5-17-2019

The Implications and Effects of the Tax Cuts and Jobs Act

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May 17, 2019

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Introduction

Bipartisan politics often means disagreements on important issues between the opposing political parties. In the United States, the Democrats and Republicans are often at odds with one another, especially when it comes to the area of taxation. Despite their differing viewpoints, the tax code had remained largely the same since President Reagan's Tax Reform Act of 1986, with some minor updates and adjustments over the years. Over 30 years later, on December 22, 2017, President Donald Trump signed The Tax Cuts and Jobs Act (TCJA) into law. It reflects the type of tax reform that has been advocated by Republicans for many years, and is intended to reduce the federal tax burden on the American people and its corporations, while simultaneously boosting the economy.

Since the TCJA represents the most significant changes to the tax code in over 30 years, there was a lot of uncertainty surrounding it, with many individuals and businesses left wondering how it would impact them. With such a wide array of changes, the TCJA is going to have varying impacts, dependent on many different factors. The first section of this paper seeks to outline the provisions of the law and how it compares to the old law, specifically for 2017. Following that, it will analyze the different viewpoints and expectations on how the law will play out upon coming into effect. The final two sections deal with the impact it will have on the American people and corporations. The first of which discusses the law in practice through a comparison of individual tax returns, and an analysis of the effect on corporations. The second then discusses consequences that arose unintentionally, and their implications. Throughout the course of this paper, it is important to keep in mind that with roughly 141 million individual taxpayers, and almost two million corporate taxpayers in the U.S., this analysis is certainly not comprehensive, as it is virtually impossible to cover all bases. Despite this limitation, I will do my best to highlight the most important aspects of the law and the most common factors affecting taxpayers.

Overview of the Provisions of the Tax Cuts and Jobs Act

Before getting into an in-depth analysis of the impact of the Tax Cuts and Jobs Act of 2017, it is important to first get a solid understanding of the changes brought on by this new law. Most of the changes introduced in this reform are only valid for the 2018-2025 tax years, except for three provisions that are to remain permanent. Unless Congress votes to extend these other provisions beyond 2025, the prior law will be reinstated. Many of the tables, rates, thresholds, and percentages that are outlined throughout this overview of the TCJA are specific to tax year 2018, and are subject to change. This is because one of the three provisions that does not expire is the indexing of tax brackets, along with other provisions to the chained consumer price index (CPI) measure of inflation. This means that most of the tables and thresholds in effect for 2018 will be adjusted according to inflation each year. This is just one of many provisions in the TCJA that represent a major overhaul of the tax code. Below, I will highlight the major changes in the law, first those affecting individual taxpayers, followed by those that affect corporate taxpayers.

Individuals

Individuals, rather than corporations, are seeing the majority of the changes. This is likely due to the fact that the individual income tax represents the federal government's largest source of revenue. Individual income tax is reported on form 1040. When looking at the 2017 version of this form, you will see that it is broken up into different sections. The first of these is the Income section, in which you must report the total income you received over the course of the relevant tax year. The tax code requires individuals to report all income received during the year, most commonly wages, self-employment income, or retirement benefits. However, anything that causes an increase in taxpayer wealth is required to be reported, such as interest, dividends, or capital gains. There are minimal exceptions to the sources of income that must be reported. The TCJA makes only one change regarding this section, in that recipients of alimony payments will no longer have to include those payments in their income. This only applies if the divorce occurred after 12/31/2018, any divorce before that date is subject to the old rules, and the recipient still must include alimony in their income.

The next section on form 1040 is the Adjusted Gross Income (AGI) section, which is calculated by subtracting, from total income, certain expenses commonly referred to as above-the-line deductions. Some of the more common deductions in this section include educator expenses, moving expenses, IRA contributions, tuition and fees, alimony paid, health savings contributions, and student loan interest. Each of these deductions are subject to different limitations. The TCJA left this section relatively untouched, but did make a few minor changes. Related to the above change in income reporting is the change in the alimony deduction. Under the previous law, the ex-spouse that was paying the alimony was allowed to deduct it in this section. Under the new law, for divorces that occurred after 12/31/2018, the payer may no longer deduct this. If the divorce occurred before that date, the taxpayers are subject to the old rules, allowing the payer to deduct alimony payments, while the recipient claims those payments as income. The moving expense deduction was originally available to taxpayers who moved for their job, with limitations regarding the distance and timing of the move. As of 2018, this deduction is now only available for active military personnel who experience relocation expenses related to their service posting changes. The tuition and fees deduction was not even discussed in the debates related to the TCJA, because it technically expired after the 2016 tax year. Despite that expiration date, it returned for the 2017 tax year as part of the federal budget negotiations.

Due to the fact that it was never explicitly addressed, it is no longer an available deduction for the 2018 tax year. Once all of these adjustments have been taken into account, the first page of the 2017 form 1040 is complete, and the newly calculated AGI flows onto the second page.

The second page of the 2017 version of form 1040 begins with the Tax and Credits section. In this section you start with your AGI and deduct the greater of your standard deduction or itemized deductions. The standard deduction is available to everyone and is based on the taxpayer's filing status. The changes in the standard deduction are outlined in the table below:

Filing Status	2017	2018
Single/Married Filing Separately	$6,350	$12,000
Married Filing Joint/ Qualifying Widow	$12,700	$24,000
Head of Household	$9,350	$18,000

The TCJA nearly doubled the standard deductions for 2018, which is beneficial for taxpayers who either did not itemize, or did, but had itemized totals less than the new standard deductions. However, another change that actually works against this benefit is the elimination of the personal exemption. In 2017, the personal exemption was $4,050 per person being claimed on the return. This includes the taxpayer, spouse, and any dependents they were claiming. For taxpayers without any dependents, the increase in the standard deduction is enough to offset the loss of the personal exemptions. The same is true for taxpayers filing as head of household who have one dependent. However, the more dependents that are being claimed, the more value a taxpayer will lose in 2018 compared to previous years.

Instead of using the standard deduction, taxpayers can opt to itemize certain expenses they incurred over the course of the year. These are known as itemized deductions, and are reported on Schedule A. Itemized deductions experienced some significant changes under the TCJA. The first listed expense on Schedule A are medical and dental expenses, which now have a floor of 7.5% of AGI instead of 10%. This means that these expenses are deducted only to the extent by which they exceed 7.5% of your AGI. Therefore, a lower floor means a greater deduction. Unlike most provisions in the TCJA, this change was retroactive, meaning it also applied to the 2017 tax year and is set to only last for two years, unless Congress takes action to change this. If a taxpayer had qualifying medical expenses in 2017 that were previously limited by the 10% floor, but would now result in a tax-saving deduction as a result of this retroactive change, the taxpayer would have to file an amended 2017 tax return in order to take advantage of this. Beginning in the 2019 tax year, the floor is raised back up to 10%.

The next expense listed on Schedule A is qualifying deductible taxes you paid. This deduction still exists, but is now heavily limited, as the state and local taxes (SALT) deduction may not exceed $10,000. State and local taxes that fall under this cap are income taxes/sales taxes (a taxpayer may only report one or the other), real estate taxes, and personal property taxes. Since there was previously no limit, this could be a major hit for taxpayers who had high SALT deductions in the past.

Following taxes you paid on Schedule A is interest you paid. The most common interest deduction in this section is home mortgage interest, which experienced a modification under the TCJA. If you take out a mortgage after 12/15/2017, interest is only deductible on the first $750,000 of acquisition indebtedness – mortgage that is used to buy, build, or substantially improve your residence. This is down from the previous $1,000,000 limit that remains available to taxpayers that took out their mortgage before this date. Home equity indebtedness is any other kind of indebtedness that is secured by a qualified residence. The previous limit on this was $100,000 for any money borrowed, no matter the reason. Under the new law, this interest deduction has been eliminated if the home equity indebtedness was used for personal living expenses, such as paying off credit card debt, buying a car, financing a vacation, etc. If the home equity indebtedness was used to buy, build or substantially improve the home, the interest on this indebtedness is still deductible.

The next type of expense listed on Schedule A is gifts to charity. The first change here is that cash donations are now deductible up to a limit of 60% of AGI, up from a previous 50%. Second, taxpayers may no longer deduct payments made to a college, or its athletic department, in exchange for tickets to an athletic event or seating rights at the stadium.

The deduction for casualty and theft losses, is no longer allowed, unless from a federally declared disaster. Lastly, the final expense section on Schedule A, aside from “other,” is job expenses and certain miscellaneous deductions. The TCJA eliminates this section entirely, meaning taxpayers can no longer deduct unreimbursed employee expenses, tax preparation fees, or investment fees. The home office deduction was also included in this section, however it is still available for self-employed taxpayers on Schedule C.

While some of the changes to itemized deductions are in the taxpayers’ favor, the large majority of them reduce the amount of itemized deductions that can be taken. This was done so more taxpayers would take the standard deduction, thus simplifying their returns.

A taxpayer’s total itemized deductions, if greater than their standard deduction, would flow back to the Tax and Credits section of form 1040. Once AGI has been reduced by either the standard deduction or itemized deductions, the taxpayer would have arrived at their taxable income for 2017. For 2018, however, there is an additional deduction that taxpayers may take advantage of if they are an owner of a pass-through entity. These entities include partnerships, sole proprietorships, LLCs, or S-corporations, and are named as such because they are not taxed separately, but rather the income is passed through to the owners, who then pay tax on it. This new deduction is known as the Qualified Business Income (QBI) deduction, and allows taxpayers to deduct 20% of their business income. This deduction is subject to a lower and upper threshold based on taxable income before the QBI deduction. For single filers, these thresholds are $157,500 and $207,500 respectively, and for joint filers, they are $315,000 and $415,000, respectively. If a taxpayer is below the lower threshold, they get the full 20% deduction. If a taxpayer is above the lower threshold, the treatment of the deduction depends on if the taxpayer is in a “specified service business.” These include accounting, law, healthcare, consulting, athletics, financial services, or any business where the reputation or skill of the employees represents the business’s principal asset. If a taxpayer whose business meets this criteria is between the two thresholds, the QBI deduction begins to phase out, and if they are above the upper threshold, then they receive no QBI deduction. If a taxpayer has a business that is not a specified service business, there is a more complicated calculation involving W-2 wages and the unadjusted basis of qualified business assets. The taxpayer gets a deduction equal to the lesser of the above calculation, or the normal 20% of QBI. Once this deduction is calculated and included on form 1040, the taxpayer will have arrived at their taxable income.

Taxable income represents the amount of the taxpayer’s total income that they are to be taxed on. The U.S. utilizes a progressive tax system, meaning that as an individual’s taxable income rises, so does their tax rate. One of the most significant changes that occurred under the TCJA is that tax rates have been lowered across the board. The following tables illustrate these changes for each filing status:

Single			
Previous Law		**Tax Cuts and Jobs Act**	
10%	$0-$9,325	10%	$0-$9,525
15%	$9,326-$37,950	12%	$9,526-$38,700
25%	$37,951-$91,900	22%	$38,701-$82,500
28%	$91,901-$191,650	24%	$82,501-$157,500
33%	$191,651-$416,700	32%	$157,501-$200,000

35%	$416,701-$418,400	35%	$200,001-$500,000
39.60%	Over $418,400	37%	Over $500,000
Married Filing Jointly/Qualifying Widower			
Previous Law		**Tax Cuts and Jobs Act**	
10%	$0-$18,650	10%	$0-$19,050
15%	$18,651-$75,900	12%	$19,051-$77,400
25%	$75,901-$153,100	22%	$77,401-$165,000
28%	$153,101-$233,350	24%	$165,001-$315,000
33%	$233,351-$416,700	32%	$315,001-$400,000
35%	$416,701-$470,700	35%	$400,001-$600,000
39.60%	Over $470,700	37%	Over $600,000
Married Filing Separate			
Previous Law		**Tax Cuts and Jobs Act**	
10%	$0-$9,325	10%	$0-$9,525
15%	$9,326-$37,950	12%	$9,526-$38,700
25%	$37,951-$76,550	22%	$38,701-$82,500
28%	$76,551-$116,675	24%	$82,501-$157,500
33%	$116,676-$208,350	32%	$157,501-$200,000
35%	$208,351-$235,350	35%	$200,001-$300,000
39.60%	Over $235,350	37%	Over $300,000
Head of Household			
Previous Law		**Tax Cuts and Jobs Act**	
10%	$0-$13,350	10%	$0-$13,600
15%	$13,351-$50,800	12%	$13,601-$51,800
25%	$50,801-$131,200	22%	$51,801-$82,500
28%	$131,201-$212,500	24%	$82,501-$157,500
33%	$212,501-$416,700	32%	$157,501-$200,000
35%	$416,701-$444,550	35%	$200,001-$500,000
39.60%	Over $444,550	37%	Over $500,000

Once an individual's tax bill has been calculated, it may increase due to other taxes or penalties, or it can be reduced through the use of tax credits. The alternative minimum tax (AMT) is calculated in this section, and added to the total tax bill. AMT is aimed towards wealthier individuals who utilize deductions and credits to greatly reduce their tax bill. It calculates a modified version of taxable income known as alternative minimum taxable income (AMTI). The TCJA raised exemption levels to $70,300 for single filers and $109,400 for joint filers, which is up from $54,300 and $86,200, respectively. Since, taxpayers are allowed to deduct these amounts from their AMTI, more taxpayers are going to be able to avoid paying the AMT. The exemption phase-out threshold has also been raised to $500,000 for single filers and $1 million for joint filers. This means that taxpayers with AMTIs above the threshold see a reduction in the amount of the exemption they can take. This change also allows more taxpayers to avoid paying AMT.

A significant change in the area of additional taxes is the repeal of the individual mandate penalty. This tax penalty was part of the Affordable Care Act and was assessed if a taxpayer did not have health insurance coverage for all or part of the year, assuming they did not meet any of the exceptions. Unlike most provisions in the TCJA, this repeal does not come into effect until the 2019 tax year, meaning those without health insurance may still be required to pay the penalty in 2018. This is also one of the three provisions that will remain permanent after 2025.

Tax credits can be very beneficial as they allow taxpayers to reduce their total tax bill, with some credits, such as the earned income credit, being refundable, allowing taxpayers to receive that money, even after their tax bill has been reduced to $0. Another commonly used credit is the child tax credit, which is awarded to taxpayers with children under the age of 17, as long as their income does not exceed the phase-out threshold. This credit saw a significant improvement under the TCJA, as it doubled from $1,000 to $2,000 per child. There was previously no refundable portion of this credit, but there was a separate credit called the "additional child tax credit" that was refundable up to the amount of unused child tax credit. For 2018-2025, this separate credit is eliminated and the first $1,400 of the newly improved child tax credit is refundable. The phase-out thresholds have also been increased to $200,000 in income for single filers and $400,000 for joint filers, up from $75,000 and $110,000, respectively. These higher phase-out thresholds will enable many more filers to claim the child tax credit than were able to in 2017. For every $1,000 the taxpayer earns over these thresholds, the credit is reduced by $50. The TCJA also established a new credit known as the “credit for other dependents.” This credit is for dependents age 17 or older, and is for a nonrefundable $500 per dependent, subject to the same phase-outs as the child tax credit. The increased child tax credit and the new credit for other dependents will help to offset the loss of the personal exemptions for many taxpayers.

One miscellaneous change in the tax reform is related to deceased individuals. In general, in the year of a taxpayer’s death, a personal income tax return for the deceased must be filed if they had income in excess of the minimum filing requirements, which would subject the deceased individual to federal tax. This remains true under the TCJA. After passing away, all of a decedent’s assets belong to their estate, which is why this is known as estate tax. The estate adds up the fair market value of all assets, including cash, property, and any securities the decedent held. There is an exemption amount such that if the total value of the estate does not exceed it, it is not subject to the estate tax. The TCJA raised this exemption amount from $5.6 million to $11.2 million, meaning less families will be facing a tax bill in the wake of a loved one’s death.

Once all the above information is taken into account, the individual has reached the end of form 1040 and their tax return is complete. For 2018, form 1040 has undergone a significant change in format, from a full two pages, to essentially the size of a post card, front and back. With this, forms 1040A and 1040EZ, simpler versions of the normal tax form, no longer exist. The reason for this change was supposedly to simplify the form, but this new version leaves out many lines that were crucial to the original. They are not gone, however, as there are now about six new schedules that report this missing information, which then flows to a line on the new

1040. The form change is not all that significant though, as tax preparers typically use computer programs which automatically fill in the appropriate lines. So the new form 1040 is merely a visual change, and as long as all information is put in correctly, it will have served its purpose.

Businesses

Prior to the passing of the TCJA, corporations, like individuals, were subject to a progressive tax system, paying a higher rate on higher profits. The 2017 rates were as follows:

Income over:	**But not over:**	**Tax is:**	**Of amount over:**
$0	$50,000	15%	$0
50,000	75,000	$7,500 + 25%	50,000
75,000	100,000	13,750 + 34%	75,000
100,000	335,000	22,250 + 39%	100,000
335,000	10,000,000	113,900 + 34%	335,000
10,000,000	15,000,000	3,400,000 + 35%	10,000,000
15,000,000	18,333,333	5,150,000 + 38%	15,000,000
18,333,333	–	35%	0

However, the third and final provision of the TCJA that is to remain permanent after 2025, is that the corporate tax rate is now a flat rate of 21%. This means that all corporations, no matter how much income they have, will pay tax equal to 21% of their taxable income. Another important change is that it moves the U.S. from a worldwide to a territorial tax system. This means that only corporate income that is earned within the borders of the U.S. shall be subject to federal tax, while dividends from foreign subsidiaries will be tax-exempt. With this change, American multinational corporations are no longer subject to both foreign and domestic tax. Companies that have deferred paying taxes on their foreign profits in the past still have to pay tax on these profits, however, the TCJA is allowing for them to be repatriated at a discounted rate of 15.5% for cash and cash-equivalent profits, and 8% for reinvested foreign earnings. This major revision to the corporate tax structure is the catalyst to the QBI deduction explained earlier in the individual tax section. The QBI deduction is intended to give small businesses (pass-through entities) some form of tax savings that their larger counterparts are enjoying.

In order to partially offset the loss in government revenue related to these changes, a new excise tax has been imposed on nonprofit organizations, with highly compensated employees. The tax is equal to the normal corporate rate of 21% on the salaries and bonuses of covered employees in excess of $1 million. An employee becomes a covered employee if they are one of the top-five compensated employees at the organization in 2017 or later. Once an employee becomes a covered employee, they remain one for their entire time with the organization. Nonprofits have historically been exempt from paying taxes, however it appears that Congress believes that if they can afford to compensate their employees so generously, they can afford to pay tax on that compensation.

One more important change to the corporate tax structure relates to the Alternative Minimum Tax. In the past, corporations, like individuals, may have been subject to the AMT, however, the TCJA eliminates this.

The rest of the changes regarding business taxation is related to the deductions they can take. Perhaps one of the biggest changes is that for five years – that is 2018-2022 – businesses are allowed to fully expense short-lived capital assets, utilizing a new 100% bonus depreciation. After 2022, this percentage begins to phase down. Similarly, the section 179 deduction which allows for full expensing of qualified property, has increased its phase-out threshold from a cost of $500,000 to $1 million. This means that businesses can now expense twice the amount of property before the deduction begins to phase-out. This was done to encourage businesses to take on more investments, within the next few years.

There is also a change related to the deduction for prior net operating losses (NOLs). Previously, NOLs were allowed to be carried back two years to retroactively reduce prior taxable income, and then carried forward for a maximum of 20 years. Under the tax reform, NOL carrybacks have been eliminated, except for farmers and insurance companies other than life insurance, and the 20 year limit has been removed, meaning companies never have to worry about their NOL expiring. However, there is also now a limit on the amount of NOL a business can deduct within a year, such that it cannot exceed 80% of the business's pre-NOL taxable income. There was previously no limit, which allowed companies to reduce their tax bill to $0 if they had a large enough NOL. With this new limit, they will not be able to avoid paying tax due to an NOL. All these changes only apply to NOLs that arose after 12/31/2017, any that arose before that date are grandfathered into the old rules.

The net interest expense deduction is now also experiencing a new limit, such that it can only be deducted up to 30% of earnings before interest, taxes, depreciation, and amortization. That is only for 2018-2021, as it changes to 30% of earnings before interest and taxes in 2022, no longer taking depreciation and amortization into consideration. Any disallowed interest is allowed to be carried forward indefinitely.

Section 1031 tax-free exchanges have been limited such that they now only apply to real property. This means that two businesses that exchange like-kind property are now only tax exempt if they exchanged real estate.

The TCJA has eliminated the performance-based exception that allowed businesses to avoid the $1 million limit on the deduction of executive compensation. This means that businesses will no longer be able to receive tax benefits on executive compensation greater than $1 million. However, preexisting contracts are grandfathered in to the old rules.

Certain employee transportation fringe benefits, and entertainment expenses are no longer tax deductible. On the other hand, the business meals expense has been expanded to include meals provided on the employer's premises. Most of these new limitations on deductions were put in place as a kind of buffer to help the government recapture the revenue they are losing on the corporate rate cut.

Conclusions

With the wide variety of changes included in the Tax Cuts and Jobs Act for both individuals and corporations, it may be difficult to tell exactly how you or your business will be impacted. Especially on the individual side, with a much larger number of changes, some helpful and some hurtful, it will be interesting to see which changes affect you and how. This section will be an important reference tool going forward in this analysis, as it is important to know exactly what the changes are before their impact can be fully understood.

Opinions and Expectations of the TCJA

In a bipartisan political system, there are virtually always two opposing sides when it comes to passing new legislation. The Tax Cuts and Jobs Act was no exception. Due to the fact that the Republicans held the majority of seats at the time in both the Senate and the House of Representatives, they were able to pass this bill without needing a single Democratic vote. While there were some modifications made as the bill moved along its path to becoming law, it still overall reflects Republican ideals. With an understanding of the TCJA's provisions from the previous section, we will now focus on the main arguments supporting and opposing the law.

Support

The supporters of the TCJA believe that it is a pro-growth, pro-family tax plan that should reduce the tax burden on Americans at every income level. Since the recession of 2008, the nation's GDP growth has experienced the worst recovery in the modern era, as it has been hovering around 2%. According to the Joint Economic Committee, this slow recovery has cost families a yearly average of $8,600 in income. The TCJA, however, should correct this trend, as the Tax Foundation estimates that it will grow the economy by 3.7% in the long term, as well as raising all taxpayers' after-tax income by about 4.4%, and creating roughly 1 million jobs (Hendrie, 2017). Supporters believe that with all the tax breaks, individuals and businesses will all have more money that they can spend or invest back into the economy which will help offset the loss in federal tax revenue. White House Director of Legislative Affairs, Marc Short, stated "We do not have a tax problem, we have a spending problem… The way to address the deficit is to cut back on spending," (Fox News, 2017a). He also argues that the tax cuts under both Presidents Reagan and Kennedy ended up increasing government revenue by over $100 billion.

The tax code is very complex, spanning more than 70,000 pages of official IRS documentation. According to the Tax Foundation, examining the complexity of the code in order to comply with it takes Americans more than 8.9 billion hours, costing $409 billion in lost productivity, collectively (Hendrie, 2017). The National Taxpayers Union Foundation also estimates that taxpayers spend 1.8 billion hours solely on form 1040, costing around $262 billion each year (Hendrie, 2017). Supporters believe that the elimination of certain deductions, and the fact that taxpayers are more inclined to take the higher standard deduction, means that individuals and businesses will not have to work as hard to comply, thereby saving many hours and dollars. Also the simplification of form 1040 itself should make it easier for tax-inept individuals to understand it, therefore saving time and money in that area as well.

Supporters of the TCJA believe that the middle class will be the biggest beneficiaries of the reform. Taxpayers earning between $50,000 and $70,000 will see a tax reduction of about 7.1%, and taxpayers earning between $20,000 and $30,000 will see a tax reduction of about 10.4% (Hendrie, 2017). In 2015, more than 22 million Americans utilized the child tax credit, so with the newly doubled credit, these families will see major tax savings. In that same year, around 6.6 million households were required to pay the individual mandate penalty, with 79% of them having income less than $50,000, and 37% having income less than $25,000 (Hendrie, 2017). With the repeal of this penalty, these households will be spared from paying this extra tax. Georgia Senator David Perdue stated in an interview with Fox News that a median income family of four, making $73,000 a year will see their taxes cut by over 60%. Similarly, a single mom with one child making a median income of $41,000 a year will see a 75% tax cut. Anywhere from 3 to 6 million people will see their tax bills reduced to $0. However, he argues that the biggest benefits of the reform will be seen by those who get a job due to the ignition of the economy (Fox News, 2017b).

Since the U.S. has traditionally had a worldwide tax system, U.S. corporations have been at a disadvantage when compared to their foreign competitors under a territorial tax system. This is because they were taxed on their profits overseas by the respective foreign government, and again by the U.S. government, when the profits were brought into the country. This disadvantage has resulted in lost jobs and lower wages over the years, but the TCJA’s switch to a territorial tax system should reverse these issues. Under this provision, the several trillion dollars of foreign profits, that have previously been tax deferred, are being repatriated at a discounted rate, which supporters argue, makes it much more likely that the companies will actually pay (Blasingame, 2017). With this tax money coming into the U.S., even at a discount, it will help to offset the lost government revenue. Along with the shift in tax systems, the corporate tax rate decrease to 21% will also help make U.S. multinational corporations more competitive overseas, as the typical developed country has a corporate tax rate around 25%. According to the Tax Foundation, the implementation of the full expensing of business assets alone will increase GDP by 5%, wages by 4%, and will create over 1 million jobs (Hendrie, 2017). With corporations saving so much money on taxes, they will be able to hire more employees, pay current employees higher salaries, and lead to overall economic growth.

Opposition

Contrary to the “pro-growth, pro-family” view on the TCJA, the opposition believes that the reform is highly regressive, benefiting the wealthy and large corporations, while the burden shifts to everyone else. Over the next ten years, this tax reform will lead to a $1.5 trillion increase in the national debt. With as high as the debt already is, this extra burden will put pressure on Congress to start making budget cuts elsewhere, such as, Medicare, Medicaid, food stamps, education, housing assistance, and other essential programs (Oppose the TCJA, 2017). Even though the provisions of the TCJA technically expire in 2025, limiting the extra debt to only $1.5 trillion, many are assuming Congress will vote to extend them, thereby increasing the national debt further in the future. Many opponents cite the fact that the bill was rushed through Congress with little deliberation, or examination of its consequences, leading to issues that wouldn’t be present had they taken their time with it. Due to this, it is believed the fundamental framework of the law is too flawed to fix.

Missouri Senator Claire McCaskill stated “It’s a debt inducing, make-rich-people-richer tax bill that in the long run is not going to be helpful to the vast majority of people in my state that are sitting around the kitchen table trying to figure out how to come out even at the end of the month,” (Kessler, 2018). While tax breaks technically do benefit everyone, whenever they are cut across the board, the wealthy always benefit the most. This is because the wealthy pay more in taxes, meaning they have more that they can save on. For example, in 2016, the top 10% of households by income paid 80% of the individual income tax bill. With the tax cuts, the 572,000 people in this group will be splitting tax savings of $37 billion, while the 27 million people in the middle class will be splitting tax savings of $23 billion (Kessler, 2018). Vermont Senator Bernie Sanders argues that 87 million middle class families will see a tax increase, while 62% of all the tax benefits flow to the top 1% of Americans (Reflect, 2017). The TCJA works to expand the economic divide between American citizens through the increased estate tax exemption, the deduction for pass-through income, and the drastically lower corporate tax rate. It also leaves behind low-income working families by failing to expand or improve upon valuable anti-poverty programs, such as, the earned income credit or the child tax credit. While the child tax credit was in fact expanded, it supposedly will be most helpful to higher-income households, and prevents many immigrant families from claiming it (Oppose the TCJA, 2017). The earned income credit, however, was not even mentioned in the tax reform. The Institute on Taxation and Economic Policy estimates that by 2027, many individuals will see diminishing tax cuts, while many others will even begin to experience tax increases (Kessler, 2018). Senator McCaskill's office believes this to be because the new method of adjusting for inflation may actually place taxpayers in higher tax brackets over time, as well as the elimination of the individual mandate penalty potentially raising insurance premiums.

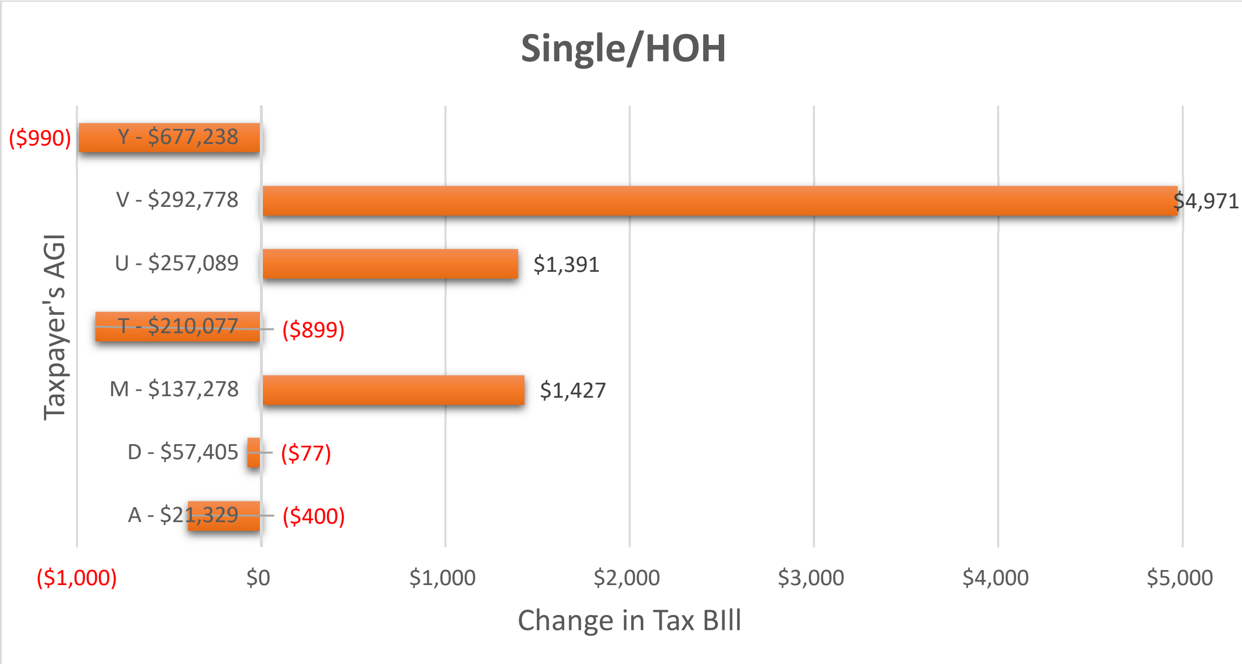
At a meeting of the Senate Budget Committee, Senator Sanders made a point that many large corporations are reporting record-breaking profits in recent years, yet the rate cut for them is to remain permanent, while the rate cut for individuals is set to expire after only eight years. He also believes that the shift to the territorial tax system creates a higher incentive for American multinational corporations to keep their manufacturing overseas (Reflect, 2017). Other opponents argue the point that there is nothing to guarantee that these corporations will reinvest their tax savings back into the U.S. rather than retaining them in their foreign subsidiaries (Blasingame, 2017).

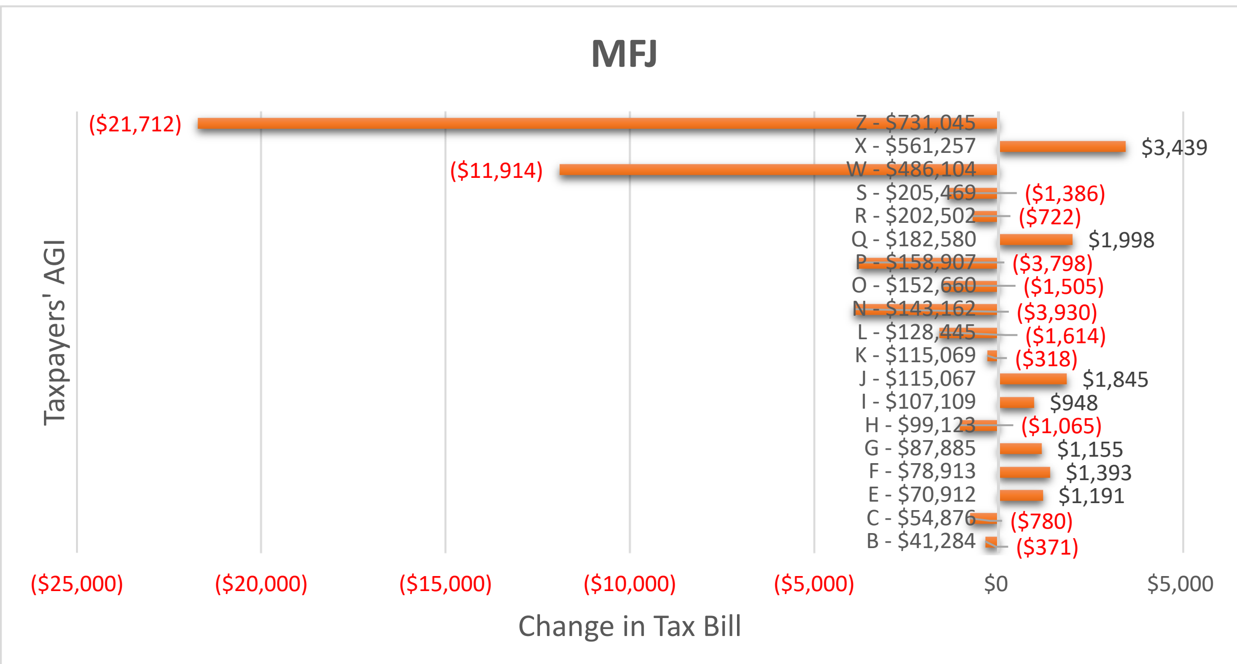
Conclusions

While there are many great points on both sides of the argument, not all of these points are correct. Many of the points made by either side directly contradict one another. For example, the support believes the economy and GDP will experience major growth, while the opposition believes that the additional debt will create economic hardships. The support argues that the middle class will be some of the biggest beneficiaries of the reform, while the opposition argues that they will be hurt because of it. The support believes that corporations will invest their tax savings back into the U.S. with higher wages, job creation, and taking on more investments, while the opposition believes they will keep the money and their operations overseas. Many of these were predictions that were made early on in the life of the TCJA, and with the 2019 tax season wrapped up, an analysis of the results will reveal which points were accurate.

The Impact of the TCJA on American Taxpayers

With all the changes in the Tax Cuts and Jobs Act, it may be difficult to tell exactly how it will impact every individual. Due to the fact that not every provision will directly impact every taxpayer, each individual is likely to be impacted differently. So, I conducted my own research on how it will affect various individuals. I analyzed the 2017 tax returns of 26 anonymous taxpayers who are identified by a letter of the alphabet. I then prepared a mock 2018 tax return assuming that every number and factor stayed the same as in 2017. It is important to keep in mind the fact that 26 is an extremely small sample size to represent the entire American population. This analysis was not intended to be comprehensive of every possible outcome, but rather just a quick look at which provisions are likely to have the most impact. The graphs below illustrate the change in each taxpayer's tax bill, separated by filing status (single/HOH versus joint returns):





In each graph, the y-axis represents the taxpayer's AGI, along with their identifying letter, and the x-axis represents how much their tax bill changed. A positive number means the bill increased, while a negative means the bill decreased. The graphical depictions almost make the results appear random, since taxpayers of all different income levels experienced different results. The one bar that stands out from the rest is Taxpayer Z's, with a tax decrease of $21,712. Since Z is a wealthy married couple, this result alone would cause opponents of the TCJA to believe they were right when they said it "helps the rich at the expense of everyone else." However, a blanket statement like this is not correct, as further analysis of the above graphs indicates that Taxpayers U, V, and X all experienced a tax increase, even though they are fairly wealthy individuals. Granted, their tax increases are not nearly as high as Z's tax savings, it just shows that each individual is affected differently.

Upper Class

The purpose of this analysis wasn't to determine whose bill increased and whose decreased, but rather why it changed. Let's start with the biggest beneficiary of my analysis, Taxpayer Z. Z actually experienced a major loss on Schedule A, as they lost a total of $86,069 in SALT deductions. However, Z is the owner of a very successful business. This shows, as the biggest reason for their tax savings is a QBI deduction of $75,048. This actually allowed Z to be moved down in the tax brackets, causing a tax rate change from 39.6% to 35%. In addition, Taxpayer Z was subject to the AMT in 2017, but is not subject to it in 2018. The lower taxable income, lack of AMT, and the lower tax rate all combined to allow for these massive savings. Taxpayer Y, also experienced a tax decrease, however not to the same extent as Z. Y's tax bill was only reduced by $990. This is because Y, like Z, experienced a major loss on Schedule A due to the SALT cap, but the QBI deduction made up for most of those losses. Taxpayer Y's taxable income ended up being $5,231 higher, but the decrease in tax rate from 39.6% to 37% allowed for the overall tax savings.

On the other hand, Taxpayer V experienced the largest tax increase of this analysis, at $4,971. This is because the SALT cap lowered V's itemized deductions to the point that they had to take the standard deduction for 2018. This and the loss of personal exemptions led to a $14,756 increase in taxable income, which pushed V up a tax bracket changing their rate from 33% to 35%. The higher taxable income and tax rate caused the higher tax bill, and due to V's income level, they could not take the advantage of the child tax credit to reduce their tax, despite having children under the age of 17. Taxpayer V also did not have qualified business income, like taxpayer Z had. This clearly emphasizes the benefit that the TCJA bestowed upon business owners compared to wage earners. Taxpayer X experienced the next highest tax increase at $3,439. As has been the case for all the above mentioned taxpayers, X experienced a loss of benefits on Schedule A due to the SALT cap. This led to an increase in taxable income by $51,409, and due to the fact that the 35% bracket did not change for 2018, X retained the same tax rate, and wound up with a higher tax bill.

Lower Class

It is only natural for the wealthiest taxpayers to experience the highest amount of savings, as well as the highest tax increases. Since those at lower income levels do not owe as much in taxes to begin with, they are more likely to only experience minor changes. In other words, we are looking at tax dollars in our discussion, but if we were to express the net changes in terms of percentages, the variations may not appear to be as significant.

Taxpayers A, B, and C are on the low-end of my analysis, income-wise. All three of them received a couple hundred dollars extra in 2018. Taxpayers B and C each benefitted from the higher standard deductions, allowing for a lower taxable income and therefore a lower tax bill. Taxpayer A actually had a $0 tax bill for both 2017 and 2018, but they received an extra $400 due to the extra refundable portion of the child tax credit. With the higher standard deductions, more taxpayers will see a tax bill of $0, like A. Assuming the taxpayers have no children, or just one for an HOH filer, a taxpayer would have a $0 bill in 2017 with an AGI of $10,400 for single, $17,450 for HOH, and $20,800 for MFJ. This takes into account the standard deduction and personal exemption(s). In 2018, these amounts raise to $12,000, $18,000, and $24,000, respectively. Since there are no personal exemptions, these amounts are equal to the standard deductions. While these increases are not drastic, they still allow for more individuals with low enough income to avoid paying tax. Naturally, if any of these taxpayers have children, or own a pass-through entity, these amounts will be higher, as they will be able to take more deductions.

Middle Class

The middle class is perhaps the most important group to look at, as they make up the majority of the American population. It will also be interesting due to the fact that the opposing sides of the TCJA had wildly different predictions on how the middle class would be affected. Due to the sheer number of people who make up the middle class, it is a very diverse group when it comes to taxes, and which provisions impact each person's return. Of the thirteen people considered middle class in this analysis, five of them saw a tax increase, while eight saw a tax decrease. Every one of these taxpayers utilized the itemized deductions in 2017, but for 2018, eight of them would utilize the standard deduction. Depending on the taxpayer this was either because of the SALT cap and elimination of miscellaneous deductions, or simply that their previous itemized deductions were not as high as the new standard deduction.

Taxpayer O is a married couple and is a member of the upper middle class, with three children under the age of seventeen. They are still able to itemize in 2018, but the SALT cap and loss of personal exemptions raises their taxable income by $27,831. Despite this they remain in the same tax bracket, with a rate change from 25% to 22%. Even with the reduced rate, the higher taxable income yields a higher tax bill by $3,645. In 2017, the child tax credit had been completely phased out for O, but with the higher thresholds under the TCJA, O is allowed to take the full credit in 2018. Since they have three qualified children, they are allowed $6,000, which completely eliminates the tax increase, and even gives them a lower overall tax bill. Due to the exact same reasons as O, Taxpayer G also ended up with a higher tax bill. However, G only had one dependent, who was over age seventeen. Therefore G only received the $500 credit which unlike O's $6,000 credit, was not enough to offset the higher bill, leaving G with a net tax increase of $1,155.

Besides these two examples, there are not many other noteworthy results. Only two taxpayers in this analysis, F and N, were able to take the QBI deduction, which was very beneficial for both of them as they each experienced tax reductions. Taxpayers I and J both lost out on itemized deductions and had to use the standard deduction for 2018. That, along with the loss of personal exemptions, raised both of their taxable incomes, which pushed them both up a tax bracket, resulting in a rate increase from 15% to 22%, and a higher tax bill. Other than that, the other taxpayers that were not mentioned, experienced changes resulting from the same reasons that have already been discussed. Based on this analysis alone, the middle class came out ahead in 2018, with more tax decreases than increases, and a collective tax savings of $7,134, between our sample of thirteen taxpayers.

Special Cases

Three taxpayers in this analysis did not behave as expected. These were Taxpayers D, T, and W. Taxpayer D's taxable income increased by $4,050, causing a jump up in tax brackets from 15% to 22%. Taxpayer T's taxable income increased by $11,932, causing a jump up in tax brackets from 28% to 32%. Taxpayer W's taxable income increased by $11,980, and even though they stayed in the same bracket, the rate did not change, remaining at 35%. Despite all signs pointing to a higher tax bill, each of these taxpayers came out with a lower one. This is not because of any tax credits, but rather because of the way the tax is actually calculated. Since tax is calculated at a graduated rate, only a portion of taxable income is taxed at the stated rate, while the rest is taxed at the lower rates. This discrepancy creates what is known as the effective tax rate, which indicates the true rate at which an individual is being taxed. In 2017, D, T, and W had effective tax rates of 13.75%, 20.40%, and 21.43%, respectively. In 2018, these changed to 12.23%, 18.62%, and 18.58%, respectively. So even though these taxpayers had more income that was taxed at the same or a higher rate, the effective rates reveal that the graduated system worked to save them money overall. The fact that this instance occurred three times in my small analysis of 26 may indicate that this will occur more regularly in actual practice, which is good news for many taxpayers, especially the middle class that have more taxable income taxed in the lower portion of the graduated rate tables and only a small portion of their taxable income taxed at their highest tax rate.

Tax Withholdings

Since the TCJA provides a major overhaul to the tax code, the IRS issued new tax withholding tables for businesses to follow when writing their employees' paychecks. Throughout the 2019 tax season, many individuals began to notice that their refunds were not as high as last year, or even that they now owed money to the government. Naturally, these individuals were upset, and were quick to blame President Trump for their misfortune. Despite how it may seem, many of these instances were actually caused as a result of not having enough tax withheld from these individuals' paychecks, rather than a higher tax bill. The above analysis solely examined the net change in the taxpayers' tax bills, without considering withholdings.

With 2018 being the first year the TCJA is in effect, it is only natural that mistakes in withholding, like these, occurred.

Nathan Rigney, lead tax research analyst at the Tax Institute at H&R Block stated “The people who are most likely to be surprised this year are the ones who lost some deductions they had last year and who didn’t make changes to their withholding,” (Mercado, 2019). The Government Accountability Office (GAO) estimates that about 21% of taxpayers, or 30 million Americans, did not have enough taxes withheld for 2018. The GAO then estimated what it would have been assuming the TCJA was not in effect, and found that only 18%, or 27 million Americans would not have had enough withheld (Neuman, 2018). Even those Americans who prefer to have excess withheld from their paychecks may not have had as much withheld for 2018, resulting in a lower refund. The Associated Press noted "Millions of American workers started getting fatter paychecks early this year [2018], as employers withheld less money in anticipation of lower income taxes under the law,” (Neuman, 2018). It is important for these individuals to review their withholdings and make sure their W-4 is up to date in order to avoid this issue for the following years.

Corporations

The effect of the TCJA on corporations is relatively straightforward – they virtually all benefit. Many of the provisions regarding businesses allow for them to take extra deductions, like the doubling of the section 179 deduction, the 100% bonus depreciation, or the elimination of the 20 year maximum on NOL carryforwards. They are further helped by other provisions like the elimination of the corporate AMT, and the switch to a territorial tax system. The few provisions that do actually impose more restrictions on corporations are rather minor, like the limit on interest expense deductions, and elimination of deductions for entertainment expense.

The shift of tax-free like-kind exchanges to only include real property may hurt some businesses a little more, but certainly not enough to outweigh the benefits. Another provision that could hurt many businesses is the elimination of the exception to the limit on the deduction of executive compensation. However, its effect is limited in the next few years since preexisting contracts are grandfathered into the old rules, allowing most businesses to still utilize the performance-based exception. With the majority of provisions working in favor of corporations, the ones that do work against them will not have much of an impact overall.

If the provisions above aren't enough to help out most corporations, the flat corporate income tax rate of 21% certainly is. Looking at the previous tax rates for corporations, only one rate was below the new one – the 15% bracket for businesses with income of $50,000 or less. Any company that was in that bracket would actually be seeing an increased tax rate. Businesses that consistently make that little in income are typically rather small. A business that is that small should not even be registered as a c-corporation to begin with. Even at the 15% tax rate, a business owner would see very little benefit for having a c-corporation. This is because of double taxation on business income, first at the corporate level, then again at the individual level when the owner takes money out of the business. If a business that small is, for some reason registered as a c-corporation, they would see immense benefits from switching to an s-corporation, especially under the TCJA. This is because they will avoid the double taxation at the higher corporate rate, and will now be able to take the 20% QBI deduction for pass-through income. Since most c-corporations do make more than $50,000, it is safe to say that the vast majority of businesses are seeing a tax rate decrease. Due to the fact that the rate change is one of only three permanent provisions, corporations will continue to benefit from this low tax rate long after the expiration of the rest of the TCJA provisions in 2025.

Conclusions

While essentially every corporation benefits from the Tax Cuts and Jobs Act, the same cannot be said for individuals. This can be seen by the fact that of the 26 returns I analyzed, seventeen of them saw a tax decrease, and nine of them saw a tax increase. Though this is a very small sample size, it can be assumed that this kind of variability exists in the greater population, but to different extents. Whether or not an individual benefits from the changes is based on a large variety of factors. This makes it virtually impossible to know exactly how you are affected until your tax return is actually prepared. With that said, there are still some important takeaways from the above analysis.

There are three provisions that appear to have the most impact on any given return. These are the QBI deduction, the doubled child tax credit, and the limit on SALT deductions. The first two of these provide major help to those who can take advantage of them, while the last one can seriously hurt individuals who pay a lot in state and local taxes. Seven of the 26 individuals in my analysis were able to utilize the QBI deduction and all of them saw a net tax decrease, or higher refund. Ten of the 26 individuals had dependents under age 17. Two of them, Taxpayers V and Z experienced a complete phase-out of the child tax credit, while W experienced a partial phase-out. Excluding these individuals, since they were not able to take full advantage of the credit, six of the remaining seven experienced a net tax decrease, or a higher refund. Two of those six benefitted from both the QBI deduction and the child tax credit. The one who actually saw a tax increase was Taxpayer Q, and that is because their taxable income rose by $31,922 causing a tax bill that was higher by $3,998, and since Q only had one qualified dependent, the $2,000 credit was not enough to offset this. Q’s increase in taxable income was caused in part by the loss of personal exemptions, the loss of miscellaneous deductions, and most of all the limit placed on SALT deductions.

Taxpayer Q is one of sixteen of the 26 individuals that experienced a loss in SALT deductions on Schedule A. Interestingly enough, nine of those sixteen individuals saw a tax increase, which is in fact the total number of individuals that had a tax increase in this analysis. Naturally, this provision will only severely impact individuals living in areas with high income taxes, or property taxes. Whereas, the QBI deduction and child tax credit can help individuals across the nation. The loss of personal exemptions also contributed to many of these individuals' higher tax bill, but overall that provision did not play as significant of a role as the three aforementioned provisions. The other seven individuals, who lost SALT deductions, had a lower tax bill that was achieved through the QBI deduction, child tax credit, a lower tax rate, or some combination of the three. While many different provisions have an impact on an individual's tax bill, based on my analysis, these three appear to have the most impact.

Unanticipated Consequences

One of the major arguments the opposition to the TCJA made was the fact that the bill was pushed through Congress with little deliberation, or examination of its consequences. This is not a good way to go about passing new laws because whenever any kind of work is completed in a rushed manner, there is bound to be mistakes, or parts that were not entirely thought through. That is the basis for this section, as the final version of the TCJA contained multiple issues that must be addressed.

It is not uncommon for major legislation to be followed by technical corrections bills to ensure any drafting errors are corrected, and that the final provisions are in line with congressional intent. However for this particular piece of legislation, making corrections may be a little more difficult. This is because, unlike the original bill, corrections bills will need Democratic votes in order to pass. After the bill was passed, many Democratic leaders were extremely unhappy about the partisan process that allowed for it to become law. The nature of the situation means that a majority of these leaders would be disinclined to provide votes on corrections, because they do not want to assist the TCJA in any way. Democratic Ohio Senator, Sherrod Brown, commented "I'm willing to make technical changes, but they have to be substantive, too. We're not just going to sit down and fix the things they did badly because they did it in the dead of night with lobbyists at the table," (Tankersley & Rappeport, 2018). This kind of mindset is part of the reason behind the slowness of certain fixes. Some of the issues that will be discussed below remain unresolved after the close of the 2019 tax season.

Section 1031 Exchanges and Major League Baseball

The TCJA's provision regarding section 1031 like-kind exchanges, unintentionally levied an extra tax burden on the MLB and other professional sports leagues. This is all due to one word in the provision: "real." The addition of this word into the phrase "real property," means that only the exchange of real estate property can qualify for tax-free treatment under this section of the tax code. Professional sports teams often trade players with one another throughout their season, and since player contracts are not real estate, these trades can no longer be conducted tax-free. Therefore, whenever two teams engage in a trade, each team must calculate a gain or a loss on the trade, and pay tax on any gains. Since the MLB engages in more trades than any other professional sports organization, they will be affected the most.

In 1967, the IRS issued a ruling that, among other things, explicitly stated that baseball player trades qualify as like-kind exchanges, and shall therefore remain tax-free. Since the MLB has historically been tax-exempt in this regard, teams have not been tracking any of the relevant information needed to make the necessary calculations. Perhaps the biggest issue is that teams will now have to determine the fair market value of their players' contracts. This concept has baffled many baseball experts and statisticians, as there is no simple way to determine this value. It could be based off the size of the contract, the additional wins a player brought to the team, an estimate of the total future value a new player is expected to bring to the team, or some calculation involving all of these, while adjusting for salaries. "There is no fair-market value of a baseball player. There isn't. I don't really know what our clubs are going to do to address the issue. We haven't fully figured it out yet. This is a change we hope was inadvertent, and we're going to lobby hard to get it corrected," stated Daniel Halem, the chief legal officer of the MLB (Tankersley, 2018).

To further complicate this issue, sometimes both teams involved in a trade will experience a gain in value. For example, one team may have an excess of starting pitchers, but a lack of strong hitters. If this team were to trade one of its pitchers to a team with the opposite problem, both teams would see an increase in value. That now creates a situation in which both parties to the trade would owe capital gains tax instead of just one. Another issue is that in order to calculate a gain or loss, the owner's basis in the asset is needed. Under section 1031, the owner's basis in their new asset is the same as their basis in the old asset. In the MLB, a player may be a part of a very long chain of trades, which would mean this chain would have to be traced in order to find the original player's basis (Brandt, 2018).

Despite all the confusion surrounding the new provision, baseball trades did not appear to stop or even slow in the 2018 season. Congress certainly did not intend to burden sports teams. Senate staff members have said that the change was intended to partially offset the loss in federal revenue, as the Joint Committee on Taxation estimates that it would generate about $31 billion over the next decade (Tankersley, 2018). The U.S. government actually has a long history of treating baseball and other professional sports favorably. This can be seen through the 1967 ruling mentioned above, or the fact that these leagues are exempt from anti-trust laws. With this in mind, it was no shock to many when the IRS finally issued a ruling to fix this problem. This ruling came on April 11, 2019, just before the end of tax season, and stated that for the purposes of determining a gain or loss on a trade, player contracts shall have a fair market value of zero (U.S. Department of the Treasury, 2019). With a value of zero, professional sports teams will not have any gain or loss when trading players with one another, thereby allowing them to continue trading tax-free.

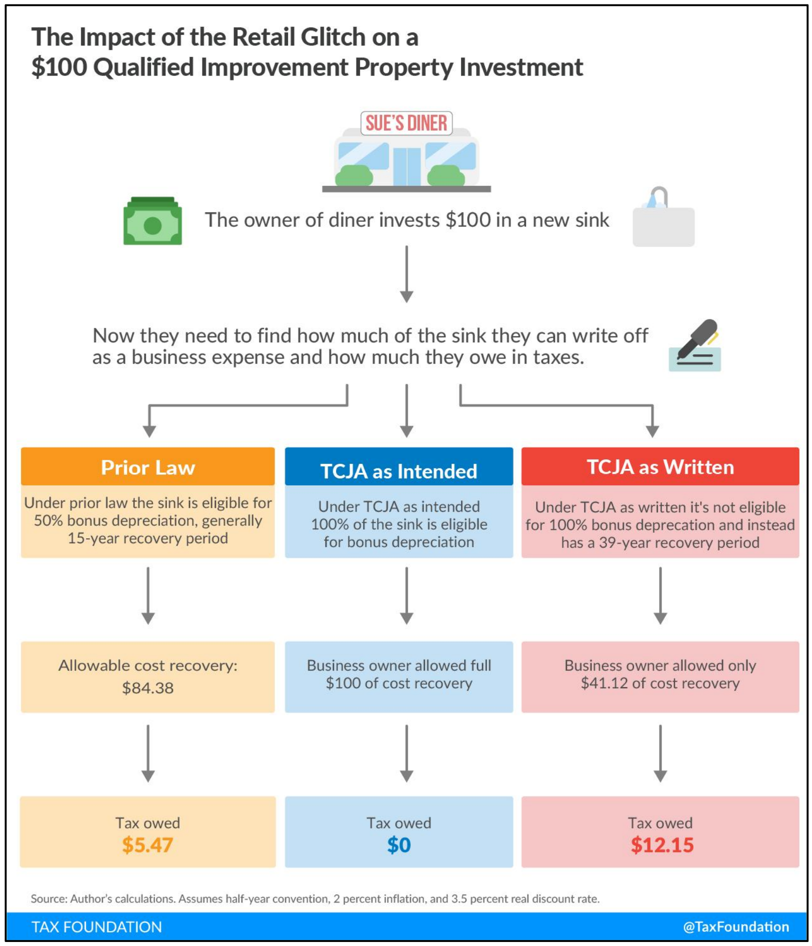
The Grain Glitch

The grain glitch, as it has become known, was created by a late change in the TCJA. This change altered an agricultural deduction, such that farmers would be allowed to deduct 20% of their total sales to organizations known as cooperatives, which are entities owned by groups of farmers, operating for the benefit of their members (Tankersley & Rappeport, 2018). This deduction would even stack with the 20% QBI deduction, allowing farmers to greatly reduce their tax bills. The Tax Foundation even believes many farmers could become effectively tax-exempt. While farmers are the clear winners of this provision, independent agriculture businesses would be the losers. This is because they would no longer be able to compete with cooperatives, as farmers would exclusively sell to them in order to take advantage of the tax deduction. Todd Lafferty of the Wheeler Brothers Grain Company in Oklahoma stated on the issue “We will be much more receptive to selling our business if this happens. It’s going to result in further consolidation of the industry, but that’s not what we want to do,” (Tankersley & Rappeport, 2018).

Lobbyists were quick to start pressuring Congress about this issue, as they did not want to lose out on any sales in 2018. Their complaints were heard, and Congress invited the National Grain and Feed Association, as well as the National Council of Farmer Cooperatives to assist in finding a solution. A solution was found, and the final corrections bill was passed on March 23, 2018. The fix is that farmers who sell to cooperatives must reduce their QBI deduction by the lesser of 9% of income attributed to those sales, or 50% of wages paid (Neiffer, 2018). On the flip side, cooperatives are now getting a deduction calculated in this same manner, which they can decide to either retain for themselves, or pass on to their patrons. If it is passed on, the farmers will essentially have their full QBI deduction back, otherwise the cooperative, which is run mostly by its patrons, can utilize the deduction on its return (Nigh, 2018).

The Retail Glitch

Under prior law, there were three different classes of property improvements: qualified leasehold improvement property, qualified restaurant property, and qualified retail investment property. To create incentive for businesses to take on more real estate investments, the TCJA sought to make all types of improvements eligible for the new 100% bonus depreciation provision. In order to do this, the three classes above would be eliminated, in favor of one overarching qualified improvement property definition, which would be designated as 15-year property. In the final version of the TCJA, these classes were successfully eliminated, but the new standalone class was not properly defined as 15-year property. Because of this oversight, all undefined property improvements are defaulted to receive 39-year recovery treatment, and would therefore not be eligible to receive the bonus depreciation as intended. This became known as the retail glitch, as firm engaging in property improvements would be seeing higher cost of capital, completely opposite of congressional intent. The Tax Foundation provided the figure shown to



explain the glitch (York, 2018): For the sake of simplicity, this figure uses a $100 investment. However, in the real world, firms may be engaging in projects that cost hundreds of thousands, to millions of dollars, which would amplify this effect tremendously. The retail glitch is very discouraging for many businesses, who reportedly, delayed or turned down many investment opportunities in 2018 that they would have otherwise engaged in (York, 2019). Due to this error, the lawmakers behind the TCJA unintentionally discouraged business investment, when they truly meant to encourage it.

After this issue was discovered, lobbyists for the restaurant and retail industries quickly began to voice their concerns. Executive vice president of public affairs at the National Restaurant Association, Cicely Simpson, stated “It is our understanding that it was an honest mistake. The bipartisan intent behind the law was a 15-year depreciation period, and we are confident Congress will have this resolved quickly,” (Tankersley & Rappeport, 2018). This confidence was misplaced, however, as this issue remained unresolved at the close of the 2019 tax season. There is hope for resolution though, because on March 14, 2019, Senators Pat

Toomey and Doug Jones introduced a bill to correct the retail glitch. It proposed a 15-year cost recovery period for the new qualified improvement property, as originally intended. The bill also allows its provisions to be retroactive for the 2018 tax year, meaning that any businesses that did engage in new property investments in 2018, will be able to utilize the bonus depreciation, without being stuck with 39-year property (York, 2019). Businesses that were affected by this issue can only hope it will pass soon.

Nonprofit Excise Tax Loophole

The new provision imposing an excise tax on nonprofits was set out mostly to target colleges and universities that compensate their coaches and athletic directors very generously. Since corporations are subject to a $1 million compensation limit, the belief was that nonprofits should be too. However, due to the wording of the provision, any school that is considered a unit of the government would not have to pay this tax. Since some state schools are organized in this manner, they are technically exempt from it.

The excise tax provision was supposed to cover all nonprofit organizations, but with this loophole it created three separate groups. The first group are those organizations that are clearly subject to the tax. This includes all private nonprofit schools, and public schools that are registered as a 501(c)(3) organization. One school in this group is Duke University, who will now have a significant tax bill just on men's basketball coach, Mike Krzyzewski, who has been making over $5 million for many years (Berkowitz, 2019). The next group are those organizations that can take advantage of the loophole and avoid the excise tax. These schools are set up as units of their state government and include the University of Texas, Texas A&M, and Clemson University to name a few. The final group are those organizations that currently have to pay the excise tax, but may have the ability to change their status to avoid it. These schools include the University of Alabama, Michigan State, and UCLA. This is the most interesting group because they have the ability to choose whether or not they should take advantage of this loophole. However, it could be a tough decision, because if they do change and become a unit of their state's government, they must give up their 501(c)(3) status, which means their donors will no longer receive a tax deduction from donating to them.

Many of the schools that cannot take advantage of the loophole have expressed their concerns and are lobbying Congress for change. "You've got a major competitive imbalance here. You have schools from the same states and the same conferences that are going after the same recruits, and you have an artificial restraint that affects hiring decisions at the highest level of those programs," stated executive compensation attorney, Roger Denny (Berkowitz, 2019). Former House Ways and Means Committee chair, Kevin Brady, had drafted a corrections bill back in January 2019 that would correct this issue, but nothing has come of it thus far.

Amazon's $0 Tax Bill

Amazon is an incredibly profitable company, with $5.6 billion in profit for 2017, and $11.2 billion in 2018. Despite these impressive earnings, in 2017, Amazon did not pay anything in federal taxes, and according to the Institute on Taxation and Economic Policy (ITEP), the same has happened for 2018 (Myers, 2019). Unlike the issues discussed above, this one is not due to any particular error in the TCJA. The reason this is being included in this section can be summed up by the ITEP's Director of Federal Tax Policy, Steve Wamhoff, when he stated "The president had promised his new tax law would end special interest breaks and close loopholes, but it's clear that isn't the case," (Myers, 2019). In March 2018, President Trump tweeted "I have stated my concerns with Amazon long before the Election. Unlike others, they pay little or no taxes to state & local governments, use our Postal System as their Delivery Boy (causing tremendous loss to the U.S.), and are putting many thousands of retailers out of business!" (Shannon, 2019). The ITEP goes on to criticize the TCJA because, despite Trump's concerns, the new law allowed Amazon to continue avoiding federal tax.

Since tax returns are not publicly available information, it's impossible to know exactly what Amazon is doing to completely eliminate its tax bill. The ITEP notes that "The fine print of Amazon's income tax disclosure shows that this achievement is partly due to various unspecified 'tax credits' as well as a tax break for executive stock options," (Shannon, 2019). Other possibilities include the use of the expanded depreciation deduction, NOL carryforwards from Amazon's past, as well as international profits that are not subject to U.S. tax. After accounting for all tax breaks and loopholes, the effective tax rate for corporations was about 21% in 2017, and with the new stated rate being 21%, the effective rate is now certainly much lower. Amazon is also not alone, as the ITEP found that despite their record high earnings for 2018, Netflix also successfully avoided paying federal income tax. Lawmakers need to work on finding and closing these loopholes in the TCJA because these incredibly successful corporations should not be able to escape tax-free while working class families are still paying in to the government.

Conclusions

Each of the issues discussed above are a result of poor planning and a rushed job. Congress did not intend for any of these to arise, and thankfully the extra MLB tax and the grain glitch have been resolved. Excluding Amazon, that still leaves two major problems unresolved, and as discussed, they are each harmful to their respective industry. Another minor error in the TCJA deals with the new limitation on NOL deductions. It was supposed to come into effect for taxable years beginning after December 31, 2017, but it actually says for taxable years ending after that date. This matters for companies with a fiscal year that does not align with the calendar year, because they may now be subject to the new limitations one tax year earlier than they should have been (York, 2018). No matter how much they may not want to, the Democrats and Republicans must work together to solve these issues for the benefit of American business.

Conclusion

In summary, there were numerous changes enacted by the Tax Cuts and Jobs Act beginning in tax year 2018. Since American taxpayers are so unique from one another, not everyone will be impacted by the same provisions, or to the same extent. However, based on my analysis, there were three provisions that were common factors in many people's tax returns. For the taxpayers' benefit, the QBI deduction and the doubled child tax credit were crucial, while the limit placed on SALT deductions was hurtful for many individuals. Other provisions played important roles in the outcome of 2018 tax returns, such as the increased standard deduction, the elimination of personal exemptions, or the new credit for other dependents, but they were not as significant as the three aforementioned. Corporations were much simpler than individuals, as it was clear that they benefit tremendously.

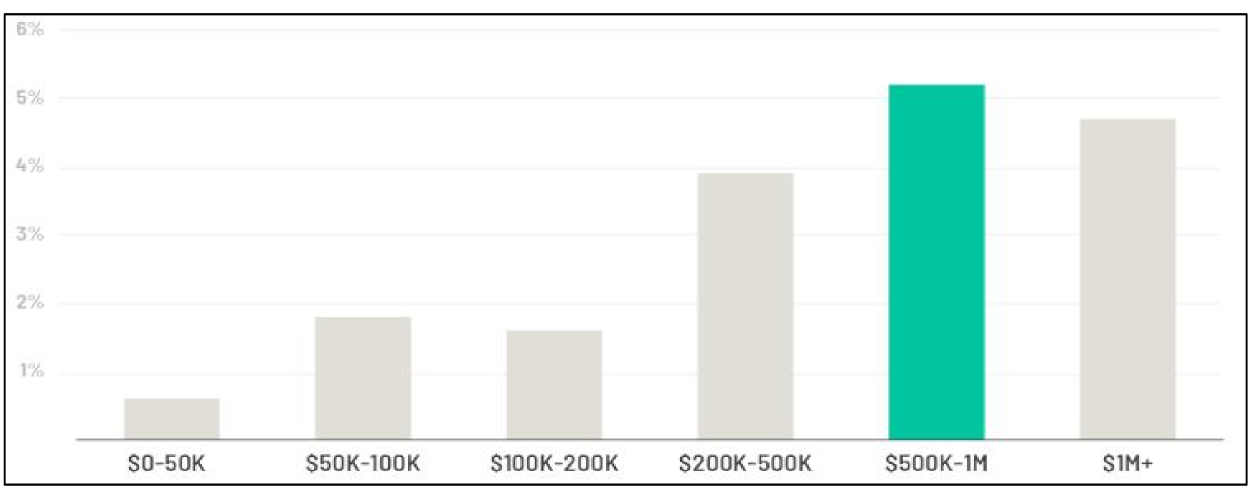
As for the unanticipated consequences of the TCJA, if the Trump Administration had taken its time with the bill, and pushed back its implementation until 2019, a lot of these issues could have been avoided. The legislation was signed into law at the end of 2017, and tax experts were quick to discover its flaws. With a timetable beginning in 2019, many of these issues could have been fixed before the provisions took effect. For example, the retail glitch remains unfixed, even at the close of the 2019 tax season. Contrary to the provision's intention, this glitch actually cost the U.S. economy numerous property investments in 2018, since the companies did not want to experience its negative effects.

Overall Impact after Tax Season 2019

Most of the full impact of the TCJA remain to be seen. As discussed in the “Opinions and Expectations” section, many of the predictions for the TCJA were about its long-run effects, which cannot possibly be seen after only one year. “Some of its effects are already visible, and some of them will take months, or even years, to understand. After all, economists are still publishing studies about the effect of the last comprehensive tax overhaul back in 1986, signed by Ronald Reagan,” (DePillis, 2019). Despite this, there are still some effects that have already been felt by many Americans.

Although many taxpayers experienced lower refunds for 2018, the average worker saw an extra $200 monthly in their paychecks (Mnuchin, 2019). Along with the decreased withholdings, the Labor Department announced that weekly wages in the third quarter of 2018 had risen by about 3.3%. This is an improvement over the 2% increase in the second quarter, which was not enough to beat inflation (DePillis, 2018). This is the first instance of American workers receiving meaningful wage increases after the recession of 2008. Not only are companies paying more in wages, but also offering more jobs. The Labor Department also reports that in August of 2018, there were about 7.1 million job openings, which is higher than ever before (DePillis, 2018). With the economy in excellent condition, both retirement accounts and education savings accounts have increased over 35% since 2016 (Mnuchin, 2019). As for individual tax burdens, towards the end of the 2019 tax season, H&R Block released data showing that on average, their clients saw their taxes decline by 24.9% (Mnuchin, 2019). At least in the short run, the TCJA has been able to benefit individuals and the economy as a whole.

On the other hand, there have been some negative impacts as well. Corporate tax collections plummeted from a seasonally adjusted annual rate of $264 billion in the fourth quarter of 2017, to $149 billion in the first quarter of 2018, and have not improved since (DePillis, 2019). This is the first time in American history that corporate tax collections have taken such a hit, while the economy is not in a recession. With decreased government revenue from both corporations and individuals, the tax cuts have certainly not paid for themselves. Although Congress has yet to cut spending, this lack of federal revenue may require them to take on the White House's proposed cuts to Medicare and Social Security. The Congressional Budget Office estimates that only about 0.3% of the total 2.9% GDP growth in 2018 can be attributed to the TCJA (DePillis, 2019). Although a lot of companies have been engaging in more investments, many other companies have been utilizing their increased amount of capital on share repurchases, mergers, and acquisitions, which benefit only their shareholders. Many economists at the Federal Reserve and the International Monetary Fund expect U.S. economic growth to begin to slow in 2019. Many American multinational corporations have yet to change the tax structures that allow them to realize their profits overseas, and it is unlikely that they will. Lastly, as can be expected from tax cuts across the board, wealthier individuals benefitted the most. Specifically, individuals in the $500,000 to $1 million income range benefitted more than others, likely due to the higher exemption levels on many deductions. The graph below illustrates the increase in after-tax income by individuals in the given income ranges (DePillis, 2019):



Final Remarks

At least within the confines of the first year the TCJA is in effect, the supporters of the law were correct about the pro-family, pro-growth aspect. The pro-family aspect is seen with the doubled child tax credit, as many working families were able to decently cut their tax bills. As for pro-growth, most individuals saw higher wages and lower tax burdens. On the same token, the economy saw major improvements in 2018, with higher GDP and a significant increase in job openings. Business investments also increased in 2018, though it likely would've been higher had the retail glitch been solved.

Shifting to the opposition of the law, they were certainly correct about the higher benefits for the wealthy, and the major decrease in government revenue. Their concerns regarding spending cuts to crucial programs may come to fruition in the near future, with the White House having already proposed certain cuts. As of now, there is also a lack of multinational corporations reinvesting their savings in the U.S., as they predicted.

With seven more years to go until the Tax Cuts and Jobs Act provisions expire, only time will tell the true nature of its impact.

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