

To the office of U.S. Representative Michael Lawler

Re: HR 9750 (119th Congress), Public Service Retirement Tax Relief Act of 2026 • Latest action (2026-07-16): Referred to the House Committee on Ways and Means.

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Retiree Tax Relief and Fiscal Responsibility Act of 2025

The measure, as described from the official record: To reduce the federal income tax burden on retirees by capping the tax rate applied to pension income from specified sources, thereby protecting a portion of retirement income from high marginal rates.

THE PROPOSAL

This Act amends the Internal Revenue Code of 1986 to establish a maximum income tax rate of 15% on the first \$50,000 of pension income received by an individual taxpayer in a taxable year. For purposes of this section, 'pension income' includes distributions from qualified retirement plans under section 401(a), section 403(b) annuities, section 457(b) plans, and traditional individual retirement accounts under section 408. The \$50,000 threshold shall be adjusted annually for inflation using the Consumer Price Index for All Urban Consumers.

The benefit of the reduced rate phases out for taxpayers with adjusted gross income exceeding \$100,000 (\$200,000 for married filing jointly), and is completely eliminated for taxpayers with adjusted gross income above \$150,000 (\$300,000 for married filing jointly). The phase-out is calculated by reducing the amount of pension income eligible for the 15% cap by 10% for each \$1,000 (or fraction thereof) of adjusted gross income above the threshold.

To offset the revenue loss from this rate reduction, the Act repeals the deduction for qualified business income under section 199A for taxpayers with taxable income exceeding \$400,000 (\$600,000 for married filing jointly). The Joint Committee on Taxation shall estimate the revenue effect of this Act and certify that the offset is sufficient to maintain revenue neutrality over the 10-year budget window.

The Secretary of the Treasury shall issue regulations to implement this section, including rules for the phase-out and anti-abuse measures. The Internal Revenue Service shall administer the cap and phase-out through existing tax return forms and instructions. Any taxpayer who erroneously claims the reduced rate shall be subject to the accuracy-related penalty under section 6662, unless reasonable cause is shown.

This Act shall take effect for taxable years beginning after December 31, 2025, and shall sunset after five taxable years, unless reauthorized by Congress. The Department of the Treasury shall submit a report to the House Committee on Ways and Means and the Senate Committee on Finance within 90 days after the third calendar year of implementation, evaluating the distributional effects and compliance costs.

OPERATIVE PROVISIONS (VFA PROPOSAL)

Funding Source	Repeal of the qualified business income deduction under section 199A for high-income taxpayers (taxable income above \$400,000/\$600,000).
Funding Amount	Revenue neutral over 10 years as certified by the Joint Committee on Taxation; estimated \$XXX billion in reduced revenue offset by \$XXX billion in increased revenue from the repeal.
Sunset Years	5 years
Oversight Body	Department of the Treasury, with reporting to the House Ways and Means and Senate Finance Committees.
Enforcement Mechanism	Accuracy-related penalty under Internal Revenue Code section 6662 for erroneous claims; disallowance of reduced rate upon audit; anti-abuse regulations to prevent conversion of non-pension income into pension income.
Effective Date	Taxable years beginning after December 31, 2025.

CONSTITUTIONAL BASIS

- Article I, Section 8, Clause 1 (Congress's power to lay and collect taxes, duties, imposts, and excises)
- Sixteenth Amendment (Congress's power to lay and collect taxes on incomes, from whatever source derived, without apportionment among the states)
- Tenth Amendment (reserved powers to states not infringed, as the Act does not regulate state or local pension systems directly)

Concerns with the measure as written:

- The original bill is likely constitutional under the Sixteenth Amendment and Article I, Section 8, Clause 1, but it does not include a revenue offset, which could raise concerns about fiscal responsibility under the Budget Act (though not a constitutional requirement).
 - No enumerated-power or rights violations identified; the bill operates within federal taxing authority.
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WHY BOTH SIDES CAN BACK IT (VFA'S ASSESSMENT)

Democratic priorities: Protects middle-class retirees from high tax rates, targets relief to those with modest incomes, and includes a revenue offset to avoid increasing the deficit. Republican priorities: Provides tax relief for retirees, includes a sunset to force future review, and respects federalism by not imposing mandates on states. The phase-out ensures that the benefit is not permanent for high-income individuals, which appeals to fiscal conservatives.

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