The Beacon Hill Institute

The Economic Effects of the Tax Cuts and Jobs Act on the U.S. and Massachusetts

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OCTOBER 2018

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The Tax Cuts and Jobs Act

Personal Income Tax

The Tax Cuts and Jobs Act changes the federal personal income tax rates with seven brackets – 10 percent, 12percent, 22 percent, 24 percent, 32 percent, 35 percent, and 37 percent.

The standard deduction increased from $6,300 for single filers and $12,600 for married filing jointly to $12,000 and $24,000 respectively. It retains deductions for the mortgage interest (up to loans of $750,000 on new mortgages), charitable giving, property tax (up to $10,000 annually), and employer-provided health care, as well as the education, research and development, and low-income housing credits, and the earned-income tax credit. The child tax credit doubled to $2,000 from the current level of $1,000. Many other deductions and credits were be repealed.

Business Income

Businesses partnerships can exclude 20 percent on (pass-through) business income, while long-term capital gains are taxed at 15% and 20% and are no longer tied to ordinary income. The rate is 0% for those in the 10% bracket, and 15%.

Estate Tax

The Act doubles the exemption levels for the Estate and Gift Tax.

Corporate Income Tax

The Act cuts the corporate tax rate to a flat rate of 21 percent from its current level of (generally) 35%. New investment is fully expensed (i.e. deducted from income in the year the investment expense is incurred) for the next five years. The corporate alternative minimum tax is abolished. The amount of interest that may be deducted before computing taxes is limited to no more than 30% of earnings (EBITDA) for large businesses. The corporate income tax is levied on a territorial rather than global basis – i.e. based on profits generated in the United States, but not abroad.

Economic Effects on the U.S.

Tax policy changes alters economic activity, through the effects they have on work and saving. BHI used its national DCGE (Dynamic Computable General Equilibrium) model to measure these effects.

The purpose of our DCGE model is to examine the effects of U.S. tax policy changes on major economic indicators, including Gross Domestic Product (GDP), capital investment, private sector employment, and government tax revenues, employment and spending[1].

Dynamic CGE models are the most appropriate tools for assessing the impacts of taxes (Burfisher, 2011). In an earlier study, Bhattarai, Haughton and Tuerck (2016) found significant benefits from the implementation of a national retail sales tax. That study utilized a tax model that was purpose-built to show how a particular tax proposal would affect the economy. This study is based on our new model calibrated to the micro-consistent data from a Social Accounting Matrix (SAM 2017) and is applied to assess the impacts of a wide variety of proposed tax changes in the US economy. Table 1 shows the results.

The Tax Cuts and Jobs Act will boost GDP by $547 billion in the first year, and by $1.2 trillion by 2028. This increase is largely driven by the projected increase in investment, which would be $179 billion higher than the baseline in 2018 and $412 billion higher by 2028. The rise in investment follows from the greater incentives that follow

[1] Our analysis is based on the dynamic CGE (DCGE) model of the US economy constructed jointly by the Beacon Hill Institute of Suffolk University in Boston, Massachusetts with consultation of Keshab Bhattarai at the University of Hull in England for the National Center for Policy Analysis.

from (i) a lower corporate income tax rate, of 21% instead of 35%, and (ii) the partial use of expensing, which reduces the effective cost of investing. Personal income will rise by $551 billion in the first year and by $1.059 trillion in 2028. The employment effects would be modest relative to the size of the labor market. Nevertheless, the Act will have created 2.908 million jobs in 2018 and 3.032 million jobs in 2028.

Table 1: Economic Effects of the Tax Cuts and Jobs Act on the U.S.

	2018	2028
Private Employment (jobs 000s)	2,908	3,032
Investment ($, bil.)	179	412
Personal Income, real ($, bil.)	551	1,059
Real GDP ($, bil.)	547	1,204

Economic Effects on Massachusetts

To estimate the economic effects of tax policy changeson MAssachusetts, BHI developed a Computable General Equilibrium (CGE) model. The purpose of the BHI model, called STAMP (State Tax Analysis Modeling Program), is to identify the economic effects of tax changes on a state's economy.[2] Table 2 displays the results.

The STAMP analysis shows that Tax Cuts and Jobs Act will increase private sector jobs by 29,240 in the first full-year and 30,000 in 2022 by putting more money in the hands of households and businesses. Investment would increase by $3.2 billion in 2018 and by $2.1 billion in 2022. The new federal tax rates will positively affect household income. Real disposable income in Massachusetts will increase by $6.7 billion in 2018 and by $5.5 billion in 2022.

[2] For a description of the model see www.beaconhill.org.

Table 2: Economic Effects of the Tax Cuts and Jobs Act on Massachusetts

	2018	2019	2020	2021	2022
Private Employment (jobs)	29,240	29,615	27,331	28,725	30,000
Investment ($, mil.)	3,210	3,293	1,967	2,019	2,071
Disposable Income, real ($, mil.)	6,716	6,978	5,138	5,342	5,543

Conclusion

Massachusetts citizens have benefited from the Tax Cuts and Jobs Act. The Act has broken the nation – and the state – out of the economic doldrums that beset the previous administration. Economic growth and employment have surged under the new tax regime. However, this resurgense of economic growth could be as temporary as some of the new tax provisions.

Congress needs to make the individual tax cuts in the Tax Cuts and Jobs Act permanent. It is necessary to expand the policies that have led the nation and the state to its current wave of prosperity and to do so without looking back.

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