



Middle-Bracket Rate Cut

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<https://budgetmodel.wharton.upenn.edu/model-estimates-1/2019/11/18/middle-bracket-rate-cut>

Summary: We estimate the budgetary, distributional, and economic effects (relative to current law) of lowering the marginal tax rate for the current 22 percent individual income tax bracket to 15 percent, beginning in tax year 2020. We consider a scenario in which this rate is permanently lowered and a scenario in which it is allowed to revert to 25 percent beginning in tax year 2026, as scheduled under current law.

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Table 1. Conventional Budget Estimate, FY2020-2029

Billions of Dollars, Change from Current-Law Baseline

Policy	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	Budget window
Temporary	-98	-130	-135	-140	-145	-151	-35	0	0	0	-834
Permanent	-98	-130	-135	-140	-145	-151	-127	-123	-129	-133	-1,311



Table 2a. Dynamic Macroeconomic Effects of Temporary Rate Reduction

Percent Change from Baseline

Year	GDP	Capital stock	Labor income	Hours worked	Consumption
2030	0.1%	0.6%	0.1%	-0.1%	0.4%
2040	0.1%	0.3%	0.1%	-0.1%	0.3%
2050	-0.1%	-0.1%	-0.1%	-0.1%	0.1%

Note: Consistent with empirical evidence*, the projections above assume that the U.S. economy is 40 percent open and 60 percent closed. Specifically, 40 percent of new government debt is purchased by foreigners.

* <https://budgetmodel.wharton.upenn.edu/issues/2016/9/13/setting-behavioral-responses-in-pwbms-dynamic-simulations>



Table 2b. Dynamic Macroeconomic Effects of Permanent Rate Reduction
Percent Change from Baseline

Year	GDP	Capital stock	Labor income	Hours worked	Consumption
2030	0.4%	0.6%	0.4%	0.4%	1.5%
2040	0.4%	0.8%	0.4%	0.4%	1.7%
2050	0.4%	1.0%	0.4%	0.3%	1.2%

Note: Consistent with empirical evidence*, the projections above assume that the U.S. economy is 40 percent open and 60 percent closed. Specifically, 40 percent of new government debt is purchased by foreigners.

* <https://budgetmodel.wharton.upenn.edu/issues/2016/9/13/setting-behavioral-responses-in-pwbms-dynamic-simulations>



Table 3. Distribution of Policy Change by Annual Income Categories in 2020, Relative to Current-Law Baseline - Corporate, individual income and payroll taxes

Corporate, individual income and payroll taxes									
Income group	Average tax change	Tax units with a tax cut		Tax units with a tax		Percent change in after-tax income	Share of tax change	Share of federal taxes paid	
		Share	Average tax cut	Share	Average tax increase			Share under policy	Change from baseline (percentage points)
Bottom quintile	\$0	0.0%	-	0.0%	-	0.0%	0.0%	-0.3%	0.0%
Second quintile	\$0	0.0%	-	0.0%	-	0.0%	0.0%	0.7%	0.0%
Middle quintile	-\$60	12.9%	-\$475	0.0%	-	0.1%	1.8%	8.6%	0.3%
Fourth quintile	-\$755	49.4%	-\$1,525	0.0%	-	0.9%	19.4%	17.3%	-0.1%
80-90%	-\$2,500	95.2%	-\$2,625	0.0%	-	1.9%	26.4%	13.5%	-0.6%
90-95%	-\$5,100	96.8%	-\$5,270	0.0%	-	2.8%	25.4%	10.2%	-0.8%
95-99%	-\$5,410	94.1%	-\$5,750	0.0%	-	1.8%	21.8%	17.5%	-0.2%
99-99.9%	-\$5,245	88.9%	-\$5,900	0.0%	-	0.6%	4.7%	15.3%	0.5%
Top 0.1%	-\$4,710	81.4%	-\$5,790	0.0%	-	0.1%	0.5%	17.0%	0.8%

Note: "Income" is defined as AGI plus: above-the-line deductions, nontaxable interest income, nontaxable Social Security benefits, nontaxable pensions and annuities, employer-side payroll taxes, and corporate tax liability. Seventy-five percent of the corporate income tax burden is assumed to be borne by the owners of capital income; the rest is assumed to fall on wages. Federal taxes included are individual income, payroll, and corporate income taxes.



Table 3. Distribution of Policy Change by Annual Income Categories in 2020, Relative to Current-Law Baseline - Individual income and payroll taxes only

Individual income and payroll taxes only									
Income group	Average tax change	Tax units with a tax cut		Tax units with a tax		Percent change in after-tax income	Share of tax change	Share of federal taxes paid	
		Share	Average tax cut	Share	Average tax increase			Share under policy	Change from baseline (percentage points)
Bottom quintile	\$0	0.0%	-	0.0%	-	0.0%	0.0%	-0.4%	0.0%
Second quintile	\$0	0.0%	-	0.0%	-	0.0%	0.0%	0.4%	0.0%
Middle quintile	-\$60	12.9%	-\$475	0.0%	-	0.1%	1.8%	8.8%	0.4%
Fourth quintile	-\$750	49.3%	-\$1,525	0.0%	-	0.9%	19.4%	17.8%	-0.1%
80-90%	-\$2,495	95.5%	-\$2,615	0.0%	-	1.9%	26.3%	13.8%	-0.7%
90-95%	-\$5,085	96.6%	-\$5,260	0.0%	-	2.8%	25.3%	10.4%	-0.8%
95-99%	-\$5,480	94.9%	-\$5,775	0.0%	-	1.8%	22.0%	17.7%	-0.2%
99-99.9%	-\$5,315	89.8%	-\$5,915	0.0%	-	0.6%	4.7%	15.4%	0.6%
Top 0.1%	-\$4,795	82.8%	-\$5,795	0.0%	-	0.1%	0.5%	15.9%	0.8%

Note: "Income" is defined as AGI plus: above-the-line deductions, nontaxable interest income, nontaxable Social Security benefits, nontaxable pensions and annuities, employer-side payroll taxes, and corporate tax liability. Seventy-five percent of the corporate income tax burden is assumed to be borne by the owners of capital income; the rest is assumed to fall on wages. Federal taxes included are individual income, payroll, and corporate income taxes.