[The Contemporary Tax Journal](https://scholarworks.sjsu.edu/sjsumstjournal)

Volume 10
Issue 2 *The Contemporary Tax Journal Volume 10, No. 2 – Summer 2021*

Article 10

8-25-2021

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Recommended Citation

Kwong, Hana; Nguyen, Tam; and BUS 223A Spring 2021, MST Students (2021) "Restoring Tax Fairness for States and Localities Act, Section 4 H.R. 5377 (116th Congress)," *The Contemporary Tax Journal*: Vol. 10 : Iss. 2 , Article 10.
https://doi.org/10.31979/2381-3679.2021.100210 https://scholarworks.sjsu.edu/sjsumstjournal/vol10/iss2/10

Restoring Tax Fairness for States and Localities Act, Section 4
H.R. 5377 (116th Congress)

By: Hana Kwong, Tam Nguyen, MST Students in BUS 223A Tax Research, Spring 2021

On December 10, 2019, Congressman Thomas Suozzi (D-NY) introduced the *Restoring Tax Fairness for States and Localities Act (*H.R. 5377, 116th Congress). In addition to changes to the state and local tax deduction for individuals, H.R. 5377 would allow teachers an increased above the line deduction from $250 to $1,000 for K-12 educator expenses.

Per Internal Revenue Code (IRC) Section 62, eligible educator expenses include expenses in professional development courses for the educator, professional development for the students the educator provides instructions to, or books, supplies, and equipment used by the educator in the classroom.[1]

Regarding eligible educator expenses, those expenses must incur in the taxable year for an educator in a kindergarten through grade 12 school. The educator must be a teacher, instructor, counselor, principal, or aide in a school for at least 900 hours during the school year.[2]

The following section applies the twelve principles of good tax policy to section four of *Restoring Tax Fairness for States and Localities Act* proposing an increase in K-12 educator expenses from $250 per year to $1,000 per year. These principles were laid out in the AICPA's *Tax Policy Concept Statement No.1-Guiding Principles of Good Tax Policy: A Framework for Evaluation of Tax Proposal.* [3]

[1] Section 62(a)(2)(D).
[2] Section 62(D)(1)(A).
[3] American Institute of Certified Public Accountants (AICPA) Tax Division. (January 2017). *Tax Policy Concept Statement No.1-Guiding Principles of Good Tax Policy: A Framework for Evaluation of Tax Proposals*; available at https://www.aicpa.org/content/dam/aicpa/advocacy/tax/downloadabledocuments/tax-policy-concept-statementno-1-global.pdf.

Principle of Good Tax Policy Worksheet

Criteria	Does the proposal satisfy the criteria? (explain)	Result
Equity and Fairness – Are similarly situated taxpayers taxed similarly? Consider the tax effect as a percentage of the taxpayer's income for different income levels of taxpayers.	This proposal partially meets the equity and fairness principle. Horizontal equity requires similarly situated taxpayers to be taxed similarly. In terms of horizontal equity, the $1,000 above the line deduction would be considered equitable because it is for all qualified kindergarten through grade 12 teachers. Vertical equity means the benefit is not providing a greater benefit for higher income individuals relative to lower income individuals. As a deduction, the tax benefit (savings) is greater for a higher income individual relative to a lower income individual because they are in a higher tax bracket.	+/-
Certainty – Does the rule clearly specify when the tax is owed and how the amount is determined? Are taxpayers likely to have confidence that they have applied the rule correctly.	This proposal satisfies the certainty principle because it clearly states the effective date (for tax years after December 2018). It also clearly states that the annual amount changes from $250 to $1,000. Therefore, taxpayers should have confidence that they have applied the rule correctly.	+
Convenience of payment – Does the rule result in tax being paid at a time that is convenient for the payor?	The convenience payment principle is satisfied. First, taxpayers would need to know this rule: Section 62(a)(2)(D), then they can simply claim this deduction on Form 1040 individual income tax return, along with Schedule 1. However, taxpayers cannot get the tax savings until their returns are filed.	+
Effective Tax Administration – Are the costs to administer and comply with this rule at minimum level for both the government and taxpayers?	This proposal fulfils the effective tax administration principle because only the dollar amount of the deduction changes. The IRS does not need to create a new form for such changes. From the taxpayers' perspective, they do not need to hire tax professionals to explain and comply regarding to this tax rule change.	+

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DOI: 10.31979/2381-3679.2021.100210

Information Security – Will taxpayer information be protected from both unintended and improper disclosure?	There will be no impact to information security as this change is only to the amount of the deduction and no new information is required.	N/A
Simplicity - Can taxpayers understand the rule and comply with it correctly and in a cost-efficient manner?	The simplicity principle is met because the proposal simply changes the deduction amount from $250 to $1,000 and the effective date is clearly stated. There are no complicated calculations to compute. The higher deduction amount means that more record keeping is required by taxpayers but this should not be complex.	+
Neutrality – Is the rule unlikely to change taxpayer behavior?	The neutrality principle is not satisfied because it may encourage teachers to spend more out-of-pocket to purchase materials as the tax deduction amount has increased from $250 to $1,000. For example, a teacher might tend to buy computer equipment and software rather than paper and pencils. However, it is likely that the sponsor's intent in increasing the dollar amount of the deduction is to encourage teachers to spend more money as well as to better assist teachers already spending over $250 on classroom supplies and professional equipment.	-
Economic growth and efficiency – Will the rule not unduly impede or reduce the productive capacity of the economy?	This proposal likely has minimal impact on economic growth and efficiency. The increased deduction does not mean that all teachers will spend $1,000. Also, many teachers likely are already spending over $250 per year.	N/A
Transparency and Visibility – Will taxpayers know that the tax exists and how and when it is imposed upon them and others?	This proposal is transparent and visible. Since this is not a new law, but an increase to an existing deduction, taxpayers already know how to claim this deduction. Also, K-12 schools are likely to update teachers about this change since teachers spending their personal funds, with a limited tax break, benefits the school.	+

Minimum tax gap – Is the likelihood of intentional and unintentional non-compliance likely to be low?	The minimum tax gap principle is not satisfied because there might be some level of improper claiming of expenses.	-
Accountability to taxpayers – Will taxpayers know the purpose of the rule, why needed and whether alternatives were considered? Can lawmakers support a rationale for the rule?	This does not fulfill the accountability to taxpayers because the public is unlikely to understand the reason for the rule, as it is not explained why there would be an increased deduction or why other approaches are not used to help teachers and schools. Taxpayers might consider, for example: How does this compare to other federal, state, and local spending on education?	-
Appropriate government revenues – Will the government be able to determine how much tax revenue will likely be collected and when?	The appropriate government revenues principle is satisfied because it is easy for the government to predict the revenue loss based on existing data. As the change is just increasing the amount from $250 to $1,000, the IRS can estimate the deduction amount likely to be claimed.	+

Summary

Based on our analysis, section four of the Restoring Tax Fairness for States and Localities Act is considered a good tax policy as it fulfils a slight majority of the applicable twelve principles, including equity and fairness, certainty, convenience of payment, effective tax administration, simplicity, transparency and visibility, and appropriate government revenues. On the other hand, the principal neutrality, minimum tax gap, and accountability to taxpayers are not met.

Suggestions for improvement:

1. The IRS could ask for a list of items purchased and remind taxpayers to keep their receipts so that improper allocation of the increased amount will be less likely to increase the tax gap.

2. The sponsor can provide the reason behind the increase deduction as well as why this provision exists for educators and not other employees who might also have to incur employment related costs out-of-pocket.

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