officers, firefighters, paramedics, or emergency medical technicians for at least 1,000 hours during the taxable year.

A first responder may take an above-the-line deduction for expenses incurred: 1) as tuition or fees for the participation in professional development courses related to service as a

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<sup>12</sup> Sec. 62(a)(1). An individual may claim the standard deduction in addition to claiming all deductions allowed in determining adjusted gross income.

<sup>13</sup> Sec. 62(a)(2).

<sup>14</sup> Sec. 62(a)(2)(B), (C), (D), and (E). Under section 62(a)(2)(A) and (c), certain reimbursements of employee business expenses are excluded from income.

<sup>15</sup> Sec. 62(d)(1).

<sup>16</sup> Sec. 62(a)(2)(D). Supplies exclude nonathletic supplies for courses in health or physical education.

<sup>17</sup> The \$500 amount is first indexed in 2020.

first responder, or 2) in connection with uniforms personally used in service as a first responder. The maximum dollar amount for the above-the-line deduction is \$500. This dollar amount is indexed for inflation.<sup>18</sup>

### **Effective Date**

The provision to increase the maximum deduction for certain expenses of eligible educators applies to taxable years beginning after December 31, 2018.

The provision to add an above-the-line deduction for certain expenses of first responders applies to taxable years beginning after December 31, 2019.

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<sup>18</sup> The \$500 amount is first indexed in 2020.

**C. Increase of Top Marginal Individual Income  
Tax Rate Under Temporary Rules**

**Present Law**

**In general**

To determine regular tax liability, individual taxpayers generally must apply the tax rate schedules (or the tax tables) to their regular taxable income. The rate schedules are broken into several ranges of income, known as income brackets, and the marginal tax rate increases as a taxpayer's income bracket increases.

**Tax rate schedules**

Separate rate schedules apply based on an individual's filing status. The 2017 Tax Act changed the prior-law rate schedules for taxable years beginning after December 31, 2017 and beginning before January 1, 2026. For 2020, the regular individual income tax rate schedules are as follows:

**Table 1—Federal Individual Income Tax Rates for 2020<sup>1</sup>**

If taxable income is:	Then income tax equals:
<b><i>Single Individuals</i></b>	
Not over \$9,875	10% of the taxable income
Over \$9,875 but not over \$40,125	\$987.50 plus 12% of the excess over \$9,875
Over \$40,125 but not over \$85,525	\$4,617.50 plus 22% of the excess over \$40,125
Over \$85,525 but not over \$163,300	\$14,605.50 plus 24% of the excess over \$85,525
Over \$163,300 but not over \$207,350	\$33,271.50 plus 32% of the excess over \$163,300
Over \$207,350 but not over \$518,400	\$47,367.50 plus 35% of the excess over \$207,350
Over \$518,400	\$156,235 plus 37% of the excess over \$518,400
<b><i>Heads of Households</i></b>	
Not over \$14,100	10% of the taxable income
Over \$14,100 but not over \$53,700	\$1,410 plus 12% of the excess over \$14,100
Over \$53,700 but not over \$85,500	\$6,162 plus 22% of the excess over \$53,700
Over \$85,500 but not over \$163,300	\$13,158 plus 24% of the excess over \$85,500
Over \$163,300 but not over \$207,350	\$31,830 plus 32% of the excess over \$163,300
Over \$207,350 but not over \$518,400	\$45,926 plus 35% of the excess over \$207,350
Over \$518,400	\$154,793.50 plus 37% of the excess over \$518,400

If taxable income is:	Then income tax equals:
<b><i>Married Individuals Filing Joint Returns and Surviving Spouses</i></b>	
Not over \$19,750	10% of the taxable income
Over \$19,750 but not over \$80,250	\$1,975 plus 12% of the excess over \$19,750
Over \$80,250 but not over \$171,050	\$9,235 plus 22% of the excess over \$80,250
Over \$171,050 but not over \$326,600	\$29,211 plus 24% of the excess over \$171,050
Over \$326,600 but not over \$414,700	\$66,543 plus 32% of the excess over \$326,600
Over \$414,700 but not over \$622,050	\$94,735 plus 35% of the excess over \$414,700
Over \$622,050	\$167,307.50 plus 37% of the excess over \$622,050
<b><i>Married Individuals Filing Separate Returns</i></b>	
Not over \$9,875	10% of the taxable income
Over \$9,875 but not over \$40,125	\$987.50 plus 12% of the excess over \$9,875
Over \$40,125 but not over \$85,525	\$4,617.50 plus 22% of the excess over \$40,125
Over \$85,525 but not over \$163,300	\$14,605.50 plus 24% of the excess over \$85,525
Over \$163,300 but not over \$207,350	\$33,271.50 plus 32% of the excess over \$163,300
Over \$207,350 but not over \$311,025	\$47,367.50 plus 35% of the excess over \$207,350
Over \$311,025	\$83,653.75 plus 37% of the excess over \$311,025
<b><i>Estates and Trusts</i></b>	
Not over \$2,600	10% of the taxable income
Over \$2,600 but not over \$9,450	\$260 plus 24% of the excess over \$2,600
Over \$9,450 but not over \$12,950	\$1,904 plus 35% of the excess over \$9,450
Over \$12,950	\$3,129 plus 37% of the excess over \$12,950

<sup>1</sup> Rev. Proc 2019-44.

### **Reasons for Change**

The Committee believes that it is appropriate to return to the pre-2017 Tax Act top individual income tax rate and to reduce the dollar amounts at which such rate begins, in order to ensure that the wealthiest individuals pay their fair share without increasing the tax burden on lower or middle-income Americans.

### Explanation of Provision

The provision increases the top individual income tax rate of 37 percent to 39.6 percent and reduces the dollar amounts at which the 39.6 percent bracket begins.<sup>19</sup> Under the provision, for 2020, the regular individual income tax rate schedules are projected to be as follows (changes from present law are in bold):

**Table 2— Federal Individual Income Tax Rates for 2020 Under the Provision<sup>1</sup>**

If taxable income is:	Then income tax equals:
<i>Single Individuals</i>	
Not over \$9,875	10% of the taxable income
Over \$9,875 but not over \$40,125	\$987.50 plus 12% of the excess over \$9,875
Over \$40,125 but not over \$85,525	\$4,617.50 plus 22% of the excess over \$40,125
Over \$85,525 but not over \$163,300	\$14,605.50 plus 24% of the excess over \$85,525
Over \$163,300 but not over \$207,350	\$33,271.50 plus 32% of the excess over \$163,300
Over \$207,350 but not over <b>\$441,475</b>	\$47,367.50 plus 35% of the excess over \$207,350
Over <b>\$441,475</b>	<b>\$129,311.25</b> plus <b>39.6%</b> of the excess over <b>\$441,475</b>
<i>Heads of Households</i>	
Not over \$14,100	10% of the taxable income
Over \$14,100 but not over \$53,700	\$1,410 plus 12% of the excess over \$14,100
Over \$53,700 but not over \$85,500	\$6,162 plus 22% of the excess over \$53,700
Over \$85,500 but not over \$163,300	\$13,158 plus 24% of the excess over \$85,500
Over \$163,300 but not over \$207,350	\$31,830 plus 32% of the excess over \$163,300
Over \$207,350 but not over <b>\$469,050</b>	\$45,926 plus 35% of the excess over \$207,350
Over <b>\$469,050</b>	<b>\$137,521</b> plus <b>39.6%</b> of the excess over <b>\$469,050</b>

<sup>19</sup> The provision modifies the start of the 39.6 percent bracket to be \$425,800, \$452,400, \$479,000, and \$239,500, for singles, heads of households, married individuals filing jointly, and married individuals filing separately, respectively. The provision modifies the top rate and the start of top brackets for 2018, but these changes are not effective until 2020. Thus, in application, the provision only affects rates and brackets starting in 2020.

***Married Individuals Filing Joint Returns and Surviving Spouses***

Not over \$19,750	10% of the taxable income
Over \$19,750 but not over \$80,250	\$1,975 plus 12% of the excess over \$19,750
Over \$80,250 but not over \$171,050	\$9,235 plus 22% of the excess over \$80,250
Over \$171,050 but not over \$326,600	\$29,211 plus 24% of the excess over \$171,050
Over \$326,600 but not over \$414,700	\$66,543 plus 32% of the excess over \$326,600
Over \$414,700 but not over <b>\$496,600</b>	\$94,735 plus 35% of the excess over \$414,700
Over <b>\$496,600</b>	<b>\$123,400 plus 39.6% of the excess over \$496,600</b>

***Married Individuals Filing Separate Returns***

Not over \$9,875	10% of the taxable income
Over \$9,875 but not over \$40,125	\$987.50 plus 12% of the excess over \$9,875
Over \$40,125 but not over \$85,525	\$4,617.50 plus 22% of the excess over \$40,125
Over \$85,525 but not over \$163,300	\$14,605.50 plus 24% of the excess over \$85,525
Over \$163,300 but not over \$207,350	\$33,271.50 plus 32% of the excess over \$163,300
Over \$207,350 but not over <b>\$248,300</b>	\$47,367.50 plus 35% of the excess over \$207,350
Over <b>\$248,300</b>	<b>\$61,700 plus 39.6% of the excess over \$248,300</b>

***Estates and Trusts***

Not over \$2,600	10% of the taxable income
Over \$2,600 but not over \$9,450	\$260 plus 24% of the excess over \$2,600
Over \$9,450 but not over \$12,950	\$1,904 plus 35% of the excess over \$9,450
Over \$12,950	\$3,129 plus <b>39.6%</b> of the excess over \$12,950

<sup>1</sup> Rev. Proc. 2019-44 and JCT calculations.

The modifications made by the provision do not apply to taxable years beginning after December 31, 2025.<sup>20</sup>

**Effective Date**

The provision applies to taxable years beginning after December 31, 2019.

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<sup>20</sup> Rates and brackets revert to levels from prior law in effect before enactment of the 2017 Tax Act (adjusted appropriately for inflation) for taxable years beginning after December 31, 2025.

### **III. VOTES OF THE COMMITTEE**

Pursuant to clause 3(b) of rule XIII of the Rules of the House of Representatives, the following statement is made concerning the vote of the Committee on Ways and Means during the markup consideration of H.R. 5377, the “Restoring Tax Fairness for States and Localities Act” on December 11, 2019.



An amendment to the amendment in the nature of a substitute offered by Mr. Arrington which would ensure that the increased top marginal rate would not apply to small business income was defeated by a vote of 15 yeas to 21 nays. The vote was as follows:

<b>Representative</b>	<b>Yea</b>	<b>Nay</b>	<b>Present</b>	<b>Representative</b>	<b>Yea</b>	<b>Nay</b>	<b>Present</b>
MR. NEAL		X		MR. BRADY	X		
MR. LEWIS		X		MR. NUNES	X		
MR. DOGGETT				MR. BUCHANAN			
MR. THOMPSON		X		MR. SMITH (NE)	X		
MR. LARSON		X		MR. MARCHANT	X		
MR. BLUMENAUER		X		MR. REED	X		
MR. KIND		X		MR. KELLY	X		
MR. PASCRELL		X		MR. HOLDING	X		
MR. DAVIS		X		MR. SMITH (MO)			
MS. SANCHEZ		X		MR. RICE	X		
MR. HIGGINS		X		MR. SCHWEIKERT	X		
MS. SEWELL				MS. WALORSKI	X		
MS. DELBENE		X		MR. LAHOOD	X		
MS. CHU		X		DR. WENSTRUP	X		
MS. MOORE		X		MR. ARRINGTON	X		
MR. KILDEE		X		DR. FERGUSON	X		
MR. BOYLE		X		MR. ESTES	X		
MR. BEYER		X					
MR. EVANS		X					
MR. SCHNEIDER		X					
MR. SUOZZI		X					
MR. PANETTA							
MS. MURPHY		X					
MR. GOMEZ		X					
MR. HORSFORD							

An amendment to the amendment in the nature of a substitute offered by Dr. Wenstrup that would sunset the underlying bill if state and local property taxes were to increase following its enactment was defeated by a vote of 16 yeas to 21 nays. The vote was as follows:

<b>Representative</b>	<b>Yea</b>	<b>Nay</b>	<b>Present</b>	<b>Representative</b>	<b>Yea</b>	<b>Nay</b>	<b>Present</b>
MR. NEAL		X		MR. BRADY	X		
MR. LEWIS		X		MR. NUNES	X		
MR. DOGGETT				MR. BUCHANAN	X		
MR. THOMPSON		X		MR. SMITH (NE)	X		
MR. LARSON		X		MR. MARCHANT	X		
MR. BLUMENAUER		X		MR. REED	X		
MR. KIND				MR. KELLY	X		
MR. PASCRELL		X		MR. HOLDING	X		
MR. DAVIS		X		MR. SMITH (MO)			
MS. SANCHEZ		X		MR. RICE	X		
MR. HIGGINS		X		MR. SCHWEIKERT	X		
MS. SEWELL		X		MS. WALORSKI	X		
MS. DELBENE		X		MR. LAHOOD	X		
MS. CHU		X		DR. WENSTRUP	X		
MS. MOORE		X		MR. ARRINGTON	X		
MR. KILDEE		X		DR. FERGUSON	X		
MR. BOYLE		X		MR. ESTES	X		
MR. BEYER		X					
MR. EVANS		X					
MR. SCHNEIDER		X					
MR. SUOZZI		X					
MR. PANETTA							
MS. MURPHY		X					
MR. GOMEZ		X					
MR. HORSFORD							

An amendment to the amendment in the nature of a substitute offered by Dr. Ferguson which would make permanent the individual income tax rates and the small business deduction was defeated by a vote of 15 yeas to 21 nays. The vote was as follows:

<b>Representative</b>	<b>Yea</b>	<b>Nay</b>	<b>Present</b>	<b>Representative</b>	<b>Yea</b>	<b>Nay</b>	<b>Present</b>
MR. NEAL		X		MR. BRADY	X		
MR. LEWIS		X		MR. NUNES	X		
MR. DOGGETT				MR. BUCHANAN	X		
MR. THOMPSON		X		MR. SMITH (NE)	X		
MR. LARSON		X		MR. MARCHANT	X		
MR. BLUMENAUER		X		MR. REED	X		
MR. KIND				MR. KELLY	X		
MR. PASCRELL		X		MR. HOLDING	X		
MR. DAVIS		X		MR. SMITH (MO)			
MS. SANCHEZ		X		MR. RICE	X		
MR. HIGGINS		X		MR. SCHWEIKERT	X		
MS. SEWELL		X		MS. WALORSKI			
MS. DELBENE		X		MR. LAHOOD	X		
MS. CHU		X		DR. WENSTRUP	X		
MS. MOORE		X		MR. ARRINGTON	X		
MR. KILDEE		X		DR. FERGUSON	X		
MR. BOYLE		X		MR. ESTES	X		
MR. BEYER		X					
MR. EVANS		X					
MR. SCHNEIDER		X					
MR. SUOZZI		X					
MR. PANETTA							
MS. MURPHY		X					
MR. GOMEZ		X					
MR. HORSFORD							

An amendment to the amendment in the nature of a substitute offered by Mr. Rice which would strike the tax rate increase and, for tax years 2019 through 2021, generally would provide taxpayers with uncapped state and local tax (SALT) deduction except that taxpayers with the highest 10% of income are prohibited from taking any SALT deduction was defeated by a vote of 15 yeas to 22 nays. The vote was as follows:

<b>Representative</b>	<b>Yea</b>	<b>Nay</b>	<b>Present</b>	<b>Representative</b>	<b>Yea</b>	<b>Nay</b>	<b>Present</b>
MR. NEAL		X		MR. BRADY			
MR. LEWIS		X		MR. NUNES	X		
MR. DOGGETT				MR. BUCHANAN	X		
MR. THOMPSON		X		MR. SMITH (NE)	X		
MR. LARSON		X		MR. MARCHANT	X		
MR. BLUMENAUER		X		MR. REED	X		
MR. KIND		X		MR. KELLY	X		
MR. PASCRELL		X		MR. HOLDING	X		
MR. DAVIS		X		MR. SMITH (MO)			
MS. SANCHEZ		X		MR. RICE	X		
MR. HIGGINS		X		MR. SCHWEIKERT	X		
MS. SEWELL		X		MS. WALORSKI	X		
MS. DELBENE		X		MR. LAHOOD	X		
MS. CHU		X		DR. WENSTRUP	X		
MS. MOORE		X		MR. ARRINGTON	X		
MR. KILDEE		X		DR. FERGUSON	X		
MR. BOYLE		X		MR. ESTES	X		
MR. BEYER		X					
MR. EVANS		X					
MR. SCHNEIDER		X					
MR. SUOZZI		X					
MR. PANETTA							
MS. MURPHY		X					
MR. GOMEZ		X					
MR. HORSFORD							

An amendment to the amendment in the nature of a substitute offered by Ms. Walorski which would prevent taxpayers with the highest 1% of income from taking the increased cap on the state and local tax deduction was defeated by a vote of 16 yeas to 22 nays. The vote was as follows:

<b>Representative</b>	<b>Yea</b>	<b>Nay</b>	<b>Present</b>	<b>Representative</b>	<b>Yea</b>	<b>Nay</b>	<b>Present</b>
MR. NEAL		X		MR. BRADY	X		
MR. LEWIS		X		MR. NUNES	X		
MR. DOGGETT				MR. BUCHANAN	X		
MR. THOMPSON		X		MR. SMITH (NE)	X		
MR. LARSON		X		MR. MARCHANT	X		
MR. BLUMENAUER		X		MR. REED	X		
MR. KIND		X		MR. KELLY	X		
MR. PASCRELL		X		MR. HOLDING	X		
MR. DAVIS		X		MR. SMITH (MO)			
MS. SANCHEZ		X		MR. RICE	X		
MR. HIGGINS		X		MR. SCHWEIKERT	X		
MS. SEWELL		X		MS. WALORSKI	X		
MS. DELBENE		X		MR. LAHOOD	X		
MS. CHU		X		DR. WENSTRUP	X		
MS. MOORE		X		MR. ARRINGTON	X		
MR. KILDEE		X		DR. FERGUSON	X		
MR. BOYLE		X		MR. ESTES	X		
MR. BEYER		X					
MR. EVANS		X					
MR. SCHNEIDER		X					
MR. SUOZZI		X					
MR. PANETTA							
MS. MURPHY		X					
MR. GOMEZ		X					
MR. HORSFORD							

An amendment to the amendment in the nature of a substitute offered by Mr. Schweikert which would require that an analysis be conducted to ensure the increased tax rate would not decrease employment of wages was defeated by a vote of 15 yeas to 22 nays. The vote was as follows:

<b>Representative</b>	<b>Yea</b>	<b>Nay</b>	<b>Present</b>	<b>Representative</b>	<b>Yea</b>	<b>Nay</b>	<b>Present</b>
MR. NEAL		X		MR. BRADY	X		
MR. LEWIS		X		MR. NUNES	X		
MR. DOGGETT				MR. BUCHANAN	X		
MR. THOMPSON		X		MR. SMITH (NE)	X		
MR. LARSON		X		MR. MARCHANT	X		
MR. BLUMENAUER		X		MR. REED	X		
MR. KIND		X		MR. KELLY	X		
MR. PASCRELL		X		MR. HOLDING	X		
MR. DAVIS		X		MR. SMITH (MO)			
MS. SANCHEZ		X		MR. RICE	X		
MR. HIGGINS		X		MR. SCHWEIKERT	X		
MS. SEWELL		X		MS. WALORSKI	X		
MS. DELBENE		X		MR. LAHOOD	X		
MS. CHU		X		DR. WENSTRUP	X		
MS. MOORE		X		MR. ARRINGTON			
MR. KILDEE		X		DR. FERGUSON	X		
MR. BOYLE		X		MR. ESTES	X		
MR. BEYER		X					
MR. EVANS		X					
MR. SCHNEIDER		X					
MR. SUOZZI		X					
MR. PANETTA							
MS. MURPHY		X					
MR. GOMEZ		X					
MR. HORSFORD							

An amendment to the amendment in the nature of a substitute offered by Mr. Smith of Nebraska which would make permanent the higher standard deduction made under the Tax Cuts and Jobs Act was defeated by a vote of 17 yeas to 23 nays. The vote was as follows:

<b>Representative</b>	<b>Yea</b>	<b>Nay</b>	<b>Present</b>	<b>Representative</b>	<b>Yea</b>	<b>Nay</b>	<b>Present</b>
MR. NEAL		X		MR. BRADY	X		
MR. LEWIS		X		MR. NUNES	X		
MR. DOGGETT		X		MR. BUCHANAN	X		
MR. THOMPSON		X		MR. SMITH (NE)	X		
MR. LARSON		X		MR. MARCHANT	X		
MR. BLUMENAUER		X		MR. REED	X		
MR. KIND		X		MR. KELLY	X		
MR. PASCRELL		X		MR. HOLDING	X		
MR. DAVIS		X		MR. SMITH (MO)	X		
MS. SANCHEZ		X		MR. RICE	X		
MR. HIGGINS		X		MR. SCHWEIKERT	X		
MS. SEWELL		X		MS. WALORSKI	X		
MS. DELBENE		X		MR. LAHOOD	X		
MS. CHU		X		DR. WENSTRUP	X		
MS. MOORE		X		MR. ARRINGTON	X		
MR. KILDEE		X		DR. FERGUSON	X		
MR. BOYLE		X		MR. ESTES	X		
MR. BEYER		X					
MR. EVANS		X					
MR. SCHNEIDER		X					
MR. SUOZZI		X					
MR. PANETTA							
MS. MURPHY		X					
MR. GOMEZ		X					
MR. HORSFORD							

The amendment in the nature of a substitute to H.R. 5377 was adopted by voice vote (with a quorum being present).



H.R. 5377 was ordered favorably reported as amended to the House of Representatives by a vote of 24 yeas to 17 nays. The vote was as follows:

<b>Representative</b>	<b>Yea</b>	<b>Nay</b>	<b>Present</b>	<b>Representative</b>	<b>Yea</b>	<b>Nay</b>	<b>Present</b>
MR. NEAL	X			MR. BRADY		X	
MR. LEWIS	X			MR. NUNES		X	
MR. DOGGETT				MR. BUCHANAN		X	
MR. THOMPSON	X			MR. SMITH (NE)		X	
MR. LARSON	X			MR. MARCHANT		X	
MR. BLUMENAUER	X			MR. REED	X		
MR. KIND	X			MR. KELLY		X	
MR. PASCRELL	X			MR. HOLDING		X	
MR. DAVIS	X			MR. SMITH (MO)		X	
MS. SANCHEZ	X			MR. RICE		X	
MR. HIGGINS	X			MR. SCHWEIKERT		X	
MS. SEWELL	X			MS. WALORSKI		X	
MS. DELBENE	X			MR. LAHOOD		X	
MS. CHU	X			DR. WENSTRUP		X	
MS. MOORE	X			MR. ARRINGTON		X	
MR. KILDEE	X			DR. FERGUSON		X	
MR. BOYLE	X			MR. ESTES		X	
MR. BEYER	X						
MR. EVANS	X						
MR. SCHNEIDER	X						
MR. SUOZZI	X						
MR. PANETTA	X						
MS. MURPHY		X					
MR. GOMEZ	X						
MR. HORSFORD	X						

## IV. BUDGET EFFECTS OF THE BILL

### A. Committee Estimate of Budgetary Effects

In compliance with clause 3(d) of rule XIII of the Rules of the House of Representatives, the following statement is made concerning the effects on the budget of the bill.

The bill is estimated to increase Federal fiscal year budget receipts by \$6.2 billion dollars for the period 2019 through 2029.

<u>Provision</u>	<u>Effective</u>	Fiscal Years											
		[Billions of Dollars]											
		<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>	<u>2026</u>	<u>2027</u>	<u>2028</u>	<u>2029</u>	<u>2020-24</u>	<u>2020-29</u>
1. Increase the top individual income tax rate to 39.6% and restore the top income tax bracket.....	tyba 12/31/19	19.4	28.7	30.4	31.9	33.8	35.6	10.9	[1]	---	---	144.2	190.7
2. Increase in limitation on deduction for State and local taxes for married individuals for 2019; termination of limitation for 2020 and 2021.....	tyba 12/31/18 & tyba 12/31/19	-48.9	-88.7	-51.3	4.4	---	---	---	---	---	---	-184.5	-184.5
3. Increase in deduction for certain expenses of elementary and secondary school teachers.....	tyba 12/31/18	-0.2	-0.1	-0.1	-0.2	-0.2	-0.2	-0.2	-0.3	-0.2	-0.2	-0.8	-1.9
4. Above-the-line deduction allowed for certain expenses of first responders.....	tyba 12/31/19	-0.1	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.9	-1.9
<b>NET TOTAL</b> .....		<b>-29.8</b>	<b>-60.3</b>	<b>-21.2</b>	<b>35.9</b>	<b>33.4</b>	<b>35.2</b>	<b>10.5</b>	<b>-0.5</b>	<b>-0.4</b>	<b>-0.4</b>	<b>-42.0</b>	<b>2.4</b>

Joint Committee on Taxation

NOTE: Details may not add to totals due to rounding.

Legend for "Effective" column: tyba = taxable years beginning after

[1] Gain of less than \$50 million.

### B. Statement Regarding New Budget Authority and Tax Expenditures Budget Authority

Pursuant to clause 3(c)(2) of rule XIII of the Rules of the House of Representatives, the Committee states that the bill involves no new or increased budget authority. The Committee further states that the bill involves no new tax expenditure.

### C. Cost Estimate Prepared by the Congressional Budget Office

Pursuant to clause 3(c)(3) of rule XIII of the Rules of the House of Representatives, requiring a cost estimate prepared by CBO, the following statement by CBO is provided.

**[Insert A - CBO letter/estimate]**



CONGRESSIONAL BUDGET OFFICE  
U.S. Congress  
Washington, DC 20515

*Phillip L. Swagel, Director*

December 13, 2019

Honorable Richard Neal  
Chairman  
Committee on Ways and Means  
U.S. House of Representatives  
Washington, DC 20515

Dear Mr. Chairman:

The Congressional Budget Office has prepared the enclosed cost estimate for H.R. 5377, The Restoring Tax Fairness for States and Localities Act.

If you wish further details on this estimate, we will be pleased to provide them. The CBO staff contact is Ellen Steele, who can be reached at 226-2640.

Sincerely,

A handwritten signature in black ink, appearing to read 'Phillip L. Swagel'.

Phillip L. Swagel

Enclosure

cc: Honorable Kevin Brady  
Ranking Member

### At a Glance

## H.R. 5377, The Restoring Tax Fairness for States and Localities Act

As ordered reported by the House Committee on Ways and Means on December 11, 2019.

By Fiscal Year, Billions of Dollars	2020	2020-2024	2020-2029
<b>Direct Spending (Outlays)</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Revenues</b>	<b>-29.8</b>	<b>-42.0</b>	<b>2.4</b>
<b>Increase or Decrease (-) in the Deficit</b>	<b>29.8</b>	<b>42.0</b>	<b>-2.4</b>
<b>Spending Subject to Appropriation (Outlays)</b>	<b>0</b>	<b>0</b>	<b>0</b>
Statutory pay-as-you-go procedures apply?	<b>Yes</b>	<b>Mandate Effects</b>	
Increases on-budget deficits in any of the four consecutive 10-year periods beginning in 2030?	<b>&lt; \$5 billion</b>	Contains intergovernmental mandate?	<b>No</b>
		Contains private-sector mandate?	<b>Yes, Over Threshold</b>

#### The bill would

- Increase the maximum state and local tax deduction that married couples can claim in 2019
- Eliminate the limitations on the maximum state and local tax deduction in 2020 and 2021
- Increase the top marginal individual income tax rate and reduce the income threshold for the top tax bracket from 2020 to 2025
- Increase the maximum amount of the deduction for certain expenses for eligible teachers
- Create a new above-the-line deduction for eligible expenses for first responders

#### Estimated budgetary effects would primarily stem from

- An increase in state and local tax deductions for tax years 2019, 2020, and 2021
- A higher tax rate for the top marginal individual tax bracket between 2020 and 2025
- An increase in deductions of expenses by certain educators and first responders

The Congressional Budget Act of 1974, as amended, stipulates that revenue estimates provided by the staff of the Joint Committee on Taxation (JCT) are the official estimates for all tax legislation considered by the Congress. CBO therefore incorporates such estimates into its cost estimates of the effects of legislation. All of the estimates for the provisions of H.R. 5377 were provided by JCT.

**Detailed estimate begins on the next page.**

### Bill Summary

H.R. 5377 would increase the tax rate for the top individual income tax bracket for taxable years 2020 to 2025 from 37 percent to 39.6 percent, and reduce the minimum taxable income threshold for that bracket. H.R. 5377 would increase the limitation on the deduction of state and local taxes for married couples from \$10,000 to \$20,000 in taxable year 2019 and eliminate that limitation for 2020 and 2021 for all taxpayers. Additionally, H.R. 5377 would increase the deduction for certain expenses for elementary and secondary school teachers from \$250 to \$500 and create a new \$500 above-the-line deduction for certain expenses of first responders.

### Estimated Federal Cost

The estimated budgetary effect of H.R. 5377 is shown in Table 1.

**Table 1.**  
**Estimated Budgetary Effects of H.R. 5377**

	By Fiscal Year, Billions of Dollars										2020-2024	2020-2029
	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029		
<b>Increases or Decreases (-) in Revenues</b>												
Increase the top individual income tax rate to 39.6% and restore the top income tax bracket	19.4	28.7	30.4	31.9	33.8	35.6	10.9	*	0	0	144.2	190.7
Increase in limitation on deduction for State and local taxes for married individuals for 2019; termination of limitation for 2020 and 2021	-48.9	-88.7	-51.3	4.4	0	0	0	0	0	0	-184.5	-184.5
Increase in deduction for certain expenses of elementary and secondary school teachers	-0.2	-0.1	-0.1	-0.2	-0.2	-0.2	-0.2	-0.3	-0.2	-0.2	-0.8	-1.9
Above-the-line deduction allowed for certain expenses of first responders	-0.1	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.9	-1.9
<b>Total Revenues</b>	<b>-29.8</b>	<b>-60.3</b>	<b>-21.2</b>	<b>35.9</b>	<b>33.4</b>	<b>35.2</b>	<b>10.5</b>	<b>-0.5</b>	<b>-0.4</b>	<b>-0.4</b>	<b>-42.0</b>	<b>2.4</b>
<b>Net Increase or Decrease (-) in the Deficit From Changes in Revenues</b>												
Effect on the Deficit	29.8	60.3	21.2	-35.9	-33.4	-35.2	-10.5	0.5	0.4	0.4	42.0	-2.4

Source: Staff of the Joint Committee on Taxation.  
Components may not sum to totals because of rounding; \* = Gain of less than \$50 million.



## Basis of Estimate

The Congressional Budget Act of 1974, as amended, stipulates that revenue estimates provided by the staff of the Joint Committee on Taxation (JCT) are the official estimates for all tax legislation considered by the Congress. CBO therefore incorporates such estimates into its cost estimates of the effects of legislation. All of the estimates for the provisions of H.R. 5377 were provided by JCT.<sup>1</sup>

## Revenues

H.R. 5377 would increase revenues by expanding the top marginal individual income tax bracket and reduce revenues by allowing more deductions for state and local taxes and eligible expenses for certain educators and first responders. On net, JCT estimates, enacting the bill would increase revenues by \$2.4 billion over the 2020-2029 period.

H.R. 5377 would increase the tax rate that applies to the top individual income tax bracket and expand the income range over which it applies between 2020 and 2025. The 2017 tax act (Public Law 115-97) temporarily reduced the top marginal tax rate to 37 percent for taxable years 2018 to 2025. H.R. 5377 would reverse that temporary decrease by increasing the top rate to 39.6 percent for taxable years 2020 to 2025. Additionally, H.R. 5377 would reduce the income thresholds established by the 2017 tax act for the top tax bracket for taxable years 2020 to 2025, thereby increasing the number of taxpayers subject to the top marginal rate. For example, under H.R. 5377, in 2020, the taxable income threshold for the top tax bracket for single individuals would fall from \$518,400 to \$441,475, JCT estimates. (The threshold for married individuals filing joint returns would fall from \$622,050 to \$496,600.) JCT estimates that as a result of these changes to the top bracket, revenues would increase by \$190.7 billion over the 2020-2029 period.

The 2017 tax act limited the maximum amount of state and local taxes that married couples could deduct to \$10,000 for tax years 2018 to 2025. H.R. 5377 would increase the allowable amount of the state and local tax deduction for married couples in 2019, from \$10,000 to \$20,000 for taxpayers filing jointly and from \$5,000 to \$10,000 for married taxpayers filing separately. The bill would eliminate the limitation altogether in 2020 and 2021. JCT estimates that these changes to the state and local tax deduction limitations would decrease revenues by \$184.5 billion from 2020 to 2029.

H.R. 5377 would expand deductions for certain expenses for educators and first responders. It would permanently increase the deduction for certain expenses for eligible educators from \$250 to \$500 (indexed for inflation) beginning in tax year 2019. The bill would also add a

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<sup>1</sup> For JCT's estimates of the provisions, which include detail beyond the summary presented here, see Joint Committee on Taxation, Description Of The Chairman's Amendment In The Nature Of A Substitute To The Provisions Of H.R. \_\_\_\_\_, The "Restoring Tax Fairness For States And Localities Act" JCX-53-19 (December 10, 2019) <https://www.jct.gov/publications.html?func=startdown&id=5236>

permanent above-the-line deduction for certain eligible expenses for first responders, including firefighters, law enforcement officers, paramedics, and emergency technicians. The deduction for first responders would be \$500 in 2019, and indexed for inflation in subsequent years. JCT estimates that the increased deduction for educators and the new deduction for expenses for first responders would each reduce revenues by \$1.9 billion from 2020 to 2029.

### **Uncertainty**

These budgetary estimates are uncertain because they rely on underlying projections and other estimates that are uncertain. Specifically, they are based in part on economic projections for the next decade under current law, and on estimates of changes in taxpayers' behavior in response to changes in tax rules.

### **Pay-As-You-Go Considerations**

The Statutory Pay-As-You-Go Act of 2010 establishes budget-reporting and enforcement procedures for legislation affecting direct spending or revenues. The net changes in revenues that are subject to those pay-as-you-go procedures are shown in Table 1.

### **Increase in Long-Term Deficits**

JCT estimates that enacting H.R. 5377 would increase on-budget deficits by less than \$5 billion in each of the four consecutive 10-year periods beginning in 2030.

### **Mandates**

JCT has determined that H.R. 5377 would impose no intergovernmental mandates as defined in the Unfunded Mandates Reform Act (UMRA).

JCT has determined that H.R. 5377 would impose a private-sector mandate as defined in UMRA by increasing the highest marginal tax rate for individual taxpayers. JCT estimates that the aggregate direct cost of the mandate would exceed the annual private-sector threshold established in UMRA (\$164 million in 2019, adjusted annually for inflation).

### **Estimate Prepared By**

Revenues: Staff of the Joint Committee on Taxation and Ellen Steele

Mandates: Staff of the Joint Committee on Taxation



**Estimate Reviewed By**

Joshua Shakin

Chief, Revenue Estimating Unit

John McClelland

Assistant Director for Tax Analysis



## **V. OTHER MATTERS TO BE DISCUSSED UNDER THE RULES OF THE HOUSE**

### **A. Committee Oversight Findings and Recommendations**

With respect to clause 3(c)(1) of rule XIII and clause 2(b)(1) of rule X of the Rules of the House of Representatives, the Committee made findings and recommendations that are reflected in this report.

### **B. Statement of General Performance Goals and Objectives**

With respect to clause 3(c)(4) of rule XIII of the Rules of the House of Representatives, the Committee advises that the bill contains no measure that authorizes funding, therefore, no statement of general performance goals and objectives is required.

### **C. Information Relating to Unfunded Mandates**

This information is provided in accordance with section 423 of the Unfunded Mandates Reform Act of 1995 (Pub. L. No. 104-4). The Committee has determined that the bill contains one private sector unfunded mandate: it increases the top individual income tax rate of 37 percent to 39.6 percent and reduces the dollar amounts at which the 39.6 percent bracket begins, subjecting more taxpayers to tax at the top individual income tax rate. The Committee has determined that the bill does not impose a Federal intergovernmental mandate on State, local, or tribal governments.

### **D. Applicability of House Rule XXI, Clause 5(b)**

Clause 5(b) of rule XXI of the Rules of the House of Representatives provides, in part, that, “It shall not be in order to consider a bill, joint resolution, amendment, or conference report carrying a retroactive Federal income tax rate increase.” The Committee, after careful review, states that the bill does not involve any retroactive Federal income tax rate increase within the meaning of the rule.

### **E. Tax Complexity Analysis**

Section 4022(b) of Pub. L. No. 105-266, the Internal Revenue Service Restructuring and Reform Act of 1998 (the “RRA”), requires the staff of the Joint Committee on Taxation (in consultation with the Internal Revenue Service and the Treasury Department) to provide a tax complexity analysis. The complexity analysis is required for all legislation reported by the Senate Committee on Finance, the House Committee on Ways and Means, or any committee of conference if the legislation includes a provision that directly or indirectly amends the Internal Revenue Code of 1986 and has widespread applicability to individuals or small businesses.

Pursuant to clause 3(h)(1) of rule XIII of the Rules of the House of Representatives, the staff of the Joint Committee on Taxation has determined that a complexity analysis is not required under section 4022(b) of the RRA because the bill contains no provision that amends the Internal Revenue Code of 1986 and has “widespread applicability” to individuals or small businesses within the meaning of the rule.

## **F. Congressional Earmarks, Limited Tax Benefits, and Limited Tariff Benefits**

With respect to clause 9 of rule XXI of the Rules of the House of Representatives, the Committee has carefully reviewed the provisions of the bill, and states that the provisions of the bill do not contain any congressional earmarks, limited tax benefits, or limited tariff benefits within the meaning of the rule.

## **G. Duplication of Federal Programs**

In compliance with clause 3(c)(5) of rule XIII of the Rules of the House of Representatives, the Committee states that no provision of the bill establishes or reauthorizes: 1) a program of the Federal Government known to be duplicative of another Federal program; 2) a program included in any report to Congress pursuant to section 21 of Pub. L. No. 111-139; or (3) a program related to a program identified in the most recent Catalog of Federal Domestic Assistance, published pursuant to section 6104 of title 31, United States Code.

## **H. Hearings**

In compliance with Sec. 103(i) of H. Res. 6 (116<sup>th</sup> Congress)

the following hearing was used to develop or consider H.R. 5377:

The June 25, 2019 hearing of the Committee on Ways and Means Subcommittee on Select Revenue Measures entitled “How Recent Limitations to the SALT Deduction Harm Communities, Schools, First Responders, and Housing Values”

and

the following related hearing was held:

The June 25, 2019, Member Day hearing held by the Committee on Ways and Means Subcommittee on Select Revenue Measures to hear testimony on the consequences of and potential remedies to the recent changes made to the Federal tax treatment of State and local taxes.

## **VI. CHANGES IN EXISTING LAW MADE BY THE BILL**

### **A. Changes in Existing Law Proposed by the Bill**

Pursuant to clause 3(e)(1)(B) of rule XIII of the Rules of the House of Representatives, changes in existing law proposed by the bill are shown as follows (existing law proposed to be omitted is enclosed in black brackets, new matter is printed in italics, existing law in which no change is proposed is shown in roman):

[Insert Ramseyer.]

CHANGES IN EXISTING LAW MADE BY THE BILL, AS REPORTED

In compliance with clause 3(e) of rule XIII of the Rules of the House of Representatives, changes in existing law made by the bill, as reported, are shown as follows (existing law proposed to be omitted is enclosed in black brackets, new matter is printed in italics, and existing law in which no change is proposed is shown in roman):

**INTERNAL REVENUE CODE OF 1986**

\* \* \* \* \*

**Subtitle A—Income Taxes**

\* \* \* \* \*

**CHAPTER 1—NORMAL TAXES AND SURTAXES**

\* \* \* \* \*

**Subchapter A—DETERMINATION OF TAX LIABILITY**

\* \* \* \* \*

**PART I—TAX ON INDIVIDUALS**

\* \* \* \* \*

**SEC. 1. TAX IMPOSED.**

(a) **MARRIED INDIVIDUALS FILING JOINT RETURNS AND SURVIVING SPOUSES.**—There is hereby imposed on the taxable income of—

(1) every married individual (as defined in section 7703) who makes a single return jointly with his spouse under section 6013, and

(2) every surviving spouse (as defined in section 2(a)), a tax determined in accordance with the following table:

If taxable income is:	The tax is:
Not over \$36,900	15% of taxable income.
Over \$36,900 but not over \$89,150	\$5,535, plus 28% of the excess over \$36,900.
Over \$89,150 but not over \$140,000	\$20,165, plus 31% of the excess over \$89,150.
Over \$140,000 but not over \$250,000	\$35,928.50, plus 36% of the excess over \$140,000.
Over \$250,000	\$75,528.50, plus 39.6% of the excess over \$250,000.

(b) **HEADS OF HOUSEHOLDS.**—There is hereby imposed on the taxable income of every head of a household (as defined in section 2(b)) a tax determined in accordance with the following table:

If taxable income is:	The tax is:
Not over \$29,600	15% of taxable income.
Over \$29,600 but not over \$76,400	\$4,440, plus 28% of the excess over \$29,600.
Over \$76,400 but not over \$127,500	\$17,544, plus 31% of the excess over \$76,400.
Over \$127,500 but not over \$250,000	\$33,385, plus 36% of the excess over \$127,500.
Over \$250,000	\$77,485, plus 39.6% of the excess over \$250,000.

(c) **UNMARRIED INDIVIDUALS (OTHER THAN SURVIVING SPOUSES AND HEADS OF HOUSEHOLDS).**—There is hereby imposed on the taxable income of every individual (other than a surviving spouse as defined in section 2(a) or the head of a household as defined in section 2(b)) who is not a married individual (as defined in section 7703) a tax determined in accordance with the following table:

If taxable income is:	The tax is:
Not over \$22,100	15% of taxable income.
Over \$22,100 but not over \$53,500	\$3,315, plus 28% of the excess over \$22,100.
Over \$53,500 but not over \$115,000	\$12,107, plus 31% of the excess over \$53,500.
Over \$115,000 but not over \$250,000	\$31,172, plus 36% of the excess over \$115,000.
Over \$250,000	\$79,772, plus 39.6% of the excess over \$250,000.

(d) **MARRIED INDIVIDUALS FILING SEPARATE RETURNS.**—There is hereby imposed on the taxable income of every married individual (as defined in section 7703) who does not make a single return jointly with his spouse under section 6013, a tax determined in accordance with the following table:

If taxable income is:	The tax is:
Not over \$18,450	15% of taxable income.
Over \$18,450 but not over \$44,575	\$2,767.50, plus 28% of the excess over \$18,450.
Over \$44,575 but not over \$70,000	\$10,082.50, plus 31% of the excess over \$44,575.
Over \$70,000 but not over \$125,000	\$17,964.25, plus 36% of the excess over \$70,000.
Over \$125,000	\$37,764.25, plus 39.6% of the excess over \$125,000.

(e) **ESTATES AND TRUSTS.**—There is hereby imposed on the taxable income of—

- (1) every estate, and
- (2) every trust, taxable under this subsection a tax determined in accordance with the following table:

If taxable income is:	The tax is:
Not over \$1,500	15% of taxable income.
Over \$1,500 but not over \$3,500	\$225, plus 28% of the excess over \$1,500.
Over \$3,500 but not over \$5,500	\$785, plus 31% of the excess over \$3,500.
Over \$5,500 but not over \$7,500	\$1,405, plus 36% of the excess over \$5,500.
Over \$7,500	\$2,125, plus 39.6% of the excess over \$7,500.

(f) PHASEOUT OF MARRIAGE PENALTY IN 15-PERCENT BRACKET; ADJUSTMENTS IN TAX TABLES SO THAT INFLATION WILL NOT RESULT IN TAX INCREASES.—

(1) IN GENERAL.—Not later than December 15 of 1993, and each subsequent calendar year, the Secretary shall prescribe tables which shall apply in lieu of the tables contained in subsections (a), (b), (c), (d), and (e) with respect to taxable years beginning in the succeeding calendar year.

(2) METHOD OF PRESCRIBING TABLES.—The table which under paragraph (1) is to apply in lieu of the table contained in subsection (a), (b), (c), (d), or (e), as the case may be, with respect to taxable years beginning in any calendar year shall be prescribed—

(A) except as provided in paragraph (8), by increasing the minimum and maximum dollar amounts for each bracket for which a tax is imposed under such table by the cost-of-living adjustment for such calendar year, determined—

(i) except as provided in clause (ii), by substituting “1992” for “2016” in paragraph (3)(A)(ii), and

(ii) in the case of adjustments to the dollar amounts at which the 36 percent rate bracket begins or at which the 39.6 percent rate bracket begins, by substituting “1993” for “2016” in paragraph (3)(A)(ii), (B) by not changing the rate applicable to any rate bracket as adjusted under subparagraph (A), and

(C) by adjusting the amounts setting forth the tax to the extent necessary to reflect the adjustments in the rate brackets.

(3) COST-OF-LIVING ADJUSTMENT.—For purposes of this subsection—

(A) IN GENERAL.—The cost-of-living adjustment for any calendar year is the percentage (if any) by which—

(i) the C-CPI-U for the preceding calendar year, exceeds

(ii) the CPI for calendar year 2016, multiplied by the amount determined under subparagraph (B).

(B) AMOUNT DETERMINED.—The amount determined under this clause is the amount obtained by dividing—

(i) the C-CPI-U for calendar year 2016, by

(ii) the CPI for calendar year 2016.

(C) SPECIAL RULE FOR ADJUSTMENTS WITH A BASE YEAR AFTER 2016.—For purposes of any provision of this title which provides for the substitution of a year after 2016 for “2016” in subparagraph (A)(ii), subparagraph (A) shall be applied by substituting “the C-CPI-U for calendar year 2016” for “the CPI for calendar year 2016” and all that follows in clause (ii) thereof.

(4) CPI FOR ANY CALENDAR YEAR.—For purposes of paragraph (3), the CPI for any calendar year is the average of the Consumer Price Index as of the close of the 12-month period ending on August 31 of such calendar year.

(5) CONSUMER PRICE INDEX.—For purposes of paragraph (4), the term “Consumer Price Index” means the last Consumer Price Index for all-urban consumers published by the Department of Labor. For purposes of the preceding sentence, the revision of the Consumer Price Index which is most consistent with the Consumer Price Index for calendar year 1986 shall be used.

(6) C-CPI-U.—For purposes of this subsection—

(A) IN GENERAL.—The term “C-CPI-U” means the Chained Consumer Price Index for All Urban Consumers (as published by the Bureau of Labor Statistics of the Department of Labor). The values of the Chained Consumer Price Index for All Urban Consumers taken into account for purposes of determining the cost-of-living adjustment for any calendar year under this subsection shall be the latest values so published as of the date on which such Bureau publishes the initial value of the Chained Consumer Price Index for All Urban Consumers for the month of August for the preceding calendar year.

(B) DETERMINATION FOR CALENDAR YEAR.—The C-CPI-U for any calendar year is the average of the C-CPI-U as of the close of the 12-month period ending on August 31 of such calendar year.

(7) ROUNDING.—

(A) IN GENERAL.—If any increase determined under paragraph (2)(A), section 63(c)(4), section 68(b)(2) or section 151(d)(4) is not a multiple of \$50, such increase shall be rounded to the next lowest multiple of \$50.

(B) TABLE FOR MARRIED INDIVIDUALS FILING SEPARATELY.—In the case of a married individual filing a separate return, subparagraph (A) (other than with respect to sections 63(c)(4) and 151(d)(4)(A)) shall be applied by substituting “\$25” for “\$50” each place it appears.

(8) ELIMINATION OF MARRIAGE PENALTY IN 15-PERCENT BRACKET.—With respect to taxable years beginning after December 31, 2003, in prescribing the tables under paragraph (1)—

(A) the maximum taxable income in the 15-percent rate bracket in the table contained in subsection (a) (and the minimum taxable income in the next higher taxable income bracket in such table) shall be 200 percent of the maximum taxable income in the 15-percent rate bracket in the table contained in subsection (c) (after any other adjustment under this subsection), and

(B) the comparable taxable income amounts in the table contained in subsection (d) shall be 1/2 of the amounts determined under subparagraph (A).

(g) CERTAIN UNEARNED INCOME OF CHILDREN TAXED AS IF PARENT’S INCOME.—

(1) IN GENERAL.—In the case of any child to whom this subsection applies, the tax imposed by this section shall be equal to the greater of—

- (A) the tax imposed by this section without regard to this subsection, or
- (B) the sum of—
- (i) the tax which would be imposed by this section if the taxable income of such child for the taxable year were reduced by the net unearned income of such child, plus
- (ii) such child's share of the allocable parental tax.
- (2) CHILD TO WHOM SUBSECTION APPLIES.—This subsection shall apply to any child for any taxable year if—
- (A) such child—
- (i) has not attained age 18 before the close of the taxable year, or
- (ii)(I) has attained age 18 before the close of the taxable year and meets the age requirements of section 152(c)(3) (determined without regard to subparagraph (B) thereof), and
- (II) whose earned income (as defined in section 911(d)(2)) for such taxable year does not exceed one-half of the amount of the individual's support (within the meaning of section 152(c)(1)(D) after the application of section 152(f)(5) (without regard to subparagraph (A) thereof)) for such taxable year,
- (B) either parent of such child is alive at the close of the taxable year, and
- (C) such child does not file a joint return for the taxable year.
- (3) ALLOCABLE PARENTAL TAX.—For purposes of this subsection—
- (A) IN GENERAL.—The term “allocable parental tax” means the excess of—
- (i) the tax which would be imposed by this section on the parent's taxable income if such income included the net unearned income of all children of the parent to whom this subsection applies, over
- (ii) the tax imposed by this section on the parent without regard to this subsection.
- For purposes of clause (i), net unearned income of all children of the parent shall not be taken into account in computing any exclusion, deduction, or credit of the parent.
- (B) CHILD'S SHARE.—A child's share of any allocable parental tax of a parent shall be equal to an amount which bears the same ratio to the total allocable parental tax as the child's net unearned income bears to the aggregate net unearned income of all children of such parent to whom this subsection applies.
- (C) SPECIAL RULE WHERE PARENT HAS DIFFERENT TAXABLE YEAR.—Except as provided in regulations, if the parent does not have the same taxable year as the child, the allocable parental tax shall be determined on the basis of the taxable year of the parent ending in the child's taxable year.



(4) NET UNEARNED INCOME.—For purposes of this subsection—

(A) IN GENERAL.—The term “net unearned income” means the excess of—

(i) the portion of the adjusted gross income for the taxable year which is not attributable to earned income (as defined in section 911(d)(2)), over

(ii) the sum of—

(I) the amount in effect for the taxable year under section 63(c)(5)(A) (relating to limitation on standard deduction in the case of certain dependents), plus

(II) the greater of the amount described in subclause (I) or, if the child itemizes his deductions for the taxable year, the amount of the itemized deductions allowed by this chapter for the taxable year which are directly connected with the production of the portion of adjusted gross income referred to in clause (i).

(B) LIMITATION BASED ON TAXABLE INCOME.—The amount of the net unearned income for any taxable year shall not exceed the individual’s taxable income for such taxable year.

(C) TREATMENT OF DISTRIBUTIONS FROM QUALIFIED DISABILITY TRUSTS.—For purposes of this subsection, in the case of any child who is a beneficiary of a qualified disability trust (as defined in section 642(b)(2)(C)(ii)), any amount included in the income of such child under sections 652 and 662 during a taxable year shall be considered earned income of such child for such taxable year.

(5) SPECIAL RULES FOR DETERMINING PARENT TO WHOM SUBSECTION APPLIES.—For purposes of this subsection, the parent whose taxable income shall be taken into account shall be—

(A) in the case of parents who are not married (within the meaning of section 7703), the custodial parent (within the meaning of section 152(e)) of the child, and

(B) in the case of married individuals filing separately, the individual with the greater taxable income.

(6) PROVIDING OF PARENT’S TIN.—The parent of any child to whom this subsection applies for any taxable year shall provide the TIN of such parent to such child and such child shall include such TIN on the child’s return of tax imposed by this section for such taxable year.

(7) ELECTION TO CLAIM CERTAIN UNEARNED INCOME OF CHILD ON PARENT’S RETURN.—

(A) IN GENERAL.—If—

(i) any child to whom this subsection applies has gross income for the taxable year only from interest and dividends (including Alaska Permanent Fund dividends),

(ii) such gross income is more than the amount described in paragraph (4)(A)(ii)(I) and less than 10 times the amount so described,

(iii) no estimated tax payments for such year are made in the name and TIN of such child, and no amount has been deducted and withheld under section 3406, and

(iv) the parent of such child (as determined under paragraph (5)) elects the application of subparagraph (B),

such child shall be treated (other than for purposes of this paragraph) as having no gross income for such year and shall not be required to file a return under section 6012.

(B) INCOME INCLUDED ON PARENT'S RETURN.—In the case of a parent making the election under this paragraph—

(i) the gross income of each child to whom such election applies (to the extent the gross income of such child exceeds twice the amount described in paragraph (4)(A)(ii)(I)) shall be included in such parent's gross income for the taxable year,

(ii) the tax imposed by this section for such year with respect to such parent shall be the amount equal to the sum of—

(I) the amount determined under this section after the application of clause (i), plus

(II) for each such child, 10 percent of the lesser of the amount described in paragraph (4)(A)(ii)(I) or the excess of the gross income of such child over the amount so described, and

(iii) any interest which is an item of tax preference under section 57(a)(5) of the child shall be treated as an item of tax preference of such parent (and not of such child).

(C) REGULATIONS.—The Secretary shall prescribe such regulations as may be necessary or appropriate to carry out the purposes of this paragraph.

(h) MAXIMUM CAPITAL GAINS RATE.—

(1) IN GENERAL.—If a taxpayer has a net capital gain for any taxable year, the tax imposed by this section for such taxable year shall not exceed the sum of—

(A) a tax computed at the rates and in the same manner as if this subsection had not been enacted on the greater of—

(i) taxable income reduced by the net capital gain;

or

(ii) the lesser of—

(I) the amount of taxable income taxed at a rate below 25 percent; or

(II) taxable income reduced by the adjusted net capital gain;

- (B) 0 percent of so much of the adjusted net capital gain (or, if less, taxable income) as does not exceed the excess (if any) of—
- (i) the amount of taxable income which would (without regard to this paragraph) be taxed at a rate below 25 percent, over
  - (ii) the taxable income reduced by the adjusted net capital gain;
- (C) 15 percent of the lesser of—
- (i) so much of the adjusted net capital gain (or, if less, taxable income) as exceeds the amount on which a tax is determined under subparagraph (B), or
  - (ii) the excess of—
    - (I) the amount of taxable income which would (without regard to this paragraph) be taxed at a rate below 39.6 percent, over
    - (II) the sum of the amounts on which a tax is determined under subparagraphs (A) and (B),
- (D) 20 percent of the adjusted net capital gain (or, if less, taxable income) in excess of the sum of the amounts on which tax is determined under subparagraphs (B) and (C),
- (E) 25 percent of the excess (if any) of—
- (i) the unrecaptured section 1250 gain (or, if less, the net capital gain (determined without regard to paragraph (11))), over
  - (ii) the excess (if any) of—
    - (I) the sum of the amount on which tax is determined under subparagraph (A) plus the net capital gain, over
    - (II) taxable income; and
- (F) 28 percent of the amount of taxable income in excess of the sum of the amounts on which tax is determined under the preceding subparagraphs of this paragraph.
- (2) NET CAPITAL GAIN TAKEN INTO ACCOUNT AS INVESTMENT INCOME.—For purposes of this subsection, the net capital gain for any taxable year shall be reduced (but not below zero) by the amount which the taxpayer takes into account as investment income under section 163(d)(4)(B)(iii).
- (3) ADJUSTED NET CAPITAL GAIN.—For purposes of this subsection, the term “adjusted net capital gain” means the sum of—
- (A) net capital gain (determined without regard to paragraph (11)) reduced (but not below zero) by the sum of—
    - (i) unrecaptured section 1250 gain, and
    - (ii) 28-percent rate gain, plus
  - (B) qualified dividend income (as defined in paragraph (11)).
- (4) 28-PERCENT RATE GAIN.—For purposes of this subsection, the term “28-percent rate gain” means the excess (if any) of—
- (A) the sum of—

- (i) collectibles gain; and
  - (ii) section 1202 gain, over
- (B) the sum of—
  - (i) collectibles loss;
  - (ii) the net short-term capital loss; and
  - (iii) the amount of long-term capital loss carried under section 1212(b)(1)(B) to the taxable year.
- (5) COLLECTIBLES GAIN AND LOSS.—For purposes of this subsection—
  - (A) IN GENERAL.—The terms “collectibles gain” and “collectibles loss” mean gain or loss (respectively) from the sale or exchange of a collectible (as defined in section 408(m) without regard to paragraph (3) thereof) which is a capital asset held for more than 1 year but only to the extent such gain is taken into account in computing gross income and such loss is taken into account in computing taxable income.
  - (B) PARTNERSHIPS, ETC.—For purposes of subparagraph (A), any gain from the sale of an interest in a partnership, S corporation, or trust which is attributable to unrealized appreciation in the value of collectibles shall be treated as gain from the sale or exchange of a collectible. Rules similar to the rules of section 751 shall apply for purposes of the preceding sentence.
- (6) UNRECAPTURED SECTION 1250 GAIN.—For purposes of this subsection—
  - (A) IN GENERAL.—The term “unrecaptured section 1250 gain” means the excess (if any) of—
    - (i) the amount of long-term capital gain (not otherwise treated as ordinary income) which would be treated as ordinary income if section 1250(b)(1) included all depreciation and the applicable percentage under section 1250(a) were 100 percent, over
    - (ii) the excess (if any) of—
      - (I) the amount described in paragraph (4)(B);
      - over
      - (II) the amount described in paragraph (4)(A).
  - (B) LIMITATION WITH RESPECT TO SECTION 1231 PROPERTY.—The amount described in subparagraph (A)(i) from sales, exchanges, and conversions described in section 1231(a)(3)(A) for any taxable year shall not exceed the net section 1231 gain (as defined in section 1231(c)(3)) for such year.
- (7) SECTION 1202 GAIN.—For purposes of this subsection, the term “section 1202 gain” means the excess of—
  - (A) the gain which would be excluded from gross income under section 1202 but for the percentage limitation in section 1202(a), over
  - (B) the gain excluded from gross income under section 1202.
- (8) COORDINATION WITH RECAPTURE OF NET ORDINARY LOSSES UNDER SECTION 1231.—If any amount is treated as ordinary income under section 1231(c), such amount shall be allo-

cated among the separate categories of net section 1231 gain (as defined in section 1231(c)(3)) in such manner as the Secretary may by forms or regulations prescribe.

(9) REGULATIONS.—The Secretary may prescribe such regulations as are appropriate (including regulations requiring reporting) to apply this subsection in the case of sales and exchanges by pass-thru entities and of interests in such entities.

(10) PASS-THRU ENTITY DEFINED.—For purposes of this subsection, the term “pass-thru entity” means—

- (A) a regulated investment company;
- (B) a real estate investment trust;
- (C) an S corporation;
- (D) a partnership;
- (E) an estate or trust;
- (F) a common trust fund; and
- (G) a qualified electing fund (as defined in section 1295).

(11) DIVIDENDS TAXED AS NET CAPITAL GAIN.—

(A) IN GENERAL.—For purposes of this subsection, the term “net capital gain” means net capital gain (determined without regard to this paragraph) increased by qualified dividend income.

(B) QUALIFIED DIVIDEND INCOME.—For purposes of this paragraph—

(i) IN GENERAL.—The term “qualified dividend income” means dividends received during the taxable year from—

- (I) domestic corporations, and
- (II) qualified foreign corporations.

(ii) CERTAIN DIVIDENDS EXCLUDED.—Such term shall not include—

(I) any dividend from a corporation which for the taxable year of the corporation in which the distribution is made, or the preceding taxable year, is a corporation exempt from tax under section 501 or 521,

(II) any amount allowed as a deduction under section 591 (relating to deduction for dividends paid by mutual savings banks, etc.), and

(III) any dividend described in section 404(k).

(iii) COORDINATION WITH SECTION 246(C).—Such term shall not include any dividend on any share of stock—

(I) with respect to which the holding period requirements of section 246(c) are not met (determined by substituting in section 246(c) “60 days” for “45 days” each place it appears and by substituting “121-day period” for “91-day period”), or

(II) to the extent that the taxpayer is under an obligation (whether pursuant to a short sale or otherwise) to make related payments with respect to positions in substantially similar or related property.

(C) QUALIFIED FOREIGN CORPORATIONS.—

(i) IN GENERAL.—Except as otherwise provided in this paragraph, the term “qualified foreign corporation” means any foreign corporation if—

(I) such corporation is incorporated in a possession of the United States, or

(II) such corporation is eligible for benefits of a comprehensive income tax treaty with the United States which the Secretary determines is satisfactory for purposes of this paragraph and which includes an exchange of information program.

(ii) DIVIDENDS ON STOCK READILY TRADABLE ON UNITED STATES SECURITIES MARKET.—A foreign corporation not otherwise treated as a qualified foreign corporation under clause (i) shall be so treated with respect to any dividend paid by such corporation if the stock with respect to which such dividend is paid is readily tradable on an established securities market in the United States.

(iii) EXCLUSION OF DIVIDENDS OF CERTAIN FOREIGN CORPORATIONS.—Such term shall not include—

(I) any foreign corporation which for the taxable year of the corporation in which the dividend was paid, or the preceding taxable year, is a passive foreign investment company (as defined in section 1297), and

(II) any corporation which first becomes a surrogate foreign corporation (as defined in section 7874(a)(2)(B)) after the date of the enactment of this subclause, other than a foreign corporation which is treated as a domestic corporation under section 7874(b).

(iv) COORDINATION WITH FOREIGN TAX CREDIT LIMITATION.—Rules similar to the rules of section 904(b)(2)(B) shall apply with respect to the dividend rate differential under this paragraph.

(D) SPECIAL RULES.—

(i) AMOUNTS TAKEN INTO ACCOUNT AS INVESTMENT INCOME.—Qualified dividend income shall not include any amount which the taxpayer takes into account as investment income under section 163(d)(4)(B).

(ii) EXTRAORDINARY DIVIDENDS.—If a taxpayer to whom this section applies receives, with respect to any share of stock, qualified dividend income from 1 or more dividends which are extraordinary dividends (within the meaning of section 1059(c)), any loss on the sale or exchange of such share shall, to the extent of such dividends, be treated as long-term capital loss.

(iii) TREATMENT OF DIVIDENDS FROM REGULATED INVESTMENT COMPANIES AND REAL ESTATE INVESTMENT TRUSTS.—A dividend received from a regulated investment company or a real estate investment trust shall

be subject to the limitations prescribed in sections 854 and 857.

(i) RATE REDUCTIONS AFTER 2000.—

(1) 10-PERCENT RATE BRACKET.—

(A) IN GENERAL.—In the case of taxable years beginning after December 31, 2000—

(i) the rate of tax under subsections (a), (b), (c), and (d) on taxable income not over the initial bracket amount shall be 10 percent, and

(ii) the 15 percent rate of tax shall apply only to taxable income over the initial bracket amount but not over the maximum dollar amount for the 15-percent rate bracket.

(B) INITIAL BRACKET AMOUNT.—For purposes of this paragraph, the initial bracket amount is—

(i) \$14,000 in the case of subsection (a),

(ii) \$10,000 in the case of subsection (b), and

(iii) 1/2 the amount applicable under clause (i) (after adjustment, if any, under subparagraph (C)) in the case of subsections (c) and (d).

(C) INFLATION ADJUSTMENT.—In prescribing the tables under subsection (f) which apply with respect to taxable years beginning in calendar years after 2003—

(i) the cost-of-living adjustment shall be determined under subsection (f)(3) by substituting “2002” for “2016” in subparagraph (A)(ii) thereof, and

(ii) the adjustments under clause (i) shall not apply to the amount referred to in subparagraph (B)(iii).

If any amount after adjustment under the preceding sentence is not a multiple of \$50, such amount shall be rounded to the next lowest multiple of \$50.

(2) 25-, 28-, AND 33-PERCENT RATE BRACKETS.—The tables under subsections (a), (b), (c), (d), and (e) shall be applied—

(A) by substituting “25%” for “28%” each place it appears (before the application of subparagraph (B)),

(B) by substituting “28%” for “31%” each place it appears, and

(C) by substituting “33%” for “36%” each place it appears.

(3) MODIFICATIONS TO INCOME TAX BRACKETS FOR HIGH-INCOME TAXPAYERS.—

(A) 35-PERCENT RATE BRACKET.—In the case of taxable years beginning after December 31, 2012—

(i) the rate of tax under subsections (a), (b), (c), and (d) on a taxpayer’s taxable income in the highest rate bracket shall be 35 percent to the extent such income does not exceed an amount equal to the excess of—

(I) the applicable threshold, over

(II) the dollar amount at which such bracket begins, and

(ii) the 39.6 percent rate of tax under such subsections shall apply only to the taxpayer's taxable income in such bracket in excess of the amount to which clause (i) applies.

(B) APPLICABLE THRESHOLD.—For purposes of this paragraph, the term “applicable threshold” means—

- (i) \$450,000 in the case of subsection (a),
- (ii) \$425,000 in the case of subsection (b),
- (iii) \$400,000 in the case of subsection (c), and
- (iv) 1/2 the amount applicable under clause (i) (after adjustment, if any, under subparagraph (C)) in the case of subsection (d).

(C) INFLATION ADJUSTMENT.—For purposes of this paragraph, with respect to taxable years beginning in calendar years after 2013, each of the dollar amounts under clauses (i), (ii), and (iii) of subparagraph (B) shall be adjusted in the same manner as under paragraph (1)(C)(i), except that subsection (f)(3)(A)(ii) shall be applied by substituting “2012” for “2016”.

(4) ADJUSTMENT OF TABLES.—The Secretary shall adjust the tables prescribed under subsection (f) to carry out this subsection.

(j) MODIFICATIONS FOR TAXABLE YEARS 2018 THROUGH 2025.—

(1) IN GENERAL.—In the case of a taxable year beginning after December 31, 2017, and before January 1, 2026—

- (A) subsection (i) shall not apply, and
- (B) this section (other than subsection (i)) shall be applied as provided in paragraphs (2) through (6).

(2) RATE TABLES.—

(A) MARRIED INDIVIDUALS FILING JOINT RETURNS AND SURVIVING SPOUSES.—The following table shall be applied in lieu of the table contained in subsection (a):

If taxable income is:	The tax is:
Not over \$19,050.....	10% of taxable income.
Over \$19,050 but not over \$77,400....	\$1,905, plus 12% of the excess over \$19,050.
Over \$77,400 but not over \$165,000...	\$8,907, plus 22% of the excess over \$77,400.
Over \$165,000 but not over \$315,000..	\$28,179, plus 24% of the excess over \$165,000.
Over \$315,000 but not over \$400,000..	\$64,179, plus 32% of the excess over \$315,000.
Over \$400,000 but not over <b>[\$600,000] \$479,000 ..</b>	\$91,379, plus 35% of the excess over \$400,000.
Over <b>[\$600,000] \$479,000 ..</b> ..	<b>[\$161,379] \$119,029, plus [37%] 39.6%</b> of the excess over <b>[\$600,000] \$479,000.</b>

(B) HEADS OF HOUSEHOLDS.—The following table shall be applied in lieu of the table contained in subsection (b):

If taxable income is:	The tax is:
Not over \$13,600.....	10% of taxable income.
Over \$13,600 but not over \$51,800....	\$1,360, plus 12% of the excess over \$13,600.
Over \$51,800 but not over \$82,500....	\$5,944, plus 22% of the excess over \$51,800.



If taxable income is:	The tax is:
Over \$82,500 but not over \$157,500...	\$12,698, plus 24% of the excess over \$82,500.
Over \$157,500 but not over \$200,000..	\$30,698, plus 32% of the excess over \$157,500.
Over \$200,000 but not over <b>[\$500,000] \$452,400 ..</b>	\$44,298, plus 35% of the excess over \$200,000.
Over <b>[\$500,000] \$452,400 ..</b>	<b>[\$149,298] \$132,638, plus [37%] 39.6%</b> of the excess over <b>[\$500,000] \$452,400.</b>

(C) UNMARRIED INDIVIDUALS OTHER THAN SURVIVING SPOUSES AND HEADS OF HOUSEHOLDS.—The following table shall be applied in lieu of the table contained in subsection (c):

If taxable income is:	The tax is:
Not over \$9,525.....	10% of taxable income.
Over \$9,525 but not over \$38,700....	\$952.50, plus 12% of the excess over \$9,525.
Over \$38,700 but not over \$82,500....	\$4,453.50, plus 22% of the excess over \$38,700.
Over \$82,500 but not over \$157,500...	\$14,089.50, plus 24% of the excess over \$82,500.
Over \$157,500 but not over \$200,000..	\$32,089.50, plus 32% of the excess over \$157,500.
Over \$200,000 but not over <b>[\$500,000] \$425,800 ..</b>	\$45,689.50, plus 35% of the excess over \$200,000.
Over <b>[\$500,000] \$425,800 ..</b>	<b>[\$150,689.50] \$124,719.50, plus [37%] 39.6%</b> of the excess over <b>[\$500,000] \$425,800.</b>

(D) MARRIED INDIVIDUALS FILING SEPARATE RETURNS.—The following table shall be applied in lieu of the table contained in subsection (d):

If taxable income is:	The tax is:
Not over \$9,525.....	10% of taxable income.
Over \$9,525 but not over \$38,700....	\$952.50, plus 12% of the excess over \$9,525.
Over \$38,700 but not over \$82,500....	\$4,453.50, plus 22% of the excess over \$38,700.
Over \$82,500 but not over \$157,500...	\$14,089.50, plus 24% of the excess over \$82,500.
Over \$157,500 but not over \$200,000..	\$32,089.50, plus 32% of the excess over \$157,500.
Over \$200,000 but not over <b>[\$300,000] \$239,500 ..</b>	\$45,689.50, plus 35% of the excess over \$200,000.
Over <b>[\$300,000] \$239,500 ..</b>	<b>[\$80,689.50] \$59,514.50, plus [37%] 39.6%</b> of the excess over <b>[\$300,000] \$239,500.</b>

(E) ESTATES AND TRUSTS.—The following table shall be applied in lieu of the table contained in subsection (e):

If taxable income is:	The tax is:
Not over \$2,550.....	10% of taxable income.
Over \$2,550 but not over \$9,150.....	\$255, plus 24% of the excess over \$2,550.
Over \$9,150 but not over \$12,500.....	\$1,839, plus 35% of the excess over \$9,150.
Over \$12,500.....	\$3,011.50, plus <b>[37%] 39.6%</b> of the excess over \$12,500.

(F) REFERENCES TO RATE TABLES.—Any reference in this title to a rate of tax under subsection (c) shall be treated as a reference to the corresponding rate bracket

under subparagraph (C) of this paragraph, except that the reference in section 3402(q)(1) to the third lowest rate of tax applicable under subsection (c) shall be treated as a reference to the fourth lowest rate of tax under subparagraph (C).

(3) ADJUSTMENTS.—

(A) NO ADJUSTMENT IN 2018.—The tables contained in paragraph (2) shall apply without adjustment for taxable years beginning after December 31, 2017, and before January 1, 2019.

(B) SUBSEQUENT YEARS.—For taxable years beginning after December 31, 2018, the Secretary shall prescribe tables which shall apply in lieu of the tables contained in paragraph (2) in the same manner as under paragraphs (1) and (2) of subsection (f) (applied without regard to clauses (i) and (ii) of subsection (f)(2)(A)), except that in prescribing such tables—

(i) subsection (f)(3) shall be applied by substituting “calendar year 2017” for “calendar year 2016” in subparagraph (A)(ii) thereof,

(ii) subsection (f)(7)(B) shall apply to any unmarried individual other than a surviving spouse or head of household, and

(iii) subsection (f)(8) shall not apply.

(4) SPECIAL RULES FOR CERTAIN CHILDREN WITH UNEARNED INCOME.—

(A) IN GENERAL.—In the case of a child to whom subsection (g) applies for the taxable year, the rules of subparagraphs (B) and (C) shall apply in lieu of the rule under subsection (g)(1).

(B) MODIFICATIONS TO APPLICABLE RATE BRACKETS.—In determining the amount of tax imposed by this section for the taxable year on a child described in subparagraph (A), the income tax table otherwise applicable under this subsection to the child shall be applied with the following modifications:

(i) 24-PERCENT BRACKET.—The maximum taxable income which is taxed at a rate below 24 percent shall not be more than the sum of—

(I) the earned taxable income of such child,  
plus

(II) the minimum taxable income for the 24-percent bracket in the table under paragraph (2)(E) (as adjusted under paragraph (3)) for the taxable year.

(ii) 35-PERCENT BRACKET.—The maximum taxable income which is taxed at a rate below 35 percent shall not be more than the sum of—

(I) the earned taxable income of such child,  
plus

(II) the minimum taxable income for the 35-percent bracket in the table under paragraph

(2)(E) (as adjusted under paragraph (3)) for the taxable year.

(iii) **【37-PERCENT BRACKET】** *39.6-PERCENT BRACKET*.—The maximum taxable income which is taxed at a rate below **【37 percent】** *39.6 percent* shall not be more than the sum of—

(I) the earned taxable income of such child,  
plus

(II) the minimum taxable income for the **【37-percent bracket】** *39.6-percent bracket* in the table under paragraph (2)(E) (as adjusted under paragraph (3)) for the taxable year.

(C) **COORDINATION WITH CAPITAL GAINS RATES**.—For purposes of applying section 1(h) (after the modifications under paragraph (5)(A))—

(i) the maximum zero rate amount shall not be more than the sum of—

(I) the earned taxable income of such child,  
plus

(II) the amount in effect under **【paragraph (5)(B)(i)(IV)】** *paragraph (5)(B)(iv)* for the taxable year, and

**【(ii) the maximum 15-percent rate amount shall not be more than the sum of—**

**【(I) the earned taxable income of such child,  
plus**

**【(II) the amount in effect under paragraph (5)(B)(ii)(IV) for the taxable year.】**

*(ii) the amount which would (without regard to this paragraph) be taxed at a rate below 39.6 percent shall not be more than the sum of—*

*(I) the earned taxable income of such child,  
plus*

*(II) the maximum dollar amount for the 35-percent rate bracket for estates and trusts.*

(D) **EARNED TAXABLE INCOME**.—For purposes of this paragraph, the term “earned taxable income” means, with respect to any child for any taxable year, the taxable income of such child reduced (but not below zero) by the net unearned income (as defined in subsection (g)(4)) of such child.

(5) **【APPLICATION OF CURRENT INCOME TAX BRACKETS TO CAPITAL GAINS BRACKETS.—】** *APPLICATION OF ZERO PERCENT CAPITAL GAIN RATE BRACKETS*.—

**【(A) IN GENERAL**.—Section 1(h)(1) shall be applied—

**【(i) by substituting “below the maximum zero rate amount” for “which would (without regard to this paragraph) be taxed at a rate below 25 percent” in subparagraph (B)(i), and**

**【(ii) by substituting “below the maximum 15-percent rate amount” for “which would (without regard to this paragraph) be taxed at a rate below 39.6 percent” in subparagraph (C)(i)(I).**

**[(B) MAXIMUM AMOUNTS DEFINED.—**For purposes of applying section 1(h) with the modifications described in subparagraph (A)—

**[(i) MAXIMUM ZERO RATE AMOUNT.—**The maximum zero rate amount shall be—

**[(I)** in the case of a joint return or surviving spouse, \$77,200,

**[(II)** in the case of an individual who is a head of household (as defined in section 2(b)), \$51,700,

**[(III)** in the case of any other individual (other than an estate or trust), an amount equal to 1/2 of the amount in effect for the taxable year under subclause (I), and

**[(IV)** in the case of an estate or trust, \$2,600.

**[(ii) MAXIMUM 15-PERCENT RATE AMOUNT.—**The maximum 15-percent rate amount shall be—

**[(I)** in the case of a joint return or surviving spouse, \$479,000 (1/2 such amount in the case of a married individual filing a separate return),

**[(II)** in the case of an individual who is the head of a household (as defined in section 2(b)), \$452,400,

**[(III)** in the case of any other individual (other than an estate or trust), \$425,800, and

**[(IV)** in the case of an estate or trust, \$12,700.]

*(A) IN GENERAL.—Subsection (h)(1)(B)(i) shall be applied by substituting “below the maximum zero rate amount” for “which would (without regard to this paragraph) be taxed at a rate below 25 percent”.*

*(B) MAXIMUM ZERO RATE AMOUNT DEFINED.—For purposes of subparagraph (A), the term “maximum zero rate amount” means—*

*(i) in the case of a joint return or surviving spouse, \$77,200,*

*(ii) in the case of an individual who is a head of household (as defined in section 2(b)), \$51,700,*

*(iii) in the case of any other individual (other than an estate or trust), an amount equal to 1/2 of the amount in effect for the taxable year under clause (i), and*

*(iv) in the case of an estate or trust, \$2,600.*

**(C) INFLATION ADJUSTMENT.—**In the case of any taxable year beginning after 2018, each of the dollar amounts in **[(i) and (ii) of]** subparagraph (B) shall be increased by an amount equal to—

**(i)** such dollar amount, multiplied by

**(ii)** the cost-of-living adjustment determined under subsection (f)(3) for the calendar year in which the taxable year begins, determined by substituting “calendar year 2017” for “calendar year 2016” in subparagraph (A)(ii) thereof.

If any increase under this subparagraph is not a multiple of \$50, such increase shall be rounded to the next lowest multiple of \$50.

(6) SECTION 15 NOT TO APPLY.—Section 15 shall not apply to any change in a rate of tax by reason of this subsection.

\* \* \* \* \*

**Subchapter B—COMPUTATION OF TAXABLE INCOME**

\* \* \* \* \*

**PART I—DEFINITION OF GROSS INCOME, ADJUSTED GROSS INCOME, TAXABLE INCOME, ETC.**

\* \* \* \* \*

**SEC. 62. ADJUSTED GROSS INCOME DEFINED.**

(a) GENERAL RULE.—For purposes of this subtitle, the term “adjusted gross income” means, in the case of an individual, gross income minus the following deductions:

(1) TRADE AND BUSINESS DEDUCTIONS.—The deductions allowed by this chapter (other than by part VII of this subchapter) which are attributable to a trade or business carried on by the taxpayer, if such trade or business does not consist of the performance of services by the taxpayer as an employee.

(2) CERTAIN TRADE AND BUSINESS DEDUCTIONS OF EMPLOYEES.—

(A) REIMBURSED EXPENSES OF EMPLOYEES.—The deductions allowed by part VI (section 161 and following) which consist of expenses paid or incurred by the taxpayer, in connection with the performance by him of services as an employee, under a reimbursement or other expense allowance arrangement with his employer. The fact that the reimbursement may be provided by a third party shall not be determinative of whether or not the preceding sentence applies.

(B) CERTAIN EXPENSES OF PERFORMING ARTISTS.—The deductions allowed by section 162 which consist of expenses paid or incurred by a qualified performing artist in connection with the performances by him of services in the performing arts as an employee.

(C) CERTAIN EXPENSES OF OFFICIALS.—The deductions allowed by section 162 which consist of expenses paid or incurred with respect to services performed by an official as an employee of a State or a political subdivision thereof in a position compensated in whole or in part on a fee basis.

(D) CERTAIN EXPENSES OF ELEMENTARY AND SECONDARY SCHOOL TEACHERS.—The deductions allowed by section 162 which consist of expenses, not in excess of **[\$250] \$500**, paid or incurred by an eligible educator—

(i) by reason of the participation of the educator in professional development courses related to the curriculum in which the educator provides instruction or to the students for which the educator provides instruction, and

(ii) in connection with books, supplies (other than nonathletic supplies for courses of instruction in health or physical education), computer equipment (including related software and services) and other equipment, and supplementary materials used by the eligible educator in the classroom.

(E) CERTAIN EXPENSES OF MEMBERS OF RESERVE COMPONENTS OF THE ARMED FORCES OF THE UNITED STATES.—The deductions allowed by section 162 which consist of expenses, determined at a rate not in excess of the rates for travel expenses (including per diem in lieu of subsistence) authorized for employees of agencies under subchapter I of chapter 57 of title 5, United States Code, paid or incurred by the taxpayer in connection with the performance of services by such taxpayer as a member of a reserve component of the Armed Forces of the United States for any period during which such individual is more than 100 miles away from home in connection with such services.

(F) CERTAIN EXPENSES OF FIRST RESPONDERS.—*The deductions allowed by section 162 which consist of expenses, not in excess of \$500, paid or incurred by a first responder—*

*(i) as tuition or fees for the participation of the first responder in professional development courses related to service as a first responder, or*

*(ii) for uniforms used by the first responder in service as a first responder.*

(3) LOSSES FROM SALE OR EXCHANGE OF PROPERTY.—The deductions allowed by part VI (sec. 161 and following) as losses from the sale or exchange of property.

(4) DEDUCTIONS ATTRIBUTABLE TO RENTS AND ROYALTIES.—The deductions allowed by part VI (sec. 161 and following), by section 212 (relating to expenses for production of income), and by section 611 (relating to depletion) which are attributable to property held for the production of rents or royalties.

(5) CERTAIN DEDUCTIONS OF LIFE TENANTS AND INCOME BENEFICIARIES OF PROPERTY.—In the case of a life tenant of property, or an income beneficiary of property held in trust, or an heir, legatee, or devisee of an estate, the deduction for depreciation allowed by section 167 and the deduction allowed by section 611.

(6) PENSION, PROFIT-SHARING, AND ANNUITY PLANS OF SELF-EMPLOYED INDIVIDUALS.—In the case of an individual who is an employee within the meaning of section 401(c)(1), the deduction allowed by section 404.

(7) RETIREMENT SAVINGS.—The deduction allowed by section 219 (relating to deduction of certain retirement savings).

(9) PENALTIES FORFEITED BECAUSE OF PREMATURE WITHDRAWAL OF FUNDS FROM TIME SAVINGS ACCOUNTS OR DEPOSITS.—The deductions allowed by section 165 for losses incurred in any transaction entered into for profit, though not connected with a trade or business, to the extent that such losses include amounts forfeited to a bank, mutual savings bank, savings and loan association, building and loan association, cooperative bank or homestead association as a penalty for premature withdrawal of funds from a time savings account, certificate of deposit, or similar class of deposit.

(11) REFORESTATION EXPENSES.—The deduction allowed by section 194.

(12) CERTAIN REQUIRED REPAYMENTS OF SUPPLEMENTAL UNEMPLOYMENT COMPENSATION BENEFITS.—The deduction allowed by section 165 for the repayment to a trust described in paragraph (9) or (17) of section 501(c) of supplemental unemployment compensation benefits received from such trust if such repayment is required because of the receipt of trade readjustment allowances under section 231 or 232 of the Trade Act of 1974 (19 U.S.C. 2291 and 2292).

(13) JURY DUTY PAY REMITTED TO EMPLOYER.—Any deduction allowable under this chapter by reason of an individual remitting any portion of any jury pay to such individual's employer in exchange for payment by the employer of compensation for the period such individual was performing jury duty. For purposes of the preceding sentence, the term "jury pay" means any payment received by the individual for the discharge of jury duty.

(15) MOVING EXPENSES.—The deduction allowed by section 217.

(16) ARCHER MSAS.—The deduction allowed by section 220.

(17) INTEREST ON EDUCATION LOANS.—The deduction allowed by section 221.

(18) HIGHER EDUCATION EXPENSES.—The deduction allowed by section 222.

(19) HEALTH SAVINGS ACCOUNTS.—The deduction allowed by section 223.

(20) COSTS INVOLVING DISCRIMINATION SUITS, ETC.—Any deduction allowable under this chapter for attorney fees and court costs paid by, or on behalf of, the taxpayer in connection with any action involving a claim of unlawful discrimination (as defined in subsection (e)) or a claim of a violation of subchapter III of chapter 37 of title 31, United States Code, or a claim made under section 1862(b)(3)(A) of the Social Security Act (42 U.S.C. 1395y(b)(3)(A)). The preceding sentence shall not apply to any deduction in excess of the amount includible in the taxpayer's gross income for the taxable year on account of a judgment or settlement (whether by suit or agreement and whether as lump sum or periodic payments) resulting from such claim.

(21) ATTORNEYS' FEES RELATING TO AWARDS TO WHISTLEBLOWERS.—

(A) IN GENERAL.—Any deduction allowable under this chapter for attorney fees and court costs paid by, or on behalf of, the taxpayer in connection with any award under—

(i) section 7623(b), or

(ii) in the case of taxable years beginning after December 31, 2017, any action brought under—

(I) section 21F of the Securities Exchange Act of 1934 (15 U.S.C. 78u–6),

(II) a State false claims act, including a State false claims act with qui tam provisions, or

(III) section 23 of the Commodity Exchange Act (7 U.S.C. 26).

(B) MAY NOT EXCEED AWARD.—Subparagraph (A) shall not apply to any deduction in excess of the amount includible in the taxpayer's gross income for the taxable year on account of such award.

Nothing in this section shall permit the same item to be deducted more than once. Any deduction allowed by section 199A shall not be treated as a deduction described in any of the preceding paragraphs of this subsection.

(b) QUALIFIED PERFORMING ARTIST.—

(1) IN GENERAL.—For purposes of subsection (a)(2)(B), the term “qualified performing artist” means, with respect to any taxable year, any individual if—

(A) such individual performed services in the performing arts as an employee during the taxable year for at least 2 employers,

(B) the aggregate amount allowable as a deduction under section 162 in connection with the performance of such services exceeds 10 percent of such individual's gross income attributable to the performance of such services, and

(C) the adjusted gross income of such individual for the taxable year (determined without regard to subsection (a)(2)(B)) does not exceed \$16,000.

(2) NOMINAL EMPLOYER NOT TAKEN INTO ACCOUNT.—An individual shall not be treated as performing services in the performing arts as an employee for any employer during any taxable year unless the amount received by such individual from such employer for the performance of such services during the taxable year equals or exceeds \$200.

(3) SPECIAL RULES FOR MARRIED COUPLES.—

(A) IN GENERAL.—Except in the case of a husband and wife who lived apart at all times during the taxable year, if the taxpayer is married at the close of the taxable year, subsection (a)(2)(B) shall apply only if the taxpayer and his spouse file a joint return for the taxable year.

(B) APPLICATION OF PARAGRAPH (1).—In the case of a joint return—

(i) paragraph (1) (other than subparagraph (C) thereof) shall be applied separately with respect to each spouse, but



(ii) paragraph (1)(C) shall be applied with respect to their combined adjusted gross income.

(C) DETERMINATION OF MARITAL STATUS.—For purposes of this subsection, marital status shall be determined under section 7703(a).

(D) JOINT RETURN.—For purposes of this subsection, the term “joint return” means the joint return of a husband and wife made under section 6013.

(c) CERTAIN ARRANGEMENTS NOT TREATED AS REIMBURSEMENT ARRANGEMENTS.—For purposes of subsection (a)(2)(A), an arrangement shall in no event be treated as a reimbursement or other expense allowance arrangement if—

(1) such arrangement does not require the employee to substantiate the expenses covered by the arrangement to the person providing the reimbursement, or

(2) such arrangement provides the employee the right to retain any amount in excess of the substantiated expenses covered under the arrangement.

The substantiation requirements of the preceding sentence shall not apply to any expense to the extent that substantiation is not required under section 274(d) for such expense by reason of the regulations prescribed under the 2nd sentence thereof.

(d) DEFINITION; SPECIAL RULES.—

(1) ELIGIBLE EDUCATOR.—

(A) IN GENERAL.—For purposes of subsection (a)(2)(D), the term “eligible educator” means, with respect to any taxable year, an individual who is a kindergarten through grade 12 teacher, instructor, counselor, principal, or aide in a school for at least 900 hours during a school year.

(B) SCHOOL.—The term “school” means any school which provides elementary education or secondary education (kindergarten through grade 12), as determined under State law.

(2) COORDINATION WITH EXCLUSIONS.—A deduction shall be allowed under subsection (a)(2)(D) for expenses only to the extent the amount of such expenses exceeds the amount excludable under section 135, 529(c)(1), or 530(d)(2) for the taxable year.

(3) INFLATION ADJUSTMENT.—In the case of any taxable year beginning after ~~2015~~ 2019, the ~~250~~ \$500 amount in subsection (a)(2)(D) shall be increased by an amount equal to—

(A) such dollar amount, multiplied by

(B) the cost-of-living adjustment determined under section 1(f)(3) for the calendar year in which the taxable year begins, determined by substituting “calendar year ~~2014~~ 2018” for “calendar year 2016” in subparagraph (A)(ii) thereof.

Any increase determined under the preceding sentence shall be rounded to the nearest multiple of \$50.

[Paragraph (3) of section 62(d) of the Internal Revenue Code of 1986 is amended by section 4 of H.R. 5377 (as reported) and applies for taxable years beginning after December 31, 2018 (shown above). Such paragraph is further amended by

section 5(c) of H.R. 5377 (as reported) and applies for taxable years beginning after December 31, 2019 (shown below).]

(3) INFLATION ADJUSTMENT.—In the case of any taxable year beginning after 2019, [the \$500 amount in subsection (a)(2)(D)] *the \$500 amount in each of subparagraphs (D) and (F) of subsection (a)(2)* shall be increased by an amount equal to—

(A) such dollar amount, multiplied by

(B) the cost-of-living adjustment determined under section 1(f)(3) for the calendar year in which the taxable year begins, determined by substituting “calendar year 2018” for “calendar year 2016” in subparagraph (A)(ii) thereof.

Any increase determined under the preceding sentence shall be rounded to the nearest multiple of \$50.

(4) *FIRST RESPONDER*.—For purposes of subsection (a)(2)(F), the term “first responder” means, with respect to any taxable year, any individual who is employed as a law enforcement officer, firefighter, paramedic, or emergency medical technician for at least 1000 hours during such taxable year.

(e) UNLAWFUL DISCRIMINATION DEFINED.—For purposes of subsection (a)(20), the term “unlawful discrimination” means an act that is unlawful under any of the following:

(1) Section 302 of the Civil Rights Act of 1991 (42 U.S.C. 2000e–16b).

(2) Section 201, 202, 203, 204, 205, 206, or 207 of the Congressional Accountability Act of 1995 (2 U.S.C. 1311, 1312, 1313, 1314, 1315, 1316, or 1317).

(3) The National Labor Relations Act (29 U.S.C. 151 et seq.).

(4) The Fair Labor Standards Act of 1938 (29 U.S.C. 201 et seq.).

(5) Section 4 or 15 of the Age Discrimination in Employment Act of 1967 (29 U.S.C. 623 or 633a).

(6) Section 501 or 504 of the Rehabilitation Act of 1973 (29 U.S.C. 791 or 794).

(7) Section 510 of the Employee Retirement Income Security Act of 1974 (29 U.S.C. 1140).

(8) Title IX of the Education Amendments of 1972 (20 U.S.C. 1681 et seq.).

(9) The Employee Polygraph Protection Act of 1988 (29 U.S.C. 2001 et seq.).

(10) The Worker Adjustment and Retraining Notification Act (29 U.S.C. 2102 et seq.).

(11) Section 105 of the Family and Medical Leave Act of 1993 (29 U.S.C. 2615).

(12) Chapter 43 of title 38, United States Code (relating to employment and reemployment rights of members of the uniformed services).

(13) Section 1977, 1979, or 1980 of the Revised Statutes (42 U.S.C. 1981, 1983, or 1985).

(14) Section 703, 704, or 717 of the Civil Rights Act of 1964 (42 U.S.C. 2000e–2, 2000e–3, or 2000e–16).

(15) Section 804, 805, 806, 808, or 818 of the Fair Housing Act (42 U.S.C. 3604, 3605, 3606, 3608, or 3617).

(16) Section 102, 202, 302, or 503 of the Americans with Disabilities Act of 1990 (42 U.S.C. 12112, 12132, 12182, or 12203).

(17) Any provision of Federal law (popularly known as whistleblower protection provisions) prohibiting the discharge of an employee, the discrimination against an employee, or any other form of retaliation or reprisal against an employee for asserting rights or taking other actions permitted under Federal law.

(18) Any provision of Federal, State, or local law, or common law claims permitted under Federal, State, or local law—

(i) providing for the enforcement of civil rights, or

(ii) regulating any aspect of the employment relationship, including claims for wages, compensation, or benefits, or prohibiting the discharge of an employee, the discrimination against an employee, or any other form of retaliation or reprisal against an employee for asserting rights or taking other actions permitted by law.

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**PART VI—ITEMIZED DEDUCTIONS FOR INDIVIDUALS AND CORPORATIONS**

\* \* \* \* \*

**SEC. 164. TAXES.**

(a) GENERAL RULE.—Except as otherwise provided in this section, the following taxes shall be allowed as a deduction for the taxable year within which paid or accrued:

- (1) State and local, and foreign, real property taxes.
- (2) State and local personal property taxes.
- (3) State and local, and foreign, income, war profits, and excess profits taxes.
- (4) The GST tax imposed on income distributions.

In addition, there shall be allowed as a deduction State and local, and foreign, taxes not described in the preceding sentence which are paid or accrued within the taxable year in carrying on a trade or business or an activity described in section 212 (relating to expenses for production of income). Notwithstanding the preceding sentence, any tax (not described in the first sentence of this subsection) which is paid or accrued by the taxpayer in connection with an acquisition or disposition of property shall be treated as part of the cost of the acquired property or, in the case of a disposition, as a reduction in the amount realized on the disposition.

(b) DEFINITIONS AND SPECIAL RULES.—For purposes of this section—

- (1) PERSONAL PROPERTY TAXES.—The term “personal property tax” means an ad valorem tax which is imposed on an annual basis in respect of personal property.

(2) STATE OR LOCAL TAXES.—A State or local tax includes only a tax imposed by a State, a possession of the United States, or a political subdivision of any of the foregoing, or by the District of Columbia.

(3) FOREIGN TAXES.—A foreign tax includes only a tax imposed by the authority of a foreign country.

(4) SPECIAL RULES FOR GST TAX.—

(A) IN GENERAL.—The GST tax imposed on income distributions is—

(i) the tax imposed by section 2601, and

(ii) any State tax described in section 2604 (as in effect before its repeal),

but only to the extent such tax is imposed on a transfer which is included in the gross income of the distributee and to which section 666 does not apply.

(B) SPECIAL RULE FOR TAX PAID BEFORE DUE DATE.—

Any tax referred to in subparagraph (A) imposed with respect to a transfer occurring during the taxable year of the distributee (or, in the case of a taxable termination, the trust) which is paid not later than the time prescribed by law (including extensions) for filing the return with respect to such transfer shall be treated as having been paid on the last day of the taxable year in which the transfer was made.

(5) GENERAL SALES TAXES.—For purposes of subsection (a)—

(A) ELECTION TO DEDUCT STATE AND LOCAL SALES TAXES IN LIEU OF STATE AND LOCAL INCOME TAXES.—At the election of the taxpayer for the taxable year, subsection (a) shall be applied—

(i) without regard to the reference to State and local income taxes, and

(ii) as if State and local general sales taxes were referred to in a paragraph thereof.

(B) DEFINITION OF GENERAL SALES TAX.—The term “general sales tax” means a tax imposed at one rate with respect to the sale at retail of a broad range of classes of items.

(C) SPECIAL RULES FOR FOOD, ETC.—In the case of items of food, clothing, medical supplies, and motor vehicles—

(i) the fact that the tax does not apply with respect to some or all of such items shall not be taken into account in determining whether the tax applies with respect to a broad range of classes of items, and

(ii) the fact that the rate of tax applicable with respect to some or all of such items is lower than the general rate of tax shall not be taken into account in determining whether the tax is imposed at one rate.

(D) ITEMS TAXED AT DIFFERENT RATES.—Except in the case of a lower rate of tax applicable with respect to an item described in subparagraph (C), no deduction shall be allowed under this paragraph for any general sales tax im-

posed with respect to an item at a rate other than the general rate of tax.

(E) COMPENSATING USE TAXES.—A compensating use tax with respect to an item shall be treated as a general sales tax. For purposes of the preceding sentence, the term “compensating use tax” means, with respect to any item, a tax which—

(i) is imposed on the use, storage, or consumption of such item, and

(ii) is complementary to a general sales tax, but only if a deduction is allowable under this paragraph with respect to items sold at retail in the taxing jurisdiction which are similar to such item.

(F) SPECIAL RULE FOR MOTOR VEHICLES.—In the case of motor vehicles, if the rate of tax exceeds the general rate, such excess shall be disregarded and the general rate shall be treated as the rate of tax.

(G) SEPARATELY STATED GENERAL SALES TAXES.—If the amount of any general sales tax is separately stated, then, to the extent that the amount so stated is paid by the consumer (other than in connection with the consumer’s trade or business) to the seller, such amount shall be treated as a tax imposed on, and paid by, such consumer.

(H) AMOUNT OF DEDUCTION MAY BE DETERMINED UNDER TABLES.—

(i) IN GENERAL.—At the election of the taxpayer for the taxable year, the amount of the deduction allowed under this paragraph for such year shall be—

(I) the amount determined under this paragraph (without regard to this subparagraph) with respect to motor vehicles, boats, and other items specified by the Secretary, and

(II) the amount determined under tables prescribed by the Secretary with respect to items to which subclause (I) does not apply.

(ii) REQUIREMENTS FOR TABLES.—The tables prescribed under clause (i)—

(I) shall reflect the provisions of this paragraph,

(II) shall be based on the average consumption by taxpayers on a State-by-State basis (as determined by the Secretary) of items to which clause (i)(I) does not apply, taking into account filing status, number of dependents, adjusted gross income, and rates of State and local general sales taxation, and

(III) need only be determined with respect to adjusted gross incomes up to the applicable amount (as determined under section 68(b)).

(6) LIMITATION ON INDIVIDUAL DEDUCTIONS FOR TAXABLE YEARS 2018 THROUGH 2025.—In the case of an individual and a taxable year beginning after December 31, 2017, and before January 1, 2026—

(A) foreign real property taxes shall not be taken into account under subsection (a)(1), and

(B) *in the case of a taxable year beginning before January 1, 2020, or after December 31, 2021*, the aggregate amount of taxes taken into account under paragraphs (1), (2), and (3) of subsection (a) and paragraph (5) of this subsection for any taxable year shall not exceed \$10,000 (\$5,000 in the case of a married individual filing a separate return).

The preceding sentence shall not apply to any foreign taxes described in subsection (a)(3) or to any taxes described in paragraph (1) and (2) of subsection (a) which are paid or accrued in carrying on a trade or business or an activity described in section 212. **For purposes of subparagraph (B)** *For purposes of this section*, an amount paid in a taxable year beginning before **January 1, 2018** *January 1, 2022*, with respect to a State or local income tax imposed for a taxable year beginning after **December 31, 2017**, shall *December 31, 2021*, shall be treated as paid on the last day of the taxable year for which such tax is so imposed. *For purposes of this section, in the case of State or local taxes with respect to any real or personal property paid during a taxable year beginning in 2020 or 2021, the Secretary shall prescribe rules which treat all or a portion of such taxes as paid in a taxable year or years other than the taxable year in which actually paid as necessary or appropriate to prevent the avoidance of the limitations of this subsection.*

**(7) SPECIAL RULE FOR LIMITATION ON INDIVIDUAL DEDUCTIONS FOR 2019.**—*In the case of a taxable year beginning after December 31, 2018, and before January 1, 2020, paragraph (6) shall be applied by substituting “(\$20,000 in the case of a joint return)” for “(\$5,000 in the case of a married individual filing a separate return)”.*

**(c) DEDUCTION DENIED IN CASE OF CERTAIN TAXES.**—No deduction shall be allowed for the following taxes:

(1) Taxes assessed against local benefits of a kind tending to increase the value of the property assessed; but this paragraph shall not prevent the deduction of so much of such taxes as is properly allocable to maintenance or interest charges.

(2) Taxes on real property, to the extent that subsection (d) requires such taxes to be treated as imposed on another taxpayer.

**(d) APPORTIONMENT OF TAXES ON REAL PROPERTY BETWEEN SELLER AND PURCHASER.**—

(1) **GENERAL RULE.**—For purposes of subsection (a), if real property is sold during any real property tax year, then—

(A) so much of the real property tax as is properly allocable to that part of such year which ends on the day before the date of the sale shall be treated as a tax imposed on the seller, and

(B) so much of such tax as is properly allocable to that part of such year which begins on the date of the sale shall be treated as a tax imposed on the purchaser.

(2) **SPECIAL RULES.**—

(A) In the case of any sale of real property, if—  
 (i) a taxpayer may not, by reason of his method of accounting, deduct any amount for taxes unless paid, and

(ii) the other party to the sale is (under the law imposing the real property tax) liable for the real property tax for the real property tax year, then for purposes of subsection (a) the taxpayer shall be treated as having paid, on the date of the sale, so much of such tax as, under paragraph (1) of this subsection, is treated as imposed on the taxpayer. For purposes of the preceding sentence, if neither party is liable for the tax, then the party holding the property at the time the tax becomes a lien on the property shall be considered liable for the real property tax for the real property tax year.

(B) In the case of any sale of real property, if the taxpayer's taxable income for the taxable year during which the sale occurs is computed under an accrual method of accounting, and if no election under section 461(c) (relating to the accrual of real property taxes) applies, then, for purposes of subsection (a), that portion of such tax which—

(i) is treated, under paragraph (1) of this subsection, as imposed on the taxpayer, and

(ii) may not, by reason of the taxpayer's method of accounting, be deducted by the taxpayer for any taxable year,

shall be treated as having accrued on the date of the sale.

(e) TAXES OF SHAREHOLDER PAID BY CORPORATION.—Where a corporation pays a tax imposed on a shareholder on his interest as a shareholder, and where the shareholder does not reimburse the corporation, then—

(1) the deduction allowed by subsection (a) shall be allowed to the corporation; and

(2) no deduction shall be allowed the shareholder for such tax.

(f) DEDUCTION FOR ONE-HALF OF SELF-EMPLOYMENT TAXES.—

(1) IN GENERAL.—In the case of an individual, in addition to the taxes described in subsection (a), there shall be allowed as a deduction for the taxable year an amount equal to one-half of the taxes imposed by section 1401 (other than the taxes imposed by section 1401(b)(2)) for such taxable year.

(2) DEDUCTION TREATED AS ATTRIBUTABLE TO TRADE OR BUSINESS.—For purposes of this chapter, the deduction allowed by paragraph (1) shall be treated as attributable to a trade or business carried on by the taxpayer which does not consist of the performance of services by the taxpayer as an employee.

(g) CROSS REFERENCES.—

(1) For provisions disallowing any deduction for certain taxes, see section 275.

(2) For treatment of taxes imposed by Indian tribal governments (or their subdivisions), see section 7871.

\* \* \* \* \*

**VII. [DISSENTING/SUPPLEMENTAL/ADDITIONAL] VIEWS**

**[Insert D--[Dissenting Views]**

**[ATTACH DISSENTING VIEWS--  
PREPARED BY W&M MINORITY OR ANY COMMITTEE MEMBER--  
WITH LABEL INDICATING "INSERT C"]**



December 13, 2019

**DISSENTING VIEWS ON H.R. 5377**  
**RESTORING TAX FAIRNESS FOR STATES AND LOCALITIES ACT**

At its core, this bill is about providing a massive tax cut to the wealthy at the expense of small businesses. These are the same risk takers and entrepreneurs who are helping us drive our economy forward – the same job creators who experienced historic levels of optimism, hiring, new investments, and pay raises for their workers following the passage of the Tax Cuts and Jobs Act (TCJA).

Before and after tax reform, taxpayers have had a choice of either taking a simple standard deduction or itemizing a more complicated series of deductions, including the state and local tax (SALT) deduction. Even before tax reform, taking the standard deduction was already the option of choice for the vast majority of taxpayers. In the process of reforming our outdated, uncompetitive, and complicated tax code, placing a reasonable limit of \$10,000 on the SALT deduction, which is a regressive tax break that disproportionately favors the most affluent taxpayers, enabled a near doubling of the simpler standard deduction in tax reform. At the same time, this SALT limit effectively held harmless low and middle-income tax payers who itemized and took the SALT deduction. This not only put more money in the pockets of middle-class taxpayers but also provided much-needed tax simplification to millions of Americans who will no longer need to struggle with itemizing deductions when they file taxes.

It is also worth noting that tax reform, which not a single member of the Majority supported, also addressed two provisions in the tax code that previously hit people who took the SALT deduction with a stealth tax hike. TCJA repealed the so-called Pease limitation, under which taxpayers of certain income levels could lose up to 80% of their itemized deductions, including SALT and the charitable deduction. Tax reform also provided generous alternative minimum tax (AMT) relief. AMT taxpayers lose the ability to take any SALT deduction. And before TCJA, taking a very large SALT deduction in the process of filling out a tax return had often pushed many taxpayers into the AMT trap. The combination of a much larger AMT exemption and a reasonable limitation on SALT through tax reform now means that only the most affluent taxpayers will pay AMT. We hope that the most strident supporters of SALT on this committee will remember this when we debate extending or hopefully making provisions of tax reform permanent.

In order to blunt the criticism that expanding SALT is a massive giveaway to the wealthy, the Majority raised the top marginal income tax rate to 39.6% and expanded the number of people who will be subject to the highest rate. This unfortunately has a disproportionate effect on small business. In fact, the non-partisan Joint Committee on Taxation (JCT) confirmed that over a third of the tax increase in this bill will hit the income of passthrough businesses, which is the tax structure of choice for nearly all small businesses. Democrats must have been acutely aware that raising the top income tax rate to 39.6% would hurt small businesses, since they voted against an amendment to exempt small businesses from their tax hike, claiming that the amendment protecting small businesses would not allow them to raise enough revenue to pay for their massive SALT giveaway to the wealthy.

In order to further distract from how their SALT scam was benefiting the highest-income taxpayers, the Majority added two provisions to this bill that benefit teachers and first responders — a doubling of the existing above-the-line deduction for teacher classroom expenses, and a brand new above-the-line deduction for certain expenses of first responders. Democrats on the committee repeatedly invoked these two important groups as a defense of their SALT scam for the wealthy. But facts are stubborn things. The median income of an elementary school teacher is about \$58,000, while the median income of a first responder is roughly \$55,000. Under TCJA, which was opposed by Democrats, a typical married couple with two children consisting of a teacher married to a firefighter would have likely seen a tax cut of over \$2,400 under tax reform. In contrast, under the SALT expansion in the bill, the average tax cut for a typical teacher or first responder with those levels of income in 2021, a year the SALT deduction would be uncapped under the bill, would be roughly \$3.60. Some might call this “crumbs.” At the same time, the average tax cut for millionaires would be nearly \$60,000, which is larger than each of the teacher’s or first responder’s entire salaries. This is ironic for a bill with “fairness” in its title.

There were several other ironies and also blatant falsehoods in the committee markup of this legislation. After repeatedly criticizing tax reform for not being offset and adding to the deficit, the Majority began chipping away at one of the largest offsets in tax reform, the limit on the SALT deduction, which again allowed a large tax cut for the middle class financed by affluent taxpayers. They also seemed to ignore the hundreds of billions that they have added to the deficit since they took control of Congress and this committee this year. Additionally, 13 members of this committee from the other side of the dais voted for \$4 trillion of unpaid-for tax cuts, as determined by JCT, when they voted for the so-called fiscal cliff deal that became law in 2013. Admittedly, this deal was necessary in order to prevent a massive tax increase that would have wrecked our economy, but they should at least “own” their vote and recognize the hypocrisy. Part of that compromise was a reinstatement of the Pease limitation that slashed itemized deductions like SALT and the charitable deduction for the same group of taxpayers they now seem to be trying to favor.

Democrats at the markup also repeated a false claim labeled by independent fact checkers as “misleading” that 83% of the benefits of tax reform went to the top 1% of taxpayers. But they proved which party was the party of the wealthy when they voted against two amendments — One that would have denied the benefits of the SALT tax break to the top 10% of taxpayers while uncapping the deduction for the bottom 90%, and one that would have denied the bill’s expansion of the SALT tax break to the top 1% of taxpayers.

The Majority also repeated the falsehood that no hearings were held on tax reform. Numerous hearings on tax reform have been held over the years, including one on how tax reform would affect state and local governments. They then shifted to the claim that no hearings were held on the SALT limitation following the introduction of tax reform. But if the new standard for “regular order” is that a hearing must be held after a bill is introduced before it passes committee, then the Democrats violated their own rule with this bill. If we had held a hearing on this bill, we would have had an opportunity to probe issues such as whether the small business tax increase would damage economic growth and employment and wage growth, as well as whether the SALT expansion would lead to greater income inequality, a favorite topic of Democrats. But

given the extremely short notice before this markup, we doubt that Democrats would have had time to throw together such a hearing.

Regardless, Democrats appeared to concede that the small business tax hike would damage the economy, since they voted against an amendment that would have required the Treasury Department to issue a determination that employment and wage growth will not suffer from the tax hike before the bill could go into effect.

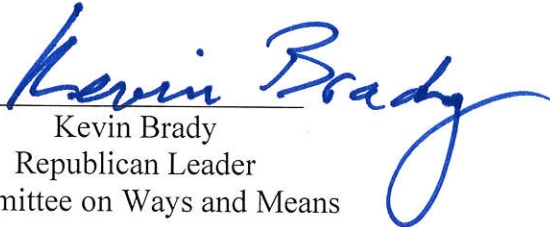
Also ironic, after complaining at a hearing on temporary provisions that TCJA included temporary policy, which was necessary in order to comply with Senate rules at the time, the Majority's bill uses a six-year tax hike to pay for a temporary three-year boost in the SALT deduction.

At the SALT hearing in June, local officials called by the Democrats described crushing levels of property taxes that they imposed on their residents. While claiming that the SALT limitation hurt the middle class living in their area, one of their witnesses seemed to indicate that the middle class included anyone who did not own a yacht. These witnesses apparently wanted Congress to lift the SALT cap so that it would be easier to impose even more oppressive levels of taxation on their constituents. The majority seems unconcerned that a boost in the SALT limit may incentivize even higher property taxes for their constituents, since they voted against an amendment that would have put the brakes on their SALT scam if property taxes increased.

Rather than giving an unlimited federal subsidy for state and local tax increases and providing a green light for state and local officials to raise taxes even further, the better course of action would be for officials in high-tax states, which experienced tax collection windfalls following tax reform, to lower tax burdens for their community friends and neighbors and learn to be more efficient with the greater number of dollars they have as a result of tax reform when they are providing services.

For years Republicans had been labeled the party of the rich and elite. Increasingly, Democrats are claiming that title, punctuated by this SALT scam legislation. We do not doubt the sincerity of our colleagues who are supporting this bill because they believe it will benefit the people they represent. At the same time, the bill confirms that Republicans are becoming the party of middle-class working families, small businesses, and a strong economy that benefits everyone, including the most vulnerable Americans who were left behind in the weak Obama-era economy.

That is a mantle we gladly embrace.

  
Kevin Brady  
Republican Leader  
Committee on Ways and Means