

TCJA Individual Tax Provisions and the States

Kim S. Rueben, Tax Policy Center

NCSL Executive Committee Task Force on State and Local Taxation

March 2018



Individual Income Tax Provisions



- New set of 7 tax rate brackets (generally lower tax rates than prior law).
- Substantially increased standard deduction and repealed personal exemptions.
- Increased child tax credit and increased refundability, added dependent credit.
- Repealed moving expense deduction.
- Limits on itemized deductions (repeal miscellaneous deductions including employee business expense, union dues, tax prep, investment interest, and job hunting deductions; limit deduction for state and local taxes; reduce cap on mortgage interest deduction; repeal casualty losses).
- Substantially increased exemption amount for individual AMT and phase-out threshold.
- Many provisions indexed to chained CPI.
- Many provisions expire after 2025.

Business Tax Provisions



- The maximum corporate tax rate is reduced from 35 percent to 21 percent.
- The corporate Alternative Minimum Tax is repealed.
- The taxation of multinational firms shifts to more of a dividend exemption system (exempting from US tax the income earned by foreign subsidiaries of US multinationals).
- There is some base broadening for the corporate income tax.
- Extends 100% bonus depreciation until 2023.
- Pass-through businesses will have a preferential tax regime – a 20 percent deduction for “qualified business income.”

Revenue Effects of the TCJA



- The law will reduce federal revenues by about \$1.5 trillion over the 2018-27 budget period.
- The corporate income tax provisions cost about \$650 billion over the budget window (ignoring the one-time tax receipts from deemed repatriation).
- The pass-through provision costs about \$410 billion over the budget window.
- Temporary individual income tax provisions cost about \$1.1 trillion over the budget window.
- Increase in estate tax exemption costs about \$80 billion over the budget window.
- Setting ACA individual mandate penalty to zero raises about \$300 billion over the budget window.
- Alternative inflation measure raises about \$130 billion over the budget window.
- Deemed repatriation raises about \$350 over the budget window.

Distributional Effects of the TCJA on Individual's Taxes

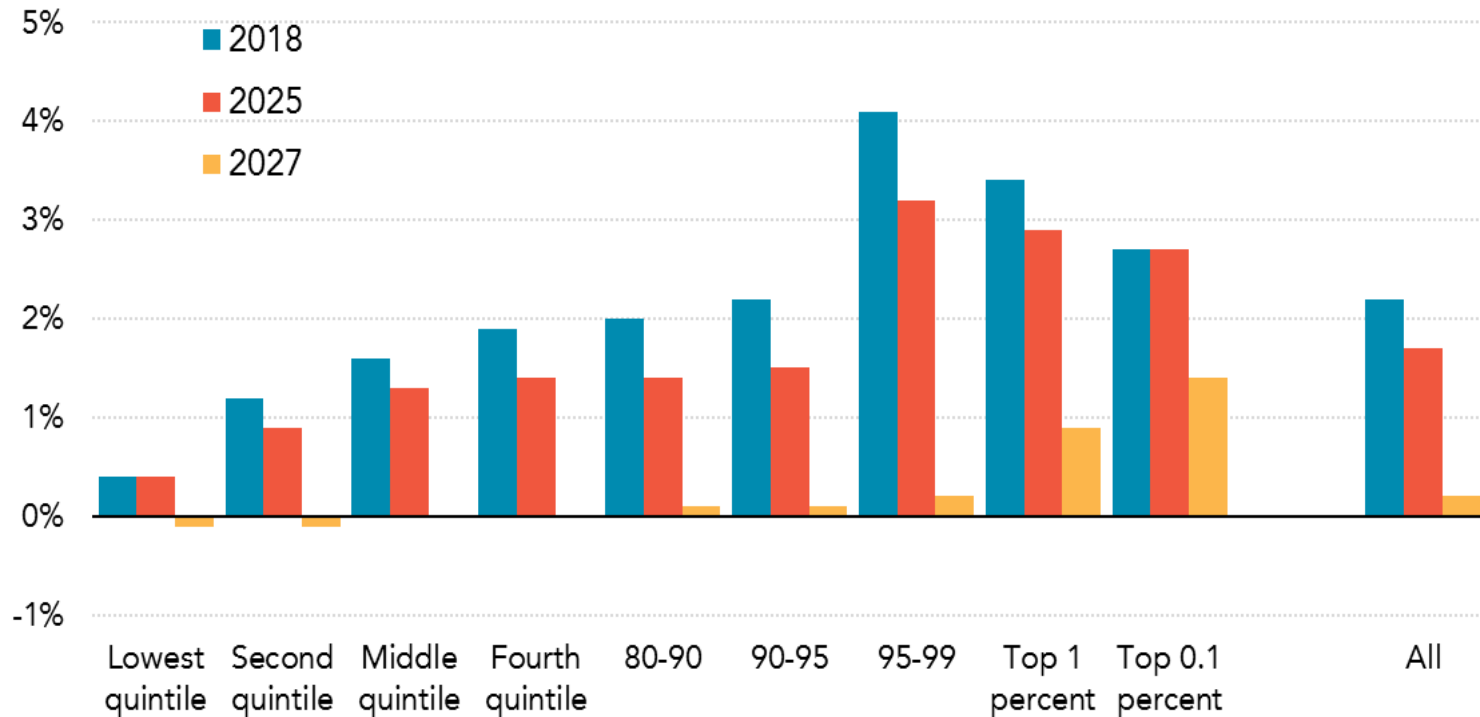


- The law will reduce taxes on average for all income groups in 2018.
- In general, higher income households will receive larger average tax cuts as a percentage of after-tax income. In 2018, taxpayers in the 95th to 99th percentiles (those making between \$308,000 and \$733,000) will see an average tax cut of about \$11,000, or a 3.4 percent of after-tax income from changes in the individual tax provisions. Meanwhile, taxpayers in the bottom quintile (those with income less than \$25,000) will see an average tax cut of \$40, or 0.3 percent of after-tax income.
- Examining all provisions and allocating the corporate changes based on earnings, results in a similar pattern, with higher income households receiving larger average tax cuts. For taxpayers in the 95th to 99th percentile the average tax cut is about \$13,500 or a 4.1 percent increase in after tax income.
- Because most of the individual provisions expire after 2025, 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 will see little change and taxpayers in the top 1 percent will receive an average tax cut of 0.9 percent of after-tax income, largely coming from allocation of the corporate changes.

The TCJA was enacted by Congress in December 2017



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).

But what does this mean for people in different states?



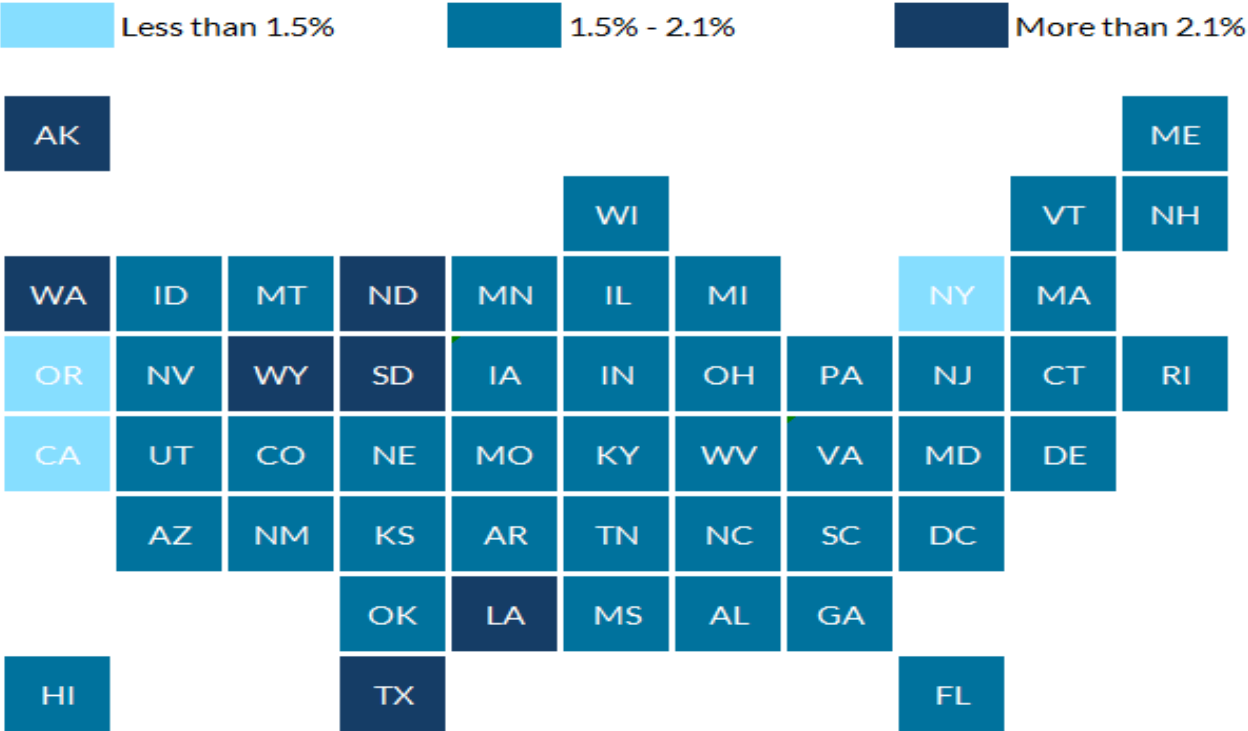
- In general taxes will fall, but different effects based on individual characteristics
 - State and local taxes
 - Family Structure
 - Composition of income
 - Occupation/Employment Characteristics
- Number of itemizers falls by half about 11% of households would benefit from itemizing
- SALT limit
- Forthcoming paper (Sammartino, Stallworth, Weiner) explores effects.

Average After-Tax Income Will Increase



FIGURE 1

Percentage Change in After-Tax Income, 2018



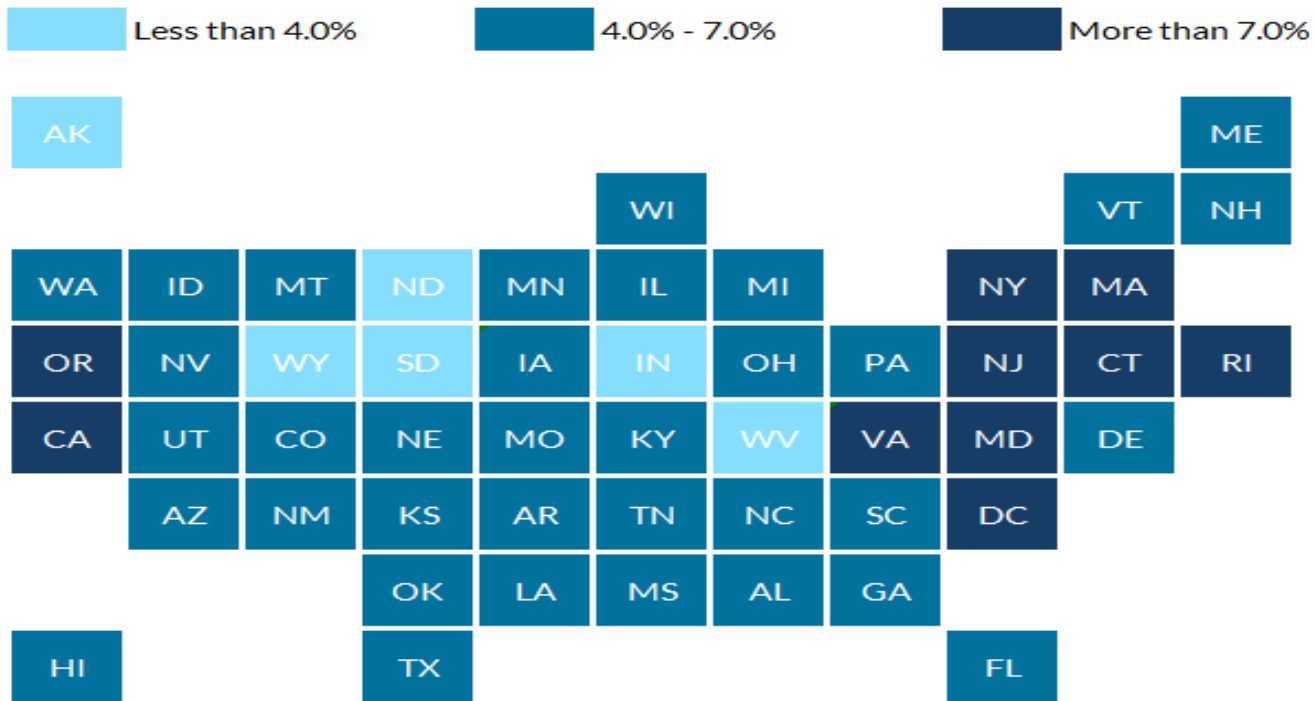
Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0217-1).

With Winners and Losers in All States



FIGURE 2

Percentage of Tax Units with Tax Increase, 2018



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

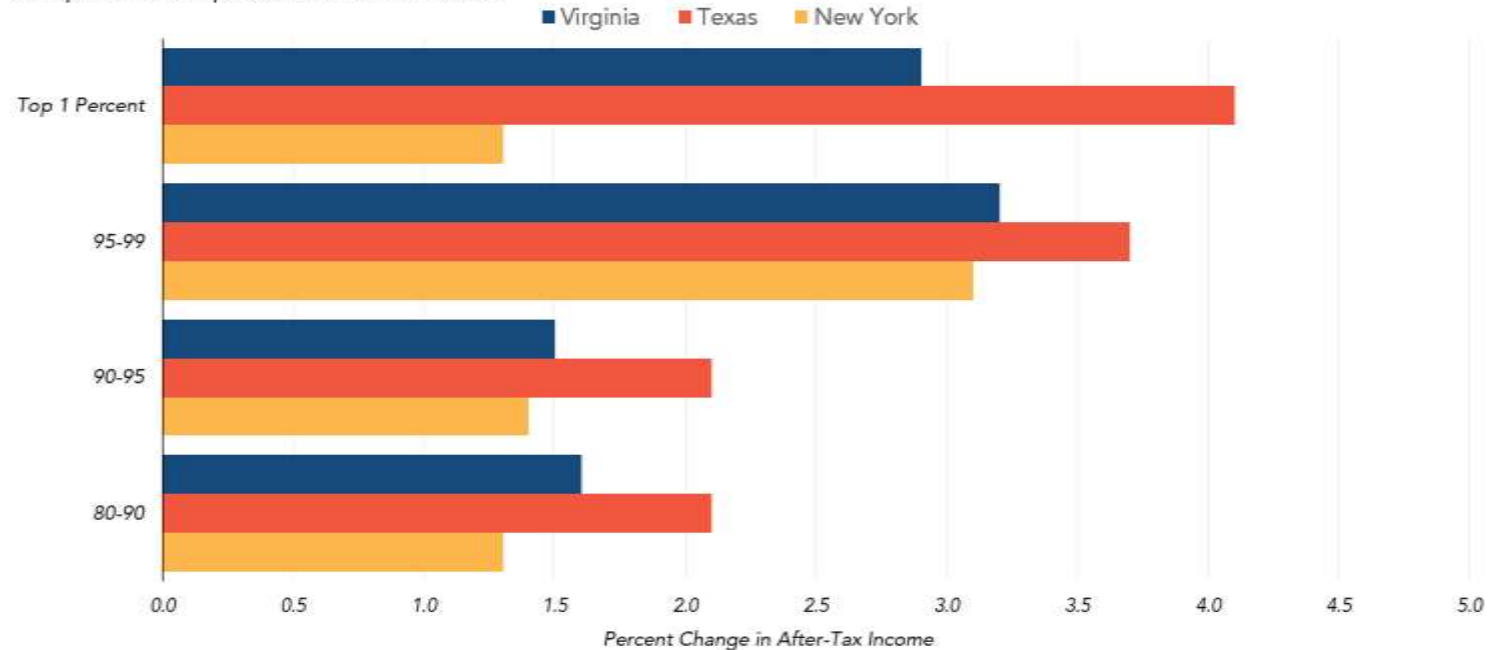
Changes in after-tax income varies across states for high income taxpayers



FIGURE 3

Percentage Change in After-Tax Income from the Major Individual Income Tax Provisions in H.R.1, The Tax Cuts and Jobs Act (TCJA), 2018

for Top Quantile of Expanded Cash Income Percentile



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

Share of taxpayers with tax increases vary, larger in New York for high income taxpayers

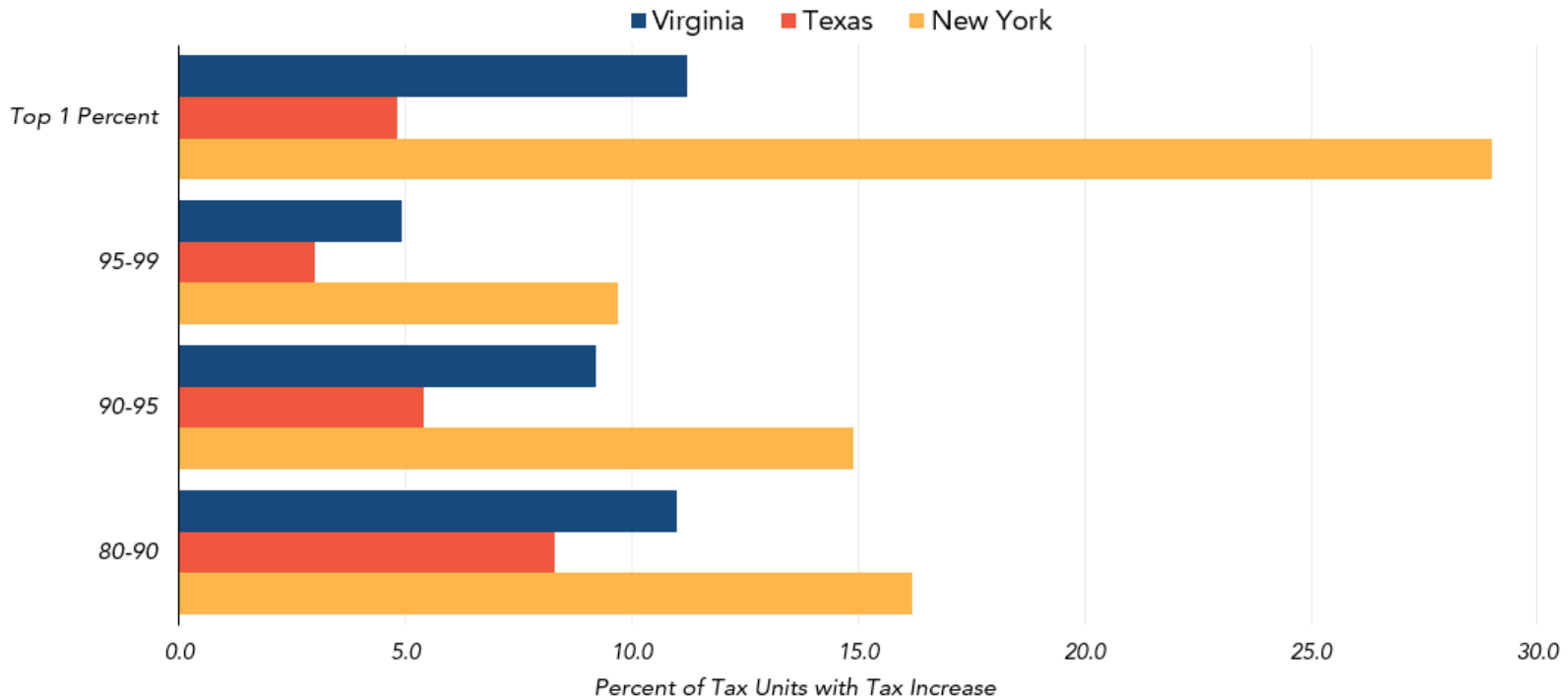


FIGURE 4

Tax Units with a Tax Increase from the Major Individual Income Tax Provisions in H.R.1, The Tax Cuts and Jobs Act (TCJA), 2018



for Top Quintile of Expanded Cash Income Percentile



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

Differences largely coming from limit on SALT deduction



FIGURE 5

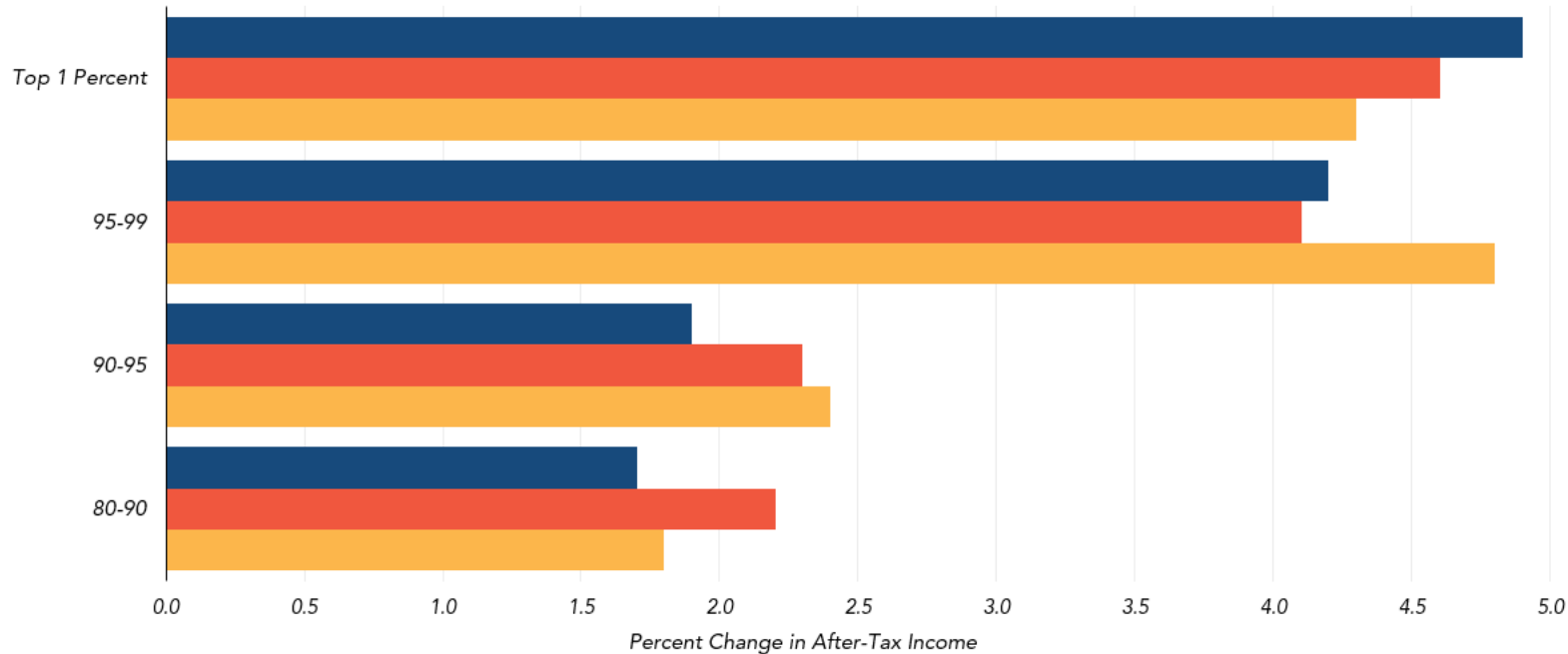
Percentage Change in After-Tax Income from the Major Individual Income Tax Provisions in H.R.1, The Tax Cuts and Jobs Act (TCJA), 2018

Excluding the \$10,000 Limit on State and Local Tax (SALT) Deductions

for Top Quantile of Expanded Cash Income Percentile



■ Virginia ■ Texas ■ New York



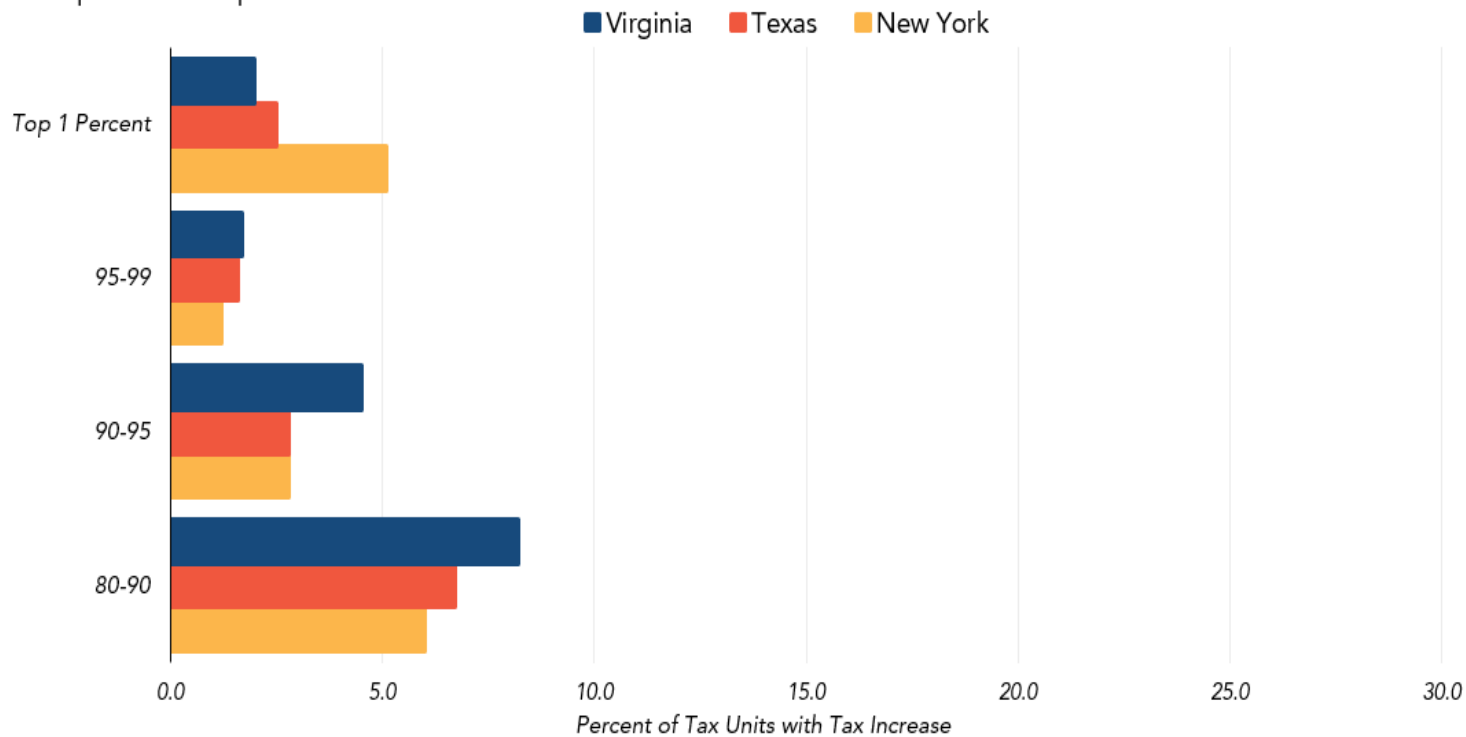
Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0217-1).

FIGURE 6

Tax Units with a Tax Increase from the Major Individual Income Tax Provisions in H.R.1, The Tax Cuts and Jobs Act (TCJA), 2018

Excluding the \$10,000 Limit on State and Local Tax (SALT) Deductions

for Top Quintile of Expanded Cash Income Percentile



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

Tax changes for individuals under TCJA



- About 2/3^{rds} of taxpayers will receive a tax cut with the largest changes for higher income taxpayers
- Taxes will increase for 6% of taxpayers, largely concentrated in the top 3 quintiles
- The differences in size of tax cuts and number of households facing tax increases across states is concentrated in top quintile and largely related to the limit on the SALT deduction.

THANK YOU

For more information please contact:

Kim Rueben
krueben@urban.org

