FAQs on Tax Cuts and Jobs Act

The Tax Cuts and Jobs Act (TCJA) was signed into law nearly 7 years ago. But there still remain many misperceptions. As most of the law expires at the end of 2025, it is important to revisit key questions about the TCJA to inform better policy for 2026 and beyond.

WHO RECEIVED A TAX CUT?

- **Taxes were cut for 80 percent of taxpayers** and 15 percent saw no change in taxes paid, according to the Tax Policy Center. Five percent of taxpayers paid more in 2018 than they did in 2017.
- Most taxpayers who face the new state and local tax (SALT) deduction cap also benefited from a tax cut due to lower rates and a scaled back alternative minimum tax (AMT).

WHO RECEIVED THE BIGGEST TAX CUTS?

- The lowest-income 50 percent of taxpayers saw a 9.3 percent reduction in their tax bill, compared to a 0.04 percent tax cut for the highest-income 1 percent, according to IRS data.
- The highest income Americans benefited from the largest tax cuts in dollar terms because they pay more than three-quarters of the income taxes.
- **The average taxpayer received a tax cut of about $1,500 and about $3,000 for a family of four.**

WHAT'S THE DIFFERENCE BETWEEN TAX REFORM AND TAX CUTS?

- Tax reform includes significant measures that improve the tax base and simplify complex provisions. Tax cuts simply reduce revenue.
- The TCJA was the most extensive tax reform in 30 years. The law expanded the tax base, increasing revenue by about $4 trillion over 10 years, which allowed **$5.5 trillion in offsetting tax cuts**.

DID THE TAX CUT AFFECT THE ECONOMY?

- The tax cuts were widely projected to increase economic growth and early investigations have confirmed that **the law boosted GDP, consumption, investment, and payrolls**.
- Average production and nonsupervisory **workers received about $1,400 more in above-trend annual earnings** as of April 2020.

HOW MUCH DID THE TAX CUT ADD TO THE DEFICIT?

- The law added $1.5 trillion to the deficit over ten years before accounting for growth or interest costs.
- Due to economic growth, **the ten-year deficit effect is estimated to be about $448 billion**, according to the Tax Foundation.

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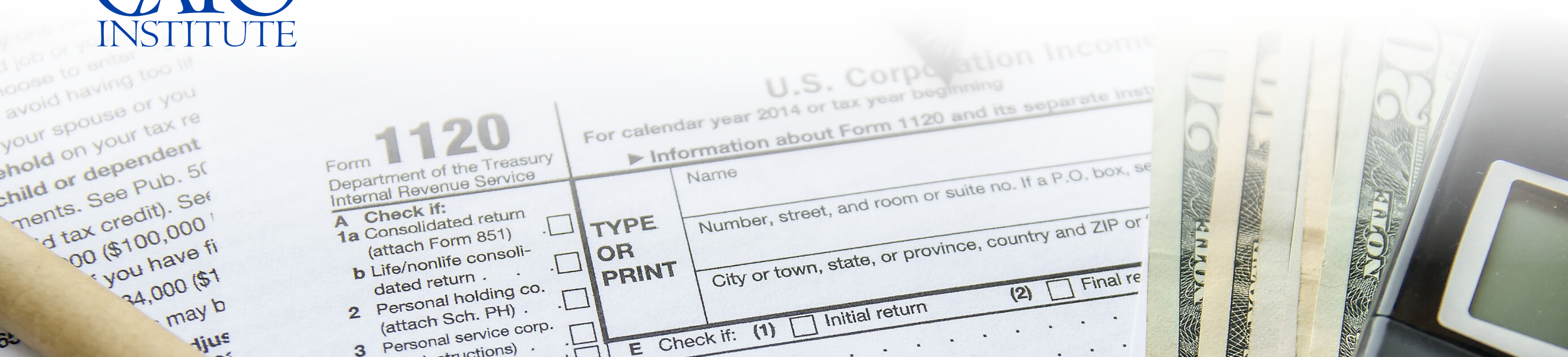

Major recent tax changes and future expirations

Provision	Current status in 2024 (current policy)	Policy in 2026 after TCJA expiration (current law)	IRC section
Individual marginal tax rates Rates apply to taxable income within designated tax brackets	Seven brackets: 10%, 12%, 22%, 24%, 32%, 35%, 37%	Seven brackets: 10%, 15%, 25%, 28%, 33%, 35%, 39.6% Above 15%, taxable income ranges generally capture more income in higher tax brackets.	Sec. 1
Standard deduction Standard deduction reduces taxable income to create a zero-rate tax bracket; not available for taxpayers who itemize	Single: $14,600; married: $29,200	Single: $8,300 Married: $16,600	Sec. 63
Personal exemptions Exemptions reduce taxable income for self, spouse, and child.	None; exemption set at $0	Exemption: $5,300	Sec. 151
Child tax credit Tax credit reduces taxes owed. Some low-income taxpayers with little or no tax liability can receive a direct payment in the form of a refundable credit.	$2,000 tax credit per child under 17 years old; phaseout for higher-income taxpayers begins at $400,000 for married filers.	$1,000 tax credit per child under 17 years old; phaseout for higher- income taxpayers begins at $110,000 for married filers.	Sec. 24
Credit for other dependents Tax credit for dependents not eligible for the child credit	$500 credit per dependent	No credit available	Sec. 24(h)(4)
State and local tax (SALT) deduction Itemized deduction for income or sales and property SALT payments	Deduction capped at $10,000	Unlimited deduction	Sec. 164
Mortgage interest deduction (MID) Itemized deduction for interest paid on first and second homes	Interest paid on up to $750,000 of mortgage debt is deductible.	Limit increases from $750,000 to $1 million of mortgage debt.	Sec. 163(h)
Limits on certain other individual itemized deductions	Limits on deduction for personal casualty and theft loss and wagering losses; no deduction for miscellaneous expenses, such as employee expenses and tax preparation fees	Fewer limits on deductions for losses and miscellaneous expenses	Sec. 62, 67, 165, 212
Overall limitation on itemized deductions Known as Pease limitation	No overall limit	For higher-income taxpayers, some itemized deductions reduced by 3% of income above certain thresholds	Sec. 68
Fringe benefits exclusions Exclusion of employer-provided bicycle commuter and moving expense reimbursements from taxable income	Bicycle and moving expense reimbursement included in taxable income; does not apply to moving expenses for military members	Up to $20 per month of bicycle expenses and all qualified moving expenses not subject to income or payroll taxes	Sec. 132
Moving expense deduction Above-the-line (not itemized) deduction for qualifying moving expenses	Available for military members only	Available to all qualifying individuals	Sec. 217
ABLE accounts Tax-favored savings accounts for qualifying disabled individuals	Higher ABLE account contribution limits for employed individuals, availability of saver's credit and tax-free rollovers from 529 education savings accounts	Contribution limits return to annual gift tax exemption for all individuals; saver's credit not eligible, and 529 rollovers are taxable.	Sec. 25B, 529
Health insurance premium tax credit Refundable tax credit to cover cost of insurance premiums purchased on ACA marketplace based on income, family size	Full premium coverage up to 150% of poverty line for Medicaid-ineligible; no income limit on credit to offset premiums above required contribution percentages	Higher premium contribution percentages at all income levels; credit not available above 400% of poverty line	Sec. 36B
Alternative minimum tax (AMT) Parallel income tax system with different definition of taxable income; tax rates of 26% and 28% after an AMT exemption	AMT exemption of $133,300 (married), phased down for high-income taxpayers; 2017 AMT applies to about 200,000 taxpayers.	Lower exemptions and phaseout income levels so that the AMT will likely apply to more than 5 million taxpayers.	Sec. 55
Expensing Businesses generally must deduct the cost of new investments over time (from 3 years to 39 years), depending on the asset.	Through 2022, 100% first-year bonus deduction (full expensing), phasing down 20% each year for 5 years; bonus deduction of 60% allowed in 2024	20% bonus deduction in 2026; beginning in 2027, normal depreciation rules apply.	Sec. 168
Pass-through deduction for business income Personal business income is generally taxable at individual income tax rates.	Deduction equal to 20% of qualifying business income; above certain income limits, deduction subject to restrictions based on industry and business wages paid	No deduction	Sec. 199A
Employer credit for paid leave Business tax credit for wages paid to employees on family and medical leave	Credit is up to 25% of wages paid for up to 12 weeks; does not apply to leave pay required by law.	No credit available	Sec. 45S
Limitation on losses for noncorporate taxpayers Business losses can generally be deducted from taxable income.	Non-C corporation losses in excess of income or gain from such activities, subject to annual limit of $610,000 (married); disallowed losses can be carried forward.	Losses can generally offset more income, subject to fewer limits; takes effect January 1, 2029.	Sec. 461(l)
International taxes TCJA included three new international taxes on certain foreign income (GILTI, FDII) and cross-border transactions (BEAT).	Effective tax rates: GILTI: 10.5%–13.125% FDII: 13.125% BEAT: 10%	Effective tax rates increase to: GILTI: 13.125%–16.406% FDII: 16.406% BEAT: 12.5%	Sec. 59A, 250, 951A
Opportunity Zones (OZs) Capital gains from qualified OZs deferred and excluded from income	No election for deferral of gain after December 31, 2026	After 2026 election date and staggered holding periods, no tax benefits for OZ investments	Sec. 1400Z
Estate and gift tax Inheritances and gifts are taxed at 40% after excluding a fixed amount from taxation.	Exclusion of $13.61 million per person	Exclusion of $7.15 million per person	Sec. 2001, 2010
Corporate tax rate	21% tax rate	No change, permanent reform	Sec. 11(b)