

DISTRIBUTIONAL ANALYSIS OF THE CONFERENCE AGREEMENT FOR THE TAX CUTS AND JOBS ACT

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The Tax Policy Center has released distributional estimates of the conference agreement for the Tax Cuts and Jobs Act as filed on December 15, 2017. We find the bill would reduce taxes on average for all income groups in both 2018 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, 5 percent of taxpayers would pay more tax in 2018, 9 percent in 2025, and 53 percent in 2027.

The conference agreement for the Tax Cuts and Jobs Act that was filed on December 15, 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 2018, increasing overall average after-tax income by 2.2 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 conference report for the Tax Cuts and Jobs Act as filed on December 15, 2017. The text and descriptions of the bill and estimated revenue effects are available at <https://rules.house.gov/conference-report/hr-1>.

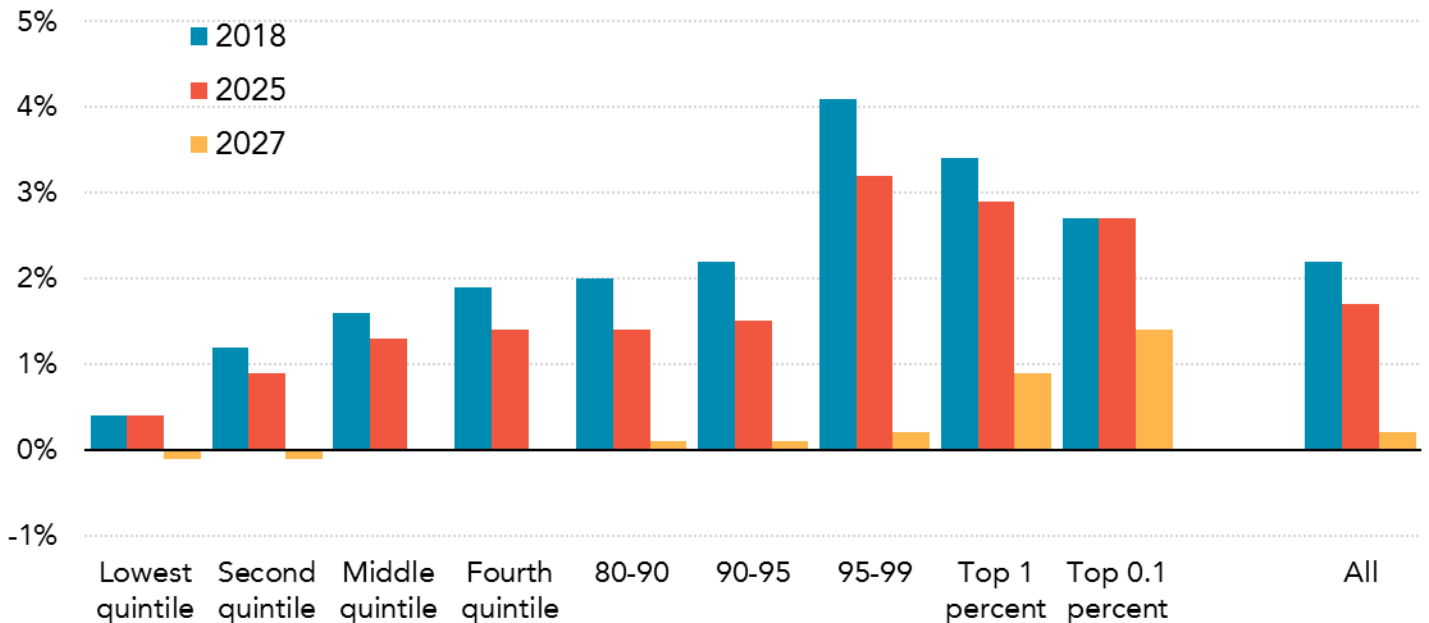
² The effects of this provision are not included because only a portion of the \$314 billion change in the federal budget deficit over the 2018-2027 period is due to a change in tax receipts. A recent report from the Congressional Budget Office of the tax and non-tax effects of repealing the ACA's individual 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 0.2 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 0.9 percent of after-tax income.
- Some taxpayers would pay more in taxes under the proposal in 2018 and 2025 than under current law: about 5 percent of taxpayers in 2018 and 9 percent in 2025. In 2027, however, taxes would increase for 53 percent of taxpayers compared with current law.

DISTRIBUTIONAL EFFECTS

The conference agreement would have different effects on the distribution of tax burdens in different years, so we present results for 2018, 2025, and 2027 (figure 1).

FIGURE 1
Percent Change in After-tax Income of the
Conference Agreement for the Tax Cuts and Jobs Act
 By expanded cash income percentile, 2018, 2025, and 2027



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

2018

In 2018, taxes would be reduced by about \$1,600 on average, increasing after-tax incomes 2.2 percent (table 1). Taxes would decline on average across all income groups. Taxpayers in the bottom quintile (those with income less than \$25,000) would see an average tax cut of \$60, or 0.4 percent of after-tax income. Taxpayers in the middle income quintile (those with income between about \$49,000 and \$86,000) would receive an average tax cut of about \$900, or 1.6 percent of after-tax income. Taxpayers in the 95th to 99th income percentiles (those with income between about \$308,000 and \$733,000) would benefit the most as a share of after-tax income, with an average tax cut of about \$13,500 or 4.1 percent of after-tax income. Taxpayers in the top 1 percent of the income distribution (those with income more than \$733,000) would receive an average cut of \$51,000, or 3.4 percent of after-tax income.

TABLE 1

Distribution of Federal Tax Change of the Conference Agreement for 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	0.4	1.0	-60	-0.4	3.7
Second quintile	1.2	5.2	-380	-1.1	7.6
Middle quintile	1.6	11.2	-930	-1.4	12.4
Fourth quintile	1.9	18.4	-1,810	-1.6	15.8
Top quintile	2.9	65.3	-7,640	-2.2	23.3
All	2.2	100.0	-1,610	-1.8	18.1
Addendum					
80-90	2.0	13.1	-2,970	-1.6	18.5
90-95	2.2	9.6	-4,550	-1.8	20.2
95-99	4.1	22.1	-13,480	-3.1	22.2
Top 1 percent	3.4	20.5	-51,140	-2.3	30.3
Top 0.1 percent	2.7	7.9	-193,380	-1.8	31.6

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

Notes: Number of Alternative Minimum Tax (AMT) taxpayers (millions): Baseline: 5.2; Proposal: 0.2. Itemizers (millions): Baseline: 46.5, Proposal: 19.3.

(a) Calendar year. Baseline is current law. Proposal includes provisions contained in the conference agreement for the Tax Cuts and Jobs Act as filed on 12/15/2017. 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% \$25,000; 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.

2025

In 2025, the average tax cut would be almost \$1,600, or 1.7 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 2018 for most income groups, mainly because the tax system would be indexed to the slower-growing chain-weighted consumer price index and due to the phase-out of certain business tax cuts, and phase-in of certain business tax increases.

Taxpayers in the bottom quintile would see an average tax cut of \$70, or 0.4 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 \$13,000, or 3.2 percent of after-tax income. Taxpayers in the top 1 percent of the income distribution would receive an average cut of about \$61,000, or 2.9 percent of after-tax income.

TABLE 2

Distribution of Federal Tax Change of the Conference Agreement for the Tax Cuts and Jobs Act

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	0.4	1.3	-70	-0.4	3.9
Second quintile	0.9	5.6	-390	-0.8	7.8
Middle quintile	1.3	11.4	-910	-1.1	12.8
Fourth quintile	1.4	17.4	-1,680	-1.2	15.8
Top quintile	2.3	65.8	-7,460	-1.7	24.4
All	1.7	100.0	-1,570	-1.4	18.7
Addendum					
80-90	1.4	11.0	-2,410	-1.1	18.7
90-95	1.5	7.9	-3,670	-1.2	20.8
95-99	3.2	21.6	-12,860	-2.4	23.1
Top 1 percent	2.9	25.3	-61,090	-1.9	31.4
Top 0.1 percent	2.7	10.5	-252,300	-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: 5.7; Proposal: 0.2. Itemizers (millions): Baseline: 54.9, Proposal: 26.4.

(a) Calendar year. Baseline is current law. Proposal includes provisions contained in the conference agreement for the Tax Cuts and Jobs Act as filed on 12/15/2017. 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 \$160, or 0.2 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 two quintiles 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 see no material change on average; and taxpayers in the 95th to 99th income percentiles would receive an average tax cut of 0.2 percent of after-tax income. Taxpayers in the top 1 percent of the income distribution would receive an average tax cut of 0.9 percent of after-tax income, accounting for 83 percent of the total benefit for that year.

TABLE 3

Distribution of Federal Tax Change of the Conference Agreement for 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	-4.6	30	0.1	4.4
Second quintile	-0.1	-5.4	40	0.1	8.9
Middle quintile	0.0	-2.1	20	0.0	13.8
Fourth quintile	0.0	2.9	-30	0.0	16.9
Top quintile	0.4	107.3	-1,260	-0.3	26.0
All	0.2	100.0	-160	-0.1	20.0
Addendum					
80-90	0.1	4.4	-100	0.0	19.7
90-95	0.1	3.9	-190	-0.1	21.8
95-99	0.2	16.4	-1,010	-0.2	25.4
Top 1 percent	0.9	82.8	-20,660	-0.6	32.9
Top 0.1 percent	1.4	59.8	-148,260	-0.9	32.9

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 conference agreement for the Tax Cuts and Jobs Act as filed on 12/15/2017. 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 who 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.³

In 2018, 80 percent of taxpayers would receive a tax cut from the included provisions--averaging about \$2,100--and about 5 percent would face an average tax increase of about \$2,800 (table 4).⁴ In the bottom income quintile, 54 percent would receive a tax cut and 1 percent would face a tax increase. In the middle income quintile, 91 percent would receive a tax cut and 7 percent would face a tax increase. In the top 1 percent of the income distribution, 91 percent would receive a tax cut and 9 percent would face a tax increase.

TABLE 4

Tax Units with a Tax Change from Major Provisions of the Conference Agreement for 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	53.9	-130	1.2	810	-60	-60
Second quintile	86.8	-480	4.6	740	-380	-380
Middle quintile	91.3	-1,090	7.3	910	-930	-930
Fourth quintile	92.5	-2,070	7.3	1,360	-1,810	-1,810
Top quintile	93.7	-8,510	6.2	8,800	-7,640	-7,430
All	80.4	-2,140	4.8	2,770	-1,610	-1,590
Addendum						
80-90	92.3	-3,370	7.6	1,800	-2,970	-2,970
90-95	94.4	-4,910	5.5	1,890	-4,550	-4,530
95-99	97.3	-13,890	2.7	8,260	-13,480	-13,280
Top 1 percent	90.7	-61,940	9.3	93,910	-51,140	-47,550
Top 0.1 percent	83.7	-285,490	16.2	387,610	-193,380	-176,070

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

Notes: Number of Alternative Minimum Tax (AMT) taxpayers (millions): Baseline: 5.2; Proposal: 0.2. Itemizers (millions): Baseline: 46.5, Proposal: 19.3.

(a) Calendar year. Baseline is current law. Proposal includes provisions contained in the conference agreement for the Tax Cuts and Jobs Act as filed on 12/15/2017. Excludes the effects of repealing the Affordable Care Act's Individual Shared Responsibility Payment (i.e., "individual mandate"). 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); retirement plan and casualty loss relief for certain disaster areas; repeal of deduction for alimony payments and corresponding inclusion in income; simplified accounting for small business; modify treatment of S corporation conversions into C corporations; limitation and repeal of deduction by employers of expenses for certain fringe benefits; modification of limitation on excessive employee remuneration; tax gain on the sale of a partnership interest on look-thru basis; craft beverage modernization and tax reform; and individual income tax portion of certain business provisions.

(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.

³ 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.

⁴ The remaining 15 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 \$2,500, and 9 percent would face an average tax increase of almost \$2,500 (table 5). In the bottom income quintile, 50 percent would receive a tax cut and 5 percent would face a tax increase. In the middle income quintile, 87 percent would receive a tax cut and 11 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 Conference Agreement for the Tax Cuts and Jobs Act

By expanded cash income percentile, 2025^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	49.8	-200	5.1	280	-70	-80
Second quintile	80.7	-570	7.0	680	-390	-420
Middle quintile	87.4	-1,220	10.9	1,040	-910	-950
Fourth quintile	87.2	-2,240	12.4	1,590	-1,680	-1,760
Top quintile	86.8	-10,370	13.1	6,890	-7,460	-8,100
All	75.5	-2,530	8.9	2,460	-1,570	-1,690
Addendum						
80-90	84.9	-3,410	15.0	2,140	-2,410	-2,570
90-95	85.6	-4,940	14.3	2,050	-3,670	-3,940
95-99	94.2	-14,900	5.7	8,440	-12,860	-13,560
Top 1 percent	84.9	-95,290	15.1	80,680	-61,090	-68,730
Top 0.1 percent	83.6	-432,730	16.3	462,630	-252,300	-286,280

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

Notes: Number of Alternative Minimum Tax (AMT) taxpayers (millions): Baseline: 5.7; Proposal: 0.2. Itemizers (millions): Baseline: 54.9, Proposal: 26.4.

(a) Calendar year. Baseline is current law. Proposal includes provisions contained in the conference agreement for the Tax Cuts and Jobs Act as filed on 12/15/2017. Excludes the effects of repealing the Affordable Care Act's Individual Shared Responsibility Payment (i.e., "individual mandate"). 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); retirement plan and casualty loss relief for certain disaster areas; repeal of deduction for alimony payments and corresponding inclusion in income; simplified accounting for small business; modify treatment of S corporation conversions into C corporations; limitation and repeal of deduction by employers of expenses for certain fringe benefits; modification of limitation on excessive employee remuneration; tax gain on the sale of a partnership interest on look-thru basis; craft beverage modernization and tax reform; and individual income tax portion of certain business provisions.

(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, 25 percent of taxpayers would experience a tax cut from the included provisions, averaging about \$1,500, and 53 percent would face an average tax increase of \$180 (table 6). In the bottom income quintile, 11 percent would receive a tax cut and 33 percent would face a tax increase. In the middle income quintile, 24 percent would receive a tax cut and 70 percent would face a tax increase. In the top 1 percent of the income distribution, 76 percent would receive a tax cut and 24 percent would face a tax increase.

TABLE 6

Tax Units with a Tax Change from Major Provisions of the Conference Agreement for 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	11.1	-120	32.6	90	30	20
Second quintile	23.3	-280	57.7	140	40	20
Middle quintile	24.4	-520	69.7	150	20	-30
Fourth quintile	33.2	-680	64.2	190	-30	-110
Top quintile	46.7	-4,710	52.3	420	-1,260	-1,980
All	25.2	-1,540	53.4	180	-160	-290
Addendum						
80-90	38.1	-1,150	60.5	300	-100	-260
90-95	50.2	-1,320	48.7	450	-190	-450
95-99	58.0	-3,510	41.5	740	-1,010	-1,730
Top 1 percent	75.9	-39,690	23.8	1,250	-20,660	-29,820
Top 0.1 percent	91.9	-206,280	8.0	3,200	-148,260	-189,360

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 conference agreement for the Tax Cuts and Jobs Act as filed on 12/15/2017.

Excludes the effects of repealing the Affordable Care Act's Individual Shared Responsibility Payment (i.e., "individual mandate"). 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); retirement plan and casualty loss relief for certain disaster areas; repeal of deduction for alimony payments and corresponding inclusion in income; simplified accounting for small business; modify treatment of S corporation conversions into C corporations; limitation and repeal of deduction by employers of expenses for certain fringe benefits; modification of limitation on excessive employee remuneration; tax gain on the sale of a partnership interest on look-thru basis; craft beverage modernization and tax reform; and individual income tax portion of certain business provisions.

(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.

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