Patriotic Millionaires

CRACK THE CODE 2.0

Proposed Internal Revenue Code of 2026

TAX THE RICH. PAY THE PEOPLE. SPREAD THE POWER.

Proposed by the Patriotic Millionaires in advance of the 2025 expiration of the 2017 Tax Cuts and Jobs Act provisions related to individual taxes and the dynamic public debate that will ensue.

Crack the Code:
Proposed Internal Revenue Code of 2026

Tax the Rich.
Pay the People.
Spread the Power.

Save America.

A Proposal from
The Patriotic Millionaires

A Unique Solution for the 21st Century

We propose a new, innovative way to permanently address structural economic inequality and ensure the viability of democratic capitalism for the next 250 years. The tax code of 2025 must include **three** basic principles in order to restore the distribution of economic gains and the corresponding rebalance of political power.

- **First:** Treat all income over $1 million the same, regardless of how it is generated.
- **Second:** Ensure that no one in this country is taxed into poverty by replacing the existing standard deduction with a "cost of living" exemption that automatically adjusts to changing economic conditions, and is tied to a true cost of living wage. This should be accompanied with higher income tax rates, or a surtax, for ultra-high earners.
- **Third:** Create a constitutionally sound tax specifically designed to rein in rapidly expanding inequality and minimize the imbalance of political power.

Change is possible, and an opportunity to make significant progress is just around the corner. In 2025, most of the provisions of former President Trump's Tax Cuts and Jobs Act (TCJA) are sunsetting. In the Appendix, we've detailed our recommendations regarding the TCJA scheduled to expire in 2025 or 2026. But much more needs to be done. This is a moment to not only rectify the worst provisions of the legislation but to overhaul the existing broken system.

Rationale For The Three Core Principles

➔ Treat all income over $1 million the same, regardless of how it is generated.

Money is money is money, whether it comes from birth into the right family, an investment gain, or a bloated salary. At upper-income levels, therefore, money should all be taxed at the same rates.

Instead, our current tax code creates multiple categories of income, each defined differently, with varying forms of tax treatment. Capital gains are taxed at preferable rates, as is income from so-called "pass-through" businesses. Income from gifts and inheritances is not taxed at all. Instead, the tax code imposes gift and estate taxes on the ultra-rich under a system so loophole-ridden that it is effectively optional, even for billionaires. Paradoxically, "earned" income – or wages - is treated the most harshly of any category in the tax code. The only exception is income from the work of fund managers, many of whom are among the highest-paid people in the country. For this group, income is typically taxed at a preferential rate for capital gains through a loophole known as "carried interest." And some income – the increase in value of investments held until death and passed on to heirs – is not even taxed at all, thanks to a loophole known as stepped-up basis.

We propose that all annual income over $1 million be subject to the same income tax rates, regardless of how it is generated.

➔ Ensure that no one in this country is taxed into poverty by replacing the existing standard deduction with a "cost of living" exemption that automatically adjusts to changing economic conditions, and is tied to a true cost of living wage. This should be accompanied with higher income tax rates, or a surtax, for ultra-high earners.

The current tax code, through the standard deduction, effectively exempts income up to approximately the poverty level from income tax (the exemption for a single individual is $14,600). The poverty line is a deeply outdated measurement that does not reflect the actual cost of living, and the threshold for federal taxation should begin at the first dollar above the cost of living, ensuring that no one in this country is pushed into poverty by income taxes. This number should be determined by the government on an annual basis.

This exemption should be accompanied by replacing the existing minimum wage with a cost of living wage that actually covers basic necessary expenses for a full time worker like food, shelter, transportation, and healthcare, and income brackets should shift to reflect multiples of the cost of living wage, ensuring the brackets automatically adjust as the cost of living rises.

Finally, this exemption should be accompanied by either significant new upper-income brackets for those making over $1 million, or a surtax on high-income earners, in recognition of the fact that high-end lawyers or surgeons making $731,000 a year are not in the same economic position as people making $7 million or $70 million annually.

➔ ***Create a constitutionally sound tax specifically designed to rein in rapidly expanding inequality and minimize the imbalance of political power.***

America's system of taxing the ultra-rich has failed miserably for over four decades, producing a concentration of wealth at the top that threatens our democracy. The fundamental flaw in the tax code is that its definition of income bares little resemblance to the true income of ultra-rich Americans. Combined with massive loopholes in the way we tax the passage of wealth from one generation to the next, it creates a system where inequality gets worse with every generation, and huge sums of wealth are never taxed.

Our tax code must include provisions that directly address this existential threat to our national stability and the effective functioning of our democracy. To achieve that objective, there only are three options available: (i) a tax on the wealth of the ultra-rich, (ii) a tax on the growth in wealth of the ultra-rich, or (iii) a tax on the intergenerational transmission of wealth by the ultra-rich.

The most direct would be a tax on the wealth of ultra-rich Americans, which was the basis of the proposed OLIGARCH Act[1], a wealth tax that functions solely to constrain undue wealth concentration, where the level of taxation is tied directly to the level of inequality in the country. Over the strong objection of many legal scholars, the Supreme Court's recent opinion in *Moore v. United States* strongly suggests that the Court would rule the OLIGARCH Act unconstitutional. An additional option- a tax on the intergenerational transfer of wealth – would build upon America's existing estate tax, which is now so riddled with holes that billions of dollars can completely escape taxation, and while we are supportive of solutions to strengthen it like Senator Bernie Sanders' and Rep. Jimmy Gomez's For the 99.5% Act, the impacts of it won't be fully felt for decades, while inequality would continue to grow exponentially.

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1 https://patrioticmillionaires.org/wp-content/uploads/Oligarch-Act-Memo.pdf

In order to create an effective tax designed to rein in wealth inequality that is beyond constitutional reproach, a tax on the growth in the wealth of the ultra-rich is a better option. Two existing proposals take this approach: Senator Wyden's Billionaires Income Tax and President Biden's Billionaire Minimum Income Tax. The Patriotic Millionaires support both those proposals. However, although both those proposals are less vulnerable to constitutional challenge than a tax on wealth, we believe a tax on unrealized gains can be structured to be Constitutionally bulletproof by offering an option to pre-pay their tax on unrealized gains to avoid being taxed at significantly higher rates on those gains at the time of realization.

America Turns 250

2026 marks the beginning of America's second act. We have a choice to make. Will we acquiesce to the coming of a Second Gilded Age or challenge the concentration of wealth and power that threatens to topple our democracy?

The promise America held at its inception no longer exists for many Americans. Nearly half of American households are hanging on by their fingernails, unable to afford an unexpected expense of $400, while the richest households control fortunes that exceed $100 billion, an amount of wealth greater than that of many mid-sized cities.

Extreme wealth concentration precipitates extreme concentration of political power. The concentration of wealth is strangling our economy, while the concentration of political power is strangling our democracy.

All of this – a rigged economy, obscene wealth concentration, and the destabilizing effect it has on democracy – is fueled by our tax code.

For almost 50 years, the American tax code has been deliberately structured to ensure the benefits of the economy flow to the uber-rich at the expense of everyday working people.

President Reagan cut corporate taxes, cut the top income tax rate from 70 percent to 33 percent, more than tripled the exemption from the estate tax and cut the estate tax rate, and cut the capital gains rate from 28 percent to 20 percent. He promised the cuts would create jobs, spur growth and eventually "trickle down" to everyone else. Shockingly, that never happened.

Undeterred, politicians of both parties continued to espouse the virtues of this disproven economic philosophy.

Decades of economic mismanagement perpetrated by cutting taxes on the rich increased inequality in the United States to historic, destabilizing levels. It has also slowed economic growth and decimated America's middle class. The country is more unequal than it has been in 100 years, and it is getting worse.

The time for tinkering is over. In order to realize the promise offered at the dawn of our first 250 years, we must first unrig the tax code and rebuild it into a fair, equitable system.

America's Choice: Concentrated Wealth or Democracy

> *"We can have democracy in this country, or we can have great wealth concentrated in the hands of a few, but we can't have both."*
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> — *Louis D. Brandeis*, U.S. Supreme Court Justice, 1916-1939

The rigging of our economy started with the tax code. For decades, it has been a central driver of growing inequality in America. The so-called "Reagan-revolution" kicked off a movement that lasted six presidencies- including Clinton's and Obama's - which heaped tax cut after tax cut on the wealthiest Americans regardless of which political party was in charge.

At this point, the concentration of wealth among a relatively small number of America's most privileged citizens has become so acute that it creates a society that is unsustainable.

If we want to unrig the economy, we have to start at the same place: the tax code. As our nation enters its second 250 years, the three principles outlined above provide a stable platform on which a robust but fair economy can be built while ensuring the survival of American democracy.

APPENDIX

TAX CUTS AND JOBS ACT EXPIRING PROVISIONS

Introduction: When enacted in 2017, the Tax Cuts and Jobs Act (TCJA) contained numerous temporary provisions. The sunsetting of many of those provisions at the end of 2025 is now approaching. While some of those provisions were indeed intended to be temporary only, others were made temporary solely to achieve a better revenue score for TCJA, with the hope that they would be extended by a subsequent Congress. 2025 likely is the next time serious tax reform discussions will take place. We expect the expiring provisions of TCJA will be a significant part of the tax policy debate and will create opportunities to improve the tax code beyond where it sat pre-TCJA.

Here's our summary of the TCJA provisions expiring in 2025 or 2026, along with our recommendations on which ones should be allowed to expire, which ones extended, and additional changes we believe should be made.

The Standard Deduction and Personal Exemptions

Explanation: The TCJA substantially increased the standard deduction, while eliminating personal exemptions.[6] For taxpayers who don't itemize deductions and have incomes below the phase-out threshold for personal exemptions, those two changes largely offset one another, with the net result being a slight increase in the amount of income exempt from the federal income tax, but still an amount slightly below the poverty level.[7] Increasing the standard deduction also decreased the benefit from itemized deductions, which high-income families are more likely to claim.

The slight increase in the amount of income exempt from the federal income tax is insufficient. We believe income should not be subject to federal income tax unless it exceeds a cost of living wage, not a poverty wage.

The child tax credit, discussed below, should function to increase the income exempt from federal income tax to the cost of living wage for households that include children.

Recommendation for Expiration or Extension: We recommend the change under the TCJA to the standard deduction be extended and the suspension of the deduction for personal exemptions be made permanent.

Additional Recommendation: To reach the goal of exempting income equal to a cost of living wage from the federal income tax, we recommend that an alternative tax calculation formula available to those earning up to 200% of the cost of living wage, to exempt the cost of living wage from their adjusted gross income.

Changes to the Child Tax Credit and Deductions for Dependents

Explanation: The TCJA made a series of changes to the provisions of the tax code that reduce taxes on taxpayers with dependent children. The specific changes were as follows:

- The elimination of deductions for exemptions for dependents.
- An increase in the maximum amount of the child tax credit.

- A lowering of the earned income threshold for qualification for the child tax credit.
- An increase in the level of income above which the child tax credit is phased out.
- A capping of the refundable portion of the child tax credit.
- The creation of a reduced credit of $500 for dependents other than children under age 17.

Prior to the TCJA, filers could claim an exemption of $4,050 for themselves and each of their dependents. In place of dependent exemptions, the TCJA increased the Child Tax Credit (CTC) and created a new $500 tax credit for dependents not eligible for the CTC (as discussed below). As a result, more income was considered taxable under the TCJA than under prior law for families with children.

Regarding the child tax credit, the TCJA doubled the maximum credit amount from $1,000 to $2,000 and lowered the phase-in requirement from $3,000 in income to $2,500. For some lower-income households, these two adjustments expand access to tax credits. The TCJA also raised the phaseout threshold from $75,000 for single filers and $110,000 for joint filers to $200,000 for single filers and $400,000 for joint filers, a combination that expanded access for higher-income households.

Another provision of the TCJA created a $500 credit for any dependent, such as a child over age 16, who would not otherwise be eligible for the maximum credit amount.[10] Before the TCJA, these individuals would not have qualified for a Child Tax Credit but would have qualified for the aforementioned dependent exemption, which was eliminated by the TCJA. Dependents eligible for this credit include children aged 17 or 18 and children aged 19-24 who were in school full-time during at least five months of the year. Older dependents, as well as some children who are not US citizens, qualify for the $500 credit.

Recommendations for Expiration or Extension Related to the CTC and Deductions for Exemptions for Dependents: We recommend changes to the CTC provisions and the elimination of the deductions for exemptions for dependents be extended.

Recommended Additional Action Related to the CTC and Deductions for Exemptions for Dependents: The CTC for older children and other dependents should be increased from the $500 limit under the TCJA to $2,000. The cost of raising children doesn't taper off after age 16.

The expansion under the American Rescue Plan Act (ARPA) of the changes made to the Child Tax Credit in the TCJA should be reinstated. Those changes included an increase in the maximum CTC amount to $3,600 for children under age 6 and $3,000 for children between ages 6 and 17, full refundability of the CTC, and removal of the phase-in threshold, making the CTC fully accessible to all low-income households.

The changes made by ARPA dramatically reduced child poverty. According to available data, the ARPA's CTC changes reduced child poverty from 9.7% in 2020 to 5.2% in 2021.[11] Now that these changes have expired, an estimated 19 million children in the lowest-income households - or 1 in 4 children under the age of 17 - are ineligible for the credit.

The "Pass-Through Deduction" for Business Income

Explanation: Section 199A, the so-called "pass-through deduction," is in a category all by itself. This section provides for a deduction equal to 20 percent of "Qualified Business Income," which is defined generally as income derived from most, but not all, active businesses operated through S corporations, partnerships, and sole proprietorships, including limited liability companies taxable as S corporations, partnerships, or sole proprietorships. Under the current top marginal income tax rate of 37 percent, the pass-through deduction translates to a maximum rate of 29.6 percent on Qualified Business Income. If the top marginal rate were to increase to 39.6 percent, the pass-through deduction would translate to a maximum rate of 31.7 percent on Qualified Business Income.

Recommendation for Expiration or Extension: We recommend Section 199A be allowed to expire.

Section 199A was yet another misguided decision to identify a category of income eligible for preferential treatment.

The tax benefit of Section 199A is skewed overwhelmingly in favor of wealthy Americans. According to an analysis by the Joint Committee on Taxation [table 3],[13] over half the tax benefits of Section 199A in 2024 will flow to those with incomes over $1 million. In 2018 alone, according to IRS data reviewed by ProPublica, Michael Bloomberg, whose wealth now exceeds $100 billion, avoided over $65 million in tax from deductions under Section 199A. At that annual rate for the entire 8-year period it is in effect, Section 199A will confer a half-billion-dollar gift on Bloomberg, one of the ten wealthiest Americans.

New York University law professor Daniel Shaviro described Section 199A as "the worst provision ever even to be seriously proposed in the history of the federal income tax." There was no sound policy purpose behind Section 199A that might compensate for its glaring defects. The provision was an arbitrary determination that the income that rich people derive from certain businesses should be given preferential treatment compared to workers' wages and income from other businesses. Section 199A was driven in large part by the need to discourage pass-through businesses from converting to regular corporations to qualify for the new corporate tax rate, which had been reduced by 40 percent to a 79-year low of 21 percent. These changes, Section 199A and the 40 percent cut in the corporate tax rate, were the last in a four- decade, regressive trend that has turned the sound policy that earned income should be taxed at a lower rate than income from other sources on its head. Besides its shocking immorality, this favoring of wealth over work is a large part of what has brought wealth concentration in America to such historic levels.

It makes no sense to implicitly value some types of income over others by conferring favorable tax rates upon them. Worse, when the disfavored category of income is wages paid to workers, it insults the dignity of labor and fosters a belief that the entire system is rigged against ordinary Americans.

Much like the capital gains rate or any other tax provision that creates a class of income taxed at a preferred rate, Section 199A is subject to abuse. Tax avoidance planners can easily manipulate income that in substance is income from work. ProPublica exposed how several billionaires manipulated their incomes to qualify for massive deductions under Section 199A.[12] For example, billionaires Dick and Liz Uihlein, founders of Uline, reduced their wages by 60%, which made more than $6 million qualify for the 20 percent deduction under Section 199A.

Recommended Additional Action: To prevent tax avoidance through the conversion of existing pass-through entities to corporations, we recommend that tax rates on corporate income and dividends be increased. If Section 199A expires and the maximum marginal tax rate for individuals is allowed to revert to 39.6 percent, as we recommend, the combined tax rate at the corporate and individual levels

will total 36.8 percent, nearly three percentage points less than the top individual rate. In addition to that rate reduction, businesses that convert from pass-through entities to corporations will gain the advantage of being able to defer tax at the individual level until dividends are distributed. To foreclose the potential here for tax avoidance, the corporate tax rate should be increased to no less than 28 percent.

Estate and Gift Tax Changes

Explanation: Section 2010(c)(3)(C) of the TCJA doubled the amount that can be excluded from estate and gift tax. If this section is allowed to expire, it would be yet another step toward tax fairness. That one move would cut in half the current exclusion from estate and gift tax, currently $13.61 million per person and $27.22 million for a married couple, to $6.80 million and $13.61 million, respectively.

Recommendation for Expiration or Extension: We recommend Section 2010(c)(3)(C) be allowed to expire.

The doubling of the exclusion from estate and gift tax was the most scandalous giveaway in the Tax Cuts and Jobs Act. It benefited only the wealthiest Americans. At a time of extreme inequality, it served the sole purpose of exacerbating that inequality.

On the surface, an additional $13.61 million exclusion from estate tax for a married couple, at a 40 percent estate tax rate, would seem like an unnecessary $5.44 million gift to the heirs of an ultra-rich couple. But it's actually far worse. Estate and gift tax avoidance planning works by leveraging the amount that can be excluded from tax, at a ratio of 10 to 1 or higher. So, an additional $13.61 million exclusion can be used to avoid estate and gift tax on amounts well in excess of $100 million, even $1 billion or more. Worse, the amount sheltered from tax typically can be lodged in a trust that will allow succeeding generations to avoid tax for generations, no matter how large the fortune held in trust grows.[14]

Recommended Additional Action: Merely allowing the doubled exclusion from estate and gift tax to expire is only a baby step, but it's a clear step in the right direction. Legislation to close the gaping loopholes in the transfer tax system, first proposed nearly a decade ago and included in all of President Biden's budgets, must be enacted. Yet even that legislation will not be sufficient to address the trillions of dollars in extreme fortunes that have been lodged in trusts that could be beyond the reach of the current system for a century or more.

The harm from sheltering family fortunes in trusts goes well beyond lost tax revenue. For example, trusts can allow members of ultra-rich families to avoid liability to ex-spouses or for those injured by their tortious conduct. Additional legislation will be needed to impose an appropriate tax cost on the maintenance of existing dynasty trusts. One possibility would be to impose a progressive excise tax on trusts holding wealth above a threshold amount.

A Better Approach: We believe the better approach would be to scrap the entire wealth transfer tax system altogether and transition to one that treats gifts and inheritances as income to the recipient, with appropriate exemptions. That would conform closer to our philosophy that all forms of income should be treated the same for income tax purposes.

Rate Changes

Explanation: The TCJA changed the federal tax brackets by lowering the rates applicable to all but the first of the seven brackets and adjusting the threshold for each bracket. Under the TCJA, the top bracket rate decreased from 39.6% to 37%. The threshold income level at which the top bracket started to apply was increased as well. For married taxpayers filing jointly, it increased from $470,700 to $600,000. With adjustments for inflation since 2018, the threshold for the top tax bracket for married taxpayers filing jointly now stands at $731,200.

Recommendation for Expiration or Extension: We recommend that the changes in the federal income tax brackets be extended, but that the current 37% bracket be allowed to expire and return to a 39.6% top bracket for all income in excess of $1 million.

Recommended Additional Action: We recommend that additional brackets be added for taxpayers at income levels above $1 million, as follows:

- For income between $1 million and $10 million, 50%
- For income between $10 million and $25 million, 60%
- For income between $25 million and $50 million, 70%
- For income between $50 million and $100 million, 80%
- For income above $100 million, 90%

The Cap on the Deduction for State and Local Tax Payments

Explanation: Section 164(b)(6) capped the deduction for state and local taxes (SALT) at $10,000 ($5,000 for married persons filing separately).

Recommendation for Expiration or Extension: We make no recommendation on the expiration of Section 164(b)(6), as we believe a different approach to the federal tax treatment of state and local tax payments is warranted.

While the benefits of repealing the arbitrary $10,000 SALT deduction cap reportedly would flow overwhelmingly to those at the top,[15] the benefits of the SALT deduction itself, including deductions of $10,000 or less, are shared far more evenly across the income scale than media reports might indicate.[16]

The fact that a tax provision's benefit flows largely to wealthy taxpayers does not by itself make it bad policy. In fact, the states worst impacted by the SALT cap – California, New York, Connecticut, and a few others – generally are those with the most progressive state tax codes. That's because those states impose progressive income taxes, whereas other states impose flat or, in some cases, no income taxes, relying instead on fees and fines, property taxes, and regressive sales taxes (which can tax all of the income of somebody living paycheck to paycheck, but very little of the income of the affluent).

Any discussion about removing the SALT cap must take this into consideration and, for that reason, we believe that modification, as opposed to elimination, of the SALT cap is warranted. Modifying the cap could encourage state-based investment and reduce the incentive for states to engage in "tax competition," which we see as fomenting a race to the bottom that ultimately causes states to decimate their revenue bases and force themselves to cut vital services to their residents. With a

modified cap, state-level policymakers could be induced to rely more on progressive income taxes and less on regressive consumption and property taxes.

Recommended Additional Action: We suggest the deductibility of state and local tax payments at the federal level should take a more nuanced approach, making appropriate distinctions between income-tax payments and consumption and property tax payments.

If the top marginal income tax rates are increased substantially, a full deduction should be allowed for state income tax. In fact, the deduction for state and local income tax under such a scenario should be changed from an itemized deduction to an "above-the-line" deduction (i.e. taken in the calculation of Adjusted Gross Income). If taxpayers are subject to marginal federal income tax rates in excess of 50 percent, we see no reason any income applied to state and local income tax should be subject to federal income tax.

However, deductions for regressive property and consumption tax payments should be limited. Property tax deductions should not serve to subsidize the cost of housing, often mansions, for the super-rich. To prevent that, the deduction for property tax payments should be phased out for incomes above $1 million at the rate of a one percent reduction in the deduction for each $5,000 of income above $1,000,000, with full phase-out at an income of $1,500,000. The deduction for consumption tax payments should not be allowed. A deduction for consumption tax paid on basic living expenses makes policy sense in the abstract, but would not translate to a meaningful tax benefit, as consumption taxes paid on basic living expenses are far below the standard deduction amount. The better approach is to increase the standard deduction, as we have advocated, to the amount of a cost of living wage, which would include consumption taxes paid on basic living expenses. A deduction for consumption taxes paid on discretionary purchases is harder to justify. As a practical matter, it would have its greatest effect in the case of high-end purchases of planes, cars, boats, etc., where it would function to subsidize extravagance.

Provisions Related to the Alternative Minimum Tax

Explanation: The expiration of several provisions of the TCJA will expand both the reach and the bite of the alternative minimum tax (AMT).

The AMT is an additional tax, added to a taxpayer's regular tax liability, in situations where the taxpayer's effective tax rate is reduced too heavily by certain deductions and credits, known as "preference items." To compute a taxpayer's AMT, the taxpayer's taxable income is adjusted to include those deductions not allowed in computing the AMT, then reduced by the amount of income that is exempt from the AMT to arrive at alternative minimum taxable income, then multiplied by the applicable minimum tax rate, then reduced by credits allowable in determining the AMT and by the taxpayer's regular income tax liability. At higher income levels, the exemption from alternative minimum taxable income is phased out.

Under Section 55, the exemption from the AMT and the income level at which it begins to phase out were increased through 2025, returning to their pre-TCJA levels in 2026. The return of the AMT exemption amount and phaseout threshold to pre-TCJA levels will subject more taxpayers to the AMT..

Other expiring provisions also shielded taxpayers from the AMT. By eliminating personal exemptions and offsetting the elimination with an increased standard deduction, the TCJA removed an item –

personal exemptions – that could be included in alternative minimum taxable income. For high-income taxpayers in higher-income tax states, the combined effect for regular tax purposes of two expiring provisions – the SALT deduction cap and the lowering of the top marginal tax rate from 39.6 percent to 37 percent – was minimal. The increase in regular tax resulting from the SALT deduction cap largely offsets the decrease in regular tax resulting from the decrease in the top rate. But the combined impact of the two expiring provisions was beneficial for purposes of the AMT, because SALT deductions are not allowed in the calculation of alternative minimum taxable income.

Recommendation for Expiration or Extension: We recommend that the changes to the AMT be extended.

Expiring Revenue Offsets

Explanation: The TCJA contained various provisions designed to offset the revenue loss from the corporate tax cut and other giveaways. With one exception, these are arbitrary changes, not driven by any policy objective. The provisions in this category are as follows:

- Suspension of Miscellaneous Itemized Deductions (Section 67(g)): Prior to the TCJA, miscellaneous itemized deductions, including unreimbursed employee job expenses, investment expenses and tax preparation fees, were deductible as itemized deductions to the extent they exceeded 2 percent of a taxpayer's adjusted gross income.
- Suspension of exclusion for reimbursement of bicycle commuting expense (Section 132(f)(8)).
- Suspension of exclusion for moving expense reimbursement (Section 132(g)(2)).
- Limitation on deduction for qualified residence interest; suspension of deduction for home equity interest (Section 163(h)(3)(F)).
- Limiting personal casualty losses to federally declared disaster areas (Section 163(h)(5)).
- Modification of rules relating to computation of wagering losses (Section 165(d)).
- Suspension of deduction for moving expenses (Section 217(k)).

Recommendation for Expiration or Extension: These provisions should be allowed to expire.

Recommended Additional Action: The deduction for qualified residence interest should be limited to indebtedness secured by the taxpayer's principal residence. If the standard deduction is made equal to a cost of living wage, as we advocate, the deduction for qualified residence interest should be phased out for those with incomes over $1,000,000, with the deduction being reduced by one percent for every $5,000 of income over the $1,000,000 threshold, such that the deduction is entirely phased out for those with incomes above $1,500,000. In any case, the deduction for interest on debt related to second homes should be eliminated.

Expiring Benefits

Explanation: The TCJA included the following tax benefits scheduled to expire in 2025 or 2026:

- Suspension of the limitation on itemized deductions (Section 68(f)).
- Special excluding discharges of student loans from taxable income (Section 108(f)(5)).
- Increase in the percentage limitation on cash contributions to public charities (Section 170(b)(1)(G)).
- Deductibility of employer de minimis meals and related eating facility, and meals for the convenience of the employer (Section 274(o)). This provision is in the form of a limitation on the

deductibility by employers of expenses related to employer-provided meals with a delayed effective date of January 2026. Its effect is similar to the expiring provisions in this category in that if no action is taken, the tax benefit involved will expire.

Recommendation for Expiration or Extension:

- The suspension of the limitation on itemized deductions and the exclusion of discharges of student loans from taxable income reflect sound policy decisions and should be extended.
- The non-deductibility of expenses related to employer-provided meals represents sound policy and should be allowed to take effect.
- The increase in the percentage limitation on cash contributions to public charities does not represent sound policy and should be allowed to expire.

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