The Tax Cuts and Jobs Act of 2017

Lessons learned and the debate ahead

Tracy Gordon

September 12, 2024

The Most Sweeping Tax Law in Decades

- Individuals
  - Cut tax rates (37% vs. 39.6% at top)
  - Expanded child tax credit and eliminated personal exemptions
  - Doubled standard deduction and limited itemized deductions (e.g., HMID, SALT)
  - Raised alternative minimum tax (AMT) exemption and phase outs
  - Doubled the estate tax exemption
  - Created Opportunity Zones
- Corporations
  - Reduced top rate (21% vs. 35%)
  - Eliminated AMT
  - Allowed full expensing of equipment investment and limited deductions for business interest, net operating losses
  - Required amortizing of research and experimentation expenditures
  - Repealed Domestic Production Deduction
  - Changed international rules (GILTI, FDII, BEAT)

- For pass-through businesses, it created a new 20% deduction on qualified business income

Why Are We Talking About it Now?

Because all highlighted provisions expire in 2025 or have already started to phase down/kick in

- Individuals
  - Cut tax rates (37% vs. 39.6% at top)
  - Expanded child tax credit and eliminated personal exemptions
  - Doubled standard deduction and limited itemized deductions (e.g., HMID, SALT)
  - Raised alternative minimum tax (AMT) exemption and phase outs
  - Doubled the estate tax exemption
  - Created Opportunity Zones

- Corporations
  - Reduced top rate (21% vs. 35%)
  - Eliminated AMT
  - Allowed full expensing of equipment investment and limited deductions for business interest, net operating losses
  - Required amortizing of research and experimentation expenditures
  - Repealed Domestic Production Deduction
  - Changed international rules (GILTI, FDII, BEAT)

- For pass-through businesses, it created a new 20% deduction on qualified business income

Why This is Hard

- **Comprehensive tax legislation is always hard**. That's why it rarely happens!
- **Fiscal environment is tougher now than in 2017**. CBO projects federal debt held by public will hit 116% of GDP by FY2034, higher than at any time in US history
- **Political environment may be harder too**. Although it passed along partisan lines, TCJA reflected some areas of bipartisan agreement (e.g., 2012 Obama and 2014 Camp). Lessons from this year's bipartisan CTC/business tax deal (HR7024)?
- **The policy itself is complex.** Extending tax cuts for everyone earning <$400K/yr is easier said than done because of interlocking provisions (vs. 2012's American Taxpayer Relief Act extending 2001 and 2003 tax cuts for those <$250K/yr)

We’re Here to Help!

- This conference is based on a *Journal of Economic Perspectives* symposium
  - *Sweeping Changes and an Uncertain Legacy: The Tax Cuts and Jobs Act of 2017* by William G. Gale, Jeffrey L. Hoopes, and Kyle Pomerleau
  - *The US Individual Income Tax: Recent Evolution and Evidence* by Jon Bakija
  - *Lessons from the Biggest Business Tax Cut in US History* by Gabriel Chodorow-Reich, Owen Zidar, and Eric Zwick
  - *US International Corporate Taxation after the Tax Cuts and Jobs Act* by Kimberly A. Clausing
  - *Are Opportunity Zones an Effective Place-Based Policy?* by Kevin Corinth and Naomi Feldman
- This is only one example of the analytical community coming together to support next year’s debate with data, analysis, insights

Housekeeping

- 5 presentations
- Each presenter will speak for ~10 minutes, followed by panel discussion led by David Wessel
- We'll hold questions and comments from the audience until then
- Tim Taylor, *JEP* managing editor will provide closing remarks
- Event is being livestreamed and will be available online afterwards

- **THANK YOU for joining us**

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

William G. Gale, Jeffrey L. Hoopes, Kyle Pomerleau

Prepared for Hutchins - Tax Policy Center Conference

Brookings Institution

September 12, 2024

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

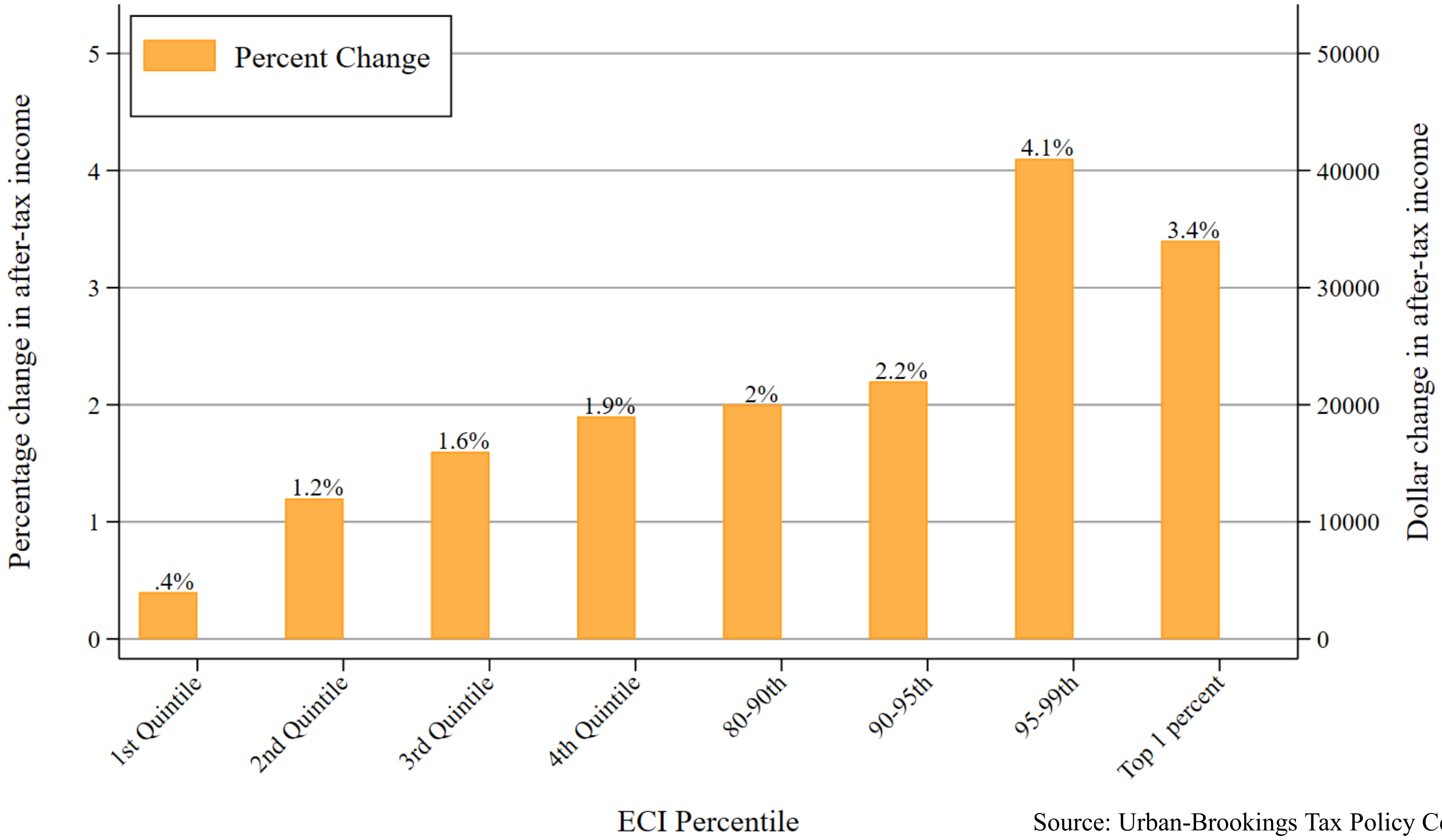
- Reduced use of itemized deductions (31%→11%) and AMT (55%→2%, if Y>200K)
- But … 199A and GILTI made business taxes more complicated

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

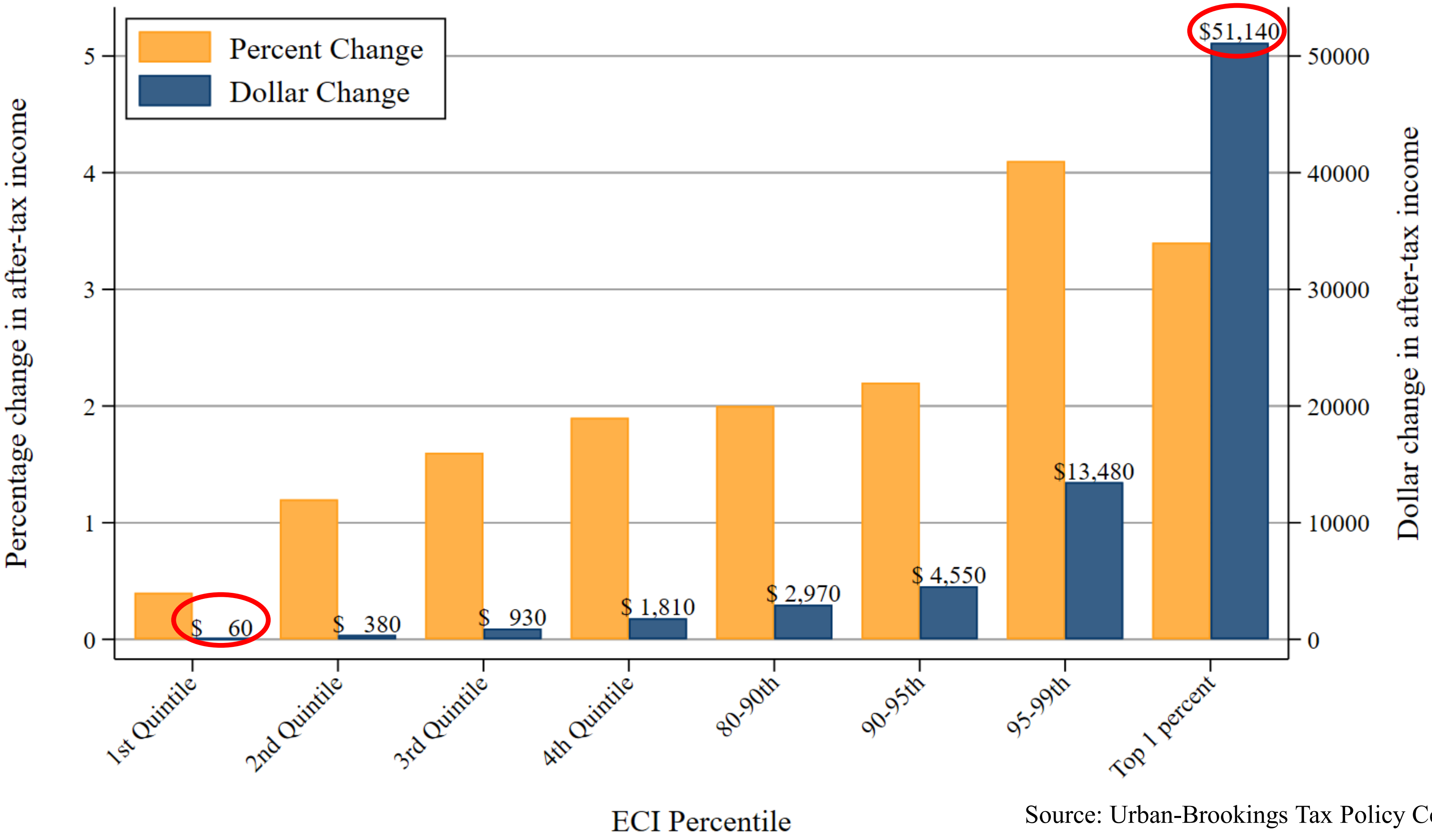
Percent change in after-tax income



Source: Urban-Brookings Tax Policy Center

Percent and dollar change in after-tax income

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



Source: Urban-Brookings Tax Policy Center

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)

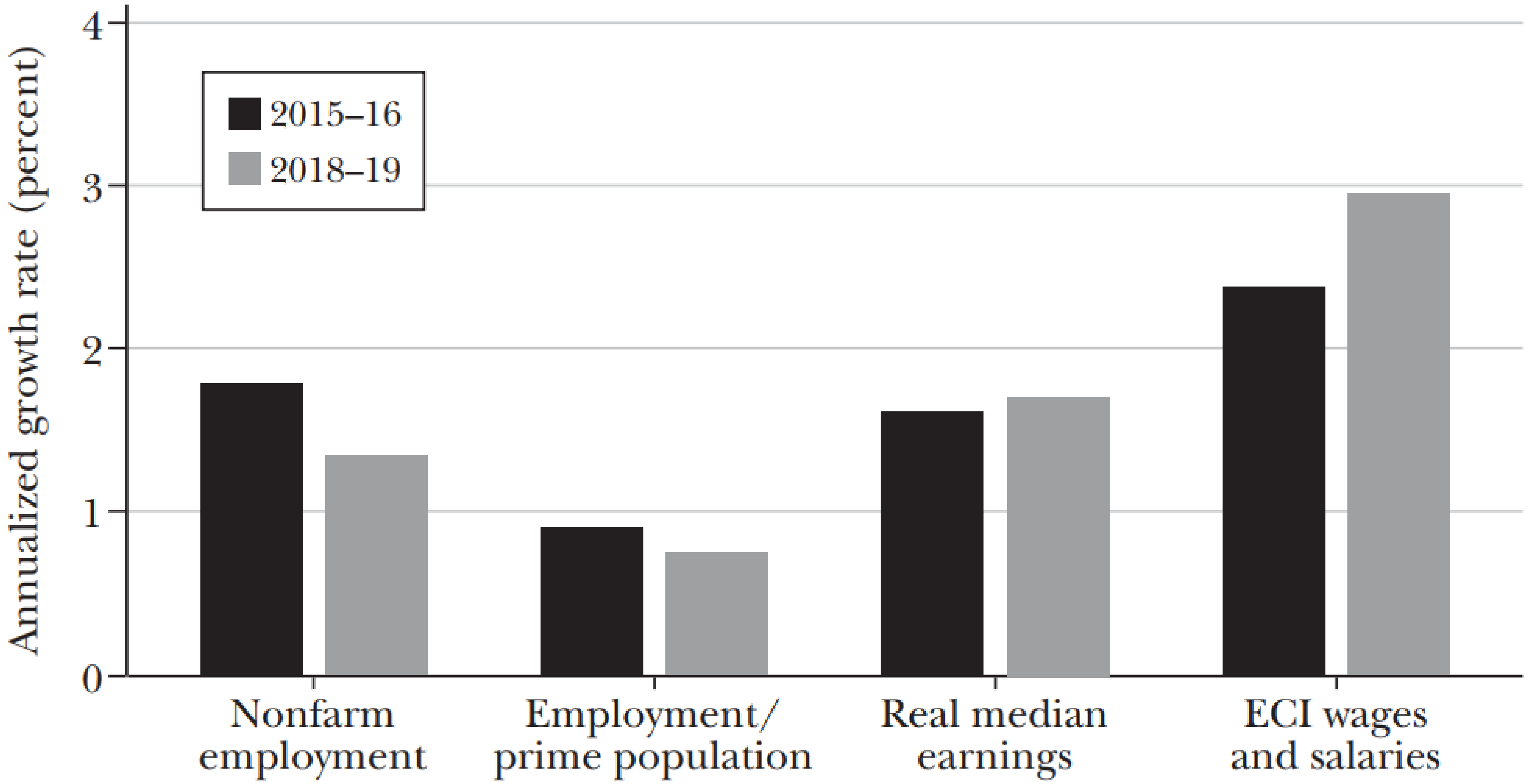
GDP and National Income

- 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)

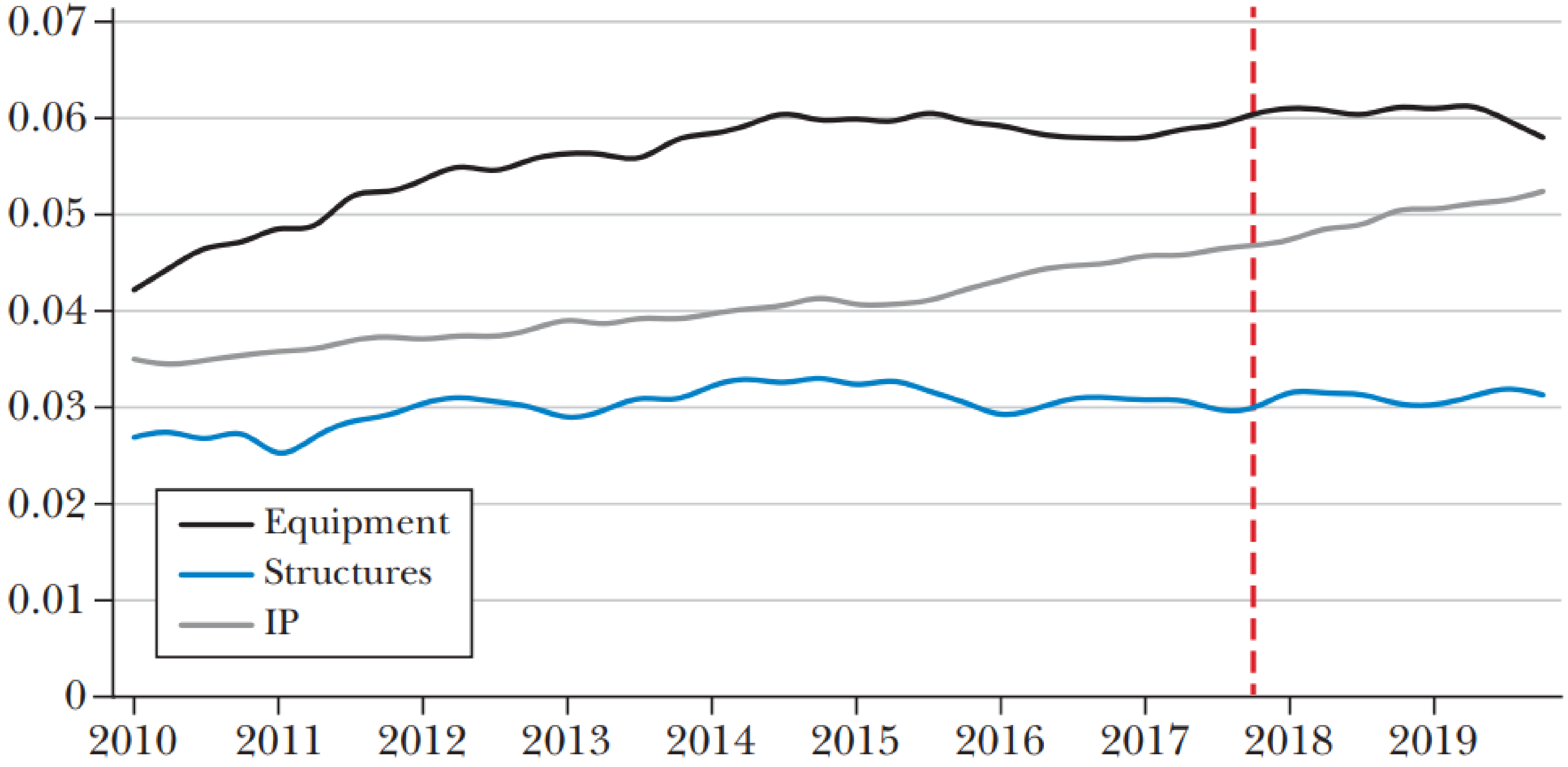
- Simulation: GDP up by 0.5% after -10 years (CBO)
  - GNP up by 0.1%, NNP by 0.0% (Gale and Page)

Wages and Employment



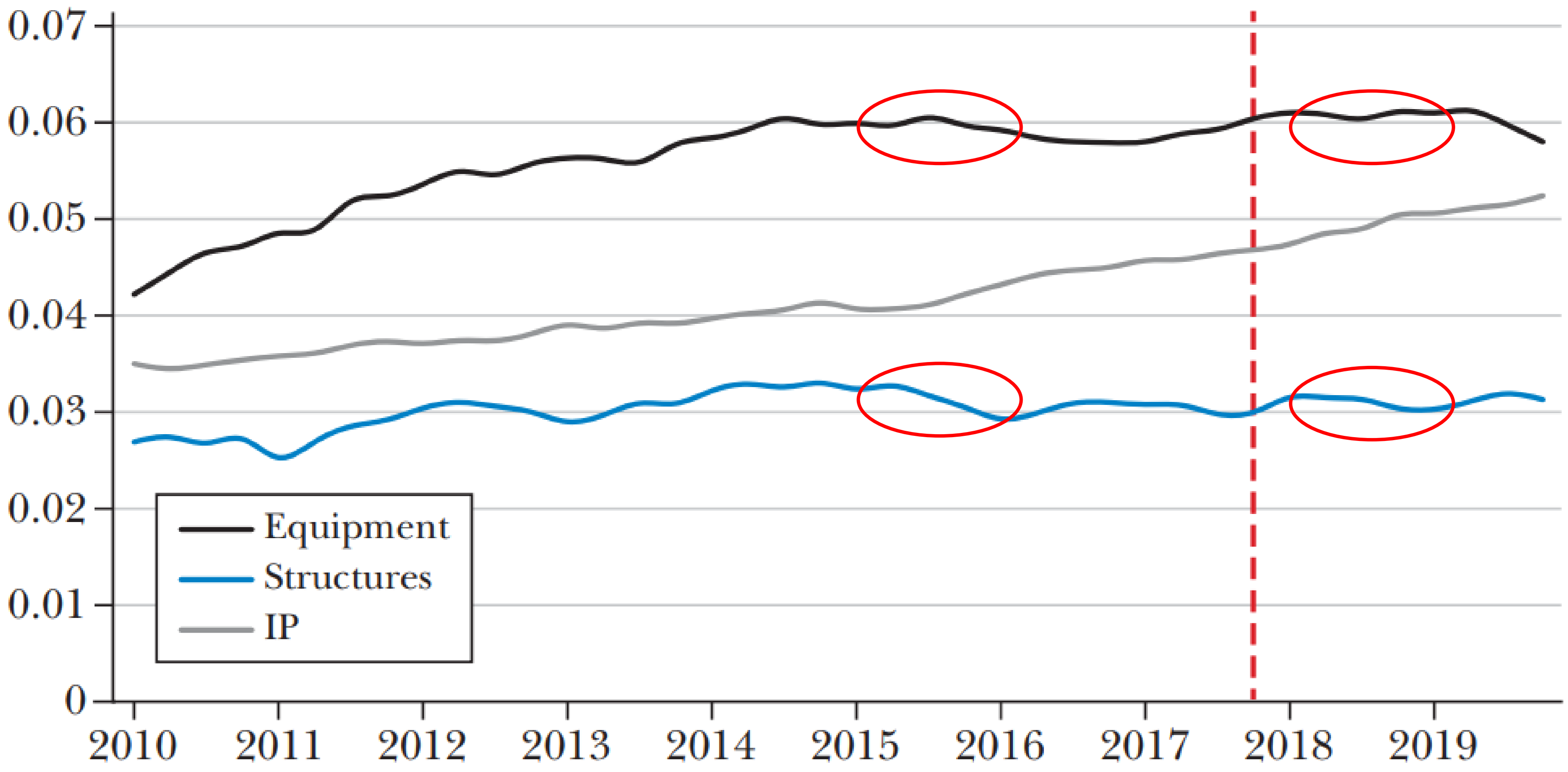
Source: BLS and BEA

Aggregate Nonresidential Investment, Share of GDP



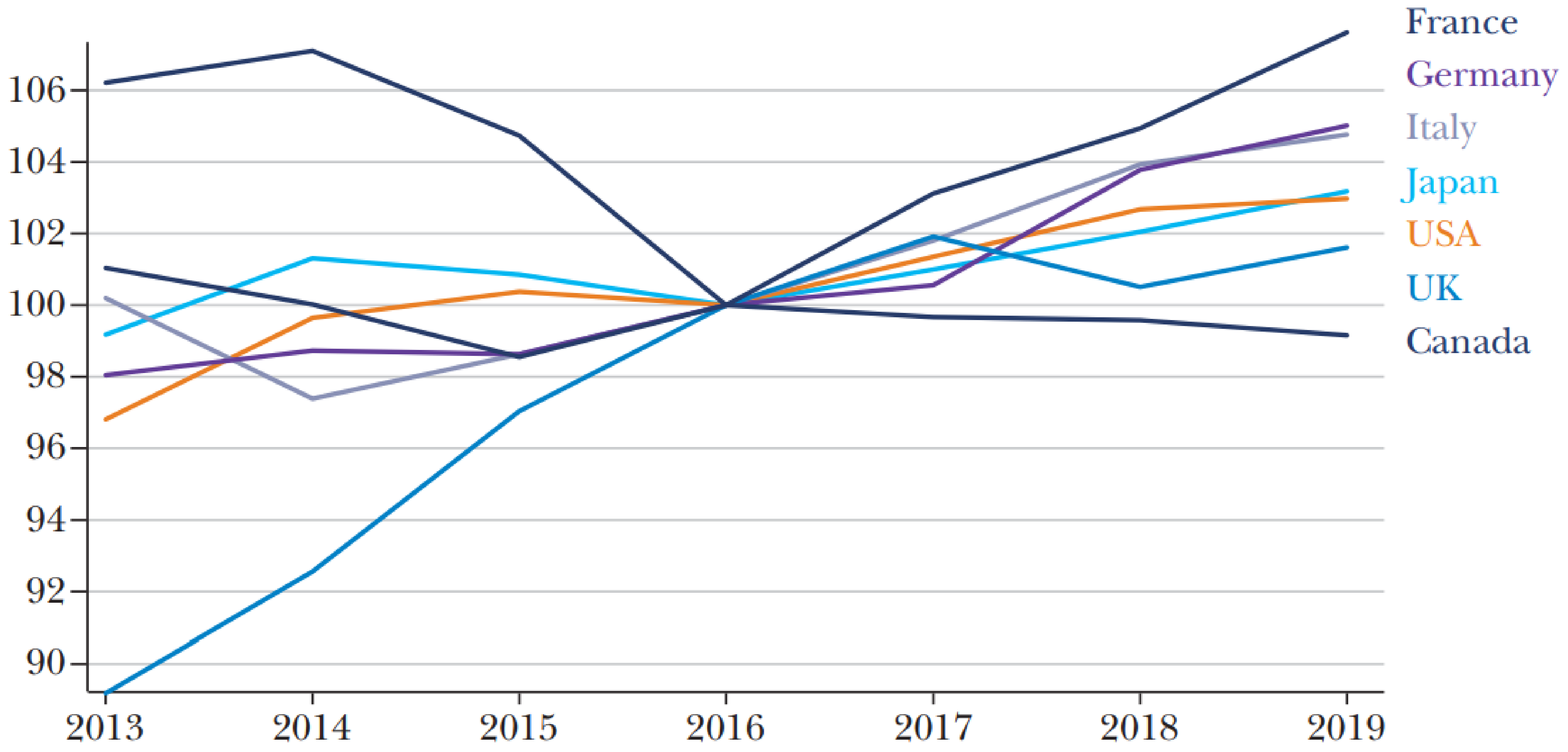
Source: FRED

Aggregate Nonresidential Investment, Share of GDP



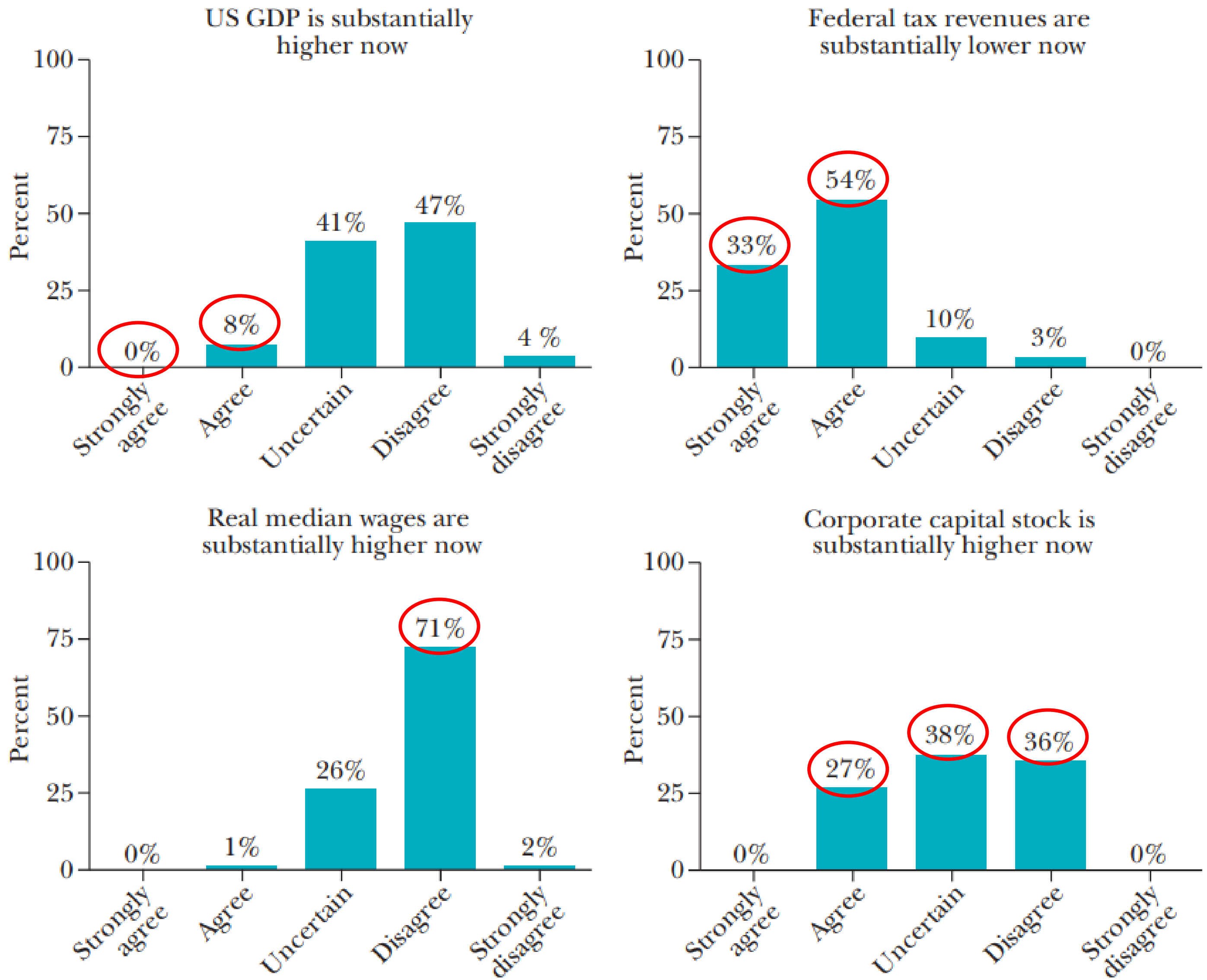
Source: FRED

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



Source: OECD

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