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Analysis of the Tax Cuts and Jobs Act Relative to President Donald Trump's and Speaker Paul Ryan's Stated Goals

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ANALYSIS OF THE TAX CUTS AND JOBS ACT RELATIVE TO PRESIDENT DONALD TRUMP’S AND SPEAKER PAUL RYAN’S STATED GOALS

Jill Gathje
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ABSTRACT

On December 22, 2017, President Trump signed into law the Tax Cuts and Jobs Act (TCJA), the most expansive change to the Internal Revenue Code (IRC) since 1986. What was the purpose of overhauling the IRC? President Trump identified four main goals: (1) tax relief for the middle-class, (2) simplification of the tax code, (3) American economic growth, and (4) no additional debt added to the government’s deficit. Speaker Ryan also identified similar goals. Now that the TCJA has been in place for over six months, an analysis of the new law in respect to both the President’s and Speaker’s goals is conducted. Were the stated goals met? First, for some taxpayers, the TCJA seems to provide substantial tax benefits, however, other households may not feel as significant an impact. Second, although the new law might simplify tax filing for some taxpayers, it does not simplify the tax preparation process for others. Third, while the TCJA is projected to be beneficial for the economy in the short-term, because the new law is deficit-financed, the TCJA will likely have a minimal impact on the economy. Lastly, the new law is not deficit neutral. The TCJA is projected to increase the federal deficit by over $1 trillion. Overall, the TCJA introduced substantial changes to the IRC. However, in regard to President Trump’s and Speaker Ryan’s goals, it is difficult to determine if the TCJA was a success or failure. The best answer that can be given at this time is: it depends.
INTRODUCTION

On October 22, 1986, President Ronald Reagan signed into law the Tax Reform Act of 1986, the vastest overhaul of the Internal Revenue Code (IRC) since the creation of the income tax in 1913 (Winfrey & Murray, 2013). Over 30 years later, on December 22, 2017, President Donald Trump signed into law the Tax Cuts and Jobs Act (TCJA), the most expansive change to the IRC since 1986. What was the purpose of overhauling the IRC? President Trump identified four main goals the TCJA will address: (1) tax relief for the middle-class, (2) simplification of the tax code, (3) American economic growth, and (4) no additional debt added to the government’s deficit (Tax Reform that will Make America Great Again). Another major proponent of the TCJA was Speaker of the House, Paul Ryan. His goals aligned similarly with President Trump’s. According to the Speaker, the primary goal of the new law was to achieve a tax cut for the middle class. As for simplifying the Code, he boasted that people will be able to file their tax returns on a postcard in 2019. In addition, he also sought to lower the tax rates for businesses in order for them to be more competitive on the global stage and to hire more American workers. Lastly, he emphasized the TCJA will be deficit neutral (Ryan, 2017).

Now that the TCJA has been in place for over six months, an analysis of the new tax law in respect to both President Donald Trump’s and Speaker Paul Ryan’s goals is conducted. Six main topics are addressed. First, what are the major components of the TCJA and changes to the IRC? This section will include simple descriptions and definitions. Second, what effect will the TCJA have on taxpayers for the 2018 tax year? This question is addressed from the perspective of both middle and upper-income taxpayers. Will the TCJA provide a tax benefit for the middle-class, or is it more favored toward high-income taxpayers? Third, did the TCJA simplify the tax code? What new challenges does it provide taxpayers? Will taxpayers be able to file their taxes
Fourth, what effect has the TCJA had on businesses and businesses’ overall economic status in the United States thus far? In addition, the question many small business owners are asking, “Should I convert my business from an S corporation to a C corporation?” will also be addressed. Fifth, is the new law deficit neutral? What effect will the TCJA have on the United States’ ability to generate revenue? Lastly, what new challenges do tax accountants face, and how can they better serve their clients in relation to the new law?

WHAT ARE THE MAJOR COMPONENTS OF THE TCJA AND CHANGES TO THE IRC?

This short summary section is by no means an exhaustive list of major components of the TCJA or changes to the IRC. The below simply provides valuable descriptions and definitions of topics that will be discussed throughout the remainder of this analysis. In addition, lower-, middle-, and upper-income parameters will be defined, which will continue to be assumed throughout the remainder of this analysis.

Individual Tax Code Changes

First, the standard deduction, defined by the IRS, “is a dollar amount that reduces the amount of income on which you are taxed and varies according to your filing status.” One cannot take the standard deduction if one itemizes deductions (“Standard deduction at a glance”). For married filing jointly (MFJ) filers under the TCJA, the standard deduction increased from $13,000 to $24,000; single taxpayers and taxpayers who are married filing separately also have an increased standard deduction of $12,000 compared to $6,500 under the previous law. Lastly,
for heads of household filers, the standard deduction increased from $9,550 to $18,000. (Konish, 2018).

In addition to the changes made to the individual standard deduction amounts, changes were made to personal exemptions. A personal exemption, according to TurboTax®, “is an amount you get to deduct from your income for every taxpayer and most dependents claimed on your [tax] return.” In 2017, the personal exemption amount was $4,050 per taxpayer and each dependent (“What is a personal exemption?”). However, under the TCJA, the personal exemption was eliminated (Konish, 2018).

Additionally, the Child Tax Credit was substantially changed after the passage of the TCJA. The Child Tax Credit (CTC) is a credit claimed by taxpayers for each dependent child under the age of 17 at the end of each tax year. Tax credits reduce a taxpayer’s liability dollar-for-dollar. Both refundable and nonrefundable tax credits exist. Nonrefundable tax credits can only be used to the extent of the taxes owed; for example, if a taxpayer receives a $1,000 nonrefundable tax credit and only has a $200 tax liability, his or her tax liability is reduced to zero, but the remaining $800 of the credit is not utilized. However, a refundable tax credit can be refunded to a taxpayer, even if the taxpayer’s tax liability is zero. If the previous example was instead a refundable tax credit, the taxpayer would receive the remaining $800 in a payment from the government. The CTC contains both a refundable and nonrefundable portion (Tax credit). Under the TCJA, the CTC is increased from $1,000 to $2,000 per qualifying child. The age cut-off remains the same (17 years old). The Additional Child Tax Credit, which was a refundable credit prior to the TCJA, was eliminated. The new CTC limits the refundable portion of the credit to $1,400 per child. This amount will be adjusted for inflation after 2018. In addition, the earned income threshold for the refundable credit was reduced from $3,000 to $2,500; this
means, in order to claim the refundable portion of the credit, a taxpayer must have earned income (wages, etc.) greater than $2,500. The refundable portion is equal to 15 percent of a taxpayer’s earned income that exceeds $2,500 up to the maximum credit of $1,400. Also, the beginning phaseout for the credit increases from $110,000 to $400,000 for MFJ filers and from $75,000 to $200,000 for single filers. In this case, phaseout means the credit is reduced as the taxpayer’s income increases. Under the new CTC, the credit is reduced $50 for each $1,000 the taxpayer’s modified adjusted gross income exceeds the phaseout amount. Lastly, in order to claim the CTC, the child must have a (valid) social security number (Charney, 2017).

Also, the Alternative Minimum Tax (AMT) was affected by the TCJA. The AMT is a tax that requires applicable taxpayers to calculate their tax liability twice, once under the regular income tax and once under the AMT provisions; taxpayers pay the higher amount. The AMT was originally instituted to prevent wealthy taxpayers from taking advantage of tax preference items and owing minimal (or no) federal income tax (“Tax Policy Center briefing book”). Under the TCJA, the following changes were implemented. The AMT exemption deduction was increased from $84,500 to $109,400 for MFJ filers and from $54,300 to $70,300 for single filers. The AMT exemption deduction is the amounts taxpayers deduct from their alternative minimum taxable income before calculating their AMT liability. Previously, some of the wealthiest households were unable to take advantage of exemptions due to phaseouts. The phaseout level “is the income level above which you gradually lose your income exemption, until it disappears completely.” Under the TCJA, the phaseout levels were increased from $160,900 to $1 million for MFJ filers and from $120,700 to $500,000 for single filers (Sahadi, 2018).

In addition to the above, a new, major deduction for pass-through business owners was created as a result of the TCJA. Pass-through businesses do not pay income tax at the entity or
business level. Instead, profits (and losses) are “passed through” to the owner(s) of the business and reported on the owner’s or owners’ individual tax returns. The individual owner(s) thus pays taxes on his or her share of business income (Rosenburg, 2017). S corporations, partnerships, and sole proprietorships are the three types of pass-through businesses. The number of pass-through businesses is quite large and accounts for more than 60 percent of net business income in the United States (Pomerleau, 2015). With the passage of the TCJA, pass-through business income could potentially be taxed at the highest individual tax rate, 37 percent, whereas the corporate tax rate is only 21 percent. In order to fix this discrepancy, the TCJA includes a 20 percent pass-through income deduction on qualified business income. Qualified business income is ordinary income of the business; it does not include investment income. Business owners who are MFJ filers are likely to qualify for the full deduction if their taxable income is less than $315,000; single filers are also likely to qualify for the full deduction if their taxable income is less than $157,500. MFJ filers with taxable income greater than $315,000 but less than $415,000 and single filers with taxable income greater than $157,500 but less than $207,500 will likely receive a portion of the pass-through deduction. However, if MFJ taxpayers’ and single taxpayers’ income is greater than $415,000 and $207,500, respectively, their ability to take the pass-through deduction depends on the type of business owned. Taxpayers who own service businesses, such as accounting firms, law firms, doctor’s office, etc. are fully phased out once their income exceeds $415,000 for MFJ files and $207,500 for single filers; this means these taxpayers are unable to take any of the 20 percent deduction. However, taxpayers who own non-service businesses, but have income greater than the above thresholds, are still able to take a deduction. The deduction for these taxpayers is the lesser of (1) 20 percent of one’s qualified business income or (2) the greater of 50 percent of one’s W-2 wages or 25 percent of one’s W-2 wages.
plus 2.5 percent of one’s qualified property cost (the cost of certain real estate or equipment one owns) (Chang, 2018).

Finally, as a result of the TCJA, the income tax brackets will change in 2018. A tax bracket is a span of income taxed at a given rate. Exhibit 1 in the Appendix depicts the new income limits for all tax brackets. The income limits were adjusted for inflation. For comparison, the previous law’s tax brackets and rates (in 2017) are shown in Exhibit 2 in the Appendix. As depicted, the top income tax rate is reduced from 39.6 percent to 37 percent, and the number of brackets (seven) remains the same (El-Sibaie, 2018).

Estate Tax Changes

Furthermore, the TCJA created changes to the Estate Tax. According to the IRS, “the Estate Tax is a tax on your right to transfer property at your death. It consists of an accounting of everything you own or have certain interests in at the date of death… The includable property may consist of cash and securities, real estate, insurance, trusts, annuities, business interests, and other assets (Estate Tax).” The Estate Tax is typically only a concern of the ultra-wealthy. Under the TCJA, the estate exemption amount doubles from $5.49 million to $11.2 million; the Estate Tax exemption is the amount excluded or deducted from an estate’s gross value or “gross estate” in order to calculate the tax liability at the federal level (Konish, 2018; Garber, 2017). Therefore, if one’s estate is worth less than $11.2 million upon death, one’s heirs won’t owe any Estate Taxes.
What households are considered lower-, middle-, and upper-income?

Middle-income is difficult to define because it varies between states, counties, and even cities. However, according to the most recent government data, median household income in the United States is $59,039; this means half of Americans will earn more than $59,039 and half will earn less than $59,039. Based on this number and other national data, what are the income groups in the United States? The top income group is the upper-income group; many people consider this group to include the wealthiest one percent of households. According to the Economic Policy Institute, to be in the top one percent, one’s household needs to have annual income of $389,436 or greater. Second is the upper-middle-income group. Based on census data from 2015, households earning more than $200,000 and households earning between $100,000 and $150,000 account for 6.1 percent and 14.1 percent of American households, respectively. This group of households is considered the upper-middle-income group. Third is the middle-income group. According to the Census Bureau, in 2015, 41.5 percent of American households earn between $35,000 and $100,000; according to the Pew Research Center, for a family of three, the current middle-income levels are households earning between $37,666 and $113,000. Next is the lower-middle-income group. This group does not live in poverty, but the group is defined as being one misfortune or accident away from being below the poverty line. According to the Brookings Institution, the lower-middle-income group has income between 100 percent and 250 percent of the federal poverty level or, for a family of three, earns between $18,871 and $47,177 based on current numbers. Lastly, the lower-income group is any American household that falls below the poverty line; households falling below the poverty line do not earn enough money to meet their basic needs. According to the Census Bureau, about 14 percent or 43 million
people live below the poverty line in America. The current official poverty threshold number for a family of three and a family of four is $18,871 and $24,257, respectively (Alhanati, 2017).

As stated previously, it is difficult to determine the American middle-class based on a specific income number or range. For example, in Omaha, Nebraska, a household of three earning $50,000 per year is considered in the middle-income tier along with another 56 percent of households. However, that same family living in New York City, New York is considered in the lower-income tier along with an additional 31 percent of households (Fry & Kochhar, 2016). Therefore, the term “middle-income” or “middle-class” is very ambiguous and can be different for every taxpayer depending on each household’s individual situation. This is important to keep in mind throughout the analysis of the individual provisions of the TCJA.

Corporate Tax Code Changes

Probably the most substantial change to the corporate tax code is the reduction of the corporate tax rate. The tax rate is the percentage at which corporate income is taxed. The TCJA eliminates the previous progressive corporate tax structure and instead imposes a 21 percent flat tax on all C corporations. While the individual provisions are set to expire in 2025, the corporate tax rate change is permanent. Exhibit 3 in the Appendix depicts the previous progressive corporate tax rate structure for comparison (Nevius, 2017).

In addition to the changes made to the corporate tax rate, the corporate AMT was also eliminated under the TCJA. The corporate AMT was originally created for reasons similar to the individual AMT; it was an additional tax calculation used to guarantee corporations paid at least a minimum amount of income tax. Other changes include modifications to depreciation, such as bonus depreciation and Section 179; both of which allow businesses to deduct all or a portion of
the cost of eligible property (furniture, machinery, etc.) in the current year. Lastly, some
deductions that businesses took and relied on in prior years were either eliminated or have
stricter rules and requirements. For example, the deduction for business interest expense is
limited, there were changes to the meals and entertainment deduction, the Domestic Production
Activities Deduction was eliminated, etc. (Nevius, 2017).

Disclaimer

The individual standard deduction provisions are set to expire in 2025; this is referenced
throughout this analysis. However, the likelihood of the provisions expiring is unknown. For
example, there is no way of knowing which political party will have control at that time, what
other provisions will be kept or omitted, or what will happen in the future in terms of additional
legislation or potential repeal. Therefore, this disclaimer is important to keep in mind throughout
the following analyses.

WHAT EFFECT WILL THE TCJA HAVE ON TAXPAYERS FOR 2018?

Although a report from the Tax Policy Center determines the majority of Americans will
get a tax cut as a result of the TCJA, the benefits are uneven in terms of monetary value (see
Exhibit 4 in the Appendix) (Stein, 2018). According to the Tax Policy Center report, in 2018,
taxpayers earning between $49,000 and $86,000 will receive an average tax cut of $930;
households earning $86,000 to $149,000 will receive, on average, a tax cut of $1,800. However,
the wealthiest one percent, who have income of $733,000 or more, will receive an average tax
cut of $51,000. Thus, the wealthiest one percent of taxpayers will receive greater than 20 percent
of the total value of the tax cuts (Salisbury, 2017). Overall, greater than 40 percent of the tax cuts
will go to the top five percent wealthiest households, whereas the poorest taxpayers will receive an average tax cut of $60 (Derousseau, Mishkin, Mulhere, & Salisbury, 2018; Stein, 2018). In summary, according to the Tax Policy Center, the TCJA will reduce tax liabilities for all income groups in years 2018 and 2025. However, higher-income taxpayers will receive greater average tax cuts (“Analysis of the Tax Cuts and Jobs Act,” 2018). On the other hand, while high-income taxpayers receive greater average tax cuts in terms of monetary value, monetary numbers can be misleading. When considering percentage change in taxes owed (or refunded), the middle-income group and lower-income, single taxpayers receive the largest percentage change under the TCJA (see Exhibit 5 in the Appendix). Therefore, by looking at percentage changes, while all groups receive some benefit, it becomes apparent both middle- and lower-income groups receive more benefit from the passage of the TCJA than upper-income groups.

The following sections analyze the effects of the new Alternative Minimum Tax and Child Tax Credit provisions, which is typically an important credit for lower-income and middle-income households, as well as includes an analysis of the changes to the Estate Tax.

**Changes to the Alternative Minimum Tax (AMT)**

House and Senate lawmakers both agreed to repeal the corporate AMT under the TCJA. However, the individual AMT was retained; nevertheless, the exemption amount and phaseout threshold were both temporarily increased. These increases will reduce AMT liability in comparison to the previous AMT provisions. Under the previous law, MFJ filers began to phaseout of the AMT exemption when AMT income reached $160,900, and the phaseout for single and other filers began when AMT income reached $120,700. However, as a result of the TCJA, the phaseout amounts were increased to $1 million and $500,000, respectively. For every
dollar greater than the phaseout threshold, $0.25 of the household’s exemption is lost. Therefore, a MFJ filer and single filer would be fully phased out of the ability to use the AMT exemption deduction with income of $1,437,600 and $781,200, respectively. Both exemption and phaseout thresholds will be increased by cost-of-living adjustments after the 2018 tax year (York, 2017).

Under the TCJA, according to the Tax Policy Center, the number of taxpayers subject to the AMT is projected to decrease by 96 percent. For the 2018 tax year, only 200,000 taxpayers are expected to owe AMT, which is substantially less than the 5.25 million taxpayers who would have otherwise owed under the previous AMT provisions (Sahadi, 2018). Also worthy to note, due to the new tax law, the larger standard deduction and limited itemized deductions make it less likely a household will owe AMT. In 2017, households with income greater than the AMT exemption amount but less than $187,800 were subject to the 26 percent AMT rate; households with income greater than $187,800 were liable for the 28 percent rate. Overall, households with income between $200,000 and $500,000 were the hardest hit income group; around 60 percent of this group were liable for AMT in 2015 (see Exhibit 6 in the Appendix). Under the previous law, households with high income in states that have high taxes had a higher probability of owing AMT. However, because the TCJA limits taxpayers’ state tax deduction and mortgage interest deduction, fewer taxpayers will owe AMT, most of them residing in the $200,000 to $500,000 income group (which is considered middle-class in some states). Because the AMT exemption doesn’t start to phaseout until a household’s taxable income is greater than $1 million, taxpayers in an income group greater than $1 million (upper-class taxpayers) will likely pay the largest share of the total AMT liability collected in a given tax year (York, 2017). Therefore, because the changes made to the AMT provisions significantly reduce the number of taxpayers liable for
AMT in the middle-income group (in some states) and because upper-income taxpayers remain liable, this might be considered a victory for middle-income taxpayers in some instances.

Overall, although complicated, the AMT was likely retained under the new tax law in order to raise funds to pay for tax cuts elsewhere. In summary, the above changes alone drastically impact the number of individuals affected by the AMT. The Joint Committee on Taxation estimates the effect of these changes will decrease federal revenue by $637.1 billion over the next ten years. In conclusion, both the increase in the exemption amount and higher phaseout threshold will result in fewer taxpayers liable for AMT. In addition, for taxpayers still liable for AMT, the tax liability will likely be less than in previous years. Like the increased standard deduction, the changes to the AMT are set to expire in 2025 (York, 2017).

Changes to the Child Tax Credit

One of the tax credits that has the greatest impact on low-income and working-class families, the Child Tax Credit, was considerably changed (Marr et al., 2018). As stated previously, the previous tax law included a $1,000 credit for each child in a household’s care. The TCJA doubles this credit to $2,000 and increases the refundable portion of the credit to $1,400. In addition, the phaseout threshold is raised to $200,000 for single taxpayers and $400,000 for MFJ taxpayers from $75,000 and $110,000, respectively. Although the new Child Tax Credit contains significant changes, the Center on Budget and Policy Priorities predicts 10 million children living among the lowest-income households will receive an increase of $75 of refundable credit per family (see Exhibit 5 in the Appendix) or no increase at all. This is largely because the refundable portion of the credit isn’t allowed until a household has earned income greater than or equal to $2,500. However, although it’s likely there will be low-income families
that will be unable to meet this earned income threshold and receive the benefit of the higher refundable portion of the Child Tax Credit, it is likely that their tax liability will still be zero (see Exhibit 5 in the Appendix). In addition, the elimination of personal exemptions will also have an effect on the amount of some families’ Child Tax Credit because larger families will receive less of a tax break (see Exhibit 7 in the Appendix) (Skidmore, 2017).

Changes to the Exemption Amounts of the Estate Tax

The Estate Tax, often referred to as the “inheritance tax” is significantly changed under the new tax law. The TCJA doubles the amount of money that can be passed to heirs without paying estate and gift taxes to $22 million for MFJ taxpayers. However, like many of the other individual provisions, this increase is only available until 2025. The TCJA thus gives the ultra-wealthy a window of opportunity to create a dynasty trust in order to secure the financial futures of their family members. Dynasty trusts allow the rich to protect their money for years while limiting their tax bills. Previously, these trusts could be funded tax-free up to $10.98 million for MFJ taxpayers. As a result of the TCJA, these taxpayers can now shift an additional $11 million to their trusts (Steverman, 2018). Under the previous law, less than 11,500 estates were required to file an estate tax return, and only around 5,500 owed tax. However, due to the TCJA, less than 4,000 estates will need to file tax returns, and less than 1,800 will be subject to the Estate Tax (Sahadi, 2018). Overall, these changes account for billions of dollars as the richest 0.1 percent of households controlled 22 percent of the United States’ wealth in 2012 alone (Steverman, 2018).

In summary, the changes made to the Estate Tax provisions not only significantly impact federal revenue but also significantly impact the amount of taxes the upper-income group is liable for. Although the Estate Tax is not necessarily a middle-class versus upper-class issue, these changes
were mainly a benefit of upper-income taxpayers only because middle-income taxpayers were not typically subject to the Estate Tax under the previous law anyway.

**DOES THE TCJA SIMPLIFY THE TAX CODE? WHAT NEW CHALLENGES DOES IT PROVIDE TAXPAYERS?**

“We ask the U.S. income tax code to do a lot of heavy lifting. We want it to raise revenue, control the economy, create jobs, encourage and discourage certain activities, redistribute wealth, even participate in the country’s health care system (Phillips, 2017).”

Although Americans spent billions of hours last year filling out their tax returns, the coming tax year could be even more time-consuming as tax accountants and business owners alike navigate the new tax code. In fact, the TJCA has been described as being so complicated, many companies have had to hire an accounting firm beyond their internal tax accountants to ensure they are in compliance (Hsu, 2017). Overall, experts and accounting professionals agree that taxpayers will still be required to keep good record keeping in order to calculate whether they qualify for certain deductions (Relman, 2017).

Proponents of the TCJA assert millions of households will no longer benefit from itemizing their deductions, which will simplify their tax preparation; supporters believe taxpayers that used to itemize, but instead will choose the increased standard deduction under the TCJA, will no longer be required to keep as many detailed records. Overall, about 30 percent of taxpayers whom itemize their deductions are estimated to take the new standard deduction, which is nearly doubled as a result of the TCJA (Timm, 2017). The number of taxpayers whom itemize (47 million under the previous tax law), is expected to decrease to 10 million for the 2018 tax year (Derousseau et al., 2018). Although this potentially means less record keeping and
number crunching for these taxpayers and might make filing easier for some people, it does not necessarily indicate the tax paying process will be easier (Timm, 2017).

While the new law might be simplified in this regard, there are new complexities introduced in the TCJA (Relman, 2017). The new law retains the Child Tax Credit, Earned Income Tax Credit, and the AMT, which all have eligibility rules, phaseouts, and other limitations that are confusing for taxpayers (Sahadi, 2017). In addition, if taxpayers aren’t sure which deduction (standard or itemized) will be more beneficial, they will still need to keep records of their expenses in order to calculate whether they should itemize or instead take the increased standard deduction (Derousseau et al., 2018). Also, the new rules for pass-through income are complex, and while some individuals’ taxes might be easier, business owners’ taxes will likely become more complicated as a result of the TCJA (Timm, 2017). One of the most complex provisions of the new tax law is the special deduction for pass-through income, and nearly all tax experts assert that many business owners will be required to consult accounting professionals for years to come in order to minimize their taxes under the new provision as well as remain in compliance (Steuerle, 2018).

Will Taxpayers be able to File Their Taxes on a Postcard?

After the passage of the TCJA, Speaker Paul Ryan stated “We’re making it so simple that almost nine out of ten taxpayers can do their taxes on a form like a postcard (Timm, 2017).” The claim that the majority of Americans will be able to file their taxes on a postcard has been widely disputed by tax experts (Relman, 2017). For example, the Earned Income Credit, the American Opportunities Credit, and the Child and Dependent Care Credit are all very popular among taxpayers, and all would be difficult to impossible to include on a postcard (Russell, 2017).
However, on June 29, 2018, the Treasury Department and IRS unveiled a postcard filing option, the 1040 Simplified (see Exhibit 8 in the Appendix). The new postcard will replace the current Forms 1040, 1040A, and 1040EZ. (Moyer, 2018). While the new postcard might save time for some taxpayers, it could potentially add much more paperwork for millions of other taxpayers. The new postcard eliminates more than half the line items on the original Form 1040 and instead reduces it to one double-sided half page. It also omits an assortment of popular deductions, such as the deductions for teaching supplies and student loan interest. Instead, taxpayers will need to compute these deductions and their totals on one of six accompanying worksheets (see Exhibit 9 in the Appendix). In addition, the new postcard also omits the line items for business income, capital gains, and many other forms of income. However, it does include a line item for the new Child Tax Credit (Tankersley, 2018).

Before the development of the new postcard, there were simpler filing options, such as the 1040EZ, that already existed. However, while the 1040EZ was popular among taxpayers (one in six taxpayers filed using the form), many tax professionals didn’t expect a substantial increase in the form’s usage as a result of the TCJA (Jacobson, 2018). The 1040EZ was only 14 lines and one page long, and in 2014, 24 million taxpayers filed using the form. However, the form was limited to which taxpayers could utilize it; the 1040EZ also couldn’t be used to claim the Child Tax Credit or the Earned Income Tax Credit. An additional filing option, the Form 1040A was another simplified filing alternative, and 40 million taxpayers filed using this form in 2015. However, the form was two pages long and included certain restrictions like the 1040EZ (Gleckman, 2018).

As for the “long form,” the 2017 Form 1040 had 98 lines and boxes (see Exhibit 10 in the Appendix). In 2018, the TCJA could have eliminated up to six lines from the form. However, the
new law would have likely required a minimum of one new line item. Lines 6a, 6b, 6d, and 42 could have been eliminated from the 1040 in 2018 because of the repeal of personal exemptions under the new law. In addition, because the Domestic Production Activities Deduction was also repealed, line 35 could have been removed as well. While millions fewer households will itemize their deductions in 2018, there are millions of taxpayers that will likely still itemize, which means line 40 (and the Schedule A) couldn’t have been eliminated. Lastly, an additional line item would have been needed to report the 20 percent pass-through income deduction (Gleckman, 2018).

Overall, even if taxpayers are able to file their returns on the new postcard, there will likely be more pages of instructions and forms in order to compute each line item on the postcard (Sahadi, 2017). While pages of instructions, forms, and worksheets were in existence before the TCJA, there will likely be more worksheets and schedules than previously, and in some cases, they will be more complex, such as a schedule or worksheet for the calculation of the 20 percent pass-through income deduction. Also, millions of taxpayers will continue to be required to file Schedule 8812, which is the Child Tax Credit (Gleckman, 2018); additional forms will likely be required in this regard, especially if a taxpayer qualifies for the expanded Child Tax Credit (Timm, 2017). In summary, although a new postcard filing option has been unveiled, because many tax preference items still exist, their worksheets and schedules will remain (Gleckman, 2018).
WHAT EFFECT HAS THE TCJA HAD ON BUSINESSES AND BUSINESSES’ OVERALL ECONOMIC STATUS IN THE UNITED STATES THUS FAR?

Have Businesses Paid Bonuses or Increased Employee Wages?

During the weeks leading up to the passage of the TCJA, President Trump and the Republican Party emphasized the TCJA’s potential effects on the American worker’s wage. After the new law was passed, many companies cited the TCJA as their reasoning for handing out bonuses or their plans to increase employee wages (Whitehouse, 2018). In January, J.P. Morgan Chase announced the company will spend $20 billion in employee wage increases as part of a long-term investment in the United States economy (White, 2018). CVS Health also said in February it would invest $425 million per year to improve employees’ wages and benefits and increase its hourly pay to $11 per hour. CVS credited the TCJA for this investment. In addition, in March, Walgreens announced it would increase its hourly employees’ pay by $100 million as well. However, Walgreens already had plans to raise their hourly pay prior to the new tax bill. Overall, as a result of the TCJA, Walgreens predicts it will save $350 million this year. These announcements by CVS and Walgreens all came after several other retailers announced pay increases for their hourly workers. Target raised its minimum pay to $11 per hour, and it will increase its hourly pay to $15 per hour by 2020 (Schencker, 2018). Walmart too announced it will spend $700 million on wage increases (raising its hourly pay to $11 per hour) and bonuses. However, it also announced its plans to close more than 60 of its Sam’s Club stores (White, 2018). See Exhibit 11 in the Appendix for a total list of S&P 500 Index companies that have announced bonuses, wage increases, or other special investments since the enactment of the Tax Cuts and Jobs Act. The list was last updated at the beginning of March 2018.
While much emphasis was put on companies paying bonuses in December citing the TCJA, these bonuses don’t provide the same long-term benefits to workers as increasing wages does. In addition, companies paying bonuses in the 2017 tax year received a greater tax deduction or benefit as compared to paying bonuses in 2018 when the corporate tax rate decreased to 21 percent (White, 2018). For example, AT&T Inc. promised to give $1,000 bonuses to more than 200,000 employees when the TCJA was passed. This saved the company about $28 million by paying bonuses in 2017. Under the previous tax rate, the bonuses resulted in a $70 million deduction. However, if the bonuses were instead paid in 2018 under the new 21 percent corporate tax rate, the company would only benefit from a $42 million deduction. With this in mind, similar calculations were likely made for other companies that promised bonuses in 2017 citing the new tax law as their reasoning (Trentmann, 2017).

What many analysts, economists, and experts are focusing on now is if corporations are investing more in the economy by increasing wages, which will increase the economy’s long-term growth potential (Whitehouse, 2018). Actually, workers have already seen higher paychecks as the IRS recommended that companies adjust their withholdings from their employees’ paychecks by the middle of February (Derousseau et al., 2018). For example, in 2017, a salaried worker paid $2,500 twice per month with one federal allowance elected on his or her Form W-4 would have $381.30 withheld from his or her paycheck for federal income taxes. Including Social Security and Medicate taxes, this worker would receive a net pay of $1,927.45. On the other hand, in 2018, that same salaried worker would have $308.84 of federal withholding withheld from his or her paycheck and, including Social Security and Medicare taxes, would have a take home pay of $1,999.91. The U.S. Department of Treasury predicted 90 percent of workers would have larger take-home pays by February as a result of less federal tax
withholding; however, figures are currently not available to determine the actual number of workers whom have higher take-home pays.

As of March, more than 4 million workers from 408 companies had received a pay increase, bonus, 401(k) increase, or utility rate cut. However, this number of workers is less than 3 percent of the total workforce in the United States (Clark, 2018). By April, only 6.3 million workers of 155.2 million workers in the U.S. workforce received a one-time bonus or pay increase attributed to the TCJA (Shell, 2018). In addition, some of the bonuses and pay increases may have already been planned prior to the enactment of the TCJA for companies to remain competitive in the tight labor market; experts suggest a tight, and nearing capacity, labor market is setting employee pay (Clark, 2018; White, 2018). Furthermore, competition for talented workers and the struggle to preserve their existing talent likely would have forced companies to increase their wages or improve their benefits packages anyway. In addition, several states also approved increasing their respective minimum wages in 2018, which puts pressure on companies to in turn raise their wages as well (White, 2018). Overall, if corporations planned on raising their wages in order to stay relevant in the competitive job market but instead attributed the increases to the TCJA, these should be considered publicity incentives (Stewart, 2018).

Nevertheless, wholesale trade companies, expected to save 40 percent in taxes over the next 10 years, actually reduced their employee wages. While the utilities market segment, which is forecast to lose money under the new tax law, increased their wages by 6.4 percent. In summary, the correlation between the TCJA and wage increases across different markets is negative. Job reports through April have indicated there is no evidence companies have increased wages significantly more than they otherwise would have in previous years. In fact, wage gains have not increased at all. Average hourly pay has increased at an annualized rate of 2.3 percent
from December through April, which is quite slower than in 2017 before the TCJA was enacted (see Exhibit 12 in the Appendix), and when comparing the same markets mentioned previously to annualized wage growth from December through April with the same time period in the previous year, the correlation is still negative (see Exhibit 13 in the Appendix) (Whitehouse, 2018).

**How are Businesses Spending Their Tax Cuts?**

Overall, economists agree that a portion of the TCJA corporate tax cuts will benefit workers. However, there are many different opinions and estimations about how much. Most economists agree the largest portion will go to shareholders (Stewart, 2018). In the months leading up to the passage of the TCJA, the Trump Administration advertised the new tax law as a windfall for workers, saying corporate America will invest their large tax savings in wages and jobs. However, many economists predict companies will use their tax savings to benefit their investors by buying back shares and issuing larger dividends (Wattles, 2017).

The TCJA has resulted in an increase in S&P 500 Index earnings forecasts for 2018. Profit growth for the year is estimated at 21.7 percent; however, in 2019, profit growth is forecast at 9.4 percent (Valetkevitch, 2018). About 180 companies in the S&P 500 Index said their effective tax rate dropped by an average of six percent. Overall, this drop saved those companies almost $13 billion in taxes (Townsend & Kochkodin, 2018). However, less than 45 of the S&P 500 Index have paid bonuses to their employees in the four months following the TCJA’s enactment, and financial compensation of employees has slowed drastically since the TCJA was passed. (Shell, 2018).
Where are these companies investing their money? In the first quarter, share purchases increased by 34 percent to $178 billion, beating the previous record set in 2007. Tech companies led the U.S. with their stock buybacks, accounting for almost a third of the total; Apple alone bought back $22.8 billion in shares (Wang, 2018). By buying back shares, earnings per share will increase, and larger shareholders are given a “bigger piece of the pie (Cohan, 2017).” As stated previously, in the first quarter this year, buybacks among S&P 500 Index members were a record high, and greater than a third of these members also raised dividend payments. Not a single company cut its dividend payments for the first time in at least 15 years, and among the companies that raised their dividend payouts, the raise averaged 10 percent. Over the past year, corporate America has returned $992 billion to its shareholders, and at the current rate, investors will be returned more than $1 trillion by the end of 2018 (see Exhibit 14 in the Appendix) (Wang, 2018). If tax savings from the TCJA continue to go to increasing dividends and stock buybacks, economic growth will not result (Cohan, 2017). Democrats and Senate Minority Leader Charles Schumer have attacked the record surge saying corporate America and its shareholders are reaping the benefits of the TCJA and leaving their employees and the middle-class behind (Wang, 2018). According to Florida Republican Senator Marco Rubio “…they bought back shares, a few gave out bonuses; there’s no evidence whatsoever that the money’s been massively poured back into the American worker (Taylor, 2018).”

Companies are, in addition, investing more in plant and equipment, which in return has the potential to create more American jobs. In the first quarter, capital expenditures by corporate America increased by 21 percent to $159 billion (Wang, 2018). Capital expenditures are money spent on obtaining, improving, or maintaining fixed assets, such as equipment, buildings, and land. Typically, capital expenditures are used to take on new projects or investments by the
company (“Capital Expenditure [CAPEX]”). The TCJA allows greater deductibility of capital expenses per year, and as a result, Wall Street predicts capital expenditures will reach $78 billion per month in 2018. (Cohan, 2017). According to a Bank of America survey of S&P 500 Index companies, capital expenditures topped the list of planned cash expenditures followed by bonuses to employees and cash returns to shareholders (see Exhibit 15 in the Appendix) (Wang, 2018). The Congressional Budget Office (CBO) report also suggests companies will receive greater tax cuts from the changes made to Section 179 of the tax code (and etc.) and lose less from limits on interest expense deductions; this likely reflects the increase in investments in capital expenditures seen in the first quarter (Page, 2018). Overall, capital expenditures are better for the economy than stock buybacks. Bloomberg found that shares of companies with more capital spending compared to their market value increased by 34 percent through mid-December compared to a 22 percent increase for companies whom spent more on stock buybacks and dividends. Stock buybacks cause economic stagnation; therefore, increasing employee pay, creating jobs, and increasing capital investments will be more beneficial to the economy in the years to come (Cohan, 2017).

Have Businesses Moved Their Operations back to the United States, Expanded, etc.?

The CBO determined the TCJA and resulting economic stimulus will increase demand for workers over the next few years (“The budget & economic outlook”). The United States created an average 180,000 new jobs each month before the tax reform, and it is continuing to do so. However, there hasn’t been a significant increase in the long-term employment trend, which would indicate businesses hiring in the months following the enactment of the TJCA (Gleckman, 2018). As for what some companies have done in the months since the TCJA took effect,
ExxonMobil plans to invest $50 billion in the U.S. to increase oil production, expand preexisting operations, and improve/build new manufacturing sites. Overall, thousands of jobs will be created. However, a company spokesman said the new investment over the next five years will actually total $15 billion because $15 billion in projects had already been planned and announced. In addition, in January 2017, Fiat Chrysler announced they would invest $1 billion in Michigan and Ohio plants. However, at that time, the plan had been in place since 2015. In January of the current year (2018), Chrysler announced they would invest an additional $1 billion in Michigan. This time, the company explicitly credited the TCJA as the reason the investment was made possible. Overall, ExxonMobil and Fiat Chrysler, as well as Apple, all say that the TCJA to some extent helped promote their U.S. investments, which combined total $385 billion. However, all three companies determined that the TCJA was just one factor of several others that contributed to their decisions to invest in the U.S. Also, it’s not determinable how much of this money would have been invested regardless of if the TCJA was passed or not (Rizzo, 2018).

Lastly, does the TCJA promote moving U.S. jobs abroad? The TCJA includes a territorial tax system which contains a minimum tax on earnings in each country a company operates. This tax is called the Global Intangible Low-Taxed Income (GILTI) tax. It includes rates ranging from 10.5 percent to 13.125 percent (Rainey, 2018). Under the TCJA and the new GILTI tax, companies abroad could, at the minimum, be liable for taxes that are half the corporate tax rate in the United States (Kitroeff, 2018). However, companies can claim tax-exempt earnings overseas based on the value of their assets owned in their country(ies) of operation. Potentially, companies could take advantage of this exemption by building new sites overseas in order to increase their exemption (Rainey, 2019). While in most instances companies will owe some sort of income tax
to the United States each year, businesses abroad still have the opportunity to pay substantially less than what they would otherwise pay on operations carried out in the U.S. (Kitroeff, 2018). However, this was even more of an issue before the passage of the TCJA and the resulting corporate tax rate decrease. Nevertheless, some experts doubt many businesses will take advantage of this tax loophole because building new sites or expanding operations is usually a daunting task for most companies. Overall, while there may be some companies that find it more beneficial to move their operations abroad, there likely won’t be many (Rainey, 2018).

A Special Analysis - Apple Inc.

Under the previous law, companies had to pay a maximum tax rate of 35 percent on their income earned overseas when they brought that money back to the U.S. Therefore, many companies kept their money overseas indefinitely. As of 2015, $2.6 trillion was kept abroad. However, with the passage of the TCJA, the new law might prevent this “income stashing” from occurring on such a wide basis in future years (Kitroeff, 2018). The following is a special case regarding Apple’s cash repatriation.

In January 2018, Apple announced plans to bring back most of its $252 billion in cash it keeps overseas. Under the TCJA, a one-time repatriation of cash held overseas at a lower tax rate is allowed. Thus, Apple will make a $38 billion tax payment on its repatriation; this payment will likely be one of the biggest payouts under the new tax law. By repatriating its cash stash, Apple will save $43 billion in taxes, which is more than any other American company according to the Institute on Taxation and Economic Policy (ITEP) (Wakabayashi & Chen, 2018). As a result of the TCJA, Apple will only have to pay tax on up to 15.5 percent of its cash stash while under the old law, the company could have paid up to 35 percent (Petroff, 2018). CEO Tim Cook stated
that while the TCJA had some role in the decision, the company was already planning on undertaking some of these actions anyway (White, 2018). As a result of its cash repatriation, Apple has said it will invest some of the money it brings back to the United States toward 20,000 new jobs, a new campus, and other expenditures. Nevertheless, Apple already spends billions of dollars on its employees and capital expenditures; bringing its cash back to the United States will likely do little in terms of the company’s expansion. Overall, Apple estimates that the impact on the American economy will be more than $350 billion in the next five years. However, Apple was already on pace to spend $275 billion in the next five years, so it’s unclear how much its repatriation goes beyond what the company already spends (Wakabayashi & Chen, 2018).

In summary, under the new tax law, a one-time repatriation of cash is taxed at 15.5 percent which is lower than the current corporate tax rate of 21 percent. Under the TCJA, Apple would have been taxed on its overseas cash whether it repatriated or not. Other large tech companies, such as Microsoft and Alphabet, that are now in a better tax position to bring their money back to the United States are expected to repatriate their cash as well in the coming years. However, other multinational companies aren’t as well prepared as Apple and would likely face significant losses if they decide to make a one-time cash repatriation. Although supporters of the TCJA argue the influx of money by these tech giants will create jobs and raise wages, many economists believe a one-time repatriation will have little impact on real investment (Wakabayashi & Chen, 2018).

**Converting from an S Corporation to a C Corporation**

Three provisions that benefit small businesses in the TCJA include lower individual tax rates (which effect pass-through income), the 20 percent deduction for pass-through businesses,
and the expanded Section 179 (Grabenstein, 2018). Again, pass-through businesses do not pay income tax at the business level. Rather, profits (and losses) are “passed through” to the owner(s) of the business and reported on the owner’s or owners’ individual tax returns. (Rosenburg, 2017). S corporations, partnerships, and sole proprietorships are the three types of pass-through businesses. The biggest change that effects small business owners, however, is likely the new 20 percent deduction on pass-through business income. This provision was enacted so the pass-through rate is more comparable to the new corporate tax rate (Welker, 2018). Under the TCJA, the corporate tax rate is 21 percent. If not for the new 20 percent deduction on pass-through business income, business owners could pay up to the top individual income tax rate of 37 percent (Tax bill’s “pass-through” rule). Nevertheless, even though a business owner’s pass-through income might be eligible for the 20 percent deduction for qualified business income, an individual’s effective tax rate could still be as high as 29.6 percent. The 20 percent deduction is phased out when an individual’s taxable income is $415,000 or greater for MFJ filers or $207,500 if filing single. In order to claim the deduction above these phaseouts, individuals must employ many people or own depreciable tangible property (Schotz, 2018). The 20 percent deduction for pass-through businesses also has a special provision: workers in service fields, such as healthcare, accounting, law, etc. are phased out when income reaches $157,500 for single filers and $315,000 for MFJ filers in order to prevent wealthy professionals whom don’t hire many workers from getting a large tax benefit (Derousseau et al., 2018).

Because the TCJA establishes a corporate tax rate lower than many individual income tax rates, business owners might be faced with the decision to continue operating as a pass-through entity or as a C corporation (Steuerle, 2018). As stated above, under the TCJA, C corporation income is taxed at 21 percent under the TCJA, and many business owners now contemplate
whether they should restructure their business as a C corporation. However, the answer is not simple, and owners should discuss the various implications of whether or not to restructure as a C corporation with their accountant (Schotz, 2018). Some factors to consider are potential amounts of dividends, when or if owners expect to sell their company, and predictions of what Congress might do in the future (Simon, 2018). To note, an LLC can elect to be viewed as a corporation for tax purposes; however, other pass-through businesses cannot.

In general, the decision of whether to remain a pass-through entity or elect to become a C corporation will be most relevant for businesses that are currently structured as S corporations. A company that wants to terminate their S corporation status needs to be completed by March 15 of the tax year the shareholders want the status to take effect (Schotz, 2018). Some businesses might consider switching to a C corporation because their specific company won’t qualify for the 20 percent pass-through deduction. In addition, individuals are limited to a $10,000 deduction for state and local taxes, while a C corporation is not and can deduct all these taxes (Simon, 2018). However, C corporations are still subject to double taxation; earnings are taxed at both the corporate level as business income and the individual level as dividends. Most often, the preferential rate of 20 percent applies to dividends, but in some cases, dividends might also be subject to net investment income tax of 3.8 percent. Therefore, only regarding federal taxes, the effective federal double tax could total as high as 39.8 percent for individuals (Schotz, 2018). If a company plans on distributing all its earnings as dividends, the tax rate will be higher than if the company remains an S corporation or other pass-through versus a C corporation. In addition, if the company doesn’t distribute its profits, it should be aware of the 20 percent accumulated earnings tax or the 20 percent personal holding company tax; both of which can be avoided,
however (Davison, 2018). Overall, if a business does not make regular distributions to its owners, a C corporation might be a more tax advantageous structure (Schotz, 2018).

Also worthy to consider, if a company plans to sell in the future, a C corporation structure would not be advantageous (Schotz, 2018); pass-through entities are a more favorable structure for business owners whom expect to sell their business in the future (Simon, 2018). When a C corporation is sold, two taxes can result: a capital gains tax when the corporation sells its assets and another capital gains tax if the shareholders receive sales proceeds for their stock. However, if there are no immediate plans to sell the company, this shouldn’t be a problem (Schotz, 2018). Nevertheless, even if there aren’t immediate plans to sell, unexpected situations can present themselves (Davison, 2018). In general, it’s also hard to revert back to an S corporation once a C corporation election is made. There is a five-year waiting period, and after that five-year waiting period, gains related to the previous C corporation’s assets are double taxed, both at the corporate level and the individual level (Simon, 2018).

Lastly, if an S corporation converts to a C corporation structure, an accumulated adjustments account and an earnings and profits account must be tracked, which can be complicated for some businesses without much accounting acumen (Schotz, 2018). In addition, if a company expects losses in the future, a pass-through structure may be more beneficial because losses flow through to the owners’ individual tax forms and can offset other income (Davison, 2018). If an individual regularly relies on pass-through losses to reduce their taxable income, a C corporation structure would not be advantageous as income and losses do not flow through to individuals (Schotz, 2018). Finally, if the company has international operations, it might be more beneficial to remain a pass-through because S corporations can defer tax on unrepatriated earnings; however, C corporations cannot and are subject to territorial international
tax provisions (Davison, 2018). Overall, the process of converting to a C corporation is complex, and the decision to convert gives businesses a lot to consider. See Exhibit 16 in the Appendix for two examples, which illustrate the complexities of determining whether to operate as a C corporation or an S corporation, depicting two different tax situations. In summary, business owners/shareholders should consult their accounting or tax professionals if they are considering restructuring their business.

**IS THE TCJA DEFICIT NEUTRAL AND WHAT EFFECT WILL IT HAVE ON THE UNITED STATES’ ABILITY TO GENERATE REVENUE?**

Every year the Congressional Budget Office (CBO) releases a 10-year budget and economic outlook report. The report “includes projections of government spending, revenue, deficits, and debt…” This year, the CBO report takes into account the new tax law’s impact on the federal deficit as well as economic growth, and the projections assume all current tax laws and federal spending remain unchanged (“The budget & economic outlook”). The CBO typically issues its annual report regarding the U.S. budget and economy in January, but the process was delayed this year to allow the organization ample time to analyze the effects of the TCJA as well as the new spending bill (Becker, 2018).

According to the CBO, the TCJA has shaped their economic forecasts significantly. The CBO projects Gross Domestic Product (GDP) growth will outpace growth in potential GDP in 2018 and 2019, which will cause the unemployment rate to continue to decrease. However, after 2019, the CBO forecasts growth to slow. Overall, the TCJA will raise real potential GDP over the next ten years and will raise real GDP more than potential GDP the next two years (see
Exhibit 17 in the Appendix). However, in the long-term, these effects and greater federal deficits, as a result of the new law, force interest rates and prices to rise.

The CBO predicts real GDP will grow by 3.3 percent in 2018, and 2.4 percent in 2019; the U.S. real GDP grew 2.6 percent in 2017 for comparison. Later, the CBO predicts real GDP will average 1.7 percent growth from 2020 to 2026 and 1.8 percent from 2027 to 2028 (“The budget & economic outlook: 2018 to 2028”). The Tax Policy Center, on the other hand, estimates the TCJA will increase U.S. GDP by 0.8 percent in 2018 but have a minimal effect on GDP in 2027 or 2037 (“Analysis of the Tax Cuts and Jobs Act”). Overall, the average annual GDP growth rate predicted by the CBO is slightly over half that predicted by President Trump (Gleckman, 2018).

In summary, the majority of growth in the next two years is forecast to be attributable to increased consumer and federal spending as well as business investment (“The budget & economic outlook”). Lower individual tax rates make the economy more efficient and lead to more money in American pockets, which will lead to increased spending and investing. The CBO projects the TCJA will grow the economy by changing businesses’ and individuals’ incentives and is predicted to encourage “saving, investment, and work.” According to the CBO report, over the 10-year period, real GDP and nonfarm payroll employment will increase by an average of 0.7 percent and 1.1 million jobs, respectively (York, 2018). Also, increased employee wages will increase short-term economic growth. However, this will result in inflation, which could cause an increase in interest rates, thus halting economic growth. Overall, 69 percent of growth comes from consumer spending, and while some workers might use a pay increase for savings, the majority will spend it, which will increase demand. However, these increases will affect inflation and result in the Federal Reserve raising interest rates (Cohan, 2017). From years
2020 to 2026, higher interest rates and prices and the expiration of individual tax provisions will slow economic growth ("The budget & economic outlook").

In the first quarter following the enactment of the TCJA, real GDP grew at a rate of 2.3 percent, which is down from 2.9 percent from the fourth quarter last year. Two and three tenths percent growth isn’t significantly different from the average growth rate per year, but it is still short of the three percent growth rate President Trump promised the TCJA would generate. However, first quarter GDP growth usually lags other quarters. Also, in the first four months of the year, consumer spending grew at an annual rate of 1.1 percent. However, this is significantly different from fourth quarter 2017 growth of 4 percent. In addition, although business investments rose 6.1 percent in the first quarter, it is difficult to determine what effect the TCJA had on spending since many of these capital investments were likely planned prior to the tax reform (Gleckman, 2018).

Overall, many economists predict the TCJA to be beneficial for GDP growth in the short-term. However, because the tax cuts are deficit-financed, higher interest rates will likely occur, which will cause growth to slow resulting in the TCJA having a more minimal impact on the economy (Kurtzleben, 2018). The first real indicator of potential economic growth will be seen in the 2018 GDP numbers; the Joint Committee on Taxation predicts the TCJA will raise the United States’ GDP by 0.7 percent in 2018 compared to the previous law (Stewart, 2018). In general, economic outcomes are typically difficult to estimate, and projections this year are especially difficult and uncertain due to the change in legislation ("The budget & economic outlook"). It’s not easy to determine if the strong economy, low employment, and bull stock market are the result of the TCJA; this is in part because Donald Trump has only been president for a year and a half, and economists can never be sure what would have happened if the new tax
law hadn’t passed. While presidents tend to take credit for (or receive blame for) the economy while he is in office, it is too soon to determine the long-term impact of President Trump’s tax reform bill (Stewart, 2018).

Is the TCJA Deficit Neutral?

In December, the CBO estimated over the next ten years, the TCJA will decrease federal revenues by $1,649 billion and decrease expenses by $194 billion thus resulting in an increase to the federal deficit of $1,455 billion (Cost estimate for the conference agreement). However, estimated federal deficits from 2018 to 2027 have significantly increased since when the CBO last issued its forecasts. (“The budget & economic outlook”). In April, the CBO increased their projection for the federal deficit by $433 billion more than the Joint Committee on Taxation predicted in December. While the new CBO report is more optimistic toward economic growth over the next 10 years, the Office anticipates greater revenue loss due to business tax changes resulting in larger tax breaks than initially predicted (Page, 2018); corporate taxes are down for the first six months of the year by $22 billion (a 22.3 percent decrease from last year). In total, the CBO projects the overall lost revenue as a result of the TCJA in 2018 will be $54 billion, and over the next 10 years, the Office estimates the federal government will receive $409 billion less from corporate taxes. However, this amount does not take into account any potential economic effects or benefits of the corporate tax rate deduction (Kiely, 2018).

In 2018, the CBO predicts a total budget shortfall of $804 billion. Over the 10-year period under review, debts are only projected to increase, and by 2028, debt held by the public is predicted to be nearly $29 trillion (York, 2018). Although the $1 trillion deficit forecast has loomed in the future for a while, for example, the CBO projected the deficit would top $1 trillion
in 2022, with the passage of the TCJA and the decrease in federal revenue as a result, the CBO now estimates the budget deficit will top $1 trillion in 2020 (Kiely, 2018). As the federal deficit increases, debt held by the public will increase from 78 percent of GDP in 2018 to 96 percent of GDP in 2028 (see Exhibit 18 in the Appendix). This rising debt will increase federal interest payments drastically, and the likelihood of a recession will increase as well. The only time these averages have been this large was following World War II and the 2007 - 2009 recession (“The budget & economic outlook”).

According to the CBO report, the gap between federal spending and revenue will be significantly large. Federal expenditures during the 10-year period are expected to total $56.5 trillion, and revenues are projected to total $44.2 trillion. These numbers assume the temporary provisions of the TCJA will expire and not be renewed by Congress (this includes the expiration of the individual income tax reductions) (York, 2018). However, if Congress expands individual income tax cuts and some tax breaks, the TCJA’s total cost could be over $2 trillion (Peterson, 2017). Debt held by the public at this point would easily total 105 percent of GDP by the end of 2028. Overall, the TCJA, along with a few other new legislations, will increase deficits by $2.7 trillion from 2018 to 2027. This is the result of a $1.7 trillion decrease in federal revenue and increasing expenditures of $1 trillion; the lower projected revenues are primarily the result of lower individual income tax rates (“The budget & economic outlook”).

In summary, real GDP is expected to grow 3.3 percent this year, 2.4 percent in 2019, and 1.8 percent in 2020, the CBO estimates. However, this growth will not offset the federal deficit which has a projected cumulative total of $11.7 trillion for 2018 to 2027 (Becker, 2018). Although the CBO believes federal revenue will increase over the next 10 years, it accounts for less than 50 percent of the TCJA’s total cost (Page, 2018). The CBO predicts the TCJA will
increase the deficit by $1.9 trillion dollars over the 10-year period under review. On the other hand, the Committee for a Responsible Federal Budget estimates the TCJA could cost up to $2.2 trillion (Salisbury, 2017). The new tax law is also expected to apply upward pressure on interest rates and prices during that time (York, 2018). Federal deficit estimates differ when potential economic growth is considered in the equation largely because predicting economic growth at this point in time is difficult and uncertain (Peterson, 2017). Overall, the more debt created by the TCJA, the less likely there will be economic growth. Because of this, many analysts believe the bill will generate little to no growth. The Joint Committee on Taxation estimates economic growth to be between one-third and one-tenth of the Tax Foundation’s predictions (Salisbury, 2017). In total, the federal deficit will grow significantly over the coming years. The deficit is estimated to steadily rise the next 10 years, and by 2028, public debt will reach almost 100 percent of GDP. If Congress votes to keep the individual provisions set to expire in 2025, the deficit will grow even larger (The budget & economic outlook).

**Will Foreign Investors Receive a Benefit from the Enactment of the TCJA?**

Also worthy to consider is the effect of the new tax law on foreign investors compared to Americans. The Joint Committee on Taxation predicts the TCJA will add over $1 trillion to the federal deficit over the next ten years. As a result, the TCJA will cost the United States Treasury $66 billion in debt service costs (Stewart, 2018). This debt is financed by United States Treasury bonds, many of which are held by foreign investors. In addition, according to a report released by the CBO, over the next 10 years, 43 percent of the economic growth created as a result of the new law will benefit foreign investors instead of Americans. In 2018 alone, ITEP estimates foreign investors will benefit $47 billion from the TCJA. The poorest, second, and middle-class
Americans are estimated to receive $41 billion (see Exhibit 19 in the Appendix) (Wamhoff, 2018). Overall, the CBO’s report estimates foreign investors will receive 48 percent of the total economic benefits of the TCJA in 2018 and 31 percent in 2019. The percentage benefit will remain between 33 percent and 39 percent until 2026 when the individual tax provisions expire. If the individual tax provisions are allowed to expire, foreign investors could benefit by 48 percent again in 2026, 60 percent in 2027, and a staggering 71 percent in 2028 (Bryan, 2018).

While the reasons for this aren’t explicitly stated, a portion of the tax cuts will flow to foreign investors whom own stocks in corporate America, which is benefiting from the reduction of the corporate income tax rate (Wamhoff, 2018).

**WHAT NEW CHALLENGES DO TAX ACCOUNTANTS FACE, AND HOW CAN THEY BETTER SERVE THEIR CLIENTS AFTER THE ENACTMENT OF THE TCJA?**

While tax reform may impact lower-end tax preparation by increasing the number of taxpayers that will no longer need to file a return or taxpayers whose returns are potentially now simple enough to file themselves, this has already been evident in previous tax years with taxpayers using tax software to prepare their own returns. However, people who have K-1s from pass-through businesses, rental properties, farm land, investments, or children in college have complex issues. These taxpayers will likely still require the help of CPAs. According to Dustin Stamper, managing director at Grant Thornton’s Washington National Tax Office, “the kind of taxpayers that go to accounting firms will still very much need accountants after the legislation passes. Although there is some simplification going on, there are also a lot of complex new provisions (Russell, 2017).”
Accounting is often regarded as one of the most stable and well-paid job fields in the United States. Many CPAs and accounting firms will likely see an increase in business because of new tax law complexities and more opportunities for tax planning (Russell, 2017). According to BDO’s (a national accounting and consulting firm) national tax office, their inquiries from prospective clients have doubled since 2017, and even more clients have hired the company for their services (Hsu & Creswell, 2017). Overall, the new tax law is a great opportunity to deepen and build relationships with current and new clients (Baron, 2017). It brings many new details and tax planning opportunities for accounting firms to offer or bring to the attention of their clients (Russell, 2017).

In the years to come, additional time should be set aside for staff training on the new changes, how the TCJA will affect the firm’s clients, and for open dialogue (Baron, 2017). Seeking accountants for tax planning and advice under the TCJA will likely significantly increase in the upcoming tax years. Areas of increased tax advice include: advising individuals who used to itemize on the potential impact of lost deductions and creating new methods for tax savings and efficiency, reviewing clients’ estates due to the increase in the Estate Tax exemption amount, advising pass-through business owners on the new 20 percent deduction, and helping business owners determine if a different business structure might be more tax beneficial (Examining the Tax Cuts and Jobs Act). Overall, companies, both pass-through businesses and C corporations, will require more tax advice, thus increasing accounting and tax firm revenues (Hsu & Creswell, 2017). Tax planning business will also be generated from the difference between the corporate tax rate and the individual tax rates. Lastly, as stated above, because the TCJA did not repeal the Estate Tax and instead increased the tax exemption amounts, estate planning is still relevant to accounting firms and their clients (Russell, 2017). In general,
accounting firms should communicate with their clients as tax policy takes shape. It is important to use targeted messages with clients, giving them specific tax advice and planning depending on each’s situations. Blogs and social media are good options for staying in touch with clients and letting them know the firm is paying attention to and looking out for their interests (Baron, 2017).

Most importantly, however, it is essential for accountants to stay informed and use tax research systems to analyze timely and accurate data on tax developments. Blogs written by experts in the tax profession are good resources to stay up-to-date on different perspectives and views. Tax courses, webinars, and conferences are all also valuable resources for helping those in the tax and accounting profession stay current (Baron, 2017). In addition, it is important for accountants to consider possible law changes in the future because, for example, the individual income tax provisions are set to expire in 2025 (Examining the Tax Cuts and Jobs Act). Overall, the TCJA will effectively impact everyone, individuals and businesses alike. Due to the sweeping changes to the tax law, the TCJA will likely create much more business (rather than decrease business) for accountants, and an easy way for accountants to take advantage of increased demand is to demonstrate their intimate knowledge of the TCJA. This is especially important for regional firms that work with many small businesses (Welker, 2018). In summary, changes to the tax code in general is good for accountants as many people don’t understand the Internal Revenue Code regardless, let alone if there is a major overhaul (Russel, 2017).

CONCLUSION

In conclusion, it’s difficult to determine if the Tax Cuts and Jobs Act meets any of President Donald Trump’s or Speaker Paul Ryan’s stated goals. First, although most taxpayers
will receive a tax break as a result of the new law, the benefits are uneven with 40 percent of the
tax cuts going to the wealthiest five percent of households in 2018. However, when considering
the percentage tax change from 2017 to 2018 for lower-, middle-, and upper-income classes, the
lower- and middle-classes have the greatest percentage change. In addition, regarding the
changes made to the Alternative Minimum Tax, in some states where middle-class income falls
around $200,000 (such as New York, etc.), these households will no longer owe AMT.
Therefore, the question of whether this goal was met is complicated; for some taxpayers, the
TCJA seems to provide substantial tax benefits, however, other households may not feel as
significant of an impact on their tax returns. Second, although the new law might simplify tax
filing for some taxpayers, it does not simplify the tax preparation process for others. Though the
standard deduction was increased, meaning millions of taxpayers will no longer itemize their
deductions, the TCJA includes new complexities, such as the 20 percent pass-through income
deduction. Although many tax preference items, credits, deductions, schedules, and worksheets
still exist, the Treasury Department and IRS introduced the Form 1040 Simplified, a postcard
filing option, in June 2018. It appears Americans will be able to file their taxes on a postcard in
2019 and the following tax years. Third, many businesses announced one-time bonuses for
employees in 2017. However, in 2018, there haven’t been wage increases for a significant
number of Americans, rather, companies are investing in stock buybacks, dividends, and capital
expenditures at a substantially higher rate. In addition, although there are companies investing
large amounts of money in the United States, it is difficult to determine if it is a result of the
TJCA. As for advising business owners on business structure changes, such as converting from
an S corporation (or other pass-through business) to a C corporation, the process/decision is
complex and depends on each client’s individual situation.
Fourth, the new tax law is not deficit neutral. The TCJA is projected to increase the federal deficit by over $1 trillion, and by 2028, debt held by the public will be nearly 100 percent of the United States’ Gross Domestic Product. While the TCJA is projected to be beneficial for the economy in the short-term, because the new law is deficit-financed, the TCJA will likely have a minimal impact on the United States economy. However, economic outcomes are particularly difficult to estimate and uncertain at this point in time. Lastly, the TCJA will likely increase business for accountants and accounting firms. The new complexities introduced in the new law, such as the 20 percent pass-through income deduction, the Estate Tax exemption increase, and the changes to the AMT, will require increased tax advice and planning. Overall, it is important for accountants to stay up-to-date on new developments regarding the TCJA and remain in contact with clients as changes and new guidance are issued.

In summary, the TCJA introduces substantial changes to the Internal Revenue Code. However, in regard to President Trump’s and Speaker Paul Ryan’s goals, it is difficult to determine if the TCJA was a success or failure. The best answer that can be given at this point in time is: it depends.
**APPENDIX**

**Exhibit 1** Tax Brackets and Rates, 2018

<table>
<thead>
<tr>
<th>Rate</th>
<th>For Unmarried Individuals, Taxable Income Over</th>
<th>For Married Individuals Filing Joint Returns, Taxable Income Over</th>
<th>For Heads of Households, Taxable Income Over</th>
</tr>
</thead>
<tbody>
<tr>
<td>10%</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td>12%</td>
<td>$9,525</td>
<td>$19,650</td>
<td>$13,600</td>
</tr>
<tr>
<td>22%</td>
<td>$38,700</td>
<td>$77,400</td>
<td>$51,800</td>
</tr>
<tr>
<td>24%</td>
<td>$82,500</td>
<td>$165,000</td>
<td>$82,500</td>
</tr>
<tr>
<td>32%</td>
<td>$157,500</td>
<td>$315,000</td>
<td>$157,500</td>
</tr>
<tr>
<td>35%</td>
<td>$200,000</td>
<td>$400,000</td>
<td>$200,000</td>
</tr>
<tr>
<td>37%</td>
<td>$500,000</td>
<td>$600,000</td>
<td>$500,000</td>
</tr>
</tbody>
</table>


**Exhibit 2** Tax Brackets and Rates, 2017

**Single Taxable Income Brackets and Rates, 2017**

<table>
<thead>
<tr>
<th>Rate</th>
<th>Taxable Income Bracket</th>
<th>Tax Owed</th>
</tr>
</thead>
<tbody>
<tr>
<td>10%</td>
<td>$0 to $9,325</td>
<td>10% of Taxable Income</td>
</tr>
<tr>
<td>15%</td>
<td>$9,325 to $37,950</td>
<td>$932.50 plus 15% of the excess over $9325</td>
</tr>
<tr>
<td>25%</td>
<td>$37,950 to $91,900</td>
<td>$5,226.25 plus 25% of the excess over $37,950</td>
</tr>
<tr>
<td>28%</td>
<td>$91,900 to $191,650</td>
<td>$18,713.75 plus 28% of the excess over $91,900</td>
</tr>
<tr>
<td>33%</td>
<td>$191,650 to $416,700</td>
<td>$46,643.75 plus 33% of the excess over $191,650</td>
</tr>
<tr>
<td>35%</td>
<td>$416,700 to $418,400</td>
<td>$120,910.25 plus 35% of the excess over $416,700</td>
</tr>
<tr>
<td>39.6%</td>
<td>$418,400+</td>
<td>$121,505.25 plus 39.6% of the excess over $418,400</td>
</tr>
</tbody>
</table>

**Married Filing Joint Taxable Income Brackets and Rates, 2017**

<table>
<thead>
<tr>
<th>Rate</th>
<th>Taxable Income Bracket</th>
<th>Tax Owed</th>
</tr>
</thead>
<tbody>
<tr>
<td>10%</td>
<td>$0 to $18,650</td>
<td>10% of taxable income</td>
</tr>
<tr>
<td>15%</td>
<td>$18,650 to $75,900</td>
<td>$1,865 plus 15% of the excess over $18,650</td>
</tr>
<tr>
<td>25%</td>
<td>$75,900 to $153,100</td>
<td>$10,452.50 plus 25% of the excess over $75,900</td>
</tr>
<tr>
<td>28%</td>
<td>$153,100 to $233,350</td>
<td>$29,752.50 plus 28% of the excess over $153,100</td>
</tr>
<tr>
<td>33%</td>
<td>$233,350 to $416,700</td>
<td>$52,222.50 plus 33% of the excess over $233,350</td>
</tr>
<tr>
<td>35%</td>
<td>$416,700 to $470,700</td>
<td>$112,728 plus 35% of the excess over $416,700</td>
</tr>
<tr>
<td>39.6%</td>
<td>$470,700+</td>
<td>$131,628 plus 39.6% of the excess over $470,700</td>
</tr>
</tbody>
</table>
Exhibit 3 Corporate Income Tax Rates, 2017

Exhibit 4 Personal Income Changes Under GOP Tax Law *

* Graphic does not factor in all the law’s provisions, including the corporate tax rate cut.

**Exhibit 5** Percent Change in Taxes Owed/Refunded from 2017 to 2018

<table>
<thead>
<tr>
<th></th>
<th>2018 Single, 0 children</th>
<th>2017 Single, 0 children</th>
<th>2018 Single, 0 children</th>
<th>2017 Single, 0 children</th>
</tr>
</thead>
<tbody>
<tr>
<td>AGI</td>
<td>$1,000,000</td>
<td>$600,000</td>
<td>$600,000</td>
<td>$600,000</td>
</tr>
<tr>
<td>Standard Deduction</td>
<td>(12,000)</td>
<td>(4,000)</td>
<td>(4,000)</td>
<td>(4,000)</td>
</tr>
<tr>
<td>Taxable Income</td>
<td>$988,000</td>
<td>$560,000</td>
<td>$560,000</td>
<td>$560,000</td>
</tr>
<tr>
<td>Federal Tax Liability</td>
<td>$120,585.50</td>
<td>$120,985.50</td>
<td>$120,985.50</td>
<td>$120,985.50</td>
</tr>
<tr>
<td>Percent Change in Taxes Owed</td>
<td>-0.70%</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>AGI</td>
<td>$700,000</td>
<td>$700,000</td>
<td>$700,000</td>
<td>$700,000</td>
</tr>
<tr>
<td>Standard Deduction</td>
<td>(24,000)</td>
<td>(24,000)</td>
<td>(24,000)</td>
<td>(24,000)</td>
</tr>
<tr>
<td>Taxable Income</td>
<td>$676,000</td>
<td>$476,000</td>
<td>$476,000</td>
<td>$476,000</td>
</tr>
<tr>
<td>Federal Income Tax</td>
<td>$132,495.00</td>
<td>$209,382.60</td>
<td>$209,382.60</td>
<td>$209,382.60</td>
</tr>
<tr>
<td>Child Tax Credit</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Federal Tax Liability</td>
<td>$132,495.00</td>
<td>$209,382.60</td>
<td>$209,382.60</td>
<td>$209,382.60</td>
</tr>
<tr>
<td>Percent Change in Taxes Owed</td>
<td>-0.50%</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Exhibit 6** Percentage of Returns in Each Income Group Subject to AMT in 2015

**Exhibit 7** Percent Change in Taxes Owed for a Family of Five due to the Elimination of

**Personal Exemptions**

<table>
<thead>
<tr>
<th></th>
<th>2018 MFJ, 5 children</th>
<th>2017 MFJ, 5 children</th>
</tr>
</thead>
<tbody>
<tr>
<td>AGI</td>
<td>$90,000.00</td>
<td>$90,000.00</td>
</tr>
<tr>
<td>Standard Deduction</td>
<td>($24,000.00)</td>
<td>Personal Exemptions</td>
</tr>
<tr>
<td></td>
<td></td>
<td>($28,350.00)</td>
</tr>
<tr>
<td>Taxable Income</td>
<td>$87,600.00</td>
<td>Standard Deduction</td>
</tr>
<tr>
<td></td>
<td></td>
<td>($12,700.00)</td>
</tr>
<tr>
<td>Taxable Income</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Federal Income Tax</td>
<td>$11,151.00</td>
<td>Federal Income Tax</td>
</tr>
<tr>
<td>Child Tax Credit</td>
<td>($6,000.00)</td>
<td></td>
</tr>
<tr>
<td>Federal Tax Liability</td>
<td>$ 5,151.00</td>
<td>Child Tax Credit</td>
</tr>
<tr>
<td></td>
<td></td>
<td>($5,000.00)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Federal Tax Liability</td>
</tr>
<tr>
<td></td>
<td></td>
<td>$1,410.00</td>
</tr>
</tbody>
</table>

Percent Change in Taxes Owed 265.32%
Exhibit 9 Drafts of the Form 1040 Simplified Worksheets

### Exhibit 11 S&P 500 Index Companies That Have Announced Bonuses, Wage Increases, or Other Special Investments Since the Enactment of the Tax Cuts and Jobs Act

<table>
<thead>
<tr>
<th>Name</th>
<th>Plan / Statement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aflac</td>
<td>Increase 401(k) match from 50 percent to 100 percent of first 4 percent of employee contribution, $500 one-time contribution to every employee's 401(k) plan, offer free hospital and accident insurance products, increase U.S. investment by $250 million over 3 - 5 years.</td>
</tr>
<tr>
<td>Alaska Air</td>
<td>$1,000 bonus for 23,000 employees and $118 million in incentive bonuses.</td>
</tr>
<tr>
<td>American Airlines</td>
<td>$1,000 bonus to all team members (excluding officers) at &quot;mainline and wholly owned carriers&quot; first quarter of 2018.</td>
</tr>
<tr>
<td>Altria Group</td>
<td>One-time $3,000 bonus to 7,900 non-executive employees, donate $35 million over next three years to philanthropy.</td>
</tr>
<tr>
<td>Anthem</td>
<td>Contribute $1,000 to the 401(k) accounts for each of its more than 58,000 associates and recent retirees.</td>
</tr>
<tr>
<td>Apple</td>
<td>Repatriate billions in overseas cash.</td>
</tr>
<tr>
<td>AT&amp;T</td>
<td>$1,000 bonus to more than 200,000 U.S. employees, invest additional $1 billion in the U.S. in 2018.</td>
</tr>
<tr>
<td>Bancorp South</td>
<td>$10 million investment in employees.</td>
</tr>
<tr>
<td>Bank of America Corporation</td>
<td>One-time $1,000 bonus for U.S. employees earning up to $150,000 per year - about 145,000 teammates.</td>
</tr>
<tr>
<td>Company</td>
<td>Actions</td>
</tr>
<tr>
<td>------------------------------</td>
<td>-------------------------------------------------------------------------</td>
</tr>
<tr>
<td>BB&amp;T</td>
<td>One-time $1,200 bonus for about 27,000 employees, raise minimum wage from $12/hour to $15/hour, donate $100 million to philanthropic fund.</td>
</tr>
<tr>
<td>Boeing</td>
<td>$300 million committed to charitable giving, workforce development, and workplace facility enhancements.</td>
</tr>
<tr>
<td>Charles Schwab</td>
<td>$1,000 bonus to around 9,000 non-executive employees last year, “anticipating the tax law change and in response to the company’s strong financial performance.”</td>
</tr>
<tr>
<td>Chipotle</td>
<td>One-time $1,000 bonus to qualified employees, one-time stock grant to qualified employees, additional paid parental leave, additional insurance coverage for hourly managers.</td>
</tr>
<tr>
<td>Cigna</td>
<td>Raise minimum wage to $16/hour, additional $15 million in salary raises mostly for front line employees, additional $30 million to 401(k) matching, invest in Cigna Foundation.</td>
</tr>
<tr>
<td>Citizen's Financial Group</td>
<td>One-time $1,000 bonus to around 12,500 employees.</td>
</tr>
<tr>
<td>Comcast Corporation Class A</td>
<td>$1,000 bonuses for more than 100,000 workers, hire thousands more employees, invest over $50 billion in infrastructure.</td>
</tr>
<tr>
<td>Comerica</td>
<td>One-time $1,000 bonus to 4,500 non-officer employees, raise minimum wage to $15/hour.</td>
</tr>
<tr>
<td>Company</td>
<td>Actions</td>
</tr>
<tr>
<td>------------------</td>
<td>-------------------------------------------------------------------------</td>
</tr>
<tr>
<td>CVS Health</td>
<td>Increase minimum wage to $11/hour starting in April. Invest $425 million annually in wages and employee benefits.</td>
</tr>
<tr>
<td>Discover</td>
<td>One-time $1,000 bonus to more than 15,000 non-executive employees.</td>
</tr>
<tr>
<td>Disney</td>
<td>One-time $1,000 cash bonus for more than 125,000 employees.</td>
</tr>
<tr>
<td>Express Scripts</td>
<td>Bonuses of $500 to $2,000 per employee based on tenure - for $20 million total, additional $30 million to employee education fund and philanthropy.</td>
</tr>
<tr>
<td>Exxon Mobil</td>
<td>$50 billion in new U.S. investments over the next five years.</td>
</tr>
<tr>
<td>FedEx</td>
<td>Invest over $200 million in pay raises, “about two-thirds of which will go to hourly team members, contribute $1.5 billion to pension plan.”</td>
</tr>
<tr>
<td>Fifth Third</td>
<td>One-time $1,000 bonus to 13,500 employees, raise minimum wage to $15/hour.</td>
</tr>
<tr>
<td>Home Depot</td>
<td>One-time cash bonus up to $1,000 for U.S. hourly associates in the fourth quarter of fiscal 2017.</td>
</tr>
<tr>
<td>Honeywell</td>
<td>Increase 401(k) match to maximum 7 percent in the U.S., Canada and Puerto Rico.</td>
</tr>
<tr>
<td>Company</td>
<td>Actions</td>
</tr>
<tr>
<td>-----------------------</td>
<td>-------------------------------------------------------------------------</td>
</tr>
<tr>
<td><strong>Humana</strong></td>
<td>Increase minimum wage to $15/hour, allow employees to take part in performance-based incentive program starting this year.</td>
</tr>
<tr>
<td><strong>J.M. Smucker</strong></td>
<td>One-time $1,000 bonus to nearly 5,000 employees, additional $20 million to employee pension plan, additional $1 million to charity.</td>
</tr>
<tr>
<td><strong>JPMorgan</strong></td>
<td>Hire 4,000 employees and open up to 400 new Chase branches, increase minimum wage to $15 to $18/hour for 22,000 employees.</td>
</tr>
<tr>
<td><strong>Kansas City Southern</strong></td>
<td>One-time $1,000 bonus to qualified, non-executive employees in the U.S. and Mexico.</td>
</tr>
<tr>
<td><strong>Lowe's</strong></td>
<td>Up to $1,000 bonus to more than 260,000 employees, expand maternity and parental leave benefits.</td>
</tr>
<tr>
<td><strong>Marriott International</strong></td>
<td>Additional one-time contribution to retirement savings plans, structured as a $5-to-$1 company match of up to $1,000.</td>
</tr>
<tr>
<td><strong>Marsh &amp; McLennan Cos</strong></td>
<td>One-time $1,000 bonus to employees earning $55,000/year or less, U.S. employees earning below $16/hour to receive a pay raise to $16/hour.</td>
</tr>
<tr>
<td><strong>MetLife</strong></td>
<td>Increase minimum wage to $15/hour, increase life insurance benefits, increase 401(k) matching, expand company-paid legal services.</td>
</tr>
<tr>
<td>Company</td>
<td>Action Description</td>
</tr>
<tr>
<td>-------------------------</td>
<td>---------------------------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>M&amp;T Bank</td>
<td>Increase minimum wage to $14 to $16/hour, depending on geography.</td>
</tr>
<tr>
<td>Northern Trust</td>
<td>Award employees one week's base salary up to $1,000.</td>
</tr>
<tr>
<td>PNC Financial</td>
<td>$1,000 bonuses for about 47,500 employees in first quarter of 2018, raise minimum wage to $15/hour by year end.</td>
</tr>
<tr>
<td>Regions Financial</td>
<td>Increase minimum wage to $15/hour - affecting around 25 percent of workforce, contribute $40 million to foundation, increase capex budget by $100 million for 2018.</td>
</tr>
<tr>
<td>Southwest</td>
<td>$1,000 cash bonus on 1/8/18 to all fulltime and part-time employees, incremental $5 million in charitable giving.</td>
</tr>
<tr>
<td>Travelers Cos</td>
<td>$1,000 bonus to 14,000 employees with base salary less than $75,000, increase minimum wage to $15/hour.</td>
</tr>
<tr>
<td>Tyson Foods</td>
<td>One-time $1,000 bonus to eligible full-time employees and $500 bonus to eligible part-time employees, invest in employee education and training, invest in sustainability and animal well-being.</td>
</tr>
<tr>
<td>UPS</td>
<td>Invested $5 billion in pension plans, will invest $7 billion in Smart Logistics Network.</td>
</tr>
<tr>
<td>U.S. Bancorp</td>
<td>$1,000 bonus to nearly 60,000 employees, raise minimum wage to $15/hour.</td>
</tr>
<tr>
<td>Verizon</td>
<td>Employees other than top management to receive 50 shares of restricted stock.</td>
</tr>
<tr>
<td>Visa</td>
<td>Hike 401(k) match to 10 percent from 6 percent.</td>
</tr>
</tbody>
</table>
Walmart | One-time cash bonus of up to $1,000 to eligible employees.

Washington Federal | Employees earning <$100k will get 5 percent increase on top of normal merit increase, unspecified investments in training and development.

Waste Management | Allocate $2,000 to every North American employee not in a bonus or sales-incentive plan - around 34,000 employees.

Wells Fargo | Raise minimum wage to $15/hour, target $400 million in 2018 philanthropic contributions.

Zions | Increase compensation of more than 40 percent of employees, $1,000 bonuses to nearly 80 percent of employees this year, contribute $12 million to charitable foundation.


Exhibit 12 Annualized Change in Average Hourly Wage

| Source: Bloomberg, Bureau of Labor Statistics |
Exhibit 13 Tax Savings and Wage Acceleration by Industry

Tax Savings and Wage Acceleration by Industry

<table>
<thead>
<tr>
<th>Industry</th>
<th>Expected 10-year tax savings, percent</th>
<th>Annualized wage growth, Dec-April minus previous year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Miscellaneous services*</td>
<td>43.3%</td>
<td>-2.2%</td>
</tr>
<tr>
<td>Transportation and warehousing</td>
<td>43.2%</td>
<td>-2.7%</td>
</tr>
<tr>
<td>Wholesale trade</td>
<td>40.1%</td>
<td>-2.0%</td>
</tr>
<tr>
<td>Retail trade</td>
<td>38.7%</td>
<td>1.7%</td>
</tr>
<tr>
<td>Construction</td>
<td>32.5%</td>
<td>0.2%</td>
</tr>
<tr>
<td>Information</td>
<td>30.8%</td>
<td>0.2%</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>21.7%</td>
<td>-0.2%</td>
</tr>
<tr>
<td>Utilities</td>
<td>-18.8%</td>
<td>4.3%</td>
</tr>
</tbody>
</table>

Sources: Penn Wharton Budget Model, Bureau of Labor Statistics, author’s calculations
*Includes such services as equipment repair, grantmaking, dry cleaning, funeral homes, pet care and parking.


Exhibit 14 Total Buybacks and Dividends from S&P 500 Index Companies through May

$1 Trillion Gift

Total buybacks and dividends from S&P 500 companies hit fresh record

12-month total shareholder returns (billion dollars)

Source: S&P

Exhibit 15 Announced Spending Plans for S&P 500 Index Companies

Exhibit 16 Comparing Federal Income Taxation as a C Corporation versus a S Corporation

<table>
<thead>
<tr>
<th></th>
<th>C Corporation</th>
<th>Entity with Less Business Income</th>
<th>S Corporation</th>
<th>$Corporation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ordinary Income</td>
<td>$285,000.00</td>
<td>Ordinary Income</td>
<td>$285,000.00</td>
<td></td>
</tr>
<tr>
<td>Wages</td>
<td>(46,000.00)</td>
<td>Wages</td>
<td>(46,000.00)</td>
<td></td>
</tr>
<tr>
<td>Other Business Expenses</td>
<td>(110,000.00)</td>
<td>Other Business Expenses</td>
<td>(110,000.00)</td>
<td></td>
</tr>
<tr>
<td>Net Income</td>
<td>$155,000.00</td>
<td>Net Income</td>
<td>$155,000.00</td>
<td></td>
</tr>
<tr>
<td>21% Corporate Tax</td>
<td>$28,350.00</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dividend</td>
<td>$75,000.00</td>
<td>Distribution</td>
<td>$75,000.00</td>
<td></td>
</tr>
<tr>
<td>MSS with 3 children</td>
<td></td>
<td>MSS with 3 children</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Wages</td>
<td>$100,000.00</td>
<td>Wages</td>
<td>$100,000.00</td>
<td></td>
</tr>
<tr>
<td>Dividends</td>
<td>75,000.00</td>
<td>S Corporation Income</td>
<td>135,000.00</td>
<td></td>
</tr>
<tr>
<td>Standard Deduction</td>
<td>(24,000.00)</td>
<td>Distribution *</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Taxable Income</td>
<td>$151,000.00</td>
<td>Pass-through Business Deduction</td>
<td>(27,000.00)</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Standard Deduction</td>
<td>(24,000.00)</td>
<td></td>
</tr>
<tr>
<td>Preferential Tax Rate on Dividends, 15% rate</td>
<td>$11,250.00</td>
<td>Taxable income</td>
<td>$184,000.00</td>
<td></td>
</tr>
<tr>
<td>Income Tax, 12% rate</td>
<td>$8,750.00</td>
<td>Income Tax, 24% rate</td>
<td>$21,750.00</td>
<td></td>
</tr>
<tr>
<td>Child Tax Credit</td>
<td>(6,000.00)</td>
<td>Child Tax Credit</td>
<td>(6,000.00)</td>
<td></td>
</tr>
<tr>
<td>Federal Tax Liability</td>
<td>$2,750.00</td>
<td>Federal Tax Liability</td>
<td>$2,750.00</td>
<td></td>
</tr>
<tr>
<td>TOTAL TAXES PAID</td>
<td>$42,230.00</td>
<td>TOTAL TAXES PAID</td>
<td>$24,750.00</td>
<td></td>
</tr>
</tbody>
</table>

* if the shareholder has enough basis in his or her company, the distribution is tax free. This example assumes the shareholder has sufficient basis.

In this situation, it would be more beneficial to operate as an S corporation because the total taxes paid under the S corporation business structure are less than the total taxes paid under the C corporation business structure.
In this situation, it would be more beneficial to operate as a C corporation because the total taxes paid under the C corporation business structure are less than the total taxes paid under the S corporation business structure.

**Exhibit 17 Growth of Real GDP and Real Potential GDP**

**Exhibit 18** Federal Debt Held by the Public


**Exhibit 19** Tax Cuts and Jobs Act: Who Benefits and How Much in 2018

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