THE TAX CUTS AND JOBS ACT

The most significant Federal tax reform enacted in the United States in decades

In December 2017, President Donald Trump signed the Tax Cuts and Jobs Act (TCJA), which had four goals:

- ☑ Tax relief for middle-income families
- ☑ Simplification for individuals
- ☑ Economic growth
- ☑ Repatriation of overseas income

Using estimates from the academic literature, we calculate that two salient corporate tax reforms — reducing the top marginal Federal corporate tax rate from

35% to 21%

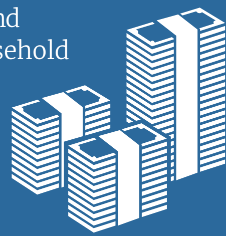
and allowing firms to fully expense investments in nonstructure capital —

would raise output by

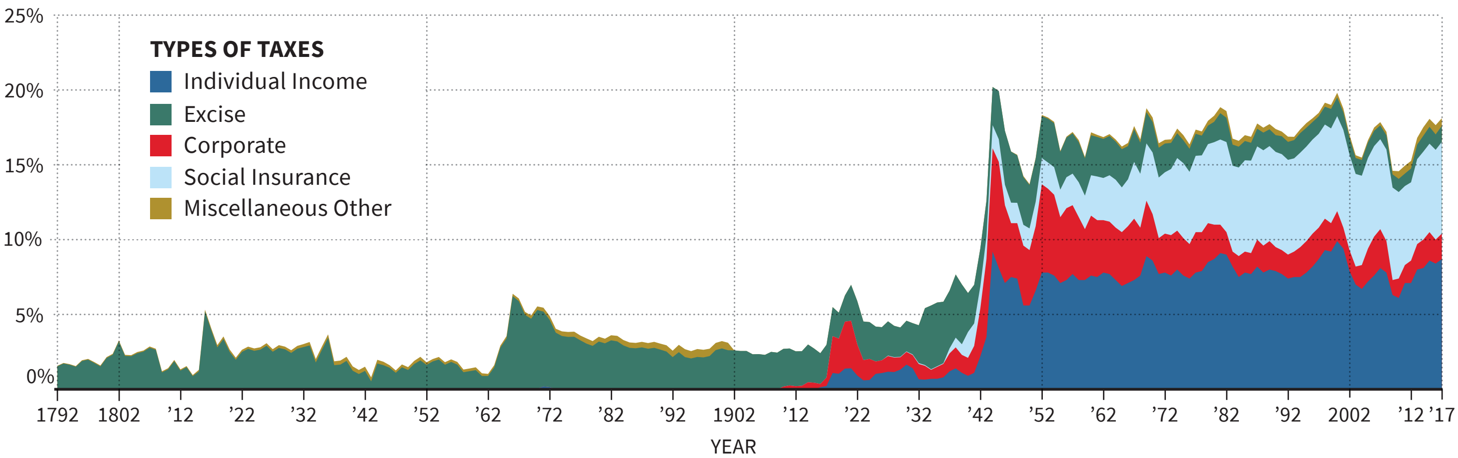
2% to 4%

over the long run, and boost average household wages by about

$4,000.



Federal Tax Revenue as a Percentage of GDP

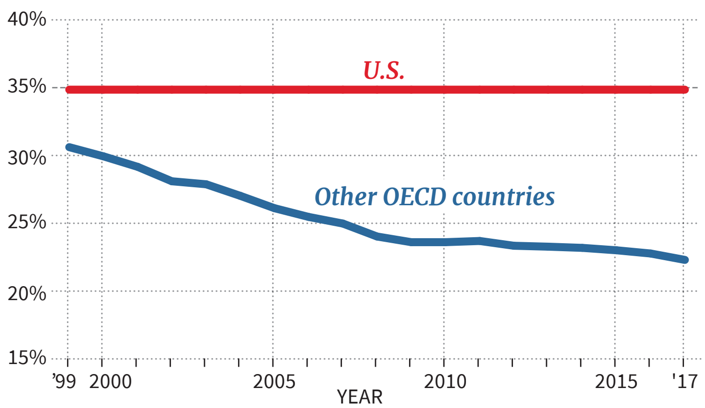


SOURCES: Office of Management and Budget Historical Table 2.3 (2017); U.S. Census Historical Statistics of the United States (1975).

Average Effective Corporate Tax Rates of OECD Countries

The effective average tax rate, a measure of the after-tax profit of an investment project over its lifetime, is a crucial determinant of investment location. Since 1999, the U.S. went from being the developed economy with the fourth highest effective average corporate tax rate, to that with the highest, as other OECD countries have steadily cut corporate tax rates.

TOP EFFECTIVE U.S. CORPORATE TAX RATE VERSUS THE OECD AVERAGE (EXCLUDING THE U.S.)

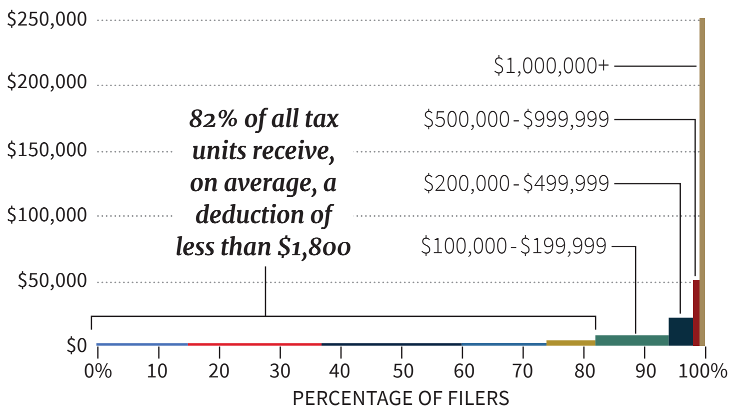


SOURCE: Centre for Business Taxation (2017).
NOTE: Series combine national and subnational rates.

Distribution of State and Local Tax (SALT) Deductions

SALT deductions are concentrated at the upper end of the income distribution; in other words, higher-income households disproportionately take advantage of the deduction. Lowering individual income tax rates while simultaneously limiting use of distortionary deductions like SALT and the mortgage interest deduction can therefore facilitate tax relief to middle-income households while at the same time partially offsetting short-to medium-term negative revenue effects.

AVERAGE SALT DEDUCTIONS (2015), DOLLARS



SOURCES: Internal Revenue Service, CEA staff calculations.
NOTE: Excludes those earning less than $1 in adjusted gross income.

February 2018