



Who Gained from the Tax Cuts?

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The Tax Policy Center (TPC) has released a new analysis of the Tax Cuts and Jobs Act passed in December. The analysis examines the distributional effects of the individual income tax changes separately from the corporate and estate tax changes.

In the abstract of the new report, TPC suggests that high earners got the best deal. They say, “The individual income tax cuts as a percentage of after-tax income will be largest for high-income households.”

In the table, I have presented TPC’s new data for 2018 in a different way. The table shows the average impact for households within each income quintile, as well as the top 1 percent.

Columns 3 and 5 in the table show that lower- and middle-income groups received the largest relative individual income tax cuts from the GOP law. They received the largest percentage cuts in their taxes.

Individual Income Tax Changes in 2018, based on TPC Data

Income Quintile	1. Change in Taxes, % of Income	2. Prior Law, All Federal Taxes, % of Income	3. % Change in Taxes	4. Prior Law, Individual Income Taxes, % of Income	5. % Change in Taxes
Lowest	-0.3	4.1	-7.3	-4.7	n/a
Second	-0.9	8.7	-10.3	-1.1	n/a
Middle	-1.2	13.8	-8.7	3.8	-31.6
Fourth	-1.3	17.3	-7.5	6.8	-19.1
Top	-1.7	25.5	-6.7	16.1	-10.6
All Households	-1.4	19.8	-7.1	10.0	-14.0
Note: Top 1%	-1.5	32.5	-4.6	25.1	-6.0

Let’s go through the columns ...

Column 1 shows that higher-income groups received larger percentage point cuts in their average tax rates (taxes as a percent of income). This is one of the (problematic) measures that TPC presents in its report.

Column 2 shows TPC estimates for total prior law federal taxes as a percent of income. This includes individual income, corporate, payroll, excise, and estate taxes. By “prior law,” I mean taxes that people would have paid in 2018 without the GOP cuts.

Column 3 is column 1 divided by column 2. It is individual income tax cuts as a percent of total prior law taxes. The tax cuts are generally smaller for higher income groups. The top 1 percent received the smallest percentage tax cuts.

Column 4 shows TPC estimates of prior law individual income taxes as a percent of income. The bottom two quintiles are less than zero because, on net, those groups do not pay any income tax. Indeed, they receive refundable credits, or spending subsidies from the government.

Column 5 is column 1 divided by column 4. It is individual income tax cuts as a percent of prior law individual income taxes. In my view, this is the best and fairest measure of the tax cut’s distributional effect.

The bottom two quintiles are “n/a” because those folks, on net, do not pay any individual income taxes. Those two groups will receive larger refundable credits (subsidies) under the GOP law.

Looking at column 5, by far the largest percentage tax cuts go to the middle class. The middle quintile received a huge 31.6 percent income tax cut, which is three times the 10.6 percent cut received by the top quintile. The top 1 percent received a much smaller cut of 6 percent.

These results mean that the GOP’s individual income tax cuts made the income tax system more “progressive,” with higher earners paying a larger share of the overall burden. At the same time, households with lower incomes will receive larger spending subsidies (refundable credits) from the government. That was the wrong direction to go, but it is a reality that is still being underreported in the media.

In the long run, none of this may matter. The individual tax cuts are scheduled to expire after 2025, and lawmakers are running up such huge deficits that there will be pressure to let the tax changes lapse at that time.

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