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**National Economic Education Delegation**

**2017 Tax Cuts and Jobs Act Narrative**

Date: 1/6/20

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Slides:

1. **Opening slide**

<brief summary and opening>

1. **DO NOT DELETE: National Economic Education Delegation**
   1. Brief discussion of what NEED is and NEED does
      1. 240 delegates, one in each state
      2. 37 honorary board members – two Nobel Prize winners, three former chairs of council
   2. Use your judgment for what should be said.
2. **Who we are?**
   1. 44 honorary board – 3 Nobel prize winners, 6 former chairs of council, and 2 former Chairs of the Federal Reserve.
   2. 364 delegates, one in each state.
   3. 42 Global Partners
3. **Where are we?**
4. **DO NOT DELETE: Credits and Disclaimer**
5. **Outline**

The Tax Cuts and Jobs Act of 2017 introduced many changes in tax policy. We will outline a few of the significant changes and discuss the implications for the U.S. economy. The tax act affects the incentives for citizens to invest, save, and work. Above all else, the Tax Cuts and Jobs Act is a tax cut. Because it will reduce revenue, it will have an impact on the budget.

It will have a longer-term effect on the overall national debt, and it may well necessitate spending cuts. The tax cuts are not equally distributed. In particular, the cuts in the corporate tax rates are more likely to benefit higher-income households.

We will take a look at key indicators to see if any of the potential benefits from the act are apparent: Has there been an increase in investment, labor force participation, and savings? We will examine recent data to see if any of these intended effects are evident.

Finally, we will talk about how much the government effectively spent to get these benefits. Is it possible that other policies might have brought about the same increase in growth at less cost?

This is a question that should be asked of each and every policy that is implemented.

1. **Federal Government Revenues in 2018[[1]](#footnote-1)**

Before we dig into the details of the tax law, let’s look a little bit at federal government revenues. How big are they and where do they come from?

GDP, or gross domestic product, is the primary measure of the size of an economy. In 2018, the U.S. economy had a gross domestic product of $20.6 trillion.

Of that $20.6 trillion, $3.3 trillion accrued to the federal government in revenues. Of this $3.3 trillion, about half, $1.7 trillion, was derived from individual income taxes. This is the largest source of government revenues.

All tax revenues amounted to about 16.5% of GDP, this is down from 17.1% in 2017. That’s a little less than one-sixth of the size of the U.S. economy. This sounds like a lot, but this would rank the United States 179th out of 221 countries and behind nearly all of the other developed nations.[[2]](#footnote-2)

It is worth comparing revenues with expenditures just briefly. In 2018, revenues were $3.3 trillion and expenditures were $4.1 trillion, leaving a deficit of $779 billion. This is a relatively high deficit, and it has been increasing in the last couple of years. It marks the 3rd consecutive year of increase, but it still much smaller than in the wake of the Great Recession.[[3]](#footnote-3)

Early significant returns on the implications of the tax law are that the deficit increased by 17% in the fiscal year that ended September of 2018. The 2018 deficit was $779 billion, or $113 billion more than the previous year. In 2019, the budget deficit increased to $984 billion, an increase of $205 billion from the previous year.[[4]](#footnote-4)

1. **Sources of Revenues**

Let’s turn to sources of revenue. If we are going to be cutting taxes for different constituencies, it is important to have some awareness of where the government gets its revenues.

We can see four different sources of revenue in this chart: individual income taxes, payroll taxes, corporate income taxes, and other taxes. The “other taxes” category includes things like customs duties (taxes on imports) and estate taxes (aka the death tax).

By a significant margin, individual income taxes are the primary source of federal government revenues. At $1.7 trillion, individual income taxes are nearly 44% higher than payroll taxes, both of which dwarf revenues from other sources.

Income taxes are the taxes that you file in April of every year. You file forms that declare what your income was in the previous year. Payroll taxes are the taxes that are automatically deducted from your paycheck each month. You can see the amounts that are deducted, such as for FICA (the employee portion of Social Security and Medicare), on your pay stub.

Individual income taxes generate nearly one-half of all revenues, while payroll taxes generate about one-third. Corporate income taxes in 2018 contributed just 6% of all tax revenue, down from 10% in 2017.

1. **The Federal government collects taxes from a variety of sources.**

Really just another way of showing what is on slide 8.

1. **What Does the U.S. Government Budget Look Like?**

We have just seen in detail where government revenues come from. It’s worth taking a minute to illustrate where they go. Broadly speaking, government expenditures are separated into three categories: mandatory spending, discretionary spending, and interest on debt.[[5]](#footnote-5)

Mandatory spending includes programs for which laws set eligibility rules and benefit formulas and everybody who meet those eligibility criteria gets the full program benefit. These include health care programs (like Medicare and Medicaid), Social Security, and some income security programs.

Discretionary spending comprises everything else: half of discretionary spending goes to national defense; the rest of discretionary spending is used for many other government programs, such as education and transportation programs.

Discretionary spending is under the direct control of Congress via annual authorizing legislation. Mandatory spending is on autopilot. Barring a change in legislation, the programs go on forever (with the exception of a few mandatory programs that have expiration dates).

Mandatory spending in 2018: <https://www.cbo.gov/system/files/2019-06/55343-Mandatory.pdf>



Discretionary spending in 2017: <https://www.cbo.gov/system/files/2019-06/55344-Discretionary.pdf>



1. **Major Changes in the Tax Law**

With these facts as background, we can start thinking about the major changes in the tax laws that were enacted in late 2017.

In the Tax Cuts and Jobs Act, there are permanent changes and there are temporary changes. Temporary changes are generally included in a tax law such as this one because of Senate rules. For reasons that we won’t go into here, the tax law could not add to the deficit for more than 10 years in the future. This is called the Byrd rule, after former senator Robert Byrd who advocated for this rule.

Essentially, the Republican majority in Congress was forced to abide by this rule because otherwise Democrats could have prevented or at least slowed its passage if there were deficits beyond 10 years out.

Among the permanent provisions are tax reductions for corporations and an elimination of the fine for those who would prefer not to buy health insurance. There is also a permanent change in how inflation is measured. The new inflationary adjustment calculation indicates a slower rate of price increases than the standard measure that has been previously used.

Among the temporary tax cuts are changes to the tax rates for individual income tax collection. In general, these rates were reduced, which will cause the amount of income taxes collected to decline significantly in the coming years. There are also changes to the estate tax, doubling the proportion of an estate that is not subject to tax. For individuals, just over $11 million can be passed on to heirs without being subject to tax. For couples, it is double that amount.

Again, all of the individual income and estate tax changes will expire in 2028.

Each of these changes will be discussed in more detail as we go through this talk.

1. **Corporate Tax Reductions: Summary**

Let’s summarize the changes in corporate taxes after the passage of the Tax Cuts and Jobs Act. As we just discussed, the structure of taxes was changed, and corporate income tax rates were reduced, with a small exception: corporate income taxes increased on just the first $50,000 of corporate income.

The corporate alternative minimum tax was eliminated, lowering potential tax burdens. (Long ago, lawmakers created a unique 20% tax rate as part of a parallel system that limited tax benefits to prevent large-scale tax avoidance. Under this system, incorporated businesses were required to calculate both their ordinary tax and the Alternative Minimum Tax (AMT), paying whichever was higher.)

In addition to the corporate income tax reductions, the corporate tax base was changed. There are new limits on what you can deduct in terms of business interest paid, as well as in terms of net operating losses.

At the same time, there is accelerated expensing of capital investments. The new law allows 100% of qualified investments to be expensed in the first year. Previously, it was just 50% that could be expensed in the first year. This provision lasts for five years and then is phased out, declining by 20% per year until it is phased out.

With the exception of the new limits on deductions, all of these reductions are likely to increase incentives to invest in the U.S. economy. Reducing the corporate income tax rate increases the after-tax rate of return on investments, which means that more investment is likely to occur.

Expensing is probably more important than the rate reduction. Expensing makes the normal rate of return on new investments tax-free.

1. **How Did Corporate Income Tax Rates Change?**

Until this year, corporate income tax rates were somewhat progressive. A “progressive” tax rate means that higher levels of income get taxed at a higher rate. In 2017, for example, corporate income below $50,000 was taxed at 15%. Income in excess of $50,000 and below $75,000 was taxed at 25%, and all income in excess of $75,000 was taxed above 34%.[[6]](#footnote-6)

There were irregular changes in tax rates going up to $18,333,334. The tax rate was 35% on all income above that level. Why income between $15 million and $18.3 million was taxed at 38% can only be understood as an artifact of politics. There is certainly no economic rationale for this pattern of taxation.

Under the TCJA, all corporate income is taxed at 21%, from the first dollar through the billionth dollar. This change to a flat rate is perhaps the only element of *reform* included in the tax law. Taking the progressive nature of the corporate tax rate away and replacing it with something very simple has its merits. Our tax system is enormously complicated, so simplification is often worthwhile.

The basic upshot, however, isn’t the act of simplification but the significant reduction in tax rates from around 35% to 21%.

1. **What about Effective Tax Rates?**

While we are talking about changing corporate tax rates, it is worth examining the effective federal corporate tax rate and how it has changed since the 1950s.

Claims that the U.S. corporate tax rates are very high by international standards are based on looking at the statutory tax rate, that is, the 35% rate, and making comparisons with tax rates in other countries. However, the United States has long afforded companies numerous deductions from income in calculating their tax bills. Thus, although their income may be taxed at 35%, a great deal of their income may not be taxed.

This is evident from the graph.[[7]](#footnote-7) The effective tax rate in the United States has been declining for some time. It was over 50% in the early 1950s, and it fell to 30% in the early 1980s. It subsequently increased to more than 40%, but then dropped to as low as 20% by 2010. It has hovered around 20% for much of the last 15 years.

It is still worthy of note that the marginal tax rate may be more important for certain decisions, such as whether to make a new investment. Such is no longer the case as there is now just a flat rate of taxation.

Also, variation in marginal rates for different kinds of investments or different kinds of businesses can entail significant economic costs. So having a high statutory rate but low effective rate might suggest a lot of economic distortions. Advocates for TCJA would certainly argue that was the case.

The graph includes evidence through the 3rd quarter of 2019. Because of the new tax law, the effective rate of taxation fell from about 20% to just between 12 and 14%. This level of tax collection is about average among the top 20 economies of the world. This drop also reasonably illustrates the size of the tax cuts afforded corporations by the Tax Cuts and Jobs Act.

1. **Taxation of Foreign Earnings of U.S. Corporations**

Foreign earnings will no longer be taxable in the United States. That is, most of the profits that U.S. corporations earn in other countries will not be taxed by the United States. This territorial system of taxation is in keeping with taxation policies in many other industrialized countries. Many U.S. corporations are multinational corporations, and this change might help to limit schemes to avoid taxation by keeping profits “offshore.”

<the following is lifted directly from: Gale, et al., “Effects of the Tax Cuts and Jobs Act: A Preliminary Analysis>

TCJA made sweeping changes to the treatment of foreign source income and international financial flows. Under prior law, the US taxed the income of multinational firms on a worldwide basis, meaning that all a firm’s income was taxed, regardless of where it was earned, less a credit for foreign taxes paid. The tax due on active foreign-source income accrued within foreign subsidiaries of US-resident multinationals, however, was deferred until the income was made available to the US parent company.

The TCJA created a modified territorial tax system. US corporations continue to owe US taxes on the profits they earn in the US. But TCJA exempts from taxation the dividends that domestic corporations receive from foreign corporations in which they own at least a 10 percent stake. Under a pure territorial system, firms would have a strong incentive to shift real investment and reported income to low-tax jurisdictions overseas and to shift deductions into the US. Several provisions were created as guardrails to reduce the extent to which companies take those actions.

The minimum tax on Global Intangible Low-Taxed Income (GILTI) imposes a 10.5 percent minimum tax without deferral on profits earned abroad that exceed a firm’s “normal” return (defined in the law as 10 percent on the adjusted basis in tangible property held abroad). Companies can use 80 percent of their foreign tax credits, calculated on a worldwide basis, to offset this minimum tax. Under standard circumstances, the combination of the 10.5 percent minimum tax and the credit for 80 percent of foreign taxes means that the US minimum tax would not apply to foreign profits (in excess of a normal return) that pay a foreign income tax rate of 13.125 percent or higher.11 However, in some situations—having to do with expense allocation, foreign tax credits, and interactions between GILTI and BEAT (see below)— the tax rate on GILTI income can be significantly higher. The statutory GILTI tax rate increases to 13.125 percent for tax years 2026 and later.

Whereas GILTI acts as a “stick” to prevent companies from investing in intangible assets overseas, a deduction for foreign-derived intangible income (FDII) acts as a “carrot” to provide an incentive for firms to hold intangible assets in their US affiliates. FDII is income received from exporting products whose intangible assets are held in the US. For example, a pharmaceutical company will be able to deduct some income from overseas drug sales if the patent on the drug is held in its US parent company. With the deduction, FDII would be taxed at a rate of 13.125 percent through 2025 and 16.406 percent thereafter instead of the statutory corporate income tax rate of 21 percent.

TCJA also creates a new base erosion and anti-abuse tax (BEAT), which—not surprisingly, given the acronym—is another “stick.” BEAT imposes a minimum tax on otherwise deductible payments between a US corporation and a related foreign subsidiary. Specifically, BEAT taxes at a 10.5 percent rate the sum of the corporation’s taxable income plus all deductible payments (other than costs of goods sold) made to foreign affiliates. A firm will pay the larger of its burden under BEAT or the regular corporate tax.

To transition to the new system, TCJA created a new deemed repatriation tax for previously accumulated and untaxed earnings of foreign subsidiaries of US firms equal to 15.5 percent for cash and 8 percent for illiquid assets. In 2015, it was estimated that US companies held more than $2.6 trillion in untaxed income in their foreign affiliates (JCT 2016). Companies have eight years to pay the tax, with a back-loaded minimum payment schedule specified in the law.

1. **Repatriation**

It has been estimated that multinational corporations held as much as $2.6 trillion abroad in 2015.[[8]](#footnote-8)

There is a “deemed repatriation” mandate for existing profits, with a tax of 15.5% on cash assets and 8% on illiquid assets. The hope is that corporations will bring money back to the United States and invest it. We will discuss this expectation in greater detail in the next few slides.

1. **Individual Income Tax Rates**

Paying personal income taxes can be a very simple endeavor or a very complicated one. Here are a few things that you need to know about personal income taxes:

1. The tax rate changes with income
   1. In the United States, the tax rate increases with income (progressive), so the first $15,000 that you earn is taxed at a rate that is lower than the next $15,000 that you earn.
   2. The U.S. tax schedule has 7 different brackets that range in tax rates from 10% on the first 9,525 in income to 37% on income over 500,000.
   3. It doesn’t have to increase – could decrease (regressive) or could stay the same (flat).
2. The rate at which income is taxed is different for single and married couples. The notion is that it’s more expensive for a married couple to live on a particular income, so it is taxed at a lower rate for couples. This happens because of the same reasoning as has led to a progressive tax structure in the United States – an element of fairness. More income is necessary to take care of two people than one.
3. **Individual Income Taxes: Other Deductions**

There is a veritable panoply of other deductions. Most are in pursuit of a particular policy agenda (such as increasing homeownership), or they apply to one or another special interest group (such as the ability to write off gambling losses).

BUT: These are only available to you if you itemize deductions. If you use the standard deduction, you may not deduct these expenses from your income.

1. **Changes to Individual Rates**

The tax law brings about adjustments to the marginal tax schedule. As mentioned, higher levels of income are generally taxed at higher rates. Note that this applies to income and not individuals. The first 10,000 or so of income is not taxed, whether total income is $10,000 or $1 million.

As discussed earlier, these provisions are temporary.

Let’s have a look at changes in rates.

1. **Lowered Individual Rates: Single Filers**

The rates in this table are for single individuals. The rates for married couples are roughly double the rates here. A couple of things to note:

1. There are seven different rates—the number of rates remains unchanged with the new tax policy.
2. The cutoffs appear to be somewhat arbitrary in the old schedule; this is less so in the new one, though only slightly.
3. The rates increase as income increases.

With regard to the changes:

1. The rate does not change at the lowest income levels. <click>
2. The rate comes down by 2.6 percentage points that the highest level. <click>
3. Rates come down for 5 of 7 tax brackets. <click>

But the rate doesn’t go down for all income levels….it goes down in each bracket, but the income ranges for the brackets change.

1. **Individual Tax Rate Changes (Single Filers)**

This graph just illustrates the changes that are implied in the previous table.

Most groups experience a reduction of their taxes on all levels of income. However, there are two ranges of income — income between $157,500 $195,450 and income earned from $200,000 to $424,950—that are taxed more highly. There is no particular economic rationale for this. However, there are at least two potential explanations:

1. This pattern merely results from trying to simplify the starting and endpoints of the tax brackets.
2. There is some significant revenue implication associated with reducing taxes on this subset of income.
3. **The Standard Deduction and Personal Exemption**

When filing your taxes, you can either itemize allowed deductions (including those that we mentioned a few slides ago) or use the standard deduction.

If you claim the standard deduction, you cannot itemize your other deductions. The personal exemption is an amount of your income that will be exempt from taxation. The personal exemption was intended to eliminate from taxation the minimal amount of money that people would need to be able to live at subsistence level.

The 2017 tax law eliminates the personal exemption and to compensate for this loss it doubles the standard deduction. (This is a temporary provision, and it expires after 2025.) What does this accomplish?

1. **The Doubling of the Standard Deduction and the Elimination of Personal Exemption**
   1. It simplifies tax filing for a large number of people.
      1. There is no need to itemize if your deductions are relatively small.
   2. It reduces the incentives to give to charity or to buy a big house.
      1. If you no longer are itemizing, there is no tax deduction for your contributions.
   3. It raises taxes for people who still itemize.
      1. It eliminates the exemptions for yourself and dependents.
      2. However, this is likely offset by other provisions that cut most itemizers’ taxes – often by a lot.
   4. It also reduces the amount of income exempt from taxes for larger families.
2. **Caps on State and Local Deductions**

As indicated earlier, the federal government allows state and local taxes paid to be deducted from the income that is taxable at the federal level. These taxes include both income and real estate or property taxes.

Should these taxes be deductible? It’s not clear.

1. One point of view is that if the federal government taxes funds that were paid to state and local governments, this amounts to double taxation.
2. Another point of view is that state and local taxes are merely payment to the state and local governments for services provided, and thus they should be treated just like any other spending.
3. There is also a significant difference in the distribution of these benefits across states. Some states tax heavily and provide numerous services while others tax lightly and provide relatively few services.

These deductions are implicitly a subsidy by the federal government to state and local governments by lowering the costs of state and local spending to those who pay for those expenditures.

These deductions are still allowed, but they are capped at $10,000.

There are arguments for whether or not this cap is equitable. On one hand, the SALT cap most affects high-income taxpayers (who were most likely to itemize and subject to the highest tax rates, which raises the value of the deductions). On the other hand, those who live in high tax states do not have the ability to pay lower state and local taxes unless they move, so capping these deductions is a penalty for those in high tax states. Also, it is a penalty for those with high housing costs and hence high property taxes. And if the SALT cap causes states to cut back on important programs, it can hurt lower-income residents even if they did not itemize deductions before 2018.

Reasonably different viewpoints can be held about the equity of this provision.

1. **Other Changes**

There are other changes to itemized deductions. Mortgage interest deductions are reduced. There is an increase in the deductions for out-of-pocket medical expenses, but this is only for 2018. More generally, there is an increase in allowed itemized deductions. The child care tax credit is generally increased, offsetting the reduced exemptions for dependents. The Affordable Care Act penalty fine is eliminated. And the estate tax exemption has been doubled, to $11.2 million for single filers and $22.4 million for couples.

Pass-through entities such as sole proprietorships, s-corporations, and partnerships, don't pay income taxes at the corporate level. Instead, business income is allocated among the owners, and income taxes are only levied at the individual owners' level. They are now able to deduct 20% of their earnings from their taxable income.

1. **Changes in Effective Individual Tax Rates**

This table illustrates that the changes in individual tax rates don’t lead to enormous changes in the effective tax rate regardless of the level of income. Perhaps the group helped the most is those with incomes between $500,000 and 1 million. Their effective tax rate goes down on average more than 2.2 percentage points – most of this accrues to joint filers, with single filers in this income range experiencing a small increase.

1. **Indexing Tax Brackets: Consumer Price Index**

<this slide is optional>

There are a couple of different ways that we can measure inflation, or the rate at which prices change.

The measure used to calculate inflation through 2017 is a pretty standard calculation called the Consumer Price Index (CPI). It measures changes in prices as though people don‘t change their purchasing decisions when prices change.

But people do. The new measure of inflation, the chained CPI, takes this into account. This is a slightly esoteric change, but it is likely that the new calculation was adopted to increase revenue. Inevitably, this measure reports less inflation because people are shifting their purchases from goods with big price increases to goods with small price increases.

This causes the threshold for various tax categories to grow more slowly, resulting in more income being reported in each successively higher tax bracket; we call this “bracket creep.” This has the effect of increasing tax revenues from income each year, given progressive tax rates.

1. **Important Notes: Sunsets**

Politics is the only reason for these provisions to sunset. There are rules under which the tax law was passed that require that the tax bill should not contribute to the deficit more than 10 years out.

Sunsetting the income tax cuts of the tax bill, in conjunction with the slower inflation adjustment, which raises personal income taxes by increasing amounts over time, prevents an increase in the deficit forecast after 2027.

Although the most significant corporate tax changes do not sunset, the growth effects of these cuts are projected to offset the deficit contribution.

1. **Effects of the 2017 TCJA**

The TCJA has a wide variety of effects. It has often been mentioned that TCJA represents tax reform rather than a tax cut. We will explore that issue. What does it mean to be reform rather than just cuts?

The tax cuts obviously have implications for federal revenues, which, without corresponding changes in expenditures has implications for the federal deficit (which increased from $666 billion in 2017 to $779 billion in 2018).

There are also distributional impacts. The tax structure is progressive, which means that higher incomes are taxed at a higher rate. What are the implications for this progressivity of the tax cuts?

Finally, and these have often been discussed in the context of the tax cuts paying for themselves, are the economic effects. We will discuss the potential effects here and then get on to exploring the actual changes in important economic activity later in the presentation.

1. **Reminder of Tax Changes**

Before attaching numbers to the revenue and expenditure changes, lets briefly review the cuts in the law.

1. **Tax Cuts or Tax Reform?**

Does the 2017 TCJA qualify as tax reform? In order to qualify as tax reform, it would have to perform well on at least one of the following criteria:

1. Horizontal equity: Does the TCJA move the nation closer to a situation where people with similar incomes/wealth pay similar taxes? Here is why it might:
   1. There will be reduced itemizing because of the new higher standard exemption.
   2. A reduction in the corporate tax can increase horizontal equity. The corporate tax is paid by employees, shareholders, and customers. We have no idea whether people with similar incomes bear similar shares of the corporate tax.
2. Vertical equity: Does the TCJA move the nation closer to a situation where people with more incomes/wealth pay more taxes as percentage of income?
   1. The U.S. tax code broadly exhibits vertical equity. However, by lowering the top rates and the corporate tax rates, the differential amounts associated with different levels of income are reduced. It is possible that because of these reductions, individuals with higher income—primarily from sources that benefit from reduced corporate taxes—may well pay less in taxes than somebody with less income derived from working a formal job.
3. Pro-growth: Arguably, the law is pro-growth. It reduces corporate tax rates which most agree will increase investment. It reduces personal income taxes, which should increase labor force participation.

At the same time, the increased debt will crowd out other public spending or investments that may have also had a pro-growth effect.

If increased debt leads to higher interest rates over time, this would crowd out private saving and investment. This is why macroeconomic models often show the economic benefits of deficit-financed tax cuts diminishing over time (or even turning negative).

Virtually all tax cuts will stimulate growth in the short term. The real issue is over the longer haul, when failure to make investments in people and infrastructure start to take a toll.

It is also not clear whether the growth effects of the tax law are coming from the reform part of the changes or the tax cuts.

1. Simplicity: Does the TCJA simplify taxes?
   1. In some ways, yes, slightly. Again, the standard deduction increase will reduce the need for many people to itemize deductions. (also fewer people on AMT; but on the other hand, the corporate tax is probably more complex and the pass-through deduction is an important new complication)
   2. The corporate tax is now a flat tax, which makes it slightly simpler.
   3. Overall, however, the TCJA amounts to only a very slight simplification.

Overall, this tax law is more of a tax cut (we can all agree that it does that) than it is tax reform. Its provisions do not clearly and significantly address any one dimension of the four criteria listed above.

1. **Elements of Tax Reform**

Although the primary effect of the TCJA is to cut taxes, there are also significant elements of reform. The first element of reform is the restructuring of corporate taxes. This restructuring is from a progressive tax to a flat tax at a significantly reduced rate. It should be noted that though it is flat, there are significant exemptions still in place that will allow the effective rate, the rate actually paid, to deviate significantly from the statutory rate.

Ultimately, the extent to which the restructuring of corporate taxes alters the progressive nature of the tax code depends on who really pays it, or who receives the benefits of the cuts. The higher revenue can go to one of five places:

1. It can be reinvested in the company.
2. It can be paid out to stockholders through dividends.
3. It can be paid to employees in the form of higher compensation.
4. It can be passed on to consumers through lower prices.
5. It can be used for stock buybacks.

While a, b, and e would likely reduce progressivity, c and d have the potential to offset this reduction in progressivity.

The effects on horizontal equity are unclear. Whether or not the reform is pro-growth depends on the distribution of the investment, a-e, with some (e.g., reinvestment in the company) being more likely to stimulate growth than others. At the same time, the dramatic reduction in federal revenues that are likely to accompany the reform imply that the reform is pro-growth only to the extent that these funds are used more productively by the private sector than they would have been used by the government. With regard to simplicity, this change clearly simplifies the tax code.

A second element of tax reform is the limitation placed on state and local income tax deductions. This reform may well increase horizontal equity largely through its impact on the property taxes being deducted. If households of similar incomes have significantly different property tax bills, they would have previously had significantly different deductions from federal taxes. With regard to vertical equity, this will reduce deductions from federal taxes for wealthier tax payers—who likely have higher property tax bills and higher personal income tax deductions—relative to those of households with lower incomes.

It is not at all clear that this reform is pro-growth. The effect will likely be reduced tax receipts for state and local governments. If state and local taxes are deductible from federally taxed income, there will be a greater tolerance for higher rather than lower state and local taxes.

These reduced tax receipts may result in fewer investments that facilitate local growth, or they may be replaced by efforts to raise taxes from local companies that may have the effect of retarding growth. There is little in the way of an argument that this reform will increase growth, unless state and local expenditures are likely to retard growth. It also complicates the tax code by adding another exception, though this complication is not significant.

Finally, the reduction of the mortgage interest deduction is likely to increase horizontal equity, for the same reasons that the state and local tax (SALT) deduction did. There is an implicit favoring of homeowners over renters, even with the same incomes inherent in the deduction. Eliminating it or reducing it thereby increases horizontal equity. It also increases vertical equity by reducing deductions primarily among wealthier households.

It does beg the question of the merit in advantaging homeowners over renters. The policy is generally sold as a way to promote home ownership. In the end, however, the likely effect is to increase home values. With a mortgage interest deduction, any given household can now afford to pay more for the home than it otherwise could.

Whether or not it is pro-growth depends on the magnitude of the impact on housing markets. The price of housing will likely decrease, primarily in regions with high housing prices, given that the overall cost of buying a house has now increased at some levels. Whether or not this has a significant impact on home construction will be the primary determinant of the growth effects of this reform.

In the same way that capping SALT deductions was a complication of the tax code, so is capping the mortgage deduction. Again, the impact on simplicity is pretty small.

1. **Effects of 2017 TCJA**
2. **Distribution of Benefits: 2018**

Looking beyond the revenue implications, we can see whether the tax law in its entirety contributes to greater vertical equity by examining the distributional effects of the tax law.

Although it is true that all income groups benefit from the tax cuts in 2018, it is clear that wealthier taxpayers benefit significantly more. This higher benefit is both in absolute dollars and in percentage change. With the exception of the difference in benefits between those making one-half of a million to a million dollars (where the percentage declines from 4.3 to 3.3), the percentage benefit increases with income.

The net effect of the tax plan in 2018 therefore is to reduce the progressivity of the tax code. There is no research that indicates the appropriate level of progressivity, so it is not clear that this is a bad thing from the perspective of growth, but it does exacerbate the already increasing inequality in the U.S. economy.

1. **Distribution of Benefits: 2027**

The tax benefit picture changes dramatically by 2027, when many of the individual tax cuts expire. It is still true that higher-income households receive higher benefits, but it is also true that taxes would increase on some 53% of households, nearly all of which are households with between zero and $75,000 in income. Households with higher incomes continue to receive a tax cut.

1. **Distribution of Benefits Over Time**

(This is an extra slide in case a different presentation of the information on the previous two slides would be helpful.)

1. **Child Tax Credit – Details[[9]](#footnote-9)**

One minor aspect of the change in law has to do with the Child Tax Credit. There are two primary changes to the tax credit. These are first, an increase in the credit from $1,000 to $2,000 per qualifying child – a qualifying child is one with a social security card.

The second change is a change in the range of incomes eligible for the credit. The lower limit was changed from $3,000 to $2,500, so more generous at the lower end. And the upper limit, for joint filers, was increased from $110,000 to 400,000.

The increase in generosity at the lower end is tempered by the fact that the refundable part of the credit – that which can be received in the absence of actual taxes paid – is capped at $1,400 and kicks in slowly. The refundable part of the tax credit is zero up to the lower limit of $3,000 and then increases at a rate of 15% of income. The $1,400 limit is reached at roughly $9,333 in income.

Even with these changes, one-third of children in the U.S. do not qualify for the CTC because their families earn too little. Further, 70% of children in single parent households do not receive the full credit, compared to just 25% of children in two-parent households. Many children are left behind by the structure of the tax credit.

The increase in generosity at the top clearly reduces the progressivity of the tax code, reducing the tax liability among households that are likely in little need of assistance with child-rearing costs.

1. **Are the Implications for Income Inequality Important?**

Are there serious consequences stemming from income inequality? This is a subjective question that is hard to answer with data and research. There are no current studies that give us a definitive answer as to what exactly the right level of inequality is. There are efficiency and equity tradeoffs up to a point, after which both efficiency and equity begin to decline. There is a sweet spot, but we are currently unable to identify it precisely.

What we can say is that the tax law increases income inequality, and that income inequality in the United States is at very high levels by historical standards.

1. **Federal Income Tax is Still Progressive**

It is worth noting that although the tax act reduces the progressivity of the tax code, it doesn’t make enormous changes in this regard.

It is worth contemplating, however, where the funds for the tax cut will come from. They are deficit inducing, so in principle, they will have to be funded by cuts. If these cuts come from programs that primarily benefit the poor, this will further reduce the progressivity of the government fisc.

1. **Economic Effects**

This tax package was ostensibly passed to enhance growth in the general economy. It will likely do so, both by raising the potential GDP—the GDP if all labor were fully employed—and by raising the real GDP—the actual level of GDP observed, whether or not it equates to the potential GDP.

It will raise GDP by encouraging work (lower tax rates), savings, and investment.

The increase in work is projected to result from the lower tax rates applied to labor income. Savings will result from the greater level of disposable income, a portion of which will be saved. Investment will be primarily spurred by the reduction in corporate income taxes. Lower taxes leave more money for companies to spend.

At the same time, the government will be borrowing significantly more from the public. This borrowing is likely to increase interest rates (which will in turn dampen investment). The increased demand at a time of full employment is also likely, in general, to increase prices.

1. **Economic Effects of the 2017 Tax Cuts and Jobs Act**

The TCJA is forecast to have a positive impact on the economy in the first 10 years. Tax cuts are expansionary. That impact is higher in the early years and declines just after the fifth year (2022). The peak impact is just under 1% in 2020, and it declines to under 0.6% in 2028. Because some of the provisions will sunset, the overall impact on growth is likely to be less than 0.5% over the long term. The CBO estimates 0.7 percent on average between 2018-2028. Part of the reason for the decline in later years is the assumption that increased borrowing will crowd out private investment. As has been discussed, there are also quite a few of the tax provisions that expire before 2028.

1. **Comparison of Estimates of Effects on GDP**
2. **CBO Estimates of Economic Effects**
3. **GDP vs. GNP**
4. **Fiscal Bump from TCJA**

The effects on GDP of the tax law have already started to appear. At its peak, the tax cuts are expected to add about 0.5 percentage points to aggregate real GDP growth. However, the addition to GDP growth is expected to exceed 0.25 percentage points in just four quarters.

By 2020, the expected impact of the tax cuts is projected to be negative. <Why?>

1. **What Are the Budget Implications?**

One of the very significant aspects of the TCJA is its implications for the federal government budget. As its name suggests, there are significant tax cuts included in the law. There are also some revenue enhancements—capping both SALT and mortgage interest deductions, for example.

There are also indirect effects on the budget that stem from the pro-growth nature of the tax law. It is thought that these effects will primarily occur in the short run, and may well be small in the distant future. There will be increased revenues from growth, but they are likely to be small (and more than offset by the direct effect of the tax cut itself).

The other side of the coin is federal government expenditures. There are no aspects of this law that directly affect government spending. At the same time, if there is significant borrowing associated with the law, there will be increased interest costs associated with the borrowing necessary to accommodate the tax cuts.

1. **Revenue Changes: Summary**

This table provides a summary of the revenue decreases and enhancements in the law. It breaks down the revenue figures according to the changes for individual taxpayers and for businesses. There is more in the way of cuts for individuals than for businesses ($2.9 trillion vs. $1.5 trillion). There is also more in the way of tax increases for individuals than for businesses ($1.8 trillion vs. $0.8 trillion). The net effect is also greater for individuals: $1.1 trillion in tax reductions as opposed to a net reduction of just $0.7 trillion for businesses.

In the end, the total direct impact on the federal government budget is to reduce net revenues by $1.5 trillion over the course of 10 years.

1. **Revenue Changes: Cuts**

Looking at specific categories of cuts, this table presents the top six sources of tax cuts. The largest single category of cuts arises from the reduced rate of corporate taxation, nearly $1.4 trillion, approximately the overall cost of the tax law.

The individual tax cuts are a close second at $1.2 trillion. This is augmented with a reduction in revenues from the individual alternative minimum tax. In total, there are more than $4.6 trillion in tax cuts included in the law.

1. **Revenue Changes: Increases**

Those cuts are offset by increases in a variety of categories. The repeal of personal exemptions and of personal deductions leads to more than $1 trillion increase in revenues. Other items individually bring in relatively little in the way of revenues.

In total, there are $3.2 trillion in additional revenues in the law. When offset by reductions, as discussed earlier, the law provides a cumulative deficit (increase in the national debt) of roughly $1.5 trillion over 10 years.

1. **Revenue Sources: Share of GDP[[10]](#footnote-10)**

*Presenter’s Note: This is the first part of introducing the distributional effects.*

The graph displays the major sources of government revenue, along with a catchall “other” category. These sources include: individual income taxes ($1.6 trillion in 2017, or 8.3% of GDP), payroll taxes ($1.2 trillion/6.1%), and corporate income taxes ($297 billion/1.5%).

Income taxes, both corporate and individual, are straightforward. Payroll taxes include primarily Social Security, Medicare, and unemployment insurance.

Despite the increases in the debt and deficit projected over the next decade, there are no significant changes in revenues as a share of GDP, except for individual income taxes. Individual income tax revenues increase significantly because most of the tax cuts included in the TCJA expire after 2025. As a result, individual income tax revenues increase from 8.7% of GDP to 9.8% of GDP in just the three years between 2025 and 2028. We’ll say more about this a little later.

Although this forecast might be surprising, perhaps the more surprising result is the fact that corporate income taxes as a share of GDP stay about the same. In fact, corporate income taxes grow through 2025 to 1.7% and then fall back to 1.5% in 2028. Given that corporate rates decline from 35% to 21%, and effective tax rates have fallen to around 13% or 14%, how is it that revenues as a share of GDP stay the same? They should fall significantly. This is because of a few different factors:

1. Average corporate tax rates are much less than 35%; they were 24% in 2017.
2. The tax base is being broadened—more revenues are going to be taxed.
   1. Revenues generated overseas
   2. Many current investment expenditures can no longer be deducted.

Changes in the corporate income tax structure are not nearly as dramatic as some might suggest. It appears to be a major giveaway to corporations, but the reality is somewhat different, given the broadening of the tax base.

At the same time, corporate income taxes were projected to be significantly higher prior to the TCJA, which explains how the deficits and debt are projected to increase so much. That is, the share of revenues accrued from corporate income taxes would likely have increased significantly in the absence of the TCJA, so the Act merely maintains their levels.

Revenues are projected to decline for both individual and corporate taxes relative to what they would have been. At the same time, both are projected to increase as a share of GDP.

1. **Tax Reform or Tax Cuts**
2. **Implications for the Federal Budget**

To construct its baseline budget projections, CBO incorporated the effects of the tax act, taking into account economic feedback—that is, the ways in which the act is likely to affect the economy and in turn affect the budget. Doing so raised the 11-year projection of the cumulative primary deficit (that is, the deficit excluding the costs of servicing the debt) by $1.3 trillion and raised projected debt-service costs by roughly $600 billion. The act therefore increases the total projected deficit over the 2018–2028 period by about $1.9 trillion.

Before taking economic feedback into account, CBO estimated that the tax act would increase the primary deficit by $1.8 trillion and debt-service costs by roughly $450 billion. The feedback is estimated to lower the cumulative primary deficit by about $550 billion, mostly because the act is projected to increase taxable income and thus push tax revenues up. And that feedback raises projected debt-service costs, because even though the reduction in primary deficits means that less borrowing is necessary, the act is expected to result in higher interest rates on debt, which are projected to more than offset the effects on debt-service costs of the smaller debt. On net, economic feedback from the act raises debt-service costs in CBO’s projections by about $100 billion per year.

1. **Behind the Revenue Estimates**

Estimates of the change in revenue are composed of two different parts. There are the ***static effects***, the changes in tax revenues that would happen with the change in tax provisions, but absent any changes in behavior. That is, assuming no additional work, savings, or investment.

But clearly, changes in tax rates will induce changes in decisions by individuals, their households, and businesses.

These changes in market activity are likely to lead to economic growth and an increase in government revenues. These are called the ***dynamic effects*** of the tax cut.

The big question is whether or not the dynamic effects will offset the static effects. Many of the tax laws proponents indicated that they thought it would. Let’s have a look.

1. **Have the Dynamic Effects materialized?[[11]](#footnote-11)**

One way of estimating the overall revenue effects of the tax law is to compare actual revenues and estimates of what revenues were expected to be in the absence of the Tax Law. Fortunately, the Congressional Budget Office annually produces a report that presents revenues expectations for the subsequent 10 years.

This graph presents, in the green lines, actual government revenues by source. The dashed orange line indicates the CBO’s expectation of revenues in 2018 in the absence of the tax cuts.

Of the three major sources of tax revenues, for none of them have actual 2018 revenues exceeded expectations. They are very close for payroll taxes, but there was nothing in the tax law that would change this relationship. This suggests that the CBO’s estimates are pretty good.

For the other two categories, individual income taxes and corporate taxes, actual revenues are significantly below CBO’s original projections.

This suggests that the dynamic effects of the tax law are NOT sufficient to counteract the static effects and the tax law has not so far paid for itself.

It is possible that the dynamic effects take longer to set in, so the picture may improve in 2019, but this is by no means guaranteed. Given the magnitude of the static effects, there would have to be a tremendous change in economic activity. Although possible, it does not seem likely at this point.

Indeed, most studies of revenues over the course of the first 10 years of the law suggest (on average) that about 20-25% of the revenue losses may be offset by the dynamic effect.[[12]](#footnote-12)

1. **Debt versus Deficit**

Given that the dynamic effects are not sufficient to offset the static effects, overall government revenues have declined. As the government has been running deficits for some time, the effect of the tax law on the federal budget is to increase the deficit in individual years and the debt over time.

The national debt is simply the accumulation of past deficits minus surpluses. It’s hard to believe these days, but we did run budget surpluses in the 1990s. Deficits are a flow concept (measured over a given period of time—in this case, a year), whereas debts are a stock concept (measured at one point in time).

In 2017, the national deficit was $665 billion and the national debt was in excess of $20 trillion. U.S. GDP was just $19.5 trillion in 2017, so the national debt is now in excess of 100% of GDP. It passed 100% for the first time in 2016.

It is worth noting that although I just mentioned it, crossing the 100% barrier is not economically significant. A national debt of 101% is not qualitatively different from a national debt of 99%. At least, no more than 99% is different from 97%.

1. **Debt**
2. **Perspective on Increased Debt**

Although crossing the 100% threshold is meaningless, it is nonetheless of concern that the national debt is this large. In particular, a government deficit eats away at the funds that households save. Those savings are generally available for investments in the economy. When the government borrows those funds, they are not available for other private investments.

This raises a question. The government is clearly borrowing the funds for a reason, to finance its expenditures. Many of those expenditures are in fact investments in the economy. Are the government investments and other expenditures more or less growth-promoting than the alternative investments that might have occurred? We want the return on government investment to be higher than the real interest rate. There is no good answer to this question.

It also remains true that governments are constantly in need of investing in infrastructure that facilitates the efficient functioning of the economy, such building highways and bridges. When interest rates are low, as they currently are, it makes sense to borrow and make these investments almost regardless of the size of the debt. The rate of return is unchanged because of the size of the debt.

And there are limits to how high the national debt can go. Japan has a national debt over 200% of GDP. But the circumstances in Japan differ from those in the United States.

Another concern often expressed is the burden that this debt puts on future generations. To the extent that the debt has resulted in spending that encourages economic growth, this argument may have less relevance than if the increase in the debt has not resulted from actions that spur economic growth. This, too, remains an open question.

We can also borrow from abroad by running trade deficits. It might be useful to consider the difference between internally held debt and externally held debt.

1. **Uncertainties with the Estimates**
2. **What Do the Early Data Suggest?**

We are now more than nine months into the effective period of the TCJA and data on a variety of activity are coming in that can help to evaluate the influence of the law.

In particular, we have data on corporate income tax payments and the impact on effective corporate tax rates. We have information on investment from the first two quarters of the year. We have evidence from nine months of employment growth and two quarters of wage growth.

1. **Real GDP Growth in the Wake of the Tax Cuts**

There are many predictions of significant GDP growth that would follow the tax cuts. The evidence suggests that these benefits have not materialized. In particular, it is hard to claim that GDP growth in 2018 was better than in 2017.

At the same time, it isn’t possible to know what GDP growth would have been in the absence of the tax cuts. It may well have been significantly lower. This observation applies to all of the data that we are presenting here.

1. **Growth In Real Consumption**

With the lower individual taxes and potentially higher dividends coming from the lower corporate taxes, consumers are expected to have more money to spend beginning in 2018 than previously. This should spur growth in consumption a very important driver of GDP growth.

As with GDP growth, it is very hard to make the case that the tax law has led to a significant increase in consumption. In the middle of 2018, growth was high relative to the last couple of years, so there was potentially some impact, but the impact was not particularly large.

1. **Growth in Nonresidential Investment and Components**

It has also been argued that both the lower corporate tax rates and the repatriation of funds would lead to stepped up investment in the U.S. economy.

Here, there is a case to be made that investment was elevated in the first half of 2018. Growth rates overall in nonresidential construction were elevated, being higher than at any time in the previous four years. However, investment in the second half of the year was more similar to previous years.

The construction of structures appeared to get the biggest boost in the first half of the year, but those gains were largely eliminated in the second half. Greater potential is for a lasting boost to investment spending on intellectual property products. This category was elevated in the first half of the year, but not really extraordinary in the second half. And there is no evidence that investment in equipment was affected by the tax law.

1. **Long-Term Investment Growth**

For much of the last 20 years, investment in the United States has been somewhat lukewarm. Prior to 2000, gross private investment was routinely above 20% of GDP. In the years since 2000, it has contributed less than that.

Investment is composed of purchases by businesses of goods necessary for production, investments in capital equipment, and investments in commercial structures as well as residential structures. It also includes additions to inventory.

Since 2000, most of these forms of investment have declined. The provisions regarding expensing and corporate taxes aim to increase the investment component of GDP.

1. **Recent Investment Trends**

If the Tax Cuts and Jobs Act is having its desired effect, we would expect a noticeable increase in investment flows in the United States. This graph focuses on investment trends over the last 4.5 years. The question is, do we see a noticeable trend in investment growth in the first two quarters of 2018?

Investment activity has been growing since the fourth quarter of 2016. There is a clear upward trend that runs through the second quarter of 2018. It is too soon to tell, and this cursory examination of investment patterns cannot definitively say, whether or not the tax law is having its desired effect.

Time and deeper analysis will reveal the tax law’s impact, but the early returns are not necessarily promising.

1. **Net Investment Trends**

The previous slide presented evidence on trends in gross investment. It might be more instructive to examine net private domestic investment undertaken by businesses.

Essentially, the values in this figure illustrate the contribution of investment towards increasing the stock of productive capital in the United States. In particular, it is gross investment minus the depreciation of the existing capital stock.

What we see is that net investment in the United States, as carried out by the business sector, has been increasing in the first two quarters of 2018, and it has increased perhaps a little bit more quickly than the trend from the third quarter of 2016, when net investment began to increase following a year and a half of declines.

If the trend has increased in 2018, it has not increased by very much. Again, time will tell more fully whether or not the reduced capital gains taxes are having their desired impact on the stock of productive capital in the United States.

1. **Job Growth**

It is also expected that the TCJA will lead to higher employment levels than would otherwise occur. Looking at the individual months of 2018, there does not appear to be a significant increase in job creation. The average over those months has been 206,000 jobs, which is higher than the average over the 24 months prior to 2018, at 186,000. However, such changes between periods are not uncommon.

It is clearly too soon to tell whether or not the TCJA has resulted in increased employment. The early indications are that there may have been an increase in job creation, but not sufficient to proclaim the TCJA a major source of job growth.

1. **Growth in Real Wages and Real GDP**

It was also frequently argued, reasonably so, that corporate tax cuts would lead to wage increases. It is commonly assumed that greater resources available to corporations would lead to higher wages.

This tax cut has put that thesis to the test and it appears to have failed, or that the effect is extremely small. According to the Congressional Research Service, wage growth through 2018 did not stand out relative to wage growth in the previous 5 years. Possibly higher in some quarters, but also lower in some others.

Corporate tax cuts appear to have had very little effect on wage growth.

1. **Wage Growth after 2017 Tax Policy**

To date, there is very little evidence of wage growth resulting from the changes in the tax law. That said, it is still very early.

It is very important to recognize that there are a lot of other things happening in the economy that could be causing slow wage growth. In particular, there are compositional changes. With the baby boomers retiring, there are significantly larger numbers of older experienced people leaving the labor force and new inexperienced people coming into the labor force. People with high wages are leaving and people with low wages are coming in.

At the same time, with an economy so apparently close to full employment, wages should be rising even without the changes in the tax law. However, the Federal Reserve is now forced to raise interest rates to slow the economy down to potential output. Hence it is hard to figure out the effect of the tax cut in isolation.

Potential output (also referred to as "natural gross domestic product") refers to the highest level of real gross domestic product (potential output) that can be sustained over the long term – given the available resources in terms of both capital and labor.

1. **Labor Compensation Growth**

A valid criticism of the previous evidence that shows little wage growth is that labor receives a significant amount of compensation in other forms than wages. These benefits might include health insurance, retirement benefits, flexible spending accounts, and a variety of others.

It is worth considering total labor compensation as well. The graph illustrates year-over-year growth in labor compensation. Here, again, the evidence does not indicate that the tax law is having its desired effects. There is, however, evidence of increased bonuses being paid to workers, and those bonuses are not included in these data. The figure illustrates what is happening to base compensation for labor, changes that are likely to endure over time.

Compensation appears to be growing, but at a declining rate in 2018. Growth peaked in the third quarter of 2017, at a little under 2%. In 2013 and 2014 it had been growing significantly faster. Since 1950, year-over-year growth in compensation had been increasing at an average of just over 1.5%. The recent growth rate is not only declining, but it is significantly below the long-run average.

1. **Foreign Earnings Are Coming Home**

In the first quarter of 2018, in excess of $300 billion of foreign earnings have come home.[[13]](#footnote-13) It is estimated that this is about 30% of the liquid assets that are currently held abroad. It is in excess of 10% of all foreign earnings in both liquid and illiquid assets. Clearly, it will take longer

for firms to repatriate illiquid assets, if indeed they are repatriated at all, under the lower tax rate available to them in 2018.

1. **How Companies Will Use Repatriated Funds**

Much is made out of the investments that might happen in the United States as a result of the changes in the corporate tax law. The notion that companies holding cash overseas will bring the cash back and invest it in projects and capital in the United States is quite unlikely. For one, these same companies are sitting on a huge pile of cash as it is. It has been estimated that in 2017, U.S. companies were sitting on more than $1.8 trillion.[[14]](#footnote-14)

Now, they are not literally sitting on the cash. It goes to the U.S. Treasury to buy bonds, and it goes into banks to fund the rest of the economy. But the upshot is that these companies will not likely be investing these funds themselves.

In fact, surveys suggest that they will do a variety of things before they make additional investments. The possible list of actions for repatriated foreign earnings includes paying down debt, making share repurchases, or funding mergers and acquisitions. Capital expenditures rank fourth on the list, and only a little more than one-third of companies suggest that this is what they would do with the funds.

To be sure, even with some of these other activities, the cash will in one way or another help fund economic activity in the United States, but the extent of this contribution is not immediately clear.

Early evidence from the first quarter of 2018 suggests that there is a significant increase in share buybacks among the top 15 firms with cash held abroad. There is, however, not a great deal of evidence that these firms are reducing their debt significantly.

1. **Stock Buybacks**

Stock buybacks as a share of assets among all firms remained relatively unchanged from 2015 through 2017, but in the first quarter of 2018 buybacks more than doubled relative to the first quarter of 2017 or any quarter since.

There is significant evidence that firms have begun the process of bringing assets held abroad back to the United States, and there is evidence that stock buybacks among these firms has increased significantly. A little later in the presentation we will talk about the influence of this activity on investment, employment, and wages.

1. **An Important Question**

It is possible to argue that through the TCJA, the federal government just spent $1.9 trillion to stimulate the economy and to invest in future growth.

Of course, it’s not really spending, but the intent of the tax law is ostensibly to spur economic growth and to drive higher living standards.

The important question is whether or not this particular strategy is the best way to stimulate growth in the economy. There are other options available that are worth considering as an alternative.

1. **Growth Potential of the Tax Cuts**

To what extent will the tax cuts spur economic growth? The answer is that it is unclear. The CBO has estimates of the impact on growth over the next 10 years, but this estimate assumes that these tax cuts will be offset by increased borrowing. That seems highly unlikely. Instead, there will be some offsetting expenditure cuts or tax increases. It is these compensating actions that will significantly affect the future growth implications of these tax cuts.

1. **Why Tax Corporate Income?**

It is not unreasonable to ask whether or not cutting corporate taxes is the right strategy.

Some economists argue that most of the burden falls on owners (Gravelle, 2013; and Clausing, 2013). Other economists find that a substantial part of the burden is shifted onto workers (see, for example, Arulampalam et al., 2012; and Fuest et al., forthcoming) and is harmful to economic growth (see, for example, Hines, 2017; and OECD, 2001).

Gravelle (2010) shows how conclusions from various studies hinge on their modelling assumptions, while Fullerton and Metcalf (2002) note that “few of the standard assumptions about tax incidence have been tested and confirmed.”

1. **Other Ways to Invest in Economic Growth**

There are many other ways of investing in economic growth. Improvements in infrastructure (such as upgrading ports, roads, bridges, and airports) make it easier for businesses to receive and transport goods. A better health care system results in healthier workers and boosts worker productivity. With businesses having trouble finding a sufficient number of educated workers, an increase in educational funding, including programs to raise college graduation rates, could be critical for meeting the labor needs of the economy going forward.

1. Summary

We can summarize the primary effects of the Tax Cuts and Jobs Act of 2017. The act will promote economic growth, but not by very much. It increases the incentives for investments in the economy, and it encourages entrepreneurship. The act reduces the progressivity of the overall tax structure, and hence contributes to greater income inequality. The act is expected to generate significant additional debt, roughly $1.5 trillion over 10 years.

It can also be reasonably expected that because if growing deficits and debt, there will be increased political pressure to reign in government spending. Higher interests may well result from the increased borrowing and would also tend encourage spending reductions.

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