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# The Limitation on Itemized Deductions in H.R. 1, the One Big Beautiful Bill Act (House-Passed Version)

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# The Limitation on Itemized Deductions in H.R. 1, the One Big Beautiful Bill Act (House-Passed Version)

SUMMARY

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June 16, 2025

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Itemized deductions are a type of tax benefit that allow certain taxpayers to reduce their *taxable incomes*, or the amount of income subject to taxation. Itemized deductions may only be claimed by taxpayers not using the *standard deduction*, which is the most common deduction in the federal income tax. For tax year 2025, the standard deduction amount is $15,000 for single filers and $30,000 for married couples, meaning that only taxpayers with itemizable deductions above these amounts find it beneficial to itemize.

Itemized deductions disproportionately benefit high-income taxpayers for two reasons. First, itemized deduction amounts are proportional to certain expenses, most notably state and local tax payments, charitable contributions, and mortgage interest payments: high-income taxpayers are the most likely to have itemizable expenses greater than the standard deduction amount, and therefore are disproportionately likely to itemize. Second, the progressive nature of the federal income tax means that high-income taxpayers benefit the most (in dollar terms) from reductions in their taxable incomes. For example, reducing taxable income by $1,000 lowers tax payments by $370 for taxpayers in the top 37% marginal tax bracket, whereas the same deduction lowers tax payments by $100 for taxpayers in the bottom 10% marginal tax bracket. The Tax Policy Center estimates that in 2025, 54.8% of the reduction in tax payments from itemized deductions will flow to taxpayers with incomes of $1 million or more (the top 0.8% of the income distribution).

Prior to the enactment of P.L. 115-97 (commonly referred to as the Tax Cuts and Jobs Act or TCJA), a rule known as the *Pease limitation* reduced the amount of itemized deductions available to taxpayers with incomes above certain thresholds ($261,500 for single filers and $313,800 for married couples in 2017). In 2017, the Pease limitation reduced deductions (i.e., raised taxes) for 97% of taxpayers with incomes of $10 million or more; their deductions were reduced by an average of $835,537. The TCJA repealed the Pease limitation for tax years 2018-2025, but also repealed some itemized deductions and placed limits on other itemized deductions, most notably capping the state and local tax deduction at $10,000 per tax unit.

This report describes a new proposed limitation on itemized deductions in Section 110011 of H.R. 1 (as passed by the House on May 22, 2025), the budget reconciliation bill titled the One Big Beautiful Bill Act. H.R. 1 would permanently repeal the Pease limitation and establish a new limitation on taxpayers' total itemized deductions. The new limitation has two components that would reduce itemized deductions. First, starting in tax year 2026, the new limitation would reduce taxpayers' itemized deductions by the lesser of two amounts:

- 5/37ths of all SALT deductions and other deductions claimed under Section 164 of the Internal Revenue Code (IRC); or
- 5/37ths of the amount by which *taxable income plus all itemized deductions* exceeds the income cutoff for the top marginal tax rate.

Second, H.R. 1 would also reduce taxpayers' itemized deductions by the lesser of two amounts, starting in 2026:

- 2/37ths of all itemized deductions not claimed under Section 164 of the IRC; or
- 2/37ths of the amount by which *taxable income plus all itemized deductions* exceeds Section 164 deductions plus the income cutoff for the top marginal tax rate.

The proposed limitation on itemized deductions would only apply to taxpayers in roughly the top 1% of the income distribution. Considered in their totality, these provisions would reduce itemized deductions for taxpayers with incomes above the cutoff for the top marginal income tax rate. For 2025, the top marginal tax rate only applies to single filers with taxable incomes above $626,350 and to married couples with taxable incomes above $751,600.

The proposed limitation is one part of a broader set of proposed reforms to itemized deductions in H.R. 1 that are collectively projected to raise roughly $830 billion of additional revenues over the next decade if enacted. These savings would offset roughly 26% of the deficit-increasing aspects of the bill, bringing H.R. 1's 10-year fiscal cost down from $3.25 trillion to $2.42 trillion. By capping itemized deductions for high-income taxpayers, the proposed limitation would raise tax revenues in

a progressive fashion. The limitation would also reduce the incentives for high-income households to donate to charity or take out mortgage debt, as incurring such expenses would no longer provide the same tax deductions as under current law.

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On May 22, 2025, the House of Representatives approved H.R. 1, the One Big Beautiful Bill Act, which would substantially modify the federal income tax code. The Joint Committee on Taxation (JCT) estimates that the tax reforms in H.R. 1 would reduce federal revenues by $3.8 trillion over 10 years (relative to a current-law baseline), with high-income households generally receiving larger tax cuts than low- or middle-income households.[1]

Though the reforms in H.R. 1 would collectively reduce high-income federal tax collections, some provisions in H.R. 1 would increase rather than decrease taxes for high-income households. One such reform is the proposed limitation on itemized deductions in Section 110011 of the bill. This report describes itemized deductions and the former Pease limitation on such deductions. The report then illustrates how the newly proposed limitation would affect high-income taxpayers.

# Taxable Income and Tax Deductions

## Types of Tax Deductions

*Deductions* allow taxpayers to reduce their taxable incomes, thus lowering the amount they owe in taxes. For example, an individual earning $100,000 and qualifying for a $20,000 deduction would pay the same income taxes as someone earning $80,000 but not receiving a deduction.

There are four broad types of federal tax deductions:

- *Above-the-line deductions* allow taxpayers to deduct certain expenses, with some of the most common being student loan interest payments, alimony payments, individual retirement account contributions, and health savings account contributions.
- *The standard deduction* allows taxpayers who do not itemize their deductions to reduce their taxable income by a flat amount. For tax year 2025, the standard deduction is $15,000 for single taxpayers and $30,000 for married couples.[2] "Additional" standard deduction amounts (i.e., larger deductions) are available for seniors, the blind, and victims of certain natural disasters.[3]
- *Itemized deductions* allow taxpayers to deduct certain expenses, but unlike above-the-line deductions, they may only be claimed by taxpayers not utilizing the standard deduction.[4]
- *The qualified business income (QBI) deduction* allows individuals and couples to exempt 20% of their QBI income from the personal income tax, subject to certain

[1] Joint Committee on Taxation (JCT), *Distribution of the Estimated Revenue Effects of Tax Provisions to Provide for Reconciliation of the Fiscal Year 2025 Budget as Passed by the House of Representatives on May 22, 2025*, June 9, 2025, JCX-27-25; JCT, *Distribution of Returns' Estimated Tax Change from the Tax Provisions to Provide for Reconciliation of the Fiscal Year 2025 Budget as Passed by the House of Representatives on May 22, 2025*, June 10, 2025, JCX-28-25; JCT, *Estimated Revenue Effects of Tax Provisions to Provide for Reconciliation of the Fiscal Year 2025 Budget as Passed by the House of Representatives on May 22, 2025*, June 2, 2025, JCX-26-25R.

[2] CRS Report RL34498, *Federal Individual Income Tax Brackets, Standard Deduction, and Personal Exemption: 1988 to 2025*, by Brendan McDermott.

[3] CRS Report RL34498, by Brendan McDermott; Internal Revenue Service (IRS), *Topic No. 551, Standard Deduction*, updated January 2, 2025, https://www.irs.gov/taxtopics/tc551. The extra standard deduction for victims of federally declared natural disasters is in place through the end of tax year 2025.

[4] CRS Insight IN12517, *Selected Issues in Tax Reform: Itemized Deductions*, by Nicholas E. Buffie.

restrictions.[5] The QBI deduction was enacted in 2017 by P.L. 115-97 (commonly referred to as the Tax Cuts and Jobs Act or TCJA) and is scheduled to expire at the end of 2025.[6]

The Internal Revenue Service's (IRS's) various measures of income incorporate taxpayer deductions in different ways.[7] These disparate measures at times lead to confusion about the amount of income earned by taxpayers and the relative burden of federal income taxes. The income measures reported by the IRS are as follows:

- *Gross income*—This is the most comprehensive IRS measure of income, as it includes all income reported on federal tax returns. Gross income includes almost all forms of cash income[8] but does not include certain noncash forms of compensation (e.g., employer contributions to a worker's health insurance plan).
- *Adjusted gross income (AGI)*—This measure of income is equivalent to *gross income minus above-the-line deductions*.[9] For most taxpayers, AGI is the same as gross income—as noted in **Table 1**, 21% of taxpayers claimed above-the-line deductions in 2022.
- *Taxable income*—This measure of income is equivalent to *AGI minus the QBI deduction and either the standard deduction or all itemized deductions*. Federal income taxes are levied only on taxpayers' taxable incomes.

**Table 1** shows the shares of taxpayers benefiting from each type of deduction in 2022. High-income taxpayers disproportionately claimed above-the-line deductions, itemized deductions, and the QBI deduction, while low-income taxpayers disproportionately claimed the standard deduction. Approximately 98% of taxpayers earning less than $50,000 claimed the standard deduction, whereas 87% of taxpayers earning $10 million or more itemized their deductions.

**Table 1. Share of Taxpayers Claiming Each Type of Deduction, by AGI, Tax Year 2022**

| Adjusted Gross Income (AGI) Ranges | Above-the-Line Deduction(s) | Standard Deduction | Itemized Deduction(s) | Qualified Business Income Deduction |
|---|---|---|---|---|
| Below $50,000 | 19% | 98% | 2% | 8% |
| $50,000 to $100,000 | 20% | 90% | 10% | 16% |
| $100,000 to $500,000 | 27% | 78% | 22% | 32% |
| $500,000 to $1 Million | 39% | 46% | 54% | 59% |
| $1 Million to $10 Million | 49% | 31% | 69% | 74% |
| $10 Million and Over | 56% | 13% | 87% | 75% |
| **All Taxpayers** | **21%** | **90%** | **10%** | **16%** |

[5] CRS In Focus IF12838, *Selected Issues in Tax Policy: Section 199A Deduction for Pass-Through Business Income*, by Mark P. Keightley.

[6] CRS In Focus IF12838, *Selected Issues in Tax Policy: Section 199A*, by Mark P. Keightley.

[7] These definitions are described in greater detail in CRS Report RL30110, *Federal Individual Income Tax Terms: An Explanation,* by Mark P. Keightley and Brendan McDermott.

[8] Some excluded forms of cash income are means-tested government transfers and interest paid on tax-exempt bonds.

[9] The IRS sometimes uses a measure of income known as *modified adjusted gross income (MAGI)*, which tweaks the definition of AGI in minor ways for purposes of a particular tax credit or deduction. See, for example, the MAGI description in CRS In Focus IF12570, *Clean Vehicle Tax Credit Transfers to Car Dealers*, by Nicholas E. Buffie.

**Source:** CRS calculations based on data from IRS Statistics of Income Table 1.4, 2022, available at https://www.irs.gov/statistics/soi-tax-stats-individual-statistical-tables-by-size-of-adjusted-gross-income.

**Notes:** Table does not include taxpayers with zero or negative incomes.

## Itemized Deductions: Distributional Impact and Most Frequently Deducted Expenses

Both the standard deduction and itemized deductions allow taxpayers to reduce the amount of income subject to taxation. For example, for tax year 2025, if a married couple earning $100,000 claimed the $30,000 standard deduction, they would only pay taxes on $70,000 of income.

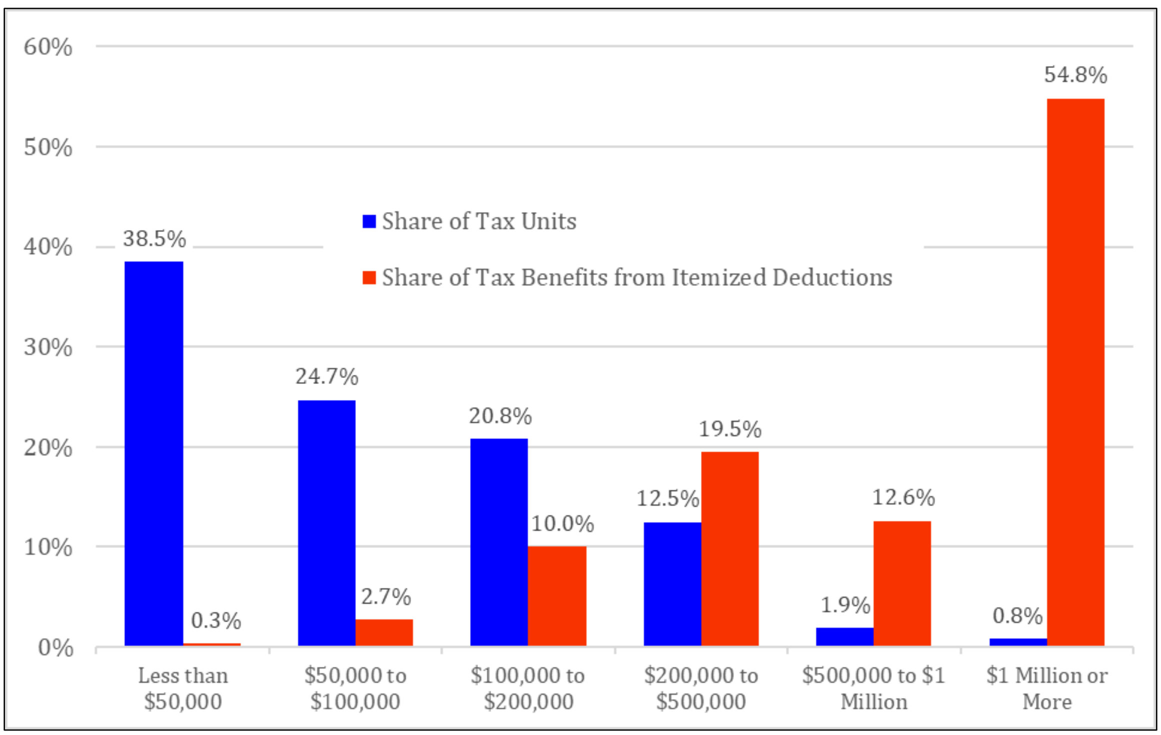
In general, taxpayers only benefit from itemizing their deductions if their itemizable expenses are greater than the standard deduction amount. Because high-income individuals generally have the highest itemizable expenses, they are more likely than other taxpayers to itemize their deductions.

Deductions also disproportionately benefit high-income individuals due to the progressive nature of the federal income tax. For example, a taxpayer in the highest 37% marginal tax bracket would use a $1,000 deduction to reduce tax liability by $370, whereas a taxpayer in the lowest 10% marginal bracket would use a $1,000 deduction to reduce tax liability by $100.

**Figure 1** shows the regressive distributional benefits of itemized deductions. For 2025, tax units with incomes of $1 million or more—representing 0.8% of all tax units—are projected to reap 55% of the tax benefits (i.e., the lowered tax payments) from itemized deductions.

**Figure 1. Distribution of Benefits from Itemized Deductions**

Share of tax units vs. share of tax benefits from itemized deductions, by cash income level, 2025




**Source:** Urban-Brookings Tax Policy Center, Model Estimate T25-0164, May 7, 2025, available at https://taxpolicycenter.org/model-estimates/t25-0164-tax-benefit-itemized-deductions-expanded-cash-income-level-2025.

**Notes:** Figure includes both filing and nonfiling tax units, but excludes dependent tax units and tax units with negative adjusted gross incomes.

Taxpayers who itemize their deductions, sometimes referred to as *itemizers*, may claim deductions for all expenses listed on Schedule A of IRS Form 1040.[10] In recent decades, the three most commonly claimed itemized deductions have been for state and local tax (SALT) payments, charitable contributions, and mortgage interest payments.[11] These three deductions constitute more than three-quarters of the itemized deduction amounts claimed by itemizers.[12] The percentages of itemizers claiming each deduction fluctuate over time,[13] though in most years, the SALT deduction is claimed by approximately 99% of itemizers, and the deductions for mortgage interest and charitable contributions are claimed by roughly 80% of itemizers.[14] The tax benefits of these deductions, however, are still relatively concentrated: taxpayers in the top third of the income distribution (those earning $100,000 or more) received 98.4% of the benefits of the charitable contributions deduction, 94.6% of the benefits of the mortgage interest deduction, and 92.9% of the benefits of the SALT deduction in 2024, according to estimates from the JCT.[15]

Other itemized deductions are also available, though they are not claimed as frequently and do not have as significant an effect on federal revenues.[16]

# The Pease Limitation on Itemized Deductions

Prior to tax year 2018, the *Pease limitation* reduced a taxpayer's itemized deductions by 3% of the difference between the taxpayer's AGI and a threshold amount ($261,500 for single filers and $313,800 for married couples in 2017).[17] The Pease limitation could not reduce a taxpayer's itemized deductions more than 80%, and it did not apply to the deductions for wagering losses, casualty and theft losses, out-of-pocket medical and dental expenses, or investment interest.[18] Because *additional income* reduced taxpayers' itemized deductions under the Pease limitation, and this additional income was taxable, the Pease limitation was effectively a surtax of roughly 1% on income above the threshold amounts.[19]

**Table 2** shows that in 2017, the Pease limitation reduced deductions (i.e., raised taxes) for 97% of taxpayers with incomes of $10 million or more; their deductions were reduced by an average of $835,537. By contrast, no taxpayers with incomes below the threshold amounts (noted above)

[10] Schedule A for IRS Form 1040 is available at https://www.irs.gov/forms-pubs/about-schedule-a-form-1040.

[11] Chenxi Lu, *The Rise and Fall of Itemized Deductions*, Tax Policy Center, August 10, 2016, https://taxpolicycenter.org/taxvox/rise-and-fall-itemized-deductions; CRS Report R43012, *Itemized Tax Deductions for Individuals: Data Analysis*, by Sean Lowry; and CRS Insight IN12517, *Selected Issues in Tax Reform: Itemized Deductions*, by Nicholas E. Buffie.

[12] Chenxi Lu, *The Rise and Fall of Itemized Deductions*, Tax Policy Center, August 10, 2016, https://taxpolicycenter.org/taxvox/rise-and-fall-itemized-deductions.

[13] This is especially true for the mortgage interest deduction, which can be affected by changes in housing prices.

[14] CRS Report RL32781, *Federal Deductibility of State and Local Taxes*, by Grant A. Driessen; CRS Report R46429, *An Economic Analysis of the Mortgage Interest Deduction*, by Mark P. Keightley; Tax Policy Center, *What Are Itemized Deductions and Who Claims Them?*, January 2024, https://taxpolicycenter.org/briefing-book/what-are-itemized-deductions-and-who-claims-them.

[15] JCT, *Estimates of Federal Tax Expenditures for Fiscal Years 2024-2028*, December 11, 2024, JCX-48-24.

[16] CRS Report R43012, *Itemized Tax Deductions for Individuals: Data Analysis*, by Sean Lowry.

[17] CRS Insight IN12517, *Selected Issues in Tax Reform: Itemized Deductions*, by Nicholas E. Buffie.

[18] 26 U.S.C. §68.

[19] Michael Kitces, "How PEP and Pease Don't Actually Penalize Deductions, They're Just 1% Surtaxes on Income," *Nerd's Eye View* (blog), November 25, 2015, https://www.kitces.com/blog/how-the-personal-exemption-phaseout-pep-and-pease-limitation-are-really-just-1-income-surtaxes/.

were affected by the limitation. The TCJA repealed the Pease limitation for tax years 2018-2025.[20]

**Table 2. The Impact of the Pease Limitation, by Adjusted Gross Income (AGI), 2017**

| Taxpayer AGI Range | Percentage Claiming the Standard Deduction | Percentage Claiming Itemized Deductions | | |
|---|---|---|---|---|
| | | *Not Affected by Pease Limitation* | *Deductions Reduced by Pease Limitation* | *Average Reduction in Itemized Deductions[a]* |
| Less than $100,000 | 80.1% | 19.9% | 0.0% | N/A |
| $100,000 to $500,000 | 20.0% | 72.7% | 7.3% | $2,242 |
| $500,000 to $1 Million | 7.0% | 0.0% | 93.0% | $10,939 |
| $1 Million to $5 Million | 9.0% | 0.1% | 90.9% | $44,931 |
| $5 Million to $10 Million | 5.3% | 0.0% | 94.7% | $182,517 |
| $10 Million or More | 2.9% | 0.1% | 97.0% | $835,537 |
| **All Taxpayers** | **68.9%** | **28.9%** | **2.2%** | **$16,476** |

**Source:** IRS Statistics of Income Tables 1.4 and 2.1, available at https://www.irs.gov/statistics/soi-tax-stats-individual-statistical-tables-by-size-of-adjusted-gross-income.

**Notes:** Table excludes taxpayers with zero or negative incomes. Values are displayed in nominal 2017 dollars.

a. Average is restricted to taxpayers affected by the Pease limitation.

# The Proposed Limitation on Itemized Deductions

Section 110011 of H.R. 1, the One Big Beautiful Bill Act, would permanently repeal the Pease limitation starting in 2026. Instead, H.R. 1 would place two new restrictions on itemized deductions for taxpayers whose AGIs are above the income threshold for the top marginal tax rate. Because the threshold for the top marginal rate is based on *taxable income*, whereas the proposed restrictions apply to taxpayers with *AGIs* above the threshold, some taxpayers not currently paying the top marginal rate would be affected by the restrictions. However, as discussed below, the number of affected taxpayers would still be relatively small.

For further discussion of the definitions of taxable income and AGI—two concepts that are critical to understanding the proposed restrictions—see this report's section on "Types of Tax Deductions."

## The 5/37ths Reduction for Section 164 Taxes Paid

H.R. 1 would reduce taxpayers' itemized deductions by the lesser of two amounts, starting in tax year 2026:

- 5/37ths of all deductions claimed under Section 164 of the Internal Revenue Code (IRC); or
- 5/37ths of the amount by which *taxable income plus all itemized deductions* exceeds the income cutoff for the top marginal tax rate. (This report uses the terms *income threshold* and *income cutoff* interchangeably.)

[20] CRS Report R47846, *Reference Table: Expiring Provisions in the "Tax Cuts and Jobs Act" (TCJA, P.L. 115-97)*, by Donald J. Marples and Brendan McDermott.

Section 164 allows households to reduce their taxable federal incomes by the amounts of certain other tax payments (i.e., tax payments other than the federal income tax).[21] This includes state and local taxes, generation-skipping transfer taxes, the employee portion of federal payroll taxes, and certain taxes paid to foreign governments.[22] The state and local tax (SALT) deduction in Section 164 is the most commonly claimed itemized deduction (claimed by 99% of itemizers), and its benefits are narrowly concentrated in the top one-third of the income distribution.[23]

The 5/37ths reduction would only apply to deductions claimed under Section 164. If a taxpayer claims other itemized deductions but not a Section 164 deduction, the amount described in the first bulleted provision would be $0, so the taxpayer's itemized deductions would not be reduced.

The second bulleted provision ensures that itemized deductions will only be reduced for taxpayers with AGIs above the cutoff for the top marginal tax bracket. If such taxpayers claim itemized deductions under both Section 164 and other sections of the IRC, their deductions will be reduced by 5/37ths of their Section 164 deduction amounts. If a taxpayer claims only Section 164 deductions, the taxpayer's itemized deductions will be reduced by 5/37ths of the amount of such deductions above the income cutoff for the top marginal rate.

For taxpayers in the 37% marginal tax bracket claiming a $10,000 SALT deduction, this first reduction would cause federal income tax obligations to rise by $500.[24]

## The 2/37ths Reduction for Other Itemized Deductions

H.R. 1 would also reduce taxpayers' itemized deductions by the lesser of two amounts, starting in tax year 2026:

- 2/37ths of all itemized deductions not claimed under Section 164 of the IRC; or
- 2/37ths of the amount by which *taxable income plus all itemized deductions* exceeds Section 164 deductions plus the income cutoff for the top marginal tax rate.

As a result of these provisions, only taxpayers with AGIs above the cutoff for the top marginal tax bracket would have their itemized deductions reduced. For such taxpayers, any itemized deductions not included in Section 164 would be reduced by 2/37ths of the amount of such deductions in excess of the income threshold for the top marginal tax bracket. For taxpayers whose taxable incomes (not only their AGIs) are above the threshold, the reduction would equal 2/37ths of all itemized deduction amounts not included in Section 164.

This restriction would apply to most itemized deductions, including the deductions for charitable contributions and mortgage interest payments; both are claimed by roughly 80% of itemizers.[25]

[21] 26 U.S.C. §164.

[22] 26 U.S.C. §164. For more information on the specific taxes deducted and special rules regarding their deductibility, see CRS Report RL32781, *Federal Deductibility of State and Local Taxes*, by Grant A. Driessen; CRS Report R47062, *Payroll Taxes: An Overview of Taxes Imposed and Past Payroll Tax Relief*, by Anthony A. Cilluffo and Molly F. Sherlock; and Troy Segal, "What Is the Generation-Skipping Transfer Tax (GSTT) and Who Pays?," Investopedia, updated October 30, 2024, at https://www.investopedia.com/terms/g/generation-skipping-transfer-tax.asp.

[23] For further elaboration of the utilization and distributional effects of the SALT deduction, see also CRS Report RL32781, *Federal Deductibility of State and Local Taxes*, by Grant A. Driessen, and CRS In Focus IF12893, Selected Issues in Tax Reform: The Deduction for State and Local Taxes, by Grant A. Driessen.

[24] In this case, the total impact on taxpayers' federal income tax liabilities is calculated as (37/100) x (5/37) x $10,000 = (5/100) x $10,000 = $500.

[25] See the section "Itemized Deductions: Distributional Impact and Most Frequently Deducted Expenses" in this report.

## Consideration of Other Restrictions on Itemized Deductions

The restrictions described above would apply after taxpayers' itemized deductions had been reduced in other ways. For example, for tax year 2025, taxpayers may claim a maximum SALT deduction of $10,000, and H.R. 1 would keep this restriction in place for taxpayers with modified adjusted gross incomes above $606,333.[26] If a taxpayer above this income cutoff paid $85,000 in state and local taxes in 2026, the taxpayer would first have the SALT deduction reduced to $10,000, then have the remaining $10,000 reduced by 5/37ths, resulting in a final SALT deduction of $8,649. In this example, the additional $76,351 of taxable income would increase the taxpayer's final income tax bill by $28,250.

## Examples of Hypothetical Taxpayers

These restrictions would apply to a relatively small percentage of taxpayers. For tax year 2025, the top marginal tax rate of 37% applies to

- single filers with taxable incomes above $626,350;
- head of household filers[27] with taxable incomes above $626,350;
- married couples filing separate tax returns with taxable incomes above $375,800; and
- married couples filing joint tax returns with taxable incomes above $751,600.[28]

In 2022, the most recent year for which full data are available, 0.7% of taxpayers paid the top marginal tax rate.[29] This included 1.7% of married couples filing joint returns, 1.3% of married couples filing separate returns, and 0.2% of single filers and head of household filers.[30]

While the proposed restrictions on itemized deductions would apply to taxpayers with AGIs (not only taxable incomes) above the relevant cutoffs for the top marginal tax bracket, the share of affected taxpayers is unlikely to deviate substantially from the 0.7% estimate cited above. IRS data indicate that 1% of tax filers had AGIs above $663,164 in 2022.[31] Given that other statistical agencies have reported average nominal income growth of 15% to 16% over the past three years,

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[26] CRS Report R48550, Tax Provisions in H.R. 1, the One Big Beautiful Bill Act: House-Passed Version, coordinated by Anthony A. Cilluffo, and CRS Report R46246, *The SALT Cap: Overview and Analysis*, by Grant A. Driessen.

[27] Head of household filers are single taxpayers with dependents. Dependents are most often the taxpayer's child(ren) but can also be elderly parents, adult children with disabilities, and other individuals who depend on the taxpayer for financial support (hence the term *dependent*). For further elaboration of who counts as a dependent for tax purposes, see IRS, "Dependents," February 27, 2025, https://www.irs.gov/credits-deductions/individuals/dependents; Shannon Mok, *How Dependents Affect Federal Income Taxes*, Congressional Budget Office, January 23, 2020, https://www.cbo.gov/publication/56004.

[28] CRS Report RL34498, *Federal Individual Income Tax Brackets, Standard Deduction, and Personal Exemption: 1988 to 2025*, by Brendan McDermott.

[29] Calculation based on data from IRS Statistics of Income Table 3.4, 2022, available at https://www.irs.gov/statistics/soi-tax-stats-individual-statistical-tables-by-tax-rate-and-income-percentile. Form 8615 tax filers are excluded from this calculation.

[30] Calculations based on data from IRS Statistics of Income Table 3.4, 2022, available at https://www.irs.gov/statistics/soi-tax-stats-individual-statistical-tables-by-tax-rate-and-income-percentile. Form 8615 tax filers are excluded from these calculations.

[31] IRS Statistics of Income Tables 4.1 and 4.3, 2022, available at https://www.irs.gov/statistics/soi-tax-stats-individual-statistical-tables-by-tax-rate-and-income-percentile.

it is likely that around 1%-2% of taxpayers (probably closer to 1%) would be subject to these restrictions.[32]

The sections below provide examples of how the proposed limitation on itemized deductions would change tax payments for these types of high-income households. The examples depict different types of taxpayers (those with taxable incomes above and below the income threshold for the top marginal tax rate) claiming two combinations of deductions (SALT and other itemized deductions, and only other itemized deductions). The examples do not include taxpayers claiming only the SALT deduction; because the SALT deduction is capped at $10,000 for the highest-income taxpayers, and because the standard deduction amounts are $15,000 for single filers and $30,000 for married couples, a taxpayer eligible for only the SALT deduction would find it preferable to claim the standard deduction instead. For the sake of simplicity, none of the taxpayers in these examples claim the QBI deduction, meaning that AGI equals taxable income plus all itemized deductions in all cases.

To facilitate easier comparisons between the different scenarios, the examples are restricted to married couples filing joint returns who do not claim Section 164 deductions other than SALT. All examples are for tax year 2026, when the restrictions in H.R. 1 would first take effect. The IRS has not yet published the income thresholds for the 2026 marginal tax brackets; these examples assume that married couples will pay the top 37% rate on marginal income above $767,000, which is consistent with a combination of existing tax statutes, Congressional Budget Office (CBO) projections, and the legislative text of H.R. 1.[33]

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[32] Data from the Bureau of Economic Analysis indicate that per capita personal income grew 15.3% and gross domestic product (GDP) per capita grew 16.1% between the first quarter of 2022 and the first quarter of 2025. If AGIs for taxpayers at the 99th percentile of the AGI distribution grew at these rates, the AGI cutoff for the top 1% of taxpayers would be between $764,000 and $770,000 in 2025. A similar analysis for the 98th percentile, for which the cutoff was $438,918 in 2022, indicates that the AGI threshold for the top 2% of taxpayers would be between $506,000 and $510,000 in 2025. Given that the top marginal tax bracket applies to taxable income above $626,350 for single filers and $751,600 for married couples, with married couples being more likely than single filers to report high incomes, the share of taxpayers affected by these restrictions should be above 1% but below 2%, with the share being closer to 1%. The share of affected taxpayers may also be lower if some high-income taxpayers claim the standard deduction rather than itemized deductions.

These estimates are only a rough proxy for the share of affected taxpayers, given that AGIs for high-income taxpayers may not have grown at the same rate as overall per capita incomes. Data from IRS SOI table 4.1 indicate that the AGI shares for the highest-income 1% of taxpayers were roughly constant throughout the 2010s, then spiked in 2021 (perhaps due to factors related to COVID-19) and fell in 2022. For data on AGI inequality among tax filers from 2001 to 2022, see IRS Statistics of Income Table 4.1, 2022, available at https://www.irs.gov/statistics/soi-tax-stats-individual-statistical-tables-by-tax-rate-and-income-percentile. For data on per capita GDP growth and personal income growth, see U.S. Bureau of Economic Analysis, Personal income per capita [A792RC0Q052SBEA] and Gross domestic product per capita [A939RC0Q052SBEA], retrieved from FRED, Federal Reserve Bank of St. Louis, available at https://fred.stlouisfed.org/graph/?g=1Ju8X.

[33] For tax year 2025, married couples pay the top marginal rate on taxable income above $751,600. Under current law, this income threshold is scheduled to decrease starting in 2026. H.R. 1 would keep this income threshold in place and index it to inflation (as occurs under current law) after 2025. According to projections from the Congressional Budget Office (CBO), the measure of inflation currently described in Section 1(f)(6)(B) of the tax code is expected to be 2.1% in 2026. This would raise the income threshold for the top marginal rate to $767,116. Based on rules described in 26 U.S.C. §1(f)(7), this threshold would then be rounded down to $767,100. This report further rounds the threshold to $767,000 to simplify the calculations in this section. CBO's inflation projections are included in the January 2025 "Tax Parameters and Effective Marginal Tax Rates" file at https://www.cbo.gov/data/budget-economic-data#10.

### Taxpayer #1: Married Couple with AGI of $1 Million, a $10K SALT Deduction, and $90K of Other Itemized Deductions

In this scenario, the couple would be subject to both of H.R. 1's reductions; their SALT deduction would be reduced by 5/37ths and their other itemized deductions reduced by 2/37ths.

Without these reductions, the couple would claim $100,000 of itemized deductions and have $900,000 of taxable income.

The H.R. 1 reductions would decrease the couple's SALT deduction by 5/37ths, from $10,000 to $8,649.[34] The couple's other itemized deductions would be reduced by 2/37ths, from $90,000 to $85,135.

As a result, the couple's taxable income would rise from $900,000 to $906,216. Because the couple pays the top marginal tax rate of 37%, the additional taxable income would increase their tax liabilities by $2,300.

### Taxpayer #2: Married Couple with AGI of $800K, a $10K SALT Deduction, and $90K of Other Itemized Deductions

In this scenario, the couple would be subject to both H.R. 1 reductions; their SALT deduction would be reduced by 5/37ths, and their other itemized deductions would be reduced by 2/37ths of the amount by which their income exceeds the adjusted threshold.

Without these limitations, the couple would claim $100,000 of itemized deductions and have $700,000 of taxable income.

The first reduction would decrease the couple's SALT deduction by 5/37ths, from $10,000 to $8,649.

The couple in this scenario does not have taxable income in the top marginal tax bracket. However, the couple has AGI ($800,000) that is above the sum ($777,000) of the top marginal tax bracket threshold ($767,000) and the couple's SALT deduction ($10,000). As a result, the couple has $23,000 of other itemized deductions that will be reduced by 2/37ths, lowering their other itemized deductions from $90,000 to $88,757.

As a result, the couple's taxable income would rise from $700,000 to $702,595. Because the couple pays the second-highest marginal tax rate of 35% (the rate under both H.R. 1 and current law), their tax liabilities would rise by $908.

### Taxpayer #3: Married Couple with AGI of $770K, a $10K SALT Deduction, and $90K of Other Itemized Deductions

In this scenario, the couple would be subject to the first H.R. 1 reduction; their itemized deductions would be reduced by 5/37ths of the amount by which their income exceeds the threshold.

Without this restriction, the couple would claim $100,000 of itemized deductions and have $670,000 of taxable income.

[34] All values presented in this section and other sections describing taxpayers' itemized deductions and income tax liabilities have been rounded to the nearest dollar.

The first restriction in H.R. 1 would reduce the couple's deductions by the lesser of

- 5/37ths of all deductions claimed under Section 164 of the IRC; or
- 5/37ths of the amount by which taxable income plus all itemized deductions (in this example, this equals their AGI) exceeds the income cutoff for the top marginal tax rate.

Under the first bulleted provision above, the couple's itemized deductions could be reduced by 5/37ths of their SALT deduction, or 5/37ths of $10,000. Under the second bulleted provision above, the couple's itemized deductions could be reduced by 5/37ths of the degree to which their AGI ($770,000) exceeds the income cutoff for the top marginal tax rate ($767,000), or 5/37ths of $3,000. Because the second amount is lower than the first amount—i.e., 5/37ths of $3,000 is less than 5/37ths of $10,000—the couple's itemized deductions would be reduced by 5/37ths of $3,000. This reduction in itemized deductions would result in an additional $405 of taxable income.

Because the couple's AGI ($770,000) does not exceed the sum ($777,000) of the top marginal tax bracket threshold ($767,000) and the couple's SALT deduction ($10,000), the couple would not be subject to the second H.R. 1 reduction.

As a result, the couple's taxable income would rise from $670,000 to $670,405. Because the couple pays the second-highest marginal tax rate of 35%, the additional taxable income would increase their tax liabilities by $142.

### Taxpayer #4: Married Couple with AGI of $1 Million, No SALT Deduction, and $90K of Other Itemized Deductions

In the scenario, the couple would be subject to the second H.R. 1 reduction; their other itemized deductions would be reduced by 2/37ths. Without this limitation, the couple would claim $90,000 of itemized deductions and have $910,000 of taxable income.

Because the couple does not claim a SALT deduction, they would not be subject to the 5/37ths reduction for Section 164 taxes paid. The couple's taxable income ($910,000) is above the income cutoff for the top marginal tax rate ($767,000), so their other itemized deductions would be reduced by 2/37ths. This would increase their taxable income from $910,000 to $914,865. Because the couple is taxed at the top marginal income tax rate of 37%, their tax liabilities would increase by $1,800.

Given that 99% of itemizers claim the SALT deduction, this would not be a common scenario.

### Taxpayer #5: Married Couple with AGI of $800K, No SALT Deduction, and $90K of Other Itemized Deductions

In this scenario, the couple would be subject to the second H.R. 1 reduction; their other itemized deductions would be reduced by 2/37ths of the amount by which their income exceeds the threshold. Without this limitation, the couple would claim $90,000 of itemized deductions and have $710,000 of taxable income.

Because the couple does not claim a SALT deduction, they would not be subject to the 5/37ths reduction for Section 164 taxes paid. The couple's taxable income ($710,000) is below the income cutoff for the top marginal tax rate ($767,000), so their other itemized deductions would be reduced by 2/37ths of the difference ($33,000) between the couple's AGI ($800,000) and the income threshold for the top marginal tax bracket ($767,000). This would increase their taxable income from $710,000 to $711,784. Because the couple is taxed at the second-highest marginal tax rate of 35%, their tax liabilities would increase by $624.

Given that 99% of itemizers claim the SALT deduction, this would not be a common scenario.

## A Surtax for Some: How the Proposed Limitation Would Raise Marginal Effective Tax Rates for a Small Group of Taxpayers

For taxpayers with taxable incomes above the cutoff for the top marginal tax bracket—e.g., married couples with taxable incomes above $767,000 in the examples above—the 5/37ths and 2/37ths reductions would simply decrease taxpayers' itemized deductions. In such instances, it would be accurate to describe the reductions as a "limitation" on itemized deductions, consistent with the H.R. 1 section title "Limitation on Tax Benefit of Itemized Deductions." As noted in this report's section on "The Pease Limitation on Itemized Deductions," this is different from the Pease limitation, which was more akin to a surtax (i.e., an increase to the marginal tax rate) on high-income taxpayers than a true limitation on itemized deduction amounts.

However, for taxpayers with AGIs above the cutoff for the top marginal tax bracket but with taxable incomes below the cutoff, the "limitation" in H.R. 1 would function more like a surtax. For example, if a taxpayer in this scenario received an extra $1 of ordinary income (not long-term capital gains or qualified dividends), they would pay an additional 35¢ of income taxes because they would be in the second-highest marginal income tax bracket. But this additional $1 of income would *also* push $1 of itemized deductions over the threshold for the top income bracket; this would generally result in 2/37ths of that dollar (roughly 5.4¢) being added to the taxpayer's taxable income.[35] If these 5.4¢ were taxed at a 35% rate, the taxpayer would owe another 1.9¢ of income taxes. In total, a taxpayer receiving an additional $1 of income would pay an additional 36.9¢ of income taxes, which is an effective marginal tax rate (EMTR) of 36.9%; this is an increase of 1.9 percentage points over the taxpayer's statutory marginal rate of 35%.

Based on whether the new taxable income is taxed at a rate as high as 35% (for ordinary income) or as low as 23.8% (for long-term capital gains and qualified dividends), EMTRs for affected taxpayers could increase by 1.3-1.9 percentage points.

In effect, this would make the H.R. 1 limitation more akin to a surtax on additional income for some taxpayers—those with AGIs above the top marginal tax bracket threshold but with taxable incomes below it. The number of such taxpayers would likely be quite small. IRS data indicate that in 2022, about 903,000 taxpayers with AGIs between $500,000 and $1 million itemized their deductions.[36] On average, these 903,000 taxpayers claimed itemized deductions equivalent to 8.9% of their AGIs.[37] Taxpayers for whom the limitation is more akin to a surtax will therefore need to both (1) itemize their deductions and (2) have taxable incomes no lower than roughly $70,000 below the cutoff for the top marginal tax bracket. Assuming a linear income distribution among taxpayers with AGIs of $500,000 to $1 million, in 2022, fewer than 0.1% of taxpayers would have experienced the proposed limitation as a surtax under this set of assumptions. While the precise figures may differ somewhat for 2026, it is unlikely that more than a tiny fraction of taxpayers will experience an EMTR increase as a result of the proposed limitation on itemized deductions. For the vast majority of taxpayers affected by this policy, the proposed limitation truly does function as more of a limitation than a surtax.

[35] The calculations in this section assume that taxpayers do not claim itemized deductions only under Section 164.

[36] IRS Statistics of Income Table 2.1, 2022, available at https://www.irs.gov/statistics/soi-tax-stats-individual-statistical-tables-by-size-of-adjusted-gross-income.

[37] IRS Statistics of Income Table 2.1, 2022.

## Budgetary, Distributional, and Other Economic Effects

### Budgetary Effects

In its revenue estimate for H.R. 1, the JCT did not directly state how the proposed limitation on itemized deductions would affect federal revenues. Rather, the JCT incorporated the 5/37ths reduction into its estimate for H.R. 1's SALT changes, and it listed a separate revenue estimate for the 2/37ths reduction. The JCT also treated the repeal of the Pease limitation as being separate from the new proposed limitation in H.R. 1.

H.R. 1 places a more specific restriction on the SALT deduction.[38] Some of the restrictions include limiting the SALT deduction to $40,400 for taxpayers with modified adjusted gross incomes (MAGIs) of less than $505,000, limiting the deduction to $10,000 for taxpayers with MAGIs above $606,333, and preventing partnerships and S corporations from claiming the SALT deduction for specific taxes. The JCT estimated that these reforms, in tandem with the 5/37ths reduction, would increase federal revenues by $787 billion over 10 years (FY2025-FY2034).[39]

Separately, the JCT estimated that the 2/37ths reduction on other itemized deductions would boost federal revenues by $41 billion over the same period.[40]

The JCT did not state how such revenue gains would compare to the revenue losses from repealing the Pease limitation. However, it incorporated the revenue losses from repealing the Pease limitation into a revenue estimate for a broader set of changes to various itemized deductions.[41] Those changes are expected to cumulatively increase federal revenues by $6 billion.[42]

The JCT projects that the changes described above would raise an additional $834 billion of revenue over the course of the decade.

This number can be placed in the broader context of the reforms enacted by H.R. 1. The CBO has estimated that the other reforms in H.R. 1 would increase the 10-year deficit by $3.25 trillion.[43] The $834 billion of savings from the restrictions on SALT and other itemized deductions would reduce the bill's fiscal cost by 26%, bringing the total increase in the deficit to $2.42 trillion.[44]

### Distributional Effects

The proposed limitation on itemized deductions would raise taxes exclusively on the highest-income households. As noted in the section "Examples of Hypothetical Taxpayers," only taxpayers in roughly the top 1% of the AGI distribution would pay higher taxes as a result of the proposed restrictions. The restrictions would fall most heavily on taxpayers who currently claim

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[38] CRS Report R48550, *Tax Provisions in H.R. 1, the One Big Beautiful Bill Act: House-Passed Version*, coordinated by Anthony A. Cilluffo

[39] JCT, *Estimated Revenue Effects of Tax Provisions to Provide for Reconciliation of the Fiscal Year 2025 Budget as Passed by the House of Representatives on May 22, 2025*, June 2, 2025, JCX-26-25R.

[40] JCT, JCX-26-25R.

[41] The JCT describes that set of changes as "Extension of limitation on deduction for qualified residence interest; extension of limitation on casualty loss deduction; termination of miscellaneous itemized deductions." See JCT, JCX-26-25R.

[42] JCT, JCX-26-25R.

[43] Congressional Budget Office (CBO), *Estimated Budgetary Effects of H.R. 1, the One Big Beautiful Bill Act*, June 4, 2025, https://www.cbo.gov/publication/61461.

[44] CBO, *Estimated Budgetary Effects of H.R. 1*.

large amounts of itemized deductions and have AGIs well above the income threshold for the top marginal tax rate. The restrictions would reduce the benefits of itemized deductions for high-income taxpayers who donate to charity, make mortgage interest payments, owe state and local taxes, and/or incur other itemizable expenses.

The proposed limitation on itemized deductions may account for one of the seeming anomalies in JCT's analyses of H.R. 1. In a report estimating H.R. 1's impacts on 12 different income groups, the JCT projected that in 2027, taxpayers with incomes of at least $1 million would receive an average tax cut of 2.8 percentage points, the second-largest tax cut given to any group (measured as a share of income).[45] However, in a separate report, the JCT projected that in 2027, H.R. 1 would raise taxes for 26.6% of taxpayers with incomes of $1 million or more.[46] In the JCT's projections, taxpayers with incomes of at least $1 million would be more likely to experience a tax increase than any other income group.[47] This apparent discrepancy—that the highest-income taxpayers would receive the second-largest average tax decrease, but are also the most likely to experience a tax increase under H.R. 1—likely owes to the interaction of other tax reforms with the proposed limitation on itemized deductions. H.R. 1 would enact various tax decreases that would disproportionately benefit high-income households, including a cut in the top marginal tax rate (from 39.6% to 37%), expansion of the QBI deduction, and increased exemption amounts for both the estate tax and the alternative minimum tax (AMT).[48] The limitation on itemized deductions would mitigate some of the tax cut given to high-income taxpayers by these other provisions, such that on net, most high-income households would pay lower taxes, while some would pay higher taxes, due to the total package of tax reforms enacted under H.R. 1.

## Other Economic Effects

Apart from its direct effects on the deficit and households' tax liabilities, the proposed limitation would likely affect the economy in other ways as well. By reducing the tax benefits associated with giving to charity, taking out a mortgage, and engaging in other activities for which there are itemized tax deductions, the proposed limitation may lead to fewer charitable donations, less reliance on mortgage debt for financing home purchases, and fewer itemizable expenses among taxpayers impacted by the limitation.

The activity most likely to be affected is charitable contributions. Among taxpayers with AGIs of $1 million or more, the charitable contributions deduction constituted 66.6% of itemized deduction amounts in 2022.[49] Economic studies suggest that individuals considering charitable contributions take account of the tax deduction and give more to charity as a result.[50] However,

[45] JCT, *Distribution of the Estimated Revenue Effects of Tax Provisions to Provide for Reconciliation of the Fiscal Year 2025 Budget as Passed by the House of Representatives on May 22, 2025*, June 9, 2025, JCX-27-25. The largest tax cut would be 3.8 percentage points for taxpayers with incomes between $500,000 and $1 million. The JCT projects that the average federal tax rate would fall from 29.8% to 26.0% for taxpayers with incomes of $500,000 to $1 million, and would fall from 31.1% to 28.3% for taxpayers with incomes of $1 million or more.

[46] JCT, *Distribution of Returns' Estimated Tax Change from the Tax Provisions to Provide for Reconciliation of the Fiscal Year 2025 Budget as Passed by the House of Representatives on May 22, 2025*, June 10, 2025, JCX-28-25.

[47] JCT, JCX-28-25. The JCT projects that taxes would increase for 4.5% of all taxpayers in 2027.

[48] CRS Report R48550, *Tax Provisions in H.R. 1, the One Big Beautiful Bill Act: House-Passed Version*, coordinated by Anthony A. Cilluffo.

[49] IRS Statistics of Income Table 2.1, 2022, available at https://www.irs.gov/statistics/soi-tax-stats-individual-statistical-tables-by-size-of-adjusted-gross-income.

[50] CRS Report R45922, *Tax Issues Relating to Charitable Contributions and Organizations*, pp. 26-29 and 41-45, by Jane G. Gravelle, Donald J. Marples, and Molly F. Sherlock.

given the relative scale of the tax increases described in the section "Examples of Hypothetical Taxpayers," such changes in taxpayer behavior would likely be quite modest.

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