

**DESCRIPTION OF H.R. _____, THE
“RESTORING TAX FAIRNESS FOR STATES AND LOCALITIES ACT”**

Scheduled for Markup
by the
HOUSE COMMITTEE ON WAYS AND MEANS
on December 11, 2019

Prepared by the Staff
of the
JOINT COMMITTEE ON TAXATION



December 10, 2019
JCX-52-19

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INTRODUCTION

The House Committee on Ways and Means has scheduled a committee markup of H.R. _____, to modify the limitation on the deduction for State and local taxes and the top marginal individual income tax rate and brackets. This document,¹ prepared by the staff of the Joint Committee on Taxation, provides a description of the bill.

¹ This document may be cited as follows: Joint Committee on Taxation, *Description of H.R. _____, the “Restoring Tax Fairness for State and Localities Act”* (JCX-52-19), December 10, 2019. This document can also be found on the Joint Committee on Taxation website at www.jct.gov. All section references herein are to the Internal Revenue Code of 1986, as amended (herein “Code”), unless otherwise stated.

**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.² Itemized deductions include a deduction for certain taxes paid or accrued in a taxable year, including State and local property, income, and sales taxes.³

An individual taxpayer⁴ not claiming a standard deduction may deduct: (1) State and local real property taxes;⁵ (2) State and local personal property taxes;⁶ and (3) State and local income, war profits, and excess profits taxes.⁷ 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.⁸

Public Law 115-97 (the “2017 Tax Act”) limited the deduction for these taxes.⁹ 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).¹⁰ This limitation does not apply to taxes paid or accrued in carrying on a trade or business or an activity or for the production of income.¹¹

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

² Sec. 63.

³ 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).

⁴ 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).

⁵ Sec. 164(a)(1).

⁶ Sec. 164(a)(2).

⁷ Sec. 164(a)(3).

⁸ Sec. 164(b)(5).

⁹ Pub. L. No. 115-97, sec. 11042.

¹⁰ Sec. 164(b)(6)(B).

¹¹ Sec. 164(b)(6).

No itemized deduction for property taxes and income or sales taxes is allowed in determining an individual's alternative minimum taxable income.¹²

Description of Proposal

Increase in limitation for married individuals for 2019

The proposal increases the dollar limitation on the deduction of certain State and local property, income, and sales taxes to \$20,000 for married individuals filing a joint return and \$10,000 for 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 proposal removes the limitation on the deduction for certain State and local property, income, and sales taxes for taxable years beginning after December 31, 2019, and before January 1, 2022.

The proposal 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 proposal directs the Secretary 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 proposal to increase the limitation on the deduction for certain State and local property, income, and sales taxes for 2019 is effective for taxable years beginning after December 31, 2018.

The proposal to eliminate the limitation on the deduction for such taxes for 2020 and 2021 is effective for taxable years beginning after December 31, 2019.

¹² Sec. 56(b)(1)(A)(ii).

**B. 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 2020¹

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 \$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
<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 \$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:
<i>Married Individuals Filing Joint Returns and Surviving Spouses</i>	
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
<i>Married Individuals Filing Separate Returns</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	\$32,271.50 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
<i>Estates and Trusts</i>	
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

¹ Rev. Proc 2019-44.

Description of Proposal

The proposal 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.¹³ Under the proposal, for 2020, the regular individual income tax rate schedules are projected to be as follows (changes from present law are in bold):

¹³ The proposal 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 proposal modifies the top rate and the start of top brackets for 2018, but these changes are not effective until 2020. Thus, in application, the proposal only affects rates and brackets starting in 2020.

Table 2.—Federal Individual Income Tax Rates for 2020 Under the Proposal¹

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 \$441,475	\$47,367.50 plus 35% of the excess over \$207,350
Over \$441,475	\$129,311.25 plus 39.6% of the excess over \$441,475
<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 \$469,050	\$45,926 plus 35% of the excess over \$207,350
Over \$469,050	\$137,521 plus 39.6% of the excess over \$469,050
<i>Married Individuals Filing Joint Returns and Surviving Spouses</i>	
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 \$496,600	\$94,735 plus 35% of the excess over \$414,700
Over \$496,600	\$123,400 plus 39.6% of the excess over \$496,600

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 \$248,300	\$47,367.50 plus 35% of the excess over \$207,350
Over \$248,300	\$61,700 plus 39.6% of the excess over \$248,300

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 39.6% of the excess over \$12,950

¹ Rev. Proc. 2019-44 and JCT calculations.

The proposal's changes do not apply to taxable years beginning after December 31, 2025.¹⁴

Effective Date

The proposal is effective for taxable years beginning after December 31, 2019.

¹⁴ 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.

C. Estimated Revenue Effects of the Proposal

<u>Provision</u>	<u>Effective</u>	<u>Fiscal Years</u>												
		<u>[Billions of Dollars]</u>												
		<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>2019-24</u>	<u>2019-29</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	
NET TOTAL		-29.5	-60.0	-20.9	36.3	33.8	35.6	10.9	[1]	---	---	-40.3	6.2	

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.