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Is the Trump tax cut good or bad for the middle class?

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"It's a debt-inducing, make-rich-people-richer tax bill that in the long run is not going to be helpful to the vast majority of people in my state that are sitting around the kitchen table trying to figure out how [to] come out even at the end of the month."
— Sen. Claire McCaskill (D-Mo.), quoted in HuffPost, Jan. 9, 2018

McCaskill made this statement as she played down the announcements made by various companies that they would give bonuses to workers because of corporate tax savings in the tax law signed by President Trump. At last count, about 15,000 employees in Missouri will receive one-time bonuses of about $1,000 or $1,500 each, according to various corporate announcements. She echoed other Democrats in saying that such bonuses were only a one-shot deal, and that higher wages are better. (Some companies have also said they would increase minimum wages.)

We thought this would be a good opportunity to demonstrate to readers whom the tax bill can be framed as good or bad for, depending on the perspective one uses. This tour through these charts and data will be a bit wonky, but we hope it will help illustrate why both sides pick and choose the data that helps make their case.

The facts

The debate over the tax cut has centered around a key question: Is it mostly for the wealthy or the middle class?

In some ways, the answer is obvious. As we have explained before, any broad-based tax cut is going to mostly benefit the wealthy because they already pay a large share of income taxes. According to Treasury Department data, the top 10 percent of income earners in 2016 paid 80 percent of individual income taxes. The top 20 percent paid 94.8 percent. The top 0.1 percent paid an astonishing 24.5 percent of taxes.

Since there are far more people in the middle class, there are fewer dollars to share per taxpayer when the savings from a tax cut are divvied up. The nonpartisan Joint Committee of Taxation estimates that 572,000 taxpayers will file returns with an income category of more than $1 million, compared with more than 27 million in the $50,000 to $75,000 category and almost 70 million in the under $50,000 category. (Not to get too technical but these income categories generally are higher than a person's stated salary because the JCT uses an "income concept" that includes employer contributions to health plans and Social Security as part of income, among other items.)

If the wealthy end up with more money because they pay more in taxes, that's not necessarily a fair way to look at tax legislation. It's also important to look at the percentage change in a person's tax situation.

Different approaches

The Joint Tax Committee and the Tax Policy Center both have offered analysis of the impact of the tax cuts in the first year after enactment. We offer two examples below, which show the impact either by income or quintile category. In both cases, they show a benefit for the middle class, especially in terms of a percentage change in taxes. But the money for the middle class pales in comparison to the tax benefits for the wealthy.

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)	
							Present Law	Proposal
	Millions	Percent	Billions	Percent	Billions	Percent	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
Detail may not add to total due to rounding.

TABLE 4
Tax Units with a Tax Change from Major Provisions of the Conference Agreement for the Tax Cuts and Jobs Act
By expanded cash income percentile, 2018[a]

Expanded cash income percentile[b]	Tax units with tax cut or increase[c]				Average federal tax change	
	With tax cut		With tax increase			
	Percent of tax units	Average tax cut	Percent of tax units	Average tax increase	All Provisions	Major Provisions included here
Lowest quintile	53.9	-130	1.2	810	-60	-60
Second quintile	86.8	-480	4.6	740	-380	-380
Middle quintile	91.3	-1,090	7.3	910	-930	-930
Fourth quintile	92.5	-2,070	7.3	1,360	-1,810	-1,810
Top quintile	93.7	-8,510	6.2	8,800	-7,640	-7,430
All	80.4	-2,140	4.8	2,770	-1,610	-1,590
Addendum						
80-90	92.3	-3,370	7.6	1,800	-2,970	-2,970
90-95	94.4	-4,910	5.5	1,890	-4,550	-4,530
95-99	97.3	-13,890	2.7	8,260	-13,480	-13,280
Top 1 percent	90.7	-61,940	9.3	93,910	-51,140	-47,550
Top 0.1 percent	83.7	-285,490	16.2	387,610	-193,380	-176,070

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

Chris Edwards of the libertarian Cato Institute has argued that both JCT and TPC present a misleading picture because they include payroll taxes — and the bill left payroll taxes untouched. He recalculated the JCT and TPC estimates to exclude payroll taxes. When you look at it this way, it appears as if the largest share of the tax changes goes to the middle class.

Individual and Corporate Income Taxes, 2019

JCT Income Group	Estimated Current Taxes	Final Bill, Tax Change	
	$Billions	$Billions	Percent
Less than $10,000	n/a	n/a	n/a
$10,000 to $20,000	n/a	n/a	n/a
$20,000 to $30,000	n/a	n/a	n/a
$30,000 to $40,000	n/a	n/a	n/a
$40,000 to $50,000	$11.9	-$6.7	-56.3%
$50,000 to $75,000	$90.3	-$23.0	-25.5%
$75,000 to $100,000	$123.5	-$22.4	-18.1%
$100,000 to $200,000	$476.4	-$70.4	-14.8%
$200,000 to $500,000	$468.1	-$65.5	-14.0%
$500,000 to $1,000,000	$205.9	-$23.9	-11.6%
$1,000,000 and over	$576.9	-$36.9	-6.4%
Total, All Taxpayers	$1,988.4	-$259.5	-13.1%

GOP Tax Plan Effects in 2018, per TPC Data

Income Quintile	1. Change in Average Tax Rate, % Points	All Federal Taxes		Federal Income/Estate Taxes	
		2. Current Law Average Tax Rate, %	3. % Change in Taxes	4. Current Law Average Tax Rate, %	5. % Change in Taxes
Lowest	-0.4	4.1	-9.8	-4.0	n/a
Second	-1.1	8.7	-12.6	-0.1	n/a
Middle	-1.4	13.8	-10.1	5.0	-28.0
Fourth	-1.6	17.3	-9.2	8.3	-19.3
Top	-2.2	25.5	-8.6	18.9	-11.6
All	-1.8	19.8	-9.1	12.1	-14.9

Notice that in one of his charts, Edwards shows “n/a” for taxpayers with less than $40,000 in income. That’s because households in this income group generally do not pay income taxes — just payroll taxes. And though the $1 million-plus group appears to have the smallest percentage change, it still means that 572,000 people get to share a tax cut of $37 billion, compared to 27 million sharing $23 billion.

William Gale, co-director of TPC, argues that the best way to measure the impact of a tax cut is by examining how a tax affects a household’s after-tax income. He offered this example.

Suppose a person has:

- $1 in income tax
- $10 in other federal taxes, such as Social Security
- $100 in income

Then the tax bill cuts his income tax to zero. The following statements are all factually correct:

- Income tax goes down by $1, so income tax goes down by 100 percent
- Federal tax goes down by $1, so federal tax goes down by 9 percent
- After-income goes up by $1, so after-tax income goes up by 1.12 percent

"The last way is the most relevant way to describe the situation, as it tells you about the person's overall welfare," Gale said. Edwards does not dispute this analysis, if one just wants to look at a person's welfare. But he says his approach makes more sense when examining the "fairness" or "equity" of the policy change — which in this case, he said, ended up making the U.S. tax system more progressive, at least initially.

McCaskill's statement

With this framework in mind, let's look at McCaskill's statement: *"It's a debt-inducing, make-rich-people-richer tax bill that in the long run is not going to be helpful to the vast majority of people in my state that are sitting around the kitchen table trying to figure out how [to] come out even at the end of the month."*

Notice how she slipped in the phrase "in the long run." That terminology is intended to allow her to skip past any possible near-term gains.

Indeed, her staff defended her comment by focusing on her "long run" language. This brings us to an oddity of the tax bill: the individual tax cuts expire over the course of the decade. Republicans did this to keep the whole tax cut — especially the corporate tax cut — in a budget box that allowed only for a $1.5 trillion increase in the federal deficit over 10 years.

The assumption — possibly a big one — is that Congress will vote to extend the tax cuts when they begin to expire, just as most of the George W. Bush tax cuts were extended, with the support of Democrats like McCaskill. Her staff declined to answer a question as to whether she would support extending the tax cuts for individuals in the Trump tax bill.

But the law is the law, and it certainly is within McCaskill's right to focus on the 2027 tax tables produced by JCT and TPC that show the tax cuts shrinking or even disappearing for tens of millions of Americans.

Calendar Year 2027

INCOME CATEGORY (2)	CHANGE IN FEDERAL TAXES (3)		FEDERAL TAXES (3) UNDER PRESENT LAW		FEDERAL TAXES (3) UNDER PROPOSAL		Average Tax Rate (4)	
							Present Law	Proposal
	Millions	Percent	Billions	Percent	Billions	Percent	Percent	Percent
Less than $10,000.........	$383	7.3%	$5.2	0.1%	$5.6	0.1%	4.7%	5.1%
$10,000 to $20,000........	$6,487	(5)	-$3.4	-0.1%	$3.1	0.1%	-0.8%	0.7%
$20,000 to $30,000........	$8,359	26.6%	$31.4	0.7%	$39.7	0.9%	4.1%	5.1%
$30,000 to $40,000........	$4,864	8.2%	$59.4	1.3%	$64.3	1.4%	7.6%	8.3%
$40,000 to $50,000........	$4,317	4.4%	$98.0	2.2%	$102.3	2.3%	11.0%	11.5%
$50,000 to $75,000........	$4,060	1.2%	$352.2	7.9%	$356.3	8.0%	14.5%	14.6%
$75,000 to $100,000......	-$1,037	-0.3%	$380.3	8.6%	$379.3	8.5%	16.3%	16.3%
$100,000 to $200,000.....	-$5,993	-0.5%	$1,302.4	29.3%	$1,296.4	29.1%	20.7%	20.6%
$200,000 to $500,000.....	-$5,890	-0.6%	$1,026.5	23.1%	$1,020.6	22.9%	26.6%	26.4%
$500,000 to $1,000,000..	-$3,099	-0.9%	$345.7	7.8%	$342.6	7.7%	30.8%	30.5%
$1,000,000 and over.......	-$8,495	-1.0%	$848.7	19.1%	$840.2	18.9%	32.1%	31.7%
Total, All Taxpayers......	**$3,958**	**0.1%**	**$4,446.4**	**100.0%**	**$4,450.3**	**100.0%**	**20.5%**	**20.5%**

Source: Joint Committee on Taxation
Detail may not add to total due to rounding.

TABLE 6

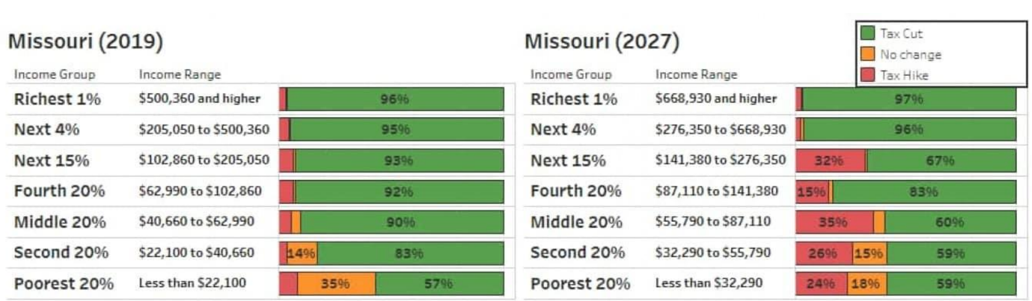
Tax Units with a Tax Change from Major Provisions of the Conference Agreement for the Tax Cuts and Jobs Act

By expanded cash income percentile, 2027[a]

TPC

Expanded cash income percentile[b]	Tax units with tax cut or increase[c]				Average federal tax change	
	With tax cut		With tax increase			
	Percent of tax units	Average tax cut	Percent of tax units	Average tax increase	All Provisions	Major Provisions included here
Lowest quintile	11.1	-120	32.6	90	30	20
Second quintile	23.3	-280	57.7	140	40	20
Middle quintile	24.4	-520	69.7	150	20	-30
Fourth quintile	33.2	-680	64.2	190	-30	-110
Top quintile	46.7	-4,710	52.3	420	-1,260	-1,980
All	25.2	-1,540	53.4	180	-160	-290
Addendum						
80-90	38.1	-1,150	60.5	300	-100	-260
90-95	50.2	-1,320	48.7	450	-190	-450
95-99	58.0	-3,510	41.5	740	-1,010	-1,730
Top 1 percent	75.9	-39,690	23.8	1,250	-20,660	-29,820
Top 0.1 percent	91.9	-206,280	8.0	3,200	-148,260	-189,360

A state-by-state analysis produced by the Institute on Taxation and Economic Policy, a liberal-leaning group, show the vast majority will get some kind of tax cut in Missouri in 2019, but then as much of a third will experience tax increases in 2027. Even more striking is how even the tax cuts shrink. In the middle 20 percent of households, 90 percent would get an average tax cut of $830 in 2019 — compared to 60 percent getting an average tax cut of $100 in 2027, or about a quarter a day. (The ITEP calculation includes the impact of a variety of provisions, including repeal of the health mandate.) Below is a visual representation of the ITEP data produced by MSNBC.



McCaskill's staff also pointed to three factors: 1. The law's shift to a new method for accounting for inflation, which over time could place taxpayers in higher tax brackets. 2. The elimination of the health insurance mandate that could raise insurance premiums. 3. An increase in the federal deficit that could put pressure to cut spending on social welfare programs. These are somewhat fuzzier complaints, with fewer hard data points.

Citing IRS tables for adjusted gross income, McCaskill's staff notes that more than 77 percent in Missouri report income below $75,000. You can't really compare that to the $75,000 figure in the Joint Tax Committee tables because JCT, as we noted, includes a lot of other income. Even in 2027, most people would get a tax cut, though the size of the tax cut could just be cents a day — assuming the individual tax cuts are not extended.

The Pinocchio Test

In a nutshell, here's why the two parties appear to be talking about two different tax bills: Republicans focus on the immediate upfront tax cuts, which go to every income group, even if most of the money goes to the wealthy. Democrats focus on the ugly-looking distributional tables for 2027. Perhaps that's worthy of an asterisk, since Republicans are betting that the tax cuts will be extended — and Democrats such as McCaskill will not say whether they would actually refuse to extend them.

McCaskill, in her comment, focused on the "long run" and also on the impact of people sitting around a kitchen table, which denotes a change in after-tax income. Certainly, under the 2027 scenario, many taxpayers would receive very little. But at the same time, it's probably safe to assume that even a Democratic-led Congress and president in 2025 would seek to avoid tax increases on most Americans, even if they wanted to boost taxes on the wealthy.

So we face a conundrum. McCaskill framed her statement to reflect the findings of scorekeepers of the bill in 2027, even if the law was designed this way for budget reasons, not practical reality. Her staff says that means her statement is accurate. But in doing so, she ignores the more immediate impact of the law, which probably means noticeable tax cuts for her constituents for a number of years. So she's telling only half the story.