

Calculating Tax Liability under the Paying a Fair Share Act

Step 1: Income Threshold

Does the taxpayer have greater than \$1 million¹ in adjusted gross income for the tax year (or \$500,000 for married taxpayers filing separate returns)? If no, no taxes are owed under this bill. If yes, proceed to step 2.

Step 2: Charitable Deduction

Does the taxpayer have charitable contributions deductible under section 170? If no, proceed to step 3. Does the taxpayer itemize deductions? If no, proceed to step 3.

If yes, and if section 68 (the “Pease limitation”) is not in effect for the tax year, the deduction allowed under section 170 is the “modified charitable contribution.” If the tax year is a year in which section 68 is in effect, the taxpayer must multiply the section 170 deduction by the proportion of total itemized deductions allowed after application of section 68 under the regular income tax. Such amount is then the “modified charitable contribution.”

Step 3: Tentative Fair Share Tax

Subtract the modified charitable contribution (if any) from adjusted gross income and multiply the difference by 30% to determine the “tentative fair share tax.”

Step 4: Amount of Tax

To determine the amount of tax, subtract from the “tentative fair share tax”: (1) regular income tax liability (as defined in section 26(b)); (2) AMT liability imposed by section 55; (3) payroll taxes paid by the employee under sections 1401, 1411, 3101, 3201, and 3211(a) (the self-employed must subtract from this amount the deduction allowable under section 164(f)).

Step 5: Phase-In Adjustment

Does the taxpayer have over \$2 million in adjusted gross income? If yes, then the taxpayer pays the full amount determined under step 4. If no, take the amount determined under step 4 and multiply by the fraction: (adjusted gross income - \$1 million) / \$1 million. This formula phases in the fair share tax between \$1 million and \$2 million in income.

For example, a taxpayer with \$1.5 million in adjusted gross income would multiply the step 4 amount by $\$500,000 / \1 million or $\frac{1}{2}$.

¹ The threshold value is indexed to inflation beginning in 2020.