

# Major Cash Payment and Tax Provisions in the HEROES Act

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The major provisions for cash payments and tax changes in the House Democrats' Health and Economic Recovery Omnibus Emergency Solutions (HEROES) Act would provide nearly \$600 billion to individuals and households and average benefits of more than \$3,000 to families in all but the highest income levels.

While the HEROES Act includes important aid to state and local governments and other measures, this analysis focuses on cash payments and the most significant tax provisions in the bill. The bill also includes substantial spending, much of which is well targeted toward those who've lost work and to safety net, education, health and other categories that are helpful to people across the earnings spectrum and are particularly important for struggling families.

Most, but not all, of the tax changes would benefit the low- and middle-income households who most need help. Taken together, well-off taxpayers would receive a somewhat disproportionate share of the benefits of this package, with 30 percent of the benefits going to the richest 20 percent of taxpayers and 10 percent of the benefits going to the top 1 percent.

But this package is, nonetheless, far more progressive than many alternatives that lawmakers have offered. For example, the **payroll tax holiday** proposed by President Trump would have provided 65 percent of its benefits to the richest 20 percent of taxpayers and 25 percent of its benefits to the top 1 percent.

The overall impact of the provisions is likely to be more progressive than is shown here because this analysis does not take into account the recent deterioration in the economy, including lost jobs and reduced incomes, which makes more people eligible for the benefits that target low- and middle-income households.<sup>1</sup>

This analysis is limited to the bill's cash payments and its most significant tax provisions for individuals and households. Below is a description of parts of the bill included in this analysis.

Table 1

Impact of Major Provisions for Individuals and Households in the House Democrats' HEROES Act in 2020 in the United States, Total Benefits and Share of Benefits by Income Group

			COMBINED IMPACT		Expansion of CARES Cash Payment		New Cash Payment		Expansion of EITC & Child Tax Credit		Suspension of SALT Cap Deductions	
Income Group	Income Range	Average Income	Benefits 1000's	Share of Benefits	Benefits 1000's	Share of Benefits	Benefits 1000's	Share of Benefits	Benefits 1000's	Share of Benefits	Benefits 1000's	Share of Benefits
Poorest 20%	Less than \$24,200	\$14,400	\$101,853,600	17%	\$1,503,900	14%	\$58,507,700	17%	\$41,840,200	31%	\$1,800	0%
Second 20%	\$24,200 to \$43,400	\$33,800	\$92,962,300	16%	\$2,399,400	22%	\$64,881,500	19%	\$25,658,000	19%	\$23,400	0%
Middle 20%	\$43,400 to \$69,800	\$55,500	\$94,088,300	16%	\$2,625,400	24%	\$70,778,800	21%	\$20,513,500	15%	\$170,600	0%
Fourth 20%	\$69,800 to \$118,700	\$90,800	\$102,968,000	18%	\$2,343,700	21%	\$78,973,000	23%	\$19,984,400	15%	\$1,666,900	2%
Next 15%	\$118,700 to \$263,000	\$167,200	\$87,923,200	15%	\$1,837,200	17%	\$55,850,500	16%	\$18,047,900	13%	\$12,187,600	13%
Next 4%	\$263,000 to \$643,700	\$382,600	\$29,543,400	5%	\$60,000	1%	\$1,848,400	1%	\$4,646,500	3%	\$22,988,500	24%
Richest 1%	\$643,700 or more	\$2,012,400	\$60,359,800	10%	\$2,500	0%	\$79,100	0%	\$212,500	0%	\$60,065,700	62%
ALL		\$95,900	\$585,060,100	100%	\$10,957,200	100%	340,528,800	100%	136,469,600	100%	\$97,104,500	100%
Bottom 60%	Less than \$69,800	\$34,600	\$288,904,100	49%	\$6,528,800	60%	\$194,168,000	57%	\$88,011,600	64%	\$195,700	0%

Source: Institute on Taxation and Economic Policy, ITEP microsimulation model, May 2020

**Table 2**  
**Impact of Major Provisions for Individuals and Households in the House Democrats' HEROES Act in 2020 in the United States, Average Benefit and Benefit as a % of Income Income Group**

			COMBINED IMPACT		Expansion of CARES Cash Payment		New Cash Payment		Expansion of EITC & Child Tax Credit		Suspension of SALT Cap Deductions	
Income Group	Income Range	Average Income	Average Benefit	Benefit as a % of Income	Average Benefit	Benefit as a % of Income	Average Benefit	Benefit as a % of Income	Average Benefit	Benefit as a % of Income	Average Benefit	Benefit as a % of Income
Poorest 20%	Less than \$24,200	\$14,400	\$3,260	23%	\$50	0%	\$1,880	13%	\$1,330	9%	\$0	0%
Second 20%	\$24,200 to \$43,400	\$33,800	\$2,980	9%	\$80	0%	\$2,080	6%	\$820	2%	\$0	0%
Middle 20%	\$43,400 to \$69,800	\$55,500	\$3,010	5%	\$80	0%	\$2,270	4%	\$650	1%	\$10	0%
Fourth 20%	\$69,800 to \$118,700	\$90,800	\$3,300	4%	\$80	0%	\$2,530	3%	\$640	1%	\$50	0%
Next 15%	\$118,700 to \$263,000	\$167,200	\$3,760	2%	\$80	0%	\$2,390	1%	\$770	0%	\$520	0%
Next 4%	\$263,000 to \$643,700	\$382,600	\$4,710	1%	\$10	0%	\$300	0%	\$740	0%	\$3,660	1%
Richest 1%	\$643,700 or more	\$2,012,400	\$38,460	2%	\$0	0%	\$50	0%	\$140	0%	\$38,270	2%
ALL		\$95,900	\$3,620	4%	\$70	0%	\$2,110	2%	\$840	1%	\$600	1%
Bottom 60%	Less than \$69,800	\$34,600	\$3,080	9%	\$70	0%	\$2,080	6%	\$930	3%	\$0	0%

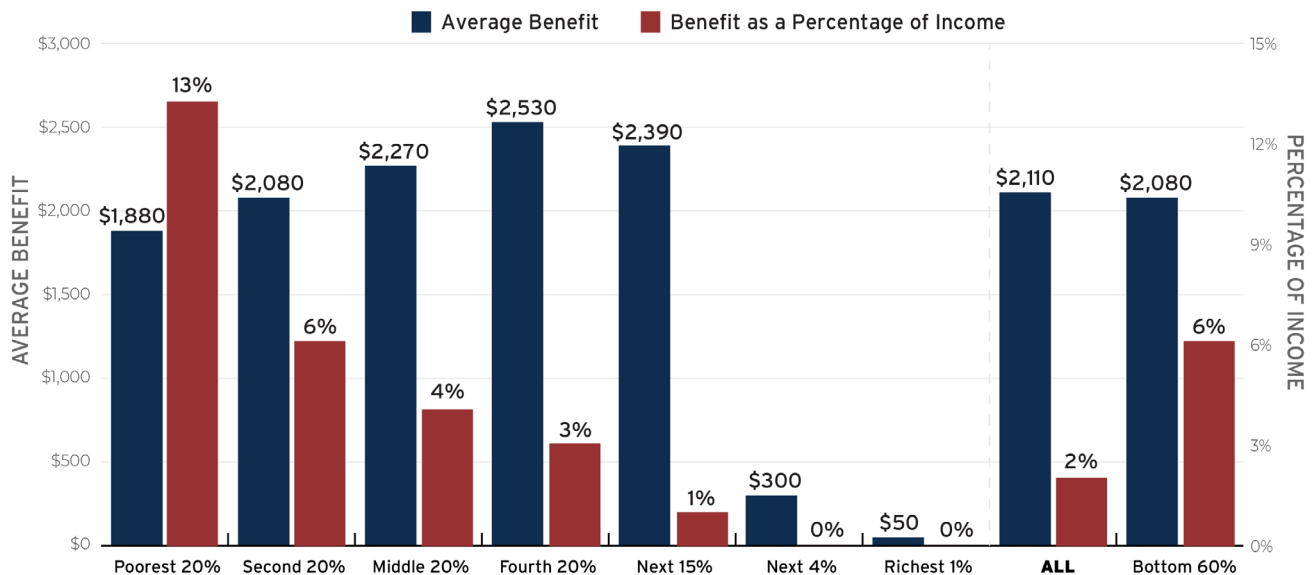
Source: Institute on Taxation and Economic Policy, ITEP microsimulation model, May 2020

## New \$1,200 Payment

Among these provisions, the centerpiece of the HEROES Act is a new one-time payment of \$1,200 (\$2,400 for married couples) plus another \$1,200 for each of up to three dependents. This means that a family of five or more could receive up to \$6,000. The payment is phased out at a rate of 5 cents for each dollar of income in excess of \$75,000 for single taxpayers, \$112,500 for single parents, and \$150,000 for married couples. (These are the same income eligibility rules in place for the cash payment under the CARES Act.)<sup>2</sup>

Immigrants working in the United States who file taxes using an Individual Taxpayer Identification Number (ITIN) would be eligible for this payment, along with all members of their households, unlike the payment provided under the CARES Act.

### HEROES Act: One-Time Cash Payment of \$1,200 Benefits by Income Group, United States, 2020



SOURCE: Institute on Taxation and Economic Policy (ITEP) Tax Model, May 2020

ITEP.org

## Expansion of Existing Payment Under the CARES Act

The CARES Act provided a payment of \$1,200 (\$2,400 for married couples) and an additional \$500 for children under age 17. The HEROES Act expands the \$500 payment to include all dependents, not just children under age 17.

The HEROES Act also expands the CARES Act payment by making it available to ITIN filers and their family members.

**(See ITEP's separate analysis of the HEROES Act's impact on ITIN filers.)**

# Strengthening the Earned Income Tax Credit and Child Tax Credit

The HEROES Act includes several temporary changes to the Earned Income Tax Credit (EITC). Most notably, it would nearly triple the maximum Earned Income Tax Credit (EITC) available to workers without children in the home from \$538 to about \$1,437, lower the age eligibility for the childless credit from 25 to 19, and raise the upper age limit from 65 to 66.

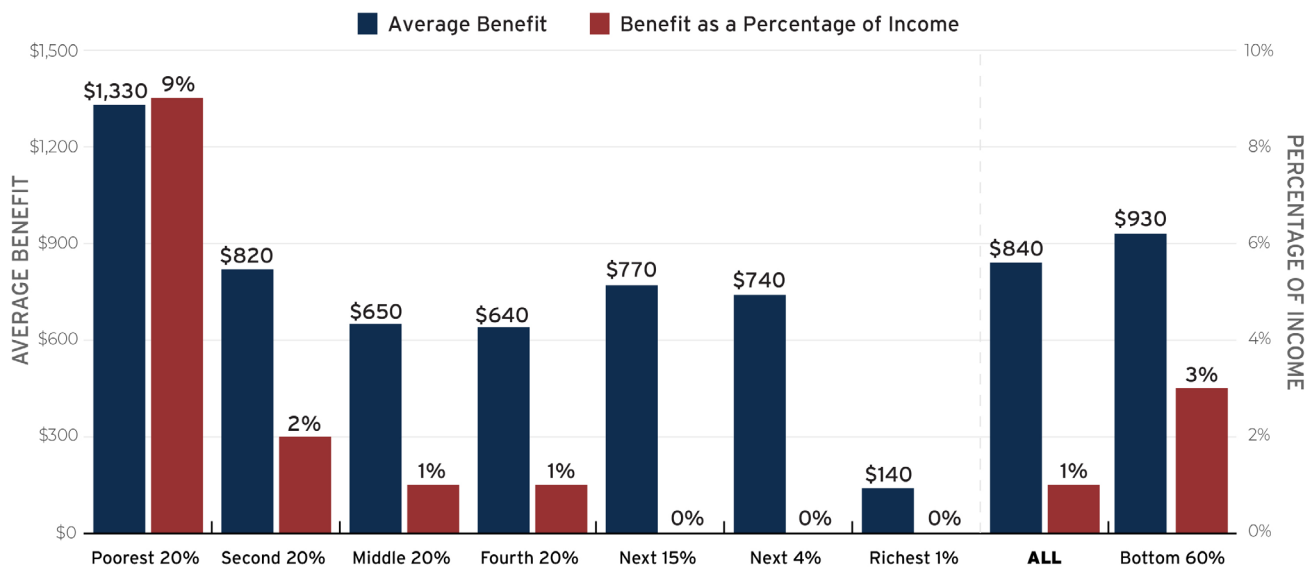
The bill also eliminates a provision that makes individuals ineligible for the EITC if they have a small amount of investment income.

And, it **adds flexibility** to the EITC by allowing taxpayers to use their 2019 or 2020 earnings to calculate the credit (ITEP did not model this change).

The HEROES Act would also temporarily increase the Child Tax Credit (CTC) from \$2,000 per child to \$3,000 for each child age 6 and older and to \$3,600 for each child younger than age 6. The HEROES Act would also make the CTC fully refundable, eliminating both the dollar cap on the refundable portion and the requirement to have at least \$2,500 in earnings. Seventeen-year-olds would also be eligible for the credit (but ITEP did not model this change).

The proposed improvements to the EITC are well-targeted to help working people, as is making the CTC fully refundable and removing the earnings requirement. Increasing the credit amount is a boost to low- and middle-income families, but to a degree also helps the well-off because, under current law, the CTC does not begin to phase out until families reach very high income levels (\$400,000 for families headed by married couples).

## HEROES Act: Expansion of the EITC and Child Tax Credit Benefits by Income Group, United States, 2020



SOURCE: Institute on Taxation and Economic Policy (ITEP) Tax Model, May 2020

ITEP.org

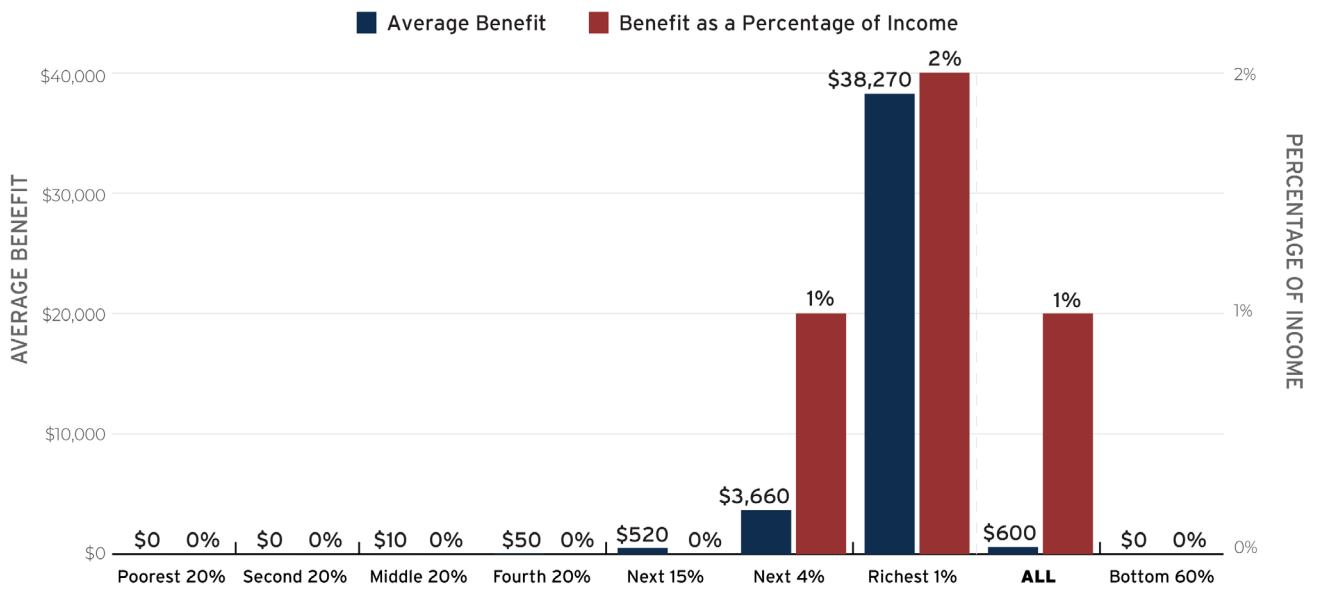
# Suspension of \$10,000 Cap on Deduction for State and Local Taxes (SALT)

The HEROES Act proposes a two-year suspension of the Trump tax law's \$10,000 cap on deductions for state and local taxes (SALT). This would primarily benefit higher-income households.

Drafters of the Trump tax law could have offset the cost of their tax cuts by eliminating any number of special breaks and loopholes, but they chose to focus on a deduction used most by those living in higher-tax states, which are often perceived as “blue states.” This analysis estimates that 62 percent of the benefits from suspending the SALT cap in 2020 will go to the richest 1 percent of taxpayers.

## HEROES Act: Suspension of Cap on Salt Deductions

Benefits by Income Group, United States, 2020



SOURCE: Institute on Taxation and Economic Policy (ITEP) Tax Model, May 2020

ITEP.org

## ENDNOTES

1 Deterioration of the economic climate would make the impact of this package more progressive, but its effect on the cost of these provisions is less clear. For example, reduced incomes could lead to more childless households receiving the EITC and benefiting from its expansion, but could also reduce the amount of state and local taxes (SALT) paid and therefore reduce the cost of suspending the cap on SALT deductions.

2 This analysis assumes that eligibility for the payment is based on 2019 income because that is likely to be true in most cases. However, the bill would also allow eligibility based on 2018 income or 2020 income in some cases, which could lead to greater cost than is shown here.

