



**TAX POLICY CENTER**  
URBAN INSTITUTE & BROOKINGS INSTITUTION

# Estimating the Distributional Effects of the TCJA: Looking Back and Looking Forward

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# Motivation

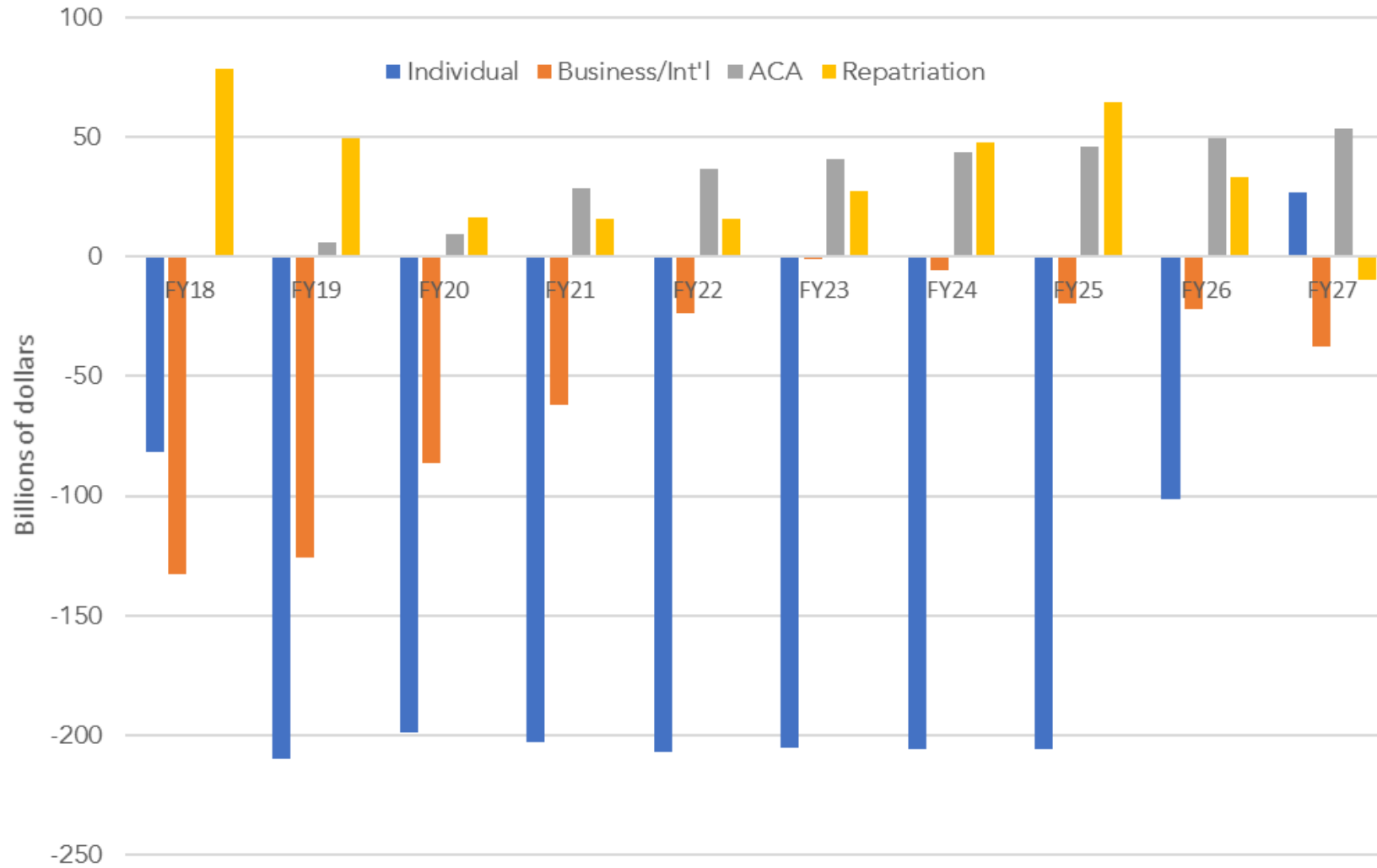
- How should changes to corporate and business tax provisions be characterized in standard distributional analyses?
  - 1) Look back at the TCJA
  - 2) Illustrate alternative distributional assumptions and methodologies of hypothetical reforms:
    - 1) *Corporate rate increase effective 1/1/2019*
    - 2) *Extend 100% bonus depreciation beginning in 2023*

# Tax Cuts and Jobs Act (P.L. 115-97)

## ■ Big Picture

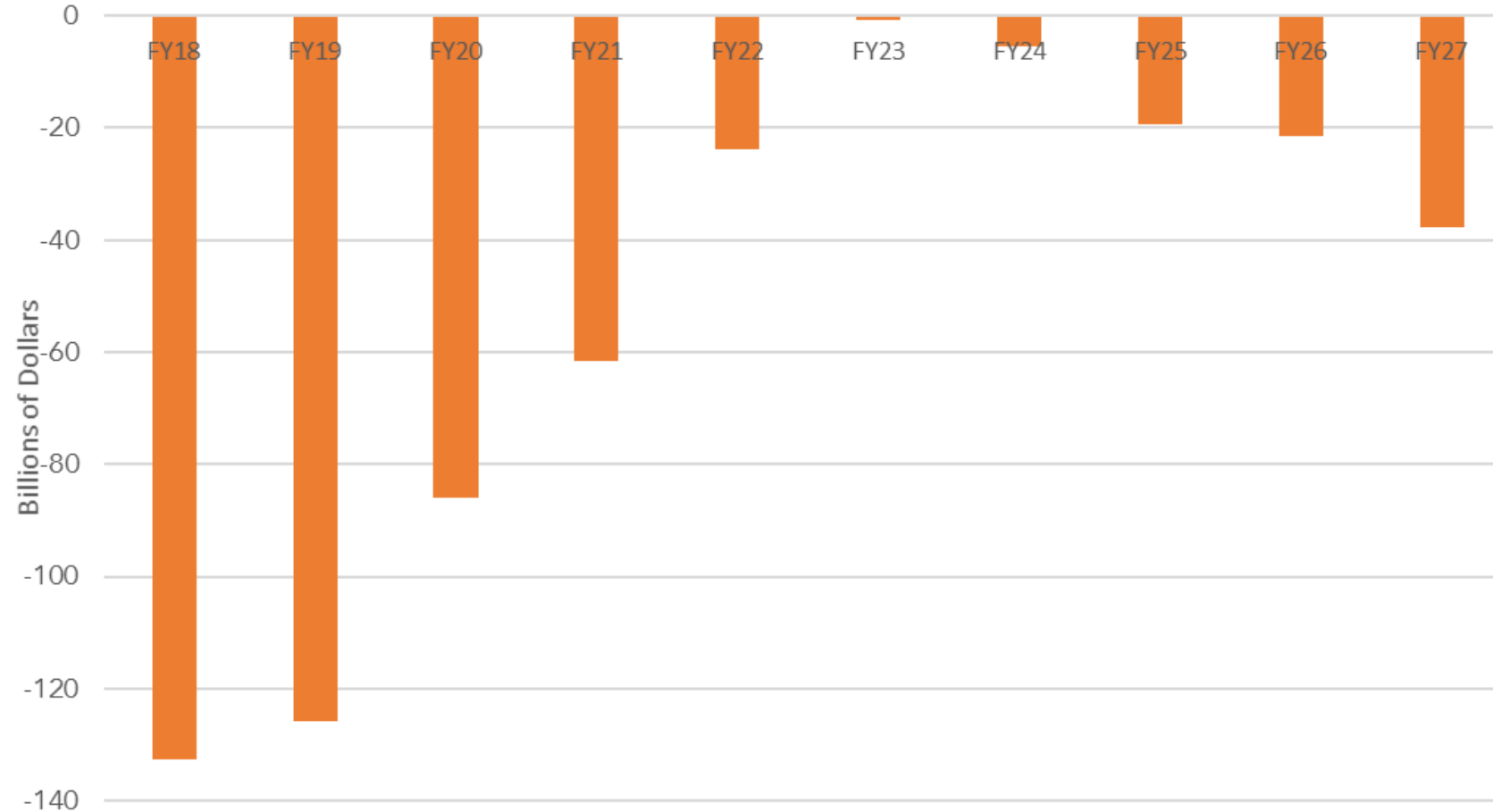
- Cuts to individual income and estate & gift taxes
  - *Revenue loss fairly constant (~\$200 billion/yr) until sunset (2018-2025)*
- Changes to taxation of corporate and business income
  - *Revenue loss fluctuates over 10-year budget window*
  - *Large (\$100 billion/yr) losses in initial years; largely offset from delayed policy changes (bonus depreciation, interest limitation, R&E amortization, etc.)*
- Reforms to international tax system
  - *Roughly revenue neutral + one-time repatriation tax (\$339 billion)*

## Budgetary Effect of Provisions of the TCJA



Source: Joint Committee on Taxation (JCX-67-17)

## Budgetary Effect of Business Provisions of the TCJA



**Source:** Joint Committee on Taxation (JCX-67-17)

**Note:** Includes all "Business Tax Reform" provisions, international provisions (excluding the one-time repatriation tax), and the active passthrough loss limit; does not include 20 percent passthrough deduction (Section 199A).

# JCT's Distribution of Business Provisions of the TCJA

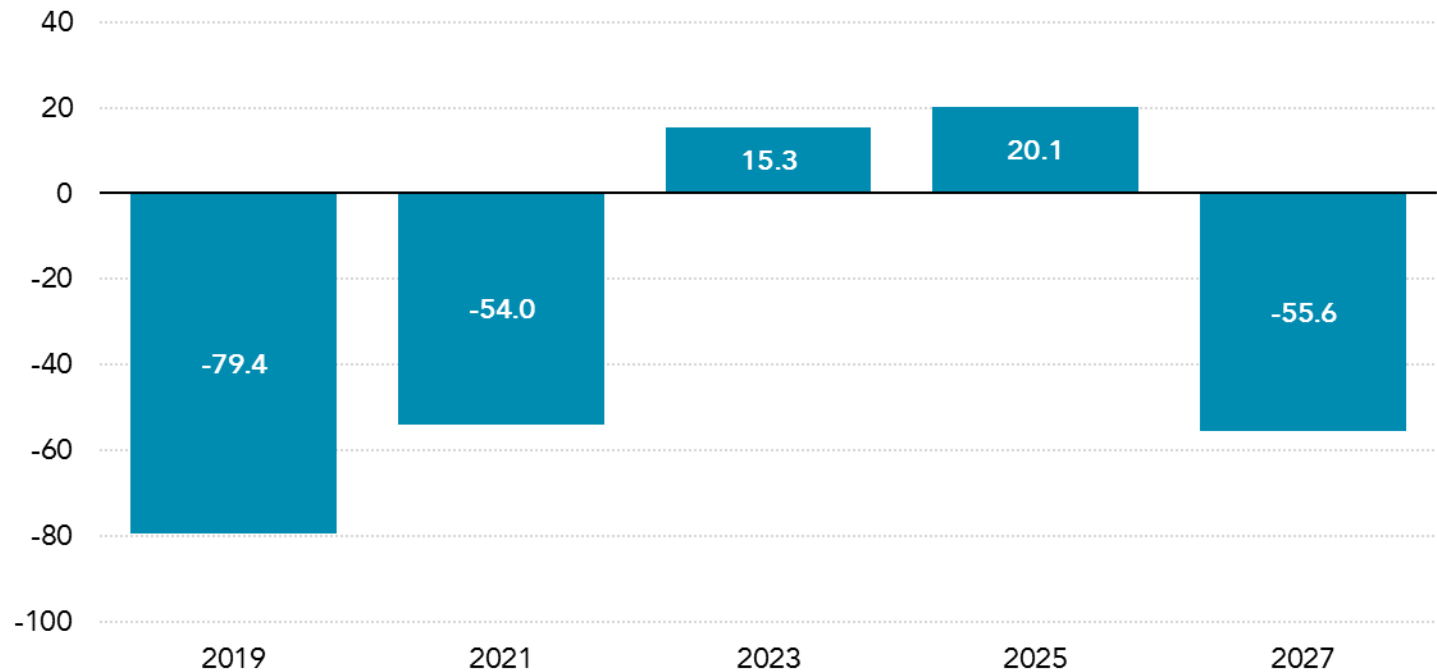
Distribution of Individual Income Tax Side of the Proposal

INCOME CATEGORY	CHANGE IN FEDERAL TAXES (\$ millions)				
	2019	2021	2023	2025	2027
Less than \$10,000.....	-\$127	\$88	\$156	\$169	\$475
\$10,000 to \$20,000.....	-\$1,206	\$2,175	\$2,645	\$2,459	\$6,744
\$20,000 to \$30,000.....	-\$2,279	\$2,392	\$2,169	\$2,693	\$9,004
\$30,000 to \$40,000.....	-\$4,469	-\$1,335	-\$438	-\$194	\$5,719
\$40,000 to \$50,000.....	-\$5,533	-\$2,656	-\$2,341	-\$2,015	\$5,535
\$50,000 to \$75,000.....	-\$18,887	-\$15,831	-\$15,493	-\$15,245	\$8,112
\$75,000 to \$100,000.....	-\$17,279	-\$16,973	-\$17,140	-\$17,630	\$3,526
\$100,000 to \$200,000.....	-\$51,409	-\$51,510	-\$51,494	-\$51,832	\$10,313
\$200,000 to \$500,000.....	-\$47,008	-\$48,721	-\$49,435	-\$51,435	\$7,649
\$500,000 to \$1,000,000.....	-\$16,031	-\$16,251	-\$15,840	-\$15,845	\$1,542
\$1,000,000 and over.....	-\$15,871	-\$16,349	-\$16,160	-\$16,851	\$907
<b>Total, All Taxpayers.....</b>	<b>-\$180,100</b>	<b>-\$164,973</b>	<b>-\$163,368</b>	<b>-\$165,729</b>	<b>\$59,526</b>

Distribution of Business Tax Side of the Proposal

INCOME CATEGORY	CHANGE IN FEDERAL TAXES (\$ millions)				
	2019	2021	2023	2025	2027
Less than \$10,000.....	-\$269	-\$148	\$121	\$146	-\$92
\$10,000 to \$20,000.....	-\$586	-\$256	\$400	\$388	-\$257
\$20,000 to \$30,000.....	-\$703	-\$444	\$247	\$287	-\$644
\$30,000 to \$40,000.....	-\$947	-\$621	\$236	\$299	-\$855
\$40,000 to \$50,000.....	-\$1,195	-\$866	\$214	\$314	-\$1,218
\$50,000 to \$75,000.....	-\$4,158	-\$2,989	\$549	\$895	-\$4,052
\$75,000 to \$100,000.....	-\$5,158	-\$3,609	\$582	\$978	-\$4,563
\$100,000 to \$200,000.....	-\$18,964	-\$13,325	\$1,959	\$3,394	-\$16,306
\$200,000 to \$500,000.....	-\$18,476	-\$12,789	\$2,795	\$3,975	-\$13,539
\$500,000 to \$1,000,000.....	-\$7,916	-\$5,411	\$1,825	\$2,222	-\$4,641
\$1,000,000 and over.....	-\$20,983	-\$13,496	\$6,328	\$7,251	-\$9,401
<b>Total, All Taxpayers.....</b>	<b>-\$79,354</b>	<b>-\$53,954</b>	<b>\$15,255</b>	<b>\$20,148</b>	<b>-\$55,569</b>

Total Change in Federal Taxes from Business Tax Side of TCJA  
billions of dollars



Source: Joint Committee on Taxation (JCX-68-17)

# TPC's Methodology for Distributing Corporate Tax Changes Among Income Groups

- **Fully phased-in incidence assumptions:**
  - Corporate rate change:
    - *60% shareholders*
    - *20% all capital*
    - *20% labor*
  - Changes to the tax on normal return (e.g., cost recovery):
    - *50% all capital*
    - *50% labor*
  - One-time repatriation tax:
    - *100% shareholders*

# TPC's Methodology for Measuring the Size of Tax Burden Changes

- **Estimating burden change**

- Corporate rate change:

- *Net revenue change (i.e., conventional revenue score) as estimate of burden change*

- Changes to timing provisions (e.g., bonus depreciation):

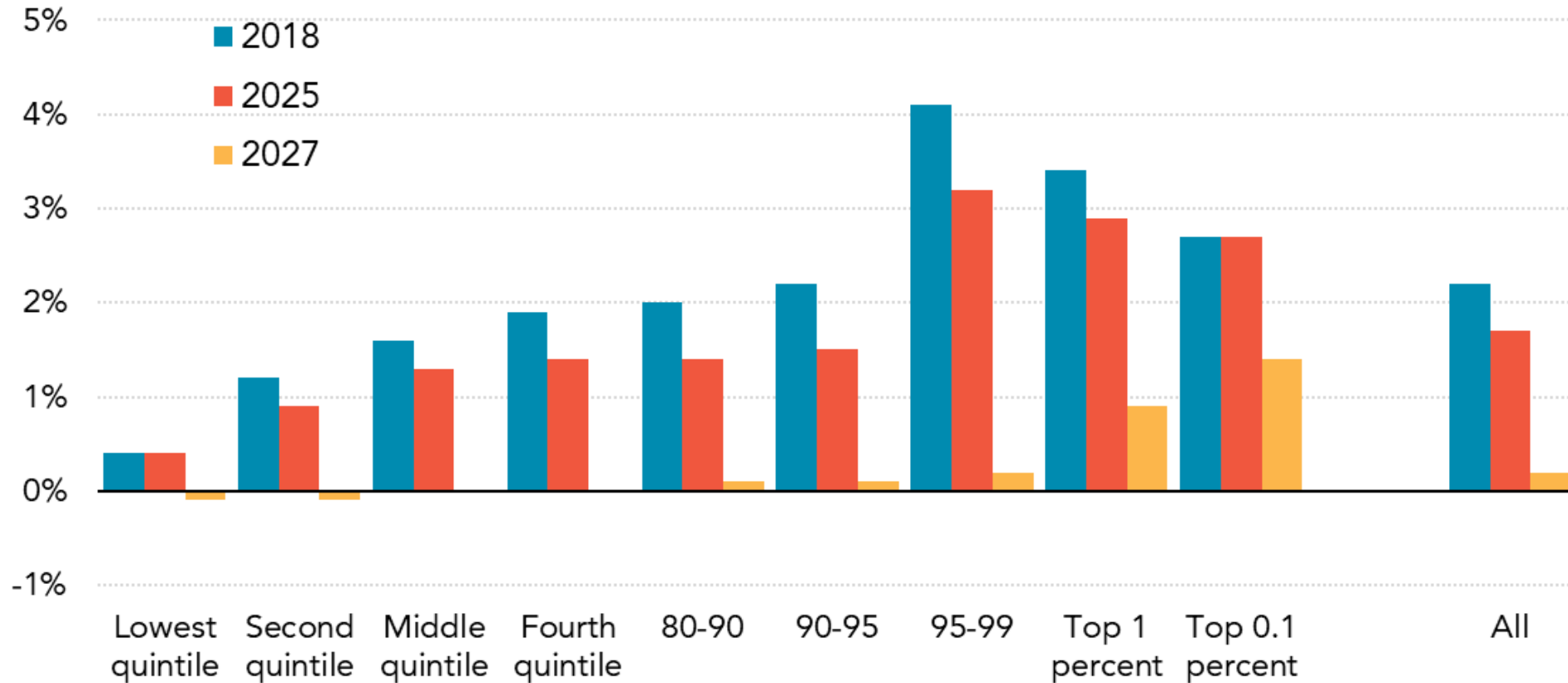
- *Burden change equal to present value change in liability from a single year's investment*

- One-time repatriation tax:

- *Distribute revenue change (gross of prior law repatriations) equally over 8 years*

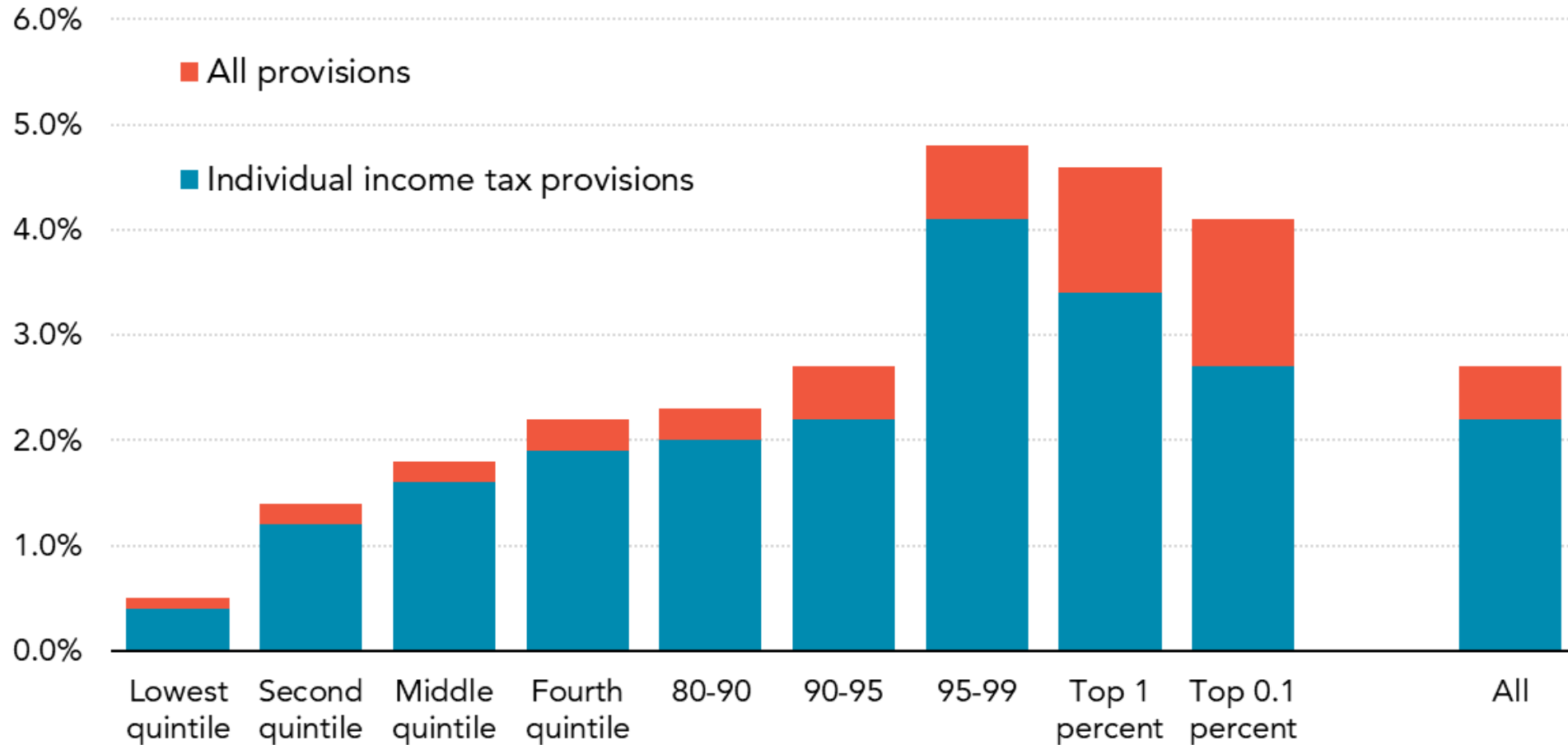


## Percent Change in After-tax Income of the Conference Agreement for the Tax Cuts and Jobs Act By expanded cash income percentile, 2018, 2025, and 2027



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

## Percent change in after-tax income of the TCJA by expanded cash income percentile, 2018



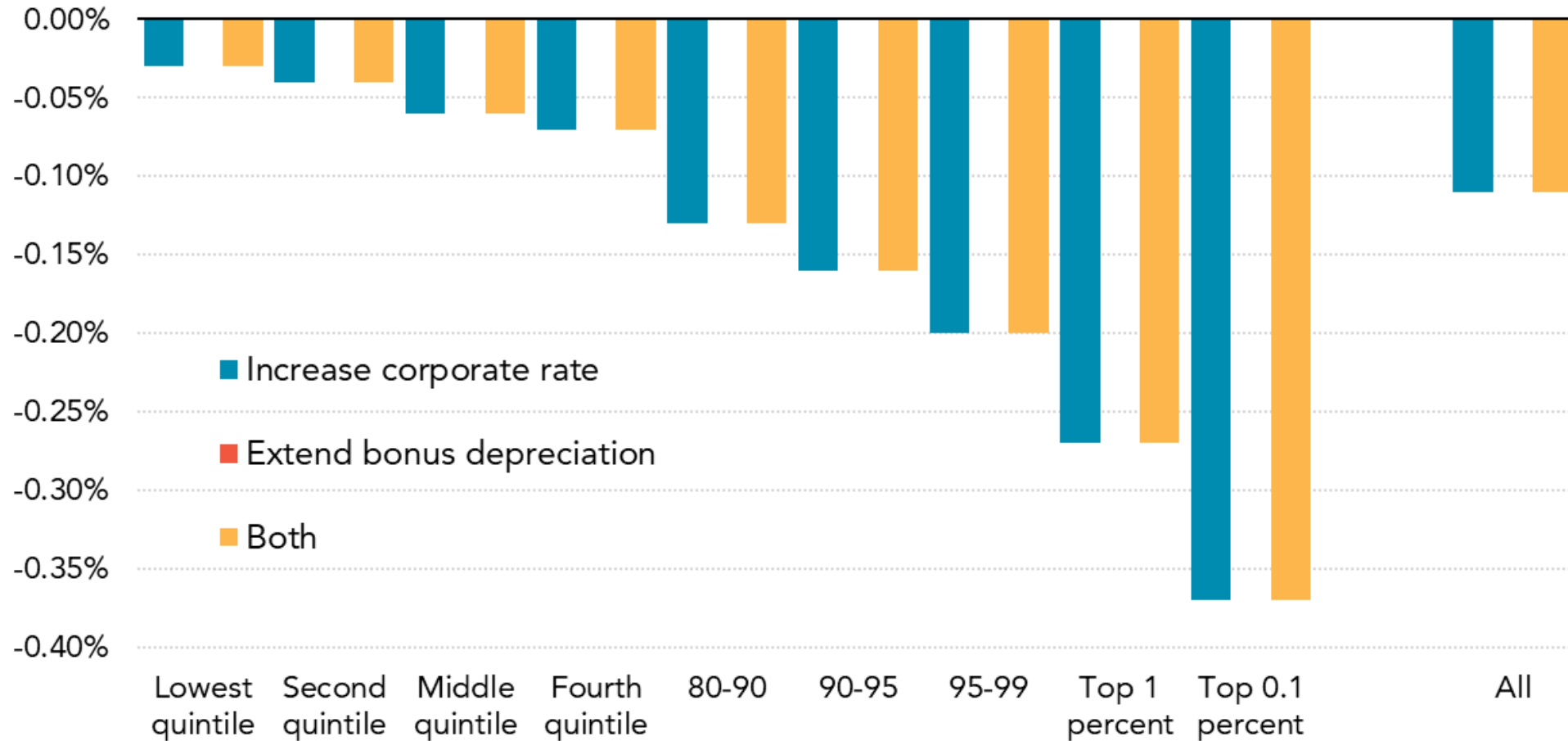
Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0217-1).

# Illustrating Alternative Approaches to Distributing Corporate/Business Tax Changes

- **Hypothetical changes**
  - Increase corporate tax rate corresponding to net revenue increase equal to 5 percent of corporate receipts (approximately 1 percentage point increase in corporate tax rate), effective 1/1/2019
  - Extend and make permanent 100% bonus depreciation, effective 1/1/2023

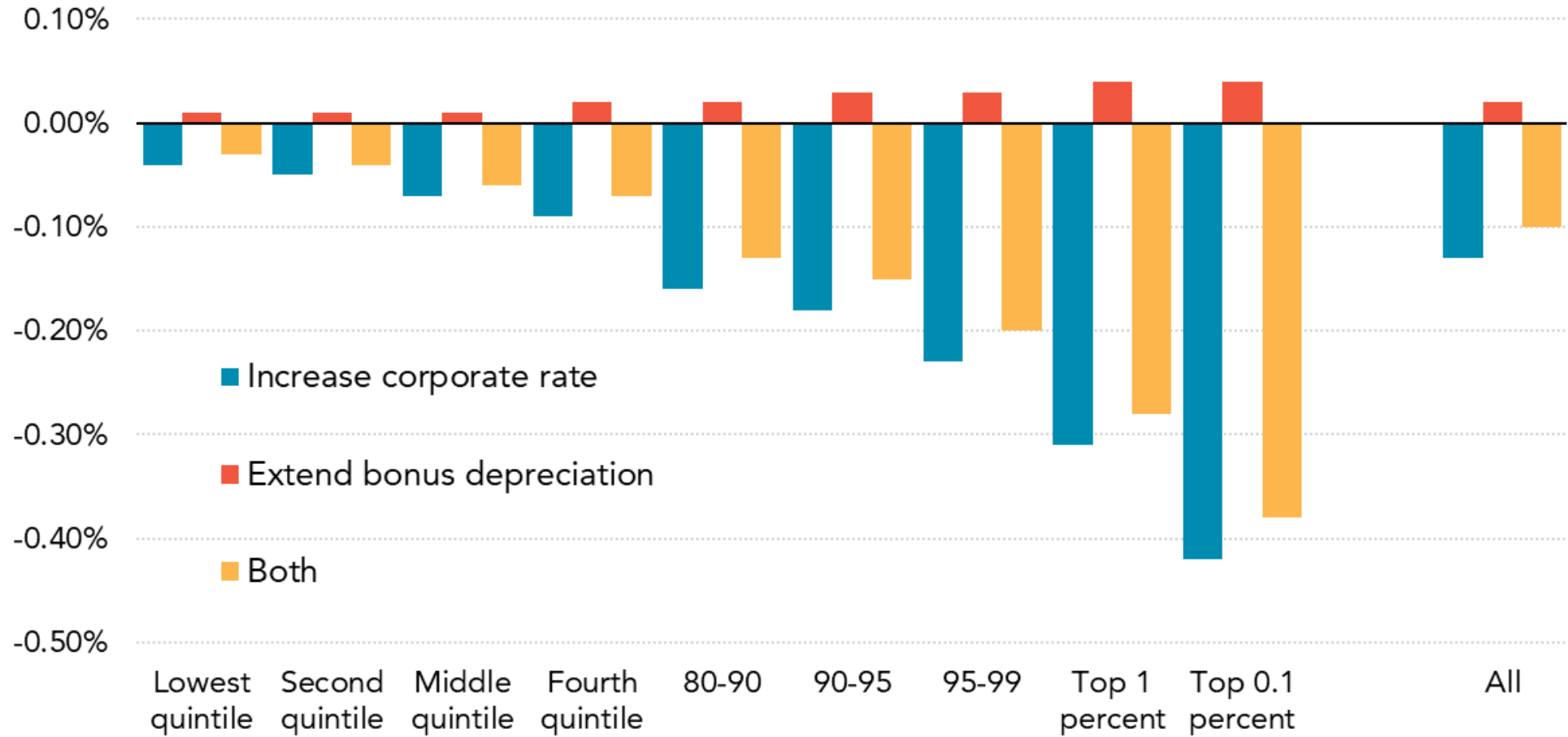
# Current TPC Methodology

## Percent Change in After-tax Income by expanded cash income percentile, 2019



Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0718-1).

## Percent Change in After-tax Income by expanded cash income percentile, 2023



Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0718-1).

## Percent Change in After-tax Income by expanded cash income percentile, 2028



Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0718-1).

# Illustrating Alternative Approaches to Distributing Corporate/Business Tax Changes

## ■ Alternatives:

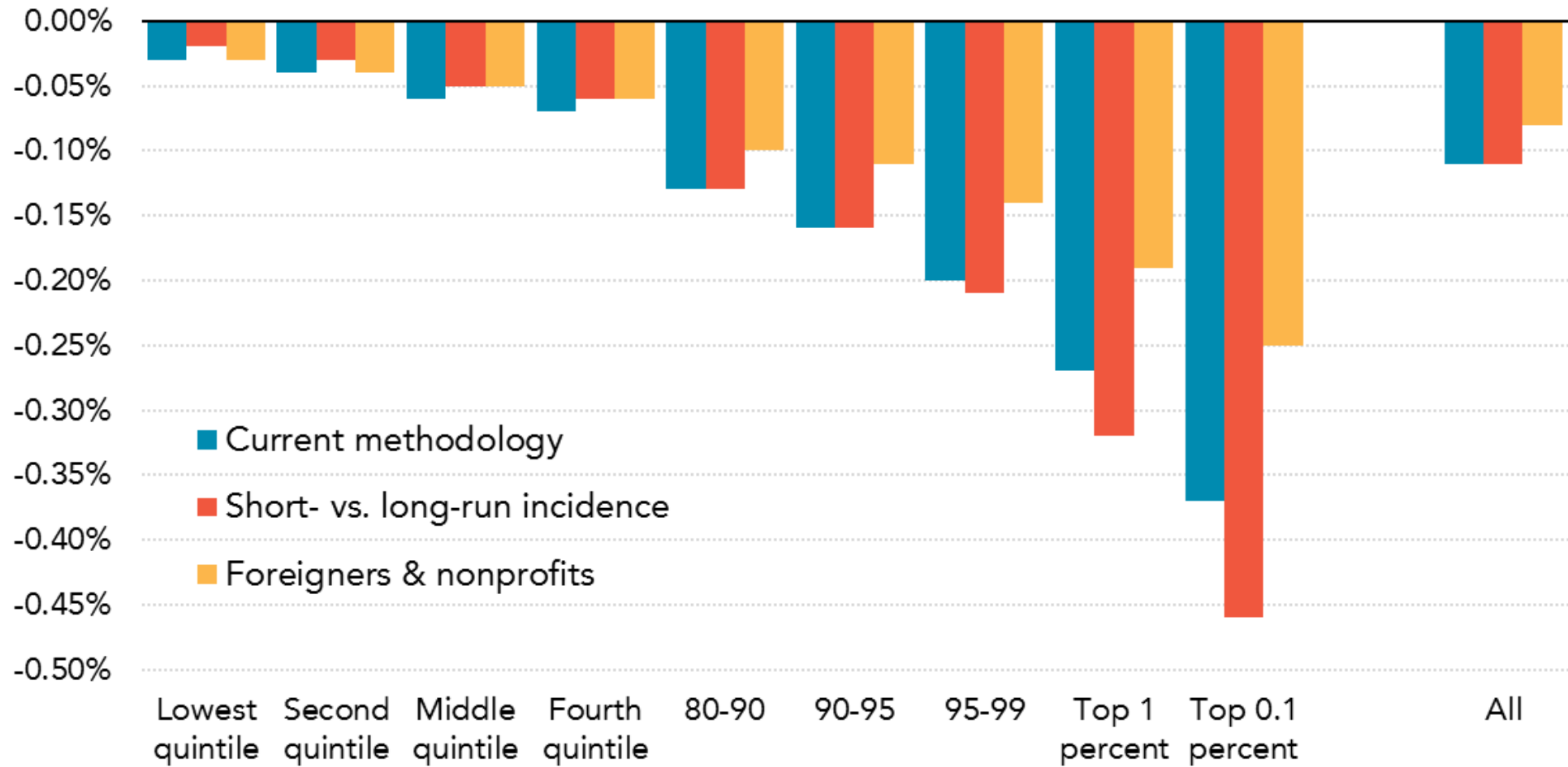
1. TPC's current methodology
2. Short-run vs. long-run incidence
  - *Phase-in long-run incidence assumptions over 10 years (JCT methodology)*
3. Modify for foreign and tax-exempt shareholders (Rosenthal and Austin, 2016)
  - *Foreigners hold 33% of corporate equity; 25% of all US domestic capital*
  - *Nonprofits hold 4% of corporate equity; 3% of all US domestic capital*
    - *Distribute in proportion to (net-of-tax) charitable contributions*



# Alternative Methodologies

## Raise Corporate Rate and Extend Bonus Depreciation

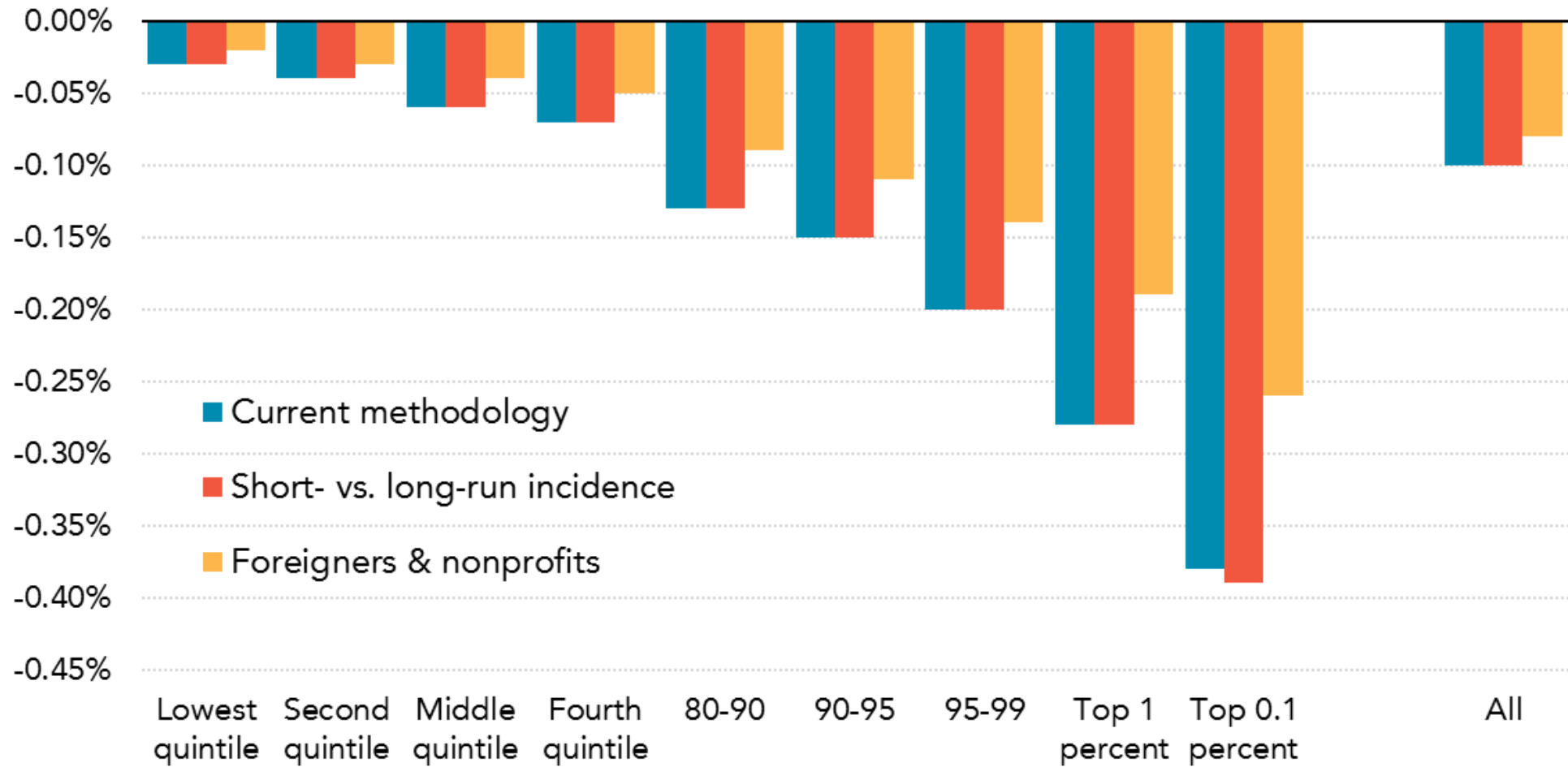
Percent change in after-tax income, 2019



Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0718-1).

## Raise Corporate Rate and Extend Bonus Depreciation

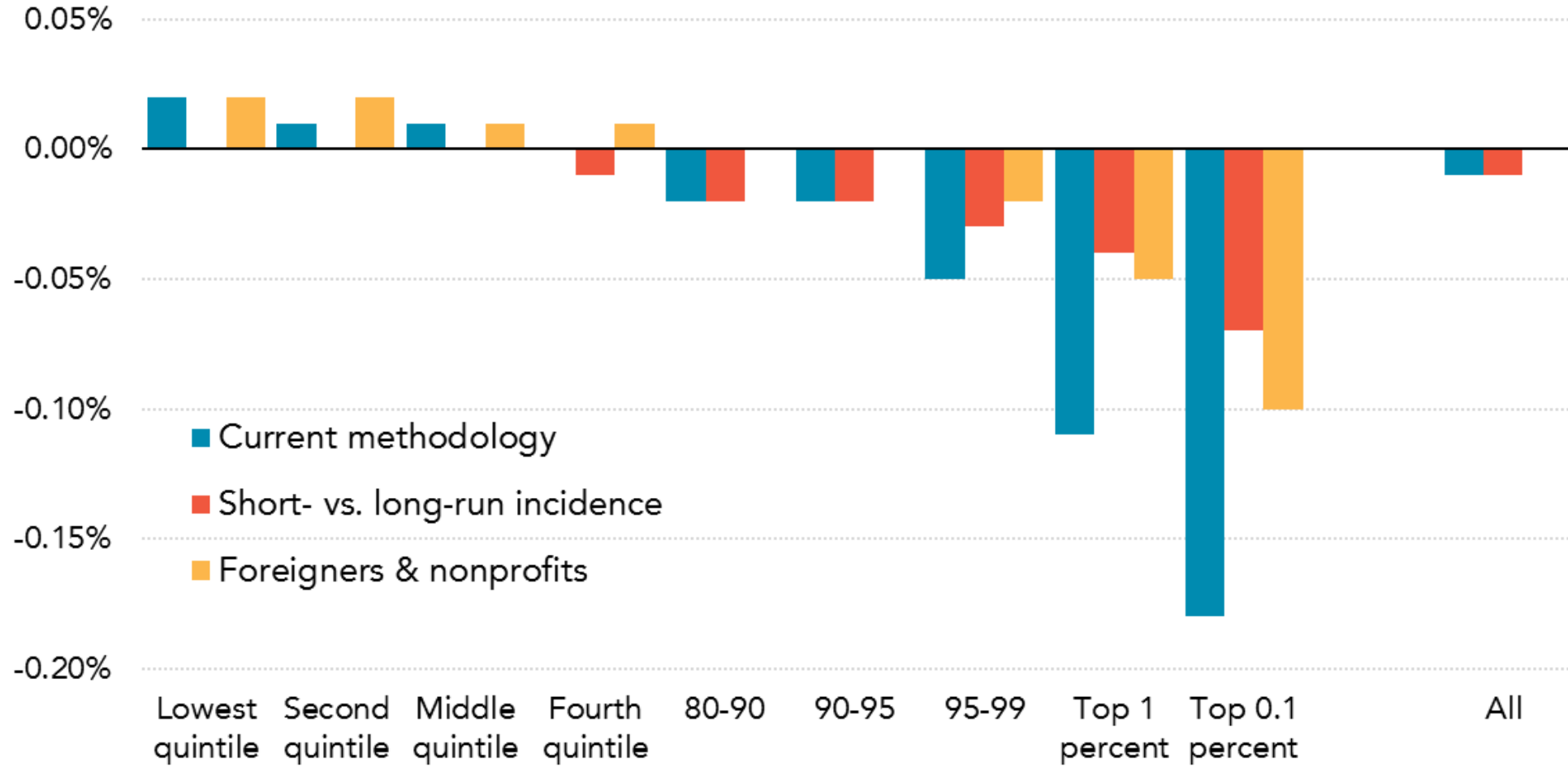
### Percent change in after-tax income, 2023



Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0718-1).

## Raise Corporate Rate and Extend Bonus Depreciation

### Percent change in after-tax income, 2028



Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0718-1).