

Economic Effects of the December 2017 Tax Cut and Jobs Act

July 2018

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Provisions

Major Provisions of TCJA (December 2017)

	2019 (bil \$)
Individual Income Tax	
Rate Reductions	-135
Modified Standard Deduction	-83
Modified Child Tax Credit	-68
AMT Adjustments	-83
Business 20% Deduction	-47
Repeal of Exemptions/Deductions	207
All Other	20
Total Individual	-189

Major Provisions of TCJA (December 2017)

	2019 (bil\$)
Business/International Taxes	
21% Corporate Tax Rate	-125
Bonus Depreciation	-37
All Other Business	28
Total Business	-134
Total International	43
Grand Total, TCJA	-280

Distribution

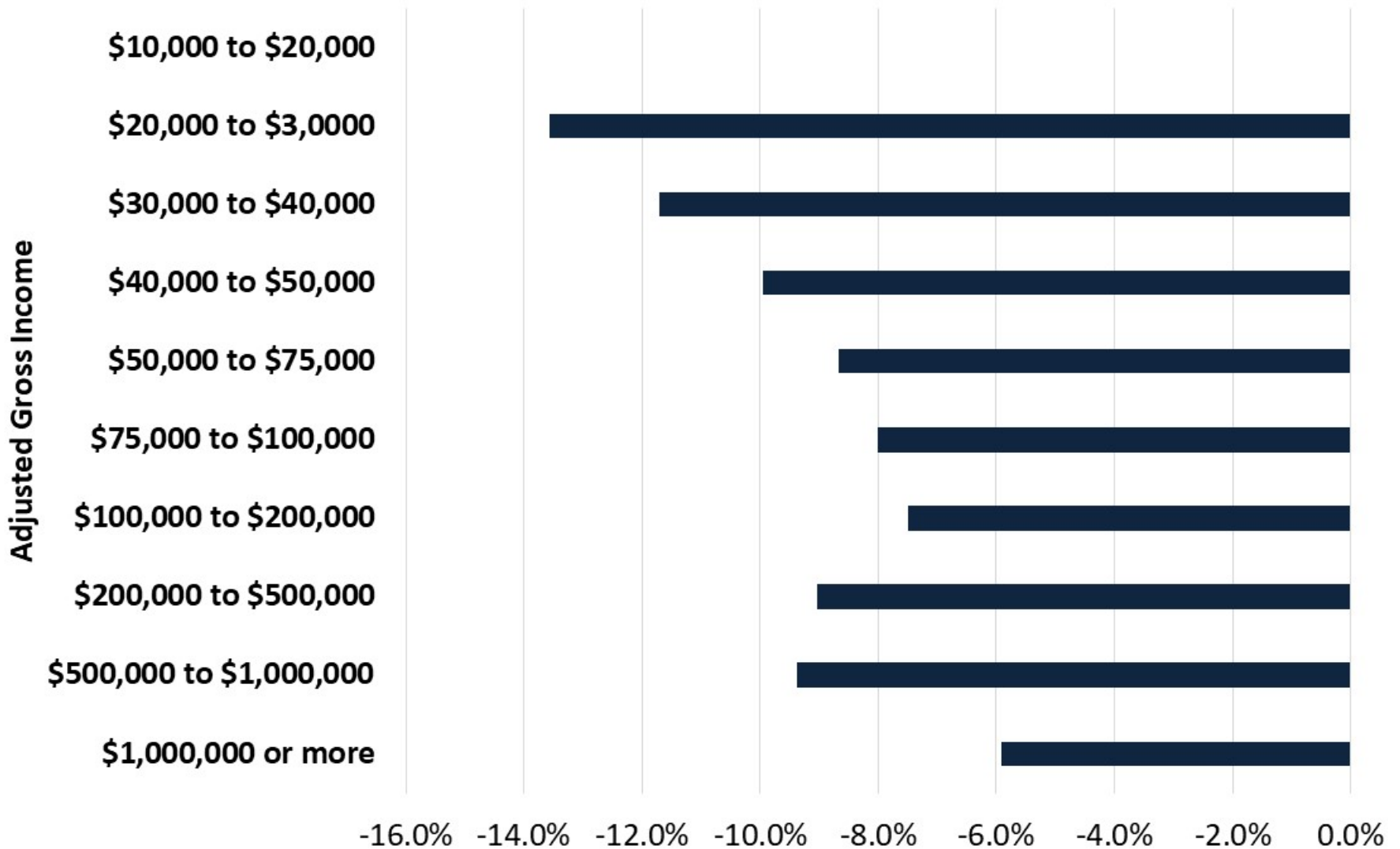
**DISTRIBUTIONAL EFFECTS OF
THE CONFERENCE AGREEMENT FOR H.R.1,
THE "TAX CUTS AND JOBS ACT"**

Calendar Year 2019

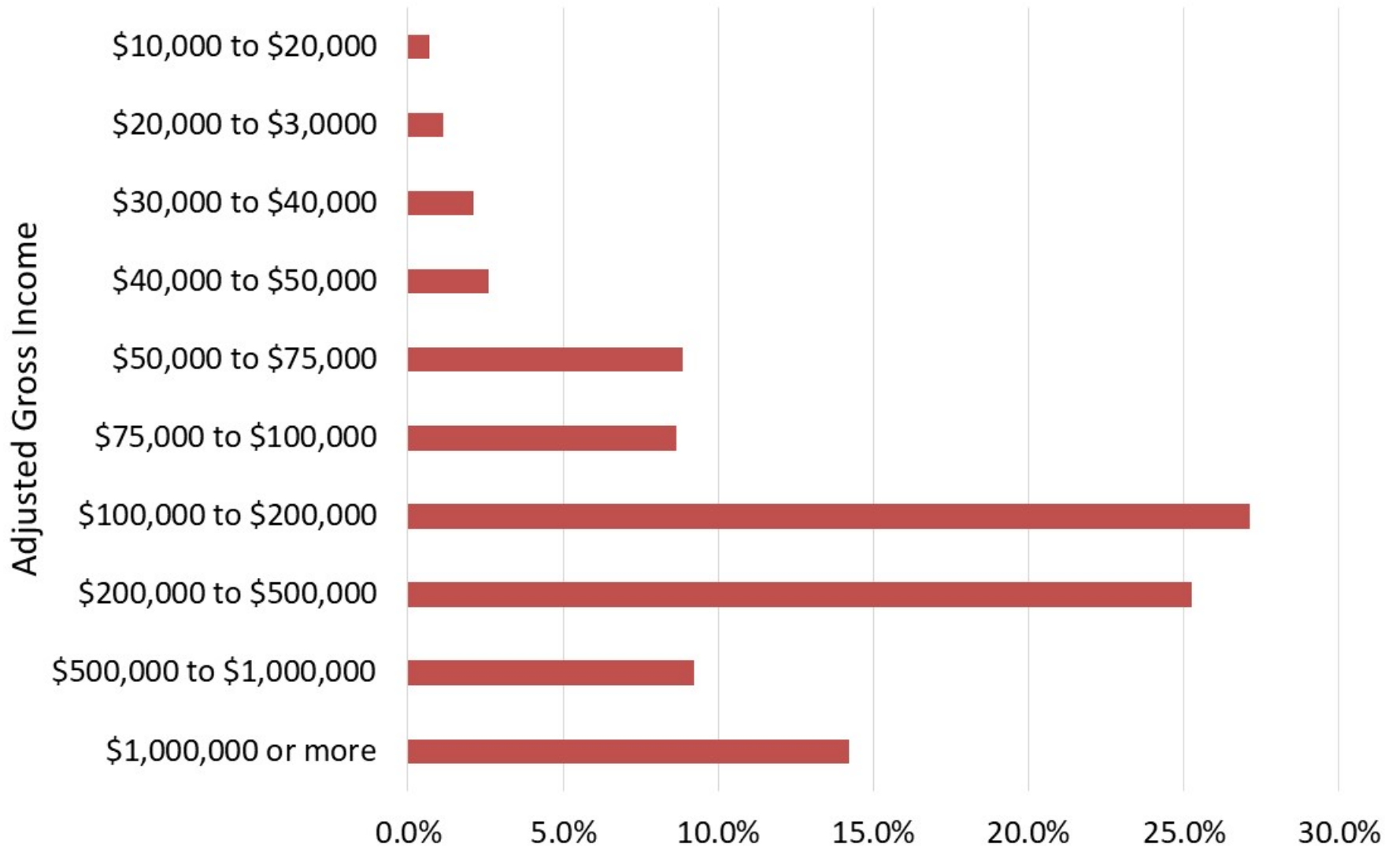
INCOME CATEGORY (2)	CHANGE IN FEDERAL TAXES (3)		FEDERAL TAXES (3) UNDER PRESENT LAW		FEDERAL TAXES (3) UNDER PROPOSAL		Average Tax Rate (4)	
	Millions	Percent	Billions	Percent	Billions	Percent	Present Law	Proposal
							Percent	Percent
Less than \$10,000.....	-\$396	-5.6%	\$7.0	0.2%	\$6.6	0.2%	9.1%	8.6%
\$10,000 to \$20,000.....	-\$1,792	(5)	-\$2.4	-0.1%	-\$4.2	-0.1%	-0.7%	-1.2%
\$20,000 to \$30,000.....	-\$2,982	-13.5%	\$22.1	0.7%	\$19.1	0.6%	3.9%	3.4%
\$30,000 to \$40,000.....	-\$5,416	-11.5%	\$47.0	1.5%	\$41.5	1.4%	7.9%	7.0%
\$40,000 to \$50,000.....	-\$6,728	-10.0%	\$67.3	2.1%	\$60.6	2.0%	10.9%	9.9%
\$50,000 to \$75,000.....	-\$23,046	-8.7%	\$265.3	8.2%	\$242.3	8.2%	14.8%	13.5%
\$75,000 to \$100,000.....	-\$22,437	-8.0%	\$279.5	8.7%	\$257.1	8.7%	17.0%	15.6%
\$100,000 to \$200,000.....	-\$70,372	-7.5%	\$939.8	29.1%	\$869.4	29.3%	20.9%	19.4%
\$200,000 to \$500,000.....	-\$65,485	-9.0%	\$724.3	22.4%	\$658.8	22.2%	26.4%	23.9%
\$500,000 to \$1,000,000..	-\$23,947	-9.4%	\$254.7	7.9%	\$230.8	7.8%	30.9%	27.8%
\$1,000,000 and over.....	-\$36,853	-5.9%	\$624.1	19.3%	\$587.2	19.8%	32.5%	30.2%
Total, All Taxpayers.....	-\$259,454	-8.0%	\$3,228.7	100.0%	\$2,969.3	100.0%	20.7%	19.0%

Source: Joint Committee on Taxation

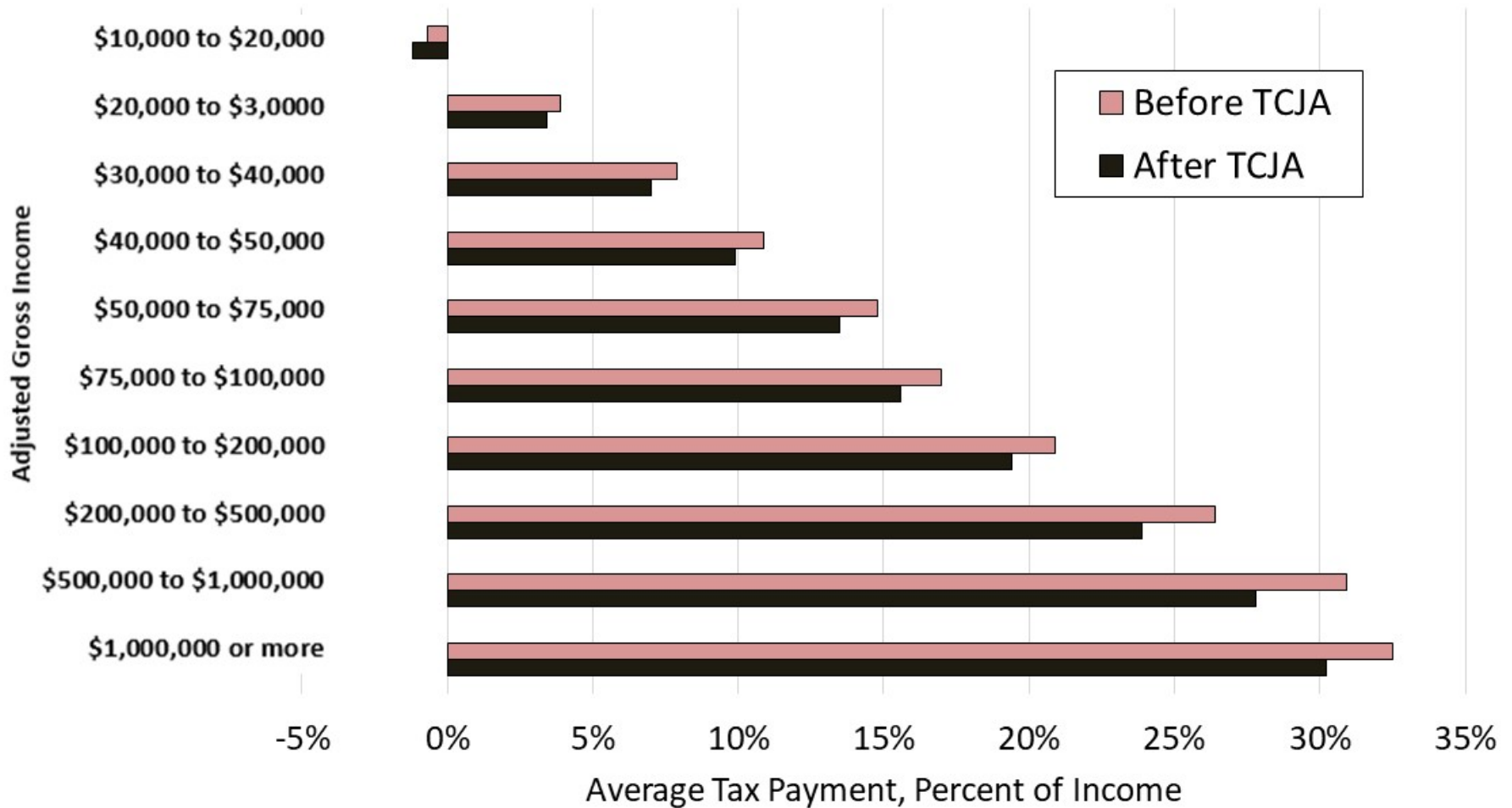
Federal Individual Income Tax: Change in Estimated Average Payment, by AGI Category, Due to TCJA



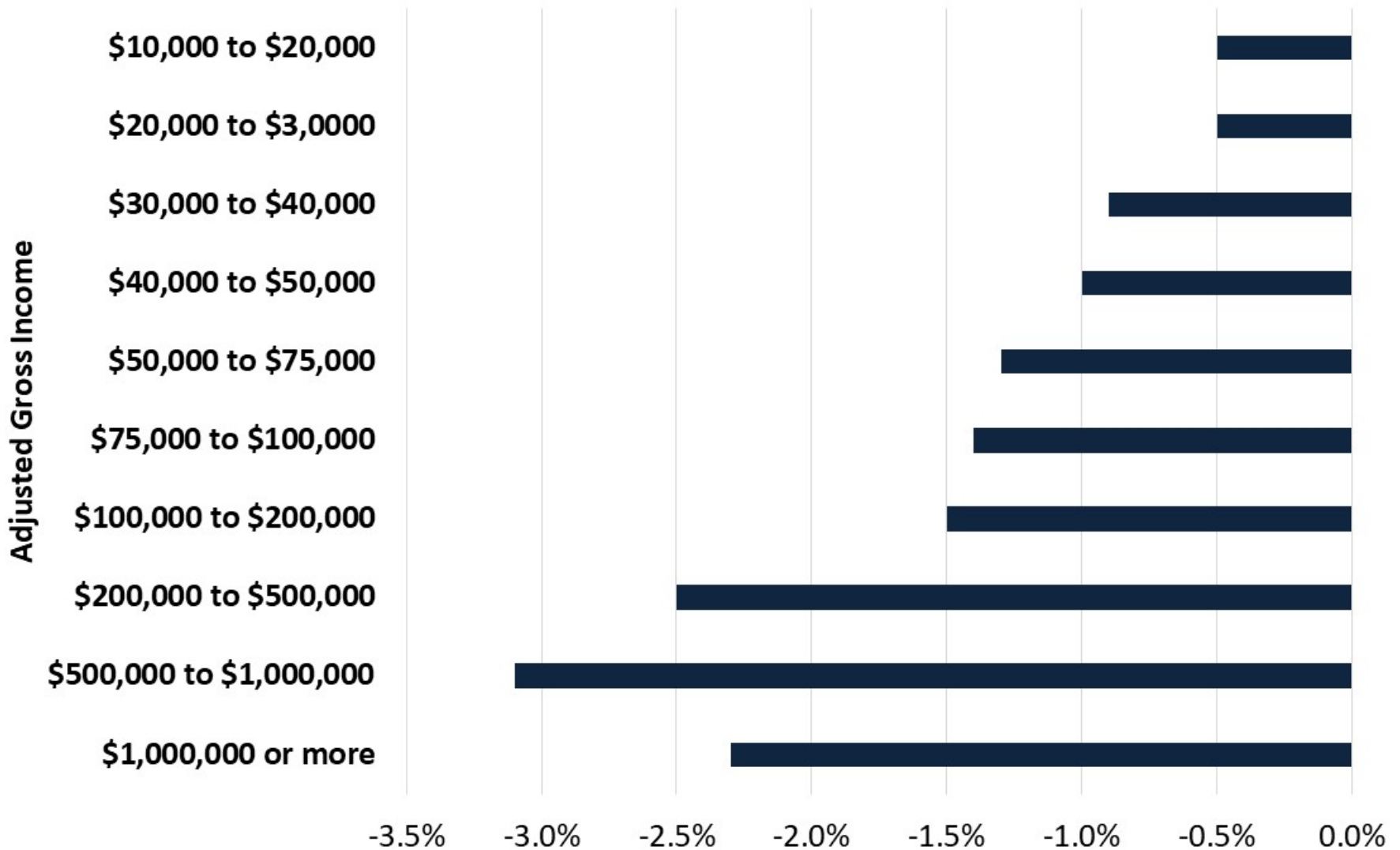
Federal Individual Income Tax: Percent of Total TCJA Tax Cut by AGI Category



Federal Individual Income Tax: Estimated Average Payment as Percent of Income, by AGI Category, Before and After TCJA



Federal Individual Income Tax: Change in Estimated Average Payment as Percent of Income, by AGI Category, Due to TCJA

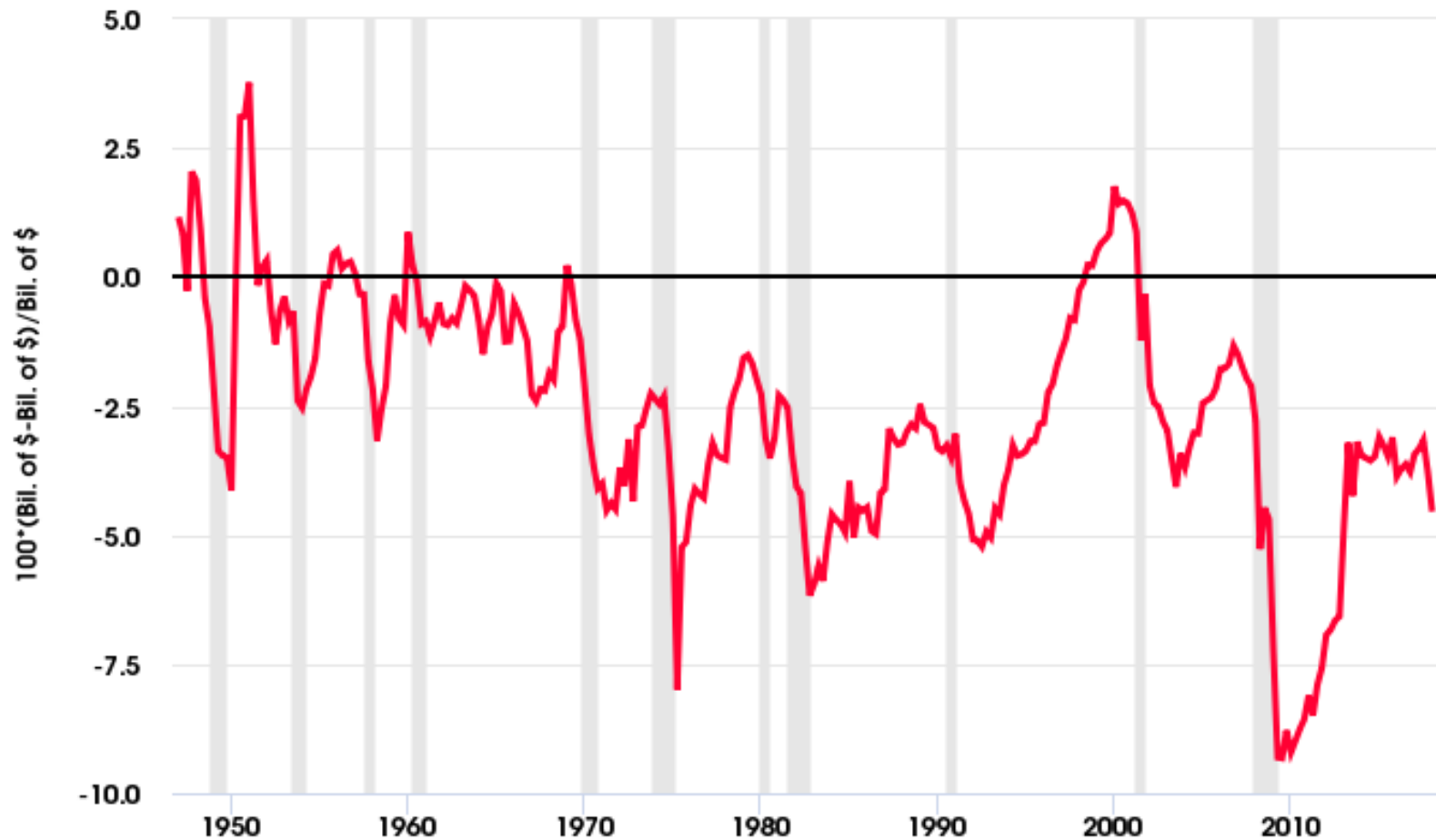


Budget Effects

Federal Budget Balance, Percent of GDP

FRED 

— $100 \cdot (\text{Federal Government Current Receipts} - \text{Federal Government: Current Expenditures}) / \text{Gross Domestic Product}$



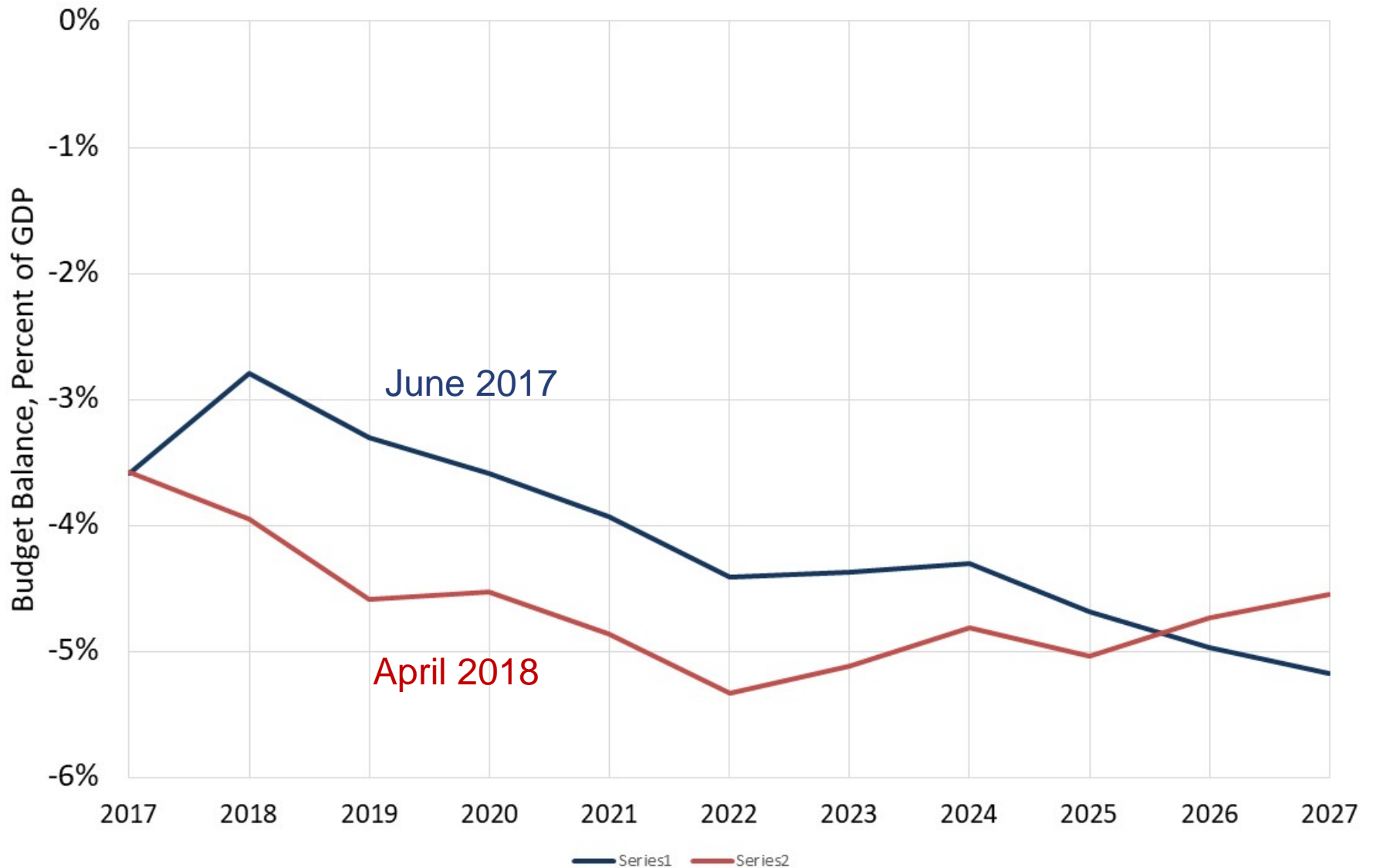
Source: U.S. Bureau of Economic Analysis

TCJA Effects on Federal Budget

Joint Committee on Taxation, U.S. Congress

	2019	2018-27
Conventional Estimate	-280	-1,456
Macroeconomic Effects	34	385
Net Total	-246	-1,071

Congressional Budget Office, Projections of Federal Budget Balance, June 2017 and April 2018



Demand-Side and Supply-Side Effects

Demand-Side vs. Supply-Side

▶ Demand-Side

- The tax cuts add to spending. People and businesses increase their spending.
- Since the economy is near capacity, with available resources in use, it will be difficult to increase production to meet spending increases.

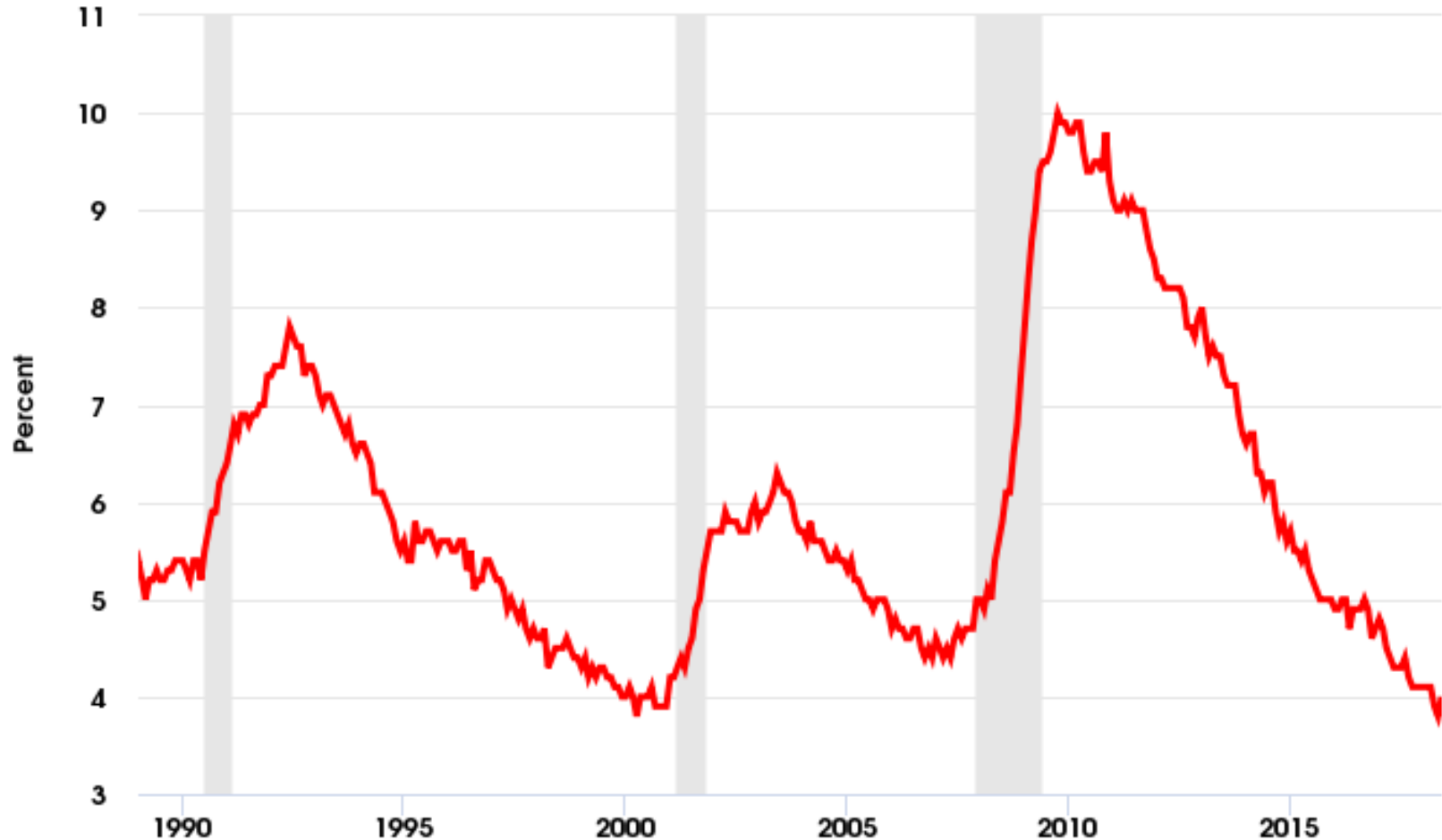
▶ Supply-Side

- The tax cuts increase incentives to work and invest. More people will join the labor force.
- Businesses will increase investment, adding to plant and equipment and improving productivity.
- Capacity should increase faster.

Demand-Side Effects

Unemployment Rate

FRED  — Civilian Unemployment Rate

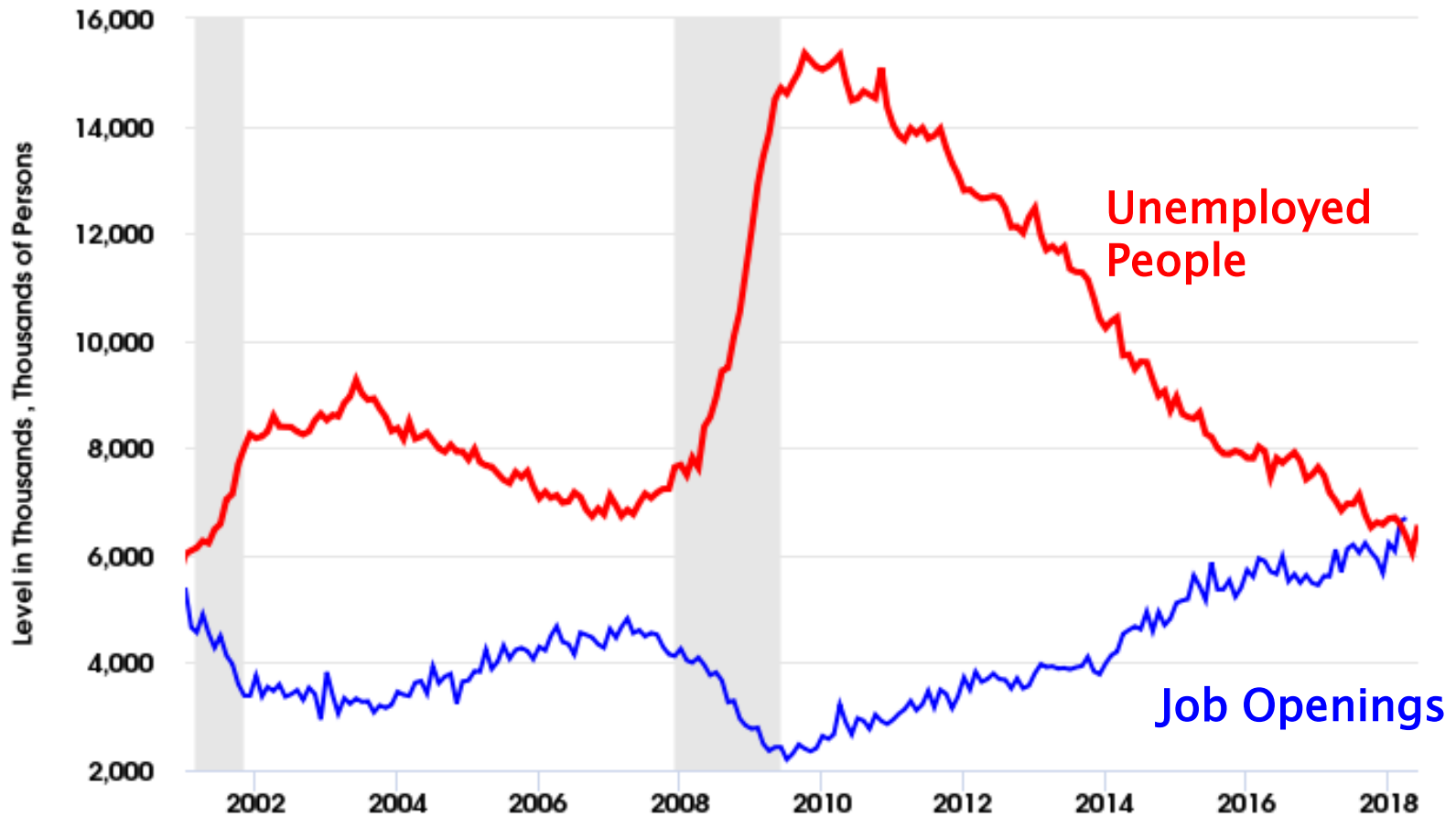


Source: U.S. Bureau of Labor Statistics

Unemployment and Job Openings

FRED

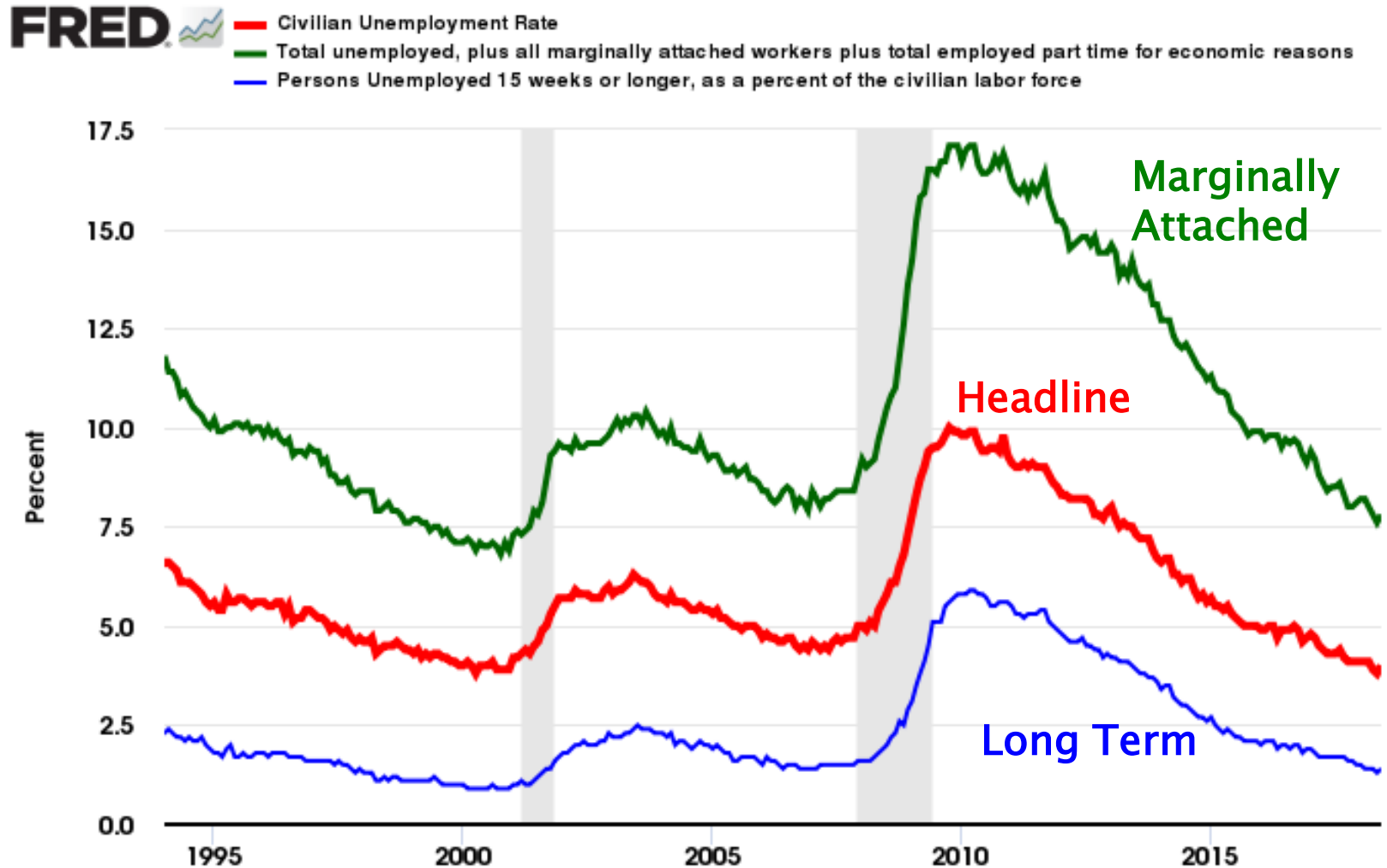
— Job Openings: Total Nonfarm
— Unemployment Level



Source: U.S. Bureau of Labor Statistics

Unemployment Rates

Headline, Marginally Attached and Long Term



Source: U.S. Bureau of Labor Statistics

Employment–Population Ratio Ages 25–54

FRED 

— Employment Population Ratio: 25 - 54 years

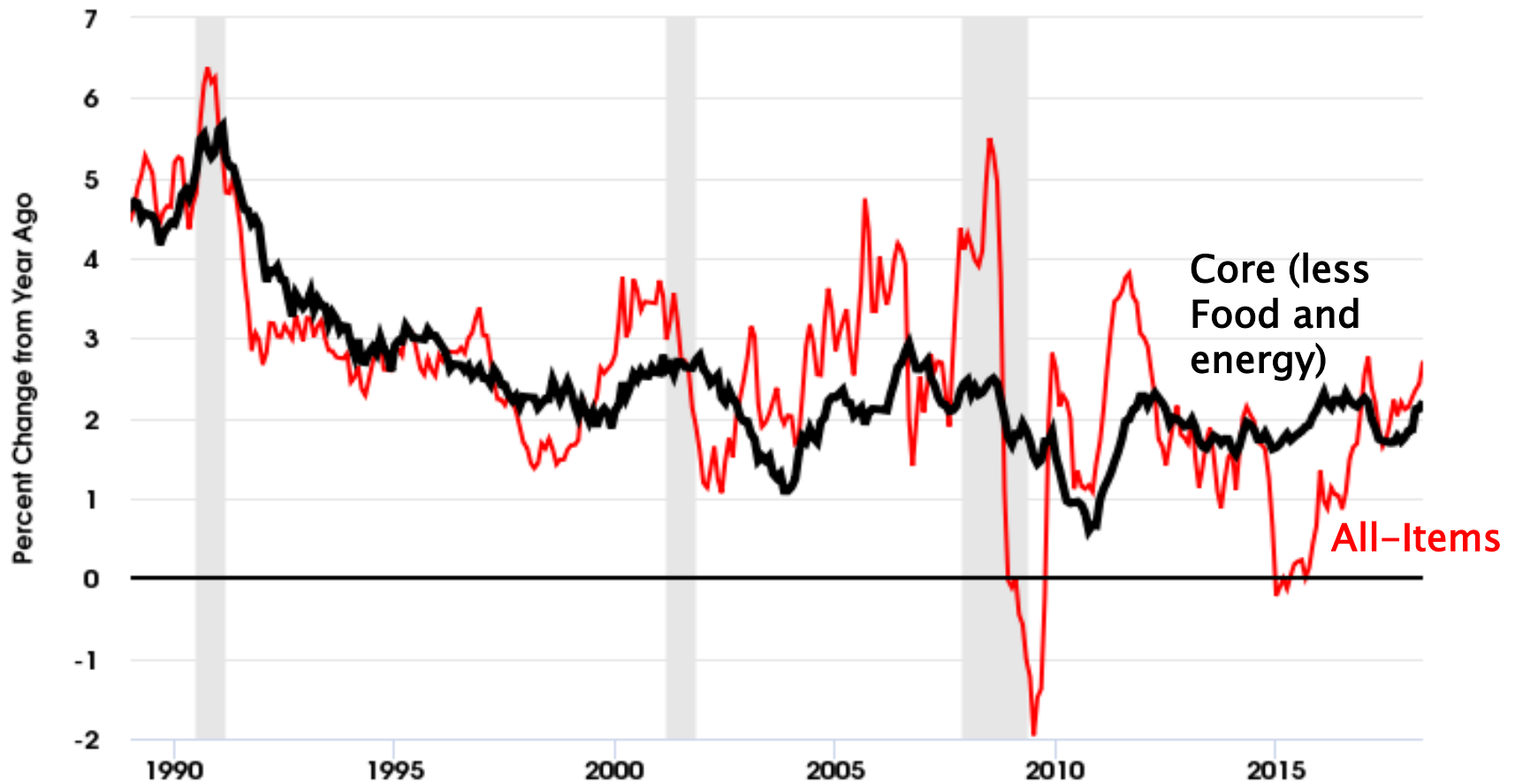


Source: U.S. Bureau of Labor Statistics

Inflation: All-Items and Core

FRED 

- Consumer Price Index for All Urban Consumers: All Items
- Consumer Price Index for All Urban Consumers: All Items Less Food and Energy

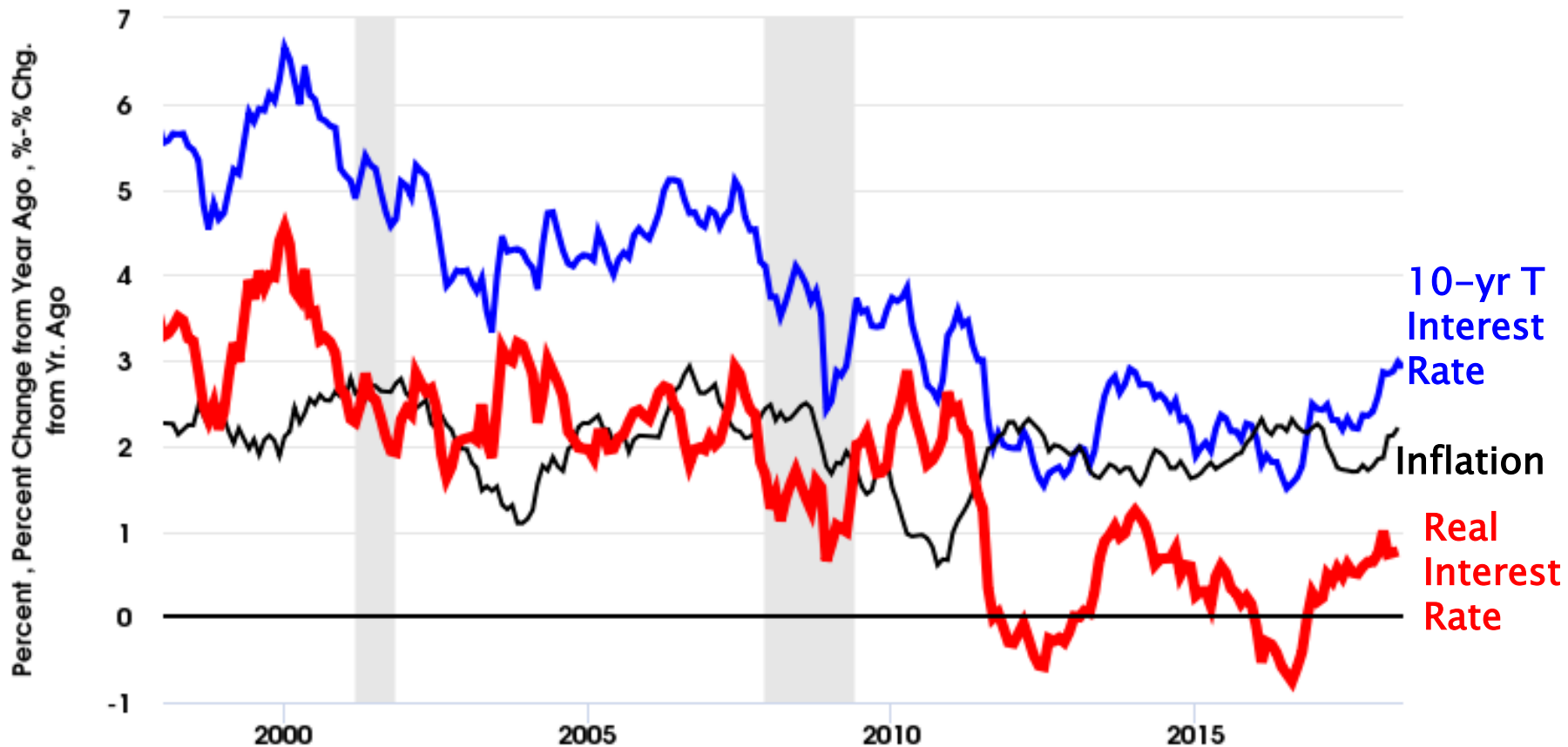


Source: U.S. Bureau of Labor Statistics

Real 10-Year Treasury Interest Rate

FRED 

-  10-Year Treasury Constant Maturity Rate
-  Consumer Price Index for All Urban Consumers: All Items Less Food and Energy
-  10-Year Treasury Constant Maturity Rate-Consumer Price Index for All Urban Consumers: All Items Less Food and Energy



Sources: BLS, Board of Governors

CBO Projections

June 2017 and April 2018

Unemployment Rate

	June 2017	April 2018	Change
2017		4.4%	
2018	4.2%	3.8%	-0.4%
2019	4.4%	3.3%	-1.1%
2020	4.7%	3.6%	-1.2%
2021	4.9%	4.1%	-0.8%
2022	5.0%	4.6%	-0.4%
2023	4.9%	4.7%	-0.3%
2024	4.9%	4.8%	-0.2%
2025	4.9%	4.8%	-0.1%
2026	4.9%	4.9%	-0.1%
2027	4.9%	4.8%	-0.1%

CBO Projections

June 2017 and April 2018

Core Inflation Rate

	June 2017	April 2018	Change
2017		1.8%	
2018	2.3%	2.1%	-0.1%
2019	2.3%	2.4%	0.1%
2020	2.4%	2.6%	0.2%
2021	2.4%	2.6%	0.3%
2022	2.3%	2.5%	0.2%
2023	2.3%	2.4%	0.1%
2024	2.4%	2.4%	0.0%
2025	2.4%	2.4%	0.0%
2026	2.4%	2.3%	0.0%
2027	2.4%	2.3%	0.0%

CBO Projections

June 2017 and April 2018

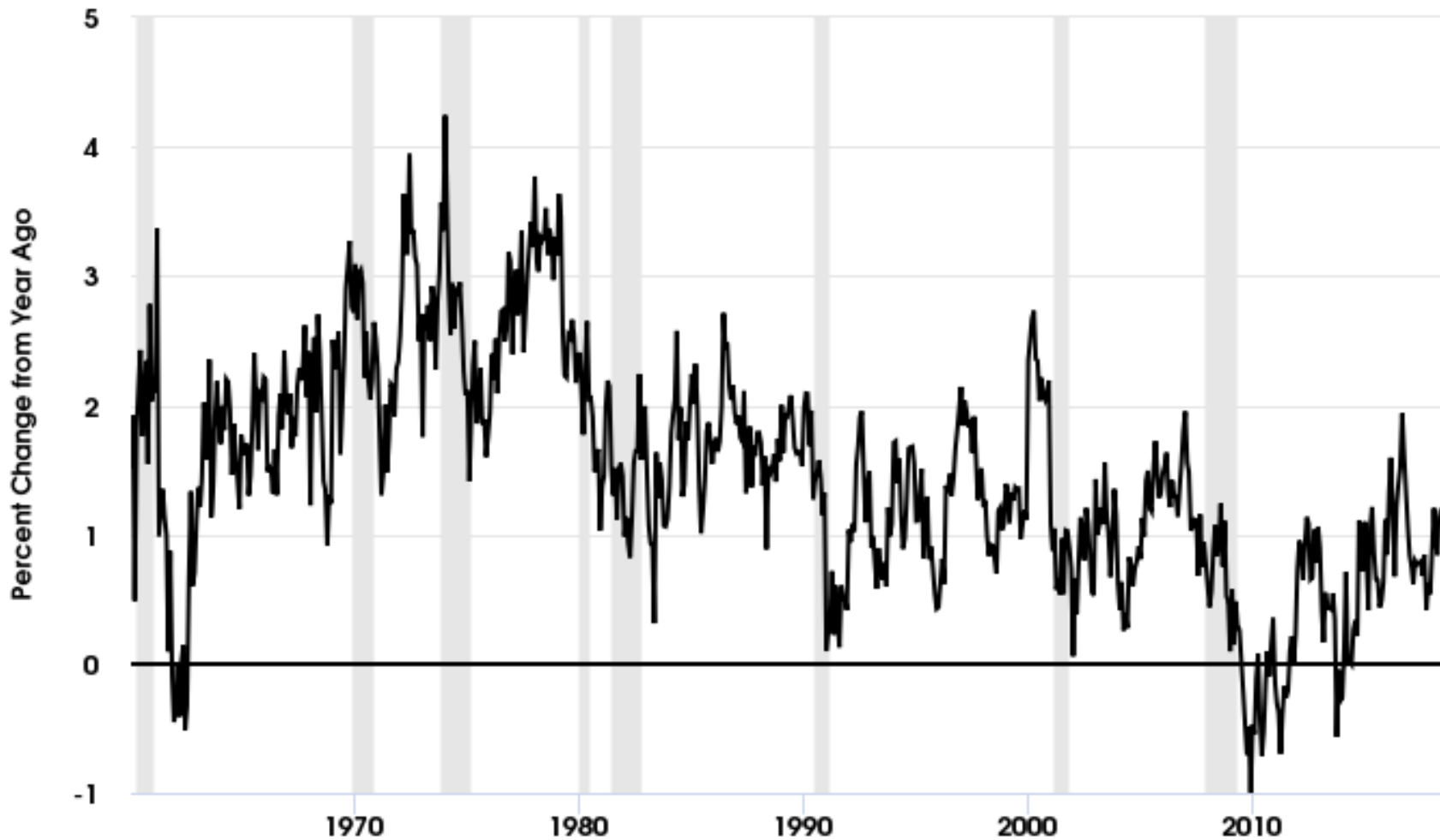
Treasury 10-Year Interest Rate

	June 2017	April 2018	Change
2017		2.3%	
2018	2.8%	3.0%	0.2%
2019	3.2%	3.7%	0.4%
2020	3.5%	4.1%	0.6%
2021	3.6%	4.2%	0.6%
2022	3.7%	4.0%	0.4%
2023	3.7%	3.8%	0.1%
2024	3.7%	3.7%	0.0%
2025	3.7%	3.7%	0.0%
2026	3.7%	3.7%	0.0%
2027	3.7%	3.7%	0.0%

Supply-Side Effects

Labor Force Growth

FRED  — Civilian Labor Force



Source: U.S. Bureau of Labor Statistics


Labor Force Growth

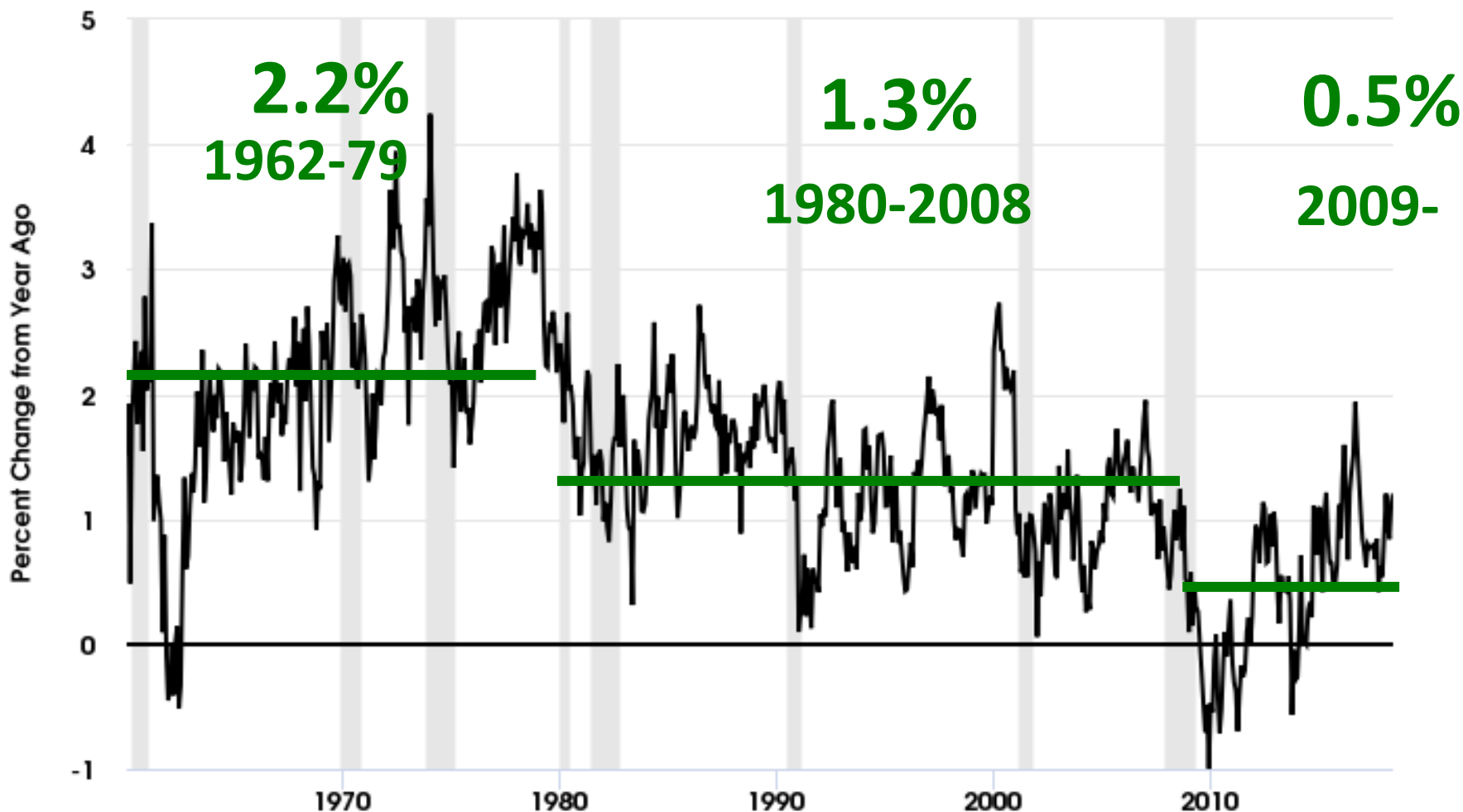
Baby Boom: 1946-64

1946+16 = 1962

1964+16 = 1980

1946+63 = 2009

FRED  — Civilian Labor Force

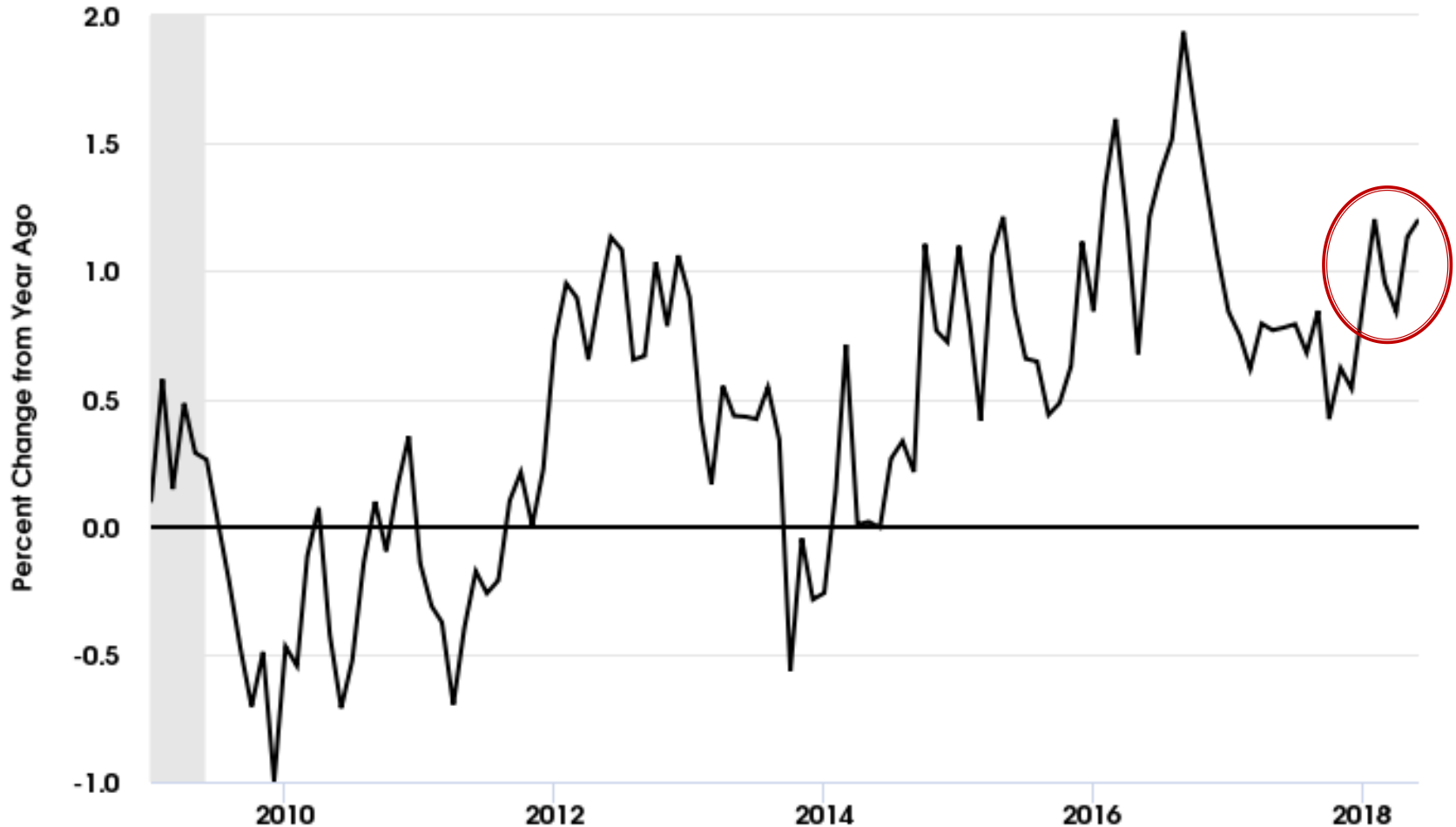


Source: U.S. Bureau of Labor Statistics

Labor Force Growth

FRED

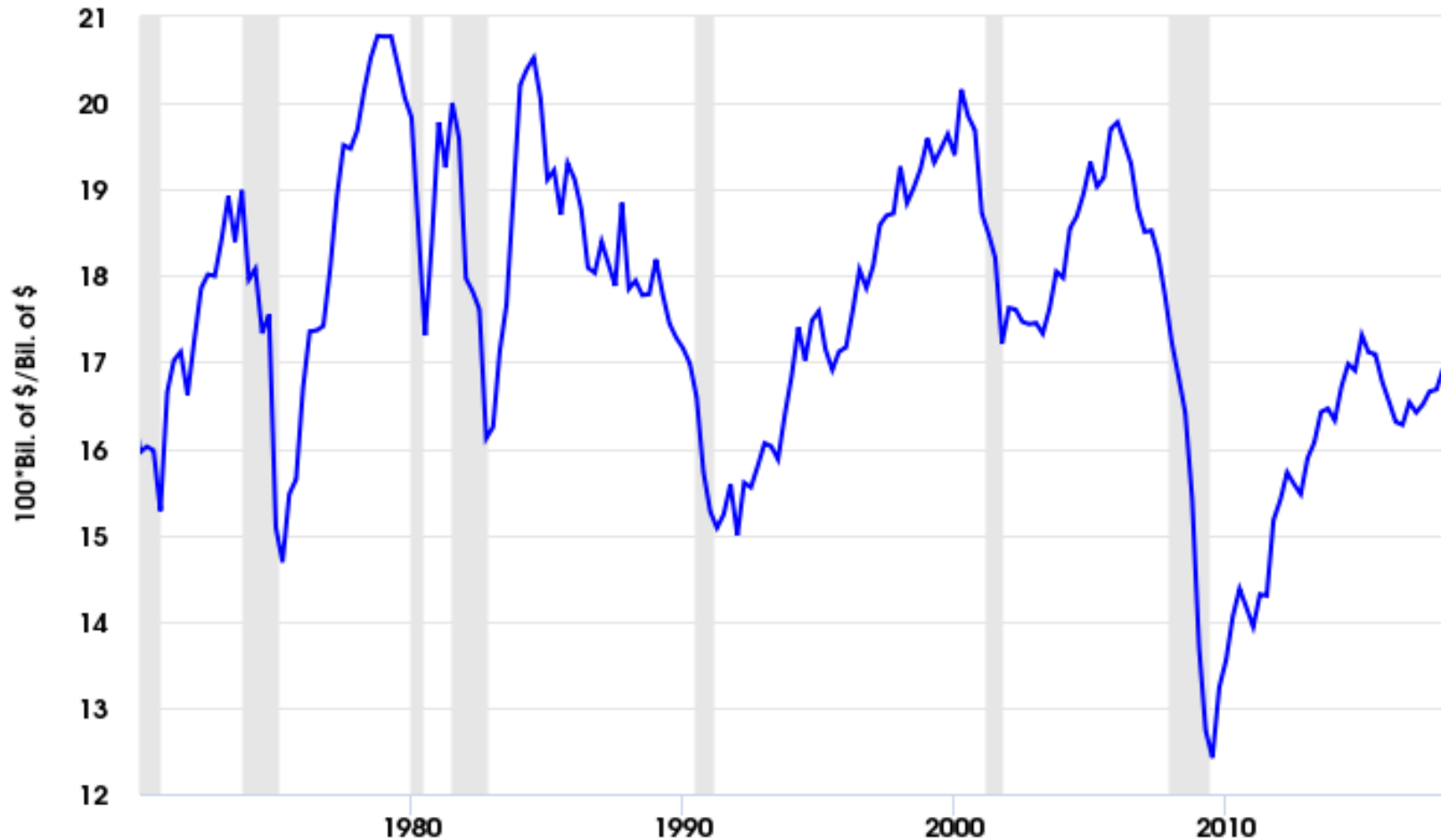
— Civilian Labor Force



Source: U.S. Bureau of Labor Statistics

Investment Percent of GDP

FRED  — 100*Gross Private Domestic Investment/Gross Domestic Product

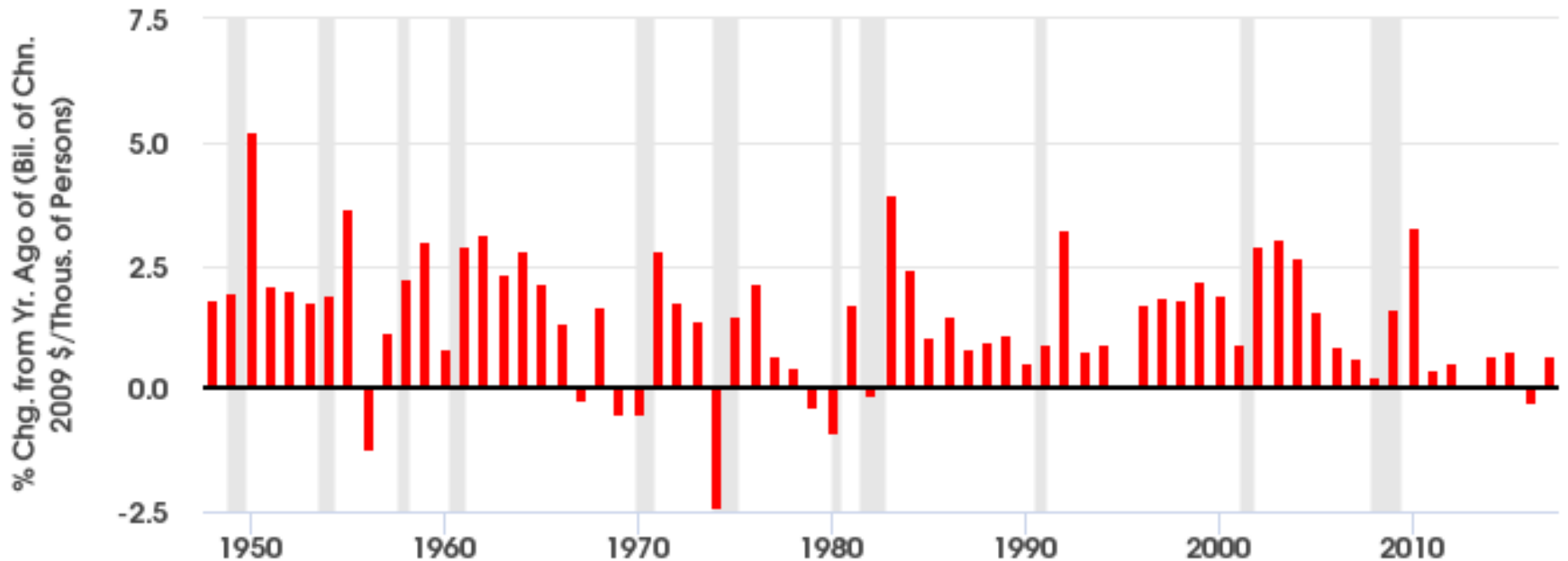


Source: U.S. Bureau of Economic Analysis

Productivity Growth: Percent Change, Real GDP per Employee

FRED 

● Real Gross Domestic Product/All Employees: Total Nonfarm Payrolls

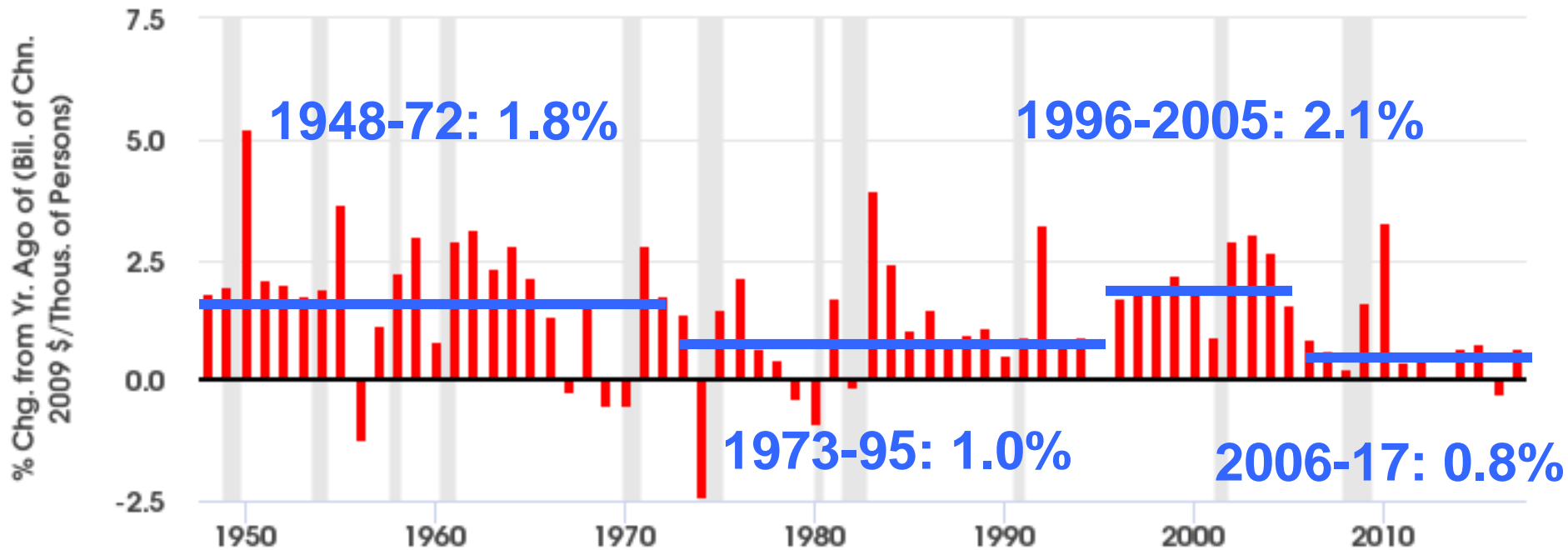


Sources: BEA, BLS

Productivity Growth: Percent Change, Real GDP per Employee

FRED 

● Real Gross Domestic Product/All Employees: Total Nonfarm Payrolls



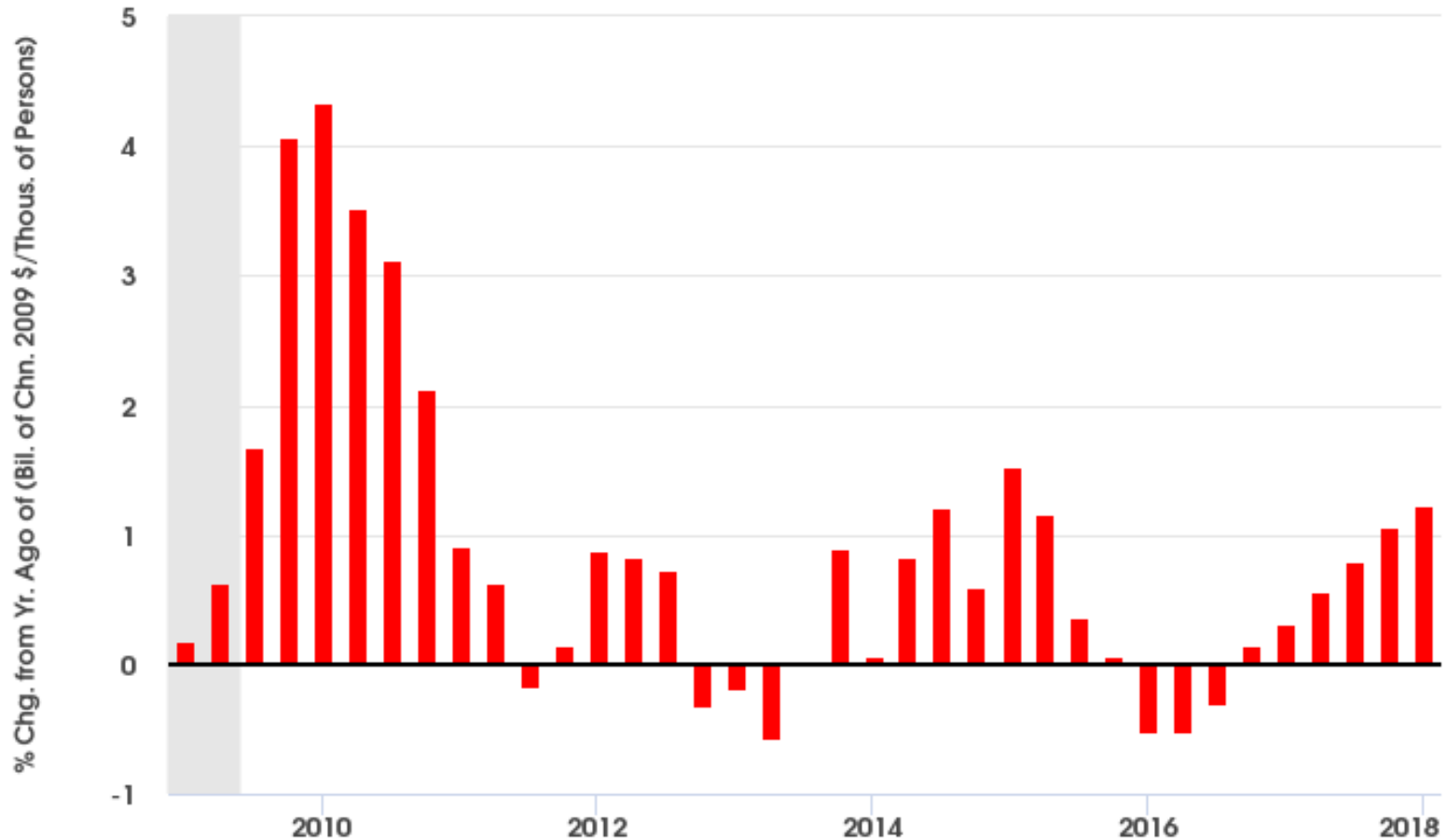
Sources: BEA, BLS

Productivity Growth: Real GDP per Employee, Percent change from year ago, quarterly

FRED



● Real Gross Domestic Product/All Employees: Total Nonfarm Payrolls



Sources: BEA, BLS

CBO Projections

June 2017 and April 2018

Labor Force Participation

	June 2017	April 2018	Change
2017	62.9%	62.8%	-0.1%
2018	62.8%	62.8%	-0.1%
2019	62.6%	62.8%	0.2%
2020	62.4%	62.8%	0.4%
2021	62.2%	62.7%	0.5%
2022	62.0%	62.5%	0.6%
2023	61.7%	62.3%	0.6%
2024	61.5%	62.0%	0.5%
2025	61.3%	61.7%	0.4%
2026	61.1%	61.5%	0.3%
2027	61.0%	61.2%	0.2%

CBO Projections

June 2017 and April 2018

Investment, Percent of GDP

	June 2017	April 2018	Change
2017	16.8%	16.6%	-0.3%
2018	17.1%	17.2%	0.0%
2019	17.2%	17.4%	0.2%
2020	17.2%	17.3%	0.1%
2021	17.2%	17.2%	-0.1%
2022	17.2%	17.0%	-0.1%
2023	17.1%	17.1%	-0.1%
2024	17.1%	17.0%	0.0%
2025	17.0%	17.0%	0.0%
2026	16.9%	16.9%	0.0%
2027	16.8%	16.9%	0.0%

CBO Projections

June 2017 and April 2018

Growth in Productivity (GDP/Employment)

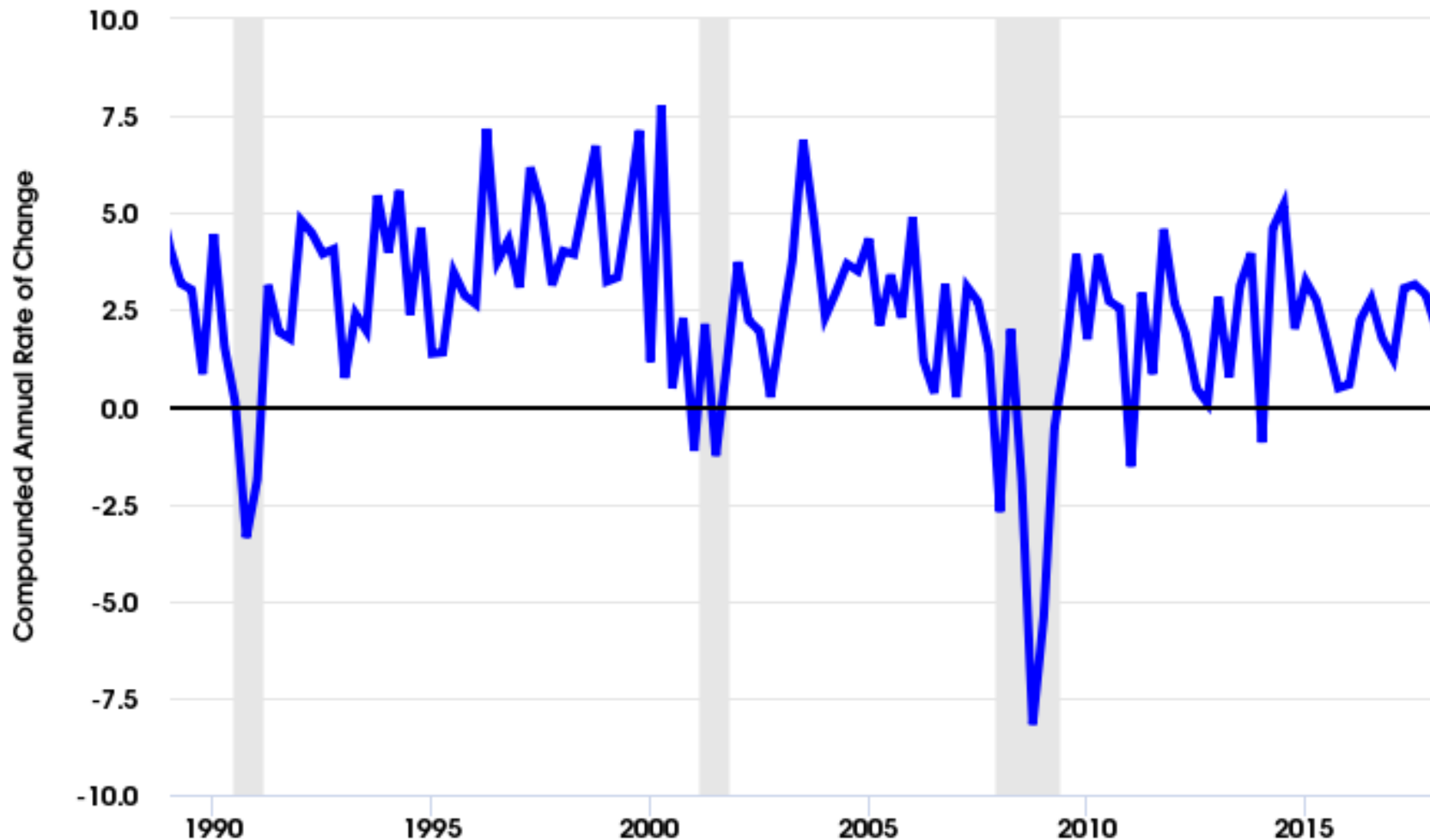
	June 2017	April 2018	Change
2017	0.6%	0.6%	
2018	1.1%	1.4%	0.3%
2019	1.2%	1.2%	0.0%
2020	1.3%	1.1%	-0.2%
2021	1.5%	1.3%	-0.2%
2022	1.4%	1.4%	-0.1%
2023	1.4%	1.3%	-0.1%
2024	1.4%	1.3%	0.0%
2025	1.4%	1.3%	0.0%
2026	1.3%	1.2%	-0.1%
2027	1.3%	1.3%	0.0%

Summary

Real GDP Growth, Quarterly



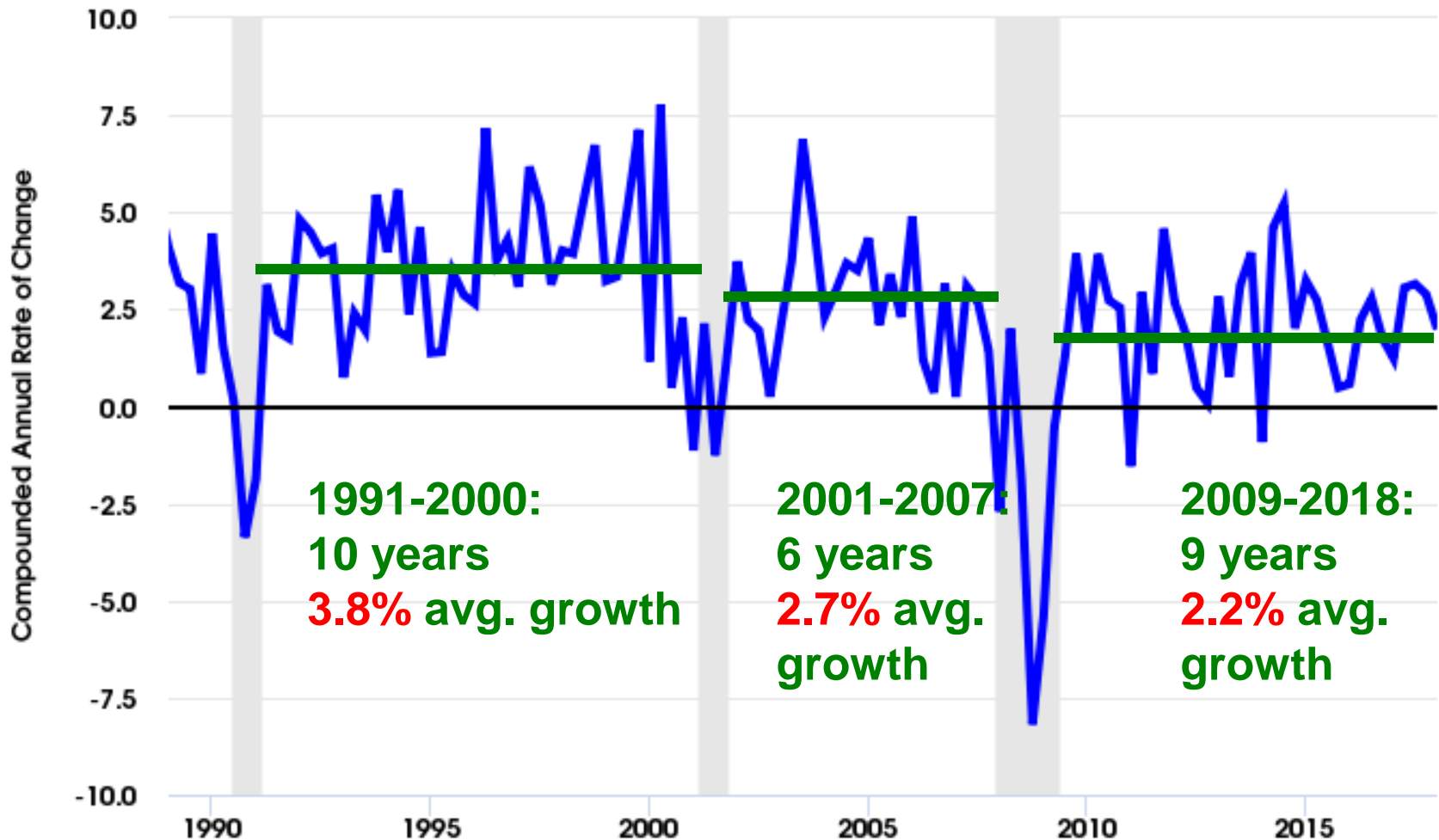
Real Gross Domestic Product



Source: U.S. Bureau of Economic Analysis

Real GDP Growth, Quarterly

FRED  — Real Gross Domestic Product



Source: U.S. Bureau of Economic Analysis

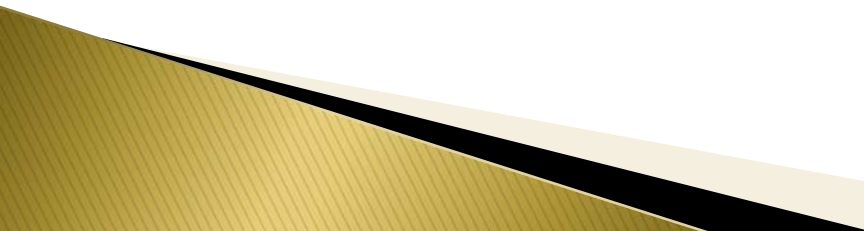
CBO Projections

June 2017 and April 2018

Real GDP Growth

	June 2017	April 2018	Change
2017		2.3%	
2018	2.2%	3.0%	0.9%
2019	1.7%	2.9%	1.2%
2020	1.4%	2.0%	0.5%
2021	1.7%	1.5%	-0.2%
2022	1.9%	1.5%	-0.4%
2023	1.9%	1.6%	-0.3%
2024	1.9%	1.7%	-0.2%
2025	1.9%	1.8%	-0.1%
2026	1.9%	1.7%	-0.2%
2027	1.9%	1.8%	-0.1%

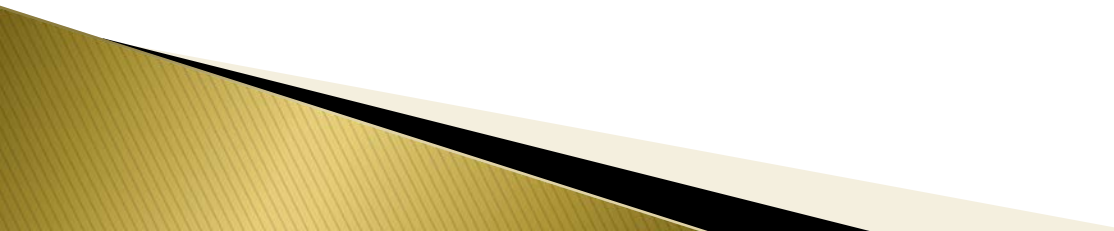
Effects of the Tax Cuts and Jobs Act

- ▶ TCJA is a substantial tax cut for individuals and businesses, the most significant Federal tax reform since 1986.
 - ▶ Many provisions expire after 2025
 - ▶ All taxpayers get tax cuts; Federal taxes become less progressive.
 - ▶ The Federal budget deficit will increase more as a share of GDP because of the tax cuts.
- 

Effects of the Tax Cuts and Jobs Act

- ▶ On the demand side:
 - Spending will increase.
 - Resources will be used more intensively; unemployment will be lower
 - Inflation will be slightly higher; business costs rise as they bid more for scarce resources
 - Interest rates will be higher
 - Greater business demand for loanable funds
 - Bigger Federal budget deficits
 - Higher expected inflation
 - Federal Reserve raises rates more

Effects of the Tax Cuts and Jobs Act

- ▶ On the supply side:
 - Labor force participation will increase, due to greater opportunities and higher pay
 - Investment spending will be little affected, as increased rates of return are off-set by higher interest rates
 - Productivity will not grow much faster
- 

Effects of the Tax Cuts and Jobs Act

- ▶ Real GDP will grow faster in 2018, 2019 and 2020
 - Mainly because of reduced unemployment, meaning that existing resources will be used more intensively
- ▶ Long-term capacity growth, and long-term GDP growth, will be little changed
 - Labor force grows faster, productivity does not

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