The TAX CUTS & JOBS ACT

WHAT YOU NEED TO KNOW

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COMMITTEE APPROVED

Ways and Means Passes Historic *Tax Cuts and Jobs Act*

On November 9, 2017, the House Ways and Means Committee passed the *Tax Cuts and Jobs Act* (H.R. 1) – bold legislation to overhaul America's tax code for the first time in 31 years.

With this bill, a typical middle-income family of four earning $59,000 (the median household income) will receive a $1,182 tax cut. The bill is expected to create nearly 1 million new jobs, increase annual after-tax income for middle-income households by an average of $2,598, and grow our economy by more than 3.5 percent.

Upon passing the *Tax Cuts and Jobs Act*, Ways and Means Committee Chairman and lead bill sponsor Kevin Brady (R-TX) said:

> *"Today, the first and oldest Committee in Congress passed transformational tax reform legislation that charts a new course for the country. We reaffirmed for all of the families and Main Street businesses struggling to get by that relief is on the way – relief from a broken tax code, from a slow-growing economy, from stagnant wages, and from jobs fleeing overseas.*
>
> *"The last four days of discussion and debate in our Committee proved Americans of all walks of life will be better off because of the* Tax Cuts and Jobs Act. *This legislation will reduce tax rates for Americans of all income levels so hardworking families can keep more of what they earn – that includes middle-income families in every Ways and Means Member's district.*
>
> *"Workers will finally be able to get the raise they deserve. More families will have help to buy a home, raise children, pay for college, and plan for their future. Businesses of all sizes will be able to create jobs, increase paychecks, and invest here at home.*
>
> *"At every step of the way, we have listened to our colleagues and the people we represent back home. We took additional action to help low- and middle-income families and Main Street job creators – including preserving the adoption credit to support parents who open their hearts and homes to an adopted child. We also create a new, lower tax rate for start-ups to help them grow during their crucial first few years of business. And we made sure to meet our reconciliation instruction so we can get this bill to the House floor as soon as possible.*
>
> *"After years of work, dozens of hearings, and multiple frameworks, we are one step closer to delivering true tax reform to the American people. This would not have been possible without our Members' hard work and commitment to pro-growth solutions that will improve lives.*
>
> *"As we move forward with the* Tax Cuts and Jobs Act *in the House, I congratulate Chairman Hatch and Senate Republicans on introducing their legislation today. We look forward to working with them to deliver a unified bill to President Trump this year."*

Tax Policy Subcommittee Chairman Peter Roskam (R-IL), an original cosponsor of the legislation, added:

> *"Today we've taken a big step forward in giving Americans the kind of tax system they deserve. The work we've done on this bill will ensure that hardworking, middle-class families are rewarded – not punished – for their success. We hope to continue to work with our democrat colleagues in a collaborative process to make real tax relief a reality for millions of Americans."*

For individuals and families, the *Tax Cuts and Jobs Act*:

- **Lowers individual tax rates for low- and middle-income Americans to Zero, 12%, 25%, and 35%** so people can keep more of the money they earn throughout their lives, and continues to maintain 39.6% for high-income Americans.
- **Significantly increases the standard deduction** to protect roughly double the amount of what you earn each year from taxes – from $6,350 to $12,000 for individuals and $12,700 to $24,000 for married couples.
- **Eliminates special-interest deductions that increase rates and complicate Americans' taxes** – so an individual or family can file their taxes on a form as simple as a postcard.
- **Takes action to support more American families** by:
    - **Establishing a new Family Credit – which includes expanding the Child Tax Credit** from $1,000 to $1,600 to help parents with the cost of raising children, and providing a credit of $300 for each parent and non-child dependent to help all families with their everyday expenses.
    - **Preserving the Child and Dependent Care Tax Credit** to help families care for their children and older dependents such as a disabled grandparent who may need additional support.
    - **Preserving the Adoption Tax Credit** so parents can continue to receive additional tax relief as they open their hearts and their homes to an adopted child.
- **Maintains the Earned Income Tax Credit** to provide important tax relief for low-income Americans working to build better lives for themselves.
- **Streamlines higher education benefits** to help families save for and better afford college tuition and other education expenses.
- **Continues the deduction for charitable contributions** so people can continue to donate to their local church, charity, or community organization.
- **Preserves the home mortgage interest deduction** for existing mortgages and maintains the home mortgage interest deduction for newly purchased homes up to $500,000 – providing tax relief to current and aspiring homeowners.
- **Continues to allow people to write off the cost of state and local property taxes** up to $10,000.
- **Retains popular retirement savings options** such as 401(k)s and Individual Retirement Accounts so Americans can continue to save for their future.
- **Repeals the Alternative Minimum Tax** so millions of individuals and families will no longer have to worry about calculating their taxes twice each year and pay the higher amount.
- **Provides immediate relief from the Death Tax by doubling the exemption and repealing the Death Tax after seven years**. Family-owned farms and businesses will no longer have to worry about double or triple taxation from Washington when they pass down their life's work to the next generation.

For job creators of all sizes, the *Tax Cuts and Jobs Act*:

- **Lowers the corporate tax rate to 20%** – down from 35%, which today is the highest in the industrialized world – the largest reduction in the U.S. corporate tax rate in our nation's history.
- **Reduces the tax rate on the hard-earned business income of Main Street job creators to no more than 25%** – the lowest tax rate on small business income since World War II.
- **Provides a new, low tax rate of 9% for new businesses earning less than $75,000 in income** to help the Main Street startups that fuel innovation and job creation in communities across the country
- **Establishes strong safeguards to distinguish between individual wage income and "pass-through" business income** so Main Street tax relief goes to the local job creators it was designed to help most.
- **Allows businesses to immediately write off the full cost of new equipment** to improve operations and enhance the skills of their workers – unleashing the growth of jobs, productivity, and paychecks.
- **Protects the ability of small businesses to write off the interest on loans** that help these Main Street entrepreneurs start or expand a business, hire workers, and increase paychecks.
- **Retains the low-income housing tax credit** that encourages businesses to invest in affordable housing so families, individuals, and seniors can find a safe and comfortable place to call home.
- **Preserves the Research & Development Tax Credit** – encouraging our businesses and workers to develop cutting-edge "Made in America" products and services.
- **Strengthens accountability rules for tax-exempt organizations** to ensure that churches, charities, foundations, and other organizations receiving tax-exempt status are focused on helping people and communities in need.
- **Modernizes our international tax system** so America's global businesses will no longer be held back by an outdated "worldwide" tax system that results in double taxation for many of our nation's job creators.
- **Makes it easier for American businesses to bring home foreign earnings** to invest in growing jobs and paychecks in our local communities.
- **Prevents American jobs, headquarters, and research from moving overseas** by eliminating incentives that now reward companies for shifting jobs, profits, and manufacturing plants abroad.

SUMMARY OF CHANGES

Amendments to the *Tax Cuts and Jobs Act* During Markup

Amendment offered by Chairman Brady and adopted by the Committee on Monday, November 6, 2017

Section 1005 - Conforming amendments

Section 1004, 1005 - Earned income tax credit program integrity

The amendment includes new rules with respect to the earned income tax credit that (1) require claims for the credit to properly reflect any net earnings from self-employment, (2) require employers to provide additional information on payroll tax returns, and (3) provide the IRS with additional authority regarding substantiation of earned income amounts.

Section 1404 - Exclusion for dependent care assistance programs

The amendment continues through December 31, 2022, the exclusion from income for up to $5,000 of employer-provided dependent-care assistance, which helps pay for work-related expenses of caring for a child under the age of 13 or spouses or other dependents who are physically or mentally unable to care for themselves.

Section 3311 - Self-created musical works

The amendment preserves the treatment of self-created musical compositions and copyrights in musical works as capital assets.

Section 3314 - Partnership interest held in connection with the performance of services

The amendment imposes a three-year holding period requirement for qualification as longterm capital gain with respect to certain partnership interests received in connection with the performance of services.

Section 3804 - Stock options

The amendment provides that certain employees who receive stock options or restricted stock units as compensation for the performance of services and later exercise such options or units may elect to defer recognition of income for up to 5 years, if the corporation's stock is not publicly traded.

Section 4004, 4301, 4303 - International base-erosion rules

The amendment modifies the bill's international base erosion rules in several respects. First, the provision taxing affiliated payments is revised to provide for a foreign tax credit, to exempt foreign affiliates' routine returns, to exclude acquisitions of property priced on a public exchange, to compute a foreign affiliate's profits based on foreign profit margins instead of global profit margins, and to coordinate with existing withholding tax rules. Second, the amendment modifies the provision taxing foreign high returns to clarify the scope of existing exceptions for certain local active financing and extraction activities. The amendment also clarifies the computation of the deemed repatriation tax on grossed-up foreign taxes deemed paid.

Section 5103 - Excise tax based on investment income of private colleges and universities

The amendment provides that the 1.4% excise tax on the net investment income of certain educational institutions applies only if the fair market value of the institution's assets (other than those assets used directly in carrying out its exempt purpose) is at least $250,000 per student.

Amendment offered by Chairman Brady and adopted by the Committee on Thursday, November 9, 2017

Section 1004 – Maximum rate on business income of individuals (reduced rate for small businesses with net active business income)

The amendment provides a 9-percent tax rate, in lieu of the ordinary 12-percent tax rate, for the first $75,000 in net business taxable income of an active owner or shareholder earning less than $150,000 in taxable income through a pass-through business. As taxable income exceeds $150,000, the benefit of the 9-percent rate relative to the 12-percent rate is reduced, and it is fully phased out at $225,000. Businesses of all types are eligible for the preferential 9-percent rate, and such rate applies to all business income up to the $75,000 level. The 9-percent rate is phased in over five taxable years, such that the rate for 2018 and 2019 is 11 percent, the rate for 2020 and 2021 is 10 percent, and the rate for 2022 and thereafter is 9 percent. For unmarried individuals, the $75,000 and $150,000 amounts are $37,500 and $75,000, and for heads of household, those amounts are $56,250 and $112,500.

Section 1004 – Maximum rate on business income of individuals (eliminate provisions related to Self-Employment Contributions Act)

The amendment preserves the current-law rules on the application of payroll taxes to amounts received through a pass-through entity.

Section 1102 – Repeal of nonrefundable credits

The amendment preserves the current law non-refundable credit for qualified adoption expenses.

Section 1103 – Refundable credit program integrity

The amendment requires a taxpayer to provide an SSN for the child in order to claim the entire amount of the enhanced child tax credit.

Section 1205 – Rollovers between qualified tuition programs and qualified able programs

The amendment would allow rollovers from section 529 plans to ABLE programs.

Section 1405 – Repeal of exclusion for qualified moving expense reimbursement

The amendment preserves the current law tax treatment for moving expenses in the case of a member of the Armed Forces of the United States on active duty who moves pursuant to a military order.

Sec. 1601-1602. Increase in credit against estate, gift, and generation-skipping transfer tax; Repeal of estate and generation-skipping transfer taxes

This amendment provides that repeal of the estate and generation-skipping taxes and lowering of the top gift-tax rate to 35% will be effective beginning after December 31, 2024. The basic exclusion amount, which is currently $5 million as of 2011 and is indexed for inflation, continues to be doubled to $10 million, still indexed for inflation since 2011, for all periods beginning after December 31, 2017 and through December 31, 2024.

Section 3001 – Reduction in corporate tax rate

The amendment lowers the 80-percent dividends received deduction to 65 percent and the 70-percent dividends received deduction to 50 percent, preserving the current law effective tax rates on income from such dividends.

Section 3101, 3301 – Interest

The amendment provides an exclusion from the limitation on deductibility of net business interest for taxpayers that paid or accrued interest on "floor plan financing indebtedness." Full expensing would no longer be allowed for any trade or business that has floor plan financing indebtedness.

Section 3204 – Modify treatment of S corporation conversions into C corporations

The amendment provides that distributions from an eligible terminated S corporation would be treated as paid from its accumulated adjustments account and from its earnings and profits on a pro-rata basis. The amendment provides that any section 481(a) adjustment would be taken into account ratably over a 6-year period. For this purpose, an eligible terminated S corporation means any C corporation which (i) was an S corporation on the date before the enactment date, (ii) revoked its S corporation election during the 2-year period beginning on the enactment date, and (iii) had the same owners on the enactment date and on the revocation date.

Section 3315 – Amortization of Research and Experimentation Expenditures

The amendment provides that certain research or experimental expenditures are required to be capitalized and amortized over a 5-year period (15 years in the case of expenditures attributable to research conducted outside the United States). The amendment provides that this rule applies to research or experimental expenditures paid or incurred during taxable years beginning after 2022.

Section 3316 – Uniform treatment of expenses in contingent fee cases

The amendment disallows an immediate deduction for litigation costs advanced by an attorney to a client in contingent-fee litigation until the contingency is resolved, thus creating parity throughout the United States as to when, if ever, such expenses are deductible in such litigation. Under current law, certain attorneys within the Ninth Circuit who work on a contingency basis can immediately deduct expenses that ordinarily would be considered fees paid on behalf of clients, in the form of loans to those clients, and therefore not deductible when paid or incurred. This provision creates parity on this issue throughout the United States by essentially repealing the Ninth Circuit case, Boccardo v. Commissioner, 56 F.3d 1016 (9th Cir. 1995), which created a circuit split on this issue.

Section 3703 – Surtax on life insurance company taxable income

The amendment generally preserves current law tax treatment of insurance company deferred acquisition costs, life insurance company reserves, and pro-ration, and imposes an 8% surtax on life insurance income. This provision is intended as a placeholder.

Section 3801 – Nonqualified deferred compensation

The amendment strikes Section 3801 so that the current-law tax treatment of nonqualified deferred compensation is preserved.

Section 3805 – Modification of treatment of qualified equity grants

The amendment clarifies that restricted stock units (RSU) are not eligible for section 83(b) elections. Other than new section 83(i), section 83 does not apply to RSUs.

Section 4004 – Treatment of deferred foreign income upon transition to participation exemption system of taxation

The amendment provides for effective tax rates on deemed repatriated earnings of 7% on earnings held in illiquid assets and 14% on earnings held in liquid assets.

Section 4303 – Excise tax on certain payments from domestic corporations to related foreign corporations; election to treat such payments as effectively connected income

The amendment modifies the bill's international base erosion rules in two respects. First, the provision eliminates the mark-up on deemed expenses. Second, the amendment expands the foreign tax credit to apply to 80% of foreign taxes and refines the measurement of foreign taxes paid by reference to section 906 of current law rather than a formula based on financial accounting information.

Section 4969 – Excise taxed based on investment income of private colleges and universities

The amendment ensures that endowment assets of a private university that are formally held by organizations related to the university, and not merely those that are directly held by the university, are subject to the 1.4-percent excise tax on net investment income.

Section 5201 – Churches permitted to make statements relating to political campaign in ordinary course of religious services and activities

This amendment ensures that all 501(c)(3) organizations will not fail to be treated as organized and operated exclusively for their respective non-profit purposes because of engagement in certain political speech, as long as the speech is in the ordinary course of the organization's business and the organization's expenses related to such speech are de minimis. This provision is effective for tax years beginning after December 31, 2018 and is sunset for tax years beginning after December 31, 2023.

<u>As a result of these changes:</u>

National Federation of Independent Business Endorsed *Tax Cuts and Jobs Act*:

> *"We are very grateful to Chairman Brady for listening to our concerns and working with NFIB to ensure that tax reform benefits the greatest possible number of American small business owners. This amendment would create substantial tax relief for millions of small business owners who were left out of the original bill. We urge Republican and Democratic members of the House to support this amendment going forward."*

– President and CEO Juanita Duggan

What the *Tax Cuts and Jobs Act* Means for You and Your Family

On November 9, 2017, the House Ways and Means Committee approved the *Tax Cuts and Jobs Act* – pro-growth legislation that will overhaul our nation's tax code for the first time since President Reagan's historic tax reform 31 years ago.

With this bill, a typical middle-income family of four, earning $59,000 (the median household income), will receive a $1,182 tax cut. Most importantly – here's what the *Tax Cuts and Jobs Act* means for you and your family:

You will be able to keep more of your hard-earned money every month.

- The *Tax Cuts and Jobs Act* delivers tax relief to Americans of all walks of life – at every income level.
- It reduces the tax rates for low- and middle-income Americans, and roughly doubles the standard deduction – protecting up to $24,000 of your family's take-home pay each year from taxes.
- It also eliminates taxes that punish hardworking families, such as the Alternative Minimum Tax.

You will have help raising your children and supporting your family.

- The *Tax Cuts and Jobs Act* delivers much-needed support to American families who today are struggling to keep up with the rising costs of child care, higher education, and looking after their loved ones.
- The legislation takes action to support American families by:
  - Establishing a new Family Credit, which includes expanding the Child Tax Credit from $1,000 to $1,600 to help parents with the cost of raising children, and providing a credit of $300 for each filer, spouse, and non-child dependent to help all families with their everyday expenses.
  - Preserving the Child and Dependent Care Tax Credit to help families care for their children and older dependents such as a disabled grandparent who may need additional support.
  - Preserving the Adoption Tax Credit so parents can continue to receive additional tax relief as they open their hearts and their homes to an adopted child.
- It also helps families save for and better afford college tuition and other education expenses by streamlining today's higher education benefits.
- And it helps more families with homeownership by:
  - Preserving the home mortgage interest deduction for existing mortgages and maintaining the home mortgage interest deduction for newly purchased homes up to $500,000, providing tax relief to current and aspiring homeowners.
  - Continuing to allow people to write off the cost of state and local property taxes up to $10,000.

You are going to have more job opportunities and see your paycheck grow after years of stagnant wages.

- The *Tax Cuts and Jobs Act* lowers tax rates on businesses of all sizes so job creators can focus more on hiring workers, increasing paychecks, and investing in our local communities.
- This tax relief will help Americans who have been struggling under today's slow-growing economy find a job, earn a raise, and finally get ahead, instead of just getting by.

You will be able to more easily start your own small business, be your own boss, and pass on your work to the next generation.

- With mind-numbing complexity and high tax rates, today's broken tax code can often discourage entrepreneurs from starting a business, creating jobs, and investing in their local communities.
- The *Tax Cuts and Jobs Act* reduces the tax rate on the hard-earned "pass-through" business income to no higher than 25% for Main Street job creators – the lowest tax rate on small business income since World War II.
- Small start-up businesses earning less than $75,000 in income will be taxed at a new, low rate of 9% to help the Main Street startups that fuel innovation and job creation in communities across the country.
- Main Street job creators making less than $100,000 each year will see the benefits of individual tax rate reductions just like all other Americans.
- It also simplifies the tax code so Main Street job creators can focus more time and money on growing their business and investing in their workers – not on navigating the current 70,000 pages of tax laws.
- And it provides immediate relief from the Death Tax by doubling the exemption and repealing the Death Tax after seven years. Family-owned farms and businesses will no longer have to worry about double or triple taxation from Washington when they pass down their life's work to the next generation.

You will see more "Made in America."

- With the highest corporate tax rate in the industrialized world, and an outdated international tax system that often taxes America's global businesses twice, today's broken tax code has forced many businesses to move their jobs, research, and headquarters overseas.
- The *Tax Cuts and Jobs Act* will encourage American companies to bring their jobs and operations back home by lowering the corporate tax rate to 20% – the largest reduction in the U.S. corporate tax rate in our nation's history.
- It rewards work done in the United States by allowing businesses to fully and immediately deduct the cost of new capital equipment and promotes the development of cutting-edge "Made in America" products and services by retaining the Research & Development Tax Credit.
- It modernizes our international tax system and encourages America's global businesses to bring their foreign earnings home – so workers and job creators in the United States will once again have a competitive edge over other strong economies.

You and your family will be able to continue using the retirement savings option that best suits your needs at each stage of your lives.

- The *Tax Cuts and Jobs Act* makes no changes to the popular retirement savings options that Americans have today – including 401(k)s and Individual Retirement Accounts, or IRAs. Americans will be able to continue making both traditional, pre-tax contributions and "Roth" contributions in the way that works best for them.
- It also preserves lower rates on capital gains, dividends, and interest income so Americans can invest more in their local economies and build toward a more financially secure future for their families.

Families in Ways and Means Members' Districts Benefit from the *Tax Cuts and Jobs Act*

On November 9, the House Ways and Means Committee approved the *Tax Cuts and Jobs Act*. The chart below shows how this bill will cut taxes for Americans living in districts represented by Ways and Means Committee Members – specifically for the median household of four in each district that will take the standard deduction under the new law.

	State	District	Median Income: 4-Person Household	Tax Cuts for Median 4-Person Household
Kevin Brady	TX	8	$92,113	-$2,176
Sam Johnson	TX	3	$121,881	-$4,353
Devin Nunes	CA	22	$76,658	-$1,712
Pat Tiberi	OH	12	$108,191	-$2,997
Dave Reichert	WA	8	$112,087	-$3,654
Peter Roskam	IL	6	$135,485	-$5,053
Vern Buchanan	FL	16	$84,099	-$1,935
Adrian Smith	NE	3	$72,555	-$1,589
Lynn Jenkins	KS	2	$80,345	-$1,823
Erik Paulsen	MN	3	$140,751	-$5,303
Kenny Marchant	TX	24	$110,578	-$3,358
Diane Black	TN	6	$79,298	-$1,791
Tom Reed	NY	23	$70,914	-$1,540
Mike Kelly	PA	3	$85,268	-$1,971
Jim Renacci	OH	16	$96,701	-$2,314
Pat Meehan	PA	7	$136,482	-$5,103
Kristi Noem	SD	AL	$85,427	-$1,975
George Holding	NC	2	$97,432	-$2,335
Jason Smith	MO	8	$66,054	-$1,394
Tom Rice	SC	7	$63,954	-$1,331
David Schweikert	AZ	6	$101,878	-$2,469
Jackie Walorski	IN	2	$70,365	-$1,523
Carlos Curbelo	FL	26	$67,860	-$1,448
Mike Bishop	MI	8	$106,565	-$2,786
Richard Neal	MA	1	$87,326	-$2,032
Sander Levin	MI	9	$79,188	-$1,788
John Lewis	GA	5	$71,606	-$1,561

	State	District	Median Income: 4-Person Household	Tax Cuts for Median 4-Person Household
Lloyd Doggett	TX	35	$59,858	-$1,208
Mike Thompson	CA	5	$101,250	-$2,450
John Larson	CT	1	$116,878	-$4,103
Earl Blumenauer	OR	3	$97,360	-$2,333
Ron Kind	WI	3	$88,812	-$2,077
Bill Pascrell	NJ	9	$90,272	-$2,121
Joseph Crowley	NY	4	$145,320	-$5,553
Danny Davis	IL	7	$73,689	-$1,623
Linda Sanchez	CA	38	$84,491	-$1,947
Brian Higgins	NY	26	$74,216	-$1,639
Terri Sewell	AL	7	$65,839	-$1,388
Suzan DelBene	WA	1	$139,472	-$5,253
Judy Chu	CA	27	$97,127	-$2,326

NOTE: Median income data is from the Census Bureau's American Community Survey (ACS). The tax cut calculations assume a married household with two children that takes the standard deduction and assumes 2017 tax parameters.

BY THE NUMBERS

Taxpayer Stories

Family of Four Making $59,000 Per Year

- Steve and Melinda have two children in middle school and are living secure middle-class life – but budgets are tight. With tax reform, they'll get some much-needed breathing room financially.
- As a result of lower tax rates, a significantly larger standard deduction, and an enhanced Child Tax Credit and new Family Credit, Steve and Melinda will pay **over $1,182 less** in taxes than last year, reducing their total tax bill from $1,582 to only $400. That's more money they can use for whatever is important to them, whether it's paying bills, purchasing a new refrigerator, or putting away savings for the future.

Single Mother Making $30,000 Per Year

- Cindy has a fulfilling job and a promising career path as an assistant manager at a local restaurant. She works hard to support herself and her 11-year-old daughter, but most days Cindy feels like she's barely getting by much less getting ahead. With the *Tax Cuts and Jobs Act*, relief is in sight.
- Come Tax Day, Cindy will receive a tax refund of over $1,000 as a result of the bill's lower tax rates, larger Child Tax Credit, and Family Credit. This is **over $700 larger than the refund she receives today**, offering a more meaningful reward for her hard work as she raises her daughter and pursues her own professional aspirations.

Family of Five Earning $73,000 Per Year

- The Stephensons have three children. Their oldest is four years old, and they have twin daughters who are one-year-old. Having twins was one of life's little miracles and a blessing to be sure, but it was a bit more than the Stephensons were prepared for financially. Under the *Tax Cuts and Jobs Act*, they will receive valuable tax relief to help them raise their young family and be better prepared when more surprises come their way in the future.
- With lower tax rates, an increased child tax credit of $1,600, and a new family-focused credit for middle-class households, the *Tax Cuts and Jobs Act* will give the Stephenson Family a **tax cut of $1,595**, reducing their taxes from $2,075 today to less than $500.

New Homeowners Making $115,000 Per Year in a High Tax State

- John and Rebecca got married this past summer and just bought their first home. Today, they make a combined income of $115,000. They will pay $8,400 in mortgage interest and $6,900 in state and local property taxes. John and Rebecca would like to have children, but they're not sure if now is the right time financially. Under the *Tax Cuts and Jobs Act*, they'll receive more support now and into the future.
- The bill reduces their tax bill from $12,180 to $11,050 – **a total tax cut of $1,130**. This results from lower tax rates, a significantly larger standard deduction, and the addition of the new Family Credit. With these benefits, John and Rebecca will also see tax relief for both their mortgage interest and state and local property taxes – all without having to itemize deductions.
- Finally, if John and Rebecca do have a child, they would be able to claim an increased Child Tax Credit of $1,600 – up from just $1,000 today – reducing their taxes even further so they can keep more money to support their new family.

Married Couple Making $280,000 Per Year and Preparing to Buy a $600,000 Home

- Edgar and Michelle Garcia make $280,000 per year in income and are preparing to purchase a new home for $600,000. They're concerned to hear the *Tax Cuts and Jobs Act* will only provide a mortgage interest deduction for mortgages of $500,000 or less. They can rest easy.
- With the *Tax Cuts and Jobs Act*, the Garcias will still be able to claim the mortgage interest deduction on the first $500,000 of their mortgage. In addition, by placing a generous limit on this tax benefit, the bill is able to reduce tax rates throughout the code while also providing a deduction for state and local property taxes. This will provide a significant amount of tax relief to the Garcias. At about a 5% interest rate, that **$500,000 in principal is worth $25,000 in deductions early in the life in the mortgage**.

In the end, the couple will see their tax bill reduced from $49,820 today to $47,867 under the *Tax Cuts and Jobs Act*. **That's a total tax cut of $1,953** – more money they can use for their home, their hobbies, or whatever they choose.

How the *Tax Cuts and Jobs Act* Delivers Tax Relief for All Americans

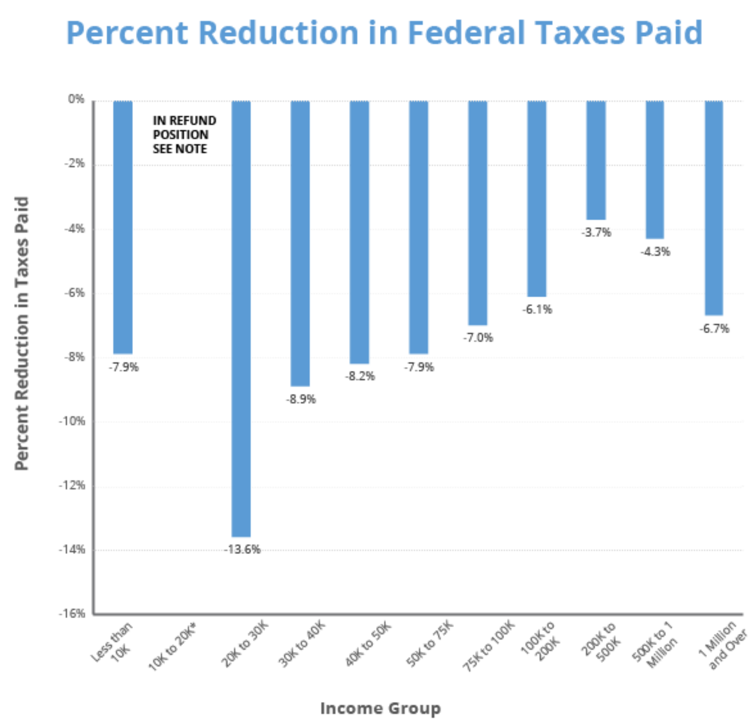
The Joint Committee on Taxation (JCT) recently released distributional tables to show the impact of the *Tax Cuts and Jobs Act* on taxpayers across the income distribution.

JCT's distributional tables reflect static snapshots of selected income groups in 2019, 2021, 2023, 2025, and 2027. For each income group in each year, JCT calculates the projected amount of taxes paid under current law – and under the TCJA. The tables also show average tax rates under current law and under TCJA for each income group.

Here are the key things that you need to know about the analysis:

Fact #1: The *Tax Cuts and Jobs Act* Delivers the Largest Percentage Reductions in Taxes Paid for Low- and Middle-Income Americans.

On a percent basis, low- and middle-income Americans will see the largest reductions in taxes paid under the TCJA. For example, earners in $50,000 to $75,000 range, which is the middle of the income distribution, would see a 7.9 percent reduction in taxes paid — whereas earners in the $500,000 to $1 million range would see a 4.3 percent reduction in taxes paid.



Consider the example to the right.

Under current law in 2017, a married couple with two kids earning $59,000 (which is the national median income) owes $1,582 in income taxes.

But under the TCJA that family will only owe $400 because the plan would cut their taxes by $1,182 – **a whopping 75 percent reduction in taxes paid.**

Likewise, if that same family earned $300,000 they would pay $64,680 under current law and pay $58,600 under TCJA – a tax cut of $6,080. Although that's a bigger tax cut in dollar terms, their percentage reduction in tax liability is 9 percent.

[*Note: According to JCT, "for returns on the $10,000 to $20,000 income category, federal taxes would decrease from -$2.412 billion to -$4.848 billion." Therefore, the percent change in taxes paid is not interpretable for the purposes of the chart. This income group is in a net refund position and would see their refund double under the TCJA.]

Fact #2: In 2019 The *Tax Cuts and Jobs Act* Focuses a Majority of Tax Relief on Families Earning Less than $200,000.

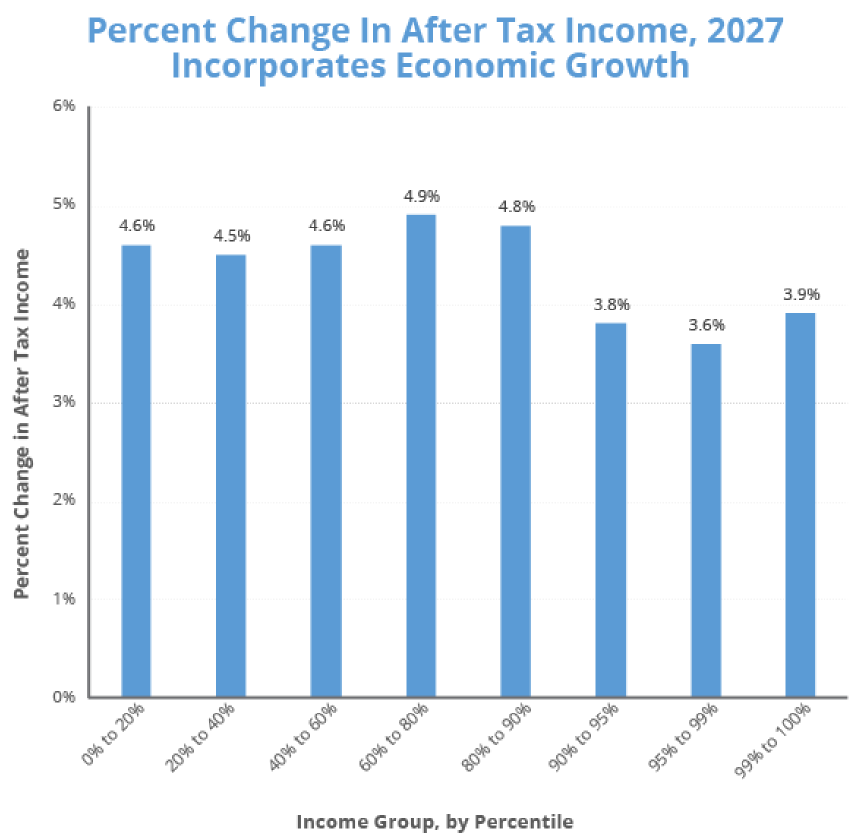
In 2019, the most recent year available and therefore the closest representation of the near term effects of tax reform on taxpayers, the TCJA would slash taxes for all income groups. Out of $192 billion in tax cuts for individuals and businesses in that year alone, $113.5 billion in tax cuts (59 percent) would go directly to those earning below $200,000. **When the effects of corporate tax reform are removed, 73 percent of tax relief flows to those earning under $200,000**.

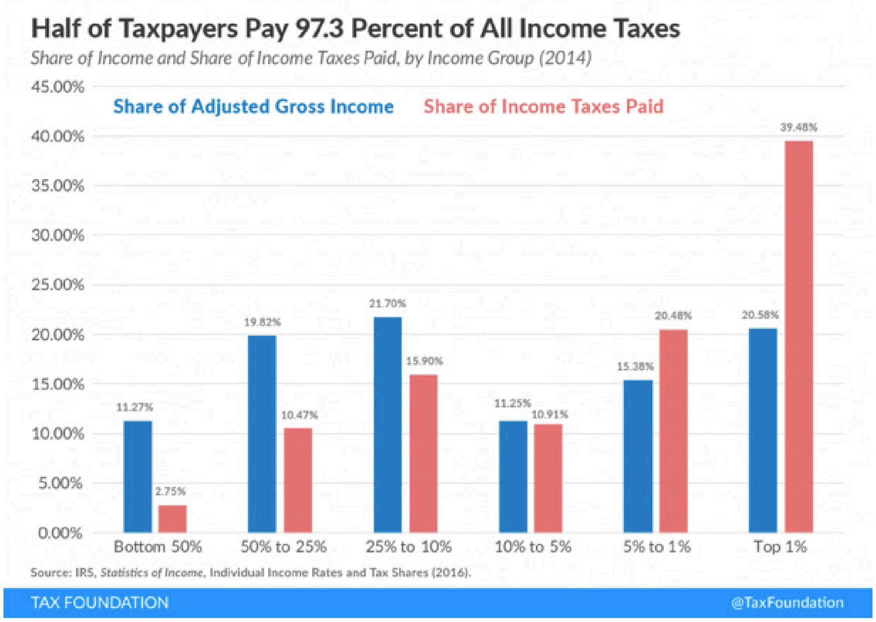
Fact #3: Faster Economic Growth Lifts Incomes for All and Americans of All Income Groups Benefit from Tax Reform.

The purpose of tax reform isn't just to lower taxes for struggling families – it's also to make our economy boom again. Any distributional analysis that omits how changes in the economy affect the jobs and paychecks of hardworking Americans offers an incomplete picture of tax reform. Unfortunately, JCT's analysis omits the economic effects of tax reform in their distributional tables. This means that the JCT analysis misses the bigger picture.

However, recent analysis by the Tax Foundation shows how faster economic growth increases wages and therefore further boosts take-home pay for all Americans.

As the following chart shows, the *Tax Cuts and Jobs Act* will boost take-home pay for all Americans by about 4 percent. **The largest percent increases in take-home pay occur for the middle class – such as those earners below the 80th percentile of the income distribution**. This raises an important point: all can benefit from higher take-home pay at the same time that the overall burden of the tax system shifts.





Fact #4: The Burden of the Federal Income Tax is Currently Highly Skewed Towards High Earners.

Any analysis that discusses changes in tax burdens should also focus on the existing tax burden. According to the Tax Foundation, in 2014, half of taxpayers paid over 97 percent of all income taxes. In addition, the top 10 percent of taxpayers paid 71 percent of all income taxes (see the chart to the left). For this reason, any reductions in income taxes will necessarily benefit those who share in paying income taxes, while also preserving relief for low- and middle-income families.

Fact #5: The Idea that the *Tax Cuts and Jobs Act* Creates a Stealthy New 45.6% Tax Bracket for Millionaires is False.

Some have alleged that TCJA creates a stealthy new 45.6% tax bracket for millionaires. This misleading statement implies that this new provision would create a new tax bracket that goes above and beyond current law to raise taxes on the wealthy. This just isn't true because the TCJA cuts taxes for every income group (see the chart under Fact #1).

Here's what's actually going on: just like other popular tax benefits targeted toward low- and middle-income families such as the Child Tax Credit or American Opportunity Tax Credit, the *Tax Cuts and Jobs Act* phases out the benefit of the 12-percent rate for millionaires. The phase-outs of other low- and middle-income tax benefits range from 5% (CTC) to 21% (EITC), and are never described as "stealthy new brackets."

In addition, the *Tax Reform Act of 1986* also phased out the benefit of its lowest rate for high earners – a commonsense idea to promote fiscal responsibility and distributional fairness. In fact, this provision provides much needed revenue to further lower taxes on middle-income earners.

Even with this phase-out, effective rates for earners in that income range are reduced as their earnings between $470,000 and $1,000,000 are subject to a 35% rate instead of the 39.6% rate they pay on that income today. So, even with this provision, all income groups see a significant tax reduction on both a static and dynamic basis.

WHAT HAPPENED IN COMMITTEE – A DAY-BY-DAY

Day 1: Delivering Tax Relief at All Income Levels

The Ways and Means Committee began marking up H.R. 1 – the *Tax Cuts and Jobs Act* – on November 6, 2017. The markup showed that hard-working Americans at all income levels will see tax relief from this pro-growth legislation.

Chairman Kevin Brady (R-TX):

> *"According to independent estimates from the nonpartisan Tax Foundation, the* Tax Cuts and Jobs Act *will lead to nearly 4 percent higher GDP over the long term. … Here's exactly what this means for the American people. It means middle-income families will see their after-tax incomes go up by an average of roughly* $2,600 nationwide. ***From coast to coast, the era of stagnant wages is over."***

Thomas Barthold, Chief of Staff for the Nonpartisan Joint Committee on Taxation:

> *"In 2019, our projections … would say that **there is a tax benefit to all income categories as we measure them**."*

Rep. Carlos Curbelo (R-FL):

> *"**Not only do we deliver tax relief for every American family, especially those who feel like they've been left behind**; but I think we also create more opportunities for every American family, especially younger workers who went to college based on a promise, and a promise has been broken for a lot of them. … This is an exciting opportunity we have to do something special for the American people."*

Rep. Dave Reichert (R-WA):

> *"This bill cuts taxes, it creates jobs, energizes this economy and results in higher wages and more money in the average worker's paycheck. …The overall big picture is, **across this country at every income level we see tax relief, jobs being created**."*

Mr. Barthold:

> *"You redefine the tax brackets … so that provides a general tax benefit absent any other changes. **There's an increase in the standard deduction, as a stand-alone measure, also essentially creates a larger 0% tax bracket, so that would benefit all taxpayers."***

Rep. Erik Paulsen (R-MN):

> *"**This is about helping hard-working taxpayers across the board** looking to the future and getting to the restoration to prosperity, which I think today is so critical."*

Rep. Tom Rice (R-SC):

> *"The Washington Post … said that **every income quintile in the United States would receive a tax cut under this plan and that in fact 93.5% of the taxpayers in this country would receive a tax cut**. … So, we have pretty good reference material, pretty good agreement across the political spectrum … that every income quintile will receive a tax cut."*

Rep. Diane Black (R-TN):

> *"That really is what our tax code reform is about: it is about helping those, especially in the middle-income, to have more money in their pocket so they can make the choices of what they will do with their money. … **At the end of the day, everybody benefits by this**; but particularly in our plan, it is the middle-income earners that will benefit by this plan."*

Mr. Barthold's remarks reminded the Committee why delivering this tax relief to all hardworking Americans is so important:

> *"There has not been substantial growth in median family income over the past two decades."*

WHAT HAPPENED IN COMMITTEE

Day 2: Ending the Slow-Growth Status Quo

The Ways and Means Committee continued its work to advance H.R. 1 – the *Tax Cuts and Jobs Act* – on November 7, 2017. Our action reinforced that this bold legislation will end the slow-growth status quo and unleash the growth of jobs and paychecks throughout our country:

Chairman Kevin Brady (R-TX):

> *"For so long we've watched, not just our good-paying jobs, but our research, our manufacturing, and our headquarters move overseas. And for too long, we've tried to treat the symptoms of that; but the problem is our Tax Code.* ***No matter what we do … the only thing that seems to stay is this broken Tax Code****. …*
>
> *"****We believe at the end of the day the status quo will not work for American companies to compete****. We've laid out, we think, strong provisions that allow America to compete; and for those reasons, the status quo cannot continue."*

Rep. Peter Roskam (R-IL), Chairman of the Tax Policy Subcommittee:

> *"Everybody under this proposal benefits. …* ***The most favored in our society are benefitting under the status quo****."*

Rep. Devin Nunes (R-CA):

> *"****I think we all can say that the current tax code just doesn't work****. So, if the left wants to put up a tax bill that's going increase taxes … that's fine. … It'll be up to the American people to decide: do they want to move our tax system into the 21st century or do we want to stay on the tax system of old, that clearly isn't working by evidence of the jobs that are leaving this country."*

Rep. Mike Kelly (R-PA):

> *"We all agree that the status quo is not acceptable, we want to see things change. …* ***It's not foreign competition that hurts us, it's our own government that hurts us. We tax them too high, we regulate them too much, and then we criticize them*** *when they say 'I got to go offshore to survive,' not to thrive but to survive.* ***This piece of legislation brings jobs back here****."*

Rep. Pat Meehan (R-PA):

> *"Let's just look at the facts of the status quo, which is being defended largely by my colleagues on the other side of the aisle before we came to address this.* ***Beginning in 2008 … eight years of the slowest recovery in modern American history, 2% growth****. … It was the slowest economic recovery since World War II. The United States lost nearly 300,000 jobs in manufacturing …* ***and the share of Americans in the workforce plummeted to the lowest since the 70's****."*

Rep. Erik Paulsen (R-MN):

*"**If we're going to suffer with 2% growth**, if that's the new normal and we're going to accept that, **then young people getting out of college aren't going to be able to pay their student loans, they're not going to have more job opportunities**. Older people who are retiring, as baby boomers retire, are going to be at risk without a competitive, growing economy. The Tax Code has not kept pace with the modern economy, this is our chance to move in a different direction."*

Rep. Adrian Smith (R-NE):

*"**The share of Americans participating in the workforce is near a four-decade low**. … The status quo is clearly not working. … I believe that our plan would be more effective than the continuation of the status quo. How much more evidence do we need that the continuation of the status quo is not working?"*

Tom Barthold, Chief of Staff for the nonpartisan Joint Committee on Taxation, explained that our bill will disrupt the status quo and pave the way for the creation of more jobs here at home:

"A 20% rate, a lower rate, for profits that are earned in the United States, on investments in the United States, should encourage investment in the United States relative to what would occur under baseline law."

"The increased capital cost recovery … the 100% expensing of tangible investments. That means that if you build a plant in the United States, you get immediately improved cash flow and higher returns. … That should be an incentive to locate investments in the United States and jobs are complimentary to factory investment."

WHAT HAPPENED IN COMMITTEE

Day 3: Advancing Pro-Family Tax Reforms That Help All Americans

On November 8, 2017, the Ways and Means Committee continued its work to advance H.R. 1 – the *Tax Cuts and Jobs Act*. Our work made clear that the reforms being offered in our bill put families first, giving them certainty as they plan for their future and for their children's future:

Rep. Diane Black (R-TN):

> *"To be able to have a single American Opportunity Tax Credit (AOTC), as well as 529's, that will help the everyday American family be able to take true advantage of what's in that Tax Code, **not have to go through all this complication, and get something simplified that the American families can actual use**. … I'm very proud of what we're doing because it is giving people an opportunity to truly use what's in the code."*

Rep Mike Bishop (R-MI):

> *"If you look at the big picture … **average families benefit by this plan** over the previous."*

Rep. Kristi Noem (R-SD):

> *"I like the changes we've made to the 529 plan. They are tax free, qualified distributions that we've expanded to be used for apprenticeships, elementary education costs, also we've used them for the ability for families to be able to save for the unborn. … **Now families can plan for that child from the moment of being in utero so they can start saving for whatever education costs that they may have**."*

Rep. Erik Paulsen (R-MN):

> *"**We're allowing any family to make sure they're having more money in their pocket** to save for the future, to pay off a student loan, but also to save for their retirement."*

Rep. Dave Reichert (R-WA):

> *"**This is supposed to be focused on strengthening families and their communities**. And that's where we need to put our energies."*

Rep. Adrian Smith (R-NE):

> *"As families face these month-to-month expenses, let's look at that. How can we help them? To me, the best way to help them is to expand the economy, create more jobs. … **That dynamic of a growing economy that can create opportunity and a brighter financial future for folks all across the country**, rather than having to check in with politicians on various wages and other dynamics."*

Rep. Tom Rice (R-SC):

> *"What our bill offers is opportunity.* ***What our bill offers is a future for our children and our grandchildren****. And I am proud to be a part of it."*

Rep. Carlos Curbelo (R-FL):

> *"Do we want a tax code that has the special and small benefits for many small groups of Americans, or do we want a tax code that benefits all Americans and treats all Americans fairly? … That's the debate that we're having here, and* ***I truly hope that we would choose that simple tax code, that fair tax code****."*

What They're Saying About the *Tax Cuts and Jobs Act*

The White House

Statement by the Press Secretary on the Passage of Tax Cut Legislation through the House Ways and Means Committee

> *"Today's passage of the* Tax Cuts and Jobs Act *through the House Ways and Means Committee is an important step toward providing historic tax relief for the American people. The President's priorities have remained the same throughout this process: delivering tax cuts for middle income families, a simplified tax code, and lower rates for American businesses so they can grow, create jobs, raise wages for their workers, and dominate their global competition. There is still much to do, but the Administration remains confident that, through continued cooperation with Congress, we will achieve these priorities this year."*

Businesses

U.S. Chamber of Commerce

> *"This bold tax reform bill is exactly what our nation needs to get our economy growing faster."*

Business Roundtable

> *"Today's release of tax reform legislation demonstrates Congress' commitment to boosting American jobs, American wages and American competitiveness."*

National Association of Manufacturers

> *"Today is an awesome day in America thanks to this grand slam for hardworking manufacturers and the U.S. economy."*

American Farm Bureau

> *"This new tax plan moves us closer to a tax system that rewards the hard work and entrepreneurship of America's farm and ranch families."*

Retail Industry Leaders Association

> *"We look forward to working with Congress and the Administration to pass reform that works for retail, our customers and the economy."*

Financial Services Roundtable

> *"As the legislative process moves forward, we are committed to working with policymakers to push a simpler, fairer and more modern tax code over the finish line."*

Credit Union National Association

"As of now, the credit union tax status remains unchanged in this bill and the bill looks good from a credit union perspective…"

Real Estate Roundtable

"If the final bill is similar to the one introduced today, our industry will put more people to work modernizing and improving existing properties…"

American Petroleum Institute

"Today the House Ways & Means Committee took a bold step to modernize the nation's tax code to sustain U.S. economic growth, spur strong energy investment, and create American jobs…"

American Bankers Association

"We welcome today's release of the House Ways & Means Committee's tax reform proposal, and believe it's an important and positive step toward finally reforming our nation's tax code."

Insured Retirement Institute

"It will allow Americans to continue to use what has proven to be an effective tool to help them save during their working lives when their income, taxes, and expenses are highest."

National Association of Broadcasters

"Local broadcasters applaud… specifically their decision to retain the full and immediate deductibility of business advertising expenses."

Motion Picture Association of America

"We are encouraged that the committee's proposed changes to the U.S. tax code will encourage further job creation and economic growth."

Wine & Spirits Wholesalers of America

"American family-owned wine and spirits wholesalers employ more than 74,000 workers at 3,000 facilities across the country. Our members, their workers and the nation's economy will all benefit under H.R. 1."

National Association of Wholesaler-Distributors

"We applaud…their perseverance and determination to bring this once-in-a-generation opportunity to a successful conclusion."

RATE Coalition

"Congress took another critical step today towards restoring America's competitive edge in the globalized marketplace."

TechNet

"TechNet strongly supports meaningful reforms to our tax code that will jumpstart our economy, usher in a wave of innovation and investment, and make us more competitive on the global stage."

21st Century Fox

"Today's announcement is a major step toward meaningful tax code reforms that will help grow the U.S. economy and boost investment…"

United Technologies

"This is a watershed moment. We applaud the release of this bill and look forward to reviewing the details."

Varian Medical Systems

"Tax reform legislation introduced this week by the House Ways and Means Committee would finally level the playing field for U.S. companies and make meaningful changes to our outdated tax code."

S&P Global

"We firmly believe that transformative, permanent, and meaningful tax policy change is needed to make U.S. companies of all sizes more competitive in the global economy."

National Alliance of Forest Owners

"We are pleased that today's tax reform proposal preserves the pro-growth timber tax provisions. The proposal keeps in place what already works in the tax code."

Association of Equipment Manufacturers

"The Tax Cuts and Jobs Act *…will tilt the global playing field back in favor of U.S. manufacturers and spur manufacturing job growth across America."*

CRANE Coalition

"… the institution of expensing will help ensure that U.S. businesses can compete at home and abroad with businesses from anywhere in the world."

Alliance for Competitive Taxation

"The release of H.R. 1 is an important first step towards pro-growth tax reform that will create jobs and boost the wages of American workers…"

Entertainment Software Association

"Today's tax reform proposal will energize tech sector innovation and economic opportunity."

Grocery Manufacturers Association

"Food, beverage, and consumer products manufacturers have long supported necessary tax reforms to create good American jobs and help our economy thrive…"

Food Marketing Institute

"We anxiously await the legislative markup of this text next week and hope the principles of low rates and fairness prevail so this truly becomes a once-in-a-generation legislation that gets our full support."

Intuit

"Intuit is pleased Government is taking up tax reform and tax simplification, and moving toward Congressional consideration of this critical priority."

Business Leaders for Michigan

"Business Leaders for Michigan today lauded the House's tax reform legislation, which includes a provision to lower the corporate tax rate."

Electronic Transactions Association

"We support provisions in H.R. 1 to modernize the corporate tax system in order to stimulate the economy, grow jobs, and make U.S. firms more competitive both here and abroad."

Property Casualty Insurers Association

"The property casualty industry particularly appreciates that the legislation takes into account the industry's unique regulatory and business model."

American Trucking Associations

"From this perspective, we fully endorse the three basic principles embodied in the tax reform package…as they will all benefit motor carriers."

American Council for Capital Formation

"As a result, not only will businesses be able to invest more capital but they will have more to spend on their employees which is critical given that labor bears the majority of the corporate tax burden."

Conservatives

Americans for Tax Reform

"The tax reform bill is a tax cut AND a jobs bill. Growth. Growth. Growth. Long overdue. Great news for taxpayers and those left behind by eight years of slow growth under Obama."

National Taxpayers Union

"The Tax Cut and Jobs Act of 2017 signals that Republicans in the House of Representatives take seriously their responsibility to foster an economy that works for all Americans."

Heritage Foundation

"The details of the Tax Cuts and Jobs Act *released today by the House Ways and Means Committee include some of the essential components of pro-growth tax reform."*

Heritage Action

"Heritage Action applauds President Trump, Chairman Brady and congressional leaders for producing a serious plan to fundamentally reform a stagnant and convoluted tax code that suppresses American job creators and workers."

FreedomWorks

"The Tax Cuts and Jobs Act *is a pro-growth tax reform bill that will boost the middle class, increase workers' take home pay, and create jobs for Americans."*

Americans for Prosperity

"This is a strong plan that supports the kind of bold, pro-growth tax reform we've been working towards."

Family Business Coalition

"Permanent death tax repeal removes a crushing burden from the backs of family businesses and farmers across the country."

Taxpayers Protection Alliance

"We are encouraged that this plan will simplify the tax code, boost small businesses, and create a fair playing field for the middle-class."

Faith and Freedom Coalition

"Finally, repealing the bigoted Johnson Amendment is long overdue… we strongly support this legislation's provision restoring the full First Amendment rights of people of faith."

March for Life

"A child in the womb is just as human as you or I yet, until now, the U.S. tax code has failed to acknowledge the unborn child… The proposed tax plan is a huge leap forward for an antiquated tax code."

Peter Wallison and Edward Pinto, American Enterprise Institute

"Two powerful lobbying groups that advertise themselves as helping Americans buy homes have announced that they will oppose the Republican tax plan. Their reason? Because it will lower housing costs."

Association of Mature American Citizens

"Of all the provisions included in the Tax Cuts and Jobs Act*, AMAC is most supportive and most enthused by the promise to finally repeal the estate tax."*

Small Business & Entrepreneurship Council

"As the Tax Cuts and Jobs Act *is debated… we will continue to advocate for the most pro-growth package possible in terms of low and permanent rates for entrepreneurs and small businesses."*

Freedom Partners

"The House tax plan released today contains many positive provisions that will go a long way toward unrigging the economy and delivering a simpler, fairer and flatter tax code that works for everyone."

Center for Freedom and Prosperity

"All these initiative would move the code closer to a simple and fair flat tax."

American Action Network

"The tax bill introduced in the House today will provide relief for American families and small businesses with a simpler, fairer tax code"

American Legislative Exchange Council

"ALEC members have long supported an end to the state and local tax (SALT) deduction…It is good to see these first strides toward state and local fiscal responsibility in the first draft of the new tax code."

Council for Citizens Against Government Waste

"Every taxpayer dollar that is returned back to the American people is a dollar not frittered away by a federal bureaucracy teeming with waste, fraud, abuse, and mismanagement."

Generation Opportunity

"The new House tax reform plan – The Tax Cuts and Jobs Act *of 2017 – features many positive provisions to boost the economy and unrig the system. But there are a few that young Americans should be particularly excited about."*

The LIBRE Initiative

"… it holds promise to make our tax code simpler, more predictable, more efficient, and more equitable, without adding new burdens on hardworking Latino taxpayers."

25 Groups including American Commitment, Digital Liberty Center for Individual Freedom, Concerned Veterans for America, Independent Women's Voice, Reaching America, Tea Party Patriots Citizens Fund, and Consumer Action for a Strong Economy

*"We write in support of the '*Tax Cuts and Jobs Act.*' The release of this comprehensive tax reform legislation marks an important step in passing reform before the end of the year."*

CHARGE AND RESPONSE

Addressing the Most Likely Misconceptions

Americans have been waiting for years for Washington to fix our nation's broken tax code because they know it will lead to better jobs, more take-home pay, and a stronger economy.

The *Tax Cuts and Jobs Act* is our answer to the American people. It will deliver much-needed tax relief to millions of families, help our workers and job creators compete and win here at home and around the world, and make the tax code simpler and fairer for all Americans. It will fuel economic growth, leading to more jobs, fairer taxes, and bigger paychecks for generations to come.

Below are responses to charges you will hear leveled against the bill by those who are really defending the broken status quo – the current tax code littered with trillions of dollars in special-interest tax breaks that have stifled job, paycheck, and economic growth for too long:

Differences with Senate

"This bill is vastly different than the Senate bill. You don't even have the same corporate tax reforms or [insert other difference]."

- We have always known our bill and the Senate bill would look different. We are different chambers with different processes and we represent different constituencies. But we all agreed on a unified framework with the White House and are all working toward the same goals for the American people: more jobs, fairer taxes, and bigger paychecks.
- The Ways and Means Committee just completed its markup and still has work to do in the House, just as the Senate still has work to do – both in Committee and on the floor. Once our work in each chamber is complete, we will work to reconcile the differences and send a unified bill to President Trump's desk by the end of the year.

Individuals and Families

TAX CUTS AND BRACKETS

"According to an analysis by the Tax Policy Center, 25% of Americans would pay more in taxes under this bill."

- That analysis is false – so much so the Tax Policy Center had to retract and reissue its report because they got the numbers wrong. This is the same organization that put out a so-called analysis before we even released a bill. This is a perfect example of a liberal group grasping at straws to defend the status quo and stop tax cuts, rather than looking at how this bill will help families.
- Furthermore, this incorrect analysis ignores the impacts of economic growth, therefore understating the benefits of tax reform and making estimates that are not based in reality.
- As the Chief of the nonpartisan Joint Committee on Taxation Thomas Barthold clearly laid out during our markup, "our projections … would say that there is a tax benefit to all income categories as we measure them."

- And as the nonpartisan Tax Foundation points out, the highest earners will continue to face the highest tax rates and pay the most taxes – in both dollar and percentage terms – of any Americans.

"According to a Joint Committee on Taxation report, this bill will increase taxes on Americans next year and ten years from now."

- The JCT's analysis of how much taxpayers would pay in 2019 does not take into account the impact of faster economic growth – which the nonpartisan Tax Foundation estimates will create nearly one million new jobs and increase paychecks by an average of 4.4 percent. As JCT Chief Thomas Barthold explained during our markup, the *Tax Cuts and Jobs Act* provides "a tax benefit to all income categories."
- The JCT's analysis of how much taxpayers would pay in 2027 similarly fails to take into account the expected economic growth and wage gains this bill will deliver. It also fails to consider that we expect future Congresses to protect important tax relief for hardworking families.

"This bill actually raises taxes on the poor."

- No – this bill delivers crucial tax relief for low-income Americans. The *Tax Cuts and Jobs Act* significantly lowers the tax burden for low-income Americans by roughly doubling the size of the standard deduction. That means more of each paycheck will be protected from taxes – from $6,350 to $12,000 for individuals and $12,700 to $24,000 for married couples.
- The *Tax Cuts and Jobs Act* also protects and improves tax benefits that help low-income workers and families, including the Earned Income Tax Credit (EITC), the enhanced Child Tax Credit, the Family Flexibility Credit, and the Child & Dependent Care Tax Credit.

"This bill is a direct attack on the middle class."

- The *Tax Cuts and Jobs Act* is a direct and immediate boost for middle-income Americans who have been struggling to get by, let alone get ahead, under today's broken tax code. It reduces the tax rates for low- and middle-income Americans, and roughly doubles the standard deduction – protecting up to $24,000 of your family's take-home pay each year from taxes. It delivers much-needed support to American families who today are struggling to keep up with the rising costs of child care, higher education, and looking after their loved ones.
- With this legislation, middle-income families will get to keep more of the money they earn for what matters to them rather than sending it to the Internal Revenue Service. For example, a typical family of four earning $59,000 (the medium household income) will receive a $1,182 tax cut.
- Not to mention – because of the historic tax relief for our businesses – this bill will create jobs and increase paychecks so Americans can finally earn a raise after a decade of stagnant wage growth. That's real money that middle-income Americans can save, spend, and invest as they see fit.

"This raises taxes on people in the lowest income bracket, as well as people in the 33% bracket that exists today."

- That's not true. The *Tax Cuts and Jobs Act* reduces taxes for Americans at every income level.
- This bill nearly doubles the standard deduction so more Americans in the lowest tax bracket of 12% – individuals earning up to $45,000 and married couples earning up to $90,000 – will pay zero income tax.
- And because we lower the rates and increase the amount of income subject to those lower rates,

Americans in the new 35% bracket – individuals earning up to $500,000 and married couples earning up to $1 million – will benefit from the significantly larger standard deduction and lower 25% rate so they will keep even more of their hard-earned money.

"This includes a hidden tax bracket of 45.6% – a tax hike on high-income earners."

- This is flat-out false. The *Tax Cuts and Jobs Act*s provides tax relief for Americans at every income level. In fact, even though the top 10% of earners pay 71% of all income taxes – they too still see a reduction in their taxes.
- Here's what's actually going on: Just like the Reagan Tax Reform Act of 1986, the *Tax Cuts and Jobs Act* phases out for high earners benefits that are targeted toward low- and middle-income earners – a commonsense idea to promote fiscal responsibility and distributional fairness. That includes the 12% rate, as well as benefits like the Child Tax Credit or American Opportunity Tax Credit.
- So – even with the phase-out of the 12% rate, effective rates for earners in that high-income range are reduced because their earnings between $470,000 and $1,000,000 (for married couples) are subject to a 35% rate instead of the 39.6% rate they pay on that income today.

"You promised tax cuts for all Americans, but wealthier Americans won't see a tax cut at all. They may even see a tax increase."

- Americans at every income level will receive tax relief with the *Tax Cuts and Jobs Act*, and individual tax rates are just one part of that equation.
- The wealthiest Americans who will continue to pay the top individual tax rate will benefit from a significantly larger standard deduction, which will protect nearly double the amount of their paycheck from taxes. They will also benefit from dramatically lower tax rates at lower income levels because more of the money they earn will be taxed at a lower rate than it is under today's tax code.
- Furthermore, we're eliminating taxes that punish the success of hardworking families, such as the Alternative Minimum Tax. Additionally, hardworking small business owners will also see a benefit through the reduced rate on pass-through business income.

TIMING FOR RELIEF

"Most Americans won't see tax relief until at least 2019."

- Not true. Americans will keep more of their money beginning with their first paycheck in 2018 because of the *Tax Cuts and Jobs Act*. Under today's overly complex tax code, most employees have money taken out of their paycheck as a federal tax withholding. With the simpler, fairer tax code that the *Tax Cuts and Jobs Act* provides, the amount withheld in federal taxes will be reduced when specific provisions are eliminated – therefore immediately increasing take-home pay. This will not require the taxpayer to make any changes to their withholding.
- And as more tax relief comes into effect – including lowering tax rates across the board and allowing businesses to fully and immediately write-off the cost of capital equipment – job creators will be able to hire more workers and increase wages.
- Individuals and families will feel significant and immediate relief – all before they ever file their taxes on a simplified, postcard-style form – with significantly lower rates and a higher standard deduction for the 2018 tax year.

FAMILY CREDITS

"This fails to provide permanent relief for families."

- In addition to increasing the child tax credit — which will provide permanent relief for families — the *Tax Cuts and Jobs Act* provides a new family credit of $300 for each parent and non-child dependent to help all families with their everyday expenses. It also continues the child and dependent care credit. While this new family credit and the child and dependent care credit expire when specific business-related tax provisions expire, we are confident future Congresses will protect this important tax relief for hardworking families.

STATE AND LOCAL DEDUCTION

"Middle-income Americans living in high-tax states will be worse off under this plan."

- That's not so. First of all, let's look at who claims the state and local deduction today.
- Less than one third of Americans take advantage of this benefit. Of those who do, the vast majority make over $200,000 each year – according the to the Joint Committee on Taxation.
- Conversely – the *Tax Cuts and Jobs Act* is about helping all Americans – especially low- and middle-income Americans who typically do not benefit from many of the costly deductions in today's tax code.
- Not to mention: our bill lowers rates at every income level, roughly doubles the standard deduction to protect more of each paycheck from taxes, protects the ability to deduct state and local property taxes, and creates a new family credit that millions more Americans will be able to use for their everyday expenses.
- For a married couple making $115,000 per year in a high tax state, these benefits will provide a total tax cut of $1,130. And if John and Rebecca do have a child, they would be able to claim an increased Child Tax Credit of $1,600 – up from just $1,000 today – reducing their taxes even further so they can keep more money to support their new family.

HOUSING

"This will destroy the housing market. No one will want to buy homes over $500,000."

- This hyperbolized rhetoric is not true for several reasons. First of all, according to a report by the United for Homes Campaign, only 6% of new mortgages are valued at over $500,000 – as the Washington Post reported. In fact, only about "2.5 percent of Americans are paying mortgages on homes valued at $500,000 or more."
- Secondly, as the Washington Post reported, the mortgage interest deduction does not affect the rate of homeownership. "People who can afford to buy a home will do so regardless of whether a mortgage interest deduction is in place."
- Here's what does drive people to buy a home: a strong, growing economy – and the *Tax Cuts and Jobs Act* will significantly grow the economy. According to an analysis from the nonpartisan Tax Foundation, this bill is estimated to grow the economy by 3.9%.
- As a result of this economic growth, paychecks will increase substantially – by an estimated 3.1%. In other words, Americans will earn bigger paychecks – at lower tax rates – so they will have even more money to invest in a home.

"Your bill changes the mortgage interest deduction – making it harder for Americans to buy a home and invest in their local communities."

- That's not so. After receiving feedback from families across the country, we made sure to maintain the mortgage interest deduction in the *Tax Cuts and Jobs Act*. Our legislation also allows Americans to deduct their property taxes so both current and aspiring homeowners will continue to receive tax relief.
- Combined with policies to create jobs, grow paychecks, and strengthen our economy – by far the biggest driver of a strong housing market – maintaining this tax benefit will help more Americans, especially middle-class Americans, achieve the dream of homeownership.

HEALTH CARE

"This will make it significantly harder for individuals with expensive illnesses and seniors with costly medical bills to afford the care they need."

- The *Tax Cuts and Jobs Act* will help seniors afford the care they need by lowering tax rates across the board, roughly doubling the standard deduction, preserving the dependent care credit, and creating a new family credit that will help millions more families.
- With these provisions, Americans will be able to keep more of the money they earn for expenses that arise throughout their lives – including medical bills.
- Additionally, our legislation is estimated to create nearly 1 million new jobs and increase paychecks by 3.1% – broadening the tax base and increasing revenues, which not only helps working seniors but also has the added benefit of ultimately improving the solvency of the Medicare Hospital Insurance Trust Fund so the Medicare program can continue to serve today's seniors and future generations.

EDUCATION

"This raises taxes for people with student loans. By eliminating Americans' ability to deduct their student loan interest, the average borrower will see their taxes go up by $275 each year – just on student loan interest. And a borrower who pays the full $2,500 in interest would see their taxes go up even more – by a whopping $625."

- This claim looks at one deduction in isolation and fails to take into account the tax relief and economic benefits that the *Tax Cuts and Jobs Act* will provide Americans of all walks of life – including people working to pay off student loans.
- In fact, while the deduction for student loan interest provides some tax relief today for some people, under this bill, people paying the interest on student loans will receive substantially more tax relief. The typical household making $59,000 each year will receive $1,182 of tax relief each year. The typical single person making $30,000 right out of college will receive over $800 of tax relief each year – more than they would receive from the ability to deduct their student loan interest today.
- And let's look at the bigger picture: this bill is estimated to create nearly 1 million new jobs and increase paychecks by 3.1% – providing college graduates with career opportunities that don't exist under today's slow-growing economy.
- It's this job creation and wage growth, along with the specific tax relief, that will help more young people pay off their loans even faster – especially compared with the slow-growing economy Americans have been forced to settle for in recent years.

“This eliminates critical education tax benefits, making it more difficult for Americans to afford the cost of education.”

- Quite the opposite. The *Tax Cuts and Jobs Act* makes it easier for families to use tax benefits toward the cost of education. Under today’s broken tax code, there are more than a dozen overlapping tax benefits relating to education – all with their own rules and guidelines. By simplifying and enhancing these benefits into a more effective higher education tax credit, our legislation will help more families offset the cost of both college and vocational training programs.

DEATH TAX

“Repealing the Death Tax is just a massive giveaway for the wealthiest Americans.”

- Not so. The Death Tax impacts small businesses and farms throughout the nation owned by people who have worked their entire life to build a successful company and create jobs. These families should not have to fear double or even triple taxation from Washington when they pass down their life’s work to the next generation. That’s why our legislation immediately delivers relief from this tax by doubling the earnings exemption and fully repeals it after seven years.

Small Businesses

“This won’t provide tax relief to most small businesses.”

- The *Tax Cuts and Jobs Act* is designed to provide relief for the Main Street job creators who have struggled under today’s high tax rates and oppressively complex tax code.
- First, our legislation lowers taxes across the board. For small businesses – or pass-through businesses – making under $260,000 each year, 100% of their income will be taxed at a top marginal rate of no more than 25%. And because we double the standard deduction, lower the individual rates, and increase the amount of income subject to those lower rates, more of their income will be protected from taxes or taxed at lower rates.
- For larger pass-through businesses, not only will their wage income be taxed at lower rates, their pass-through business income will be taxed at lower rates as well.
- Additionally, the legislation allows pass-through businesses to write off the interest on loans that help these Main Street entrepreneurs start a business, hire workers, and increase paychecks; ends the death tax and other generation-skipping taxes that can devastate family-owned businesses; and simplifies the tax code so small businesses can focus more time and money on investing in their workers and communities – not on navigating the current 70,000 pages of tax laws.
- With the *Tax Cuts and Jobs Act*, our Main Street job creators will finally have a fair tax code that works with them as they start up, grow, and create jobs in our communities.

“The new pass-through formulas pick winners and losers by favoring certain industries over others.”

- The *Tax Cuts and Jobs Act* reduces the tax burden on all pass-through businesses – regardless of their structure or sector. To further help America’s Main Street businesses and workers, our legislation provides additional tax relief for job creators when they make capital investments that truly drive the growth of jobs, paychecks, and our economy.

Corporate and International

"This includes the Border Adjustment Tax by another name – significantly hurting retailers and other businesses that rely on importing goods from other countries. This will ultimately raise prices on consumers, just like the BAT would have."

- There is no Border Adjustment Tax in this bill. There is no BAT-lite. There is no tax on consumers' purchases, no tax on third-party imports, and no tax on the everyday costs of doing business.
- Here's what the *Tax Cuts and Jobs Act* actually does. It takes steps to prevent companies from avoiding taxes by shifting their profits overseas – also known as base erosion – which hurts workers, consumers, and our economy. By including tough but fair rules, the legislation not only protects American workers, it helps re-establish our nation as a global magnet for job creation, investment, and innovation.

"This gives corporations a tax-free holiday to increase their profits – not hire more workers, increase paychecks, or invest in our economy."

- The *Tax Cuts and Jobs Act* includes a transition rule that brings home foreign earnings at a one-time low rate. This one-time relief will make it far less costly for businesses to invest their foreign earnings in creating jobs and increasing paychecks at home.

"Corporate tax cuts will benefit CEOs and shareholders, not hardworking Americans."

- The nonpartisan Tax Foundation proves this is not true. Their analysis of the *Tax Cuts and Jobs Act* shows that 70% of the corporate income tax is borne by labor and that cutting corporate taxes will benefit low- and middle-income Americans more than CEOs and shareholders. Low- and middle-income earners – those in the bottom 90% of the income scale – all receive an average after-tax income increase of more than 4%. Meanwhile the top 10% of earners receive an average after-tax income increase of less than 4%.
- Put another way, the *Tax Cuts and Jobs Act* focuses a majority of tax relief on families earning less than $200,000. According to the Tax Foundation, out of the $192 billion in tax cuts it will provide individuals and businesses in 2019 alone, $113.5 billion (59%) will go directly to those earning less than $200,000. And when the effects of corporate tax reform are removed, 73 percent of tax relief flows to those earning less than $200,000.

Non-Profit / Tax Exempt Organizations

"This imposes an excise tax on private universities."

- This bill simply applies the same tax treatment to large private college and university endowments that already exists for private foundations.

"This fails to fully repeal the Johnson Amendment and protect the First Amendment rights of religious leaders."

- The *Tax Cuts and Jobs Act* makes clear that the IRS has no place in churches, synagogues, mosques, and other places of worship. By eliminating the Johnson Amendment restrictions for religious organizations, the legislation expressly protects the Constitutional rights of religious leaders so they can speak freely on matters affecting their communities – without the fear that the federal government will take away important tax benefits for their charitable work.

Chained CPI / Inflation

"Republicans are using a less accurate measure of inflation that will cause you to pay more in taxes."

- That's just not true. Economists across the political spectrum agree "chained CPI" is a more accurate way to measure inflation because it accounts for how consumers actually behave – by changing their spending habits when prices change.
- President Obama's FY 2014 budget said "Most economists agree that the chained CPI provides a more accurate measure of the average change in the cost of living than the standard CPI." And a senior advisor at the Committee for a Responsible Federal Budget said, "The chained CPI represents a more accurate and effective way to maintain purchasing power in spending programs and to index various parts of the tax code."
- People change their behavior based on changes on prices. For example, if the prices of apples go up, people will see how much other fruits cost and change what they're planning to buy. How we measure inflation in our tax code should reflect that reality.

Effect on the Deficit

"This is fiscally irresponsible and will add trillions to our deficit."

- The *Tax Cuts and Jobs Act* meets all of the requirements set by the budget that recently passed both the House and Senate. It does so by eliminating billions of dollars in unfair special-interest tax breaks that have stifled economic growth. And by helping businesses plan for the future and make long-term investments here at home, this legislation will promote even faster growth – and additional revenues – in the years ahead.

Process

"This legislation was drafted behind closed doors – without input from the public – and is being rushed through Congress."

- House Republicans have been working on legislation to overhaul our nation's broken tax code for six years. Led by the tax-writing Ways and Means Committee, House Republicans unveiled in June 2016 our blueprint for bold, pro-growth tax reform. Building off of the ideas in our blueprint, in September 2017, House Republicans unveiled a unified framework with the White House and the Senate that laid the foundation for The *Tax Cuts and Jobs Act*.
- Since 2011, the Ways and Means Committee has held over 40 hearings focused on providing tax relief to hardworking Americans; strengthening America's competitiveness so our workers and businesses can succeed at home and around the world; helping Main Street job creators grow their businesses, hire more workers, and increase paychecks; and making the tax code simpler and fairer so Americans can keep more of their hard-earned money.

"Republicans are using reconciliation to exclude Democrats from tax reform."

- Not true. Reconciliation is simply a legislative tool to help ensure no one party can prevent important legislation from getting to the President's desk. It does not preclude Republicans and Democrats from working together on tax reform or other key legislation Congress uses this tool to consider.

- For example, both parties came together to pass historic welfare reforms using this tool in the 1990s. That law, which resulted in more work and earnings and less poverty and welfare dependence, had near unanimous support among Republicans, was supported by over half of Democrats in Congress, and was signed into law by a Democratic President.
- The simple fact is this legislative tool encourages all lawmakers who are serious about delivering pro-growth tax reform – regardless of which party they are in – to bring their ideas to the table to strengthen and ultimately approve this once-in-a-generation legislation.

IRS Reform

"This maintains the status quo at the IRS."

- A simpler, fairer tax code requires a simpler, fairer tax administration. That's why the Ways and Means Committee is working on complementary bill to modernize the IRS – separate from tax reform legislation because of reconciliation requirements. The legislation IRS reform legislation would build off of our bipartisan hearings to better serve taxpayers and modernize the agency for the 21st century. The Committee will consider this legislation in 2018.