Trump's Tax Reform Plan Explained

David Floyd

President Trump signed the "Tax Cuts and Jobs Act" into law on Dec. 22., 2017, bringing sweeping changes to the tax code. The polls have shown that how you feel about the $1.5+ trillion overhaul depends largely on your opinion of Trump's presidency. Individually, how the changes will be felt depends on factors like your income level, filing status and deductions. For a family of four earning the median income, the changes will equate to an extra $2,000 in their pockets – at least until 2025. But if you live in a high-tax state with soaring property values, you stand to pay more in taxes.

For the wealthy, banks and other corporations, the tax reform package can be considered a lopsided victory given its significant and permanent tax cuts to corporate profits, investment income, estate tax and more. Financial services companies, especially, stand to see huge gains based on the new, lower corporate rate (20%) as well as more preferable tax treatment of pass-through companies. Some banks have said that their effective tax rate will drop under 20%.

Given the popular criticism of the tax overhaul's disparities, coupled with GOP nervousness going into the 2018 midterm elections, as well as the prospect of Trump's trade war muting the benefits of the tax cuts for voters, a second round of tax reforms is being discussed. The reforms could make the individual tax cuts permanent and encourage retirement savings and business innovation. More on that later...

The Vote Itself

The Senate passed the bill on Dec. 20 by a party-line vote of 51 to 48; Sen. John McCain (R-Ariz.) was absent for medical treatment. The House

passed the bill later in the day by a vote of 224 to 201. No House Democrats supported the bill and 12 Republicans voted no, most of them representing California, New York and New Jersey; taxpayers who itemize in these high-tax states are likely to be hurt by the legislation's cuts to the state and local tax deduction.

It was the House's second vote on the bill in a week. Having passed the legislation Tuesday, they were forced to amend it after the Senate parliamentarian struck down three of its provisions. These could not be passed under the fast-track reconciliation procedure Republicans used to avoid a Democratic filibuster, the parliamentarian ruled.

The overhaul is forecast to raise the federal deficit by hundreds of billions of dollars – and perhaps as much as $2.0 trillion – over the coming decade. Estimates vary depending on assumptions about how much economic growth the law will spur, but no independent estimates follow Treasury Secretary Steven Mnuchin in predicting a net reduction to the national debt as a result of the overhaul.

The law cuts corporate tax rates permanently and individual tax rates temporarily. It permanently removes the individual mandate, a key provision of the Affordable Care Act, which is likely to raise insurance premiums and significantly reduce the number of people with coverage. The highest earners are expected to benefit most from the law, while the lowest earners may actually pay more in taxes once most individual tax provisions expire after 2025.

--Personal Taxes--

Income Tax Rates

The law retains the current structure of seven individual income tax brackets, but in most cases it lowers the rates: the top rate falls from 39.6% to 37%, while the 33% bracket falls to 32%, the 28% bracket to 24%, the

25% bracket to 22%, and the 15% bracket to 12%. The lowest bracket remains at 10%, and the 35% bracket is also unchanged. The income bands that the new rates apply to are lower, compared to 2018 brackets under current law, for the five highest brackets.

The changes will be temporary, going into effect in 2018 and expiring after 2025, as is the case with most personal tax breaks included in the law. The expiration date allows the Senate to comply with "reconciliation" rules that block a Democratic filibuster – which Republicans do not have the votes to defeat – only if the law does not raise the deficit in any year outside of a 10-year window and if it stays within its $1.5 trillion budget constraint during the 10-year window. As noted, Republican congressional leaders have signaled that individual tax cuts could be extended at a later date.

Single filers, 2018-2025		
Taxable income over	*Up to*	*Marginal rate*
$0	$9,525	10%
$9,526	$38,700	12%
$38,701	$82,500	22%
$82,501	$157,500	24%
$157,501	$200,000	32%
$200,001	$500,000	35%
$500,001	and up	37%
Heads of household, 2018-2025		
Taxable income over	*Up to*	*Marginal rate*
$0	$13,600	10%
$13,601	$51,800	12%
$51,801	$82,500	22%
$82,501	$157,500	24%
$157,501	$200,000	32%
$200,001	$500,000	35%
$500,001	and up	37%

Married couples filing jointly, 2018-2025		
Taxable income over	*Up to*	*Marginal rate*
$0	$19,050	10%
$19,051	$77,400	12%
$77,401	$165,000	22%
$165,001	$315,000	24%
$315,001	$400,000	32%
$400,001	$600,000	35%
$600,001	and up	37%
Married couples filing separately, 2018-2025		
Taxable income over	*Up to*	*Marginal rate*
$0	$9,525	10%
$9,526	$38,700	12%
$38,701	$82,500	22%
$82,501	$157,500	24%
$157,501	$200,000	32%
$200,001	$300,000	35%
$300,001	and up	37%
Source: Joint Committee on Taxation		

The IRS has released new withholding brackets reflecting changes to the personal income tax schedule, which employers must begin using by Feb. 15.

Standard Deduction

The law raises the standard deduction to $24,000 for married couples filing jointly in 2018 (from $13,000 under current law), to $12,000 for single filers (from $6,500), and to $18,000 for heads of household (from $9,550). These changes expire after 2025. The additional standard deduction, which the House bill would have repealed, will not be affected. Beginning in 2019, the inflation gauge used to index the standard

deduction will change in a way that is likely to accelerate bracket creep (see below).

Personal Exemption

The law suspends the personal exemption, which is currently set at $4,150 in 2018, through 2025.

Healthcare Mandate

The law ends the individual mandate, a provision of the Affordable Care Act or "Obamacare" that provides tax penalties for individuals who do not obtain health insurance coverage, in 2019. (While the mandate technically remains in place, the penalty falls to $0.) According to the Congressional Budget Office (CBO), repealing the measure is likely to reduce federal deficits by around $338 billion from 2018 to 2027, but lead 13 million more people to lack insurance at the end of that period and push premiums up by an average of around 10%. Unlike other individual tax changes, the repeal will not be reversed in 2025.

Senators Lamar Alexander (R-Tenn.) and Patty Murray (D-Wash.) proposed a bill, the Bipartisan Health Care Stabilization Act, on March 19, 2018, to mitigate the effects of repealing the individual mandate.The CBO estimates that this legislation will still leave 13 million more people uninsured after a decade. The bill failed to make it into the $1.3 trillion spending bill that was passed on March 23. As such, the burden of providing affordable health insurance will be on states and health insurers.

Inflation Gauge

The law changes the measure of inflation used for tax indexing. The Internal Revenue Service (IRS) currently uses the consumer price index for all urban consumers (CPI-U), which will be replaced with the chain-

weighted CPI-U. The latter takes account of changes consumers make to their spending habits in response to price shifts, so it is considered to be more rigorous than standard CPI. It also tends to rise more slowly than standard CPI, so substituting it will likely accelerate bracket creep. The value of the standard deduction and other inflation-linked elements of the tax code will also erode over time, gradually pushing up tax burdens. The change is not set to expire.

Family Credits and Deductions

The law temporarily raises the child tax credit to $2,000, with the first $1,400 refundable, and creates a non-refundable $500 credit for non-child dependents. The child credit can only be claimed if the taxpayer provides the child's Social Security number. (This requirement does not apply to the $500 credit.) Qualifying children must be younger than 17. The child credit begins to phaseout when adjusted gross income exceeds $400,000 (for married couples filing jointly, not indexed to inflation). Under current law, phaseout begins at $110,000. These changes expire in 2025.

Head of Household

Trump's revised campaign plan, released in 2016, would have scrapped the head of household filing status, potentially raising taxes on 5.8 million single-parent households, according to an estimate by the Tax Policy Center (TPC). The law leaves the head of household filing status in place.

Itemized Deductions

Mortgage Interest Deduction

The law limits the application of the mortgage interest deduction for

married couples filing jointly to $750,000 worth of debt, down from $1,000,000 under current law, but up from $500,000 under the House bill. Mortgages taken out before Dec. 15 are still subject to the current cap. The change expires after 2025.

State and Local Tax Deduction

The law caps the deduction for state and local taxes at $10,000 through 2025. The SALT deduction disproportionately benefits high earners, who are more likely to itemize, and taxpayers in Democratic states. A number of Republican members of Congress representing high-tax states opposed attempts to eliminate the deduction, as the Senate bill would have done.

The Senate bill was amended on Dec. 1, apparently to win Susan Collins' (R-Maine) support:

> The Senate tax bill will include my SALT amendment to allow taxpayers to deduct up to $10,000 for state and local property taxes.
>
> — Sen. Susan Collins (@SenatorCollins) 7:23 PM - Dec 1, 2017

Other Itemized Deductions

The law leaves the charitable contributions deduction intact, with minor alterations (if a donation is made in exchange for seats at college athletic events, it cannot be deducted, for example). The student loan interest deduction is not affected (see "Student Loans and Tuition" below). Medical expenses in excess of 7.5% of adjusted gross income are deductible for all taxpayers – not just those aged 65 or older – in 2017 and 2018; the threshold then reverts to 10%, as under current law.

The law does, however, suspend a number of miscellaneous itemized deductions through 2025, including the deductions for moving expenses,

except for active duty military personnel; home office expenses; laboratory breakage fees; licensing and regulatory fees; union dues; professional society dues; business bad debts; work clothes that are not suitable for everyday use; and many others. Alimony payments will not longer be deductible after 2019; this change is permanent.

Alternative Minimum Tax

The law temporarily raises the exemption amount and exemption phaseout threshold for the alternative minimum tax (AMT), a device intended to curb tax avoidance among high earners by making them estimate their liability twice and pay the higher amount. For married couples filing jointly, the exemption rises to $109,400 and phaseout increases to $1,000,000; both amounts are indexed to inflation. The provision expires after 2025.

Retirement Plans and HSAs

Health Savings Accounts (HSAs) are not be affected by the law, as they would have been under the bill passed by the House.

Reports circulated in October that traditional 401(k) contribution limits could fall to $2,400 from the current $18,000 ($24,000 for those aged 50 or older). Individual retirement account (IRA) contribution limits, currently $5,500 ($6,500 for 50 or older), may also have been considered for cuts. The law leaves these limits unchanged, but repeal the ability to recharacterize one kind of contribution as the other, that is, to retroactively designate a Roth contribution as a traditional one, or vice-versa.

Student Loans and Tuition

The House bill would have repealed the deduction for student loan interest expenses and the exclusion from gross income and wages of qualified tuition reductions. The law leaves these breaks intact. The conference bill

would also have extended the use of 529 plans to K-12 private school tuition, but that provision was struck down by the Senate parliamentarian as ineligible to be passed through reconciliation.

Pease Limitation

The law repeals the Pease limitation on itemized deductions. This provision does not cap itemized deductions, but gradually reduces their value when adjusted gross income exceeds a certain threshold ($266,700 for single filers in 2018); the reduction is limited to 80% of the deductions' combined value.

Estate Tax

The law temporarily raises the estate tax exemption for single filers to $11.2 million from $5.6 million in 2018, indexed for inflation. This change will be reversed after 2025.

--Business Tax--

Corporate Tax Rate

The law creates a single corporate tax rate of 21%, beginning in 2018, and repeals the corporate alternative minimum tax. Unlike tax breaks for individuals, these provisions do not expire. The top corporate tax rate is currently 35%, the highest rate of any large, developed country. Combined with state and local taxes, the statutory rate under the new law will be 26.5%, according to the Tax Foundation. That puts the U.S. just below the weighted average for EU countries (26.9%).

U.S. companies' effective tax rate – defined as the tax paid on investments earning the market rate of return after taxes – was 18.6% in 2012, according to the Congressional Budget Office (CBO); that was the fourth-highest rate in the G20.

Supporters of cutting the corporate tax rate argue that it will reduce incentives for corporate inversions, in which companies shift their tax base to low- or no-tax jurisdictions, often through mergers with foreign firms.

Immediate Expensing

The law allows full expensing of short-lived capital investments – rather than requiring them to be depreciated over time – for five years, but phase the change out by 20 percentage points per year thereafter. The section 179 deduction cap doubles to $1 million, and phaseout begins after $2.5 million of equipment spending, up from $2 million.

Pass-Through Income

Owners of pass-through businesses – which include sole proprietorships, partnerships and S-corporations – currently pay taxes on their firms' earnings through the personal tax code, meaning the top rate is 39.6%.

The law creates a 20% deduction for pass-through income. Certain industries, including health, law and financial services, are excluded from the preferential rate, unless taxable income is below $157,500 (for single filers). To discourage high earners from recharacterizing regular wages as pass-through income, the deduction is capped at 50% of wage income or 25% of wage income plus 2.5% of the cost of qualifying property.

Interest

The net interest deduction, which currently has no cap, will initially be limited to 30% of earnings before interest, taxes, depreciation and amortization (Ebitda). After four years, it will be capped at 30% of earnings before interest and taxes (Ebit).

Cash Accounting

Businesses with up to $25 million in average annual gross receipts over the preceding three years will be eligible to use cash accounting, up from $5 million under current law.

Net Operating Losses

The law scraps net operating loss carrybacks and caps carryforwards at 90% of taxable income, falling to 80% after 2022.

Section 199

The law eliminates the section 199 (domestic production activities) deduction for businesses that engage in domestic manufacturing and certain other production work. This is also known as the domestic manufacturing deduction, U.S. production activities deduction, and domestic production deduction.

Foreign Earnings

The law enacts a deemed repatriation of overseas profits at a rate of 15.5% for cash and equivalents and 8% for reinvested earnings. Goldman Sachs estimates that U.S. companies hold $3.1 trillion of overseas profits. As of Sept. 30, 2017 Apple Inc. (AAPL) alone held $252.3 billion in tax-deferred foreign earnings, 94% of its total cash and marketable securities.

The law introduces a territorial tax system, under which only domestic earnings are subject to tax. Companies with over $500 million in annual gross receipts are subject to the base erosion anti-abuse tax (BEAT), which is designed to counteract base erosion and profit shifting, a tax-planning strategy that involves moving taxable profits made in one country to another with low or no taxes. BEAT is calculated by subtracting a company's regular corporate tax liability from 10% of its taxable income, ignoring base-eroding payments. Tax credits can offset up to 80% of BEAT

liabilities.

The law alters the treatment of intangible property that is held abroad. It does not define "intangibles," but the term probably refers to intellectual property such as patents, trademarks and copyrights (Nike Inc. (NKE), for example, houses its Swoosh trademark in an untaxed Dutch subsidiary). When the foreign tax rate on foreign earnings in excess of a 10% standard rate of return are below 13.125%, the law taxes these excess returns at 21%, after a 50% deduction and a deduction worth 37.5% of FDII (see below). This excess income, which the law assumes to be derived from intangible assets, is called global intangible low-taxed income (GILTI). Credits can offset up to 80% of GILTI liability.

Foreign-derived intangible income (FDII) refers to income from the export of intangibles held domestically, which will be taxed at a 13.125% effective rate, rising to 16.406% after 2025. The European Union has accused the U.S. of subsidizing exports through this preferential rate, a violation of World Trade Organization rules.

Potential Loophole

According to Harvard Law School senior lecturer Stephen Shay, a former Treasury official in the Obama and Reagan administrations who helped develop the 1986 tax reform, the deemed repatriation leaves open a loophole for multinational companies with fiscal years beginning before Jan. 1. These include Apple, which Shay estimates could save $4 billion by taking advantage of the oversight.

By shifting cash from foreign subsidiaries, Shay says, multinationals with offset fiscal years have the chance to shift cash to the U.S. through tax-free dividends, paying the 8% rate on remaining overseas assets (as opposed to the 15.5% cash rate).

Growth and Budget Impacts

Treasury Secretary Steven Mnuchin claimed that the Republican tax plan would spur sufficient economic growth to pay for itself and more, saying of the "Unified Framework" released by Senate, House and Trump administration negotiators in September:

> "On a static basis our plan will increase the deficit by a trillion and a half. Having said that, you have to look at the economic impact. There's 500 billion that's the difference between policy and baseline that takes it down to a trillion dollars, and there's two trillion dollars of growth. So with our plan we actually pay down the deficit by a trillion dollars and we think that's very fiscally responsible."

The idea that cutting taxes boosts growth to the extent that government revenue actually increases is almost universally rejected by economists, and for a long time the Treasury did not release the analysis Mnuchin bases his predictions on. The New York Times reported on Nov. 30 that a Treasury employee, speaking anonymously, said no such analysis exists, prompting a request from Sen. Elizabeth Warren (D-Mass.) that the Treasury's inspector general investigate. (See also, *Laffer Curve*.)

On Dec. 11 the Treasury released a one-page analysis claiming that the law will increase revenues by $1.8 trillion over 10 years, more than paying for itself, based on high growth projections: 2.5% real GDP growth in 2018, 2.8% in 2019, and 3.0% for the following eight years. The Federal Reserve, by contrast, projects growth of 2.5% in 2018, 2.1% in 2019, 2.0% in 2020 and 1.8% over the longer run.

Even the right-leaning Tax Foundation's relatively sympathetic dynamic scores of the Senate, House and conference bills forecast significant increases in the national debt, after accounting for growth effects: $516 billion under the Senate's version, $1.1 trillion under the House's and $448 billion under the conference bill. Scott Greenberg, an analyst at the think tank, told the New York Times that the Treasury's one-page analysis "does not appear to be a projection of the economic effects of a tax bill," but

rather "a thought experiment on how federal revenues would vary under different economic effects of overall government policies. Which is, needless to say, an odd way to analyze a tax bill."

The Joint Committee on Taxation's (JCT) analysis (download) of the law estimates that the national debt will increase by $1.46 trillion over 10 years on a static basis. A dynamic analysis is not yet available, but the JCT forecast (download) that the Senate bill would have given a slight boost to economic output, amounting to about 0.8% of GDP over 10 years and reducing the expected $1.4 trillion cost to $1.0 trillion.

The Tax Foundation forecasts a 1.7% increase in long-run GDP, clarifying that most of this extra growth is likely to be front-loaded: "Economic growth is borrowed from the future, but the plan, in aggregate, still increases economic growth over the long run."

The $2 Trillion Scenario

The most pessimistic estimate of the legislation's budget effects came from the Committee for a Responsible Federal Budget (CRFB), which argued on Dec. 18 that Congress is using a flawed baseline to measure the law's budget effects (their baseline assumes, for example, that current policies with set expiration dates would continue indefinitely).

These "gimmicks," the think tank argues, obscure $570 billion to $725 billion in extra costs over 10 years, bringing the price of the law to $2.0 to $2.2 trillion. Factoring in expected economic growth (the CRFB uses the JCT's feedback estimates for the Senate bill), the cost falls to $1.5 trillion to $1.7 trillion – triple the Tax Foundation's dynamic estimate. That does not count additional debt service costs, though: with interest, the law could cost $1.9 trillion to $2.0 trillion.

The Oil Addendum

The continuing resolution that authorized the use of reconciliation to reform the tax code permitted the Senate Finance Committee to pass legislation increasing the federal budget by up to $1.5 trillion over 10 years.

That same budget resolution tasked the Senate Energy and Natural Resources Committee with achieving at least $1.0 trillion in savings over 10 years; the law achieves that by allowing oil and gas drilling in the Arctic National Wildlife Refuge, which is located in committee chair Sen. Lisa Murkowski's (R-Alaska) home state. Murkowski voted against multiple Obamacare repeal bills over the summer, making it important for Republicans to secure her support for tax reform.

Automatic Spending Cuts

The idea of a fiscal "trigger," a mechanism to enact automatic tax hikes or spending cuts that some senators pushed for in case optimistic growth forecasts did not come to fruition, was rejected on procedural grounds. The law could potentially lead to automatic spending cuts anyway, however, as a result of the 2010 Statutory Pay-As-You-Go Act: that law requires cuts to federal programs if Congress passes legislation increasing the deficit. The Office of Management and Budget, an executive agency, is in charge of determining these budget effects. Medicare cuts are limited to 4% of the program's budget, and some programs such as Social Security are protected entirely, but others could see deep cuts.

On Dec. 1 Senate Majority Leader Mitch McConnell (R-Ky.) and House Speaker Paul Ryan (R-Wis.) promised that across-the-board cuts "will not happen," but waiving "Paygo" would require Democratic support, meaning that is a tough assertion for GOP congressional leaders to make.

Whose Tax Cuts?

According to an analysis released by the TPC on Dec. 18, the law is

expected to raise the after-tax income of 80.4% of households in 2018, but that cut is not distributed evenly or progressively: 93.7% of taxpayers in the highest-earning quintile will receive a tax break, while 53.9% of those in the lowest quintile will. Even so, on average, every quintile will receive a tax break.

That is no longer expected to be true once individual tax cuts expire after 2025. At that point the TPC estimates that the majority of taxpayers – 53.4% – will face a tax increase: 69.7% of those in the middle quintile (40th to 60th percentile) will pay more, compared to just 8.0% of the highest-earning 0.1%. (See also, *"Largest Tax Cut in Our Country's History" Hikes Most People's Taxes*.)

With the exception of that top 0.1%, higher earners will enjoy larger tax breaks as a proportion of their income:

The Joint Committee on Taxation echoes this conclusion, estimating that the 22,000 households making $20,000 to $30,000 will collectively pay 26.6% more in 2027 than they would under the previous statute in that year. The 629 households making over $1,000,000 will pay 1.0% less.

Whom the Cuts Benefit

These were not the results Republican backers of the tax overhaul promised. Speaking at a rally in Indiana shortly after the release of a preliminary tax reform framework in September, President Trump repeatedly stressed that the "largest tax cut in our country's history" will "protect low-income and middle-income households, not the wealthy and well-connected." He added the plan is "not good for me, believe me." (That last claim is hard to verify, because Trump is the first president or general election candidate since the 1970s not to release his tax returns. The reason he has given for this refusal is an IRS audit; the IRS responded that "nothing prevents individuals from sharing their own tax information.")

In its finalized form, however, the Tax Cuts and Jobs Act cuts the corporate tax rate, benefiting shareholders, who tend to be higher earners. It only cuts individuals' taxes for a limited period of time. It scales back the alternative minimum tax and estate tax, as well as reducing the taxes levied on pass-through income (70% of which goes to the the highest-earning 1%). It does not close the carried interest loophole, which benefits professional investors. It scraps the individual mandate, likely driving up premiums and making health insurance unaffordable for millions.

These provisions taken together are likely to benefit high earners disproportionately and – particularly as a result of scrapping the individual mandate – hurt some working- and middle-class taxpayers.

Nor was Trump the only one to promise a tax break for ordinary households. McConnell said on Nov. 4 that no one in the middle class will experience a tax hike:

> McCONNELL: “At the end of the day, nobody in the middle class is going to get a tax increase.”
>
> A bold promise the House bill doesn’t keep.
>
> — Sahil Kapur (@sahilkapur) 7:46 PM - Nov 4, 2017

Less than a week later, he told the New York Times he "misspoke": "You can't guarantee that absolutely no one sees a tax increase, but what we are doing is targeting levels of income and looking at the average in those levels and the average will be tax relief for the average taxpayer in each of those segments."

The Estate Tax

The law doubles the estate tax exemption. Speaking in Indiana in September, Trump attacked "the crushing, the horrible, the unfair estate

tax," describing scenarios in which families are forced to sell farms and small businesses to cover estate tax liabilities: the 40% tax only applies to estates worth at least $5.49 million under current law. According to TPC, 5,460 estates are taxable under current law in 2017. Of those, just 80 are small businesses or farms, accounting for less than 0.2% of the total estate tax take.

The estate tax mostly targets the wealthy. The top 10% of the income distribution accounts for an estimated 67.2% of taxable estates in 2017 and 87.8% of the tax paid.

Opponents of the estate tax – some of whom call it the "death tax" – argue that it is a form of double taxation, since income tax has already been paid on the wealth making up the estate. Another line of argument is that the wealthiest individuals plan around the tax anyway: Gary Cohn reportedly told a group of Senate Democrats earlier in the year, "only morons pay the estate tax."

Carried Interest

The law does not eliminate the carried interest loophole, though Trump promised as far back as 2015 to close it, calling the hedge fund managers who benefit from it "pencil pushers" who "are getting away with murder." Hedge fund managers typically charge a 20% fee on profits above a certain hurdle rate, most commonly 8%. Those fees are treated as capital gains rather than regular income, meaning that – as long as the securities sold have been held for a certain minimum period – they are taxed at a top rate of 20% rather than at 39.6%. (An additional 3.8% tax on investment income, which is associated with Obamacare, also applies to high earners.)

Corporate Taxes

In his Indiana speech Trump said that cutting the top corporate tax rate from 35% to 20% (the rate proposed at the time) will cause jobs to "start

pouring into our country, as companies start competing for American labor and as wages start going up at levels that you haven't seen in many years." The "biggest winners will be the everyday American workers," he added.

The next day, Sept. 28, the Wall Street Journal reported that the Treasury Department had deleted a paper saying the exact opposite from its site (the archived version is available here). Written by non-political Treasury staff during the Obama administration, the paper estimates that workers pay 18% of corporate tax through depressed wages, while shareholders pay 82%. Those findings have been corroborated by other research done by the government and think tanks. Mnuchin sold the Big Six proposal in part through the assertion that "over 80% of business taxes is borne by the worker," as he put it in Louisville in August.

A Treasury spokeswoman told the Journal, "The paper was a dated staff analysis from the previous administration. It does not represent our current thinking and analysis," adding, "studies show that 70% of the tax burden falls on American workers." The Treasury did not respond to Investopedia's request to identify the studies in question. The department's website continues to host other papers dating back to the 1970s.

The White House continued to press the point, however, releasing an analysis in October predicting that lowering the top corporate tax rate to 20% will "increase average household income in the United States by, very conservatively, $4,000 annually." The executives who were supposed to be giving these raises, however, signaled some hesitation at the Wall Street Journal CEO Conference in November, when the paper's associate editor John Bussey asked the audience to raise their hands if they planned to increase capital investment due to a corporate tax cut. Few hands went up, prompting National Economic Council director Gary Cohn (who was on stage) to ask, "Why aren't the other hands up?"

What's Wrong With the Status Quo?

People on both sides of the political spectrum agree that the tax code should be simpler. Since 1986, the last time a major tax overhaul became law, the body of federal tax law – broadly defined – has swollen from 26,000 to 70,000 pages, according to the House GOP's 2016 reform proposal. American households and firms spent $409 billion and 8.9 billion hours completing their taxes in 2016, the Tax Foundation estimates. Nearly three quarters of respondents told Pew in 2015 that they were bothered "some" or "a lot" by the complexity of the tax system.

An even greater proportion was troubled by the feeling that some corporations and some wealthy people pay too little: 82% said so about corporations, 79% about the wealthy. According to TPC, 72,000 households with incomes over $200,000 paid no income tax in 2011. ITEP estimates that 100 consistently profitable Fortune 500 companies went at least one year between 2008 and 2015 without paying any federal income tax. There is a widespread perception that loopholes and inefficiencies in the tax system – the carried interest loophole and corporate inversions, to name a couple – are to blame.

While the law cuts a number of itemized deductions, most of the loopholes and giveaways that were slated for repeal in earlier bills have been retained in some form. The individual tax rate schedule, which Trump would have cut to three brackets, remains at seven. In other words, this legislation may do relatively little to simplify the tax code. The other issues that the Pew survey indicate most bother people – low taxes for wealthy individuals and corporations – are likely to be exacerbated by the law.