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INSIGHT

The 2/37ths Limitation on Itemized Deductions

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In July 2025, as part of the FY2025 reconciliation law (P.L. 119-21), Congress enacted a new limitation on itemized tax deductions for high-income taxpayers. This *Insight* describes itemized tax deductions, explains how the new limitation works, and analyzes the limitation's effects.

Itemized Deductions: Background and Distributional Impact

When Americans file their income tax returns, they may use *deductions* to exempt certain amounts of income from taxation. For example, a taxpayer with $100,000 of income who claims deductions totaling $20,000 will have a *taxable income* of $80,000.

There are four broad types of deductions: (1) above-the-line deductions; (2) the standard deduction; (3) itemized deductions; and (4) "other" deductions. Above-the-line deductions and "other" deductions may be claimed by all taxpayers, though taxpayers must claim either the standard deduction or itemized deductions. The standard deduction allows taxpayers to reduce their taxable incomes by certain amounts—$16,100 for single filers, $24,150 for head-of-household filers, and $32,200 for married couples in 2026 (amounts are adjusted annually for inflation). Itemized deductions are claimed for certain expenses paid by the taxpayer. As shown in **Table 1**, three particular expenses—charitable contributions, mortgage interest, and state and local tax (SALT) payments—constitute about three-quarters of all itemized deduction amounts.

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Table 1. Taxpayer Use of Itemized Deductions, Tax Year 2023 (Filing Year 2024)

Taxpayer Incomes	Share with Itemized Deductions	Average Itemized Deductions	Share of All Itemized Deductions Claimed			
			Charitable Contributions Deduction	Mortgage Interest Deduction	State and Local Tax Deduction	All Other Itemized Deductions
Below $50,000	2%	$32,262	11%	21%	15%	54%
$50,000 to $100,000	9%	$28,852	16%	29%	23%	31%
$100,000 to $500,000	21%	$37,717	23%	34%	24%	19%
$500,000 to $1 Million	52%	$64,654	35%	27%	15%	23%
$1 Million to $5 Million	66%	$142,579	50%	11%	7%	33%
$5 Million or More	83%	$1,361,925	68%	1%	1%	31%
All Tax Returns	**9%**	**$45,732**	**31%**	**25%**	**18%**	**27%**

Source: IRS Statistics of Income Tables 1.2, 1.4, and 2.1, accessed April 20, 2026, at https://www.irs.gov/statistics/soi-tax-stats-individual-statistical-tables-by-size-of-adjusted-gross-income.

Notes: The income concept used to rank taxpayers by income is adjusted gross income, or AGI. Average itemized deductions are per taxpayer claiming itemized deductions. Shares of all itemized deductions claimed may not sum to 100% for some income groups due to rounding.

Itemized deductions disproportionately benefit high-income taxpayers for two reasons: (1) most low- and middle-income taxpayers claim the standard deduction because they do not have high itemizable expenses; and (2) high-income taxpayers are taxed at higher marginal rates than other taxpayers, so they can reduce their tax payments more for each dollar deducted. The Tax Policy Center estimates that 43% of the tax savings from itemized deductions accrue to the top 1% of the income distribution, and 87% accrue to the top 20%.

The 2/37ths Limitation

The FY2025 reconciliation law enacted a new "2/37ths" limitation on itemized deductions. Under this limitation, which takes effect in 2026, taxpayers' total itemized deductions are reduced by 2/37ths of the lesser of

- the total value of all itemized deductions claimed; or
- the amount by which the sum of taxable income and all itemized deductions exceeds the income threshold at which the top 37% marginal tax bracket begins.

For 2026, the 37% bracket begins at $640,600 of taxable income for unmarried individuals and $768,700 for married couples filing a joint return.

This limitation effectively works such that

1. taxpayers with combined taxable income and itemized deductions below the top bracket are not affected;
2. taxpayers with taxable income below the top bracket, but with combined taxable income and itemized deductions above the bracket, have their itemized deductions reduced by 2/37ths of *(Taxable Income + Itemized Deductions – Top Bracket Income Threshold)*; and
3. taxpayers with taxable incomes above the threshold for the top bracket have their itemized deductions reduced by 2/37ths.

For example, a married couple with $1 million of taxable income and $100,000 of itemized deductions—therefore fitting criterion #3 above—would have their itemized deductions reduced by 2/37ths of $100,000, or $5,405. With a marginal tax rate of 37%, the couple would pay an additional $2,000 of income taxes.

The effect of this limitation is that taxpayers in the top bracket (37%) now receive the same benefits from itemized deductions as taxpayers in the second-highest bracket (35%). For taxpayers in the second-highest bracket, itemized deductions reduce tax payments by *35% × (Amount Deducted)*. For taxpayers in the top bracket, itemized deductions reduce tax payments by *37% × (35/37) × (Amount Deducted)*, which simplifies to *35% × (Amount Deducted)*.

The 2/37ths limitation is imposed after limitations to specific itemized deductions have already been applied. The most important application of this rule is to the SALT deduction.

Interaction with the SALT Cap

Prior to the enactment of the Tax Cuts and Jobs Act (TCJA; P.L. 115-97) in 2017, taxpayers were eligible for an unlimited SALT deduction. The TCJA capped the deduction at $10,000 per tax return from 2018 to 2025. The FY2025 reconciliation law then raised the cap to $40,000 for 2025, set it to grow 1% annually through 2029, and then permanently reverted the cap to $10,000 beginning in 2030.

For 2026, the SALT cap is $40,400. Taxpayers in the top 37% bracket have their SALT deduction reduced by 2/37ths, effectively limiting it to $38,216. As a result, the maximum SALT savings per tax return is $14,140.

The SALT deduction was used by 98.8% of taxpayers claiming itemized deductions in 2023. **Table 2** shows that among those claiming the SALT deduction, high-income taxpayers were disproportionately impacted by the $10,000 cap. The 2/37ths limitation partially blunts the impact of raising the cap, but the increase will still lead to concentrated benefits, particularly among those with annual incomes above $500,000.

Table 2. The SALT Deduction and SALT Cap in 2023, by Income Level

	Tax Returns with SALT Deduction	**Amount per Return Claiming SALT**		**SALT Dollars Above the Cap per Dollar Deducted**
		Average SALT Deduction Amount	Average Additional SALT Above the Cap	
Below $50,000	1,630,212	$5,016	$1,124	$0.22
$50,000 to $100,000	3,585,124	$6,784	$1,271	$0.19
$100,000 to $500,000	8,248,386	$9,009	$8,113	$0.90
$500,000 to $1 Million	921,762	$9,722	$39,233	$4.04
$1 Million to $5 Million	476,745	$9,738	$109,455	$11.24
$5 Million or More	66,053	$9,704	$743,676	$76.64
All Tax Returns	**14,928,282**	**$8,109**	**$14,119**	**$1.74**

Source: IRS Statistics of Income Table 2.1, accessed April 20, 2026, at https://www.irs.gov/statistics/soi-tax-stats-individual-statistical-tables-by-size-of-adjusted-gross-income.

Notes: The income concept used to rank taxpayers by income is adjusted gross income, or AGI.

Impacts of the Limitation

The 2/37ths limitation will affect government revenues and the distribution of national after-tax income.

CRS estimates that the 2/37ths limitation will generate $255 billion in federal revenue over 10 years based on analysis using the Policy Simulation Library's (PSL's) Tax-Calculator. Projected annual revenue attributable to the limitation starts at $21.5 billion in FY2026 and rises to $30.7 billion by FY2035. These projections are not official revenue estimates for "scoring" purposes or congressional budgetary rules; the Joint Committee on Taxation (JCT) is Congress's official revenue estimator, and the estimates presented here may differ from those produced by the JCT.

The revenues generated by the limitation are expected to come predominantly from the top 1% of the income distribution. **Table 3** shows the projected impacts of the limitation on taxpayers of different income levels for the 2026 tax year. The PSL's model indicates that no taxpayers in the bottom 95% of the income distribution will be affected, but roughly half (49.3%) of those in the top 1% will pay higher taxes. **Table 3** indicates that 50.7% of taxpayers in the top 1% will not be affected, 26.3% will switch from claiming itemized deductions to using the standard deduction, and 23.1% will continue claiming itemized deductions. The average projected tax increase (including those not affected by the limitation) is $0 for the bottom 95% of the income distribution, $21.50 for those between the 95th and 99th percentiles, and $11,067 for the top 1%. For the top 1%, the projected tax increase is equivalent to 0.43% of the group's adjusted gross income, which is expected to average $2.6 million in 2026.

Table 3. Distributional Impacts of the 2/37ths Limitation on Itemized Deductions, 2026

Income Distribution Percentiles	Average Adjusted Gross Income (AGI)	Share Itemizing		Share Affected by 2/37ths Limitation	Average Tax Increase	
		Without 2/37ths Limitation	With 2/37ths Limitation		Dollars	Percent of AGI
Bottom 95%	$58,339	6.1%	6.1%	0.0%	$0	0.00%
95th-99th Percentiles	$402,247	59.7%	59.7%	1.6%	$22	0.01%
Top 1%	$2,565,053	57.9%	31.6%	49.3%	$11,067	0.43%

Source: CRS estimates and calculations using the Policy Simulation Library's Tax-Calculator, accessed April 27, 2026.

Notes: Estimates include both tax filers and nonfilers for the 2026 tax year. Individuals and couples with negative incomes are included in the analysis but are counted as having $0 incomes. The average tax increase for the 95th-99th percentiles is $21.50, or approximately 0.0053% of AGI.

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