

DISTRIBUTIONAL ANALYSIS OF THE TAX CUTS AND JOBS ACT AS PASSED BY THE HOUSE WAYS AND MEANS COMMITTEE

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The Tax Policy Center has released distributional estimates of the Tax Cuts and Jobs Act to reflect the bill passed by the Committee on Ways and Means of the US House of Representatives on November 9, 2017. The changes from the bill as originally introduced have a relatively minor effect on the distribution of the tax changes across income groups. We find the legislation would reduce taxes on average for all income groups in 2018 and 2027. The largest cuts, in 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 7 percent of taxpayers would pay higher taxes under the proposal in 2018 and at least 24 percent of taxpayers would pay more in 2027.

The Tax Cuts and Jobs Act, introduced as H.R. 1 on November 2, 2017, and passed by the Ways and Means Committee on November 9, 2017, would make major changes to the individual and corporate income taxes, estate and gift taxes, and certain federal excise taxes.¹ The changes from the bill as originally introduced would have a relatively minor effect on the distribution of the tax changes across income groups.

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

- Taxes would fall for all income groups on average in 2018, increasing overall average after-tax income 1.6 percent. The largest tax cuts would go to higher-income taxpayers.
- Overall, the tax cut would be smaller in 2027 than in 2018 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

¹ This analysis is based on the version of H.R. 1, the Tax Cuts and Jobs Act, which was ordered reported by the House Committee on Ways & Means on November 9, 2017. The [legislative text](#) is available on the House Rules Committee website. A description of H.R. 1 as introduced is available at [JCX-50-17](#) on the Joint Committee of Taxation's website.

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.

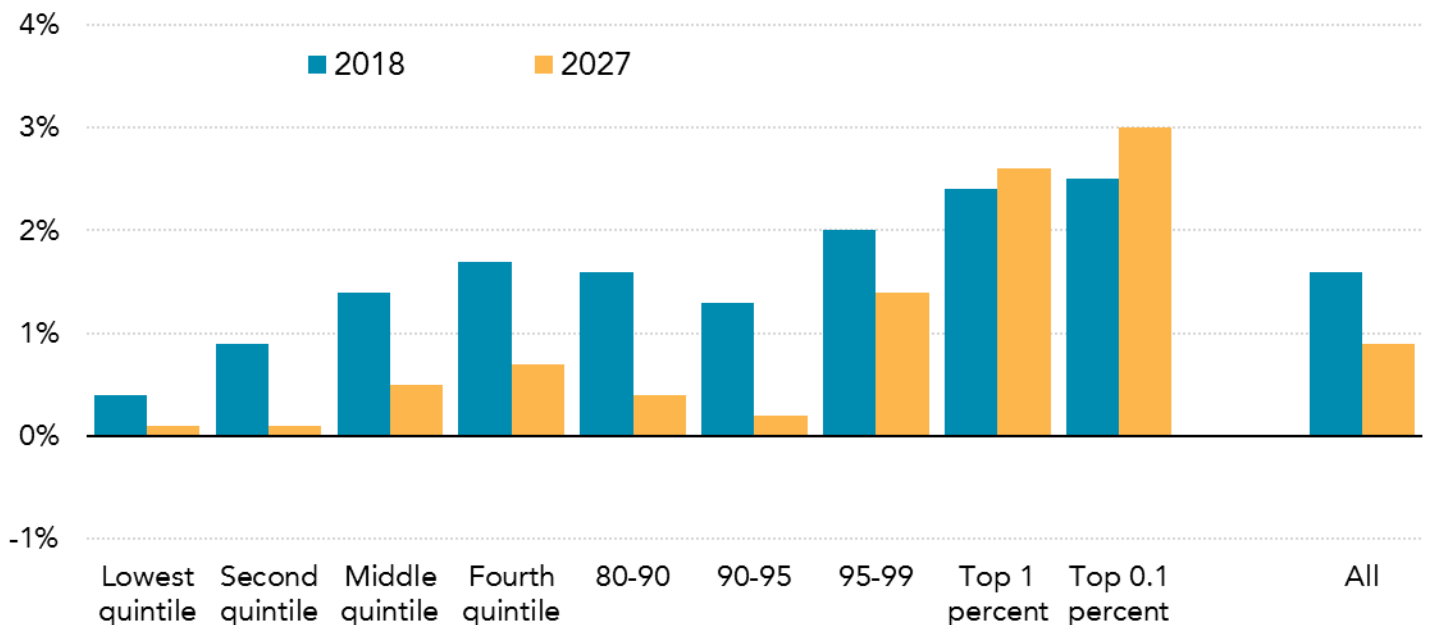
- Some taxpayers would pay more in taxes under the proposal. In 2018, slightly more than 7 percent of taxpayers would experience a tax increase relative to current law. That share would rise to slightly more than 24 percent in 2027.

DISTRIBUTIONAL EFFECTS

In 2018, taxes would be reduced by almost \$1,200 on average, increasing after-tax incomes 1.6 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.

FIGURE 1

Percent Change in After-tax Income of the Tax Cuts and Jobs Act as Passed by House Ways and Means
By expanded cash income percentile, 2018 and 2027



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

In 2018, taxpayers in the bottom quintile (those with income less than about \$25,000) would see modest tax cuts of 0.4 percent of after-tax income (figure 1). Taxpayers in the middle income quintile (those with income between about \$48,000 and \$86,000) would receive an average tax cut of slightly over \$800, or 1.4 percent of after-tax income. Taxpayers in the top 1 percent (those with income more than \$730,000) would receive 20 percent of the total tax cut: an average cut of about \$37,000, or 2.4 percent of after-tax income.



TABLE 1

Distribution of Federal Tax Change of the Tax Cuts and Jobs Act as Passed by House Ways and Means

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	1.3	-60	-0.4	3.7
Second quintile	0.9	5.7	-310	-0.9	7.8
Middle quintile	1.4	13.6	-830	-1.2	12.6
Fourth quintile	1.7	22.3	-1,610	-1.4	15.9
Top quintile	1.9	56.7	-4,860	-1.4	24.1
All	1.6	100.0	-1,180	-1.3	18.5
Addendum					
80-90	1.6	14.1	-2,350	-1.3	18.8
90-95	1.3	7.5	-2,590	-1.0	21.0
95-99	2.0	14.8	-6,640	-1.5	23.7
Top 1 percent	2.4	20.3	-37,100	-1.7	30.9
Top 0.1 percent	2.5	9.7	-174,620	-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 H.R. 1 as passed by the Committee on Ways and Means on 11/9/2017.

(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 about \$860 on average, or 0.9 percent of after-tax income (table 2). Taxpayers in the bottom two quintiles of the income distribution (those with income less than about \$55,000) would see little change in their taxes, with average tax decreases of \$50 or less. Taxpayers in the middle of the income distribution would see a net tax cut on average and see their after-tax incomes increase 0.5 percent. Taxpayers in the top 1 percent would receive nearly 50 percent of the total benefit; their after-tax income would increase 2.6 percent on average.



TABLE 2

Distribution of Federal Tax Change of the Tax Cuts and Jobs Act as Passed by House Ways and Means

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	0.4	-10	-0.1	4.2
Second quintile	0.1	1.3	-50	-0.1	8.8
Middle quintile	0.5	8.1	-360	-0.4	13.4
Fourth quintile	0.7	15.8	-840	-0.6	16.4
Top quintile	1.3	73.6	-4,590	-1.0	25.3
All	0.9	100.0	-860	-0.7	19.5
Addendum					
80-90	0.4	6.7	-810	-0.3	19.4
90-95	0.2	2.4	-600	-0.2	21.7
95-99	1.4	17.5	-5,690	-1.0	24.6
Top 1 percent	2.6	47.1	-62,300	-1.8	31.7
Top 0.1 percent	3.0	24.4	-320,640	-2.0	31.8

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 H.R. 1 as passed by the Committee on Ways and Means on 11/9/2017.

(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 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 (listed in tables 3 and 4) 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, 76 percent of taxpayers would experience a tax cut from the included provisions averaging about \$1,900, and 7 percent would face an average tax increase of about \$2,100 (table 3). The ratio of winners to losers varies by income group, with the largest share of taxpayers with a tax increase in the top 1 percent of the income distribution.

² We 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 or households.

TABLE 3

Tax Units with a Tax Change from Major Provisions of the Tax Cuts and Jobs Act as Passed by House Ways and Means
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	48.0	-150	1.7	790	-60	-60
Second quintile	84.0	-440	6.3	860	-310	-320
Middle quintile	88.8	-1,090	9.8	1,100	-830	-860
Fourth quintile	88.2	-2,110	11.4	1,580	-1,610	-1,680
Top quintile	87.2	-6,970	12.7	5,080	-4,860	-5,430
All	76.0	-1,890	7.4	2,100	-1,180	-1,280
Addendum						
80-90	86.9	-3,190	13.0	1,930	-2,350	-2,520
90-95	84.1	-3,790	15.8	2,060	-2,590	-2,860
95-99	93.9	-8,080	5.9	4,320	-6,640	-7,330
Top 1 percent	79.9	-64,210	20.1	40,720	-37,100	-43,120
Top 0.1 percent	71.7	-350,020	28.3	164,140	-174,620	-204,590

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. Due to data limitations, excludes the following provisions: 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.

In 2027, 61 percent of taxpayers would see an average tax cut of about \$2,400, while over 24 percent of taxpayers would face an average tax increase of nearly \$2,100 (table 4). The percentage of tax units with a tax increase is similar across most income groups but well below average for the bottom quintile (13 percent) and significantly above average for taxpayers between the 90th and 95th income percentiles (45 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 with current law would fall 75 percent in 2018 (to 12.5 million tax units) and 65 percent in 2027 (to 20 million tax units).



TABLE 4

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

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	45.8	-120	13.0	320	-10	-20
Second quintile	64.0	-380	24.0	760	-50	-60
Middle quintile	68.3	-1,110	30.0	1,230	-360	-390
Fourth quintile	72.4	-2,030	27.3	2,090	-840	-900
Top quintile	64.3	-11,430	35.5	5,830	-4,590	-5,280
All	61.4	-2,410	24.2	2,080	-860	-980
Addendum						
80-90	64.3	-3,080	35.5	2,830	-810	-980
90-95	54.5	-4,190	45.1	3,510	-600	-700
95-99	74.9	-10,740	25.0	6,540	-5,690	-6,410
Top 1 percent	71.1	-126,130	28.9	62,880	-62,300	-71,600
Top 0.1 percent	71.5	-621,500	28.4	284,630	-320,640	-363,490

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.

* Non-zero value rounded to zero.

(a) Calendar year. Baseline is current law. Due to data limitations, excludes the following provisions: 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.

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