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## ALTERNATIVES TO THE TCJA LIMIT ON THE STATE AND LOCAL TAX DEDUCTION

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In this report, we compare revenue equivalent alternatives to the \$10,000 annual limit on the state and local tax (SALT) deduction enacted in the 2017 Tax Cuts and Jobs Act (TCJA). We consider options that would limit all itemized deductions, not just the SALT deduction, and an additional option that would raise the four highest federal individual income tax rates. Prior work has shown that higher-income households would benefit from a relaxation or repeal of the \$10,000 SALT deduction limit.<sup>1</sup> In this study, we find that higher-income taxpayers (those in the top income quintile) would pay the major share of any of the tax increases from the options considered, but the distribution of the tax burden within that group would vary for each option. We also find that high-tax states (those for which aggregate state and local tax deductions claimed before the TCJA were the largest fraction of aggregate state income) would pay the largest portion of any of the tax increases. The share of the tax burden for the top 10 highest-tax states would range from 60 percent with the current law \$10,000 SALT deduction limit to about 45 percent for the option that would increase the top four income tax rates.

## INTRODUCTION

The 2017 Tax Cuts and Jobs Act (TCJA) made many changes to the individual income tax, almost all of which expire after 2025. One of the most contentious provisions of the TCJA is the \$10,000 annual limit on the state and local tax (SALT) deduction. New York Governor Andrew Cuomo referred to the policy as an economic civil war.<sup>2</sup> Four of the states most affected by the limit challenged it through lawsuits,<sup>3</sup> and they and other states have been trying to work around the limit by restructuring their state taxes.<sup>4</sup>

The limit on the SALT deduction was one of the significant revenue-raising provisions of the TCJA. It or some other revenue-raising provision of comparable magnitude was needed to meet the House reconciliation instructions that the tax bill add no more than \$1.5 trillion to the federal budget deficit over the 10-year budget window. Other revenue-generating options were available, however. Rather than singling out the SALT deduction, the TCJA could have limited all itemized deductions or limited a broader array of tax expenditures. Or the law could have reduced individual or corporate income tax by a smaller amount.

In this report, we look at various alternatives to the SALT deduction limit that would apply to all itemized deductions. We also compare those alternatives to an option that would raise individual income tax rates for the four highest tax brackets.<sup>5</sup> Each option is designed to raise approximately the same amount of revenue as the \$10,000 SALT deduction cap in 2020.<sup>6</sup> We find that although each option would have somewhat different effects on subgroups within the highest income quintile, all the options would place a similar tax burden on that quintile. The different options would shift some of the tax burden across the states, but the 10 states in which the SALT deductions claimed prior to the TCJA were the largest percentage of aggregate state income still would bear the largest share of the tax burden under all the options.

## HOW DID THE TCJA AFFECT ITEMIZED DEDUCTIONS?

Taxpayers have a choice of whether to itemize their deductions or simply take the standard deduction.<sup>7</sup> The TCJA significantly reduced the number of taxpayers who choose to itemize by nearly doubling the size of the standard deduction. With the higher standard deduction, many fewer taxpayers find it advantageous to itemize.<sup>8</sup>

The TCJA also reduced the number of itemizers by making direct changes to specific itemized deductions. In addition to limiting the SALT deduction to \$10,000, it limited the deduction for home mortgage interest to interest on the first \$750,000 of mortgage debt (reduced from the pre-TCJA limit of \$1 million) for mortgage loans taken out after December 15, 2017. It eliminated deductions for unreimbursed employee expenses, tax preparation fees, theft and personal casualty losses (except for certain casualty losses occurring in federally declared disaster areas), and other miscellaneous deductions.

Not all the changes in the new tax law restricted itemized deductions. The TCJA increased the limit on deductions for charitable contributions from 50 percent to 60 percent of adjusted gross income (AGI), and it temporarily lowered the floor from 10 percent to 7.5 percent of AGI for the deduction of out-of-pocket medical expenses for 2017 and 2018. (Congress has since extended this medical expense provision through 2020.)

About 46 million taxpayers claimed itemized deductions in 2017 (before enactment of the TCJA). The Tax Policy Center (TPC) estimates that 19 million taxpayers will claim itemized deductions in 2020—only 11 percent of all households. With fewer taxpayers and the additional restrictions on itemized deductions imposed by the TCJA, the revenue cost of itemized deductions also fell dramatically. The Congressional Joint Committee on Taxation estimated that before the TCJA, the revenue loss from the deductions for state and local taxes, home mortgage interest, and charitable contribution, which together accounted for over 80 percent of total itemized deductions in 2017, would have totaled \$255 billion in 2020, compared with an estimated \$90 billion for that same year after enactment of the TCJA (table 1).<sup>9</sup>

**TABLE 1**

**Tax Expenditures for Major Itemized Deductions**  
Pre- and Post-TCJA Estimates, Billions of Dollars, Fiscal Year 2019



Tax Expenditure Item	Before TCJA	After TCJA	Percent Change
<b>Itemized Deductions</b>			
State and local government taxes	\$116.5	\$21.5	-81.5%
Mortgage interest on owner-occupied residences	\$78.7	\$27.4	-65.2%
Charitable contributions	\$60.1	\$40.9	-31.9%
<b>Total</b>	<b>\$255.3</b>	<b>\$89.8</b>	<b>-64.8%</b>

**Source:** Joint Committee on Taxation, *Estimates Of Federal Tax Expenditures For Fiscal Years 2018-2022*, October 4, 2018 and *Estimates Of Federal Tax Expenditures For Fiscal Years 2016-2020*, January 30, 2017.

Although most of the tax benefit from itemized deductions already went to higher-income taxpayers prior to the TCJA, the new law skewed the distribution even further. TPC estimates that the 20 percent of taxpayers with the highest incomes in 2020 will receive almost 85 percent of the tax savings from all itemized deductions (compared with a 78 percent share for that group in 2017), and that the 1 percent of taxpayers at the top of the income distribution will receive over 45 percent of the tax benefits (compared with a 31 percent share in 2017; table 2).

TABLE 2

## Tax Benefit from Itemized Deductions

Baseline: Current Law. Distribution of Tax Benefits by Expanded Cash Income Percentile, 2020



Expanded Cash Income Percentile <sup>a</sup>	Tax Benefit as a Percent of Pre-Tax Income	Share of Tax Benefit (percent)	Share of Pre-Tax Income (percent)	Share of Tax Liability (percent)
Lowest Quintile	0.0	0.0	3.9	0.7
Second Quintile	*	0.6	8.2	3.5
Middle Quintile	0.1	3.9	14.0	9.7
Fourth Quintile	0.3	10.4	20.5	18.3
Top Quintile	0.8	84.9	53.7	67.7
All	0.5	100.0	100.0	100.0
<b>Addendum</b>				
80-90 Percentiles	0.4	10.5	14.4	15.0
90-95 Percentiles	0.5	9.8	10.3	11.8
95-99 Percentiles	0.7	18.5	13.1	16.3
Top 1 Percent	1.1	46.1	15.8	24.6
Top 0.1 Percent	1.8	26.5	7.4	11.7

**Source:** Urban-Brookings Tax Policy Center Microsimulation Model (version 0319-2).

**Notes:** Calendar year. These estimates are based on an economic forecast that does not include the potential effects of the economic disruption caused by COVID-19. Baseline is 2020 law as of March 17, 2020. It does not include the Coronavirus Aid, Relief, and Economic Security Act or subsequent legislation. For more information on TPC's baseline definitions see: <http://www.taxpolicycenter.org/taxtopics/Baseline-Definitions.cfm>. The income percentile classes used in this table are based on the income distribution for the entire population and contain an equal number of people, not tax units. The breaks are (in 2019 dollars): 20% \$25,700; 40% \$51,300; 60% \$92,300; 80% \$167,000; 90% \$245,000; 95% \$348,000; 99% \$828,000; 99.9% \$3,708,100.

<sup>a</sup> Includes both filing and non-filing units but excludes those that are dependents of other tax units. Tax units with negative adjusted gross income are excluded from their respective income class but are included in the totals. For a description of expanded cash income, see <http://www.taxpolicycenter.org/TaxModel/income.cfm>

\* Non-zero value rounded to zero.

## OVERALL LIMITS ON ITEMIZED DEDUCTIONS

The TCJA eliminated an overall limit on itemized deductions that was in place for over two decades. The Pease provision (named after former congressman Donald Pease), reduced itemized deductions by 3 percent of adjusted gross income above certain limits (\$313,800 for married couples and \$261,500 for single taxpayers in 2017), with the maximum reduction limited to 80 percent of certain itemized deductions. Very few taxpayers were subject to the 80 percent limit, so although the Pease provision reduced the value of itemized deductions, it did not diminish the tax savings from additional deductions. For example, someone in the 35 percent tax bracket who made an additional \$100 deductible charitable donation still saved \$35 in taxes.

Several proposals in recent years would apply more stringent limits to itemized deductions and certain other exclusions and deductions, such as those for contributions to employer-sponsored health insurance and retirement plans and for interest on tax-exempt state and local government bonds. For example, in his 2012 presidential campaign, Senator Mitt Romney suggested a dollar cap on itemized deductions but did not specify the amount. President Donald Trump's campaign tax plan adopted an annual dollar limit on itemized deductions of \$100,000 for single taxpayers and \$200,000 for couples.

President Barack Obama's fiscal year 2014 budget would have limited the value of the tax savings from certain deductions and exclusions to 28 percent. The limit would have no effect on taxpayers in income tax brackets with rates of 28 percent or less but would reduce the tax benefits from deductions and exclusions for taxpayers in higher tax brackets. The limit would have applied to all itemized deductions, interest on tax-exempt bonds, income exclusions for employer-sponsored health insurance and employee retirement contributions, and certain above-the-line deductions. Former vice president Joe Biden has also proposed a 28 percent limit on the tax savings from itemized deductions as part of his presidential campaign.

Martin Feldstein, Daniel Feenberg, and Maya MacGuineas proposed capping the tax benefits from itemized deductions and other tax preferences by limiting the tax savings from them to 2 percent of adjusted gross income (Feldstein, Feenberg, and MacGuineas 2011). The cap would apply to total itemized deductions, the exclusion for health-insurance premiums, and a small number of tax credits.

Lily Batchelder, Fred Goldberg, and Peter Orszag suggested replacing exclusions and deductions for socially valued activities (such as charitable contributions) with a uniform refundable tax credit, which would provide the same incentive to all qualifying taxpayers (Batchelder, Goldberg, and Orszag 2006).

An overall limit on itemized deductions has drawbacks (Schizer 2015). It treats all itemized deductions the same even though the character and purpose of each deduction is often quite different. Some itemized deductions can be viewed as spending programs administered through the tax code, providing subsidies through tax relief for households that spend on favored goods and services such as home mortgage interest or contributions to charities. Others, such as the deductions for medical expenses and investment interest expenses, serve as adjustments to better measure income and arguably might be excluded from an overall limit, as they were under the Pease provision. Moreover, some deductions already have a separate limit, such as the medical expense deduction, which applies only to qualifying expenses that exceed a percentage of AGI (and now, of course, the SALT deduction).

Even those itemized deductions that are best viewed as subsidies for preferred activities may warrant category-specific treatment. A deduction for charitable contributions that is only claimed by high-income households still may be desirable by society to encourage these taxpayers to increase their charitable giving.<sup>10</sup> Taxpayers as a whole likely do not wish to subsidize the mortgage interest expenses of those high-income households.

An overall limit, however, has the advantage of simplicity and the perception of fairness. As Feldstein and colleagues note,

Because the TE [Tax Expenditure] benefit cap that we analyze would not single out any particular form of tax expenditure but would apply to the total of all deductions and the key tax exclusions, this approach would reduce the revenue cost of tax expenditures without unfairly burdening taxpayers who benefit from a particular deduction.

## OPTIONS

We compare the revenue, distributional, and incentive effects of several overall limits on itemized deductions with those of the \$10,000 limit on the SALT deduction.<sup>11</sup> We start with a baseline of current law without the SALT deduction limit. We then compare results for the following revenue equivalent options:

- The \$10,000 annual SALT deduction cap enacted by the TCJA
- Reduce all itemized deductions by 35 percent (haircut)
- Limit total itemized deductions to \$84,000 for married taxpayers filing a joint return and \$42,000 for other taxpayers (dollar cap)
- Limit the tax benefit from all itemized deductions to 2 percent of AGI (AGI limit)
- Limit the tax rate that applies to all itemized deductions to 14 percent (tax rate limit)

We then compare those results to an additional revenue equivalent option:

- A four percentage-point increase in the top four highest income tax rates<sup>12</sup>

The 35 percent haircut and the dollar cap would be easy to implement. For the haircut, taxpayers could only claim 65 percent of their reported itemized deductions. For the dollar cap, they could only claim itemized deductions up to a dollar limit. The AGI limit and the tax rate limit are more complicated. Because each would limit the *value* of itemized deductions, they both depend not only on the amount of itemized deductions but also on the applicable income tax rate. For the AGI limit, taxpayers would first calculate their individual income tax under regular rules, including any AMT liability ( $T_1$ ). They then would recalculate their taxes ( $Y$ ) using the standard deduction instead of itemizing their deductions and subtract 2 percent of their AGI from that amount ( $T_2 = Y - .02 * AGI$ ). They would pay the larger of that total and their regular tax (the larger of  $T_2$  and  $T_1$ ). Taxpayers would calculate their taxes in a similar way for the tax rate limit except that when they recalculated their tax using the standard deduction, they would subtract 14 percent of their itemized deductions in excess of the standard deduction from that amount ( $T_3 = Y - .14 * \text{itemized deductions in excess of the standard deduction}$ ) and pay the larger of that amount and their regular tax (the larger of  $T_3$  and  $T_1$ ). The tax rate limit is the same as the Obama proposal to limit the value of the tax savings from certain deductions and exclusions to 28 percent, except with a different tax rate and only applied to itemized deductions.

We do not include an option to replace itemized deductions with a tax credit in this analysis. A tax credit, refundable or not, would reduce income tax liability for many taxpayers because most taxpayers have some deductible expense such as mortgage interest payments, charitable contributions, or state and local taxes, but not a sufficient amount to exceed the standard deduction amount and make it worthwhile to itemize. With so few taxpayers itemizing deductions after enactment of the TCJA, the number of taxpayers with a tax cut would far outweigh the number with tax increases. We estimate that even if a universal credit were nonrefundable, the credit rate would need to be as low as 5.5 percent of itemized deductions to generate the same net revenue increase as the TCJA's \$10,000 limit on the SALT deduction. Adding a floor to the credit could raise the potential credit rate for the same revenue cost, but the floor would need to be significant to produce a meaningful credit rate increase while meeting the revenue target.

The options are designed to generate about the same revenue as the \$10,000 limit on the SALT deduction in 2020, which we estimate to be \$76.6 billion (table 3).<sup>13</sup> We estimate that under current law with no SALT deduction limit, about 24 million taxpayers would itemize their deductions. Adding the \$10,000 limit drops the number of itemizers to about 19 million. Any of the options we simulate would keep the number of itemizers close to 24 million, except for the 35 percent reduction for total itemized deductions, which would reduce the number of itemizers to about 11 million (because taxpayers would need total itemized deductions that were more than 50 percent higher than the standard deduction amount to make itemizing worthwhile).

TABLE 3

## Increase in Revenues and Number of Itemizers, 2020

Options to replace the \$10,000 SALT deduction limit

Baseline: Current law without the \$10,000 SALT deduction limit



Increase in Revenues (billions of dollars)	
Limit SALT Deduction to \$10,000	76.6
Reduce Itemized Deductions by 35 Percent (haircut)	76.5
Itemized Deductions at \$84,000 for Joint Returns; \$42,000 for Other Returns (dollar cap)	74.1
Limit Tax Benefit from Itemized Deductions to 2 Percent of AGI (AGI cap)	74.0
Limit Tax Rate that Applies to Itemized Deductions to 14 Percent (tax rate limit)	75.0
Raise Top Four Tax Rates by Four Percentage Points	74.4
Number of Itemizers (millions)	
Current Law without the SALT Deduction Limit	24.0
Current Law with the \$10,000 SALT Deduction Limit	19.3
Reduce Itemized Deductions by 35 Percent (haircut)	11.4
Itemized Deductions at \$84,000 for Joint Returns; \$42,000 for Other Returns (dollar cap)	24.0
Limit Tax Benefit from Itemized Deductions to 2 Percent of AGI (AGI cap)	24.0
Limit Tax Rate that Applies to Itemized Deductions to 14 Percent (tax rate limit)	24.0
Raise Top Four Tax Rates by Four Percentage Points	24.0
Addendum	
Total Number of Tax Units (millions)	175.9

**Source:** Urban-Brookings Tax Policy Center Microsimulation Model (version 0319-2).

**Notes:** Calendar year. These estimates are based on an economic forecast that does not include the potential effects of the economic disruption caused by COVID-19. Baseline is 2020 law as of March 17, 2020 with no SALT cap. It does not include the Coronavirus Aid, Relief, and Economic Security Act or subsequent legislation. For more information on TPC's baseline definitions see: <http://www.taxpolicycenter.org/taxtopics/Baseline-Definitions.cfm>

## DISTRIBUTION BY INCOME

About 10 percent of taxpayers will see higher individual income taxes in 2020 because of the \$10,000 limit on the SALT deduction, compared with their taxes if there were no limit (table 4).<sup>14</sup> The tax increase will average



TABLE 4

Percentage of Tax Units with a Tax Increase and Average Tax Increase by Expanded Cash Income Percentile, 2020

Options to replace the \$10,000 SALT deduction limit

Baseline: Current law without the \$10,000 SALT deduction limit



Expanded Cash Income Percentile <sup>a</sup>	\$10,000 SALT Deduction Limit		Reduce Itemized Deductions by 35% (Haircut)		Cap Itemized Deductions at \$84,000 for Joint Returns; \$42,000 for Other Returns		Limit Tax Benefit from Itemized Deductions to 2% of AGI		Limit Tax Rate Applied to Itemized Deductions to 14%	
	With Tax Increase		With Tax Increase		With Tax Increase		With Tax Increase		With Tax Increase	
	Pct of Tax Units	Avg Tax Change (\$)	Pct of Tax Units	Avg Tax Change (\$)	Pct of Tax Units	Avg Tax Change (\$)	Pct of Tax Units	Avg Tax Change (\$)	Pct of Tax Units	Avg Tax Change (\$)
Lowest Quintile	0.1	90	0.3	200	0.0	-	0.1	240	0.0	-
Second Quintile	0.7	320	2.3	460	0.0	-	1.0	660	0.0	-
Middle Quintile	3.5	370	8.2	880	0.4	1,870	3.0	1,560	3.6	450
Fourth Quintile	12.0	690	19.3	1,410	1.0	3,560	6.6	2,340	13.9	740
Top Quintile	48.7	5,820	53.6	4,970	8.1	35,400	20.4	12,770	51.7	5,400
All	9.8	4,270	13.0	3,360	1.4	29,490	4.8	8,370	10.4	4,000
<b>Addendum</b>										
80-90 Percentiles	31.8	1,100	38.0	1,980	2.2	4,540	11.4	3,380	35.9	1,030
90-95 Percentiles	53.3	2,100	58.1	2,830	4.1	6,990	19.0	4,440	57.0	1,730
95-99 Percentiles	77.6	5,180	79.6	5,010	14.4	9,590	36.0	7,630	78.0	4,510
Top 1 Percent	92.0	37,330	94.9	24,960	68.4	77,370	61.8	57,620	89.7	40,120
Top 0.1 Percent	91.6	161,210	96.6	108,240	90.9	350,970	58.0	325,900	87.6	194,230

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0319-2).

Notes: Calendar year. These estimates are based on an economic forecast that does not include the potential effects of the economic disruption caused by COVID-19. Baseline is 2020 law as of March 17, 2020 with no SALT cap. It does not include the Coronavirus Aid, Relief, and Economic Security Act or subsequent legislation. For more information on TPC's baseline definitions see <http://www.taxpolicycenter.org/taxtopics/Baseline-Definitions.cfm>. The income percentile classes used in this table are based on the income distribution for the entire population and contain an equal number of people, not tax units. The breaks are (in 2019 dollars): 20% \$25,700; 40% \$51,300; 60% \$92,300; 80% \$167,000; 90% \$245,000; 95% \$348,000; 99% \$828,000; 99.9% \$3,708,100. Table includes tax units with a change in federal tax burden of \$10 or more in absolute value. This proposal does not result in a tax decrease for any units.

<sup>a</sup> Includes both filing and nonfiling units but excludes those that are dependents of other tax units. Tax units with negative adjusted gross income are excluded from their respective income class but are included in the totals. For a description of expanded cash income, see <http://www.taxpolicycenter.org/TaxModel/income.cfm>.

nearly \$4,300 for those who pay higher taxes. Taxpayers at different income levels will see significant differences. About half the taxpayers in the top income quintile have a tax increase from the SALT deduction limit, but that rises to nearly 80 percent of taxpayers in the 95th to 99th percentiles and to over 90 percent of taxpayers in the top 1 percent. Only 3.5 percent of taxpayers in the middle-income quintile have a tax increase from the \$10,000 SALT deduction limit.

*Limiting all itemized deductions:* Among the options to limit all itemized deductions, the 35 percent reduction would lead to a tax increase relative to current law with no SALT deduction limit for the most taxpayers (13 percent); the fixed dollar cap on total itemized deductions would affect the fewest (1.4 percent). Because all the options raise an equivalent amount of revenue, the option with a tax increase for the fewest taxpayers will have the largest average tax increase for taxpayers experiencing an increase. The average increase for affected taxpayers under the fixed dollar cap would be \$29,490, about seven times the increase with the \$10,000 limit on just the SALT deduction. This is because although relatively few taxpayers are affected, those subject to the constraint often have itemized deductions that far exceed the cap. Limiting the tax benefit of all itemized deductions to 2 percent of AGI would lead to a tax increase for 4.8 percent of taxpayers; limiting the tax benefit to 14 percent of total itemized deductions would increase taxes for 10.4 percent of taxpayers, slightly more than the percentage with a tax increase caused by the \$10,000 SALT deduction limit.

Of all the options, the 35 percent reduction for all itemized deductions would lead to the largest share of the tax increase for taxpayers in the fourth quintile and in the 80th to 95th percentiles and the smallest share for the top 1 percent (table 5). A dollar cap and limits on the tax benefits as a percentage of AGI or at a maximum tax rate would place a larger share of the tax increase on taxpayers in the top 1 percent of the income distribution than would the \$10,000 SALT deduction limit. With the fixed dollar cap, taxpayers in the top 1 percent of the income distribution would bear about 85 percent of the total tax increase compared with just under 60 percent under the other two options and 54 percent of the total tax increase with the \$10,000 SALT cap.

TABLE 5

## Percent Change in After-Tax Income and Share of the Tax Increase by Expanded Cash Income Percentile, 2020

Options to replace the \$10,000 SALT deduction limit

Baseline: Current law without the \$10,000 SALT deduction limit



Expanded cash income percentile <sup>a</sup>	\$10,000 SALT Deduction Limit		Reduce Itemized Deductions by 35% (Haircut)		Cap Itemized Deductions at \$84,000 for Joint Returns; \$42,000 for Other Returns		Limit Tax Benefit from Itemized Deductions to 2% of AGI		Limit Tax Rate Applied to Itemized Deductions to 14%	
	Percent change in after-tax income <sup>b</sup>	Share of Total Federal Tax Change	Percent change in after-tax income <sup>b</sup>	Share of Total Federal Tax Change	Percent change in after-tax income <sup>b</sup>	Share of Total Federal Tax Change	Percent change in after-tax income <sup>b</sup>	Share of Total Federal Tax Change	Percent change in after-tax income <sup>b</sup>	Share of Total Federal Tax Change
Lowest Quintile	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Second Quintile	*	0.1	0.0	0.5	0.0	0.0	*	0.4	0.0	0.0
Middle Quintile	*	0.6	-0.1	3.3	0.0	0.4	-0.1	2.4	*	0.8
Fourth Quintile	-0.1	3.3	-0.3	10.4	0.0	1.4	-0.2	6.4	-0.1	4.2
Top Quintile	-1.0	95.9	-0.9	85.7	-1.0	98.1	-0.9	90.8	-0.9	95.0
All	-0.5	100.0	-0.5	100.0	-0.5	100.0	-0.5	100.0	-0.5	100.0
<b>Addendum</b>										
80-90 Percentiles	-0.2	6.1	-0.5	12.5	-0.1	1.7	-0.2	6.9	-0.2	6.5
90-95 Percentiles	-0.5	9.4	-0.7	13.0	-0.1	2.5	-0.4	7.3	-0.4	8.3
95-99 Percentiles	-1.1	26.0	-1.0	24.5	-0.4	9.1	-0.7	18.4	-0.9	22.9
Top 1 Percent	-1.9	54.4	-1.3	35.6	-3.0	84.9	-2.0	58.2	-2.0	57.3
Top 0.1 Percent	-1.9	23.9	-1.3	16.1	-4.0	52.3	-2.4	31.6	-2.1	27.7

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0319-2).

Notes: Calendar year. These estimates are based on an economic forecast that does not include the potential effects of the economic disruption caused by COVID-19. Baseline is 2020 law as of March 17, 2020 with no SALT cap. It does not include the Coronavirus Aid, Relief, and Economic Security Act or subsequent legislation. For more information on TPC's baseline definitions see: <http://www.taxpolicycenter.org/taxtopics/Baseline-Definitions.cfm>. The income percentile classes used in this table are based on the income distribution for the entire population and contain an equal number of people, not tax units. The breaks are (in 2019 dollars): 20% \$25,700; 40% \$51,300; 60% \$92,300; 80% \$167,000; 90% \$245,000; 95% \$348,000; 99% \$828,000; 99.9% \$3,708,100.

<sup>a</sup> Includes both filing and nonfiling units but excludes those that are dependents of other tax units. Tax units with negative adjusted gross income are excluded from their respective income class but are included in the totals. For a description of expanded cash income, see <http://www.taxpolicycenter.org/TaxModel/income.cfm>.

<sup>b</sup> After-tax income is expanded cash income less: individual income tax net of refundable credits; corporate income tax; payroll taxes (Social Security and Medicare); estate tax; and excise taxes.

\* Non-zero value rounded to zero

All the options to limit itemized deductions would reduce after-tax income for taxpayers in the top income quintile by about the same percentage, but the effects for subgroups within this quintile would differ. The cap on itemized deductions would reduce after-tax income for taxpayers in the top 1 percent of the income distribution by more (3.0 percent) than would the \$10,000 SALT deduction limit (1.9 percent), while having a smaller effect on after-tax income of other taxpayers in the top income quintile than the \$10,000 SALT deduction limit.

*Raising the top tax rates:* Raising the top four tax rates by four percentage points would raise taxes for 6.6 percent of all taxpayers, including 6.3 percent of taxpayers in the fourth income quintile and 39.3 percent in the top quintile (table 6). These shares are lower than the shares of taxpayers with a tax increase in those income groups under the \$10,000 SALT deduction cap. Unlike the \$10,000 SALT deduction limit, raising the top tax rates would not increase taxes for any taxpayers in the middle and lower income quintiles.

TABLE 6

## Raise Top Four Marginal Tax Rates by 4 Percentage Points

Distribution of total federal tax change by expanded cash income percentile, 2020

Baseline: Current law without the \$10,000 SALT deduction limit



Expanded cash income percentile <sup>a</sup>	With Tax Increase <sup>b</sup>		Percent change in after-tax income <sup>c</sup>	Share of Total Federal Tax Change
	Pct of Tax Units	Avg Tax Change (\$)		
Lowest Quintile	0.0	0	0.0	0.0
Second Quintile	0.0	0	0.0	0.0
Middle Quintile	0.0	0	0.0	0.0
Fourth Quintile	6.3	850	-0.1	1.8
Top Quintile	39.3	8,820	-1.2	98.1
All	6.6	7,560	-0.6	100.0
<b>Addendum</b>				
80-90 Percentiles	15.2	2,090	-0.2	4.6
90-95 Percentiles	47.0	2,660	-0.5	8.7
95-99 Percentiles	82.8	7,060	-1.5	31.7
Top 1 Percent	86.8	46,250	-2.3	53.1
Top 0.1 Percent	78.3	201,120	-2.0	21.3

**Source:** Urban-Brookings Tax Policy Center Microsimulation Model (version 0319-2).

**Notes:** Calendar year. These estimates are based on an economic forecast that does not include the potential effects of the economic disruption caused by COVID-19. Baseline is 2020 law as of March 17, 2020 with no SALT cap. It does not include the Coronavirus Aid, Relief, and Economic Security Act or subsequent legislation. For more information on TPC's baseline definitions see <http://www.taxpolicycenter.org/taxtopics/Baseline-Definitions.cfm>. The income percentile classes used in this table are based on the income distribution for the entire population and contain an equal number of people, not tax units. The breaks are (in 2019 dollars): 20% \$25,700; 40% \$51,300; 60% \$92,300; 80% \$167,000; 90% \$245,000; 95% \$348,000; 99% \$828,000; 99.9% \$3,708,100.

<sup>a</sup> Includes both filing and nonfiling units but excludes those that are dependents of other tax units. Tax units with negative adjusted gross income are excluded from their respective income class but are included in the totals. For a description of expanded cash income, see <http://www.taxpolicycenter.org/TaxModel/income.cfm>.

<sup>b</sup> Includes tax units with a change in federal tax burden of \$10 or more in absolute value. This proposal does not result in a tax decrease for any units.

<sup>c</sup> After-tax income is expanded cash income less: individual income tax net of refundable credits; corporate income tax; payroll taxes (Social Security and Medicare); estate tax; and excise taxes.

Within the top income quintile, raising the top tax rates would lead to a smaller share of taxpayers with a tax increase than with the \$10,000 SALT deduction limit in all income groups except for the 95th to 99th percentiles of the income distribution. The share of taxpayers with a tax increase from raising the top rates in that income group (82.8 percent) would be greater than the share with an increase due to the \$10,000 SALT deduction limit (77.6 percent). For taxpayers in the top 1 percent of the income distribution, the share with a tax increase would be lower from raising the top rates than with the \$10,000 SALT deduction limit. Some taxpayers in that group receive most or all their income as long-term capital gains and qualified dividends, which are taxed at lower rates than other income. The option to raise tax rates would not change the tax rates on long-term capital gains and qualified dividends and so would have a limited effect on these taxpayers.

Taxpayers in the highest income quintile would pay 98 percent of the tax increase from raising the top income tax rates, slightly more than their 96 percent share of the tax increase from the \$10,000 SALT deduction limit. The share of the tax increase paid by most income groups within the top quintile from raising the top tax rates would be less than their shares with the \$10,000 SALT deduction limit, except for taxpayers in the 95th to 99th percentiles of the income distribution who would pay a somewhat higher share of the tax increase (31.7 percent from the option with the increase in the top income tax rates compared with 26.0 percent from the \$10,000 SALT deduction limit).

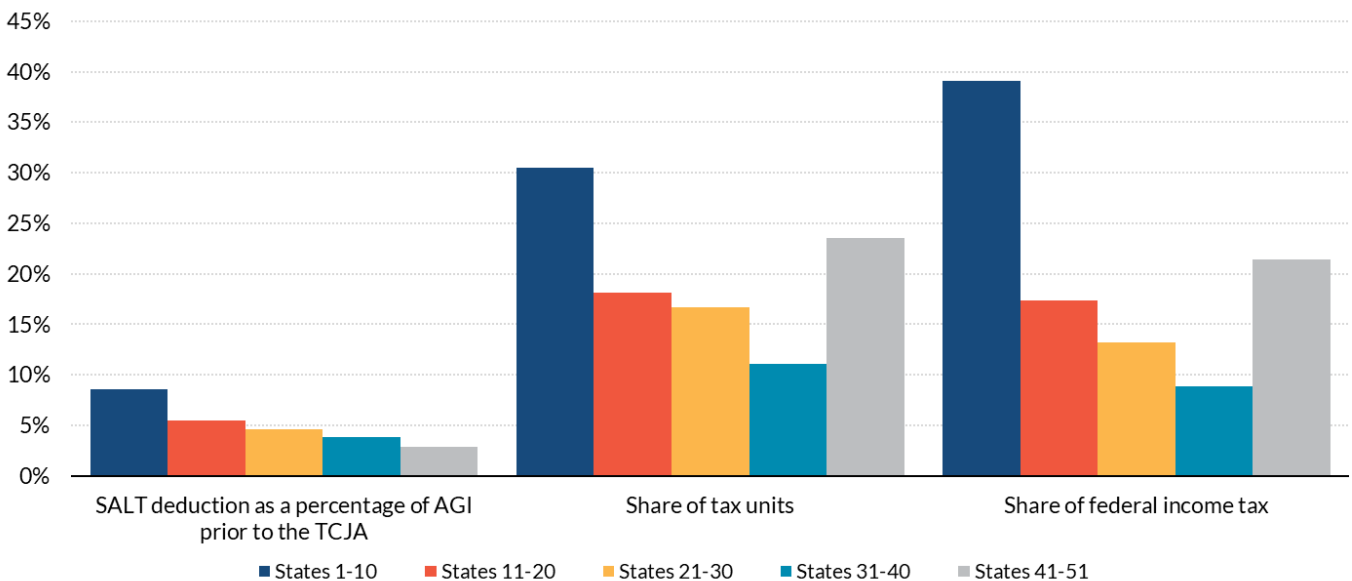
## DISTRIBUTION ACROSS STATES

To explore the distribution of the SALT deduction limit and the alternative options across the states, we first rank the 50 states and the District of Columbia (DC) by the ratio of SALT deductions claimed in 2017 (before the TCJA) to federal AGI for each state and DC. We then divide the 50 states and DC into 5 groups, 10 in each group except for group 5, which has 11.<sup>15</sup> For the entire US, SALT deductions claimed equaled 5.7 percent of federal AGI in 2017. For group 1, which includes higher-tax states such as California and New York as well as the District of Columbia, SALT deductions claimed in 2017 were 8.6 percent of AGI (figure 1). For group five, which includes all seven states without state personal income taxes, the corresponding ratio was 2.9 percent.<sup>16</sup>

FIGURE 1

### Share of Tax Units and Share of Federal Income Tax, 2020

States ranked by SALT deduction as a percentage of AGI



Source: IRS 2017 SOI Historical Table 2 and Urban-Brookings Tax Policy Center Microsimulation Model (version 0319-2).

Note: TCJA refers to the Tax Cuts and Jobs Act; AGI refers to adjusted gross income. These estimates are based on an economic forecast that does not include the potential effects of the economic disruption caused by COVID-19.

For comparison, we show the estimated share of households and the share of current-law federal income tax (including the \$10,000 SALT deduction limit) for the five groups in 2020.<sup>17</sup> Group 1, which includes some of the largest states, has the largest share of households (30.5 percent) and pays the largest share of federal income tax (39.1 percent). The share of households and federal income taxes paid decline across the groups except for group 5, which includes the populous states of Florida and Texas. The states in group 5 have 23.6 percent of households and pay 21.4 percent of federal income taxes.

Relative to a baseline of current law without the SALT deduction limit, the \$10,000 SALT deduction cap increases income taxes for about 10 percent of taxpayers nationwide but by different percentages across the states (figure 2). The \$10,000 SALT deduction limit increases taxes for about 14 percent of taxpayers in group 1 (states with the highest ratio of SALT deductions to AGI before the TCJA) while increasing taxes for less than 5 percent of taxpayers in group 5 (states with the lowest ratios). The 35 percent reduction for all itemized deductions would increase taxes for a larger percentage of taxpayers than the \$10,000 SALT deduction limit in all states (17.9 percent of taxpayers in group 1 and 7.4 percent in group 5). The share of taxpayers with a tax increase would be only slightly higher with the 14 percent tax rate limit as with the \$10,000 SALT deduction limit for taxpayers in group 1 (14.6 percent versus 14.2 percent) and for taxpayers in group 5 (5.3 percent versus 4.8 percent). Both the proposed fixed dollar cap and 2 percent of AGI limit on the tax benefits from itemized deductions would increase taxes for many fewer taxpayers than the \$10,000 SALT deduction limit in all states. Because the dollar cap on itemized deductions shifts much of the tax increase to the highest-income taxpayers, less than 2 percent of households in each state would see a tax increase with the dollar cap examined in this analysis, except for a handful of states (California, Connecticut, Maryland, New Jersey, and New York) and DC.

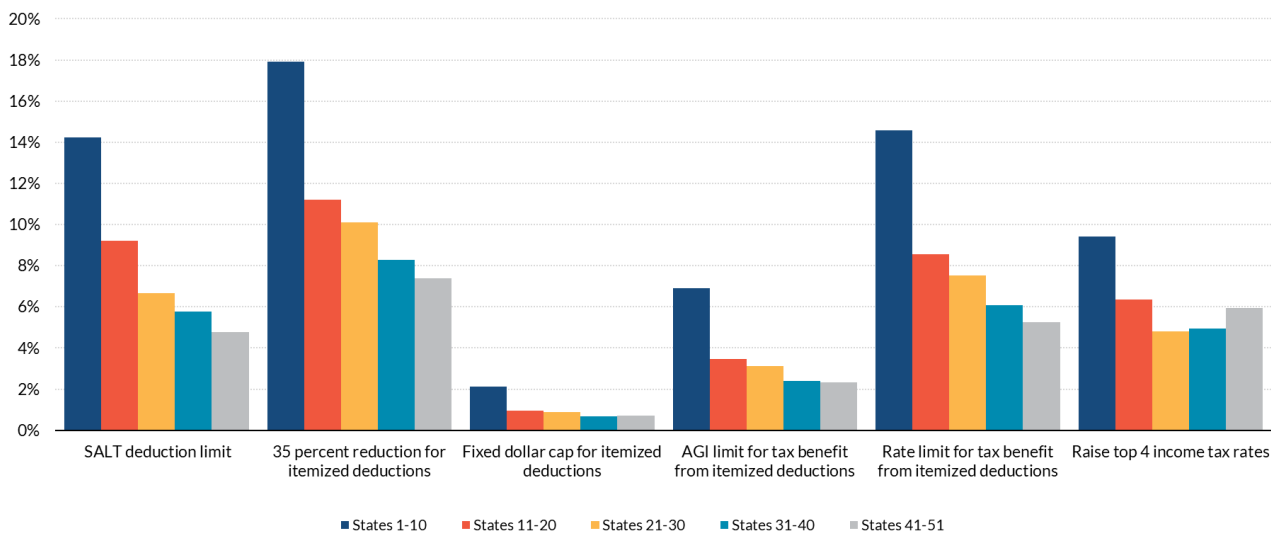
FIGURE 2

### Percent of Tax Units with a Tax Increase, 2020

States ranked by SALT deduction as a percentage of AGI



Share of tax units with a tax increase (percent)



Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0319-2).

Note: These estimates are based on an economic forecast that does not include the potential effects of the economic disruption caused by COVID-19.

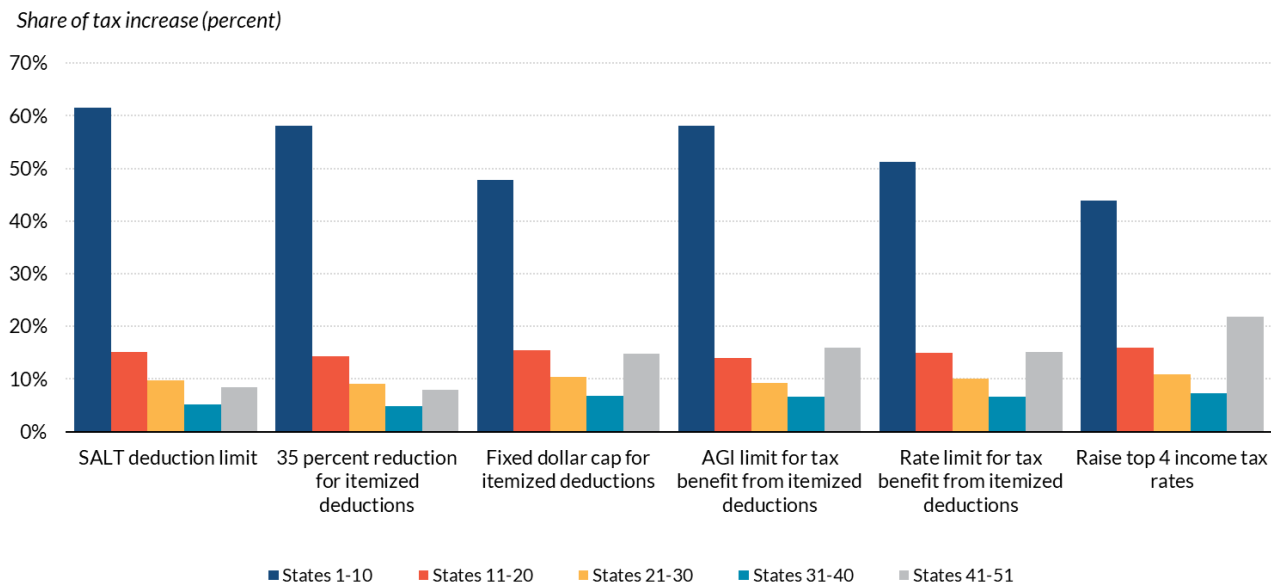
Raising the top 4 income tax rates would increase taxes for a smaller share of taxpayers in all state groups except group 5 than the \$10,000 SALT deduction limit. Raising the top income tax rates would increase taxes for 5.9 percent of taxpayers in group 5, slightly more than the 4.8 percent of taxpayers in that group with an increase from the \$10,000 SALT deduction limit.

Taxpayers in group 1 bear the largest large share (61.5 percent) of the tax increase from the \$10,000 SALT deduction limit (figure 3). Their share of the tax increase would be lower under any of the other options examined here that limit all itemized deductions. Their share would be about 50 percent for the 14 percent tax rate limit (51.3 percent) and the fixed dollar cap (47.8 percent), but closer to 60 percent for the option with the 35 percent reduction (58.2 percent), and for the option with the 2 percent AGI limit (58.0 percent). Taxpayers in group 5 would pay a larger share of the tax increase under any of the options that apply to all itemized deductions, (ranging from 14.8 for the fixed dollar cap to 15.9 percent for the 2 percent AGI limit) than their share of the tax increase from the \$10,000 SALT deduction limit (8.4 percent) except for the 35 percent reduction in itemized deductions, for which their share of the tax increase would be 7.9 percent.

FIGURE 3

### Share of Tax Increase, 2020

States ranked by SALT deduction as a percentage of AGI



Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0319-2).

Note: These estimates are based on an economic forecast that does not include the potential effects of the economic disruption caused by COVID-19.

Taxpayers in group 1 would pay less than half the tax increase from raising the top income tax rates (43.9 percent), a smaller fraction than their share of the tax increase from any of the other options but more than their share of income tax paid under current law (39.1 percent). Taxpayers in groups 2, 3, and 4 would pay a higher share of the tax increase from raising the top income tax rates than with the \$10,000 limit on the SALT deduction and any of the other options, but the increase would be only about 1 to 2 percentage points.



Taxpayers in state group five would pay over one-fifth of the tax increase from raising the top income tax rates (21.9 percent), which is about equal to their share of federal income tax paid under current law (21.4 percent). Their share of the tax increase from raising the top four income tax rates would be higher, however, than their share of any of the other options examined, and 13.5 percentage points higher than their share of the tax increase from the \$10,000 SALT deduction limit.

## INCENTIVE EFFECTS

The options examined in this report have different effects on the amounts of tax savings from additional itemized deductions and so will affect the tax incentive provided by those deductions. This is an important consideration for charitable contributions to the extent that the tax deduction is meant to encourage additional donations. This is also an important consideration for state and local governments that argue that capping the SALT deduction limits their ability to levy taxes to fund necessary government services.

### *Charitable Contributions*

Under current law, the average marginal tax saving (the tax subsidy) for charitable contributions is 15.4 percent, meaning that an additional \$100 of charitable contributions reduces federal income taxes by \$15.40 on average or, alternatively, that the average net after-tax cost to individual taxpayers of making a \$100 contribution is \$84.60 (table 7)<sup>18</sup>.

However, the marginal tax subsidy for charitable contributions is quite different for taxpayers at different income levels. The subsidy rates are low for the 80 percent of taxpayers in the four lowest income quintiles because most taxpayers in those groups do not itemize and thus cannot deduct their contributions.<sup>19</sup> The subsidy rate for taxpayers who do not itemize is zero, meaning the net after-tax cost of an additional \$100 charitable donation is \$100. The few taxpayers in the four lowest income quintiles who itemize have relatively low marginal rates and thus realize a small tax savings from their contributions. Conversely, the average tax subsidy rate for taxpayers in the top income quintile, who are more likely to itemize and to have higher marginal tax rates, is 21.9 percent, and the average tax subsidy rate for taxpayers in the top 1 percent of the income distribution is 30.7 percent.

The rate for each income group is essentially the same with or without the \$10,000 SALT deduction limit in place.<sup>20</sup> The options that apply to total itemized deduction all would significantly reduce the average subsidy for charitable giving. The option that reduces the average incentive to give the most is the 2 percent of AGI limit on the tax benefits from itemized deductions. Second to that is the fixed dollar limit on total itemized deductions.

The 2 percent of AGI limit and the fixed dollar limit would effectively eliminate the marginal subsidy for the 1 percent of taxpayers with the highest income, reducing the average subsidy for them to 3.3 percent and 3.9 percent, respectively. The 35 percent reduction for aggregate itemized deductions, however, would still provide

an average subsidy of 20.5 percent for taxpayers in that income group. The fixed dollar cap on itemized deductions has almost no effect on taxpayers below the 95th percentile, who tend to have itemized deductions well below the cap amount. The proposal to impose a 14 percent tax rate limit preserves a good part of the subsidy for those taxpayers with incomes below the 95th percentile.

In contrast, replacing the \$10,000 SALT deduction limit with an increase in the top four income tax rates would raise the average subsidy rate for charitable contributions to 16.9 percent. It would increase the average subsidy rate for taxpayers in the highest income quintile to 24.1 percent and raise the subsidy rate for taxpayers in the top 1 percent to 32.8 percent.

**TABLE 7**  
**Marginal Tax Benefit of Charitable Contributions, 2020**  
 Effective subsidy rate in percent



Options	Expanded Cash Income Percentile <sup>a</sup>										
							Addendum				
	Lowest Quintile	Second Quintile	Middle Quintile	Fourth Quintile	Top Quintile	All	80-90 Percentiles	90-95 Percentiles	95-99 Percentiles	Top 1 Percent	Top 0.1 Percent
Current Law with no SALT Deduction Limit	0.1	1.4	3.4	7.1	22.4	15.8	12.9	17.8	24.0	30.0	26.8
Current Law (Includes \$10,000 SALT Deduction Limit)	0.1	1.4	3.3	6.8	21.9	15.4	11.7	15.7	22.6	30.7	27.9
35 Percent Haircut for Itemized Deductions	0.1	0.3	0.8	2.4	13.3	8.9	4.4	7.9	14.4	20.5	18.5
Cap Itemized Deductions at \$84,000 for Joint Returns; \$42,000 for All Other	0.1	1.4	3.3	6.6	8.3	6.9	11.8	15.0	14.2	3.3	0.1
Limit Tax Benefit from Itemized Deductions to 2 Percent of AGI	0.1	0.9	2.2	4.1	5.7	4.6	7.6	8.7	7.4	3.9	2.2
Limit Tax Rate for Itemized Deductions to 14 Percent	0.1	1.4	2.8	5.3	12.2	9.0	8.6	11.1	12.9	14.1	14.3
Raise Top 4 Federal Income Tax Rates by 4 Percentage Points	0.1	1.4	3.4	7.2	24.1	16.9	13.3	19.1	26.8	32.8	28.5

**Source:** Urban-Brookings Tax Policy Center Microsimulation Model (version 0319-2).

**Notes:** Calendar year. These estimates are based on an economic forecast that does not include the potential effects of the economic disruption caused by COVID-19. Baseline is 2020 law as of March 17, 2020 with no SALT cap. It does not include the Coronavirus Aid, Relief, and Economic Security Act or subsequent legislation. For more information on TPC's baseline definitions see <http://www.taxpolicycenter.org/taxtopics/Baseline-Definitions.cfm>. The income percentile classes used in this table are based on the income distribution for the entire population and contain an equal number of people, not tax units. The breaks are (in 2019 dollars): 20% \$25,700; 40% \$51,300; 60% \$92,300; 80% \$167,000; 90% \$245,000; 95% \$348,000; 99% \$828,000; 99.9% \$3,708,100.

<sup>a</sup> Includes both filing and nonfiling units but excludes those that are dependents of other tax units. Tax units with negative adjusted gross income are excluded from their respective income class but are included in the totals. For a description of expanded cash income, see <http://www.taxpolicycenter.org/TaxModel/income.cfm>.

## *State and Local Taxes*

A major complaint by state and local officials about the \$10,000 limit on the SALT deduction is that it jeopardizes state and local government budgets by impeding their ability to maintain or raise taxes. Although policymakers disagree about whether the federal government should subsidize state and local government spending by providing a deduction for state and local taxes, we simply note that the bulk of state and local government spending is for health care, education, and social welfare programs, which the federal tax system subsidizes if provided by the nonprofit sector (through deductions for charitable contributions used to fund nonprofit hospitals, schools, and charitable organizations), or by the private sector (through, for example, the income tax exclusion for individuals who benefit from employer-provided health insurance contributions and the itemized deduction for medical expenses).<sup>21</sup>

The \$10,000 limit on the SALT deduction mostly eliminates the marginal subsidy for state and local taxes for affected taxpayers. The average subsidy would be about 11.6 percent absent the SALT deduction limit but falls to 1.5 percent with the limit in place because the \$10,000 limit is much lower than SALT payments for many higher-income taxpayers. Without the SALT deduction limit, an additional \$100 of deductible state and local taxes reduces federal taxes by \$11.60, on average. With the \$10,000 limit in place, the average reduction in federal taxes is \$1.50.

The average subsidy for taxpayers in the top 1 percent would be 22.9 percent without the \$10,000 limit but is virtually zero with the limit in place. Replacing the \$10,000 SALT deduction limit with any of the revenue-equivalent options to limit all itemized deduction would restore a subsidy for SALT payments by taxpayers in higher income groups, but the subsidy rate would be well below the rate under current law with no SALT deduction limit. Raising the top four income tax rates instead of limiting the SALT deduction would raise the average subsidy rate to about 13.3 percent overall and to 29.8 percent for taxpayers in the top 1 percent of the income distribution.

TABLE 8

## Marginal Tax Benefit of State and Local Taxes, 2020

Effective subsidy rate in percent



Options	Expanded Cash Income Percentile <sup>a</sup>										
							Addendum				
	Lowest Quintile	Second Quintile	Middle Quintile	Fourth Quintile	Top Quintile	All	80-90 Percentiles	90-95 Percentiles	95-99 Percentiles	Top 1 Percent	Top 0.1 Percent
Current Law with no SALT Deduction Limit	0.1	1.1	4.3	8.4	17.4	11.6	12.8	17.3	19.5	22.9	20.4
Current Law (Includes \$10,000 SALT Deduction Limit)	0.1	0.7	2.4	2.6	1.0	1.5	1.8	1.0	0.4	0.2	0.0
35 Percent Haircut for Itemized Deductions	0.0	0.4	1.3	2.9	9.3	5.5	4.0	7.2	12.7	17.4	15.5
Cap Itemized Deductions at \$84,000 for Joint Returns; \$42,000 for All Other	0.1	1.1	4.2	8.0	13.6	9.5	12.2	16.2	18.0	6.9	1.0
Limit Tax Benefit from Itemized Deductions to 2 Percent of AGI	0.1	0.7	2.6	4.7	8.3	5.8	8.0	9.9	8.8	5.7	5.2
Limit Tax Rate for Itemized Deductions to 14 Percent	0.1	1.1	3.6	6.2	17.4	7.6	8.5	10.9	12.2	12.2	12.2
Raise Top 4 Federal Income Tax Rates by 4 Percentage Points	0.1	1.1	4.3	8.6	20.5	13.3	13.3	18.9	25.2	29.8	25.5

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0319-2).

Notes: Calendar year. These estimates are based on an economic forecast that does not include the potential effects of the economic disruption caused by COVID-19. Baseline is 2020 law as of March 17, 2020 with no SALT cap. It does not include the Coronavirus Aid, Relief, and Economic Security Act or subsequent legislation. For more information on TPC's baseline definitions see <http://www.taxpolicycenter.org/taxtopics/Baseline-Definitions.cfm>. The income percentile classes used in this table are based on the income distribution for the entire population and contain an equal number of people, not tax units. The breaks are (in 2019 dollars): 20% \$25,700; 40% \$51,300; 60% \$92,300; 80% \$167,000; 90% \$245,000; 95% \$348,000; 99% \$828,000; 99.9% \$3,708,100.

<sup>a</sup> Includes both filing and nonfiling units but excludes those that are dependents of other tax units. Tax units with negative adjusted gross income are excluded from their respective income class but are included in the totals. For a description of expanded cash income, see <http://www.taxpolicycenter.org/TaxModel/income.cfm>.

## CONCLUSIONS

Replacing the \$10,000 limit on the SALT deduction with revenue-equivalent options that would limit all itemized deductions would have different distributional effects than the SALT deduction limit. A fixed dollar cap on all itemized deductions would be more progressive, shifting more of the tax burden to taxpayers in the top 1 percent of the income distribution. Limiting the tax benefit from itemized deductions either to 2 percent of AGI or to a 14 percent tax rate also would be more progressive than the current \$10,000 SALT deduction limit but not nearly as progressive as the fixed dollar cap on all itemized deductions. A 35 percent reduction for all itemized deductions would be less progressive than the \$10,000 SALT deduction limit, shifting some of the tax burden away from taxpayers in the top 1 percent and toward taxpayers in the fourth quintile and the 80th to 95th percentiles of the income distribution.

Raising the top four income tax rates would be about as progressive as the \$10,000 SALT deduction limit with taxpayers in the top income quintile paying 98 percent of the tax increase with that option compared to 96 percent with the SALT deduction limit. Taxpayers in the 80th to 95th percentiles would pay a smaller share of the increase from raising the top 4 tax rates than they would with the SALT deduction limit, but the share would also fall slightly for taxpayers in the top 1 percent of the income distribution. The income tax rate increase would not be quite as progressive as the fixed dollar cap on itemized deductions but would spread the tax increases over a larger share of taxpayers in the 95th to 99th percentiles and the top 1 percent (82.8 percent and 86.8 percent of taxpayers in these groups, respectively) than would the fixed dollar cap (14.4 percent and 68.4 percent of taxpayers in these groups, respectively).

The options that limit all itemized deductions would shift a great share of the tax burden from taxpayers in higher-tax states (state with higher state and local taxes) to taxpayers in lower-tax states, generally a shift from one group of high-income taxpayers to another. Taxpayers in higher-tax states would still pay about 50 to 60 percent of the tax increase from any of these options. Taxpayers in higher-tax states would pay about 44 percent of the tax increase from raising the top four income tax rates; taxpayers in other states would pay a slightly higher share of that tax increase than their share of the tax increase from the \$10,000 limit on the SALT deduction in most states, but taxpayers in the lowest tax states would pay a significantly higher share of the tax increase from raising the top rates compared to their share of the increase from the SALT deduction limit.

## MARRIAGE PENALTIES AND THE \$10,000 SALT DEDUCTION LIMIT

The \$10,000 SALT deduction limit is not marriage neutral, because the limit is effectively doubled for an unmarried couple filing two tax returns as single taxpayers compared with a married couple filing a joint tax return. Most features of current tax law attempt to avoid so-called “marriage penalties.”<sup>22</sup> For example, income tax brackets now are generally twice as wide for joint returns as they are for single returns, which largely removes a main cause of marriage penalties under prior laws.<sup>23</sup> However, this feature expands the potential for marriage bonuses as more couples find that they pay less tax filing a joint return than they would if they were not married and filed two single returns (this is especially likely when the individuals’ incomes are substantially different).

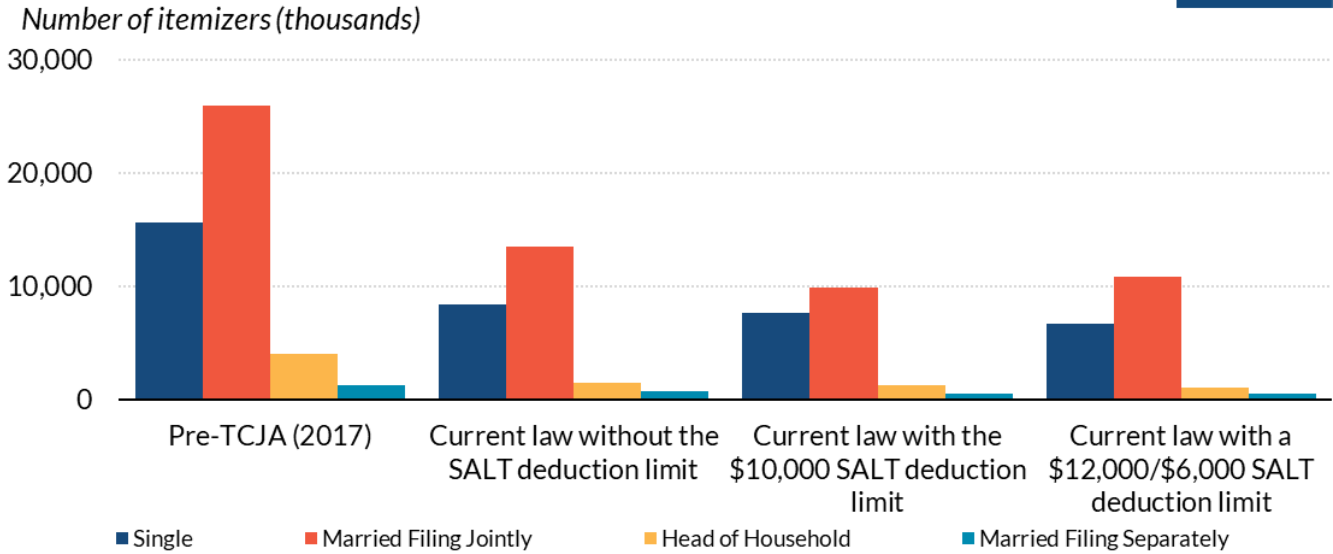
The TCJA significantly reduced the number of taxpayers who itemize their deductions from about 46 million in 2017, before enactment of the TCJA, to an estimated 19 million. Most of the reduction was because the standard deduction approximately doubled, increasing from \$6,350 for 2017 to \$12,000 for 2018 for a single tax filer and from \$12,700 for 2017 to \$24,000 for 2018 for married couples filing a joint return.

Some of the reduction in the number of itemizers, however, was also caused by the elimination of certain itemized deductions and the limits placed on the SALT deduction. Because the TCJA applies the same \$10,000 SALT deduction limit to all tax filers, the impact on the number of itemizers was different for single and joint returns. There were approximately 15.6 million single filers and 26 million joint filers who itemized in 2017, or about three single itemizers for every five joint itemizers (figure A.1). The remaining 4 million itemizers were either head-of-household filers or married taxpayers filing separate returns. TPC estimates that, without the limit on the SALT deduction, the TCJA would have reduced the number of itemizers proportionately to about 8.4 million single and 13.5 million joint itemizers, keeping about the same ratio as before. The \$10,000 limit on the SALT deduction further reduced the number of itemizers. However, because the same limit applies to all taxpayers, the number of single itemizers fell to 7.6 million and the number of joint itemizers fell to 9.9 million. The smaller proportional reduction in the number of single itemizers produced a ratio of about three single itemizers for every four joint itemizers.

APPENDIX FIGURE 1



## Number of Itemizers by Filing Status, 2020



Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0319-2).

Note: These estimates are based on an economic forecast that does not include the potential effects of the economic disruption caused by COVID-19.

A revenue-neutral option that would avoid marriage penalties would be to set the SALT deduction limit to \$12,000 for joint returns and \$6,000 for all other returns. With those limits, there would be about 6.7 million single and 10.9 million joint itemizers, about the same ratio of three single for every five joint itemizers as before the TCJA.

A SALT deduction limit of \$12,000 for joint returns and \$6,000 for all other returns would raise taxes for more single filers and for fewer joint filers than the \$10,000 SALT deduction limit for all taxpayers. It would thus shift a greater share of the tax increase to single filers.



# APPENDIX

APPENDIX TABLE 1

Effect of SALT Deduction Limits by Filing Status and Expanded Cash Income Percentiles, 2020



Expanded Cash Income Percentile <sup>a</sup>	\$10,000 SALT Deduction Limit				\$12,000 SALT Deduction Limit for Joint Filers; \$6,000 Limit for all Other Returns			
	With Tax Increase <sup>b</sup>		Percent Change in After-Tax Income <sup>c</sup>	Share of Total Federal Tax Change	With Tax Increase <sup>b</sup>		Percent Change in After-Tax Income <sup>c</sup>	Share of Total Federal Tax Change
	Pct of Tax Units	Avg Tax Change (\$)			Pct of Tax Units	Avg Tax Change (\$)		
<b>Single Filers</b>								
Lowest Quintile	*	*	*	*	*	290	*	*
Second Quintile	0.4	270	*	*	*	180	*	*
Middle Quintile	1.8	280	*	0.1	2.4	300	*	0.2
Fourth Quintile	6.9	450	-0.1	0.6	10.5	580	-0.1	1.1
Top Quintile	33.1	3,460	-0.7	14.3	42.0	3,330	-0.9	17.4
All	5.2	2,520	-0.3	15.0	6.8	2,380	-0.4	18.8
<i>Addendum</i>								
80-90 Percentile	19.9	700	-0.1	1.0	28.6	949	-0.3	2.0
90-95 Percentile	37.4	1,220	-0.3	1.3	49.4	1,446	-0.5	2.1
95-99 Percentile	64.3	3,100	-0.9	3.9	70.3	3,599	-1.1	5.0
Top 1 Percent	87.3	23,380	-1.9	8.0	88.3	24,165	-2.0	8.4
Top 0.1 Percent	89.2	93,520	-1.8	3.6	89.7	94,091	-1.9	3.7
<b>Married Filing Jointly</b>								
Lowest Quintile	0.0	0.0	0.0	0.0	0.0	1,680	0.0	0.0
Second Quintile	0.3	290	0.0	0.0	0.3	160	*	*
Middle Quintile	2.8	350	0.0	0.2	2.5	320	*	0.1
Fourth Quintile	11.5	750	-0.1	1.9	10.6	640	-0.1	1.5
Top Quintile	44.8	6,170	-0.9	76.9	43.1	6,070	-0.9	73.0
All	17.5	5,090	-0.6	79.0	16.7	5,030	-0.6	74.6
<i>Addendum</i>								
80-90 Percentile	27.1	1,200	-0.2	4.3	25.1	1,060	-0.2	3.5
90-95 Percentile	46.3	2,070	-0.4	6.9	44.7	1,850	-0.4	5.9
95-99 Percentile	71.0	4,990	-1.0	21.1	70.1	4,676	-0.9	19.5
Top 1 Percent	91.5	34,090	-1.9	44.6	90.8	33,788	-1.9	43.9
Top 0.1 Percent	93.1	151,770	-1.9	18.9	92.9	151,399	-1.9	18.9
<b>Total</b>	<b>10.5</b>	<b>4,380</b>	<b>-0.5</b>	<b>94.0</b>	<b>11.1</b>	<b>4,110</b>	<b>-0.5</b>	<b>93.3</b>

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0319-2).

Notes: Calendar year. These estimates are based on an economic forecast that does not include the potential effects of the economic disruption caused by COVID-19. Baseline is 2020 law as of March 17, 2020 with no SALT cap. It does not include the Coronavirus Aid, Relief, and Economic Security Act or subsequent legislation. For more information on TPC's baseline definitions see <http://www.taxpolicycenter.org/taxtopics/Baseline-Definitions.cfm>. The income percentile classes used in this table are based on the income distribution for the entire population and contain an equal number of people, not tax units. The breaks are (in 2019 dollars): 20% \$25,700; 40% \$51,300; 60% \$92,300; 80% \$167,000; 90% \$245,000; 95% \$348,000; 99% \$828,000; 99.9% \$3,708,100.

<sup>a</sup> Includes both filing and nonfiling units but excludes those that are dependents of other tax units. Tax units with negative adjusted gross income are excluded from their respective income class but are included in the totals. For a description of expanded cash income, see <http://www.taxpolicycenter.org/TaxModel/income.cfm>.

<sup>b</sup> Includes tax units with a change in federal tax burden of \$10 or more in absolute value. This proposal does not result in a tax decrease for any units.

<sup>c</sup> After-tax income is expanded cash income less: individual income tax net of refundable credits; corporate income tax; payroll taxes (Social Security and Medicare); estate tax; and excise taxes.

\* Non-zero value rounded to zero

The \$10,000 SALT deduction limit raises taxes for 5.2 percent of single filers and 17.6 percent of married couples filing a joint return compared with current law without the SALT deduction limit. Singles pay about 15 percent of the total tax increase; joint filers pay 79 percent (table A.1). The remainder is paid by head-of-household filers and married taxpayers choosing to file separate returns. A SALT deduction limit of \$12,000 for

## APPENDIX

joint filers and \$6,000 for all other filers would increase taxes for 6.8 percent of single filers and 16.7 percent of joint filers, again, relative to current law without a SALT deduction limit. With these separate SALT deduction limits, single filers would pay 18.8 percent of the tax increase and joint filers would pay 74.6 percent.

## NOTES

- <sup>1</sup> Howard Gleckman, “High-Income Households Would Benefit Most From Repeal of the SALT Deduction Cap,” *TaxVox*, September 24, 2018.
- <sup>2</sup> See “Governor Cuomo and Comptroller DiNapoli Deliver Update on State Revenues and the Impact of SALT,” Office of the Governor of New York, February 4, 2019.
- <sup>3</sup> See *State of New York, et al. v. Mnuchin et al.*, Civil Action No. 18-cv-6427 (S.D.N.Y., July 17, 2018).
- <sup>4</sup> See “States Seek Workarounds to SALT Deduction Limitation,” CCHTaxGroup Tax & Accounting Blog, June 20, 2019.
- <sup>5</sup> In the appendix, we compare the effects of the current SALT deduction limit to a revenue equivalent limit that would apply different caps for married and single taxpayers to avoid the marriage penalty in the current law.
- <sup>6</sup> These estimates are based on an economic forecast that does not include the potential effects of the economic disruption caused by COVID-19. The baseline is 2020 law as of March 17, 2020. It does not include the Coronavirus Aid, Relief, and Economic Security Act or subsequent legislation.
- <sup>7</sup> See Robert McClelland, “Anybody Can Itemize Their Deductions. But Most Don’t Want To,” *TaxVox*, September 5, 2019.
- <sup>8</sup> Some taxpayers may continue to itemize in some years but not others by bunching their deductions, such as by making charitable contributions that they would have made over several years in a single year. Donor-advised funds (DAFs), a fast-growing part of the charitable sector, enable taxpayers to bunch their contributions for tax purposes but spread out the actual amounts provided to charities over many years. Donors receive an immediate tax deduction for contributions to DAFs but can recommend grants to charities over any number of years. DAFs have no annual distribution requirement.
- <sup>9</sup> The sum of the estimated cost of itemized deductions significantly overstates the potential revenue gain from eliminating the deductions. If itemized deductions were eliminated one-by-one, removing each additional deduction after the first would raise less revenue than the estimated tax expenditure cost because more taxpayers would have switched to taking the standard deduction. There would be no revenue gain from taxpayers who had already switched to claiming the standard deduction and a smaller revenue gain from those who continued to itemize but whose itemized deductions were now only slightly greater than the standard deduction.
- <sup>10</sup> See Joseph E. Thorndike, “Charity Deductions Are for the Rich — and That Was Always the Plan,” *Tax Notes*, September 16, 2019.
- <sup>11</sup> For a more general evaluation of overall limits on tax expenditures, see Toder, Rosenberg, and Eng (2013).
- <sup>12</sup> This option would not change current tax rates for long-term capital gains and qualified dividends or the rates for the alternative minimum tax.
- <sup>13</sup> The options raise a similar amount of revenue in 2020 as the \$10,000 SALT deduction limit, but the 10-year revenue amounts would differ. Because the \$10,000 limit is not indexed for inflation, revenue from the SALT deduction cap would grow faster than revenue from a cap on all itemized deductions that was indexed to the consumer price index. And revenue from the latter cap would grow faster than revenue from options, such as the AGI limit, that are effectively indexed to the growth in incomes instead of prices.
- <sup>14</sup> For a description of the Tax Policy Center’s microsimulation model and the database used to make the estimates see “Brief Description of the Tax Model,” Tax Policy Center, last updated August 23, 2018.
- <sup>15</sup> The state rankings and estimates for each state are available in [supplemental tables](#).
- <sup>16</sup> The seven states without personal income taxes are Alaska, Florida, Nevada, South Dakota, Texas, Washington, and Wyoming.
- <sup>17</sup> The TPC tax model uses imputed state weights for the 50 states and the District of Columbia derived from published Internal Revenue Service tax return data by state to make the tax model database representative of each state. For more information, see Khitatrakun, Mermin, and Francis (2016).

## NOTES

- <sup>18</sup> The 15.4 percent average marginal tax saving is dollar-weighted. The return-weighted average marginal tax saving would be about half as large.
- <sup>19</sup> The Coronavirus Aid, Relief, and Economic Security (CARES) Act allows taxpayers who do not itemized deductions to claim an “above-the-line” deduction for up to \$300 of cash charitable donations on their 2020 federal income tax return.
- <sup>20</sup> Small changes in the subsidy rate reflect a reduction in the number of itemizers with the SALT deduction limit in place.
- <sup>21</sup> For an evaluation of the arguments for and against limiting the SALT deduction, see Hemel (forthcoming).
- <sup>22</sup> For more about marriage penalties and bonuses, see Frank Sammartino, “A Valentine’s Day Gift: An Updated Marriage Bonus And Penalty Tax Calculator.” *TaxVox*, February 14, 2020.
- <sup>23</sup> A couple with children can still face a marriage penalty because single parents can use the head-of-household filing status and because earned income tax credit benefits (and other tax credits) are not completely marriage neutral.

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