Independent Women's Forum®

POLICY focus
RECIPES FOR RATIONAL GOVERNMENT

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The Tax Cuts and Jobs Act

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IN THIS ISSUE

Introduction

In December 2017, Congress passed and President Trump signed the Tax Cuts and Jobs Act (TCJA), a package of sweeping reforms to the U.S. tax code, both for individual filers and for corporations.

The TCJA cuts income tax rates for workers at every level and nearly doubles the standard deduction, shielding more income from taxation. It expands the Child Tax Credit and preserves other popular tax benefits like the deductions for mortgage interest and charitable deductions, among others.

Prior to the TCJA, American corporations faced the world's highest statutory corporate income tax rate at 35 percent. The tax reform law lowers this rate to 21 percent, putting the U.S. rate much closer to the global average. Many small businesses known as "pass-through entities" (because income "passes through" to the owner and is taxed as personal income) will benefit from tax reform as well, as the law provides them with a 20-percent deduction on business profits.

While the TCJA does not apply retroactively to 2017, the impact of the law has immediately become clear. The IRS has published and employers have adopted new withholding tables for 2018 to reflect the tax cuts, so American families are already keeping more of their money in every paycheck. Corporations have responded to the reduced corporate income tax rate with immediate investments in their workforces through wage raises, bonuses, expanded benefits and training programs, and new jobs. These early results suggest that the tax reform law is helping American families, expanding work opportunities, and fostering strong economic growth.

Why You Should Care

The Tax Cuts and Jobs Act makes significant reforms to how our government collects tax revenue. These reforms come with serious benefits for American families and workers:.

- **More Money in Each Paycheck:** American workers and our families get an immediate boost from tax cuts. Lower rates mean we get to keep more of every hard-earned dollar, and other changes to the individual income tax will reduce tax liabilities and increase credits for the vast majority of filers.
- **Wage Raises, Benefits, and Bonuses:** A huge reduction to the corporate tax rate (from 35 to 21 percent) will primarily benefit workers, who indirectly pay the lion's share of corporate taxes. Businesses are already responding to the corporate tax reform with increases to wages and benefits.
- **A Simpler, Fairer Tax Code**: The changes in the new tax law will make it easier for more filers to take the standard deduction, meaning they no longer need to track itemized deductions. The changes also flatten tax brackets and broaden the tax base.

Given all these benefits, it's no wonder the Tax Cuts and Jobs Act has been gaining popularity. Read more to learn about all the law's changes and their effects.

More Information

The Tax Cuts and Jobs Act makes many changes to the tax code, both for individuals and corporations. These changes have already started to take effect and generate greater opportunity and prosperity for all Americans.

Individual Income Tax Rate Changes

Before the TCJA, Americans filed in one of seven tax brackets at rates of 10, 15, 25, 28, 33, 35, and 39.6 percent. These rates are progressive, meaning the higher rates apply to higher levels of income.

Importantly, these tax rates are marginal, meaning that, for example, someone earning $100,000 would have fallen in the 28 percent bracket, but would *not* owe $28,000 in taxes, but rather $20,981.75, because her income would be taxed at lower rates until she reached the threshold for her tax bracket, when every additional dollar earned would be taxed at 28 percent.

The Tax Cuts and Jobs Act lowers all seven income tax rates to 10, 12, 22, 24, 32, 35 and 37 percent, respectively. And it also adjusts the income thresholds for each bracket, resulting in lower income tax liabilities for people at nearly every income level. For example, the tax liability for a single person earning $100,000 (now in the 24 percent bracket) would now be $18,289.50.

Individual Income Tax Rate Changes With TCJA

THEN	NOW
10	10
15	12
25	22
28	24
33	32
35	35
39.6	37

Changes to Exemptions, Deductions and Credits

Rates and brackets, however, are only part of the picture. For most filers, the amount of their income that is subject to the income tax plays an even bigger role in determining their net tax bill.

Taxable income is income remaining after exemptions and deductions have been taken into account. The TCJA eliminates all personal exemptions (worth about $4000 per person), but it nearly doubles the standard deductions from $6,350 (for singles), $9,350 (for heads of household), and $12,700 (for married filers) to $12,000, $18,000 and $24,000, respectively.

This change will have two effects: It will increase the number of filers who take the standard deduction, rather than itemizing, or tallying deductions individually. This will make filing taxes simpler for those filers. And an increased standard deduction will shield more income from taxation by reducing taxable income for many filers.

> **An increased standard deduction will shield more income from taxation by reducing taxable income for many filers.**

The TCJA also expands the Child Tax Credit from $1,000 to $2,000 per child and increases the "phase-out" income level to $200,000 or $400,000 for married households (up from $55,000 and $110,000 respectively). It also increases the amount of the credit that is refundable from $1,000 to $1,400. Taken together, these changes mean more families will be able to get more tax benefit from the Child Tax Credit, even if their tax liability doesn't exceed the amount of the credit.

There is also a new credit now available for non-child dependents of $500. This will be especially beneficial for families with dependent adult children, for example.

The TCJA changes a few specific deductions for individual tax filers. The State and Local Tax deduction, previously unlimited, will be limited to $10,000 per family. The mortgage interest deduction will be limited to $750,000 for new home mortgages (taken out after Dec. 14, 2017), and $1 million for mortgages taken out before Dec. 15, 2017. These changes will have the biggest impact only on tax filers with the highest state and local tax liabilities and the highest home mortgage interest costs. These are mostly tax filers with very high levels of income.

The charitable giving deduction will now allow people to give up to 60 percent of their income rather than 50 percent, leaving it essentially unchanged for most filers.

Changes Affecting Health Care and Education

The TCJA makes some changes to healthcare and education policy: The tax law eliminates the penalty for going without health insurance, which was originally part of the 2010 Affordable Care Act. And the medical expense deduction threshold will increase from 7.5 percent of adjusted gross income to 10 percent in 2019.

It also expands the use of Education Savings Accounts (also known as 529 plans) so that families can use them for K-12 education expenses, not just college.

Importantly, many popular healthcare- and education-related tax provisions were left unchanged: above-the-line deductions for educator expenses, student loan interest, and Health Savings Accounts are unchanged (as is the IRA deduction).

Changes for Small Businesses

About **95 percent** of all businesses in the U.S. are not large corporations, but small "pass-through" businesses that are taxed under individual income tax rates. This includes sole proprietorships, partnerships, and Subchapter-S corporations. These small businesses are critical to our economy and now account for the **majority of all business income** in the United States.

To provide tax relief for these businesses, the TCJA allows the deduction of 20 percent of qualified business income. For example, a small business owner who makes $40,000 in business income could deduct $8,000 (in addition to other deductions). Specific industries (health, law, and professional services) are excluded and cannot claim this deduction. However, other filers with income below $157,500 (single) and $315,000 (joint) can take this new deduction in full.

Corporate Income Tax Changes

As sweeping and important as the TCJA's changes to the individual side of the tax code, perhaps the biggest change of all is the reduction of the U.S. corporate tax rate from 35 percent to 21 percent. This historic 14-percentage-point reduction means U.S. corporations will have incredible tax savings to reinvest in their business ventures and grow.

Before the TCJA, the U.S. corporate tax was the highest in the developed world (considering both the federal rate and state income tax rates). Furthermore, it was a model of inefficiency, encouraging businesses to park their income abroad and resulting in lower revenues (as a share of GDP) than other countries with lower corporate tax rates. Clearly, reform was badly needed.

In addition to slashing the corporate tax rate, the TCJA enacts other reforms allowing for full and immediate expensing of short-lived capital investments, establishing a system for repatriation of foreign profits and moving to a territorial tax system with base erosion rules. This will invite businesses to bring profits back to our shores, ultimately resulting in more jobs and better pay for U.S. workers.

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Impact on Economy, Jobs and Wages

The bottom line immediate impact of tax reform is an economic turbocharge. As early as February 2018, the IRS published and employers adopted new withholding tables that offered immediate individual income tax relief to workers.

Furthermore, Americans for Tax Reform has been keeping a list of nearly 500 companies (so far) that have made announcements offering higher pay, bonuses, or increased benefits to their workforces as a direct result of the corporate tax cut. After years of stagnant wages, American workers (4 million of them, according to ATR) finally get to see increases they deserve.

These headlines are not just anecdote. The Tax Foundation estimates that the new law will cause a 1.7 percent increase in in GDP over the long run, 1.5 percent higher wages and the creation of 339,000 new jobs. This means the Tax Cuts and Jobs Act will live up to its name and provide hundreds of thousands of Americans with what Ronald Reagan called "the best social program"—a job.

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Impact on Government Revenues, Deficits and Debt

Some fiscal conservatives have rightly expressed concern that a reduction in government revenues will increase the federal government's deficits and debt. Spending reforms are badly needed to balance the budget and avoid this.

However, static models only tell us so much about the impact of the TCJA on government revenues. A static model suggests that the law will reduce revenues by about $1.5 trillion over ten years. But a dynamic model, accounting for economic growth and the changes the law makes to the base of money to be taxed, shows that the law will generate $1 trillion in government revenues, according to the Tax Foundation. This does not make the law budget-neutral, but suggests a significantly lower 10-year cost to the government ($448 billion), all things considered.

Timeline of Tax Reform

Although the Tax Cuts and Jobs Act passed in 2017, its reforms really only take effect in tax year 2018. The reforms are not retroactive to 2017.

The changes to the individual side of the tax code (tax cuts, changes to deductions and credits, etc.) are statutorily set to expire after 2025. This is because Congress did not have enough votes to pass the Tax Cuts and Jobs Act through regular order; it was passed as a budget bill. Budget bills require a lower vote count to pass (a simple majority) and cannot be filibustered, but budget bills face strict requirements when it comes to debts and deficits.

This budget bill was only allowed to add $1.5 trillion to the debt in a 10-year window, as projected by the Congressional Budget Office. So, lawmakers had to include a couple of years at the end of the window with the tax cuts expired to make the math work. This gives lawmakers some time to extend the tax cuts or make them permanent, something easily attainable with the right amount of support.

What You Can Do

Get Informed

Learn more about the Tax Cuts and Jobs Act. Visit:

- Independent Women's Forum
- Tax Foundation
- Americans for Tax Reform

Talk to Your Friends

Help your friends and family understand these important issues. Tell them about what's going on and encourage them to join you in getting involved.

Become a Leader in the Community

Get a group together each month to talk about a political/policy issue (it will be fun!). Write a letter to the editor. Show up at local government meetings and make your opinions known. Go to rallies. Better yet, organize rallies! A few motivated people can change the world.

Remain Engaged Politically

Too many good citizens see election time as the only time they need to pay attention to politics. We need everyone to pay attention and hold elected officials accountable. Let your Representatives know your opinions. After all, they are supposed to work for you!

ABOUT INDEPENDENT WOMEN'S FORUM

Independent Women's Forum (IWF) is dedicated to building support for free markets, limited government, and individual responsibility.

IWF, a non-partisan, 501(c)(3) research and educational institution, seeks to combat the too-common presumption that women want and benefit from big government, and build awareness of the ways that women are better served by greater economic freedom. By aggressively seeking earned media, providing easy-to-read, timely publications and commentary, and reaching out to the public, we seek to cultivate support for these important principles and encourage women to join us in working to return the country to limited, Constitutional government.