Does Trump's Tax Triumph: A Brief Analysis of the Effects of the Tax Cuts and Jobs Act

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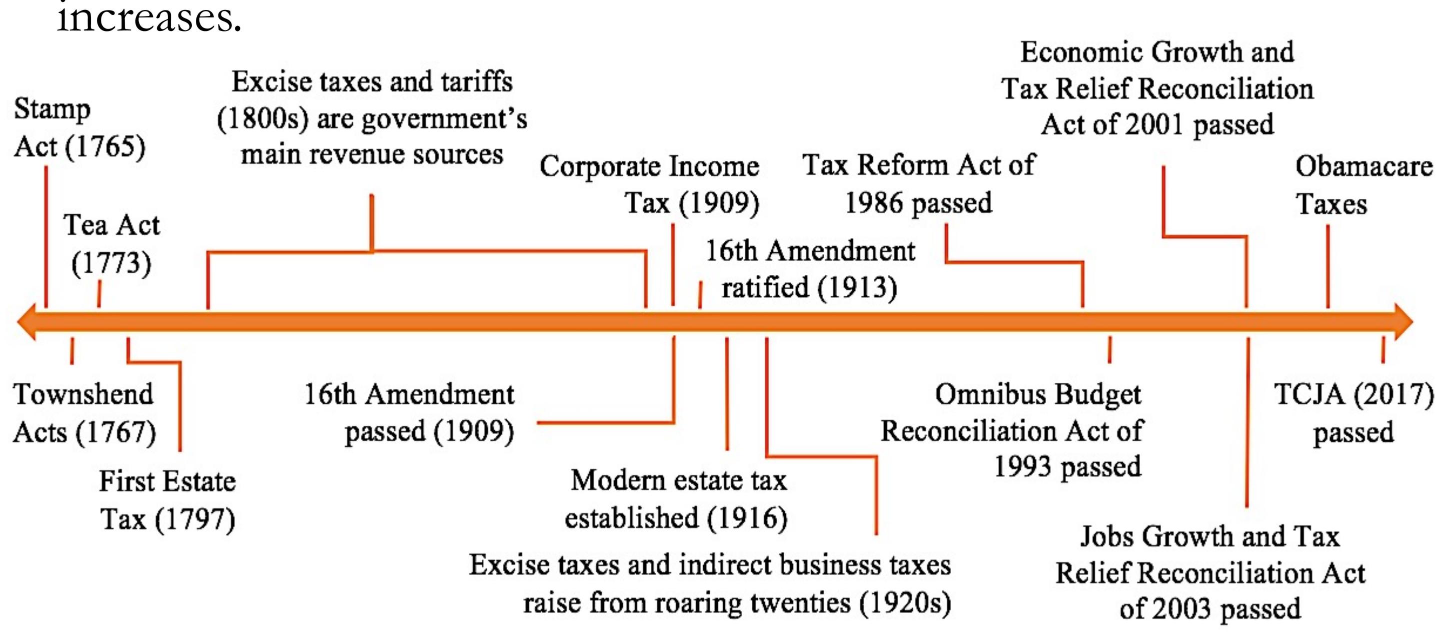
Abstract/Introduction

My research focuses on the Tax Cuts and Jobs Act ("the Act")—the complete tax overhaul passed into law in December of 2017. I specifically concentrate on significant changes from the previous tax law and analyze how they will affect single taxpayers, students, and the California housing market.

Development of Taxation and Its Politics

- Modern taxes came about in the early 20th century with a revision to the estate tax and the creation of the federal income tax, the corporate income tax, and the gift tax.
- The inception of the federal income tax (16th Amendment) sparked the modern political beliefs on taxation. Generally, Democrats favored high personal income taxes, especially on the wealthy, while Republicans favored other methods of taxation like high protective tariffs. This correlates with modern political viewpoints on taxation.
- Presidential administrations tend to match their party view on taxation: the Reagan and Bush administrations passed mainly tax cuts while the Obama and Clinton administrations passed mainly tax increases.



The Tax Cuts and Jobs Act

- The Tax Cuts and Jobs Act is the title of the tax reform bill passed in Washington in December 2017. The aim of the bill was to simplify the tax code and provide cut taxes for all citizens. After a few failed attempts and multiple votes in both the House and the Senate, the tax overhaul was signed into law on December 22, 2017.
- The bill passed in the House **227–205**. The bill passed in the Senate **51–49**. All Republicans except 14 (13 in the House, 1 in the Senate) voted yes. All Democrats and Independents voted no. After passing in both chambers, the two versions of the bill were synthesized to create the final Tax Cuts and Jobs Act.
- One of the more politically divisive topics in Washington, the Act's passing marks President Trump's first big item agenda success. It is considered the first major tax reform since 1986.

Significant Changes for Single Taxpayer

- The change to the tax brackets and income tax rates will likely reduce the tax burden for the majority of taxpayers. The Act reduced the maximum tax rate, creating a significant tax reduction for the wealthy; in fact, the more money a taxpayer makes, the more he or she likely benefits from the new reform.
- The elimination of the personal exemption means taxpayers can no longer claim their dependents' exemptions on their returns. To make up for this, the dependent and child tax credit have both been expanded to $500 and $2,000, respectively.
- Taxpayers choose to take the larger of the standard deduction or their itemized deductions on their tax return. The Act doubled the standard deduction, making it less likely that taxpayers will itemize their deductions.
- Multiple itemized expenses have been reduced or eliminated:
  - The SALT (state and local tax) deduction is now limited to $10,000. This is expected to have large effects on high income, high tax states like California and New York.
  - Casualty and theft losses have become more narrowly defined.
  - Miscellaneous deductions (meals and entertainment, unreimbursed employee expenses for travel, union dues) have been eliminated.
  - Moving expenses for those not in military have been eliminated.

Changes Related to the California Housing Market

- The home mortgage interest deduction qualification has been lowered from a $1,000,000 mortgage to a $750,000 mortgage. This means that interest on anything over a $750,000 mortgage is no longer deductible. Those purchasing homes in California—a state with high median house prices—could lose a significant tax benefit.
- As the figure to the right shows, any home price over $750,000 will require a higher down payment if a taxpayer wants to deduct the maximum interest on his or her federal return. This reduces the tax incentives surrounding home ownership—taxpayers living in populous and expensive counties like Santa Clara and San Francisco may decide to rent instead of buy.
- While previously there was no limit on SALT deductions, under the Act, taxpayers can only deduct up to $10,000 of their state and local taxes. These taxes include state property taxes and either state income or sales taxes. California has the highest state income tax in the country —the average state income tax rate in California is 9.3% and the maximum is 13.3%. The new limits on the SALT deduction is likely to make California residents seriously consider whether they want to move to a state with lower income and property taxes.

New Tax Brackets

Prior to Trump Tax		Trump Tax	
Tax Rate	Taxable Income	Tax Rate	Taxable Income
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%	$91,900—$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
39.6%	$418,401 <	37%	$500,001 <
Standard Deduction:	$6,350	Standard Deduction:	$12,000
Personal Exemption:	$4,050	Personal Exemption:	N/A

Changes Related to Students

- About 20.4 million students were expected to enroll in American universities in 2017. As of 2016, American student debt as a whole is 1.31 trillion dollars.
- While the original plans passed by the House contained many changes for students, the final plan has little effect on them. Perhaps the most significant change is the elimination of the personal exemption and the increased standard deduction: any student that can be claimed as a dependent now receives $5,650 more in tax deductions than before.

Median Housing Price in 15 Populous CA Counties