

POLICY NOTE

Key Findings:

1. The Congressional Joint Committee on Taxation estimates the tax plans would result in a tax cut for the average taxpayer in all income brackets in 2019.
2. Some of the proposed credits sunset, however, resulting in a projected tax increase for some taxpayers in future years.
3. The combined tax changes passed by the House on November 16th and proposed by the Senate are projected to result in job increases and higher after-tax income for Washington State citizens.
4. Successful federal tax reform policy will be one that is permanent, meaningful, and provide tax relief across all income brackets.

Introduction

Congress is currently debating the first major tax reform since the landmark 1986 tax cuts enacted under President Ronald Reagan.¹ The House approved its tax plan on November 16th. The Senate is currently debating its proposal. This is a historic opportunity for real and meaningful tax relief to help working families and business owners in Washington state and across the country. This Policy Note provides a high-level comparison of the House and Senate tax plans currently proposed in Congress (as of November 21, 2017).

Comparison of tax proposals

There are many similarities but also important differences between the House and Senate tax plans. Here is a summary of the proposed changes for individuals (adapted from Tax Foundation table):²

Provision	House Version	Senate Version
Individual Income Tax Rates and Brackets	Consolidates current seven income tax rates into four, while retaining the top marginal rate of 39.6 percent and including an income recapture provision which phases out the effect of the 12 percent bracket for high earners, sometimes called a "bubble rate."	Retains seven brackets while reducing rates, bringing the top marginal rate to 38.5 percent and avoiding a bubble rate.
Standard Deduction	\$12,200 for single filers, \$18,300 for heads of household, and \$24,400 for joint filers, indexed to chained CPI	\$12,000 for single filers, \$18,000 for heads of household, and \$24,000 for joint filers, indexed to chained CPI
Itemized Deductions	Retains state and local property tax deduction, capped at \$10,000, while eliminating the remainder of the state and local tax deduction, except for taxes paid or accrued in carrying on a trade or business; limits the mortgage interest deduction to the first \$500,000 in principle value.	Eliminates the state and local tax deduction except for taxes paid or accrued in carrying on a trade or business; keeps the mortgage interest deduction for acquisition debt, but eliminates the deduction for equity debt.
Child and Family Tax Credits	Increases child tax credit value to \$1,600, with the phaseout for joint filers beginning at \$230,000, while creating a new \$300 per-person family tax credit for those not eligible for the child tax credit, to expire after five years	Increases child tax credit value to \$2,000, but with the phase-out beginning at \$500,000 for all filers.
Estate Tax	Increases exemption to \$10 million, indexed for inflation, with repeal after six years	Doubles the estate tax exemption

1 "Twenty Years Later: The Tax Reform Act of 1986," by Andrew Chamberlain, Tax Foundation, October 23, 2006, at <https://taxfoundation.org/twenty-years-later-tax-reform-act-1986/>

2 "Important Differences Between House and Senate Versions of the Tax Cuts and Jobs Act," by Jared Walczak, Tax Foundation, November 10, 2017, at <https://taxfoundation.org/differences-house-senate-tax-cuts-and-jobs-act/>

Federal tax reform that provides meaningful tax relief for individuals would reward work, savings and help families immediately improve their quality of life, and open new opportunities for themselves and for their children.

Cutting taxes on business activity

Both the House and Senate also propose reducing the corporate income tax rate from 35% to 20%. The House-proposed tax cut would take effect immediately, and the Senate-proposed version would delay the reduction until 2019.

The Tax Foundation reports that reducing the corporate income tax rate to 20% “would bring the U.S. in line with the rest of the other 34 industrialized countries in the OECD, which have an average statutory corporate income tax rate of 21.97 percent.”³ Currently only United Arab Emirates, Comoros, and Puerto Rico have a higher corporate income tax rate than the United States.⁴

Lowering the U.S. tax rate on business activity to the global average among industrialized nations would help American-owned businesses compete in world markets.

Equally important, lowering the federal tax burden on business activity would promote investment, innovation in new technology, the expansion of current companies and the creation of new ones, and would create new job opportunities for people across the country.

The combined tax changes proposed by the House and Senate are projected to result in job increases and higher after-tax income for Washington State. According to the Tax Foundation (10-year estimates):

	Estimated FTE Jobs Added in WA	Estimated Gain in After-Tax Income for Middle-Income Family in WA
House ⁵	21,875	\$3,094
Senate ⁶	20,753	\$3,094

Impact of proposed deduction and credit changes

One of the most controversial parts of the tax plan is the impact that repealing the current state and local tax deductions would have on individual taxpayers. This change would occur at the same time the standard deduction would be nearly doubled and additional changes would be made to family credits. Complicating the analysis is that the House’s plan would sunset some of the credits after five years.

3 “Eight Important Changes in the Senate Tax Cuts and Jobs Act,” by Jared Walczak & Amir El-Sibaie, Tax Foundation, November 10, 2017, at <https://taxfoundation.org/eight-important-changes-senate-tax-cuts-and-jobs-act/>

4 “Corporate Income Tax Rates around the World, 2017,” by Kari Jahnsen & Kyle Pomerleau, Tax Foundation, September 7, 2017, at <https://taxfoundation.org/corporate-income-tax-rates-around-the-world-2017/>



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According to national estimates provided by the Congressional Research Service, a majority of taxpayers earning less than \$100,000 do not currently itemize their tax returns:⁵

Adjusted Gross Income	Number of Itemizers	Share of Tax Filers Who Itemized	Average Sum of Itemized Deductions Claimed Per Itemizer
\$1 to \$20k	2,165,366	5%	\$15,857
\$20k to \$50k	7,801,176	17%	\$15,641
\$50k to \$100k	14,760,417	46%	\$19,187
\$100k to \$200k	13,455,839	77%	\$25,598
\$200k to \$500k	4,639,462	93%	\$43,131
\$500k to \$1 million	770,130	92%	\$83,433
+\$1million	372,696	91%	\$424,864

The Pew Charitable Trusts reports approximately 30% of Washingtonians currently itemize deductions in their tax returns with a per-claimant average of \$25,770 in deductions.⁶

When taking into consideration the combined impact of changes to tax rates, deductions and credits, the Congressional Joint Committee on Taxation estimates the tax plans would result in a tax cut for the average taxpayer in all income brackets in 2019. Some of the proposed credits sunset, however, resulting in a projected tax increase for some taxpayers in future years.⁷

Conclusion

With many intertwining parts of the tax proposals, it will be important for Congress to get the details right so that all families in Washington and across the country receive real tax relief, and that their taxes are not inadvertently increased. Successful federal tax reform policy will be one that is permanent, meaningful, and provide tax relief across all income brackets.

Washington Policy Center is an independent research organization in Washington state.

Nothing here should be construed as an attempt to aid or hinder the passage of any legislation before any legislative body.

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- 5 “Itemized Tax Deductions for Individuals: Data Analysis,” by Sean Lowry, Congressional Research Service, September 21, 2017, at <https://fas.org/sgp/crs/misc/R43012.pdf>
- 6 “The Distribution of Select Federal Tax Deductions and Credits Across the States,” by Fiscal Federalism Initiative, The Pew Charitable Trusts, October 31, 2017, at <http://www.pewtrusts.org/en/multimedia/data-visualizations/2014/federal-tax-deductions-and-credits>
- 7 “Distribution Effects Of The Chairman’s Amendment In The Nature Of A Substitute To H.R.1, The “Tax Cuts And Jobs Act,”” The Joint Committee on Taxation, November 03, 2017, at <https://www.jct.gov/publications.html?func=startdown&id=5029>