TPC TAX POLICY CENTER
URBAN INSTITUTE & BROOKINGS INSTITUTION

# EFFECTS OF TAX CUTS AND JOBS ACT ON REPRESENTATIVE FAMILIES

TPC Staff

December 13, 2017

ABSTRACT

Both the Senate and the House versions of the Tax Cuts and Jobs Act (TCJA) 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 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 created some examples of how the House and Senate versions of the TCJA would affect representative families.

## EXAMPLE SCENARIOS

## TAXPAYERS WITH YOUNG OR OLDER CHILDREN

Two married couples have $75,000 of earnings. The children of the first couple are both younger than age 17; the children of the second couple are age 17 and 18.

**TABLE 1**

### Married Couple with Young Children

2018

| | Current Law | TCJA as passed by the House | TCJA as passed by the Senate |
|---|---|---|---|
| Adjusted gross income | $75,000 | $75,000 | $75,000 |
| Personal exemptions | $16,600 | $0 | $0 |
| Standard deduction | $13,000 | $24,400 | $24,000 |
| Taxable Income | $45,400 | $50,600 | $51,000 |
| Tax before credits | $5,858 | $6,072 | $5,739 |
| Child/family tax credit | $2,000 | $3,800 | $4,000 |
| Tax after credits | $3,858 | $2,272 | $1,739 |
| Tax cut(-) or Increase(+) | | -$1,586 | -$2,119 |

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

**TABLE 2**

### Married Couple with Older Children

2018

| | Current Law | TCJA as passed by the House | TCJA as passed by the Senate |
|---|---|---|---|
| Adjusted gross income | $75,000 | $75,000 | $75,000 |
| Personal exemptions | $16,600 | $0 | $0 |
| Standard deduction | $13,000 | $24,400 | $24,000 |
| Taxable Income | $45,400 | $50,600 | $51,000 |
| Tax before credits | $5,858 | $6,072 | $5,739 |
| Child/family tax credit | $0 | $1,200 | $2,500 |
| Tax after credits | $5,858 | $4,872 | $3,239 |
| Tax cut(-) or Increase(+) | | -$986 | -$2,619 |

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

Under current law both families can claim four personal exemptions. 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 House version of the TCJA would eliminate personal exemptions, raise the standard deduction, and increase the child tax credit to $1,600 per child. It also would introduce a temporary, nonrefundable family tax credit of $300 per person for members of a household who do not receive the CTC. Both couples would see a tax cut, but it would be larger for the family with younger children because of the expanded CTC.

The Senate version of the TCJA also would eliminate personal exemptions, raise the standard deduction, and increase the child tax credit. However, it would raise the credit to $2,000 per child and expands eligibility to children under age 18. It also would introduce a $500 credit for children not eligible for the CTC. The tax cut for the family with younger children is larger than under the House version because of the higher CTC. The tax cut for the family with older children is much larger than under the House version because of the expansion of the CTC to children age 17. If their youngest child was over 17, they'd pay $1,500 more in taxes than the table shows and receive a tax cut of only about $1,100.

In 2027, the effects of the TCJA would be quite different for similar families with the same inflation-adjusted income.  Compared to current law, a family with young children would receive a much smaller tax cut under the House version and a tax increase under the Senate bill. A family with older children would pay higher taxes under either version.

A family with young children would still receive a $1,600 CTC for each child under age 17, but the additional family credit in the House version expires after 2022. Moreover, 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 the personal exemptions narrows over time. The expiration of the family tax credits and the less generous inflation increases for the standard deduction and tax brackets would raise taxes in 2027 for a family with older children.

Under the Senate version, all the individual income tax provisions would expire after 2025 except for the less generous inflation measure for indexing the tax system. As a result, both families would see a modest tax increase in 2027.

TABLE 3

## Married Couple with Young Children

2027

| | Current Law | TCJA as passed by the House | TCJA as passed by the Senate |
|---|---|---|---|
| Adjusted gross income | $92,440 | $92,440 | $92,440 |
| Personal exemptions | $20,400 | $0 | $20,000 |
| Standard deduction | $16,000 | $28,800 | $15,600 |
| Taxable Income | $56,040 | $63,640 | $56,840 |
| Tax before credits | $7,231 | $7,637 | $7,381 |
| Child/family tax credit | $2,000 | $3,200 | $2,000 |
| Tax after credits | $5,231 | $4,437 | $5,381 |
| Tax cut(-) or Increase(+) | | -$794 | $150 |

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

TABLE 4

## Married Couple with Older Children

2027

| | Current Law | TCJA as passed by the House | TCJA as passed by the Senate |
|---|---|---|---|
| Adjusted gross income | $92,440 | $92,440 | $92,440 |
| Personal exemptions | $20,400 | $0 | $20,000 |
| Standard deduction | $16,000 | $28,800 | $15,600 |
| Taxable Income | $56,040 | $63,640 | $56,840 |
| Tax before credits | $7,231 | $7,637 | $7,381 |
| Child/family tax credit | $0 | $0 | $0 |
| Tax after credits | $7,231 | $7,637 | $7,381 |
| Tax cut(-) or Increase(+) | | $406 | $150 |

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

## TAXPAYERS WITH WAGES OR SELF-EMPLOYMENT INCOME

Two married couples with no children and income of $250,000. The first couple's adjusted gross income is entirely from wages and salaries. The second couple's adjusted gross income is from self-employment. Both couples itemize their deductions under current 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.

TABLE 5

### Married Couple with Wages

2018

| | Current Law | TCJA as passed by the House | TCJA as passed by the Senate |
|---|---|---|---|
| Adjusted gross income | $250,000 | $250,000 | $250,000 |
| Personal exemptions | $8,300 | $0 | $0 |
| Itemized deductions | $46,000 | $28,500 | $28,500 |
| Taxable Income | $195,700 | $221,500 | $221,500 |
| Tax before credits | $41,419 | $43,675 | $42,239 |
| Alternative minimum tax | $90 | $0 | $0 |
| Tax after credits | $41,509 | $43,675 | $42,239 |
| Tax cut(-) or Increase(+) | | $2,166 | $730 |

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

TABLE 6

### Married Couple with Self-Employment Income

2018

| | Current Law | TCJA as passed by the House | TCJA as passed by the Senate |
|---|---|---|---|
| Adjusted gross income | $250,000 | $250,000 | $199,055 |
| Personal exemptions | $8,300 | $0 | $0 |
| Itemized deductions | $46,000 | $28,500 | $28,500 |
| Taxable Income | $195,700 | $221,500 | $170,555 |
| Tax before credits | $41,419 | $43,640 | $30,012 |
| Alternative minimum tax | $90 | $0 | $0 |
| Tax after credits | $41,509 | $43,640 | $30,012 |
| Tax cut(-) or Increase(+) | | $2,131 | -$11,497 |

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

Under the House bill, the first couple would pay higher taxes because they would lose their personal exemptions and the deduction for state and local income taxes. They would continue to itemize and so would not benefit from the higher standard deduction. The second couple would also pay higher taxes under the House version, for the same reasons as the first couple. In addition, they would not benefit from its maximum 25 percent tax rate for business income because they already would be in the 25 percent tax bracket. They would receive a tax increase that was slightly less than the increase for the wage-earning couple because the House bill provides a reduced rate of 11 percent on the first $75,000 of business income. However, most of that benefit from that provision would be phased out because the couple's taxable income exceeds the phaseout threshold of $150,000.

Under the Senate bill, the wage-earning couple would pay slightly more because they would lose personal exemptions and the state and local income tax deduction. They would be better off than under the House bill because of the Senate's different tax rates and brackets. The self-employment couple would pay much less tax because they could deduct a portion (23 percent) of their business income in computing their adjusted gross income. The new deduction would more than compensate for the loss of personal exemptions and the loss of the state and local income tax deduction.

Couples with the same inflation adjusted earnings and business income in 2027 would see tax increases under both the House and Senate versions of the TCJA. Under the House version, both couples would see a tax increase of about $3,000 ($2,400 in 2018 dollars). Because all the individual income tax provision in the Senate bill expire after 2025 except for the lower inflation measure for indexing the tax system, both couples would receive a small tax increase of about $960 ($780 in 2018 dollars).

TABLE 7

## Married Couple with Wages

2027

| | Current Law | TCJA as passed by the House | TCJA as passed by the Senate |
|---|---|---|---|
| Adjusted gross income | $308,133 | $308,133 | $308,133 |
| Personal exemptions | $10,200 | $0 | $10,000 |
| Itemized deductions | $56,696 | $35,127 | $56,696 |
| Taxable Income | $241,237 | $273,006 | $241,437 |
| Tax before credits | $51,056 | $54,146 | $51,510 |
| Alternative minimum tax | $114 | $0 | $622 |
| Tax after credits | $51,170 | $54,146 | $52,132 |
| Tax cut(-) or Increase(+) | | $2,976 | $962 |

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

TABLE 8

# Married Couple with Self-Employment Income

2027

| | Current Law | TCJA as passed by the House | TCJA as passed by the Senate |
|---|---|---|---|
| Adjusted gross income | $308,133 | $308,133 | $308,133 |
| Personal exemptions | $10,200 | $0 | $10,000 |
| Itemized deductions | $56,696 | $35,127 | $56,696 |
| Taxable Income | $241,236 | $273,006 | $241,436 |
| Tax before credits | $51,056 | $54,146 | $51,510 |
| Alternative minimum tax | $114 | $0 | $622 |
| Tax after credits | $51,170 | $54,146 | $52,132 |
| Tax cut(-) or Increase(+) | | $2,976 | $962 |

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

## TAXPAYERS IN A HIGH-, LOW-, OR MODERATE-TAX STATE (I)

Three married couples without children, each with income of $135,000. 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. But both versions of the TCJA would end deductions for state and local income or sales taxes and limit the deduction for property taxes to no more than $10,000. Both bills repeal deductions for certain miscellaneous expenses and casualty and theft losses. The House bill repeals the deduction for medical expenses but the Senate bill does not.

**TABLE 9**

### Married Couple Living in a High-Tax State
2018

| | Current Law | TCJA as passed by the House | TCJA as passed by the Senate |
|---|---|---|---|
| Adjusted gross income | $135,000 | $135,000 | $135,000 |
| Personal exemptions | $8,300 | $0 | $0 |
| Standard deduction | $0 | $24,400 | $24,000 |
| Itemized deductions | $29,900 | $0 | $0 |
| Taxable Income | $96,800 | $110,600 | $111,000 |
| Tax before credits | $15,508 | $15,950 | $16,299 |
| Child/family tax credit | $0 | $600 | $0 |
| Tax after credits | $15,508 | $15,350 | $16,299 |
| Tax cut(-) or Increase(+) | | -$158 | $792 |

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

TABLE 10

## Married Couple Living in a Low-Tax State

2018

| | Current Law | TCJA as passed by the House | TCJA as passed by the Senate |
|---|---|---|---|
| Adjusted gross income | $135,000 | $135,000 | $135,000 |
| Personal exemptions | $8,300 | $0 | $0 |
| Standard deduction | $0 | $24,400 | $24,000 |
| Itemized deductions | $24,300 | $0 | $0 |
| Taxable Income | $102,400 | $110,600 | $111,000 |
| Tax before credits | $16,908 | $15,950 | $16,299 |
| Child/family tax credit | $0 | $600 | $0 |
| Tax after credits | $16,908 | $15,350 | $16,299 |
| Tax cut(-) or Increase(+) | | -$1,558 | -$609 |

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

TABLE 11

## Married Couple Living in a Moderate-Tax State

2018

| | Current Law | TCJA as passed by the House | TCJA as passed by the Senate |
|---|---|---|---|
| Adjusted gross income | $135,000 | $135,000 | $135,000 |
| Personal exemptions | $8,300 | $0 | $0 |
| Standard deduction | $0 | $24,400 | $24,000 |
| Itemized deductions | $26,700 | $0 | $0 |
| Taxable Income | $100,000 | $110,600 | $111,000 |
| Tax before credits | $16,308 | $15,950 | $16,299 |
| Child/family tax credit | $0 | $600 | $0 |
| Tax after credits | $16,308 | $15,350 | $16,299 |
| Tax cut(-) or Increase(+) | | -$958 | -$9 |

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

Under the House version of the TCJA, all three couples would pay lower federal income taxes than under current law. However, the size of their cut would vary widely because of the different amount of itemized deductions claimed under current law, from about $1,560 in a low-tax state to about $160 in a high-tax state. Under the Senate version, the tax cut for the couple in a low-tax state would be about $610 while taxes for the couple in a high-tax state would rise by about $790. The couple in a medium tax state would pay about $960 less in federal income taxes under the House bill and roughly the same as current law under the Senate bill.

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

In 2027, a couple in a high-tax state with inflation adjusted income of $135,000 would have a tax increase of about $1,180 ($950 in 2018 dollars) under the House version of the TCJA. A couple in a low-tax state would still have a tax cut but it would drop to about $550 ($450 in 2018 dollars). A couple in a medium-tax state would have a tax increase of about $190 ($150 in 2018 dollars). About half of the difference would come from the expiration of the family credits after 2022. With the expiration of all individual tax provisions except the lower inflation indexing factor under the Senate bill, all three couples would have a tax increase of about $310 ($250 in 2018 dollars).

TABLE 12

## Married Couple Living in a High-Tax State

2027

| | Current Law | TCJA as passed by the House | TCJA as passed by the Senate |
|---|---|---|---|
| Adjusted gross income | $166,392 | $166,392 | $166,392 |
| Personal exemptions | $10,200 | $0 | $10,000 |
| Standard deduction | $0 | $28,800 | $0 |
| Itemized deductions | $36,853 | $0 | $36,853 |
| Taxable Income | $119,339 | $137,592 | $119,539 |
| Tax before credits | $19,120 | $20,293 | $19,430 |
| Child/family tax credit | $0 | $0 | $0 |
| Tax after credits | $19,120 | $20,293 | $19,430 |
| Tax cut(-) or Increase(+) | | $1,173 | $310 |

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

TABLE 13

# Married Couple Living in a Low-Tax State

2027

| | Current Law | TCJA as passed by the House | TCJA as passed by the Senate |
|---|---|---|---|
| Adjusted gross income | $166,392 | $166,392 | $166,392 |
| Personal exemptions | $10,200 | $0 | $10,000 |
| Standard deduction | $0 | $28,800 | $0 |
| Itemized deductions | $29,951 | $0 | $29,951 |
| Taxable Income | $126,241 | $137,592 | $126,441 |
| Tax before credits | $20,845 | $20,293 | $21,155 |
| Child/family tax credit | $0 | $0 | $0 |
| Tax after credits | $20,845 | $20,293 | $21,155 |
| Tax cut(-) or Increase(+) | | -$552 | $310 |

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

TABLE 14

# Married Couple Living in a Moderate-Tax State

2027

| | Current Law | TCJA as passed by the House | TCJA as passed by the Senate |
|---|---|---|---|
| Adjusted gross income | $166,392 | $166,392 | $166,392 |
| Personal exemptions | $10,200 | $0 | $10,000 |
| Standard deduction | $0 | $28,800 | $0 |
| Itemized deductions | $32,909 | $0 | $32,909 |
| Taxable Income | $123,283 | $137,592 | $123,483 |
| Tax before credits | $20,106 | $20,293 | $20,416 |
| Child/family tax credit | $0 | $0 | $0 |
| Tax after credits | $20,106 | $20,293 | $20,416 |
| Tax cut(-) or Increase(+) | | $187 | $310 |

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

## TAXPAYERS IN A HIGH-, LOW-, OR MODERATE-TAX STATE (II)

Next we consider three couples without children, each with income of $285,000 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.

TABLE 15

### Married Couple Living in a High-Tax State

2018

| | Current Law | TCJA as passed by the House | TCJA as passed by the Senate |
|---|---|---|---|
| Adjusted gross income | $285,000 | $285,000 | $285,000 |
| Personal exemptions | $8,300 | $0 | $0 |
| Standard deduction | $0 | $0 | $0 |
| Itemized deductions | $52,400 | $26,400 | $26,400 |
| Taxable Income | $224,300 | $258,600 | $258,600 |
| Tax before credits | $49,427 | $52,950 | $51,143 |
| Alternative minimum tax | $2,750 | $0 | $0 |
| Tax after credits | $52,177 | $52,950 | $51,143 |
| Tax cut(-) or Increase(+) | | $773 | -$1,034 |

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

TABLE 16

## Married Couple Living in a Low-Tax State

2018

| | Current Law | TCJA as passed by the House | TCJA as passed by the Senate |
|---|---|---|---|
| Adjusted gross income | $285,000 | $285,000 | $285,000 |
| Personal exemptions | $8,300 | $0 | $0 |
| Standard deduction | $0 | $0 | $0 |
| Itemized deductions | $34,300 | $27,100 | $27,100 |
| Taxable Income | $242,400 | $257,900 | $257,900 |
| Tax before credits | $54,718 | $52,775 | $50,975 |
| Alternative minimum tax | $0 | $0 | $0 |
| Tax after credits | $54,718 | $52,775 | $50,975 |
| Tax cut(-) or Increase(+) | | -$1,943 | -$3,743 |

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

TABLE 17

## Married Couple Living in a Moderate-Tax State

2018

| | Current Law | TCJA as passed by the House | TCJA as passed by the Senate |
|---|---|---|---|
| Adjusted gross income | $285,000 | $285,000 | $285,000 |
| Personal exemptions | $8,300 | $0 | $0 |
| Standard deduction | $0 | $0 | $0 |
| Itemized deductions | $43,100 | $25,100 | $25,100 |
| Taxable Income | $233,600 | $259,900 | $259,900 |
| Tax before credits | $52,031 | $53,275 | $51,455 |
| Alternative minimum tax | $461 | $0 | $0 |
| Tax after credits | $52,492 | $53,275 | $51,455 |
| Tax cut(-) or Increase(+) | | $783 | -$1,037 |

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

Only the couple living in a low-tax state would pay less tax under the House version of the TCJA. While all three households would have a tax cut under the Senate version, the couple living in a low-tax state would get a tax cut of about $3,700 compared with a cut of about $1,000 in the other two examples.

All three couples would continue to itemize under either bill because the sum of their remaining deductions for property taxes, mortgage interest, and charitable contributions would exceed their standard deduction. We assumed that none of the couples have property taxes in excess of $10,000.

While the changes in itemized deductions in both bills would reduce allowable deductions for all three couples, they would affect the couple in the high-tax state the most, cutting their deductions by half. In the House bill, the couples in the high- and medium-tax states would get some relief from the elimination of the individual alternative minimum tax but it would not offset the loss of their deductions for state and local income taxes. The Senate bill would retain the individual AMT but raise the AMT exemption amounts.

In 2027, the results would be similar under the House version of the TCJA. Only the couple in a low-tax state would have a tax cut, but the tax cut for that couple would fall to about $1,000 ($840 in 2018 dollars). The tax increase for the couple in the high-tax state would rise to about $1,800 ($1,500 in 2018 dollars) and the increase for the couple in a moderate-tax state would grow to almost $2,000 ($1,600 in 2018 dollars). 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 $1,100 ($930 in 2018 dollars) for the couples in a high- and a medium-tax state, and about $810 ($660 in 2018 dollars) for the couple in a low-tax state who, unlike the other couples, would not have to pay the alternative minimum tax.

TABLE 18

## Married Couple Living in a High-Tax State

2027

| | Current Law | TCJA as passed by the House | TCJA as passed by the Senate |
|---|---|---|---|
| Adjusted gross income | $351,272 | $351,272 | $351,272 |
| Personal exemptions | $10,200 | $0 | $10,000 |
| Standard deduction | $0 | $0 | $0 |
| Itemized deductions | $64,585 | $32,539 | $64,585 |
| Taxable Income | $276,487 | $318,733 | $276,687 |
| Tax before credits | $60,926 | $66,111 | $61,380 |
| Alternative minimum tax | $3,394 | $0 | $4,088 |
| Tax after credits | $64,320 | $66,111 | $65,468 |
| Tax cut(-) or Increase(+) | | $1,792 | $1,148 |

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

TABLE 19

## Married Couple Living in a Low-Tax State

2027

| | Current Law | TCJA as passed by the House | TCJA as passed by the Senate |
|---|---|---|---|
| Adjusted gross income | $351,272 | $351,272 | $351,272 |
| Personal exemptions | $10,200 | $0 | $10,000 |
| Standard deduction | $0 | $0 | $0 |
| Itemized deductions | $42,276 | $31,693 | $42,276 |
| Taxable Income | $298,796 | $319,579 | $298,996 |
| Tax before credits | $67,448 | $66,408 | $68,262 |
| Alternative minimum tax | $0 | $0 | $0 |
| Tax after credits | $67,448 | $66,408 | $68,262 |
| Tax cut(-) or Increase(+) | | -$1,040 | $814 |

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

TABLE 20

## Married Couple Living in a Moderate-Tax State

2027

| | Current Law | TCJA as passed by the House | TCJA as passed by the Senate |
|---|---|---|---|
| Adjusted gross income | $351,272 | $351,272 | $351,272 |
| Personal exemptions | $10,200 | $0 | $10,000 |
| Standard deduction | $0 | $0 | $0 |
| Itemized deductions | $53,122 | $30,937 | $53,122 |
| Taxable Income | $287,950 | $320,335 | $288,150 |
| Tax before credits | $64,136 | $66,672 | $64,682 |
| Alternative minimum tax | $572 | $0 | $1,174 |
| Tax after credits | $64,708 | $66,672 | $65,856 |
| Tax cut(-) or Increase(+) | | $1,964 | $1,148 |

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

## TAXPAYERS WHO ARE POSTSECONDARY STUDENTS

Three single postsecondary students with $30,000 of income in 2018. None of the three has dependents and all three take the standard deduction. The first example is an undergraduate working her way through college with enough qualified expenses to claim the maximum American Opportunity Tax Credit (AOTC). The AOTC is partially refundable and can only be claimed by undergraduates pursuing degrees at least half-time. The second example is a second-year law student working his way through school with enough qualified expenses to claim the maximum Lifetime Learning Credit (LLC). Unlike the AOTC, the LLC is nonrefundable and can be claimed by graduate students, students attending less than half-time, and non-degree students. The third example is a graduate student instructor in a PhD program whose compensation includes both a stipend and a tuition waiver. Under current law the stipend is taxable but the waived tuition is excluded from adjusted gross income.

Only the undergraduate would receive a tax cut under the House version of the TCJA. The law school and graduate school students both would have tax increases of about $1,400. All three students would receive modest tax cuts under the Senate version of the bill.

TABLE 21

### Working Undergraduate

2018

| | Current Law | TCJA as passed by the House | TCJA as passed by the Senate |
|---|---|---|---|
| Adjusted gross income | $30,000 | $30,000 | $30,000 |
| Personal exemptions | $4,150 | $0 | $0 |
| Standard deduction | $6,500 | $12,200 | $12,000 |
| Taxable Income | $19,350 | $17,800 | $18,000 |
| Tax before credits | $2,426 | $2,136 | $1,970 |
| Education credits | $2,500 | $2,500 | $2,500 |
| Child/family tax credit | $0 | $300 | $0 |
| Tax after credits | -$74 | -$664 | -$531 |
| Tax cut(-) or Increase(+) | | -$590 | -$457 |

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

Provisions of the House version of the TCJA relevant for these examples include lowering rates, eliminating personal exemptions, raising the standard deduction, and introducing a new family tax credit. Additionally, the House bill would eliminate the Lifetime Learning Credit, extend the AOTC to fifth-year postsecondary students on a reduced basis, and include tuition waivers in adjusted gross income for graduate student instructors and research assistants. The undergraduate student would receive a tax cut of $590 under the House version of

TCJA in 2018 due to the larger standard deduction, lower rates, and the $300 family tax credit. She would receive the same $2,500 AOTC as she does under current law. In contrast, the House version raises taxes by about $1,400 for the law student because his reduction in taxes before credits and the additional family tax credit is more than offset by losing his LLC of $2,000. The House version of TCJA also substantially raises taxes on the graduate student instructor because making her tuition waiver taxable increases her adjusted gross income by $15,000. Her taxes would increase by over $1,400, reducing her after-tax cash income by about 10 percent.

TABLE 22

## Working Second Year Law Student

2018

| | Current Law | TCJA as passed by the House | TCJA as passed by the Senate |
|---|---|---|---|
| Adjusted gross income | $30,000 | $30,000 | $30,000 |
| Personal exemptions | $4,150 | $0 | $0 |
| Standard deduction | $6,500 | $12,200 | $12,000 |
| Taxable Income | $19,350 | $17,800 | $18,000 |
| Tax before credits | $2,426 | $2,136 | $1,970 |
| Education credits | $2,000 | $0 | $1,970 |
| Child/family tax credit | $0 | $300 | $0 |
| Tax after credits | $426 | $1,836 | $0 |
| Tax cut(-) or Increase(+) | | $1,410 | -$426 |

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

TABLE 23

## Graduate Student Instructor in a Ph.D. Program

2018

| | Current Law | TCJA as passed by the House | TCJA as passed by the Senate |
|---|---|---|---|
| Adjusted gross income | $15,000 | $30,000 | $15,000 |
| Personal exemptions | $4,150 | $0 | $0 |
| Standard deduction | $6,500 | $12,200 | $12,000 |
| Taxable Income | $4,350 | $17,800 | $3,000 |
| Tax before credits | $435 | $2,136 | $300 |
| Education credits | $0 | $0 | $0 |
| Child/family tax credit | $0 | $300 | $0 |
| Tax after credits | $435 | $1,836 | $300 |
| Tax cut(-) or Increase(+) | | $1,401 | -$135 |

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

All three students get a tax cut under the Senate version of TJCA which does not change education credits or the tax treatment of graduate student tuition waivers. The reduction in rates, increase in the standard deduction, and elimination of personal exemptions results in a tax cut of about $460 for the undergraduate and $430 for the law student. The graduate student instructor receives a smaller tax cut, $135, reflecting her low taxable income under both current law and the Senate bill.

In 2027, tax changes for the three examples would be similar to tax changes in 2018 under the House version of TJCA. The tax cut for the undergraduate student would fall to $285 ($230 in 2018 dollars), while the tax increase for the law school student would be about $1,700 (about $1,400 in 2018 dollars) and the tax increase for the graduate student would be about $2,200 (about $1,800 in 2018 dollars). However, under the Senate version of TJCA, all three students would see a very small tax increase in 2027 due to the individual income tax provisions, other than the lower inflation measure for indexing the tax system, expiring after 2025.

TABLE 24

## Working Undergraduate

2027

| | Current Law | TCJA as passed by the House | TCJA as passed by the Senate |
|---|---|---|---|
| Adjusted gross income | $36,976 | $36,976 | $36,976 |
| Personal exemptions | $5,100 | $0 | $5,000 |
| Standard deduction | $8,000 | $14,400 | $7,800 |
| Taxable Income | $23,876 | $22,576 | $24,176 |
| Tax before credits | $2,994 | $2,709 | $3,054 |
| Education credits | $2,500 | $2,500 | $2,500 |
| Child/family tax credit | $0 | $0 | $0 |
| Tax after credits | $494 | $209 | $554 |
| Tax cut(-) or Increase(+) | | -$285 | $60 |

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

TABLE 25

# Working Second Year Law Student

2027

| | Current Law | TCJA as passed by the House | TCJA as passed by the Senate |
|---|---|---|---|
| Adjusted gross income | $36,976 | $36,976 | $36,976 |
| Personal exemptions | $5,100 | $0 | $5,000 |
| Standard deduction | $8,000 | $14,400 | $7,800 |
| Taxable Income | $23,876 | $22,576 | $24,176 |
| Tax before credits | $2,994 | $2,709 | $3,054 |
| Education credits | $2,000 | $0 | $2,000 |
| Child/family tax credit | $0 | $0 | $0 |
| Tax after credits | $994 | $2,709 | $1,054 |
| Tax cut(-) or Increase(+) | | $1,715 | $60 |

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

TABLE 26

# Graduate Student Instructor in a Ph.D. Program

2027

| | Current Law | TCJA as passed by the House | TCJA as passed by the Senate |
|---|---|---|---|
| Adjusted gross income | $18,488 | $36,976 | $18,488 |
| Personal exemptions | $5,100 | $0 | $5,000 |
| Standard deduction | $8,000 | $14,400 | $7,800 |
| Taxable Income | $5,388 | $22,576 | $5,688 |
| Tax before credits | $539 | $2,709 | $569 |
| Education credits | $0 | $0 | $0 |
| Child/family tax credit | $0 | $0 | $0 |
| Tax after credits | $539 | $2,709 | $569 |
| Tax cut(-) or Increase(+) | | $2,170 | $30 |

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

## TAXPAYERS WHO ARE LOW-INCOME SINGLES, WITH AND WITHOUT CHILDREN

Three single taxpayers, each earning $30,000. The first with no children, the second with one child, and the third with two children. All children are under age 17.

TABLE 27

### Single with No Children

2018

| | Current Law | TCJA as passed by the House | TCJA as passed by the Senate |
|---|---|---|---|
| Adjusted gross income | $30,000 | $30,000 | $30,000 |
| Personal exemptions | $4,150 | $0 | $0 |
| Standard deduction | $6,500 | $12,200 | $12,000 |
| Taxable Income | $19,350 | $17,800 | $18,000 |
| Tax before credits | $2,426 | $2,136 | $1,970 |
| Child/family tax credit | $0 | $300 | $0 |
| Earned income tax credit | $0 | $0 | $0 |
| Tax after credits | $2,426 | $1,836 | $1,970 |
| Tax cut(-) or Increase(+) | | -$590 | -$457 |

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

TABLE 28

### Single with One Child

2018

| | Current Law | TCJA as passed by the House | TCJA as passed by the Senate |
|---|---|---|---|
| Adjusted gross income | $30,000 | $30,000 | $30,000 |
| Personal exemptions | $8,300 | $0 | $0 |
| Standard deduction | $9,550 | $18,300 | $18,000 |
| Taxable Income | $12,150 | $11,700 | $12,000 |
| Tax before credits | $1,215 | $1,404 | $1,200 |
| Child/family tax credit | $1,000 | $1,900 | $2,000 |
| Earned income tax credit | $1,662 | $1,649 | $1,649 |
| Tax after credits | -$1,447 | -$2,145 | -$2,449 |
| Tax cut(-) or Increase(+) | | -$698 | -$1,002 |

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

TABLE 29

## Single with Two Children

2018

| | Current Law | TCJA as passed by the House | TCJA as passed by the Senate |
|---|---|---|---|
| Adjusted gross income | $30,000 | $30,000 | $30,000 |
| Personal exemptions | $12,450 | $0 | $0 |
| Standard deduction | $9,550 | $18,300 | $18,000 |
| Taxable Income | $8,000 | $11,700 | $12,000 |
| Tax before credits | $800 | $1,404 | $1,200 |
| Child/family tax credit | $2,000 | $3,500 | $3,400 |
| Earned income tax credit | $3,348 | $3,328 | $3,328 |
| Tax after credits | -$4,548 | -$5,424 | -$5,528 |
| Tax cut(-) or Increase(+) | | -$876 | -$980 |

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

Under the House version of the TCJA, each of the single taxpayers would receive a tax cut ranging from about $600 for a single person with no children to about $900 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 $1,550. She would also benefit from the $300 family credit. The House bill also would lower taxable income for a single person with one child but the major tax reduction for this taxpayer would come from the increase in the child tax credit (CTC) from $1,000 to $1,600 per child and the additional family tax credit. Taxable income would increase 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 and the additional family credit would result in a tax cut for her.

Each of the single taxpayers would also receive a tax cut under the Senate bill, but the tax cut would be slightly smaller for the single person without children and higher for the other two households. Despite lower taxes before credits for the single person without children under the Senate bill, the absence of the family credit would result in a smaller tax cut than under the House bill. Both families with children would benefit from the increase in the child tax credit to $2,000 per child in the Senate bill, but because of the limitation on the refundable portion of the credit, the family with two children would not receive the full amount of the credit.

The results would be different in 2027. Under the House version of the TCJA the single person with no children would receive a smaller tax cut than in 2018, but her tax cut would be larger than the tax cut for either of the families with children. The tax cut for those families would almost disappear because the additional family credit in the House version expires after 2022 and because the personal exemption amount under current law is indexed for inflation but the CTC is not, and thus the net benefit of the combination of an expanded CTC and the loss of the personal exemptions narrows over time. In addition, because of the lower inflation measure used to index the tax system, the earned income tax credit would grow more slowly under the House bill than under current law.

Under the Senate version, all the individual income tax provisions would expire after 2025 except for the lower inflation measure for indexing the tax system. As a result, both families would see a modest tax increase in 2027.

TABLE 30

## Single with No Children

2027

| | Current Law | TCJA as passed by the House | TCJA as passed by the Senate |
|---|---|---|---|
| Adjusted gross income | $36,976 | $36,976 | $36,976 |
| Personal exemptions | $5,100 | $0 | $5,000 |
| Standard deduction | $8,000 | $14,400 | $7,800 |
| Taxable Income | $23,876 | $22,576 | $24,176 |
| Tax before credits | $2,994 | $2,709 | $3,054 |
| Child/family tax credit | $0 | $0 | $0 |
| Earned income tax credit | $0 | $0 | $0 |
| Tax after credits | $2,994 | $2,709 | $3,054 |
| Tax cut(-) or Increase(+) | | -$285 | $60 |

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

TABLE 31

# Single with One Child

2027

| | Current Law | TCJA as passed by the House | TCJA as passed by the Senate |
|---|---|---|---|
| Adjusted gross income | $36,976 | $36,976 | $36,976 |
| Personal exemptions | $10,200 | $0 | $10,000 |
| Standard deduction | $11,750 | $21,600 | $11,500 |
| Taxable Income | $15,026 | $15,376 | $15,476 |
| Tax before credits | $1,503 | $1,845 | $1,548 |
| Child/family tax credit | $1,000 | $1,600 | $1,000 |
| Earned income tax credit | $2,048 | $1,859 | $1,859 |
| Tax after credits | -$1,546 | -$1,613 | -$1,311 |
| Tax cut(-) or Increase(+) | | -$68 | $235 |

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

TABLE 32

# Single with Two Children

2027

| | Current Law | TCJA as passed by the House | TCJA as passed by the Senate |
|---|---|---|---|
| Adjusted gross income | $36,976 | $36,976 | $36,976 |
| Personal exemptions | $15,300 | $0 | $15,000 |
| Standard deduction | $11,750 | $21,600 | $11,500 |
| Taxable Income | $9,926 | $15,376 | $10,476 |
| Tax before credits | $993 | $1,845 | $1,048 |
| Child/family tax credit | $2,000 | $3,200 | $2,000 |
| Earned income tax credit | $4,127 | $3,843 | $3,843 |
| Tax after credits | -$5,135 | -$5,198 | -$4,796 |
| Tax cut(-) or Increase(+) | | -$64 | $339 |

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

## TAXPAYERS WHO ARE LOWER-INCOME MARRIED COUPLES, WITH AND WITHOUT CHILDREN

Three married couples, each earning $30,000. The first with no children, the second with one child, and the third with two children. All children are under age 17.

**TABLE 33**

### Married Couple with No Children

2018

| | Current Law | TCJA as passed by the House | TCJA as passed by the Senate |
|---|---|---|---|
| Adjusted gross income | $30,000 | $30,000 | $30,000 |
| Personal exemptions | $8,300 | $0 | $0 |
| Standard deduction | $13,000 | $24,400 | $24,000 |
| Taxable Income | $8,700 | $5,600 | $6,000 |
| Tax before credits | $870 | $672 | $600 |
| Child/family tax credit | $0 | $600 | $0 |
| Earned income tax credit | $0 | $0 | $0 |
| Tax after credits | $870 | $72 | $600 |
| Tax cut(-) or Increase(+) | | -$798 | -$270 |

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

**TABLE 34**

### Married Couple with One Child

2018

| | Current Law | TCJA as passed by the House | TCJA as passed by the Senate |
|---|---|---|---|
| Adjusted gross income | $30,000 | $30,000 | $30,000 |
| Personal exemptions | $12,450 | $0 | $0 |
| Standard deduction | $13,000 | $24,400 | $24,000 |
| Taxable Income | $4,550 | $5,600 | $6,000 |
| Tax before credits | $455 | $672 | $600 |
| Child/family tax credit | $1,000 | $1,772 | $1,700 |
| Earned income tax credit | $2,573 | $2,558 | $2,558 |
| Tax after credits | -$3,118 | -$3,658 | -$3,658 |
| Tax cut(-) or Increase(+) | | -$540 | -$540 |

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

TABLE 35

# Married Couple with Two Children

2018

| | Current Law | TCJA as passed by the House | TCJA as passed by the Senate |
|---|---|---|---|
| Adjusted gross income | $30,000 | $30,000 | $30,000 |
| Personal exemptions | $16,600 | $0 | $0 |
| Standard deduction | $13,000 | $24,400 | $24,000 |
| Taxable Income | $400 | $5,600 | $6,000 |
| Tax before credits | $40 | $672 | $600 |
| Child/family tax credit | $2,000 | $2,872 | $2,800 |
| Earned income tax credit | $4,549 | $4,526 | $4,526 |
| Tax after credits | -$6,509 | -$6,726 | -$6,726 |
| Tax cut(-) or Increase(+) | | -$217 | -$217 |

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

Under the House version of the TCJA, each of the married couples would receive a tax cut but unlike the example for single taxpayers, the largest tax cut would be for the couple with no children and the smallest would be for the couple with two children. The House bill would reduce taxable income for the couple with no children, but taxable income for the other two couples would be higher under the House bill than under current law because the increase in the standard deduction would not offset the loss of personal exemptions. While this would contribute to slightly higher tax before credit for those families, the increase in the child tax credit from $1,000 to $1,600 per child and the additional family tax credit of $300 for each spouse would result in a tax cut under the House bill. However, neither the family with one child nor the family with two children would be able to claim the full $1,600 per child CTC because the refundable portion of the credit would be limited to $1,100.

The results under the Senate bill would be quite similar to those under the House bill, the major difference being no family credit for the married couple without children. The higher CTC of $2,000 per child under the Senate bill would offset the loss of the family credit for the couples with children, but again because of the limit on the refundable portion of the credit, neither family would be able to claim the full amount.

In 2027 the tax cut under the House bill would disappear for the couples with children as the family tax credit would no longer be available and the loss of indexed personal exemptions would catch up with the expanded, but unindexed, child tax credit. Under the Senate bill, all the individual income tax provisions would expire after 2025 except for the lower inflation measure for indexing the tax system. This would slow the growth of personal exemptions, the standard deduction, and the earned income tax credit. As a result, all three couples would have a tax increase in 2027.

TABLE 36

## Married Couple with No Children

2027

| | Current Law | TCJA as passed by the House | TCJA as passed by the Senate |
|---|---|---|---|
| Adjusted gross income | $36,976 | $36,976 | $36,976 |
| Personal exemptions | $10,200 | $0 | $10,000 |
| Standard deduction | $16,000 | $28,800 | $15,600 |
| Taxable Income | $10,776 | $8,176 | $11,376 |
| Tax before credits | $1,078 | $981 | $1,138 |
| Child/family tax credit | $0 | $0 | $0 |
| Earned income tax credit | $0 | $0 | $0 |
| Tax after credits | $1,078 | $981 | $1,138 |
| Tax cut(-) or Increase(+) | | -$96 | $60 |

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

TABLE 37

## Married Couple with One Child

2027

| | Current Law | TCJA as passed by the House | TCJA as passed by the Senate |
|---|---|---|---|
| Adjusted gross income | $36,976 | $36,976 | $36,976 |
| Personal exemptions | $15,300 | $0 | $15,000 |
| Standard deduction | $16,000 | $28,800 | $15,600 |
| Taxable Income | $5,676 | $8,176 | $6,376 |
| Tax before credits | $568 | $981 | $638 |
| Child/family tax credit | $1,000 | $1,600 | $1,000 |
| Earned income tax credit | $3,170 | $2,953 | $2,953 |
| Tax after credits | -$3,603 | -$3,572 | -$3,316 |
| Tax cut(-) or Increase(+) | | $31 | $287 |

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

TABLE 38

# Married Couple with Two Children

2027

| | Current Law | TCJA as passed by the House | TCJA as passed by the Senate |
|---|---|---|---|
| Adjusted gross income | $36,976 | $36,976 | $36,976 |
| Personal exemptions | $20,400 | $0 | $20,000 |
| Standard deduction | $16,000 | $28,800 | $15,600 |
| Taxable Income | $576 | $8,176 | $1,376 |
| Tax before credits | $58 | $981 | $138 |
| Child/family tax credit | $2,000 | $3,200 | $2,000 |
| Earned income tax credit | $5,606 | $5,286 | $5,286 |
| Tax after credits | -$7,548 | -$7,505 | -$7,148 |
| Tax cut(-) or Increase(+) | | $43 | $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