TAX POLICY CENTER
URBAN INSTITUTE & BROOKINGS INSTITUTION

Economic Impacts of the Tax Cuts and Jobs Act

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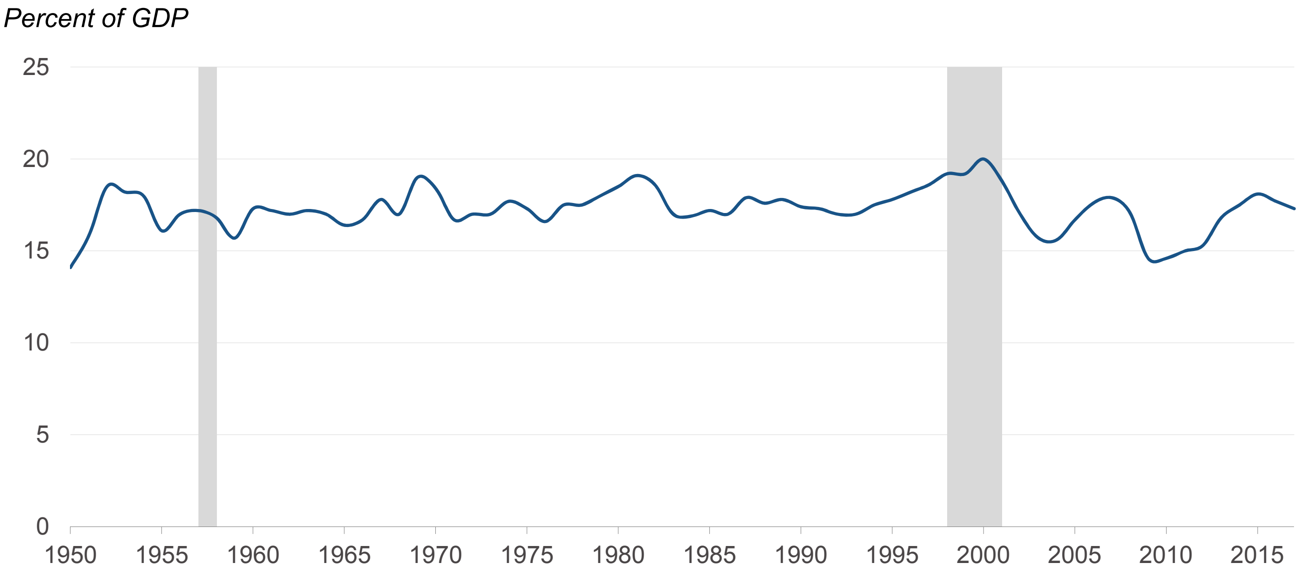
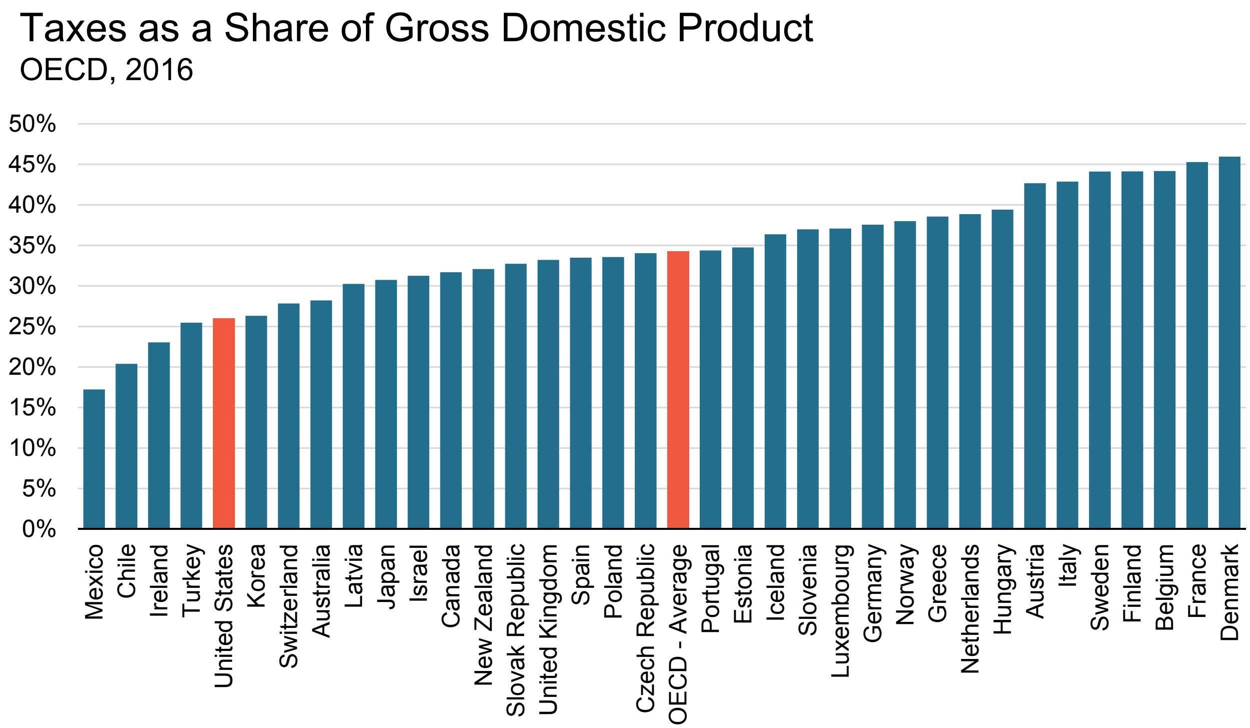
Receipts vary over time, but have remained between 15-20 percent of GDP

Total Federal Receipts as a Share of National GDP
1950–2017



Source: Office of Management and Budget, Fiscal Year 2019, Historical Tables, Table 2.3.

Contrary to some claims, the US is a low-tax country



Source: OECD Stat Extract. These are provisional estimates. 2015 data are used for Australia and Japan. The OECD average is over the most recent available data.

Business tax provisions

- The maximum corporate tax rate is reduced from 35 percent to 21 percent.
- The corporate Alternative Minimum Tax is repealed.
- The taxation of multinational firms shifts to more of a dividend exemption system (exempting from US tax the active income earned by foreign subsidiaries of US multinationals).
- There is some base broadening for the corporate income tax.
- Extends 100% bonus depreciation until 2023.
- Pass-through businesses will have a preferential tax regime – a 20 percent deduction for “qualified business income.”

Individual income tax provisions

- New set of 7 tax rate brackets (generally lower tax rates than prior law).
- Substantially increased standard deduction and repealed personal exemptions.
- Increased child tax credit and increased refundability, added dependent credit.
- Repealed moving expense deduction.
- Limits on itemized deductions (repeal miscellaneous deductions including employee business expense, union dues, tax prep, investment interest, and job hunting deductions; limit deduction for state and local taxes; reduce cap on mortgage interest deduction; repeal casualty losses).
- Substantially increased exemption amount for individual AMT and phase-out threshold.
- Many provisions indexed to chained CPI (permanent).
- Many individual income tax provisions in TCJA expire after 2025.

Other Tax Changes in the TCJA

- Doubled estate tax exemption to $11.2 million ($22.4 million for married couples). Expires after 2025.
- Reduced taxes on alcoholic beverage producers/sellers (“Craft Beverage Modernization Act”). Expires after 2019.
- Set penalty tax for individuals not having adequate health insurance to zero (“ACA Individual Mandate”). Permanent.

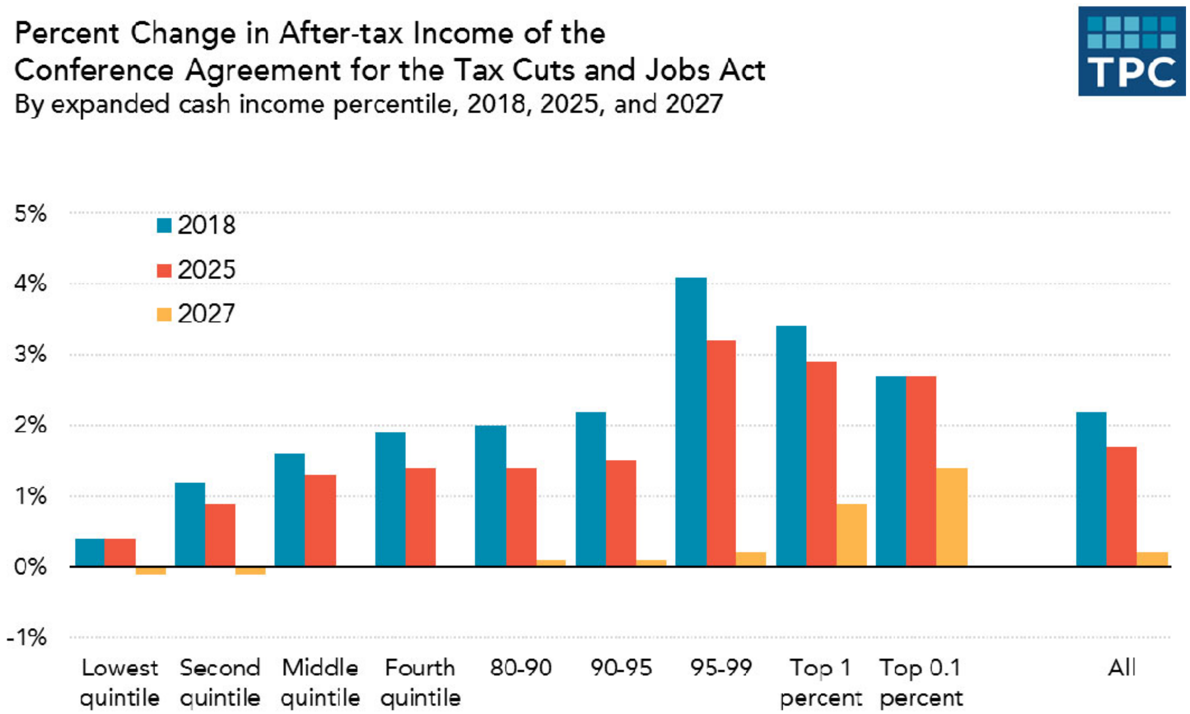
Revenue effects of the TCJA

- The law will reduce federal revenues by about $1.5 trillion over the 2018-27 budget period (JCT original estimate). Updated April 2018 estimate -- $1.9 trillion over same budget period.
- The corporate income tax provisions cost about $650 billion over the budget window (ignoring the one-time tax receipts from deemed repatriation).
- The pass-through provision costs about $410 billion over the budget window.
- Temporary individual income tax provisions cost about $1.1 trillion over the budget window
- Increase in estate tax exemption costs about $80 billion over the budget window.
- Setting ACA individual mandate penalty to zero raises about $300 billion over the budget window.
- Alternative inflation measure raises about $130 billion over the budget window.
- Deemed repatriation raises about $350 over the budget window.

Distributional Effects of the TCJA

- The law will reduce taxes on average for all income groups in both 2018 and 2025.
- In general, higher income households will receive larger average tax cuts as a percentage of after-tax income. In 2018, taxpayers in the 95th-99th percentiles (those making between $308,000 and $733,000) will see an average tax cut of about $13,500, or 4.1 percent of after-tax income. Meanwhile, taxpayers in the bottom quintile (those with income less than $25,000) will see an average tax cut of $60, or 0.4 percent of after-tax income.
- The trend is similar in 2025, taxpayers in the bottom quintile will see an average tax cut of $70, or 0.4 percent of after-tax income and taxpayers in the 95th to 99th income percentiles will see an average tax cut of almost $13,000, or 3.2 percent of after-tax income.
- In 2027, the overall tax reduction would be just 0.2 percent of after-tax income. On average, relative to current law, low- and middle-income taxpayers will see little change and taxpayers in the top 1 percent will receive an average tax cut of 0.9 percent of after-tax income.

The TCJA as enacted by Congress in December 2017



Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0217-1).

The TCJA will have modest economic effects

- The legislation will increase GDP in the short term — by 0.8 percent in 2018, but have a minimal effect on the economy by 2027.
- The increase in output will boost revenues, offsetting roughly 13 percent of the 10-year projected revenue loss, before accounting for macroeconomic feedback.
- The legislation will increase the debt-to-GDP ratio by 5 percentage points by 2027 (to 97 percent of GDP), and by 4 percentage points by 2037 (to 117 percent of GDP), including the macroeconomic feedback effects.
- The corporate income tax rate reduction should increase share prices somewhat as earnings per share increase (note that about 1/3 of shares are owned by foreigners).
- To date, corporate investment has increased modestly (compared to increased cash flow)