

PRELIMINARY DISTRIBUTIONAL ANALYSIS OF THE TAX CUTS AND JOBS ACT

TPC Staff

November 6, 2017

The Tax Policy Center has produced preliminary distributional estimates of the “Tax Cuts and Jobs Act” as introduced on November 3, 2017. We find the legislation would reduce taxes on average for all income groups in 2018 and most income groups in 2027. The largest cuts in terms of dollars and as a percentage of after-tax income would accrue to higher-income households. However, not all taxpayers would receive a tax cut under this proposal—at least 12 percent of taxpayers would pay higher taxes under the proposal in 2018 and at least 28 percent of taxpayers would pay more in 2027.

The Tax Cuts and Jobs Act, introduced as H.R. 1 on November 2, 2017 and amended by Chairman Brady on November 3, 2017, proposes major changes to the individual and corporate income taxes, estate and gift taxes, and certain federal excise taxes.¹ The Tax Policy Center has produced preliminary distributional estimates of the legislation. We find the following:

- Taxes would fall for all income groups on average in 2018, increasing overall average after-tax income by 1.5 percent. The largest tax cuts would go to higher-income taxpayers.
- Overall, the tax cut would be smaller in 2027, because of the expiration of certain provisions in 2023 (including the new \$300 family credit and 100 percent bonus depreciation), the effect of indexing tax parameters to a slower-growing measure of inflation, and the substitution of a child credit that is not indexed for inflation for personal exemptions that are indexed.
- Some taxpayers would pay more in taxes under the proposal. In 2018, slightly more than 12 percent of taxpayers would experience a tax increase relative to current law. That share would rise to slightly more than 28 percent in 2027.

¹ This analysis is based on the Chairman’s amendment in the nature of a substitute to H.R. 1, the “Tax Cuts and Jobs Act.” A full description of the provisions contained in H.R. 1 is available at <https://www.jct.gov/publications.html?func=startdown&id=5031>.

DISTRIBUTIONAL EFFECTS

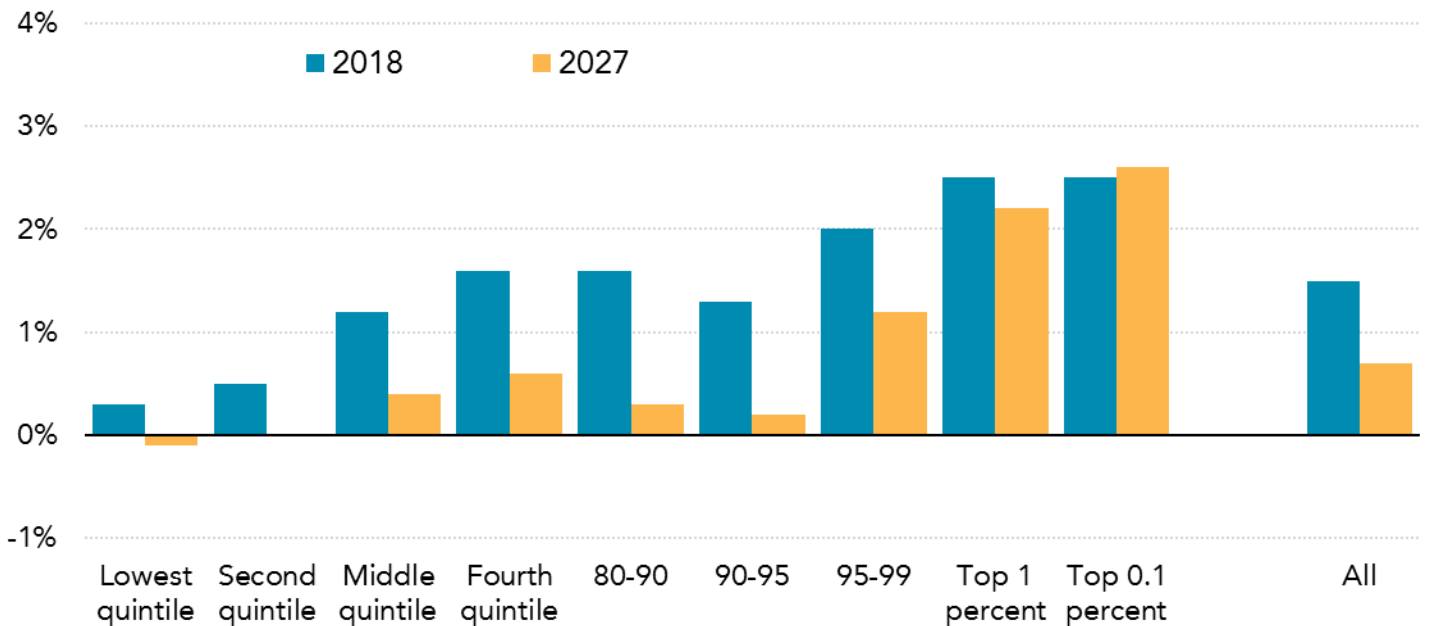
In 2018, taxes would be reduced by \$1,100 on average, increasing after-tax incomes by 1.5 percent (figure 1 and table 1). Taxes would decline on average across all income groups, although higher income taxpayers would generally receive larger cuts on average and as a percentage of income.

Taxpayers in the bottom two quintiles (those making less than about \$48,000) would see modest tax cuts of between 0.3 and 0.5 percent of after-tax income (figure 1). Taxpayers in the middle income quintile (those making between about \$48,000 and \$86,000) would receive an average tax cut of \$700 or 1.2 percent of after-tax income. Taxpayers in the top 1 percent (those making more than \$730,000) would receive 22 percent of the total tax cut: an average cut of \$37,000 or 2.5 percent of after-tax income.

FIGURE 1

Percent Change in After-tax Income of the "Tax Cuts and Jobs Act"

By expanded cash income percentile, 2018 and 2027



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



TABLE 1

Distribution of Federal Tax Change of the "Tax Cuts and Jobs Act" By expanded cash income percentile, 2018^a

Expanded cash income percentile ^b	Percent change in after-tax income ^c	Share of total federal tax change (%)	Average federal tax change (dollars)	Average federal tax rate ^d	
				Change (% points)	Under the proposal (%)
Lowest quintile	0.3	0.9	-40	-0.2	3.9
Second quintile	0.5	3.0	-150	-0.4	8.3
Middle quintile	1.2	12.2	-700	-1.0	12.8
Fourth quintile	1.6	23.2	-1,570	-1.4	16.0
Top quintile	1.9	60.4	-4,850	-1.4	24.1
All	1.5	100.0	-1,110	-1.2	18.6
Addendum					
80-90	1.6	14.7	-2,300	-1.3	18.9
90-95	1.3	7.9	-2,570	-1.0	21.0
95-99	2.0	15.8	-6,630	-1.5	23.7
Top 1 percent	2.5	21.9	-37,430	-1.7	30.9
Top 0.1 percent	2.5	10.6	-178,540	-1.7	31.7

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

Notes: Number of Alternative Minimum Tax (AMT) taxpayers (millions): Baseline: 5.2; Proposal: 0.

(a) Calendar year. Baseline is current law. Proposal includes all provisions contained in the Chairman's amendment to H.R. 1 released on 11/3/2017.

(b) Percentiles include both filing and non-filing units but excludes those that are dependents of other tax units. Tax units with negative adjusted gross income are excluded from their respective income class but are included in the totals. The income percentile classes used in this table are based on the income distribution for the entire population and contain an equal number of people, not tax units. The breaks are (in 2017 dollars): 20% \$25,000; 40% \$48,600; 60% \$86,100; 80% \$149,400; 90% \$216,800; 95% \$307,900; 99% \$732,800; 99.9% \$3,439,900. For a description of expanded cash income, see <http://www.taxpolicycenter.org/TaxModel/income.cfm>

(c) After-tax income is expanded cash income less: individual income tax net of refundable credits; corporate income tax; payroll taxes (Social Security and Medicare); estate tax; and excise taxes.

(d) Average federal tax (includes individual and corporate income tax, payroll taxes for Social Security and Medicare, the estate tax, and excise taxes) as a percentage of average expanded cash income.

In 2027, the overall average tax cut would be smaller than in 2018, reducing taxes by \$700 on average or 0.7 percent of after-tax income (table 2). Taxpayers in the bottom two quintiles of the income distribution (those making less than about \$55,000) would see little change in their taxes, with average tax increases of \$10–\$20. Taxpayers in the middle of the income distribution would see a net tax cut on average and see their after-tax incomes increase by 0.4 percent. Taxpayers in the top 1 percent would receive nearly 50 percent of the total benefit; their after-tax income would increase by 2.2 percent on average.



TABLE 2

Distribution of Federal Tax Change of the "Tax Cuts and Jobs Act"

By expanded cash income percentile, 2027^a

Expanded cash income percentile ^b	Percent change in after-tax income ^c	Share of total federal tax change (%)	Average federal tax change (dollars)	Average federal tax rate ^d	
				Change (% points)	Under the proposal (%)
Lowest quintile	-0.1	-0.3	10	0.0	4.4
Second quintile	-0.0	-0.6	20	0.0	8.9
Middle quintile	0.4	8.1	-290	-0.3	13.5
Fourth quintile	0.6	16.2	-710	-0.5	16.5
Top quintile	1.1	75.8	-3,890	-0.8	25.4
All	0.7	100.0	-710	-0.6	19.6
Addendum					
80-90	0.3	5.8	-570	-0.2	19.5
90-95	0.2	2.1	-440	-0.1	21.8
95-99	1.2	19.5	-5,230	-0.9	24.6
Top 1 percent	2.2	48.4	-52,780	-1.5	32.0
Top 0.1 percent	2.6	25.7	-278,350	-1.8	32.1

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

Notes: Number of Alternative Minimum Tax (AMT) taxpayers (millions): Baseline: 5.6; Proposal: 0.

(a) Calendar year. Baseline is current law. Proposal includes all provisions contained in the Chairman's amendment to H.R. 1 released on 11/3/2017.

(b) Percentiles include both filing and non-filing units but excludes those that are dependents of other tax units. Tax units with negative adjusted gross income are excluded from their respective income class but are included in the totals. The income percentile classes used in this table are based on the income distribution for the entire population and contain an equal number of people, not tax units. The breaks are (in 2017 dollars): 20% \$28,100; 40% \$54,700; 60% \$93,200; 80% \$154,900; 90% \$225,400; 95% \$304,600; 99% \$912,100; 99.9% \$5,088,900. For a description of expanded cash income, see <http://www.taxpolicycenter.org/TaxModel/income.cfm>

(c) After-tax income is expanded cash income less: individual income tax net of refundable credits; corporate income tax; payroll taxes (Social Security and Medicare); estate tax; and excise taxes.

(d) Average federal tax (includes individual and corporate income tax, payroll taxes for Social Security and Medicare, the estate tax, and excise taxes) as a percentage of average expanded cash income.

WINNERS AND LOSERS

The impact of the proposal on individual taxpayers differs depending on their composition of income sources, demographic and family status, and other characteristics that affect eligibility for certain tax benefits. Our estimates of the number of taxpayers that would pay more tax or less tax than under current law exclude certain minor provisions for which it is difficult to assign the tax changes to specific taxpayers.² Overall, the excluded provisions represent a net tax increase for all income groups in both 2018 and 2027, so we are overestimating the number of taxpayers that would see a tax cut and underestimating the number of taxpayers that would see a tax increase.

In 2018, 70 percent of taxpayers would experience a tax cut from the included provisions averaging \$2,000, and 12 percent would face an average tax increase of nearly \$1,600 (table 3). The ratio of winners to losers varies considerably by income group, with the largest share of taxpayers with a tax increase in the second income quintile and in the top 1 percent of the income distribution.

²We do include the average effect of these provisions by income group in tables 1 and 2, but their effects vary substantially within each group and we do not have the information necessary to assign the tax changes to specific individuals.

In 2027, 57 percent of taxpayers would see an average tax cut of \$2,400, while nearly 28 percent of taxpayers would face an average tax increase of nearly \$2,000 (table 4). The percentage of tax units with a tax increase is similar across most income groups, although well below average for the bottom quintile (16 percent) and significantly above average for taxpayers between the 90th and 95th income percentiles (46 percent).

Many higher-income taxpayers with a tax increase are affected by the loss of itemized deductions. Because the legislation substantially increases the standard deduction and repeals many itemized deductions—including the deduction for state and local income and sales taxes—the number of taxpayers who elect to itemize compared to current law would fall by 75 percent in 2018 (to 12.5 million tax units) and by 65 percent in 2027 (to 20 million tax units).

TABLE 3

Tax Units with a Tax Change from Major Provisions of the "Tax Cuts and Jobs Act"
By expanded cash income percentile, 2018^a



Expanded cash income percentile ^b	Tax units with tax cut or increase ^c				Average federal tax change	
	With tax cut		With tax increase		All Provisions	Major Provisions included here
	Percent of tax units	Average tax cut	Percent of tax units	Average tax increase		
Lowest quintile	43.1	-140	4.0	640	-40	-40
Second quintile	69.8	-420	19.0	690	-150	-160
Middle quintile	81.7	-1,100	16.8	1,010	-700	-730
Fourth quintile	87.4	-2,100	12.3	1,530	-1,570	-1,650
Top quintile	87.0	-6,970	12.9	5,240	-4,850	-5,390
All	70.0	-2,000	12.4	1,560	-1,110	-1,210
Addendum						
80-90	86.6	-3,180	13.3	1,910	-2,300	-2,490
90-95	84.0	-3,800	15.8	2,070	-2,570	-2,860
95-99	93.7	-8,120	6.1	4,240	-6,630	-7,350
Top 1 percent	79.5	-64,430	20.5	43,070	-37,430	-42,430
Top 0.1 percent	70.5	-357,270	29.4	175,710	-178,540	-200,090

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

Notes: Number of Alternative Minimum Tax (AMT) taxpayers (millions): Baseline: 5.2; Proposal: 0.

(a) Calendar year. Baseline is current law. Proposal includes major provisions contained in the Chairman's amendment to H.R. 1 released on 11/3/2017. Due to data limitations, excludes the following provisions: repeal of credit for adoption expenses; repeal of deduction for moving expenses; limitation on exclusion of employee achievement awards and certain other fringe benefits; repeal of exclusion for qualified moving expense reimbursement; reduction in minimum age for allowable in-service distributions; small business accounting method reform and simplification; modifications to state and local bond interest (portion attributable to pass-through entities); and repeal of technical termination of partnerships.

(b) Percentiles include both filing and non-filing units but excludes those that are dependents of other tax units. Tax units with negative adjusted gross income are excluded from their respective income class but are included in the totals. The income percentile classes used in this table are based on the income distribution for the entire population and contain an equal number of people, not tax units. The breaks are (in 2017 dollars): 20% \$25,000; 40% \$48,600; 60% \$86,100; 80% \$149,400; 90% \$216,800; 95% \$307,900; 99% \$732,800; 99.9% \$3,439,900. For a description of expanded cash income, see <http://www.taxpolicycenter.org/TaxModel/income.cfm>

(c) Includes tax units with a change in federal tax burden of \$10 or more in absolute value.



TABLE 4
Tax Units with a Tax Change from Major Provisions of the "Tax Cuts and Jobs Act"
 By expanded cash income percentile, 2027^a

Expanded cash income percentile ^b	Tax units with tax cut or increase ^c				Average federal tax change	
	With tax cut		With tax increase		All Provisions	Major Provisions included here
	Percent of tax units	Average tax cut	Percent of tax units	Average tax increase		
Lowest quintile	39.2	-110	16.1	310	10	10
Second quintile	56.6	-360	30.8	690	20	10
Middle quintile	65.5	-1,080	32.5	1,170	-290	-330
Fourth quintile	71.0	-1,940	28.6	2,080	-710	-780
Top quintile	62.8	-10,830	37.1	6,070	-3,890	-4,550
All	56.9	-2,400	27.5	1,980	-710	-820
Addendum						
80-90	62.6	-2,920	37.3	2,880	-570	-750
90-95	54.2	-4,020	45.6	3,510	-440	-580
95-99	73.3	-10,490	26.7	6,450	-5,230	-5,970
Top 1 percent	66.4	-123,240	33.6	61,770	-52,780	-61,080
Top 0.1 percent	69.2	-583,640	30.8	298,020	-278,350	-312,110

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

Notes: Number of Alternative Minimum Tax (AMT) taxpayers (millions): Baseline: 5.6; Proposal: 0.

(a) Calendar year. Baseline is current law. Proposal includes major provisions contained in the Chairman's amendment to H.R. 1 released on 11/3/2017. Due to data limitations, excludes the following provisions: repeal of credit for adoption expenses; repeal of deduction for moving expenses; limitation on exclusion of employee achievement awards and certain other fringe benefits; repeal of exclusion for qualified moving expense reimbursement; reduction in minimum age for allowable in-service distributions; small business accounting method reform and simplification; modifications to state and local bond interest (portion attributable to pass-through entities); and repeal of technical termination of partnerships.

(b) Percentiles include both filing and non-filing units but excludes those that are dependents of other tax units. Tax units with negative adjusted gross income are excluded from their respective income class but are included in the totals. The income percentile classes used in this table are based on the income distribution for the entire population and contain an equal number of people, not tax units. The breaks are (in 2017 dollars): 20% \$28,100; 40% \$54,700; 60% \$93,200; 80% \$154,900; 90% \$225,400; 95% \$304,600; 99% \$912,100; 99.9% \$5,088,900. For a description of expanded cash income, see <http://www.taxpolicycenter.org/TaxModel/income.cfm>

(c) Includes tax units with a change in federal tax burden of \$10 or more in absolute value.

The views expressed are those of the author/authors and should not be attributed to the Urban Institute, the Brookings Institution, their trustees, or their funders. The Tax Policy Center is a joint venture of the Urban Institute and Brookings Institution. For more information, visit taxpolicycenter.org or e-mail info@taxpolicycenter.org.

Copyright © November 2017 Tax Policy Center. All rights reserved. Permission is granted for reproduction of this file, with attribution to the Urban-Brookings Tax Policy Center.