

Sweeping Changes and an Uncertain Legacy: The Tax Cuts and Jobs Act of 2017

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Four Things We Think We Know About TCJA

Marginal tax rates fell

- Lower MTR across the board
- Also, reduced dispersion of MTR across asset type, legal form, and financing methods

Some simplification occurred

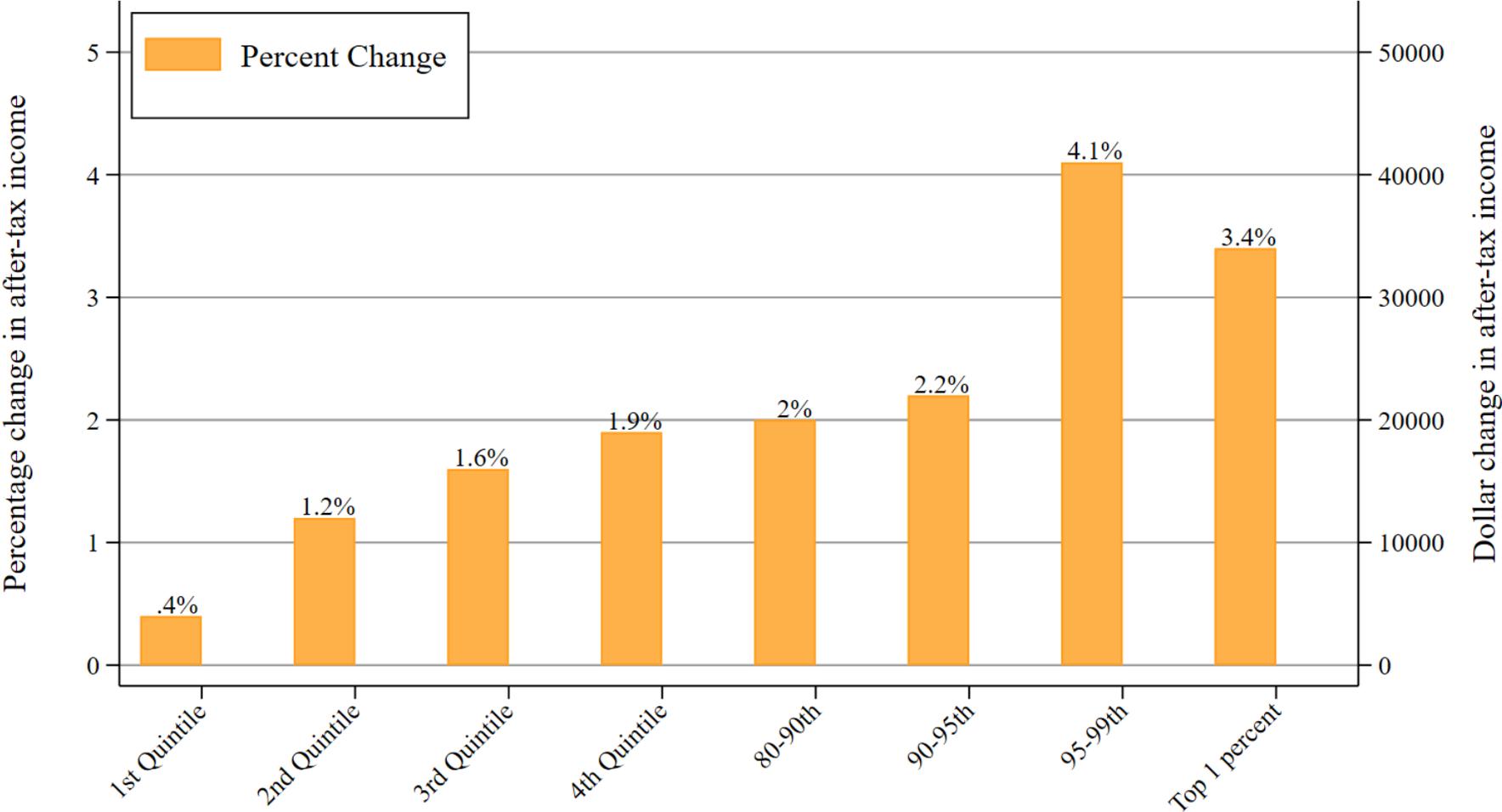
- Reduced use of itemized deductions (31%→11%) and AMT (55%→2%, if Y>200K)
- But ... 199A and GILTI made business taxes more complicated

There was substantial revenue loss and budget cost

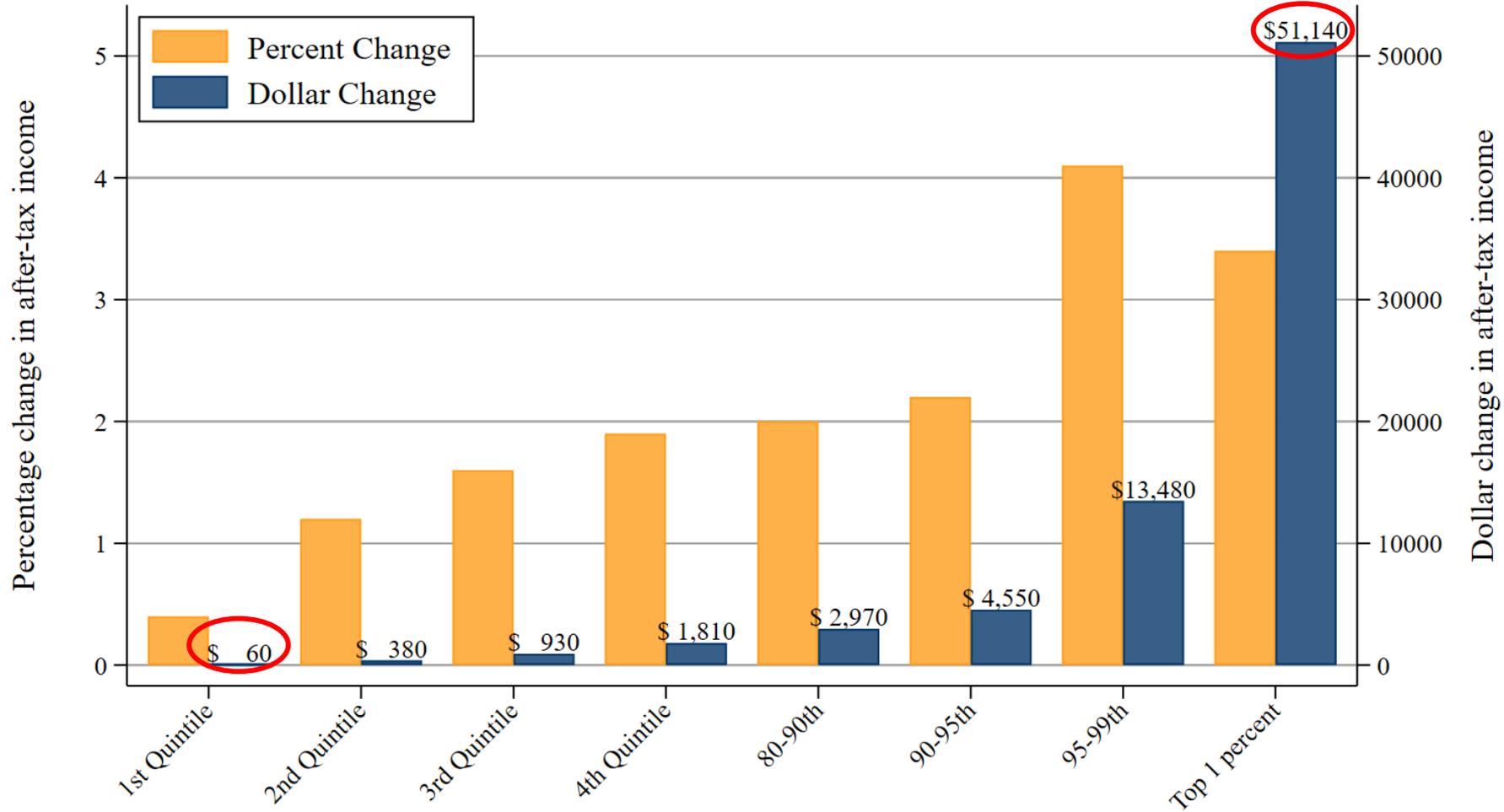
- Static revenue loss – Originally, \$1.5 trillion over 10 years, then raised subsequently
- Budget costs – About \$2.3 trillion over 10 years (including net interest)
- Dynamic scoring – reduces revenue loss by about 7-31%

TCJA was regressive

Percent change in after-tax income



Percent and dollar change in after-tax income



Tax cut for bottom 75% = Tax cut for top 1%

Three Areas Where Evidence is Not Conclusive

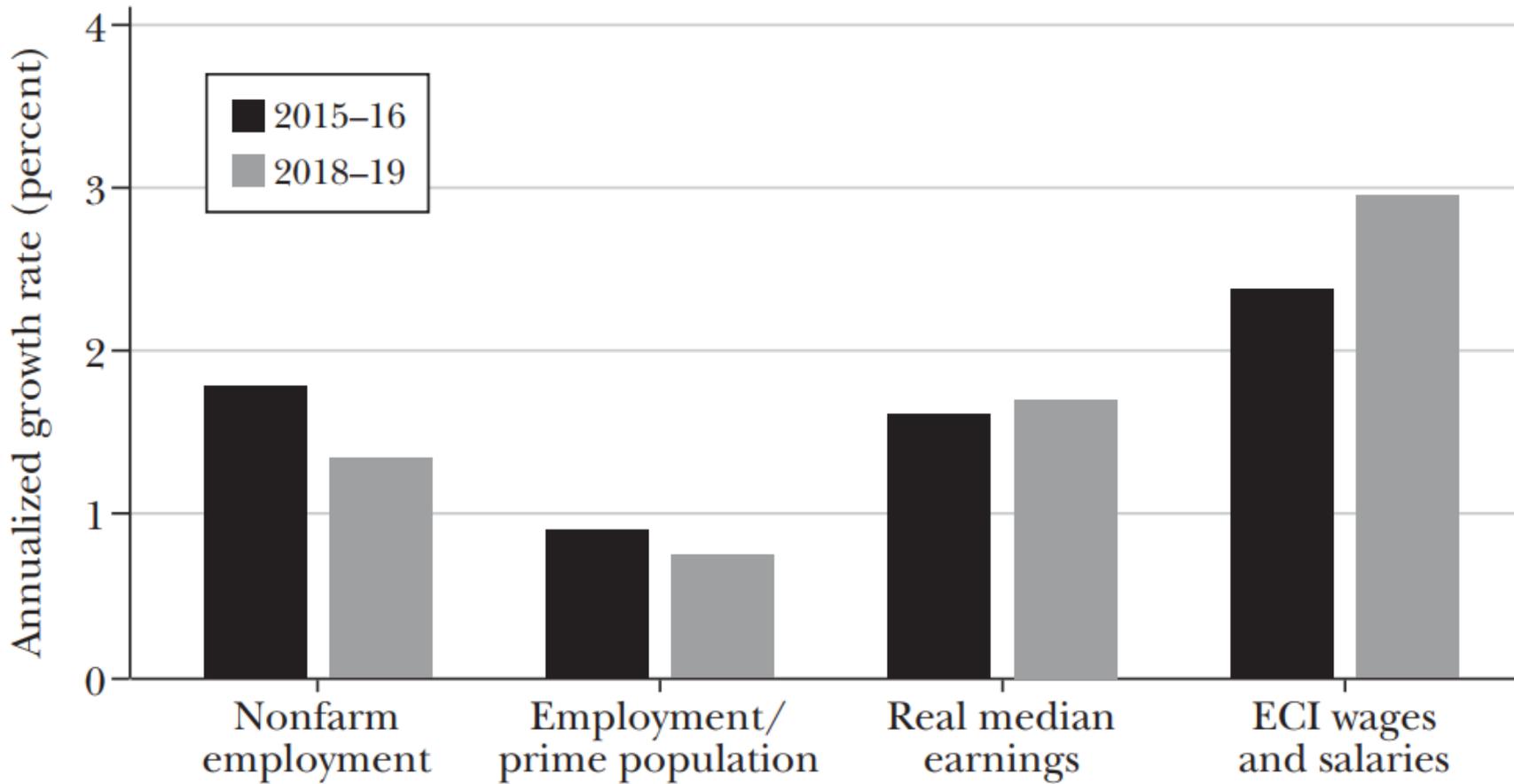
- GDP
- Wages and Employment
- Aggregate Investment (Corporate and Non-Corporate)

- Aggregate trends, of course, are not dispositive
 - Short-term
 - Other things going on in the economy
 - (But the effects look weak to me)

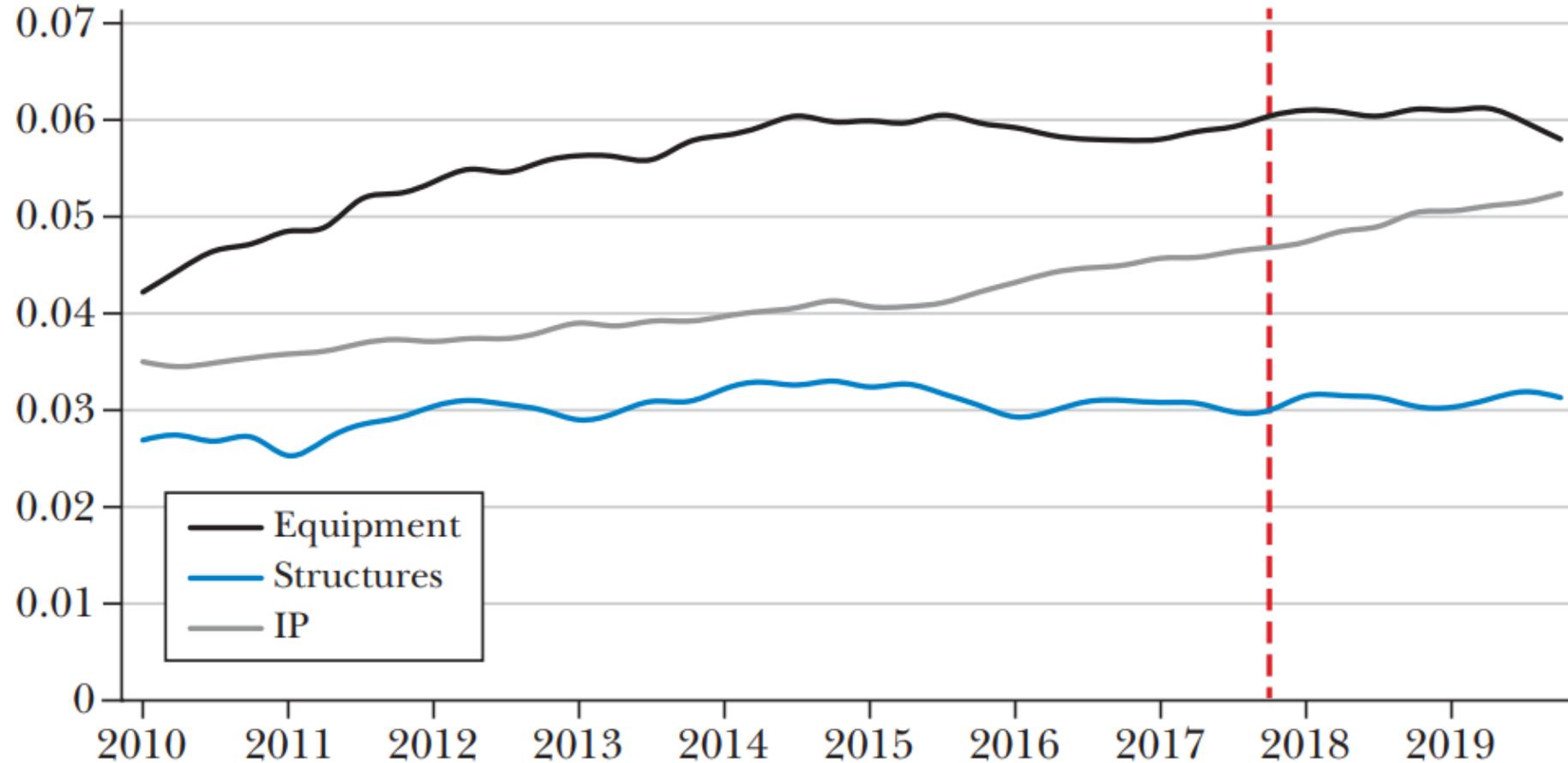
GDP and National Income

- Actual Real Growth
 - 2013-2017 – 2.52%
 - 2018-2019 – 2.65%
- Other policies in 2018-2019 probably on net boosted GDP
 - Tariffs – reduced GDP by 0.3 pp (CBO)
 - Fiscal – raised GDP by 0.75-1.75 pp (Furman, Campbell et al.)
 - Monetary policy – stimulative on balance (Furman)
- Simulation: GDP up by 0.5% after -10 years (CBO)
 - GNP up by 0.1%, NNP by 0.0% (Gale and Page)

Wages and Employment

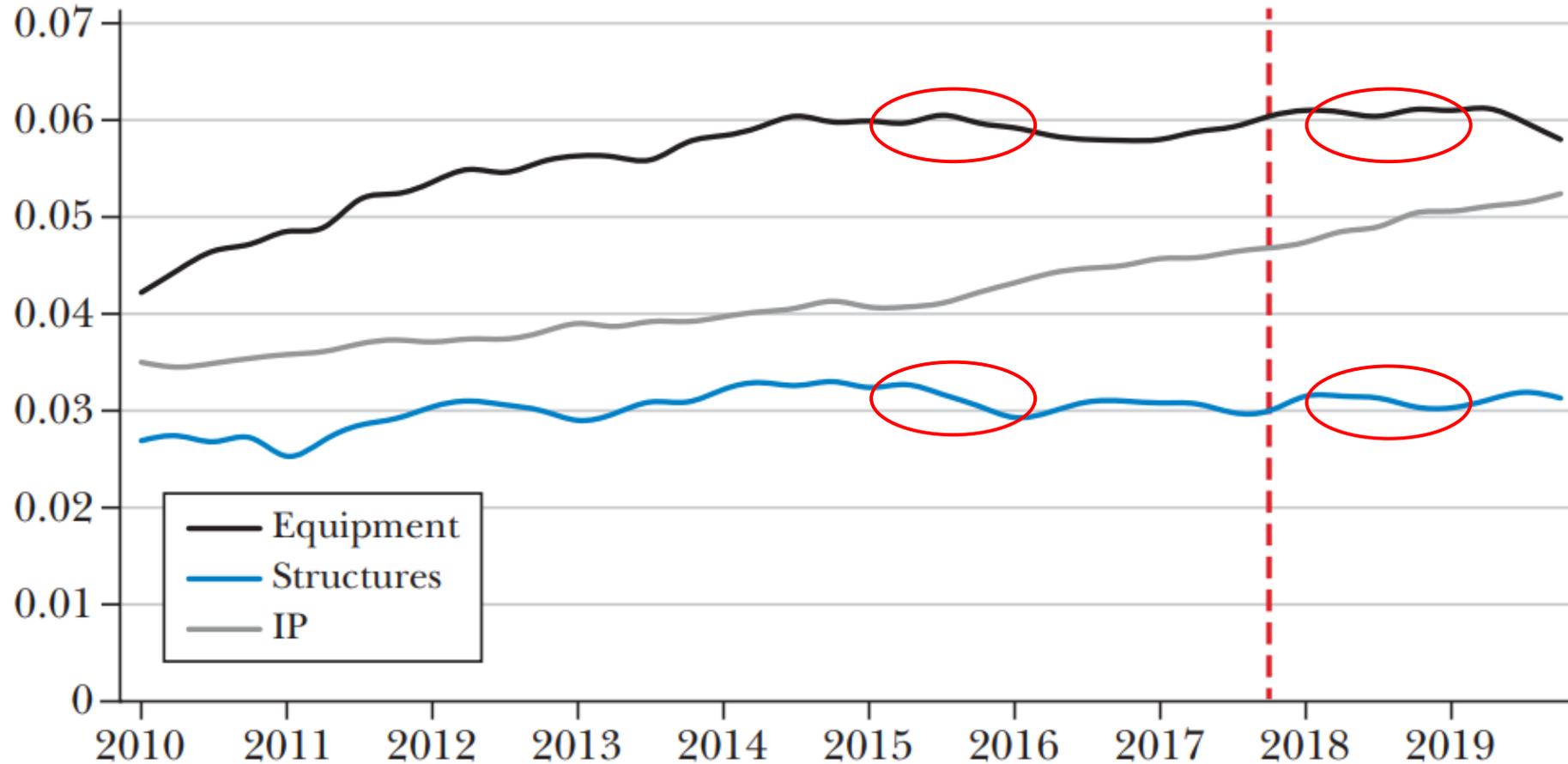


Aggregate Nonresidential Investment, Share of GDP



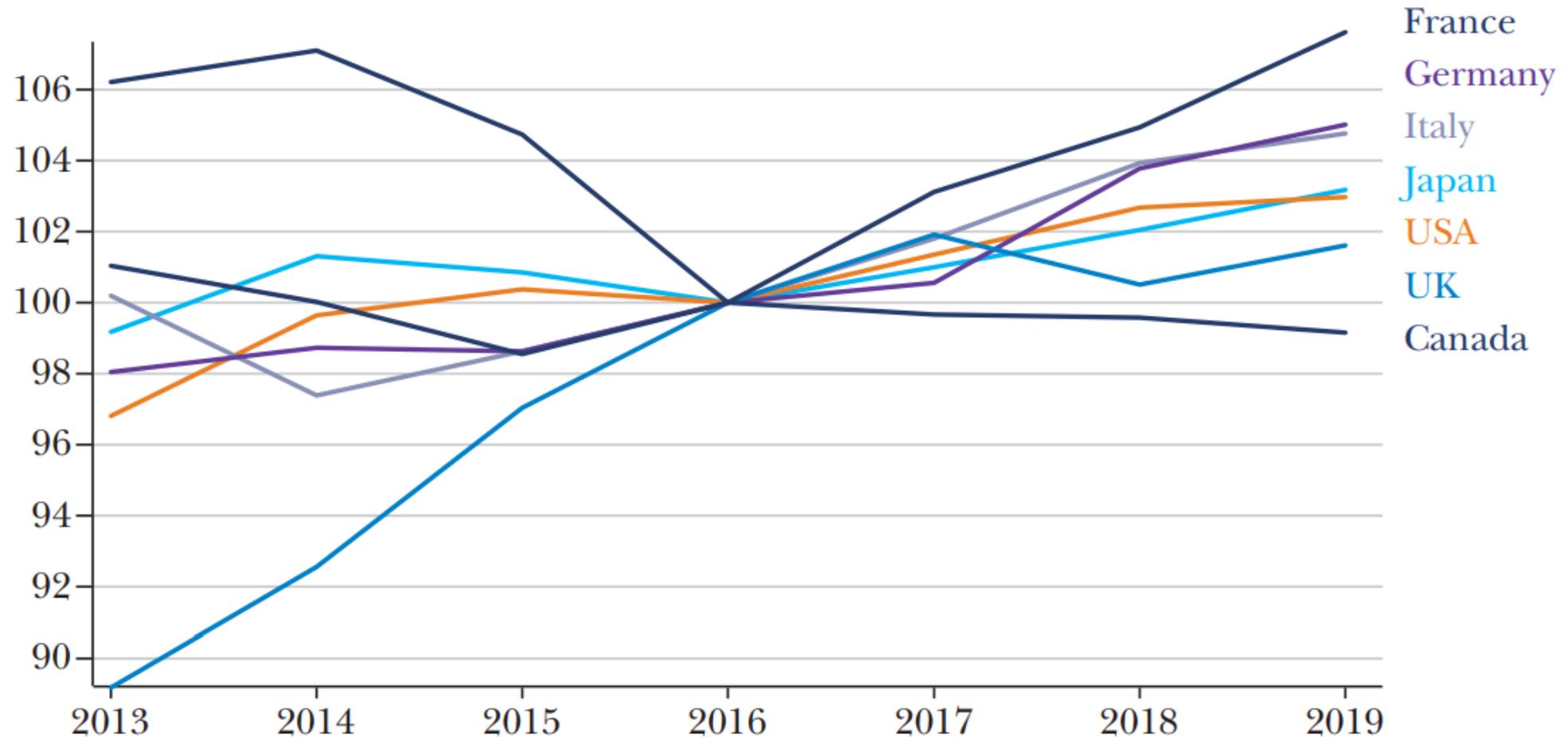
Source: FRED

Aggregate Nonresidential Investment, Share of GDP

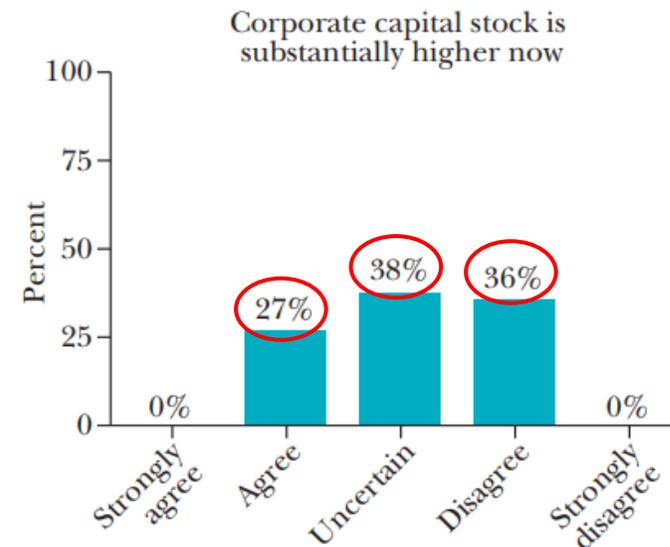
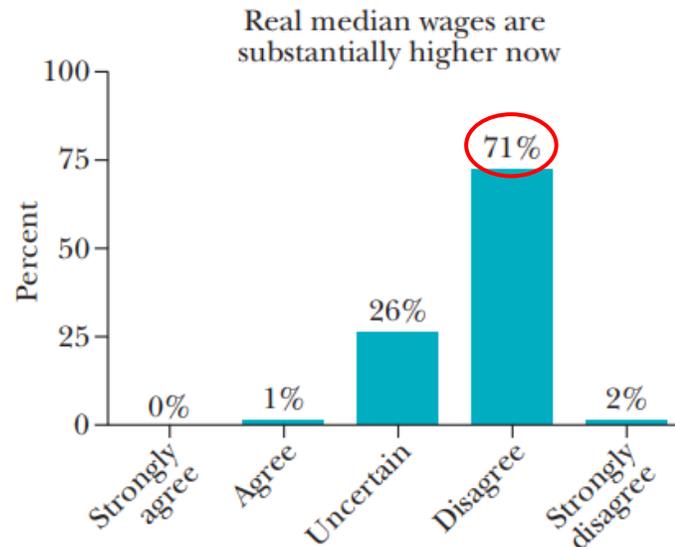
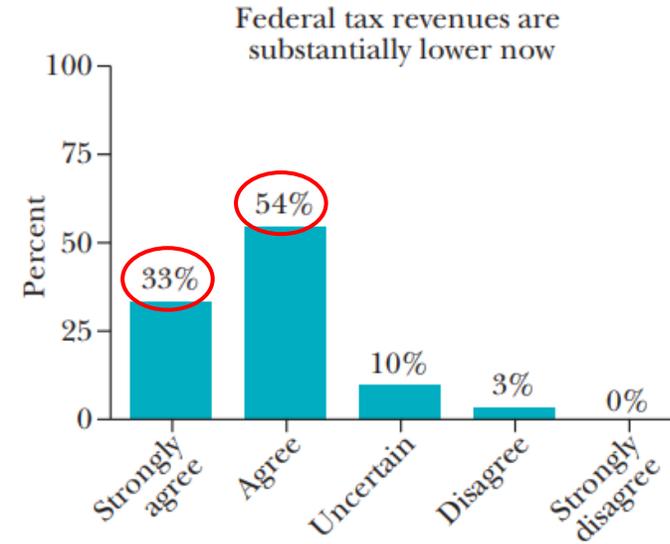
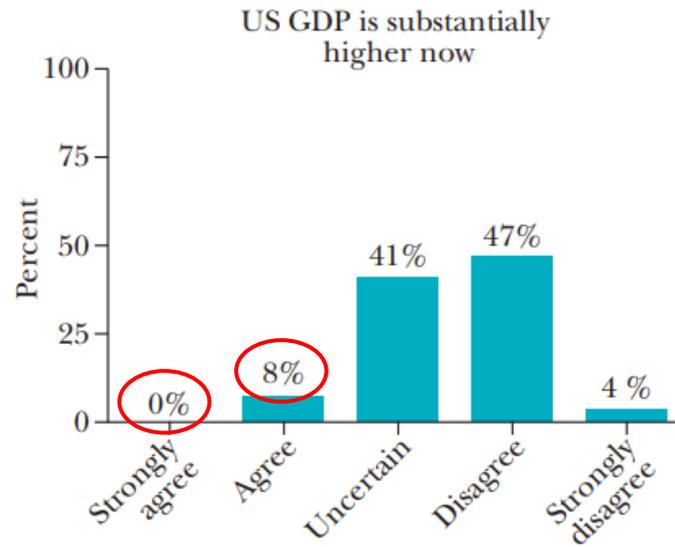


Source: FRED

Aggregate Investment as a Share of GDP (2016 = 100)



Expert Opinion (Clark Center, as of 11/23)



Source: Kent Clark Center

The Bottom Line

Things we think we know about TCJA:

- Reduced level and dispersion of marginal tax rates
- Simplified taxes for many people, made them more complex for some businesses
- Was expensive
- Was regressive
- Had little impact on median wages

Areas lacking conclusive evidence (but where the effects don't look strong)

- GDP
- Wages and Employment
- Aggregate (corporate and non-corporate) investment