

DISTRIBUTIONAL ANALYSIS OF THE TAX CUTS AND JOBS ACT AS PASSED BY THE SENATE

TPC Staff

December 4, 2017

The Tax Policy Center has released distributional estimates of the Senate version of the Tax Cuts and Jobs Act as passed on December 2, 2017. We find the bill would reduce taxes on average for all income groups in both 2019 and 2025. In general, higher income households receive larger average tax cuts as a percentage of after-tax income, with the largest cuts as a share of income going to taxpayers in the 95th to 99th percentiles of the income distribution. On average in 2027, taxes would change little for lower- and middle-income groups and decrease for higher-income groups. Compared to current law, 7 percent of taxpayers would pay more tax in 2019, 10 percent in 2025, and 48 percent in 2027.

The Senate version of the Tax Cuts and Jobs Act that passed the Senate on December 2, 2017 would make major changes to the individual and corporate income taxes, estate and gift taxes, and certain federal excise taxes.¹

The bill would also repeal the Affordable Care Act's (ACA) individual mandate, but the distributional estimates presented here do not include the effects of that provision.²

The Tax Policy Center has released distributional estimates of this legislation. We find the following:

- Compared to current law, taxes would fall for all income groups on average in 2019, increasing overall average after-tax income by 1.6 percent. In general, tax cuts as a percentage of after-tax income would be larger for higher-income groups, with the largest cuts as a share of income going to taxpayers in the 95th to 99th percentiles of the income distribution.

¹ This analysis is based on the version of the Tax Cuts and Jobs Act as passed by the Senate on December 2, 2017. Descriptions of the bill as introduced and modified are available at [JCX-51-17](#) and [JCX-56R-17](#), and the revenue changes from the bill as passed by the Senate Finance Committee is at [JCX-62-17](#) on the Joint Committee on Taxation's website.

² The effects of this provision are not included because only a small portion of the \$318 billion change in the federal budget deficit over the 2018-2027 period is due to a change in tax receipts. A recent report from the Congressional Budget Office of the tax and non-tax effects of repealing the ACA's individual mandate is available at <https://www.cbo.gov/publication/53300>.

- The pattern of tax changes across income groups would be similar in 2025 (the last year before nearly all the individual provisions sunset) although the magnitude of average tax decreases would be slightly smaller for most income groups.
- In 2027, the overall tax reduction would be just 0.3 percent of after-tax income. On average, relative to current law, low- and middle-income taxpayers would see little change and taxpayers in the top 1 percent would receive an average tax cut of 1.1 percent of after-tax income.
- Some taxpayers would pay more in taxes under the proposal in 2019 and 2025 than under current law—about 7 percent of taxpayers in 2019 and 10 percent in 2025. In 2027, however, taxes would increase for 48 percent of taxpayers compared with current law.

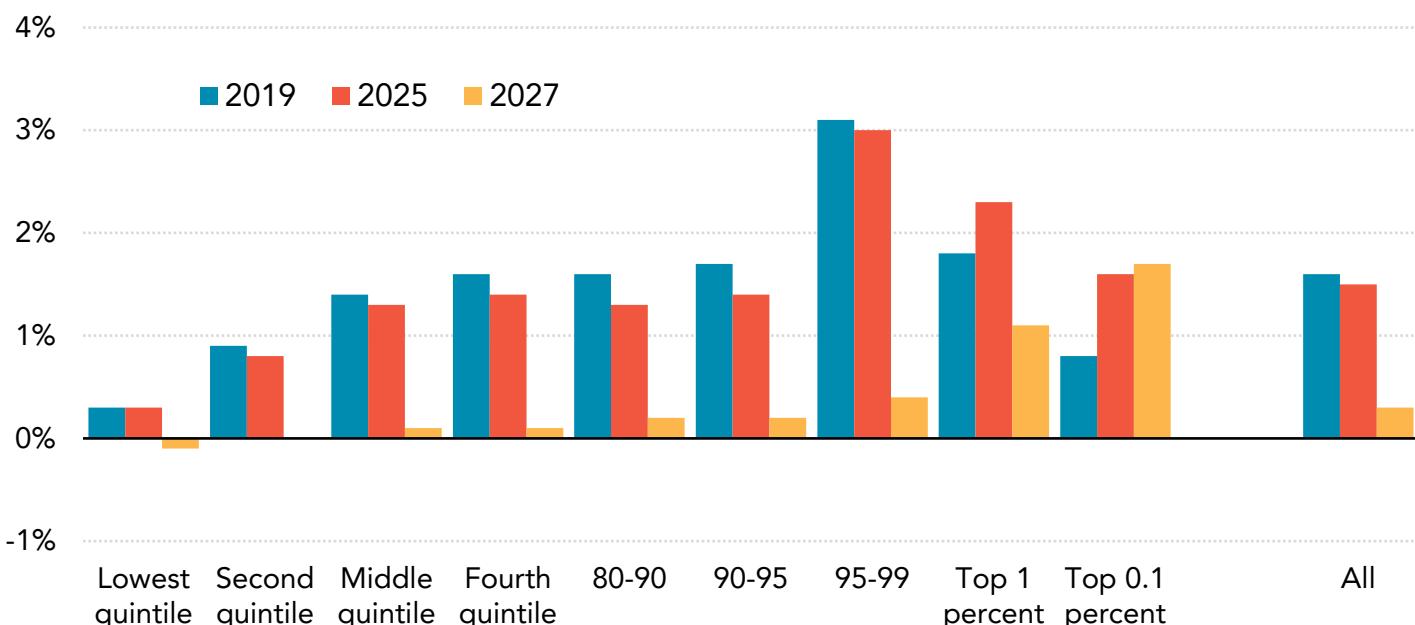
DISTRIBUTIONAL EFFECTS

The Senate bill would have different effects on the distribution of tax burdens in different years, so we present results for 2019, 2025, and 2027 (figure 1).³



FIGURE 1

Percent Change in After-tax Income of the Tax Cuts and Jobs Act as Passed by the Senate By expanded cash income percentile, 2019, 2025, and 2027



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

³We do not show distributional results for 2018 because the combination of a broader corporate base in 2018 and no corporate rate cut until 2019 makes 2018 law unrepresentative of the effects of the proposal's corporate tax changes on taxpayers.

2019

In 2019, taxes would be reduced by about \$1,200 on average, increasing after-tax incomes 1.6 percent (table 1). Taxes would decline on average across all income groups. Taxpayers in the bottom quintile (those with income less than about \$25,000) would see an average tax cut of \$40, or 0.3 percent of after-tax income. Taxpayers in the middle income quintile (those with income between about \$50,000 and \$87,000) would receive an average tax cut of about \$800, or 1.4 percent of after-tax income. Taxpayers in the 95th to 99th income percentiles (those with income between about \$310,000 and \$750,000) would benefit the most as a share of after-tax income, with an average tax cut of about \$10,000 or 3.1 percent of after-tax income. Taxpayers in the top 1 percent of the income distribution (those with income more than \$750,000) would receive an average cut of \$28,000, or 1.8 percent of after-tax income.

TABLE 1

Distribution of Federal Tax Change of the Tax Cuts and Jobs Act as Passed by the Senate

By expanded cash income percentile, 2019^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	0.8	-40	-0.2	4.0
Second quintile	0.9	5.6	-300	-0.8	8.1
Middle quintile	1.4	13.5	-840	-1.2	12.7
Fourth quintile	1.6	21.0	-1,560	-1.3	16.1
Top quintile	2.0	62.2	-5,420	-1.5	24.3
All	1.6	100.0	-1,210	-1.3	18.8
Addendum					
80-90	1.6	14.1	-2,400	-1.3	18.9
90-95	1.7	9.8	-3,430	-1.3	20.8
95-99	3.1	23.0	-10,460	-2.3	23.2
Top 1 percent	1.8	15.3	-28,430	-1.2	31.9
Top 0.1 percent	0.8	3.4	-61,920	-0.6	33.5

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

Notes: Number of Alternative Minimum Tax (AMT) taxpayers (millions): Baseline: 5.2; Proposal: 2.3. Itemizers (millions): Baseline: 48.6, Proposal: 16.9.

(a) Calendar year. Baseline is current law. Proposal includes provisions contained in the Tax Cuts and Jobs Act as passed by the Senate on 12/2/2017. Excludes the effects of repealing the Affordable Care Act's Individual Shared Responsibility Payment (i.e., "individual mandate").

(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% \$25,400; 40% \$49,600; 60% \$87,400; 80% \$150,100; 90% \$217,800; 95% \$308,200; 99% \$746,100; 99.9% \$3,587,300. 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.

2025

In 2025, the average tax cut would be \$1,400, or 1.5 percent of after-tax income (table 2). The magnitude of the average tax cut as a share of after-tax income would be smaller in 2025 than in 2019 for most income groups, mainly because the tax system would be indexed to the slower-growing chain-weighted consumer price index and because certain business tax incentives are reduced after 2022.

Taxpayers in the bottom quintile would see an average tax cut of \$50, or 0.3 percent of after-tax income. Taxpayers in the middle income quintile would receive an average tax cut of about \$900, or 1.3 percent of after-tax income.

Taxpayers in the 95th to 99th income percentiles would benefit the most as a share of after-tax income, with an average tax cut of almost \$12,000, or 3.0 percent of after-tax income. Taxpayers in the top 1 percent of the income distribution would receive an average cut of about \$48,000, or 2.3 percent of after-tax income.

TABLE 2

Distribution of Federal Tax Change of the Tax Cuts and Jobs Act as Passed by the Senate

By expanded cash income percentile, 2025^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	-50	-0.3	4.0
Second quintile	0.8	5.8	-360	-0.8	7.9
Middle quintile	1.3	13.0	-930	-1.1	12.7
Fourth quintile	1.4	18.8	-1,620	-1.1	15.9
Top quintile	2.0	64.8	-6,540	-1.5	24.6
All	1.5	100.0	-1,400	-1.2	18.9
Addendum					
80-90	1.3	11.8	-2,300	-1.0	18.7
90-95	1.4	8.4	-3,450	-1.1	20.9
95-99	3.0	22.3	-11,830	-2.2	23.3
Top 1 percent	2.3	22.2	-47,890	-1.5	31.8
Top 0.1 percent	1.6	7.1	-152,200	-1.1	32.8

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

Notes: Number of Alternative Minimum Tax (AMT) taxpayers (millions): Baseline: 5.7; Proposal: 2.3. Itemizers (millions): Baseline: 54.9, Proposal: 22.3.

(a) Calendar year. Baseline is current law. Proposal includes provisions contained in the Tax Cuts and Jobs Act as passed by the Senate on 12/2/2017. Excludes the effects of repealing the Affordable Care Act's Individual Shared Responsibility Payment (i.e., "individual mandate").

(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% \$27,300; 40% \$53,400; 60% \$91,700; 80% \$153,800; 90% \$224,400; 95% \$308,900; 99% \$837,800; 99.9% \$4,704,600. 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.

2027

In 2027, the overall average tax cut would be about \$300, or 0.3 percent of after-tax income (table 3), largely because almost all individual income tax provisions would sunset after 2025.

On average, taxes would be little changed for taxpayers in the bottom 95 percent of the income distribution. Taxpayers in the bottom quintile of the income distribution would face an average tax increase of 0.1 percent of after-tax income; taxpayers in the middle income quintile would receive an average tax cut of 0.1 percent of after-tax incomes; and taxpayers in the 95th to 99th income percentiles would receive an average tax cut of 0.4 percent of after-tax income. Taxpayers in the top 1 percent of the income distribution would receive an average tax cut of 1.1 percent of after-tax income, accounting for 62 percent of the total benefit for that year.

TABLE 3

Distribution of Federal Tax Change of the Tax Cuts and Jobs Act as Passed by the Senate

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	-1.9	20	0.1	4.4
Second quintile	0.0	-1.0	10	0.0	8.9
Middle quintile	0.1	2.8	-40	0.0	13.8
Fourth quintile	0.1	7.8	-140	-0.1	16.9
Top quintile	0.5	91.0	-1,860	-0.4	25.9
All	0.3	100.0	-280	-0.2	19.9
Addendum					
80-90	0.2	7.4	-290	-0.1	19.7
90-95	0.2	5.8	-480	-0.2	21.7
95-99	0.4	15.7	-1,680	-0.3	25.3
Top 1 percent	1.1	62.1	-26,880	-0.8	32.7
Top 0.1 percent	1.7	42.3	-182,030	-1.1	32.7

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

Notes: Number of Alternative Minimum Tax (AMT) taxpayers (millions): Baseline: 5.6; Proposal: 6.0. Itemizers (millions): Baseline: 56.8, Proposal: 57.4.

(a) Calendar year. Baseline is current law. Proposal includes provisions contained in the Tax Cuts and Jobs Act as passed by the Senate on 12/2/2017. Excludes the effects of repealing the Affordable Care Act's Individual Shared Responsibility Payment (i.e., "individual mandate").

(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 income sources, demographic and family statuses, 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 (listed in tables 4, 5, and 6) for which it is difficult to assign the tax changes to specific taxpayers.⁴ Overall, the excluded provisions represent a net tax increase, 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 2019, 75 percent of taxpayers would receive a tax cut from the included provisions, averaging almost \$2,000, and about 7 percent would face an average tax increase of about \$3,100 (table 4).⁵ In the bottom income quintile, 45 percent would receive a tax cut and 2 percent would face a tax increase. In the middle income quintile, 88 percent would receive a tax cut and 10 percent would face a tax increase. In the top 1 percent of the income distribution, 86 percent would receive a tax cut and 14 percent would face a tax increase.

TABLE 4

Tax Units with a Tax Change from Major Provisions of the Tax Cuts and Jobs Act as Passed by the Senate

By expanded cash income percentile, 2019^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	45.0	-120	1.6	810	-40	-40
Second quintile	83.3	-430	5.2	750	-300	-320
Middle quintile	88.4	-1,080	9.8	840	-840	-870
Fourth quintile	87.5	-2,020	12.1	1,240	-1,560	-1,620
Top quintile	88.6	-7,520	11.2	8,030	-5,420	-5,770
All	75.0	-1,990	7.0	3,070	-1,210	-1,280
Addendum						
80-90	87.3	-3,110	12.5	1,580	-2,400	-2,520
90-95	87.1	-4,440	12.7	1,790	-3,430	-3,630
95-99	95.0	-11,820	5.0	5,860	-10,460	-10,920
Top 1 percent	86.0	-53,590	14.0	104,130	-28,430	-31,510
Top 0.1 percent	68.8	-266,780	31.1	347,650	-61,920	-75,540

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

Notes: Number of Alternative Minimum Tax (AMT) taxpayers (millions): Baseline: 5.2; Proposal: 2.3. Itemizers (millions): Baseline: 48.6, Proposal: 16.9.

(a) Calendar year. Baseline is current law. Excludes reduction in ACA Individual Shared Responsibility Payment amount to zero. Due to data limitations, also excludes the following provisions: repeal of exclusion for employer-provided qualified moving expense reimbursements; repeal of deduction for moving expenses (other than members of the Armed Forces); simplified accounting for small business; limitation on deduction by employers of expenses on qualified transportation fringes; modification of limitation on excessive employee remuneration; 20 percent excise tax on excess tax-exempt organization executive compensation; tax gain on the sale of a partnership interest on look-thru basis; repeal of advanced refunding bonds (portion attributable to individuals); modify treatment of S corporation conversions into C corporations; and Craft Beverage Modernization and Tax Reform.

(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% \$25,400; 40% \$49,600; 60% \$87,400; 80% \$150,100; 90% \$217,800; 95% \$308,200; 99% \$746,100; 99.9% \$3,587,300. 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.

⁴ We do include the average effect of these provisions by income group in tables 1-3, but their effects vary substantially within each group and we do not have the information necessary to assign the tax changes to specific individuals or households.

⁵ The remaining 18 percent of taxpayers would see no material change in their tax burden.

In 2025, 76 percent of taxpayers would experience a tax cut from the included provisions averaging about \$2,300, and 10 percent would face an average tax increase of almost \$2,900 (table 5). In the bottom income quintile, 56 percent would receive a tax cut and 5 percent would face a tax increase. In the middle income quintile, 86 percent would receive a tax cut and 12 percent would face a tax increase. In the top 1 percent of the income distribution, 85 percent would receive a tax cut and 15 percent would face a tax increase.

TABLE 5

Tax Units with a Tax Change from Major Provisions of the Tax Cuts and Jobs Act as Passed by the Senate

By expanded cash income percentile, 2025^a



Expanded cash income percentile ^b	Tax units with tax cut or increase ^c				Average federal tax change	
	Percent of tax units	Average tax cut	Percent of tax units	Average tax increase	All Provisions	Major Provisions included here
Lowest quintile	55.5	-130	4.7	370	-50	-60
Second quintile	82.5	-520	6.8	730	-360	-380
Middle quintile	86.2	-1,250	12.3	960	-930	-960
Fourth quintile	84.3	-2,280	15.5	1,520	-1,620	-1,690
Top quintile	84.1	-9,830	15.7	7,250	-6,540	-7,130
All	76.4	-2,340	9.9	2,860	-1,400	-1,510
Addendum						
80-90	81.3	-3,430	18.4	1,870	-2,300	-2,440
90-95	81.8	-4,890	18.1	1,750	-3,450	-3,680
95-99	94.6	-13,670	5.4	8,420	-11,830	-12,470
Top 1 percent	84.9	-84,960	15.1	112,770	-47,890	-55,190
Top 0.1 percent	72.2	-417,630	27.8	417,830	-152,200	-185,120

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

Notes: Number of Alternative Minimum Tax (AMT) taxpayers (millions): Baseline: 5.7; Proposal: 2.3. Itemizers (millions): Baseline: 54.9, Proposal: 22.3.

(a) Calendar year. Baseline is current law. Excludes reduction in ACA Individual Shared Responsibility Payment amount to zero. Due to data limitations, also excludes the following provisions: repeal of exclusion for employer-provided qualified moving expense reimbursements; repeal of deduction for moving expenses (other than members of the Armed Forces); simplified accounting for small business; limitation on deduction by employers of expenses on qualified transportation fringes; modification of limitation on excessive employee remuneration; 20 percent excise tax on excess tax-exempt organization executive compensation; tax gain on the sale of a partnership interest on look-thru basis; repeal of advanced refunding bonds (portion attributable to individuals); modify treatment of S corporation conversions into C corporations; and Craft Beverage Modernization and Tax Reform.

(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% \$27,300; 40% \$53,400; 60% \$91,700; 80% \$153,800; 90% \$224,400; 95% \$308,900; 99% \$837,800; 99.9% \$4,704,600. 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.

In 2027, 31 percent of taxpayers would experience a tax cut from the included provisions averaging \$1,500, and 48 percent would face an average tax increase of \$150 (table 6). In the bottom income quintile, 14 percent would receive a tax cut and 31 percent would face a tax increase. In the middle income quintile, 32 percent would receive a tax cut and 62 percent would face a tax increase. In the top 1 percent of the income distribution, 90 percent would receive a tax cut and 10 percent would face a tax increase.

TABLE 6

Tax Units with a Tax Change from Major Provisions of the Tax Cuts and Jobs Act as Passed by the Senate

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	Average tax cut	With tax increase	Average tax increase	All Provisions	Major Provisions included here
Percent of tax units		Percent of tax units				
Lowest quintile	13.8	-110	31.1	80	20	10
Second quintile	28.0	-280	53.7	130	10	-10
Middle quintile	31.5	-490	62.2	130	-40	-80
Fourth quintile	42.2	-670	54.2	150	-140	-200
Top quintile	56.8	-4,660	42.1	340	-1,860	-2,510
All	31.3	-1,500	47.5	150	-280	-400
Addendum						
80-90	47.9	-1,140	50.6	240	-290	-430
90-95	60.9	-1,400	38.3	390	-480	-700
95-99	67.8	-3,710	31.8	620	-1,680	-2,320
Top 1 percent	89.5	-39,800	10.3	900	-26,880	-35,520
Top 0.1 percent	99.8	-221,550	0.1	11,710	-182,030	-221,130

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

Notes: Number of Alternative Minimum Tax (AMT) taxpayers (millions): Baseline: 5.6; Proposal: 6.0. Itemizers (millions): Baseline: 56.8, Proposal: 57.4.

(a) Calendar year. Baseline is current law. Excludes reduction in ACA Individual Shared Responsibility Payment amount to zero. Due to data limitations, also excludes the following provisions: repeal of exclusion for employer-provided qualified moving expense reimbursements; repeal of deduction for moving expenses (other than members of the Armed Forces); simplified accounting for small business; limitation on deduction by employers of expenses on qualified transportation fringes; modification of limitation on excessive employee remuneration; 20 percent excise tax on excess tax-exempt organization executive compensation; tax gain on the sale of a partnership interest on look-thru basis; repeal of advanced refunding bonds (portion attributable to individuals); modify treatment of S corporation conversions into C corporations; and Craft Beverage Modernization and Tax Reform.

(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 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.