PENN WHARTON
UNIVERSITY of PENNSYLVANIA
Budget Model

The Tax Cuts for Working Families Act: Estimated Budgetary and Distributional Effects

Summary: PWBM estimates the Tax Cuts for Working Families Act would reduce federal revenues by $96 billion over a decade, cutting taxes for a majority of households in 2024. Households in the bottom quintile households, and those in the top 1 percent, generally would not benefit. As an illustration, we also consider making the provisions permanent, which raises the estimated ten-year budget cost to be between $419 billion and $527 billion.

Key Points

- The Tax Cuts for Working Families Act would increase the standard deduction by $2,000 ($4,000 for married filing jointly returns) for taxpayers below an income threshold. This expansion, structured as a "bonus" value, would apply only for tax years 2024 and 2025.

- PWBM estimates the proposal would reduce revenues by $96 billion over the budget window. If the bonus values were extended permanently, the total budget window cost is between $419 billion and $527 billion, depending on whether Congress extends individual tax cuts set to expire at the end of 2025.

- The proposal would cut taxes for a majority of households in 2024. After-tax incomes would rise by at least 0.5 percent for households from the 20th through 90th percentiles of the income distribution; bottom-quintile households, and those in the top 1 percent, generally would not benefit.

Introduction

Under current law, the standard deduction, which is indexed to inflation, is currently $13,850 for single filers and $27,700 for married taxpayers filing jointly. Beginning in 2026, the value of the standard deduction is scheduled to approximately halve in value, as per expiring provisions of the 2017 "Tax Cuts and Jobs Act" ("current law").

In response to these expirations, lawmakers in the majority on the House Committee on Ways and Means recently released the Tax Cuts for Working Families Act (text, summary). The legislation would increase the standard deduction for tax years 2024 and 2025 by providing taxpayers a "bonus" standard deduction. The proposed bonus amount is $2,000 for single filers, $4,000 for married filers, and $3,000 for heads of household. Bonus amounts would be indexed to inflation and phase out for filers with Adjusted Gross Income ("AGI") above $200,000 ($400,000 if married). The legislation also renames the standard deduction to the "guaranteed deduction."

Estimated Budgetary Effects

Table 1 shows PWBM's estimated budgetary effects of the proposal. As written, the legislation applies the bonus standard deduction for just two years, 2024 and 2025, before sunsetting. We estimate that the legislation would cost $96 billion over ten years on a conventional basis.

As illustrations, we also present budget cost estimates under two alternative scenarios. Under both scenarios, the bonus standard deduction is made permanent.

Under the first alternative scenario (*"Extension against current law"*), individual tax *rates* would still increase in 2026, due to the tax rate sunsets in the 2017 Tax Cuts and Jobs Act. (Other provisions enacted in the 2017 TCJA would also expire.) We estimate that permanently extending bonus deduction against this baseline would cost $419 billion over 10 years.

Under the second illustrative scenario (*"Extension against current policy"*), we assume that the tax rates (and the other provisions) themselves no longer sunset. However, for purposes of comparison, we do not include the cost of extending these other provisions, which would be estimated with separate legislation. Instead, we continue to estimate just the cost of a permanent bonus standard deduction but relative to this alternative baseline. In other words, this estimate answers the following question: what is the budgetary impact of the bill's bonus standard deduction if lawmakers also extend the TCJA's other individual provisions in other legislation? Under this scenario, ten-year revenue loss grows to $527 billion.

The difference in costs between the two alternative scenarios stems from differences in filers' propensity to itemize under the two alternative baselines before the bonus deduction. Under the first alternative scenario, a significant share of taxpayers will shift toward itemization as the standard deduction falls and restrictions on itemizing are lifted beginning in 2026. As a result, the value of additional bonus standard deduction is reduced relative to the second alternative scenario where taxpayers itemize at rate comparable to that of recent years, even before the introduction of bonus deduction.

Table 1. Estimated Conventional Budget Effects (FY2023-2033)

Billions of Dollars

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Scenario	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	Budget window
Proposal	-36.3	-48.3	-11.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-95.8
Alternative Scenario: Extension Against Current Law	-36.3	-48.3	-39.8	-38.2	-39.5	-40.7	-41.8	-43.3	-44.6	-46.0	-418.5
Alternative Scenario: Extension Against Current Policy	-36.3	-48.3	-49.5	-51.2	-53.0	-54.3	-55.9	-57.7	-59.5	-61.3	-527.0

Estimated Distributional Effects

Table 2 presents several metrics for evaluating the distributional impact of the proposal. The drop-down menu offers three options for year and scenario. The first option shows estimated distributional effects in tax year 2024, in which the bonus deduction is the only change from current law. The second option shows tax year 2026 for the illustrative *extension against current law* scenario, which includes the bonus deduction in the context of the scheduled expiration of the individual income tax provisions of the TCJA. The third option shows tax year 2026 for the *extension against current policy* scenario, which presents the effects of the bonus deduction alongside the extension of the TCJA's individual income tax provisions. (Note that the legislation as written has no distributional impact in tax year 2026 since its provisions sunset at the end of 2025.)

Table 2. Estimated Distributional Effects by Income Group

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Tax Year 2024

Income group	Average Tax Change	Households with a Tax Cut: Share of Households	Households with a Tax Cut: Average Tax Cut	Percent Change In After Tax Income	Share of Tax Cut
Bottom quintile	-$5	4.8%	-$140	0.1%	0.7%
Second quintile	-$175	72.2%	-$240	0.6%	13.8%
Middle quintile	-$335	94.0%	-$355	0.6%	25.9%
Fourth quintile	-$485	89.1%	-$545	0.5%	31.1%
80-90%	-$660	83.4%	-$790	0.5%	18.1%
90-95%	-$600	68.1%	-$880	0.3%	7.7%
95-99%	-$265	33.9%	-$790	0.1%	2.7%
99-99.9%	$0	0.0%	$0	0.0%	0.0%
Top 0.1%	$0	0.0%	$0	0.0%	0.0%

Tax Year 2026, Extension Against Current Law

Income group	Average Tax Change	Households with a Tax Cut: Share of Households	Households with a Tax Cut: Average Tax Cut	Percent Change In After Tax Income	Share of Tax Cut
Bottom quintile	-$10	7.4%	-$160	0.2%	1.6%
Second quintile	-$200	72.1%	-$280	0.7%	20.8%
Middle quintile	-$345	79.0%	-$435	0.6%	34.1%
Fourth quintile	-$375	60.9%	-$620	0.4%	31.1%
80-90%	-$300	35.9%	-$835	0.2%	10.5%
90-95%	-$115	12.7%	-$905	0.1%	1.9%
95-99%	$0	2.1%	-$760	0.0%	0.0%
99-99.9%	$0	0.0%	$0	0.0%	0.0%
Top 0.1%	$0	0.0%	$0	0.0%	0.0%

Tax Year 2026, Extension Against Current Policy

Income group	Average Tax Change	Households with a Tax Cut: Share of Households	Households with a Tax Cut: Average Tax Cut	Percent Change In After Tax Income	Share of Tax Cut
Bottom quintile	-$5	4.6%	-$140	0.1%	0.7%
Second quintile	-$180	73.0%	-$245	0.6%	13.9%
Middle quintile	-$345	94.0%	-$370	0.6%	25.9%
Fourth quintile	-$505	89.2%	-$565	0.5%	31.2%
80-90%	-$685	83.7%	-$820	0.5%	18.1%
90-95%	-$620	67.3%	-$920	0.3%	7.7%
95-99%	-$265	33.4%	-$795	0.1%	2.6%
99-99.9%	$0	0.0%	$0	0.0%	0.0%
Top 0.1%	$0	0.0%	$0	0.0%	0.0%

A household benefits from an increase in the standard deduction if they do not itemize and have sufficient taxable income against which to apply the larger deduction. All else equal, the benefit of a larger standard deduction increases with income because individuals at higher income levels face higher marginal income tax rates. Interpreting the distributional impact of a standard deduction involves weighing those factors across the income distribution.

Overall, in 2024, nearly two-thirds of households would receive a tax cut under the proposal. The distribution of these tax cuts is not equal across income. The bottom quintile of households would see comparatively small tax savings under the proposal. Only about 5 percent of households in that group would see any tax cut under the proposal. The first reason is that very few households in the bottom quintile have enough taxable income to enjoy the full reduction provided by an increased standard deduction. In addition, for those households in the bottom quintile that have enough taxable income to enjoy the full reduction, marginal income tax rates are low. In general, bottom-quintile households benefit more from policies like refundable tax credit expansions than reductions in taxable income.

The highest income groups also see relatively low average tax cuts under the proposal in 2024. One reason is mechanical: the bonus guaranteed deduction phases out for filers with AGI more than $200,000 ($400,000 for married returns). Additionally, a greater share of higher-income households are itemizers—these taxpayers are more likely to have mortgage interest payments, state and local tax liabilities, and charitable donations in excess of the standard deduction value, and therefore do not claim the standard deduction when filing. This tendency means that the tax benefit of expanding the standard deduction will be muted for higher-income groups. Less than one third of households in the top 5 percent of the income distribution would see a tax cut, and no households in the top 1 percent would benefit.

Relative to other households, those in the third and fourth quintiles would see relatively large benefits in 2024. This comparatively large benefit is driven by two factors. First, these households have sufficient taxable income to enjoy the full benefit of a larger standard deduction. Second, they face relatively high marginal tax rates, meaning that an additional dollar of reduced taxable income translates to greater tax savings. Households in this group are also less likely to itemize than higher-income filers, meaning they are more likely to benefit from any expansion of the standard deduction.

This analysis was produced by John Ricco and Ed Murphy. Mariko Paulson prepared the brief for the website.