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Tax Policy to Support Shared Prosperity and Economic Opportunity

Testimony of Samantha Jacoby, Deputy Director of Federal Tax Policy, Center on Budget and Policy Priorities, Before the Joint Economic Committee

Chair Heinrich, Vice Chair Schweikert, members of the Committee, thank you for the opportunity to testify before you this morning at this important hearing. I am Samantha Jacoby, Deputy Director of Federal Tax Policy at the Center on Budget and Policy Priorities, a nonpartisan research and policy institute in Washington, D.C.

In my testimony, I will make three main points:

- First, tax cuts enacted in the last 25 years — namely, the tax cuts enacted in 2001 and 2003 under President Bush (most of which were made permanent in 2012) and those enacted in 2017 under President Trump — gave windfall tax cuts to households in the top 1 percent and large corporations. In particular, the 2017 tax cuts have failed to produce the economic benefits that proponents promised. Research shows that most workers saw "no change in earnings" from the corporate tax rate cut, while top executive salaries increased sharply. Similarly, rigorous research concluded that the tax law's 20 percent pass-through deduction, which was skewed in favor of wealthy business owners, has largely failed to trickle down to workers.
- Second, these large tax cuts have eroded our revenue base, undermined our ability to finance high-value investments, and driven up deficits and debt, increasing future economic risks. Extending the 2017 tax law's expiring individual income and estate tax cuts, which disproportionately benefit high-income households, would cost around $4 trillion over ten years (2026-2035), further raising the debt ratio. Additional revenue efforts are needed and should focus on those who have gained the most over the last four decades.
- Third, the United States underinvests in people, communities, and the building blocks of the economy in ways that shortchange opportunity, exacerbate inequality, widen racial and ethnic inequities, and limit the nation's potential. Instead of doubling down on the failed trickle-down path of the Bush and Trump tax cuts, policymakers should prioritize investments that would yield significant short- and long-term benefits to people, communities, and the economy as a whole.

Trickle-Down Tax Cuts Failed to Deliver Promised Economic Benefits

The tax cuts enacted under President George W. Bush and President Trump disproportionately flowed to households at the top and cost significant federal revenues, adding trillions to the national debt since their enactment.[1] Extending the 2017 tax law's expiring provisions would provide further windfall benefits to high-income households. By shrinking revenues, these tax cuts limit policymakers' ability and willingness to make public investments that pay off in tangible and important ways for individuals, families, communities, and the country as a whole.

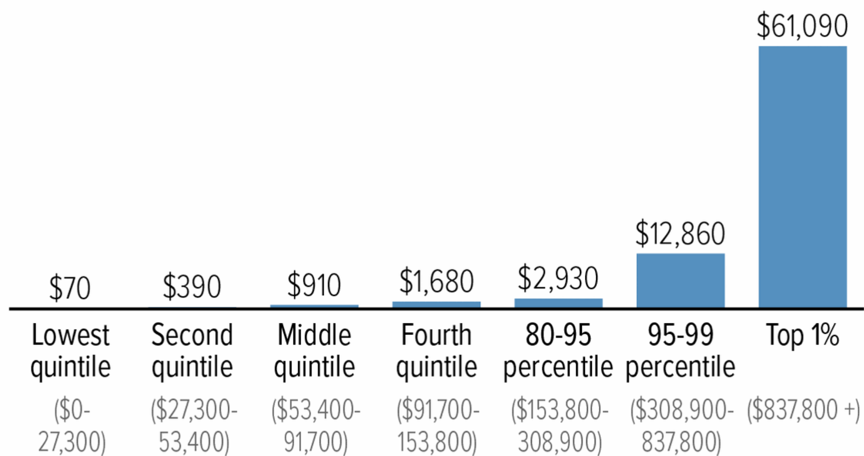
2017 Trump Tax Law Was Skewed to the Top

Like the Bush tax cuts that came before it,[2] the tax cuts enacted in 2017 under President Trump benefited high-income households far more than households with low and moderate incomes. The 2017 tax law will boost the after-tax incomes of households in the top 1 percent by 2.9 percent in 2025, roughly three times the 0.9 percent gain for households in the bottom 60 percent, according to Tax Policy Center estimates.[3] The tax cuts that year will average $61,090 for the top 1 percent — and $252,300 for the top one-tenth of 1 percent. (See Figure 1.) The 2017 tax law also widens racial disparities in after-tax income.[4]

FIGURE 1

Households With Incomes in Top 1 Percent Benefit Most From 2017 Trump Tax Law

Average federal tax change, 2025



Source: Table 2, Distributional Analysis of the Conference Agreement for the Tax Cuts and Jobs Act, Tax Policy Center

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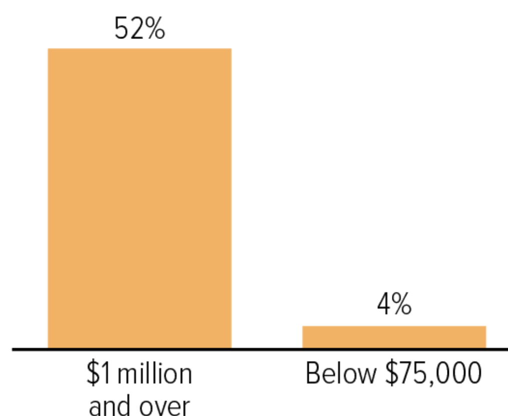
The 2017 law's tilt to the top reflects several costly provisions that primarily benefit the most well-off:

- **Large, permanent corporate tax cuts**. The centerpiece of the 2017 tax law was a deep, permanent cut in the corporate tax rate — from 35 percent to 21 percent — and a shift toward a territorial tax system, which exempts certain foreign income of multinational corporations from U.S. tax.
- **20 percent deduction for pass-through income**. The law adopted a new 20 percent deduction for certain income that owners of pass-through businesses (partnerships, S corporations, and sole proprietorships) report on their individual tax returns, which previously was generally taxed at the same rates as wage and salary income. Over half of its benefits will go to households with more than $1 million in income in 2024, according to JCT.[5] (See Figure 2.)

FIGURE 2

Pass-Through Deduction Heavily Tilted Toward Wealthy

Share of tax benefit by household income, 2024



Note: Household income is expressed in 2017 dollars.
Source: Joint Committee on Taxation

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- **Cutting individual income tax rates for those at the top**. The law cut the top individual income tax rate from 39.6 percent to 37 percent for married couples with over $600,000 in taxable income. The law also dramatically weakened the alternative minimum tax (AMT), which was designed to ensure that higher-income people who take large amounts of deductions and other tax breaks pay at least a minimum level of tax.[6]
- **Doubling the estate tax exemption**. The law doubled the amount that the wealthiest households can pass on tax free to their heirs, from $11 million per couple to $22 million (indexed for inflation).

The law's expiring provisions include some provisions affecting families with low and moderate incomes, but often in offsetting ways. For example, the law lowered statutory tax rates at all income levels, nearly doubled the size of the standard deduction from $13,000 to $24,000 for a married couple in 2018, and doubled the size of the Child Tax Credit for many families.[7] Yet other provisions *raised* taxes on families, such as the elimination of personal exemptions and a new, permanent adjustment for calculating key tax parameters using a slower inflation rate.[8] The end result of these offsetting changes is only modest tax cuts overall for most families, which pale in comparison to the law's large net tax cuts for the wealthy.

Extending the expiring individual income tax and estate tax provisions would benefit high-income households far more than other income groups. Extending the individual income tax and estate tax provisions would boost after-tax incomes for the top 1 percent more than twice as much as for the bottom 60 percent as a percentage of their incomes.[9] In dollar terms, this is a $48,000 annual tax cut

for households in the top 1 percent but only about $500 for those in the bottom 60 percent of households, on average.[10] The expiring tax cuts for high-income households — i.e., those making over roughly $400,000 — account for over 40 percent of the cost of extending all of the expiring 2017 tax cuts.[11] These benefits would be *on top* of the very large benefits wealthy households receive from the law's permanent corporate tax cuts, which are even more heavily tilted toward wealthy people than the expiring individual tax cuts.[12]

Floated Tariffs Would Hit Bottom Half of Earners, Harm the Economy

Moreover, imposing broad-based tariffs as an offset would double down on the 2017 law's regressivity: that is, regressive tax cuts paid for (fully or partially) with highly regressive tax increases that increase burdens on families with low and moderate incomes and pose significant economic risks. For example, President-elect Trump has proposed a broad-based tariff of 10 or 20 percent on most or all imports, with a 60 percent tariff on imports from China.[13] Economists Kimberly Clausing and Mary Lovely estimate that such tariffs would reduce after-tax incomes for households in the bottom 50 percent of the income distribution by 3.5 percent, costing a typical household $1,700 per year.[14] Broad-based tariffs would also create large economic risks from higher prices of imported goods; Clausing and Lovely estimate that these costs could reach 2 percent of GDP.[15] Tariffs also typically provoke retaliation or even trade wars, which can harm domestic businesses.

Trump 2017 Law Failed to Deliver on Its Promises

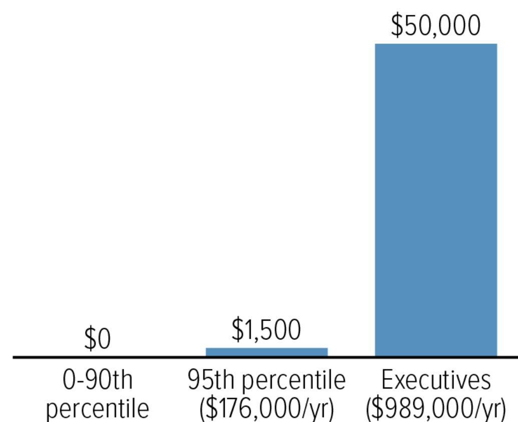
During the 2017 debate, Trump Administration officials and prominent proponents of the corporate tax cut proposal claimed it would yield broadly shared benefits by boosting economic growth. President Trump's Council of Economic Advisers claimed the rate cut would "very conservatively" lead to a $4,000 boost in household income.[16] But research to date has failed to find evidence that the gains from the rate cut trickled down to most workers. For example, a 2019 Congressional Research Service report on the law's economic impact concluded, "There is no indication of a surge in wages in 2018 either compared to history or relative to GDP growth."[17] Similarly, a 2021 Brookings Institution report noted that "The Trump administration claimed that the [2017 law] would provide significant benefits to workers," but Brookings found "no evidence that any wage response close to these claims occurred in 2018 and 2019."[18]

A study by economists from the Joint Committee on Taxation (JCT) and the Federal Reserve Board found that workers below the 90th percentile of their firm's income scale — a group whose incomes were below roughly $114,000 in 2016 — saw "no change in earnings" from the rate cut.[19] Earnings did, however, increase for workers in the top 10 percent and "increase[d] particularly sharply for firm managers and executives."[20] (See Figure 3.)

FIGURE 3

2017 Corporate Rate Cut Didn't Boost Most Workers' Earnings

Change in earnings



Note: Reported gains and salaries are averages for the listed percentiles of the within-firm income distributions in the Kennedy et al. study.

Source: Kennedy et al. 2023

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Another new study by a team of economists from Harvard, Princeton, the University of Chicago, and

the Treasury Department estimates that the corporate tax cuts — including the cut in the corporate tax rate, full expensing for capital investments, and international tax changes — led to nearly dollar-for-dollar revenue losses, even after accounting for increases in economic activity due to those cuts, contrary to proponents' promises that the cuts would pay for themselves.[21] The study does not examine how the corporate rate cut affected earnings for workers with low and moderate incomes. It forecasts that in the long run, the corporate tax cuts could on average increase wages by about $750 per worker, an "order of magnitude below" proponents' predictions;[22] the paper by Kennedy, et al, finds that wage and salary gains accrued only for workers in the top 10 percent of their firm's earnings distribution.

The special 20 percent deduction for pass-through business income is also heavily skewed in favor of high-income people because they receive most pass-through income,[23] they get a much larger share of their income from pass-throughs compared to other income groups,[24] and they receive the largest tax break per dollar of income deducted (because they are in the top income tax brackets). As a result, in 2022 the average pass-through deduction across all taxpayers who claimed the deduction was roughly $10,000, but it was over $1.3 million for the roughly 25,000 taxpayers with incomes above $10 million who claimed the deduction.[25]

Proponents argued the pass-through deduction would boost investment and create jobs.[26] Then-Treasury Secretary Steven Mnuchin, for example, argued the deduction would "be good for the economy; good for growth."[27] But researchers have found no evidence that it provided any significant boost in economic activity and little evidence that it increased investment or broadly benefited non-owner workers.[28] Instead, it has encouraged more tax gaming, encouraging owners to reclassify their income as pass-through income that qualifies for the deduction.[29]

The failure of the regressive Trump tax provisions to trickle down to the vast majority of workers should not be surprising given the track record of past trickle-down tax cuts. For example, studies of an even deeper tax cut for pass-through businesses in Kansas — a full exemption from state taxation for pass-through income — found that "the reform failed to generate real economic responses."[30]

More broadly, in a review of the research on business taxes and labor markets, Stanford University economist Juan Carlos Suarez Serrato concluded, "The empirical evidence, in the end, does not support the belief that broad-based tax cuts consistently deliver on the promise of wage growth."[31]

Decades of Tax Cuts Have Eroded the Nation's Revenue Base

Tax cuts enacted during the Bush and Trump administrations have substantially increased the nation's deficits and debt, increasing economic risks. Policymakers can best manage these risks by raising sufficient revenue both to improve our long-term fiscal outlook and to finance high-value investments that will improve well-being and broaden prosperity.

Tax Cuts Have Weakened Revenues, Increasing Deficits and Debt

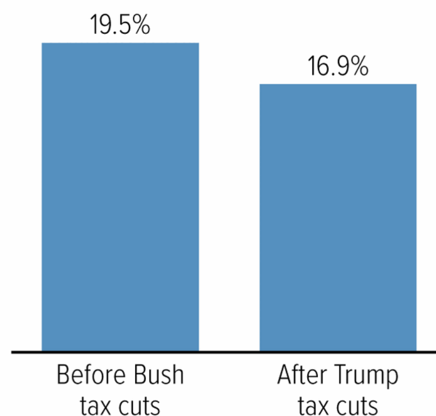
The 2001 and 2003 Bush tax cuts, which reduced individual income tax rates, taxes on capital gains and dividends, and the tax on estates, cost between 1.5 and 2 percent of GDP in 2010.[32] The

2017 law took revenues even lower: CBO estimated in 2018 that the 2017 Trump tax cut will cost $1.9 trillion over ten years, on top of the cost of the Bush tax cuts also in place.[33]

FIGURE 4

Bush and Trump Tax Cuts Severely Eroded Revenue Base

Revenue as a percentage of GDP



Note: "Before Bush Tax Cuts" is an average of 1998-2000 and "After Trump Tax Cuts" is an average of nonpandemic years 2018-2026.

Sources: CBPP calculations using data from the Bureau of Economic Analysis and Treasury Department

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In the three years immediately preceding the first Bush tax cuts, revenues averaged 19.5 percent of GDP, compared to 16.3 percent in the years immediately following the Trump tax cuts, with revenues expected to rise to an annual average of 16.9 percent of GDP from 2018 through 2026 (excluding 2020 and 2021, whose data are skewed by the pandemic), according to CBO. (See Figure 4.) The revenue difference is stark: revenues in 2023, for example, would have been roughly $830 billion higher if they had totaled 19.5 percent of GDP as in the years before the Bush tax cuts.

If the Bush tax cuts and their extensions and the 2017 Trump tax cuts had not been enacted, the deficit would be *less than half* its current size, and the debt ratio (the level of net debt relative to the size of the economy[34]) would be considerably lower as well: 56 percent of GDP in 2024, compared to the actual 91 percent.[35] (See Figure 5.)

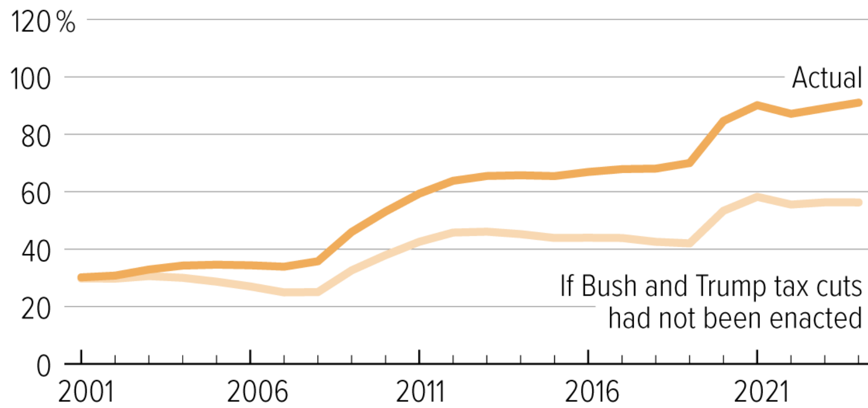
Continued growth in the federal debt ratio poses potential future risks to the economy and fiscal policy. Interest costs as a percent of the economy are higher than they have been since the 1990s and are expected to keep growing. On our current trajectory, both the nation's debt and the cost of servicing it are projected to rise relative to the size of the economy.

The Bush and Trump tax cuts were irresponsible, given our substantial underinvestment in high-value areas, the retirement of baby boomers, rising health care costs, and potential national security threats. And making the 2017 law's individual income and estate tax provisions permanent would cost about $4 trillion from 2026 to 2035, or roughly $350 billion a year beginning in 2027.[36] Making other parts of the law permanent, including extending the "expensing" tax break for business investments or reversing certain business tax increases that were included in the law, which some policymakers have called for, would add around $1 trillion to this cost.[37] This would be a costly mistake.

FIGURE 5

The Debt Is Higher Due to the Bush and Trump Tax Cuts

Debt as a percentage of GDP



Note: Debt refers to "net debt," which is the government's total debt net of its financial assets.
Source: CBPP analysis of data from CBO and JCT

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We Need More Revenues

Some policymakers have used the increase in debt as an excuse to push for deep and harmful budget cuts. But whereas the effects of higher debt levels are uncertain, the effects of such spending cuts would be both clear and damaging. They include higher poverty and the attendant long-term impacts on children and the economy, more people without access to health coverage, and less investment in public infrastructure and medical research (which would also hurt economic growth). Also, in a future recession or disaster, debt concerns could dissuade policymakers from responding with robust measures to bolster the economy and mitigate harm; this failure could prolong the downturn and slow the recovery — and, ironically, harm long-term economic growth.

Instead, additional revenue raising efforts are needed. These revenue increases should be progressive, which is particularly appropriate given that the nation's income in recent decades has grown increasingly unequal. Typical middle-income families with children had almost 50 percent more income after taxes in 2019 than such families had in 1984, after adjusting for inflation. But among the top 1 percent of households, their already disproportionate incomes grew three times as fast over that period: almost 150 percent. Indeed, by 2019, the top 1 percent had annual incomes averaging $1.7 million, almost 20 times that of typical middle-income families with children.[38] Revenue raising efforts should therefore focus on those who have gained the most over the last four decades, while new investments should focus on solving national problems and expanding opportunity.

High-Value Investments That Improve Well-Being and Broaden Opportunity

Instead of doubling down on the flawed trickle-down path of the Bush and Trump tax cuts, there are opportunities to work toward a tax code that raises more needed revenues and supports

investments that make the economy work for everyone. Underinvesting in people, communities, and the building blocks of the U.S. economy increases poverty and hardship, worsens racial and ethnic inequities, shortchanges opportunity, and restrains economic growth.

For example, child poverty is higher in the U.S. than in other similarly wealthy countries due to our weaker support for families with children. Temporary policies enacted during the COVID-19 pandemic produced a historic decline in child poverty and narrowed inequities in poverty rates by race and ethnicity, but those gains disappeared when the measures expired. Investing in children has long-term payoffs for the entire country, and that means our underinvestment is harming the nation's potential.

Investments in this and other areas — including investments to bring down the high cost of housing and child care for families, address climate change, expand access to higher education, improve our infrastructure, and support research and technological advances — can yield significant short- and long-term benefits to people, communities, and the economy as a whole.

Child Tax Credit

An estimated 19 million children in the lowest-income families — or more than 1 in 4 children under age 17 — are ineligible for the full Child Tax Credit under the current credit design. In 2021, the now-expired American Rescue Plan's Child Tax Credit expansion delivered more resources to families with the lowest incomes, especially those with young kids. The Rescue Plan made the full credit available to children in families with low incomes and increased the maximum amount of the credit to $3,600 for children aged 5 and younger and $3,000 for children aged 6 to 17, among other changes.

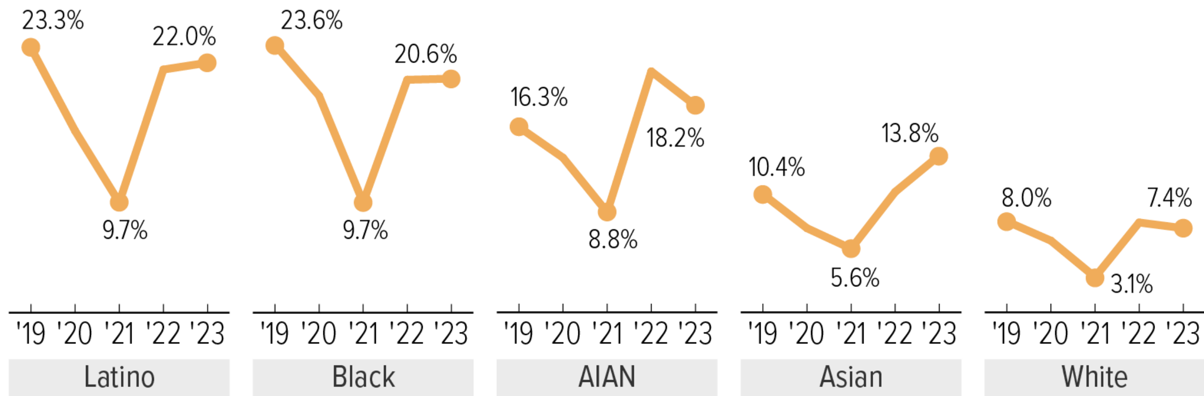
With the temporary expansion, child poverty plummeted; the credit expansion reduced the number of children living below the poverty line by more than a third.[39] While all racial and ethnic groups saw large reductions in poverty, the percentage point reduction in child poverty was largest for Black, Latino, and Native American children. When pandemic assistance ended and the expanded credit expired, the number of children experiencing poverty rose substantially, demonstrating that child poverty is created — and can be alleviated — through policy choices. (See Figure 6.)

In addition to short-run relief from hardship, income support to families with low incomes can bring long-run gains in children's health, education, and earnings, a mounting body of research finds. For instance, a 2022 study found that infants in families who receive more support from child-related tax benefits go on to have higher test scores, high school graduation rates, and earnings into young adulthood.[40] Based on prior literature, the authors also note that even temporary aid to low-income families can help them avoid extreme levels of "short-term stress with long-term ramifications" from threats such as eviction and food insecurity.[41] Other studies of childhood income assistance have similarly found short- and long-term gains for infant health, elementary school performance, positive social behavior, and, years later, greater school completion, improved health status in young adulthood, and higher earnings.[42]

FIGURE 6

End of Pandemic Assistance Largely Reversed Recent Progress in Reducing Child Poverty

Child poverty rates using the Supplemental Poverty Measure (SPM) and 2023 thresholds adjusted for inflation



Note: Groups are in order by 2023 poverty rates. Children are identified as Latino/Hispanic (of any race); Black alone, not Latino; American Indian and Alaska Native (AIAN) alone or in combination with other races, regardless of Latino ethnicity; Asian alone, and white alone, not Latino.

Source: CBPP analysis of U.S. Census Bureau's Current Population Survey

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Policymakers in both parties have shown strong interest in the Child Tax Credit over the last year. Bipartisan tax legislation negotiated by House Ways and Means Chair Jason Smith and Senate Finance Committee Chair Ron Wyden included a modest, but important, expansion and passed the House with a large majority in January 2024. That proposal would have benefited millions of children whose parents or other caregivers do important work for low pay — including 400,000 cashiers, 340,000 maids and housekeeping cleaners, 340,000 personal care and home health aides, 280,000 janitors and building cleaners, 250,000 nursing assistants, and 240,000 waiters and waitresses.[43] About 16 million children would have benefited from the proposal in the first year, and it would have lifted some 500,000 children above the poverty line when fully in effect.[44]

Expanding the Child Tax Credit for children in families with low incomes is a proven solution for lifting millions of children above the poverty line and helping to ensure that all children have the resources they need to thrive.

Workers and Their Families

Millions of people who work in jobs essential for society to function receive little pay and limited or no benefits while often facing uncertain hours and scheduling. Many have trouble affording the basics; they often struggle to afford rent and child care, and lack paid sick or family leave and access to affordable health coverage. Investments in these areas can yield significant short- and long-term benefits to people, communities, and the economy as a whole. Areas in need of additional investment include, for example:

- **EITC for workers not raising children in their homes**. While a powerful wage booster that benefits millions of families with children each year, the federal Earned Income Tax Credit

(EITC) provides extremely limited support to adults aged 25-64 who work low-paying jobs and are not raising children in their household. This year, 6 million workers whose income is either below or just above the poverty line are made poor or even poorer, largely because their EITC is not even enough to offset payroll taxes for Social Security and Medicare as well as any federal income tax liability. These 6 million people provide important services, including as home health aides for elderly people, child care providers, food servers, and cashiers.

The 2021 Rescue Plan temporarily made key expansions in the EITC for adults not raising children in their home, addressing several major flaws in the credit. Specifically, it raised the maximum EITC to roughly $1,500, as well as raising the income limit from about $16,000 to $21,000 for single filers and from about $22,000 to $27,000 for married filers. It also made individuals aged 19 to 24 and 65 and older newly eligible for the credit. Through these changes, the Rescue Plan's "childless EITC" expansion nearly eliminated the policy failure of people being taxed into, or deeper into, poverty.

- **Paid leave**. The United States is alone among wealthy countries in lacking a national paid leave program, relying instead on a patchwork of federal, state, and local policies. The vast majority of employers do not voluntarily offer paid family and medical leave.[45] Paid medical and caregiving leave lets workers care for themselves and loved ones when ill or injured and reduces financial insecurity and stress during those times. Paid leave also benefits businesses by improving worker retention and productivity and boosting labor force participation.[46]

- **Unemployment insurance**. The U.S. lacks not only a comprehensive paid leave program but also an adequate unemployment insurance (UI) system. The current UI system, a federal-state partnership, fails to provide any help to most unemployed workers, often provides benefits that are too low to ensure households can make ends meet when a worker does qualify, and, in some states, fails to provide enough weeks of help to allow workers to find new employment that best matches their skills. For example, the share of unemployed workers receiving any UI benefits has fallen in recent decades from roughly 50 percent to under 30 percent in 2023.

  During the pandemic, the U.S. expanded eligibility and increased benefit levels, providing critical financial protection to workers who lost their jobs. While there were implementation issues and criminal targeting of inadequate systems, expanded jobless benefits kept millions of households afloat. But those expansions ended, and workers who lose their jobs today once again face a severely inadequate UI system.

Investments to Address Climate Risks

The clean energy and clean vehicle sector is a rapidly growing global industry, with 30 percent of global energy being produced from clean, renewable energy sources in 2023.[47] As global energy markets continue this shift toward low- or no-carbon sources, policymakers should take proactive steps to ensure the United States benefits from new sources of jobs and investment instead of ceding ground to global competitors. In 2022, the Inflation Reduction Act (IRA) took an important step forward, creating the largest clean energy investment in U.S. history. More than 70 percent of the IRA's climate investments are in the form of tax credits available through at least 2032. These credits build on the success of long-standing clean energy credits that have spurred tremendous growth in the U.S. renewable energy industry.[48] The IRA expanded the credits to include new and innovative energy generation technologies and advanced manufacturing facilities and made the

credits available to more types of entities, including state and local governments and public utilities, which previously could not directly benefit from clean energy tax credits.

For example, the IRA added new section 48C in the tax code, which allows the Treasury Department, in consultation with the Department of Energy, to award $10 billion in tax credits for advanced energy projects approaching commercial viability. Tax credit recipients under section 48C include, for example, a manufacturing facility in Chester, Virginia, that will produce electrolyzers, which are critical for producing clean hydrogen; an electric vehicle component production facility in Richmond Hill, Georgia; and an advanced transmission conductor production facility in Williamsport, Pennsylvania.[49]

In the two years following the enactment of the IRA, companies announced $265 billion in new clean energy facilities across the country,[50] bringing jobs and economic opportunities to areas receiving clean energy investments, especially if local hiring and training are a focus of the project. The IRA advances fair pay and worker development, respectively, by requiring projects to pay prevailing wages and to use a registered apprenticeship program for project construction.[51] Research suggests that jobs in the solar and wind industries, for example, pay about 21 percent more than average wages and can often be obtained without a college degree.[52]

Early data suggest that the IRA is helping to bring economic opportunities to areas of the country facing underinvestment and hardship. Three-quarters of private sector clean energy investments since the IRA's passage have been made in areas with household incomes below area medians, and clean energy investment has doubled in disadvantaged areas traditionally associated with the fossil fuel sector (known as "energy communities"), which are predominantly rural communities.[53]

Going forward, these credits should be protected to avoid damaging nascent industries by injecting market uncertainty and to ensure economic benefits continue to flow to communities that would benefit most from new investment and opportunity.

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[1] The Center for American Progress estimates that the Bush and Trump tax cuts combined will have added $10 trillion to the federal debt by the end of 2023, taking into account both the revenue lost and the associated debt service costs since their enactment. See Bobby Kogan, "Tax Cuts Are Primarily Responsible for the Increasing Debt Ratio," Center for American Progress, March 27, 2023, https://www.americanprogress.org/article/tax-cuts-are-primarily-responsible-for-the-increasing-debt-ratio/.

[2] TPC estimated that in 2010, the year the Bush tax cuts were fully phased in, they raised the after-tax incomes of the top 1 percent of households by 6.6 percent, compared to 2.6 percent for the middle 20 percent of households. The bottom 20 percent of households received the smallest cuts, with their after-tax incomes increasing by just 0.5 percent. TPC, "T10-0232 – Current Law; Baseline: Pre-EGTRRA Law; Distribution by Cash Income Percentile, 2010," September 15, 2010, https://taxpolicycenter.org/sites/default/files/legacy/numbers/content/PDF/T10-0232.pdf.

[3] 2025 is when the law is fully phased in and is before many provisions in the law are scheduled to expire. Tax Policy Center, "T17-0314 - Conference Agreement: The Tax Cuts and Jobs Act; Baseline: Current Law; Distribution of Federal Tax Changes by Expanded Cash Income Percentile, 2025," December 18, 2017, https://www.taxpolicycenter.org/model-estimates/conference-agreement-tax-cuts-and-jobs-act-dec-2017/t17-0314-conference-agreement.

[4] Due to racial barriers to economic opportunity, households of color are overrepresented at the bottom of the income distribution while non-Hispanic white households are heavily overrepresented at the top. The 2017 tax law's core provisions tilt heavily toward households at the top of the income distribution: white households in the highest-earning

1 percent receive 23.7 percent of the law's total tax cuts, far more than the 13.8 percentage share that the bottom 60 percent of households of all races receive. Chye-Ching Huang and Roderick Taylor, "How the Federal Tax Code Can Better Advance Racial Equity," CBPP, July 25, 2019, https://www.cbpp.org/research/federal-tax/how-the-federal-tax-code-can-better-advance-racial-equity.

[5] Household income is expressed in 2017 dollars. Joint Committee on Taxation, "Tables Related to the Federal Tax System as in Effect 2017 through 2026," JCX-32r-18, April 24, 2018, https://www.jct.gov/publications/2018/jcx-32r-18/.

[6] The law also added a $10,000 cap on the deduction for state and local taxes (SALT). This has an offsetting effect for some taxpayers when combined with the law's changes to the alternative minimum tax (AMT). See Kimberly A. Clausing and Natasha Sarin, "The Coming Fiscal Cliff: A Blueprint for Tax Reform in 2025," the Hamilton Project, September 2023, https://www.hamiltonproject.org/wp-content/uploads/2023/09/20230927_THP_SarinClausing_FullPaper_Tax.pdf.

[7] The law doubled the Child Tax Credit's maximum value from $1,000 to $2,000 per child but denied millions of children in families with low and moderate incomes the full increase. In tax year 2022, roughly 19 million children get less than the full $2,000 Child Tax Credit or no credit at all because their families' incomes are too low. Tax Policy Center, "T22-0123 – Distribution of Tax Units and Qualifying Children by Amount of Child Tax Credit (CTC), 2022," October 18, 2022, https://www.taxpolicycenter.org/model-estimates/children-and-other-dependents-receipt-child-tax-credit-and-other-dependent-tax. Further, the law was estimated in 2017 to have *ended* the Child Tax Credit for about 1 million children who weren't eligible for a Social Security number because of their immigration status but might have been claimed as tax dependents using an Individual Tax Identification Number. CBPP, "2017 Tax Law's Child Credit: A Token or Less-Than-Full Increase for 26 Million Kids in Working Families," August 27, 2018, https://www.cbpp.org/research/federal-tax/2017-tax-laws-child-credit-a-token-or-less-than-full-increase-for-26-million.

[8] The 2017 law permanently switched from the Consumer Price Index for all urban consumers (CPI-U) to the "chained" CPI to adjust tax brackets and certain provisions for inflation each year. The chained CPI generally rises more slowly over time than traditional the CPI-U. This slower growth erodes the value of certain provisions, such as the Earned Income Tax Credit, and is expected to push more taxpayers into higher tax brackets over time.

[9] TPC, "T22-0144 – Make the Individual Income Tax and Estate Tax Provisions in the 2017 Tax Act Permanent, by ECI Percentiles, 2026," November 30, 2022, https://www.taxpolicycenter.org/model-estimates/make-individual-income-tax-and-estate-tax-provisions-2017-tax-act-permanent-1.

[10] *Ibid.*

[11] *Ibid.*

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[15] *Ibid.*

[16] Council of Economic Advisers, "Corporate Tax Reform and Wages: Theory and Evidence," October 2017, https://trumpwhitehouse.archives.gov/sites/whitehouse.gov/files/documents/Tax%20Reform%20and%20Wages.pdf.

[17] Jane G. Gravelle and Donald J. Marples, "The Economic Effects of the 2017 Tax Revision: Preliminary Observations," Congressional Research Service, updated June 7, 2019, https://crsreports.congress.gov/product/pdf/R/R45736.

[18] William Gale and Claire Haldeman, "The Tax Cuts and Jobs Act: Searching for supply-side effects," Brookings Institution, July 2021, https://www.brookings.edu/wp-content/uploads/2021/07/20210628_TPC_GaleHaldeman_TCJASupplySideEffectsReport_FINAL.pdf.

[19] Patrick J. Kennedy *et al.*, "The Efficiency-Equity Tradeoff of the Corporate Income Tax: Evidence from the Tax Cuts and Jobs Act," November 14, 2023, https://patrick-kennedy.github.io/files/TCJA_KDLM_2023.pdf. The $114,000 threshold for the 90th percentile of the within-firm earnings distribution appears in an earlier version of the paper, dated December 9, 2022 (Table 5, Panel A).

[20] *Ibid*. Some workers own stock and thus receive a share of the benefits going to firm owners, but even taking that into account, only 20 percent of the *overall* gains from the rate cut flow to the bottom 90 percent of workers. Workers with low or moderate incomes and wealth see very little of those already modest gains, because stock ownership is heavily concentrated at the top.

[21] Gabriel Chodorow-Reich *et al.*, "Tax Policy and Investment in a Global Economy," NBER Working Paper, March 2024, https://www.nber.org/papers/w32180. The authors show that even when corporate tax cuts increase economic activity, there are countervailing, dynamic revenue impacts. On the one hand, more economic activity could expand the tax base and therefore increase tax collections; on the other, increased investment leads firms to take more depreciation deductions, which decreases tax collections. This study concludes that these two forces nearly offset in the near term, such that "the total revenue effect closely mirrors the mechanical corporate effect." In the long run, the paper projects that dynamic effects could "close roughly 20 percent of the mechanical revenue decline." For claims that the 2017 tax law would pay for itself, see, e.g., Kate Davidson, "Treasury Secretary Steven Mnuchin: GOP Tax Plan Would More Than Offset Its Cost," Wall Street Journal, September 28, 2017, https://www.wsj.com/articles/treasury-secretary-steven-mnuchin-gop-tax-plan-would-more-than-offset-its-cost-1506626980.

[22] Jim Tankersley, "Trump's Tax Cut Fueled Investment but Did Not Pay for Itself, Study Finds," New York Times, March 4, 2024, https://www.nytimes.com/2024/03/04/us/politics/trump-corporate-tax-cut.html.

[23] For example, around 70 percent of the income of partnerships, a common pass-through structure, flows to the top 1 percent of households. Michael Cooper *et al.*, "Business in the United States: Who Owns It, and How Much Tax Do They Pay?" Tax Policy and the Economy, Vol. 30, No. 1, 2016, https://www.journals.uchicago.edu/doi/full/10.1086/685594.

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[29] Chuck Marr and Samantha Jacoby, "The Pass-Through Deduction Is Tilted Heavily to the Wealthy, Is Costly, and Should Expire as Scheduled," CBPP, June 8, 2023, https://www.cbpp.org/research/federal-tax/the-pass-through-deduction-is-tilted-heavily-to-the-wealthy-is-costly-and/.

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[32] This figure is based on a compilation of CBO cost estimates that includes both the revenue and outlay effects of all major tax legislation enacted during the George W. Bush Administration. Based on analysis in Kathy Ruffing and Joel Friedman, "Economic Downturn and Legacy of Bush Policies Continue to Drive Large Deficits," CBPP, updated February 28, 2013, https://www.cbpp.org/research/economic-downturn-and-legacy-of-bush-policies-continue-to-drive-large-deficits. For a detailed description of methodology used in this analysis, see box, "What Did Bush-Era Tax Cuts Cost through 2011?" in Kathy Ruffing and James R. Horney, "Downturn and Legacy of Bush Policies Drive Large Current Deficits," CBPP, updated October 10, 2012, https://www.cbpp.org/research/downturn-and-legacy-of-bush-policies-drive-large-current-deficits.

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[34] "Net debt" is the government's total debt net of its financial assets, such as cash, gold, Treasury securities held by U.S. government agencies, and the value of student loans held by the government. Net debt is a better measure of the federal government's financial position at any point in time than gross debt or debt held by the public because it includes all the financial assets and liabilities of the government. And because it does, it is the only measure of debt that equals the sum of annual deficits (and surpluses) while excluding financial transactions to the extent they do not affect deficits.

[35] The Bush tax cuts and their extensions included revenue losses caused by limiting the amount that the AMT would recapture from better-off tax filers. Because the AMT was not indexed for inflation in 2000, just before enactment of the Bush tax cuts, the AMT would have recaptured growing amounts of revenue as the years passed. As a result, legislation to limit the reach of the AMT became increasingly costly as the years passed, relative to 2000 AMT law. Those very costly effects were part of the Bush tax cuts and its extensions and so were part of all scores of that legislation by the Congressional Budget Office and Joint Committee on Taxation. In this analysis, however, smaller revenue losses are attributed to the AMT provisions of those tax cuts, measuring those revenue losses relative to a hypothetical AMT that had been indexed for inflation (rather than the actual, unindexed AMT), so estimates of the costs of the Bush tax cuts are more conservative.

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