

**DESCRIPTION OF H.R. 3936,
THE “TAX CUTS FOR WORKING FAMILIES ACT”**

Scheduled for Markup
by the
HOUSE COMMITTEE ON WAYS AND MEANS
on June 13, 2023

Prepared by the Staff
of the
JOINT COMMITTEE ON TAXATION



June 9, 2023
JCX-25-23

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INTRODUCTION

The House Committee on Ways and Means has scheduled a committee markup of H.R. 3936, the “Tax Cuts for Working Families Act.” This document,¹ prepared by the staff of the Joint Committee on Taxation, provides a description of the bill.

¹ This document may be cited as follows: Joint Committee on Taxation, *Description of H.R. 3936, the “Tax Cuts for Working Families Act”* (JCX-25-23), June 9, 2023. This document can also be found on the Joint Committee on Taxation website at www.jct.gov. All section references in the document are to the Internal Revenue Code of 1986, as amended (the “Code”), unless otherwise stated.

A. Increase in Standard Deduction

Present Law

An individual who does not elect to itemize deductions reduces adjusted gross income (“AGI”) by the amount of the applicable standard deduction in arriving at taxable income. The standard deduction is the sum of the basic standard deduction and, if applicable, the additional standard deduction.² The basic standard deduction varies depending upon a taxpayer’s filing status. For taxable years beginning in 2023, the amount of the basic standard deduction is \$13,850 for an unmarried individual (other than a head of household or a surviving spouse) and a married individual filing a separate return,³ \$20,800 for a head of household, and \$27,700 for married individuals filing a joint return and a surviving spouse.⁴ An additional standard deduction is allowed to an individual who has attained age 65 before the close of the taxable year or is blind at the close of the taxable year.⁵

In the case of a dependent for whom a deduction for a personal exemption⁶ is allowable to another taxpayer, the standard deduction may not exceed the greater of (i) \$1,250 (in 2023) or (ii) the sum of \$400 (in 2023) plus the dependent’s earned income.⁷ The standard deduction for an estate or trust is zero.⁸

The amount of the standard deduction is indexed annually for inflation.⁹

Description of Proposal

The proposal renames the “standard deduction” the “guaranteed deduction.” The terms “basic standard deduction” and “additional standard deduction” are similarly renamed the “basic guaranteed deduction” and “additional guaranteed deduction,” respectively.

² Sec. 63(c)(1).

³ In the case of a married individual filing a separate return where either spouse itemizes deductions, the standard deduction is zero. Sec. 63(c)(6).

⁴ Rev. Proc. 2022-38, 2022-45 I.R.B. 445, November 7, 2022.

⁵ Sec. 63(f). For 2023, the additional amount is \$1,500 for a married taxpayer (for each spouse meeting the applicable criteria in the case of a joint return) and surviving spouses. The additional amount for single individuals and heads of households is \$1,850. An individual who is both blind and has attained age 65 is entitled to two additional standard deductions, for a total additional amount (for 2023) of \$3,000 or \$3,700, as applicable.

⁶ For taxable years beginning in 2018 through 2025, the personal exemption amount is reduced to zero. Sec. 151(d)(5). This reduction is not taken into account in determining the limitation on the standard deduction for dependents. See sec. 151(d)(5).

⁷ Sec. 63(c)(5).

⁸ Sec. 63(f).

⁹ Sec. 63(c)(4) and (c)(7)(B).

The proposal adds a new bonus guaranteed deduction for taxable years beginning after December 31, 2023, and before January 1, 2026. The bonus guaranteed deduction is allowed in addition to the basic guaranteed deduction and additional guaranteed deduction (*i.e.*, the guaranteed deduction is the sum of the basic guaranteed deduction, the additional guaranteed deduction, and, if applicable, the bonus guaranteed deduction).

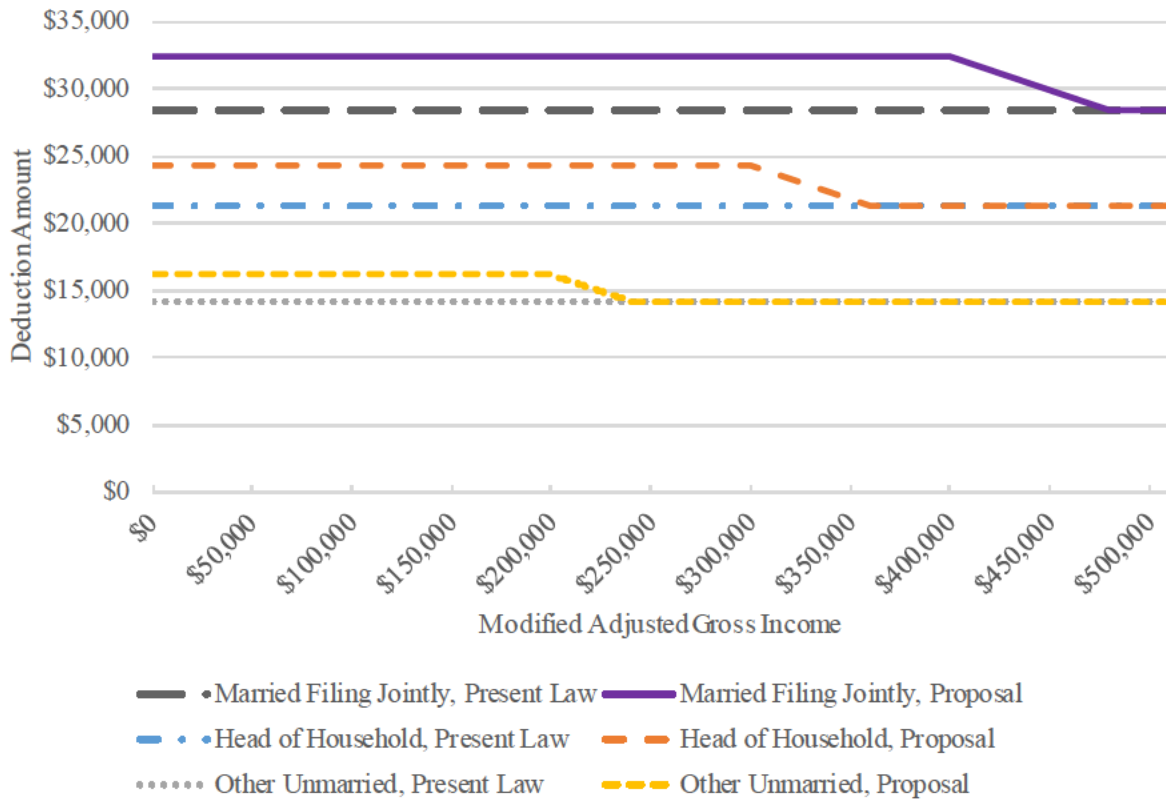
For taxable years beginning in 2024, the amount of the bonus guaranteed deduction is \$2,000 for an unmarried individual (other than a head of household or a surviving spouse) and a married individual filing a separate return, \$3,000 for a head of household, and \$4,000 for married individuals filing a joint return and a surviving spouse. For taxable years beginning in 2025, these amounts are indexed for inflation. The bonus guaranteed deduction does not apply to taxable years beginning after December 31, 2025.¹⁰

The bonus guaranteed deduction is phased out at a five-percent rate for taxpayers with modified AGI above certain thresholds. This threshold is \$200,000 for an unmarried individual (other than a head of household or a surviving spouse) and a married individual filing a separate return, \$300,000 for a head of household, and \$400,000 for married individuals filing a joint return and a surviving spouse. Modified AGI means AGI increased by any amount excluded from gross income under sections 911 (foreign earned income exclusion), 931 (exclusion of income for a bona fide resident of American Samoa), or 933 (exclusion of income for a bona fide resident of Puerto Rico). In 2024, after application of the five-percent phaseout the bonus guaranteed deduction is fully eliminated at \$240,000 of modified AGI for an unmarried individual (other than a head of household or a surviving spouse) and a married individual filing a separate return, at \$360,000 for a head of household, and at \$480,000 for married individuals filing a joint return and a surviving spouse.¹¹ Figure 1 below, illustrates the amount of the guaranteed deduction under the proposal in comparison with the amount of the standard deduction under present law allowed to different categories of taxpayers by modified AGI for 2024.

¹⁰ The temporary increase in the standard deduction provided in present law section 63(c)(7) also expires for these years. For taxable years beginning on or after January 1, 2026, the standard deduction is determined using the amounts provided in present law section 63(c)(2).

¹¹ Because the bonus guaranteed deduction amounts are indexed for inflation in 2025, the modified AGI levels at which the bonus guaranteed deduction is fully phased out may increase in 2025. The modified AGI levels at which the phaseouts begin are not adjusted for inflation.

Figure 1.—Guaranteed and Standard Deduction by modified AGI, 2024



Source: Joint Committee staff estimates and calculations.

Effective Date

The proposal is effective for taxable years beginning after December 31, 2023.

B. Estimated Revenue Effects of the Proposal

The proposal is estimated to have the following effect on Federal fiscal year budget receipts:

Fiscal Years [1]												
[Millions of Dollars]												
<u>2023</u>	<u>2024</u>	<u>2025</u>	<u>2026</u>	<u>2027</u>	<u>2028</u>	<u>2029</u>	<u>2030</u>	<u>2031</u>	<u>2032</u>	<u>2033</u>	<u>2023-28</u>	<u>2023-33</u>
---	-28,614	-46,531	-19,636	---	---	---	---	---	---	---	-96,781	-96,781

[1] Estimate contains the following outlay effects:

<u>2023</u>	<u>2024</u>	<u>2025</u>	<u>2026</u>	<u>2027</u>	<u>2028</u>	<u>2029</u>	<u>2030</u>	<u>2031</u>	<u>2032</u>	<u>2033</u>	<u>2023-28</u>	<u>2023-33</u>
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