

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

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		
Increases or Decreases (-) in Revenues												
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
Total Revenues	-29.8	-60.3	-21.2	35.9	33.4	35.2	10.5	-0.5	-0.4	-0.4	-42.0	2.4
Net Increase or Decrease (-) in the Deficit From Changes in Revenues												
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.¹

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

¹ 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