

Key Points

- We present the static (conventional) distributional impact of the Tax Cuts and Jobs Act (TCJA) under two measures: the traditional measure and as tax shares.
- Under standard assumptions, the traditional measure indicates that in 2018, 37 percent of the reduction in taxes accrues to households in the top one percent of the income distribution. By 2027, this group receives 53 percent of the tax change and, by 2040, almost 55 percent.
- In contrast, the share of taxes paid by households in the top one percent of the income distribution is only moderately lower under TCJA. In 2018, the top one percent of the income distribution pays 28 percent of federal taxes under current policy and 27 percent under TCJA. By 2027, this group pays 28 percent under current policy and 26 percent under TCJA. By 2040, the tax share falls slightly from 30 percent under current policy to 28 percent under TCJA. Due to increasing progressivity over time under current law, the top one percent will still pay a slightly larger share of the nation's tax base by 2040 under TCJA relative to what they pay today under current law.

The House Tax Cuts and Jobs Act: Static Distributional Analysis

Introduction

Recent Penn Wharton Budget Model (PWBM) briefs have analyzed both the [static](#) and [dynamic](#) revenue and macroeconomic effects of the Tax Cuts and Jobs Act (TCJA). This brief describes the distributional effect of TCJA under the traditional measure and as tax shares. The proposed changes affect both individuals and corporations and, hence, the owners and employees of those corporations.

Tax shares provide valuable information as a complement to the traditional measure. Tax shares indicate that TCJA is less regressive than commonly reported using the traditional measure. At the same time, we critique the standard assumption of assigning a portion of the corporate income tax cut to wage gains. We argue that assigning 100 percent of the incidence to owners of capital is more consistent with static analysis. We will soon release our dynamic distributional analysis that will then reallocate some of this incidence to wages, consistent with our underlying dynamic model.

Distribution of Federal Taxes Under Current Policy

The current U.S. tax system is highly progressive, with higher income households paying a greater share of total taxes than lower income households. Table 1 shows that, in 2018, households in the top one percent of the income distribution pay 28 percent of the total tax bill, while households in the bottom 40 percent pay a little more than one percent. The U.S. federal tax system becomes more progressive by 2040 under current law.

Table 1: Share of Federal Taxes Paid Under Current Policy by AGI

Adjusted Gross Income (percentile)	Year		
	2018 (percent)	2027 (percent)	2040 (percent)
0-20	0.3	0.3	0.1
20-40	1.1	1.3	0.7
40-60	6.1	6.6	4.4
60-80	16.9	16.8	15.6
80-90	16.0	16.0	16.1
90-95	12.8	12.6	13.2
95-99	19.2	18.9	19.9
99-99.9	15.1	15.1	16.2
99.9-100	12.5	12.5	14.0

Note: Federal taxes include individual income tax (net of the outlays for refundable credits), payroll taxes, corporate income taxes, and estate and gift taxes. Other transfers are not included. Corporate income taxes are allocated under the assumption that owners of capital bear 75 percent of the tax burden.

Following the Joint Committee on Taxation, which is staffed by leading tax experts, the values shown in Table 1 assume that 75 percent of corporate tax rates are allocated to owners of capital. The other 25 percent is borne by labor in the form of lower wages. We return to this assumption below.

Traditional Measure of Distributional Effects

Many of TCJA's tax changes appear to work to both increase and decrease progressivity. For instance, TCJA increases the standard deduction, which lowers the tax burden of lower-income households. However, the bill also eliminates personal exemptions, which increases their tax burden.

Table 2 shows that the largest reduction from TCJA accrues to households in the top one percent of the income distribution, who, in 2018, receive 37 percent of the drop in taxes. In 2018, the middle quintile gets 6.5 percent of the reduction and the bottom quintile gets 0.4 percent of the reduction. By 2027, the top one percent of the income distribution receives 53 percent of the reduction in taxes, and by 2040, 55 percent of the total reduction in taxes. Households in the bottom three income quintiles receive less than three percent of the tax cut in 2040.

Table 2: Percent of the Total Change in Taxes Under the Tax Cuts and Jobs Act

Adjusted Gross Income (percentile)	Year		
	2018 (percent)	2027 (percent)	2040 (percent)
0-20	0.4	0.4	0.4
20-40	1.7	0.3	0.9
40-60	6.5	2.1	1.0
60-80	18.3	11.2	9.0
80-90	15.7	15.0	13.0
90-95	8.2	5.0	6.9
95-99	12.7	13.0	13.9
99-99.9	18.9	26.8	26.9
99.9-100	17.7	26.3	27.8

Notes: Federal taxes include individual income tax (net of the outlays for refundable credits), payroll taxes, corporate income taxes, and estate and gift taxes. Corporate income taxes are allocated under the assumption that owners of capital bear 75 percent of the tax burden.

Tax Share Approach to Distributional Effects

By focusing on “deltas,” the traditional measure does not account for the initial progressivity of the tax system under current law. Table 3 shows the share of taxes paid by income group under current law and under TCJA. Overall, the shares of tax paid remains fairly stable after the adoption of TCJA.

In 2018, the share paid by the top one percent of the income distribution decreases from 28 percent under current law to 27 percent under TCJA. By 2027, the tax burden falls from 28 percent to 26 percent. By 2040, the burden falls from 30 percent to 28 percent. Due to increasing progressivity over time under current law, the top one percent will still pay a slightly larger share of the nation’s tax base by 2040 under TCJA relative to what they pay today under current law.

Moreover, the share of taxes paid by the top 10 percent of the income distribution remains even more stable, at 60 percent under both current policy and TCJA in 2018. By 2027, the share falls from 59 to 58 percent. By 2040, the share falls from 63 to 62 percent, but still higher than current law today.

Table 3: Share of Federal Taxes Paid with 75 Percent of Corporate Income Taxes Allocated to Owners of Capital

Adjusted Gross Income (percentile)	Current Policy			Tax Cuts and Jobs Act		
	2018 (percent)	2027 (percent)	2040 (percent)	2018 (percent)	2027 (percent)	2040 (percent)
0-20	0.3	0.3	0.1	0.3	0.2	0.1
20-40	1.1	1.3	0.7	1.1	1.3	0.7
40-60	6.1	6.6	4.4	6.1	6.8	4.6
60-80	16.9	16.8	15.6	16.8	17.1	16.1
80-90	16.0	16.0	16.1	16.0	16.1	16.3
90-95	12.8	12.6	13.2	13.2	13.0	13.6
95-99	19.2	18.9	19.9	19.7	19.2	20.3
99-99.9	15.1	15.1	16.2	14.8	14.4	15.4
99.9-100	12.5	12.5	14.0	12.1	11.8	12.9

Note: Federal taxes include individual income tax (net of the outlays for refundable credits), payroll taxes, corporate income taxes, and estate and gift taxes.

Alternative Distributions of the Corporate Tax

As noted earlier, the above analysis assumes 75 percent of corporate taxes are distributed to owners of capital, with the remaining 25 percent distributed to workers in the form of lower wages. This distribution choice impacts both the traditional distributional analysis as well as tax shares, since owners of capital are more concentrated in higher income households.

Table 4 shows the tax shares under current policy and TCJA under the assumption that capital owners now gain 100 percent of the benefit from a cut in corporate taxes under TCJA. In sharp contrast, Table 5 shows the tax shares when capital owners receive only 25 percent of the benefit. Quite naturally, TCJA causes the tax shares paid by the top one percent of the income distribution to fall slightly more in Table 4 than in Table 5. However, even in Table 4, the change in tax shares is not substantial. In fact, the top one percent will still pay a larger share of the nation's tax bill in 2040 under TCJA than they will under current law in 2018.

Table 4: Share of Federal Taxes Paid with 100% of Corporate Income Taxes Allocated to Owners of Capital

	Current Policy			Tax Cuts and Jobs Act		
Adjusted Gross Income (percentile)	2018 (percent)	2027 (percent)	2040 (percent)	2018 (percent)	2027 (percent)	2040 (percent)
0-20	0.3	0.3	0.1	0.3	0.3	0.1
20-40	1.1	1.2	0.6	1.0	1.3	0.6
40-60	5.8	6.3	4.1	5.9	6.6	4.4
60-80	16.4	16.3	14.9	16.4	16.7	15.6
80-90	15.6	15.6	15.5	15.7	15.8	15.9
90-95	12.6	12.4	12.8	13.0	12.8	13.4
95-99	19.2	18.9	19.8	19.7	19.2	20.3
99-99.9	15.7	15.6	16.9	15.2	14.8	15.9
99.9-100	13.5	13.5	15.3	12.7	12.5	13.9

Note: Federal taxes include individual income tax (net of the outlays for refundable credits), payroll taxes, corporate income taxes, and estate and gift taxes.

Table 5: Share of Federal Taxes Paid with 25 percent of Corporate income Taxes Allocated to Owners of Capital

	Current Policy			Tax Cuts and Jobs Act		
Adjusted Gross Income (percentile)	2018 (percent)	2027 (percent)	2040 (percent)	2018 (percent)	2027 (percent)	2040 (percent)
0-20	0.3	0.2	0.0	0.3	0.2	0.0
20-40	1.3	1.4	0.8	1.2	1.4	0.7
40-60	6.6	7.1	4.9	6.4	7.2	5.0
60-80	17.9	17.8	16.9	17.5	17.8	17.0
80-90	16.8	16.9	17.3	16.6	16.7	17.2
90-95	13.4	13.1	14.0	13.6	13.4	14.2
95-99	19.2	18.9	20.1	19.7	19.2	20.5
99-99.9	14.0	13.9	14.7	14.1	13.6	14.3
99.9-100	10.5	10.6	11.3	10.8	10.4	11.0

Note: Federal taxes include individual income tax (net of the outlays for refundable credits), payroll taxes, corporate income taxes, and estate and gift taxes.

Generally, [economists believe](#) that capital bears most of the burden of the corporate tax in the short run, with more of the burden shifting to wages over time. However, the traditional division of the corporate tax between capital owners and labor mixes static distributional analysis with dynamic effects. The shift of some of the corporate tax from its owners to workers over time occurs through changes in household savings and international capital flows, i.e., dynamic effects. For this reason, PWBM's future static distributional analysis will generally focus on the case where 100 percent of the capital burden falls on capital owners. Our forthcoming dynamic distributional analysis will then reallocate some of this burden toward wages, consistent with the PWBM dynamic model.

Conclusion

The Tax Cuts and Jobs Act proposes significant changes to both individual and corporate taxes. Under the traditional measure, TCJA appears to mainly benefit higher income earners. However, in terms of tax shares paid by income, TCJA has a very modest impact. In fact, due to rising tax progressivity over time under current law, higher income households will still eventually pay a larger fraction of the nation's tax burden under TCJA than they do today under current law, on a static basis.

However, if the government is unable to pay for TCJA's tax cuts with reductions in spending, then a greater amount of debt will be shifted toward future taxpayers. Static distributional tax analysis alone does not account for this important inter-generational wealth transfer, which can have a [deleterious impact](#) on a dynamic economy.