TAX POLICY CENTER
URBAN INSTITUTE & BROOKINGS INSTITUTION

UPDATED EFFECTS OF THE TAX CUTS AND JOBS ACT ON REPRESENTATIVE FAMILIES

TPC Staff

December 22, 2017

ABSTRACT

The Tax Cuts and Jobs Act (TCJA), under the conference agreement, would reduce taxes on average for all income groups. However, not all taxpayers would benefit to the same degree, and some would pay higher taxes. Even taxpayers with the same income could pay different amounts of tax depending upon the composition of their families, how they earn their income, and where they live. Households also would generally pay more in tax after certain provisions of the TCJA expire and a less generous measure to index tax system parameters for inflation takes hold.

To illustrate the impact of the Tax Cuts and Jobs Act on different taxpayers, the Tax Policy Center has updated its examples of how the TCJA would affect representative families. In all examples, we assume that real family income is the same in both 2018 and 2027.

EXAMPLE SCENARIOS

Example 1: Married Couple with Two Young or Two Older Children 3

Example 2: Single High-Earner with Wages or Self-Employment Income 5

Example 3: Married Couple in a High-, Low-, or Moderate-Tax State (Income of $135,000) 7

Example 4: Married Couple in a High-, Low-, or Moderate-Tax State (Income of $285,000) 9

Example 5: Lower-Income Single with No, One, or Two Children 11

Example 6: Lower-Income Married Couple with No, One, or Two Children 14

EXAMPLE 1: MARRIED COUPLE WITH TWO YOUNG OR TWO OLDER CHILDREN

This example looks at two married couples with $75,000 of earnings in 2018. The children of the first couple are both younger than age 17; the children of the second couple are age 17 and 18.

Under pre-TCJA law both families could claim four personal exemptions of $4,150 per person. We assume they take the standard deduction rather than itemizing. The younger children are each eligible for the maximum child tax credit (CTC) of $1,000. Children 17 and older are not eligible for the CTC.

The TCJA would eliminate personal exemptions, raise the standard deduction, increase the child tax credit to $2,000 per child, and provide a $500 credit for dependents not eligible for the regular CTC. Taxable income would go up for both families under the TCJA because the amount of lost personal exemptions would exceed the increase in the standard deduction. However, taxes before credits would go down because of the reduction in the tax rates paid by these families. Taxes after credits would go down by even more because of the expanded CTC. The tax cut for the family with younger children would be larger than for the family with older children, however, because the younger children would qualify for the $1,000 increase in the regular CTC rather than the $500 credit for other dependents.

TABLE 1

Married Couple with Young and Older Children

2018

	Couple with Young Children		Couple with Older Children	
	Current Law	TCJA	Current Law	TCJA
Adjusted gross income	$75,000	$75,000	$75,000	$75,000
Personal exemptions	$16,600	$0	$16,600	$0
Standard deduction	$13,000	$24,000	$13,000	$24,000
Taxable Income	$45,400	$51,000	$45,400	$51,000
Tax before credits	$5,858	$5,739	$5,858	$5,739
Child tax credit	$2,000	$4,000	$0	$1,000
Tax after credits	$3,858	$1,739	$5,858	$4,739
Tax cut(-) or Increase(+)		**-$2,119**		**-$1,119**

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

Over time, the net benefit of the combination of an expanded CTC and the loss of personal exemptions would narrow because the personal exemption amount is indexed for inflation but the CTC is not. Because all the individual income tax provisions of the TCJA would expire after 2025 except for the less generous inflation measure for indexing the tax system, both families would see a modest tax increase in 2027.

TABLE 2

Married Couple with Young and Older Children

2027

	Couple with Young Children		Couple with Older Children	
	Current Law	TCJA	Current Law	TCJA
Adjusted gross income	$92,440	$92,440	$92,440	$92,440
Personal exemptions	$20,400	$20,000	$20,400	$20,000
Standard deduction	$16,000	$15,600	$16,000	$15,600
Taxable Income	$56,040	$56,840	$56,040	$56,840
Tax before credits	$7,231	$7,381	$7,231	$7,381
Child tax credit	$2,000	$2,000	$0	$0
Tax after credits	$5,231	$5,381	$7,231	$7,381
Tax cut(-) or Increase(+)		**$150**		**$150**

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

EXAMPLE 2: SINGLE HIGH-EARNER WITH WAGES OR SELF-EMPLOYMENT INCOME

This example looks at single taxpayers with income of $250,000 in 2018. The first person's adjusted gross income is entirely from wages and salaries and the second person's adjusted gross income is from self-employment. Both itemize their deductions under pre-TCJA law, claiming state and local income taxes of $17,500, property taxes of $8,000, and combined mortgage interest and charitable contributions of $20,500. We assume that the self-employment income qualifies for the business income tax deduction introduced by the TCJA and is not from a specified service business.

Under the TCJA, the wage-earner would pay higher taxes because he would lose his personal exemptions and his state and local tax deduction would be capped at $10,000. He would continue to itemize and so would not benefit from the higher standard deduction. The self-employed person would also continue to itemize, but would pay much less tax because she could deduct 20 percent of her business income (but limited to 20 percent of her taxable income without regard to the deduction). The new deduction would more than compensate for the loss of personal exemptions and the $10,000 limit on her state and local tax deduction.

TABLE 3

Single High Earner

2018

	With Wages		With Self-Employment Income	
	Current Law	TCJA	Current Law	TCJA
Adjusted gross income	$250,000	$250,000	$250,000	$250,000
Personal exemptions	$4,150	$0	$4,150	$0
Itemized deductions	$46,000	$30,500	$46,000	$30,500
Taxable Income	$199,850	$219,500	$199,850	$175,600
Tax before credits and AMT	$49,021	$52,515	$49,021	$37,882
Alternative minimum tax	$3,345	$0	$3,345	$0
Tax after credits and AMT	$52,366	$52,515	$52,366	$37,882
Tax cut(-) or Increase(+)		**$149**		**-$14,485**

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

The qualified business income deduction phases out for income from specified service businesses above certain income thresholds. Specified service businesses include business that provide services in the fields of health, law, and financial services, among many others. The income threshold for a single taxpayer in 2018 is $157,500 of taxable income (before applying the deduction) and twice that for a married couple. Because the deduction phases out over a $50,000 range, the deduction for a single taxpayer would be fully phased out at taxable income of $207,500. Thus, if the self-employed person's income in the example was from a specified service business, her taxable income would be above $207,500 and thus she would not be able to claim the qualified business income deduction. Her taxes would be the same as the taxes paid by the wage earner.

Two people with the same inflation adjusted earnings and business income in 2027 would see tax increases under the TCJA. Because all the individual income tax provisions would expire after 2025, including the AMT exemption amount and phase-out threshold, except for the lower inflation measure for indexing the tax system, both would receive a tax increase of about $800.

TABLE 4

Single High Earner

2027

	With Wages		With Self-Employment Income	
	Current Law	TCJA	Current Law	TCJA
Adjusted gross income	$308,133	$308,133	$308,133	$308,133
Personal exemptions	$5,100	$5,000	$5,100	$5,000
Itemized deductions	$56,696	$56,696	$56,696	$56,696
Taxable Income	$246,337	$246,437	$246,337	$246,437
Tax before credits and AMT	$60,421	$60,954	$60,421	$60,954
Alternative minimum tax	$4,147	$4,426	$4,147	$4,426
Tax after credits and AMT	$64,568	$65,380	$64,568	$65,380
Tax cut(-) or Increase(+)		**$812**		**$812**

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

EXAMPLE 3: MARRIED COUPLE IN A HIGH-, LOW-, OR MODERATE-TAX STATE (INCOME OF $135,000)

This example looks at three married couples without children, each with income of $135,000 in 2018. The first lives in a state with high state and local taxes (such as California, New York, or Wisconsin), the second in a state with low taxes (such as New Hampshire, Louisiana, or Texas), and the third in a state with moderate taxes (such as Indiana, Michigan, or Virginia). For each couple, we used the average amount of itemized deductions for households with income of $135,000 in California, Texas, and Virginia, but the examples generally apply to taxpayers living in other high-, low-, or moderate-tax states.

All three couples currently itemize their deductions. The TCJA would limit deductions for state and local taxes to no more than $10,000 and, with some exceptions, repeal deductions for certain miscellaneous expenses and casualty and theft losses.

The combination of limited itemized deductions and a higher standard deduction would make it advantageous for all three couples to claim the standard deduction under the TCJA, even though they all have potentially-deductible mortgage interest payments and charitable contributions.

As a consequence of losing their personal exemptions and no longer itemizing, taxable income would increase for the couple in the high-tax state and they would pay higher federal income taxes than under pre-TCJA law. Taxable income would also go up for the couple in a low-tax state, but by less than for the couple in a high-tax state, and they would have a tax cut under the TCJA. The couple in a moderate-tax state also would see their taxable income go up but they would pay about the same tax as under pre-TCJA law.

In 2027, with the expiration of all individual tax provisions except the lower inflation indexing factor under the Senate bill, all three couples would return to itemizing their deductions, with the result that the couple in the high-tax state would pay less federal tax than the other two couples. The lower inflation factor would result in a slight tax increase for all three couples relative to pre-TCJA law.

TABLE 5

Married Couple Living in a High-, Low-, or Moderate-Tax State

2018

	High-Tax State		Low-Tax State		Moderate-Tax State	
	Current Law	TCJA	Current Law	TCJA	Current Law	TCJA
Adjusted gross income	$135,000	$135,000	$135,000	$135,000	$135,000	$135,000
Personal exemptions	$8,300	$0	$8,300	$0	$8,300	$0
Standard deduction	$0	$24,000	$0	$24,000	$0	$24,000
Itemized deductions	$29,900	$0	$24,300	$0	$26,700	$0
Taxable Income	$96,800	$111,000	$102,400	$111,000	$100,000	$111,000
Tax before credits and AMT	$15,508	$16,299	$16,908	$16,299	$16,308	$16,299
Alternative minimum tax	$0	$0	$0	$0	$0	$0
Tax after credits and AMT	$15,508	$16,299	$16,908	$16,299	$16,308	$16,299
Tax cut(-) or Increase(+)		**$792**		**-$609**		**-$9**

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

TABLE 6

Married Couple Living in a High-, Low-, or Moderate-Tax State

2027

	High-Tax State		Low-Tax State		Moderate-Tax State	
	Current Law	TCJA	Current Law	TCJA	Current Law	TCJA
Adjusted gross income	$166,392	$166,392	$166,392	$166,392	$166,392	$166,392
Personal exemptions	$10,200	$10,000	$10,200	$10,000	$10,200	$10,000
Standard deduction	$0	$0	$0	$0	$0	$0
Itemized deductions	$36,853	$36,853	$29,951	$29,951	$32,909	$32,909
Taxable Income	$119,339	$119,539	$126,241	$126,441	$123,283	$123,483
Tax before credits and AMT	$19,120	$19,430	$20,845	$21,155	$20,106	$20,416
Alternative minimum tax	$0	$0	$0	$0	$0	$0
Tax after credits and AMT	$19,120	$19,430	$20,845	$21,155	$20,106	$20,416
Tax cut(-) or Increase(+)		**$310**		**$310**		**$310**

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

EXAMPLE 4: MARRIED COUPLE IN A HIGH-, LOW-, OR MODERATE-TAX STATE (INCOME OF $285,000)

Next we consider three couples without children, each with income of $285,000 in 2018 living in high-, low-, and moderate-tax states. As in the previous example, we assume their itemized deductions track the averages for people with that income in California, Texas, and Virginia, but once again the examples generally apply to taxpayers living in other high-, low-, or moderate-tax states.

All three couples would continue to itemize under the TCJA because the sum of their remaining deductions for state and local taxes capped at $10,000, mortgage interest, and charitable contributions would exceed their standard deduction. While the changes in itemized deductions would reduce allowable deductions for all three couples, they would affect the couple in the high-tax state the most, cutting their deductions almost in half. Because the $10,000 cap on deductible state and local taxes is not indexed for inflation, the limit on the state and local tax deduction would become more stringent over time if property and other state and local taxes grow with rising prices and incomes.

All three households would have a tax cut but the couple living in a low-tax state would get a tax cut of about $4,400 compared with a cut of about $2,000 for the couple in the high-tax state and $2,400 for the couple in a moderate-tax state. The couples in the high- and moderate-tax states would pay some amount of alternative minimum tax (AMT) under pre-TCJA law. The TCJA would retain the individual AMT but raise the AMT exemption amounts and the income level at which the exemption phases out, so none of the couples would pay the AMT under the TCJA.

With the expiration of all individual provisions except for the lower inflation indexing factor under the Senate bill, all three couples would have a modest tax increase in 2027—about $1,200 for the couples in a high- and a moderate-tax state, and about $810 for the couple in a low-tax state who, unlike the other couples, would not pay the alternative minimum tax in 2027.

TABLE 7

Married Couple Living in a High-, Low-, or Moderate-Tax State

2018

	High-Tax State		Low-Tax State		Moderate-Tax State	
	Current Law	TCJA	Current Law	TCJA	Current Law	TCJA
Adjusted gross income	$285,000	$285,000	$285,000	$285,000	$285,000	$285,000
Personal exemptions	$8,300	$0	$8,300	$0	$8,300	$0
Standard deduction	$0	$0	$0	$0	$0	$0
Itemized deductions	$52,400	$28,700	$34,300	$27,600	$43,100	$28,800
Taxable Income	$224,300	$256,300	$242,400	$257,400	$233,600	$256,200
Tax before credits and AMT	$49,427	$50,091	$54,718	$50,355	$52,031	$50,067
Alternative minimum tax	$2,750	$0	$0	$0	$461	$0
Tax after credits and AMT	$52,177	$50,091	$54,718	$50,355	$52,492	$50,067
Tax cut(-) or Increase(+)		**-$2,086**		**-$4,363**		**-$2,425**

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

TABLE 8

Married Couple Living in a High-, Low-, or Moderate-Tax State

2027

	High-Tax State		Low-Tax State		Moderate-Tax State	
	Current Law	TCJA	Current Law	TCJA	Current Law	TCJA
Adjusted gross income	$351,272	$351,272	$351,272	$351,272	$351,272	$351,272
Personal exemptions	$10,200	$10,000	$10,200	$10,000	$10,200	$10,000
Standard deduction	$0	$0	$0	$0	$0	$0
Itemized deductions	$64,585	$64,585	$42,276	$42,276	$53,122	$53,122
Taxable Income	$276,487	$276,687	$298,796	$298,996	$287,950	$288,150
Tax before credits and AMT	$60,926	$61,380	$67,448	$68,262	$64,136	$64,682
Alternative minimum tax	$3,394	$4,123	$0	$0	$572	$1,209
Tax after credits and AMT	$64,320	$65,503	$67,448	$68,262	$64,708	$65,891
Tax cut(-) or Increase(+)		**$1,183**		**$814**		**$1,183**

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

EXAMPLE 5: LOWER-INCOME SINGLE WITH NO, ONE, OR TWO CHILDREN

This example looks at three single taxpayers, each earning $30,000 in 2018. The first taxpayers has no children, the second has one child, and the third has two children. All children are under age 17.

Under the TCJA taxpayers would lose personal and dependent exemptions of $4,150 per person but would gain higher standard deductions. The standard deduction would increase from $6,500 under pre-TCJA law to $12,000 for a single taxpayer and from $9,550 to $18,000 for a single taxpayer with children filing as a head-of-household. Single taxpayers with children also would benefit from the increase in the maximum child tax credit from $1,000 to $2,000 per eligible child.

The reduction in the earnings threshold for the refundable portion of the CTC would further help low-income single taxpayers with children. Under pre-TCJA law, taxpayers with children can receive a refundable CTC (also known as the additional child tax credit) if their earnings exceed $3,000. The amount of the refundable credit equals 15 percent of earnings up to a maximum of their total child tax credits minus the portion of their credits used to offset income tax liability. The TCJA would lower the earnings threshold to $2,500, keep the same 15 percent of earning phase-in rate, but limit the refundable portion of the credit to $1,400. The $1,400 would be indexed for inflation for year after 2018.

Under the TCJA, each of the single taxpayers would receive a tax cut, ranging from about $460 for a single person with no children to about $1,600 for a single person with two children. For a single person without children, the higher standard deduction would more than offset the loss of a personal exemption, lowering taxable income by $1,350. She would also benefit from a reduction in income tax rates.

The TCJA would lower taxable income for a single person with one child only slightly because the value of her disallowed personal exemptions would just about equal the increase in the standard deduction. The major tax reduction for this taxpayer would come from the increase in the child tax credit (CTC) from $1,000 to $2,000 per child. As under pre-TCJA law, this person would not have income tax liability and would receive a larger refundable tax credit.

Taxable income would increase by $4,000 for the single taxpayer with two children because the value of the three disallowed personal exemptions would be greater than the increase in the standard deduction. However, the increase in the child tax credit would result in a larger tax refund for her. Because the personal exemption amount is indexed for inflation but the CTC is not, the net benefit of the combination of an expanded CTC and the loss of personal exemptions narrows over time.

All the individual income tax provisions of the TCJA would expire after 2025 except for the lower inflation measure for indexing the tax system. This would cause personal exemption amounts, the standard deductions, and the earned income credit to grow more slowly than they would under pre-TCJA law. As a result, the single taxpayer without children would have a small tax increase in 2027, and the single taxpayers with children would receive a smaller tax refund.

TABLE 9

Lower-Income Single with No, One, and Two Children

2018

	No children		One child		Two children	
	Current Law	TCJA	Current Law	TCJA	Current Law	TCJA
Adjusted gross income	$30,000	$30,000	$30,000	$30,000	$30,000	$30,000
Personal exemptions	$4,150	$0	$8,300	$0	$12,450	$0
Standard deduction	$6,500	$12,000	$9,550	$18,000	$9,550	$18,000
Taxable Income	$19,350	$18,000	$12,150	$12,000	$8,000	$12,000
Tax before credits	$2,426	$1,970	$1,215	$1,200	$800	$1,200
Child tax credit	$0	$0	$1,000	$2,000	$2,000	$4,000
Earned income tax credit	$0	$0	$1,662	$1,649	$3,348	$3,328
Tax after credits	$2,426	$1,970	-$1,447	-$2,449	-$4,548	-$6,128
Tax cut(-) or Increase(+)		**-$457**		**-$1,002**		**-$1,580**

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

TABLE 10

Lower-Income Single with No, One, and Two Children

2027

	No children		One child		Two children	
	Current Law	TCJA	Current Law	TCJA	Current Law	TCJA
Adjusted gross income	$36,976	$36,976	$36,976	$36,976	$36,976	$36,976
Personal exemptions	$5,100	$5,000	$10,200	$10,000	$15,300	$15,000
Standard deduction	$8,000	$7,800	$11,750	$11,500	$11,750	$11,500
Taxable Income	$23,876	$24,176	$15,026	$15,476	$9,926	$10,476
Tax before credits	$2,994	$3,054	$1,503	$1,548	$993	$1,048
Child tax credit	$0	$0	$1,000	$1,000	$2,000	$2,000
Earned income tax credit	$0	$0	$2,048	$1,859	$4,127	$3,843
Tax after credits	$2,994	$3,054	-$1,546	-$1,311	-$5,135	-$4,796
Tax cut(-) or Increase(+)		**$60**		**$235**		**$339**

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

EXAMPLE 6: LOWER-INCOME MARRIED COUPLE WITH NO, ONE, OR TWO CHILDREN

This example looks at three married couples, each earning $30,000 in 2018. The first couple has no children, the second couple has one child, and the third couple has two children. All children are under age 17.

Under the TCJA taxpayers would lose personal and dependent exemptions of $4,150 per exemption but would gain higher standard deductions. The standard deduction would increase from $13,000 under pre-TCJA law to $24,000 for a married couple filing a joint tax return. Married couples with children would also benefit from the increase in the maximum child tax credit from $1,000 to $2,000 per eligible child.

The reduction in the earnings threshold for the refundable portion of the CTC would help low-income married couples with children. Under pre-TCJA law, taxpayers with children can receive a refundable CTC (also known as the additional child tax credit) if their earnings exceed $3,000. The amount of the refundable credit equals 15 percent of earnings up to a maximum of their total child tax credits minus the portion of their credits used to offset any income tax liability. The TCJA would lower the earnings threshold to $2,500, keep the same 15 percent of earnings phase-in rate, but limit the refundable portion of the credit to $1,400. The $1,400 would be indexed for inflation in years after 2018.

Under the TCJA, each of the married couples would receive a tax cut, but the tax cuts for married couples with children would be smaller than the tax cuts for a single person with the same number of children. Unlike the example for single taxpayers, the largest tax cut for married couples would be for the couple with one child. The TCJA would reduce taxable income for the couple with no children, but taxable income for the other two couples would go up under the TCJA because the increase in the standard deduction would not offset the loss of personal exemptions. While this would contribute to slightly higher taxes before credit for those families, the increase in the child tax credit from $1,000 to $2,000 per child would result in a tax cut. However, the family with two children could not claim the full $2,000 per child CTC because the refundable portion of the credit would be limited to $1,400. Like the single parents with children, the married couples with children would have no income tax liability and would receive larger refundable credits.

Over time, the combination of the net benefit from higher child tax credits and the loss of personal exemptions would narrow because the personal exemption amount is indexed for inflation while the CTC is not. All the individual tax provisions would expire after 2025 except for the lower inflation measured used to index the tax system. This would cause personal exemption amounts, the standard deductions, and the earned income tax credit to grow more slowly than they would under pre-TCJA law. As a result, the married couple without children would have a small tax increase in 2027, and the married couples with children would receive a smaller tax refund.

TABLE 11

Lower-Income Married Couple with No, One, and Two Children

2018

	No children		One child		Two children	
	Current Law	TCJA	Current Law	TCJA	Current Law	TCJA
Adjusted gross income	$30,000	$30,000	$30,000	$30,000	$30,000	$30,000
Personal exemptions	$8,300	$0	$12,450	$0	$16,600	$0
Standard deduction	$13,000	$24,000	$13,000	$24,000	$13,000	$24,000
Taxable Income	$8,700	$6,000	$4,550	$6,000	$400	$6,000
Tax before credits	$870	$600	$455	$600	$40	$600
Child tax credit	$0	$0	$1,000	$2,000	$2,000	$3,400
Earned income tax credit	$0	$0	$2,573	$2,558	$4,549	$4,526
Tax after credits	$870	$600	-$3,118	-$3,958	-$6,509	-$7,326
Tax cut(-) or Increase(+)		**-$270**		**-$840**		**-$817**

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

TABLE 12

Lower-Income Married Couple with No, One, and Two Children

2027

	No children		One child		Two children	
	Current Law	TCJA	Current Law	TCJA	Current Law	TCJA
Adjusted gross income	$36,976	$36,976	$36,976	$36,976	$36,976	$36,976
Personal exemptions	$10,200	$10,000	$15,300	$15,000	$20,400	$20,000
Standard deduction	$16,000	$15,600	$16,000	$15,600	$16,000	$15,600
Taxable Income	$10,776	$11,376	$5,676	$6,376	$576	$1,376
Tax before credits	$1,078	$1,138	$568	$638	$58	$138
Child tax credit	$0	$0	$1,000	$1,000	$2,000	$2,000
Earned income tax credit	$0	$0	$3,170	$2,953	$5,606	$5,286
Tax after credits	$1,078	$1,138	-$3,603	-$3,316	-$7,548	-$7,148
Tax cut(-) or Increase(+)		**$60**		**$287**		**$400**

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

The Tax Policy Center is a joint venture of the
Urban Institute and Brookings Institution.

For more information, visit taxpolicycenter.org
or email info@taxpolicycenter.org