

PRELIMINARY DISTRIBUTIONAL ANALYSIS OF THE TAX CUTS AND JOBS ACT

TPC Staff

November 8, 2017

NOTE: This is a corrected version of the analysis originally published November 6, 2017.

The Tax Policy Center has produced preliminary distributional estimates of the Tax Cuts and Jobs Act as introduced on November 3, 2017. 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 25 percent of taxpayers would pay more in 2027.

The Tax Cuts and Jobs Act, introduced as H.R. 1 on November 2, 2017, and amended by Chairman Brady on November 3, 2017, proposes major changes to the individual and corporate income taxes, estate and gift taxes, and certain federal excise taxes.¹ The Tax Policy Center has produced preliminary distributional estimates of the 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 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 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.

¹ This analysis is based on the chairman's amendment in the nature of a substitute to H.R. 1, the Tax Cuts and Jobs Act, the version of the bill which was scored by the Joint Committee on Taxation in JCX-47-17. A full description of the provisions contained in H.R. 1 is available at JCX-50-17, Joint Committee on Taxation, accessed November 8, 2017, <https://www.jct.gov/publications.html?func=startdown&id=5031>.

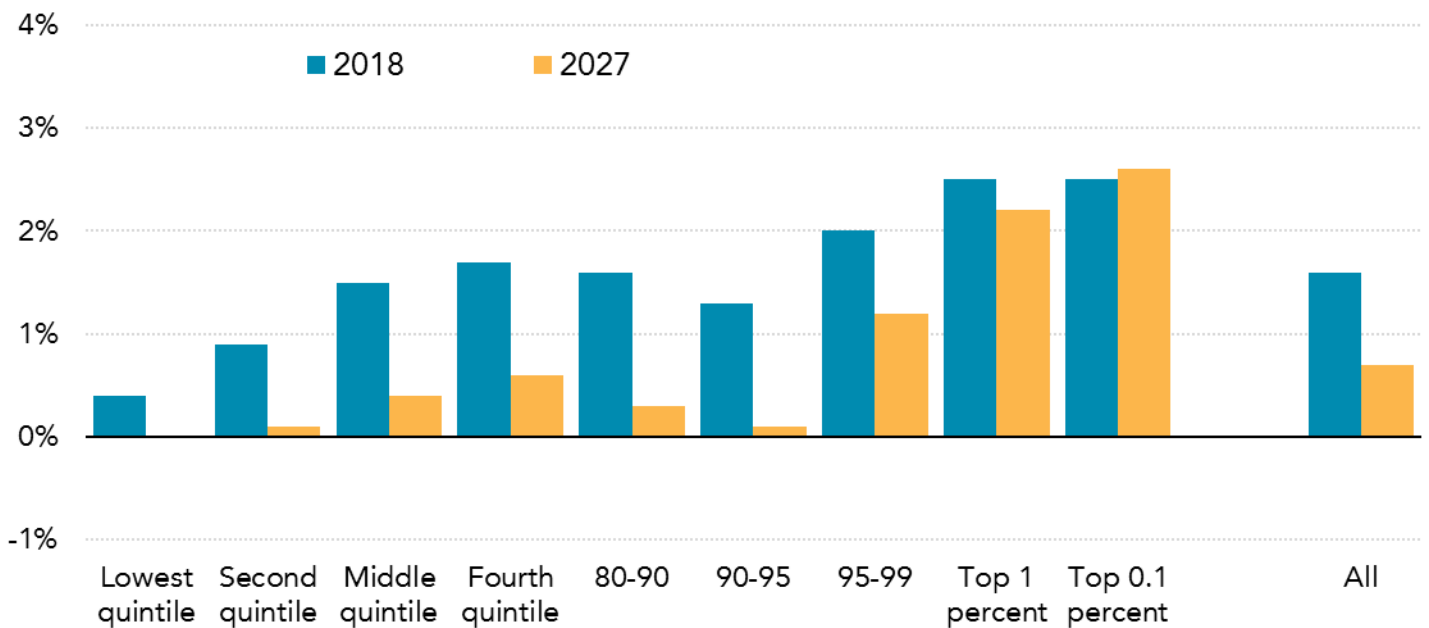
- Some taxpayers would pay more in taxes under the proposal. In 2018, slightly more than 7 percent of taxpayers would experience a tax increase relative to current law. That share would rise to slightly more than 25 percent in 2027.

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"
By expanded cash income percentile, 2018 and 2027



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

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 about \$800, or 1.5 percent of after-tax income. Taxpayers in the top 1 percent (those with income more than \$730,000) would receive nearly 21 percent of the total tax cut: an average cut of about \$37,000, or 2.5 percent of after-tax income.



TABLE 1

Distribution of Federal Tax Change of the "Tax Cuts and Jobs Act" By expanded cash income percentile, 2018^a

Expanded cash income percentile ^b	Percent change in after-tax income ^c	Share of total federal tax change (%)	Average federal tax change (dollars)	Average federal tax rate ^d	
				Change (% points)	Under the proposal (%)
Lowest quintile	0.4	1.3	-60	-0.4	3.7
Second quintile	0.9	5.8	-310	-0.9	7.8
Middle quintile	1.5	13.9	-840	-1.3	12.6
Fourth quintile	1.7	22.1	-1,590	-1.4	15.9
Top quintile	1.9	56.6	-4,840	-1.4	24.1
All	1.6	100.0	-1,180	-1.3	18.5
Addendum					
80-90	1.6	13.8	-2,300	-1.3	18.9
90-95	1.3	7.4	-2,570	-1.0	21.0
95-99	2.0	14.8	-6,600	-1.5	23.7
Top 1 percent	2.5	20.6	-37,440	-1.7	30.9
Top 0.1 percent	2.5	10.0	-178,560	-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 the Chairman's amendment to H.R. 1 released on 11/3/2017.

(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 \$700 on average, or 0.7 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 \$10–\$40. Taxpayers in the middle of the income distribution would see a net tax cut on average and see their after-tax incomes increase 0.4 percent. Taxpayers in the top 1 percent would receive nearly 50 percent of the total benefit; their after-tax income would increase 2.2 percent on average.



TABLE 2

Distribution of Federal Tax Change of the "Tax Cuts and Jobs Act" By expanded cash income percentile, 2027^a

Expanded cash income percentile ^b	Percent change in after-tax income ^c	Share of total federal tax change (%)	Average federal tax change (dollars)	Average federal tax rate ^d	
				Change (% points)	Under the proposal (%)
Lowest quintile	0.0	0.3	-10	0.0	4.3
Second quintile	0.1	1.3	-40	-0.1	8.8
Middle quintile	0.4	8.7	-320	-0.4	13.5
Fourth quintile	0.6	15.7	-710	-0.5	16.5
Top quintile	1.1	73.2	-3,860	-0.8	25.5
All	0.7	100.0	-730	-0.6	19.6
Addendum					
80-90	0.3	5.5	-560	-0.2	19.6
90-95	0.1	1.6	-340	-0.1	21.8
95-99	1.2	18.9	-5,220	-0.9	24.6
Top 1 percent	2.2	47.2	-52,780	-1.5	32.0
Top 0.1 percent	2.6	25.1	-278,370	-1.8	32.1

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

Notes: Number of Alternative Minimum Tax (AMT) taxpayers (millions): Baseline: 5.6; Proposal: 0.

* Non-zero value rounded to zero.

(a) Calendar year. Baseline is current law. Proposal includes all provisions contained in the Chairman's amendment to H.R. 1 released on 11/3/2017.

(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 the composition of 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 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.

²We 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.

In 2027, 59 percent of taxpayers would see an average tax cut of about \$2,300, while at least 25 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 (14 percent) and significantly above average for taxpayers between the 90th and 95th income percentiles (47 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 3

Tax Units with a Tax Change from Major Provisions of the "Tax Cuts and Jobs Act" By expanded cash income percentile, 2018^a



Expanded cash income percentile ^b	Tax units with tax cut or increase ^c				Average federal tax change	
	With tax cut		With tax increase		All Provisions	Major Provisions included here
	Percent of tax units	Average tax cut	Percent of tax units	Average tax increase		
Lowest quintile	47.1	-150	1.7	780	-60	-60
Second quintile	83.9	-450	6.0	830	-310	-320
Middle quintile	89.4	-1,080	9.2	1,010	-840	-880
Fourth quintile	88.2	-2,100	11.5	1,550	-1,590	-1,670
Top quintile	87.0	-6,960	12.9	5,250	-4,840	-5,390
All	75.8	-1,890	7.3	2,140	-1,180	-1,280
Addendum						
80-90	86.6	-3,170	13.2	1,920	-2,300	-2,500
90-95	84.0	-3,800	15.8	2,070	-2,570	-2,860
95-99	93.7	-8,090	6.1	4,250	-6,600	-7,320
Top 1 percent	79.5	-64,430	20.5	43,070	-37,440	-42,430
Top 0.1 percent	70.5	-357,270	29.4	175,710	-178,560	-200,090

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 major provisions contained in the Chairman's amendment to H.R. 1 released on 11/3/2017. Due to data limitations, excludes the following provisions: repeal of credit for adoption expenses; 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.

TABLE 4

Tax Units with a Tax Change from Major Provisions of the "Tax Cuts and Jobs Act"

By expanded cash income percentile, 2027^a



Expanded cash income percentile ^b	Tax units with tax cut or increase ^c				Average federal tax change	
	With tax cut		With tax increase		All Provisions	Major Provisions included here
	Percent of tax units	Average tax cut	Percent of tax units	Average tax increase		
Lowest quintile	41.2	-120	14.1	290	-10	-10
Second quintile	62.1	-360	25.2	680	-40	-50
Middle quintile	67.1	-1,070	30.9	1,150	-320	-360
Fourth quintile	71.0	-1,940	28.6	2,090	-710	-780
Top quintile	62.3	-10,900	37.6	6,040	-3,860	-4,520
All	59.0	-2,330	25.5	2,080	-730	-840
Addendum						
80-90	62.4	-2,920	37.4	2,880	-560	-750
90-95	52.6	-4,080	47.3	3,530	-340	-480
95-99	73.3	-10,490	26.7	6,450	-5,220	-5,960
Top 1 percent	66.4	-123,240	33.6	61,770	-52,780	-61,080
Top 0.1 percent	69.2	-583,640	30.8	298,020	-278,370	-312,110

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. Proposal includes major provisions contained in the Chairman's amendment to H.R. 1 released on 11/3/2017. Due to data limitations, excludes the following provisions: repeal of credit for adoption expenses; 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.

The views expressed are those of the authors and should not be attributed to the Urban Institute, the Brookings Institution, their trustees, or their funders. The Tax Policy Center is a joint venture of the Urban Institute and Brookings Institution. For more information, visit taxpolicycenter.org or e-mail info@taxpolicycenter.org.

Copyright © November 2017 Tax Policy Center. All rights reserved. Permission is granted for reproduction of this file, with attribution to the Urban-Brookings Tax Policy Center.