

Table T09-0326
Alternatives to the Administration's 28-Percent Limitation on Itemized Deductions
Impact on Tax Revenue (\$ billions), 2010-19 ¹

| | Fiscal Year | | | | | | | | | | |
|---|-------------|------|------|------|------|------|------|------|------|------|----------------------|
| | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2010-19 ² |
| TPC estimate of Administration's 28-percent limitation option ³ | 0.0 | 8.4 | 21.8 | 23.6 | 25.5 | 26.9 | 28.3 | 29.8 | 31.2 | 32.7 | 228.3 |
| Option 1: Limit the value of itemized deductions less charitable contributions ⁵ | 0.0 | 5.3 | 13.8 | 15.1 | 16.3 | 17.3 | 18.3 | 19.3 | 20.4 | 21.4 | 147.3 |
| Option 2: Limit the value of itemized deductions to 33 and 35 percent ⁶ | 0.0 | 3.3 | 8.5 | 9.2 | 10.0 | 10.5 | 11.1 | 11.6 | 12.2 | 12.8 | 89.2 |
| Option 3: Limit the value of itemized deductions 33 and 35 percent for non AMT taxpayers ⁷ | 0.0 | 2.4 | 6.4 | 7.1 | 7.7 | 8.1 | 8.5 | 8.9 | 9.3 | 9.7 | 68.1 |
| Option 4: Impose 1.5 percent surtax on AGI greater than \$250,000 ⁸ | 0.0 | 11.5 | 20.8 | 23.2 | 24.8 | 26.1 | 27.3 | 28.6 | 29.9 | 31.1 | 223.2 |
| Option 5: Impose 2.2 percent surtax on taxable income for those in 36 and 39.6 percent brackets ⁹ | 0.0 | 11.7 | 21.0 | 23.3 | 25.1 | 26.4 | 27.8 | 29.3 | 30.8 | 32.3 | 227.7 |

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0509-1).

(1) Baseline is the Administration's budget proposal without the 28 percent limit on the value of itemized deductions. Estimates include a microdynamic behavioral response with an elasticity of taxable income with respect to (1 - marginal rate) of 0.25. All proposals are effective 01/01/11.

(2) Numbers might not add due to rounding.

(3) Assumes that regular income tax liability before credits is increased by the value of itemized deductions, net of any Pease limitation, multiplied by the difference, if positive, between the taxpayer's statutory marginal rate and 28 percent. For AMT purposes, AMT liability, if positive, is increased by the value of itemized deductions excluding those for state and local taxes, medical expenses, and miscellaneous deductions subject to the 2 percent of AGI floor multiplied by the difference, if positive, between the taxpayer's statutory marginal rate and 28 percent.

(5) Assumes income tax liability is increased as in (3) by the value of itemized deductions less charitable contributions.

(6) The value of itemized deductions would be limited to 33 percent for those in the 36 percent tax bracket and to 35 percent for those in the 39.6 percent tax bracket. For AMT purposes, AMT liability, if positive, is increased by the value of itemized deductions excluding those for state and local taxes, medical expenses, and miscellaneous deductions subject to the 2 percent of AGI floor multiplied by 3 percent for taxpayers in the 36 percent tax bracket and by 4.6 percent for taxpayers in the 39.6 percent tax bracket.

(7) Assumes income tax liability is increased as in (6) for non AMT taxpayers only.

(8) The surtax would be applied to AGI greater than \$250,000 for married couples filing a joint return; the threshold would be \$200,000 for singles and heads of household and \$125,000 for married individuals filing a separate return. The thresholds would be indexed for inflation after 2009.

(9) Surtax would apply to taxable income net of long-term capital gains and qualifying dividends and would apply regardless of AMT liability.

