TCJA and the States

2018 FTA Revenue Estimation & Tax Research Conference, San Diego CA, October 6-10, 2018

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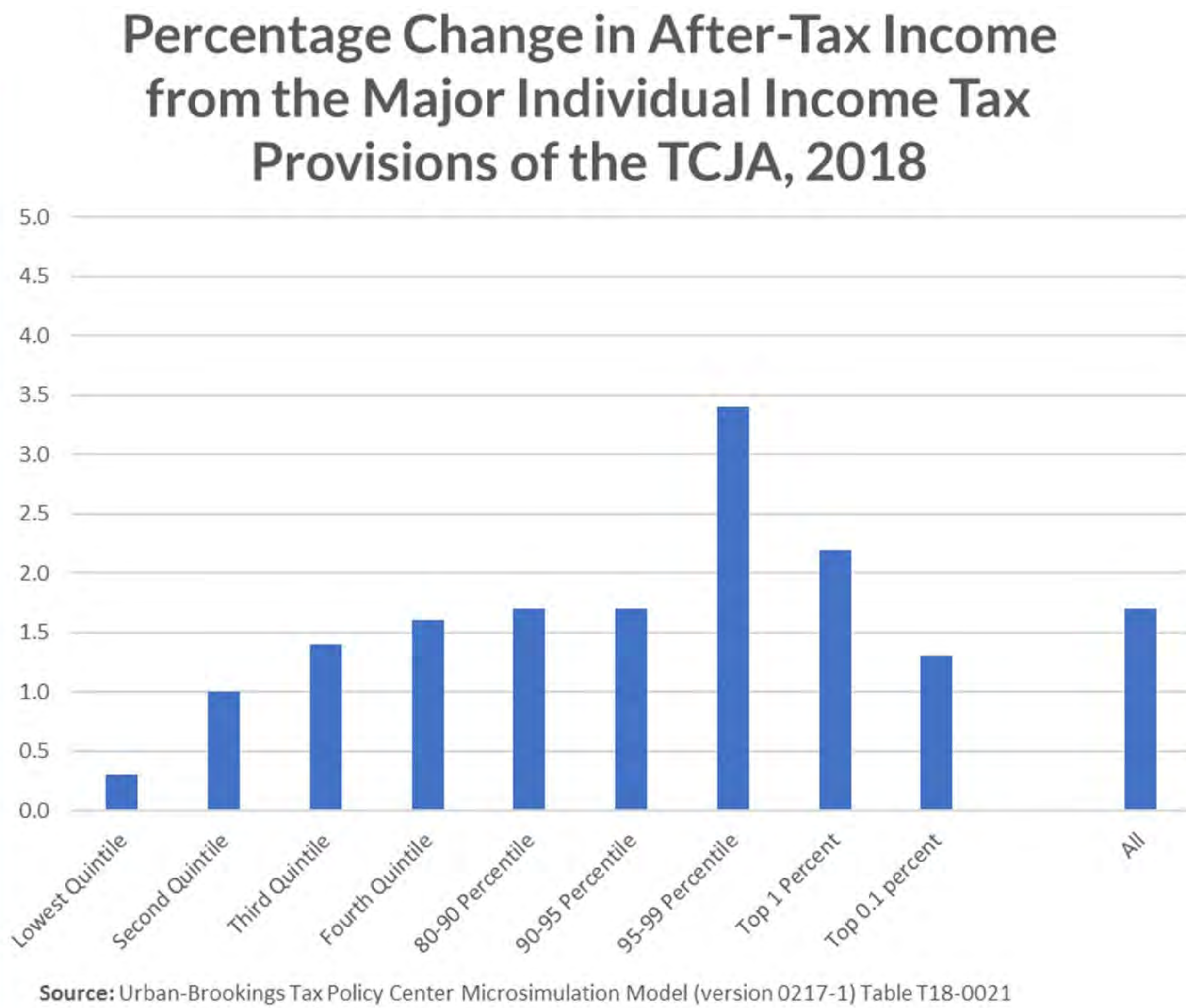
TCJA's Major Individual Income Tax Provisions

- New set of 7 tax rate brackets (generally lower tax rates than prior law).
- Substantially increases the standard deductions and eliminates personal exemptions (by making the value $0).
- Increases child tax credit (CTC) and increased refundability. Adds a dependent credit for those not eligible for the CTC.
- Limits itemized deductions (limits deduction for state and local taxes to $10,000, lowers cap on mortgage interest deduction, repeals deductions for miscellaneous expenses and casualty losses).
- Substantially increases exemption amount for individual AMT and phase-out threshold.
- A new 20 percent deduction for "qualified business income" of pass-through businesses.
- Most individual provisions expire after 2025.
- Changes inflation indexing measure from the CPI-U to the chained CPI-U.

Overview of TPC Tax Model

- Based primarily on Statistics of Income Public Use File (PUF)
- Demographics, transfer income, and non-filers from statistical match with March Current Population Survey (CPS)
  - Tax filing records from PUF and non-filing records from CPS
- Additional imputations for wealth, retirement contributions, employer provided health benefits, and expenditures from various surveys
- "Age" the database based on observed and projected growth in income and number of returns and demographic trends
  - Inflate dollar amounts by observed/projected per capita growth rates
  - Initially grow weights based on IRS and Census forecasts
  - Then use a linear programming algorithm to re-weight the database to match aggregate targets
- Simulate most federal taxes including individual income taxes, payroll taxes, estate tax as well as distribute CBO/JCT projections of corporate income tax liability to individuals

The percentage change in after-tax income averages 1.7 percent across all taxpayers. It is lowest for the bottom quintile (0.3 percent) and highest for taxpayers in the 95th-99th percentiles (3.4 percent).



Moving from National to State Estimates

- Urban-Brookings Tax Policy Center's (TPC) microsimulation model produces revenue and distributional estimates of the U.S. federal tax system

- Based primarily on public use tax records which aren't state representative and don't have state indicators for high income returns

- To extend TPC model to state-level analysis we divide each observation's national weight into 51 state weights (50 states + DC)
  - State weight sum up to national weights
  - State weighted totals match state targets
  - Can use every observation for every state allowing for detailed analysis of small segments of the population
  - E.g. a record may represent 500 tax units nationally, 60 units in CA, 50 units in NY, 1 unit in NH, and so on with all state weights summing to 500

See: Incorporating State Analysis into the Tax Policy Center's Microsimulation Model: Documentation and Methodology

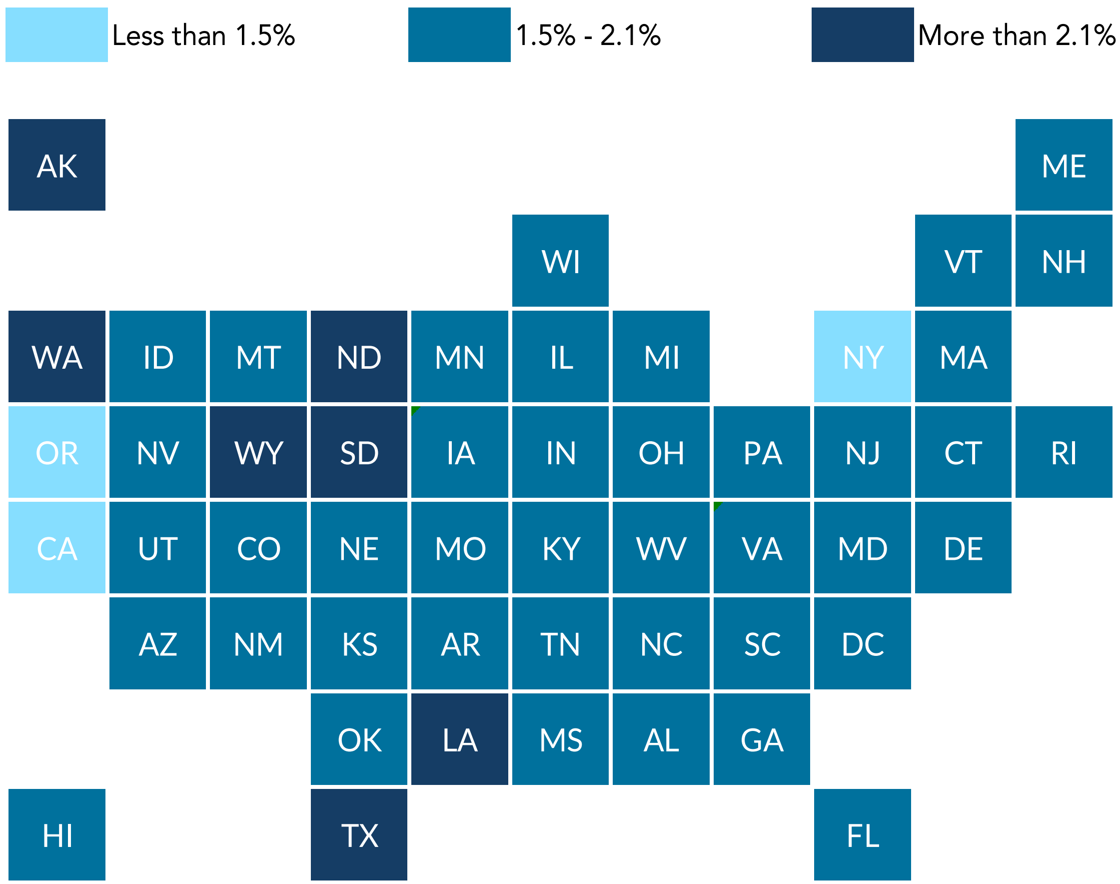
Applications of State Weights

- When appropriate we use state weights to analyze federal taxes at state level
  - Current law federal tax burden by state
  - Federal tax changes under policy proposal by state
  - Distribution of federal tax changes within specific states

- We also use state-weighted database as input to state tax calculators
  - Interactions of federal and state tax policy
  - Policy changes at state level

The average tax cut differs by state. It is highest in AK, LA, ND, SD, TX, WA, and WY, and lowest in CA, NY, and OR.

Percentage Change in After-Tax Income, 2018

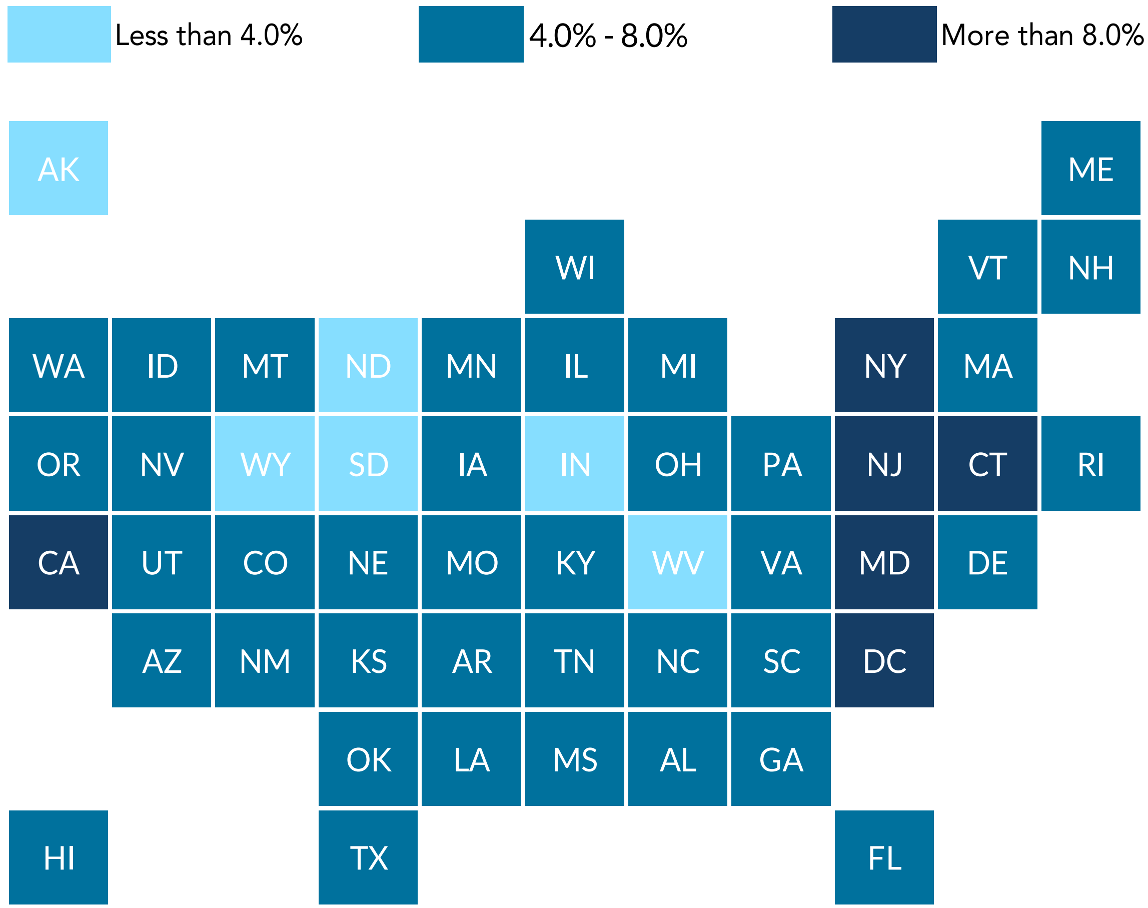


Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0217-1), Table T18-0028.

See: The Effect of The TCJA Individual Income Tax Provisions Across Income Groups and Across the States

The percentage of taxpayers with a tax increase is highest in CA, CT, DC, MD, NJ, and NY, jurisdictions with above average state and local taxes.

Percentage of Tax Units with Tax Increase, 2018

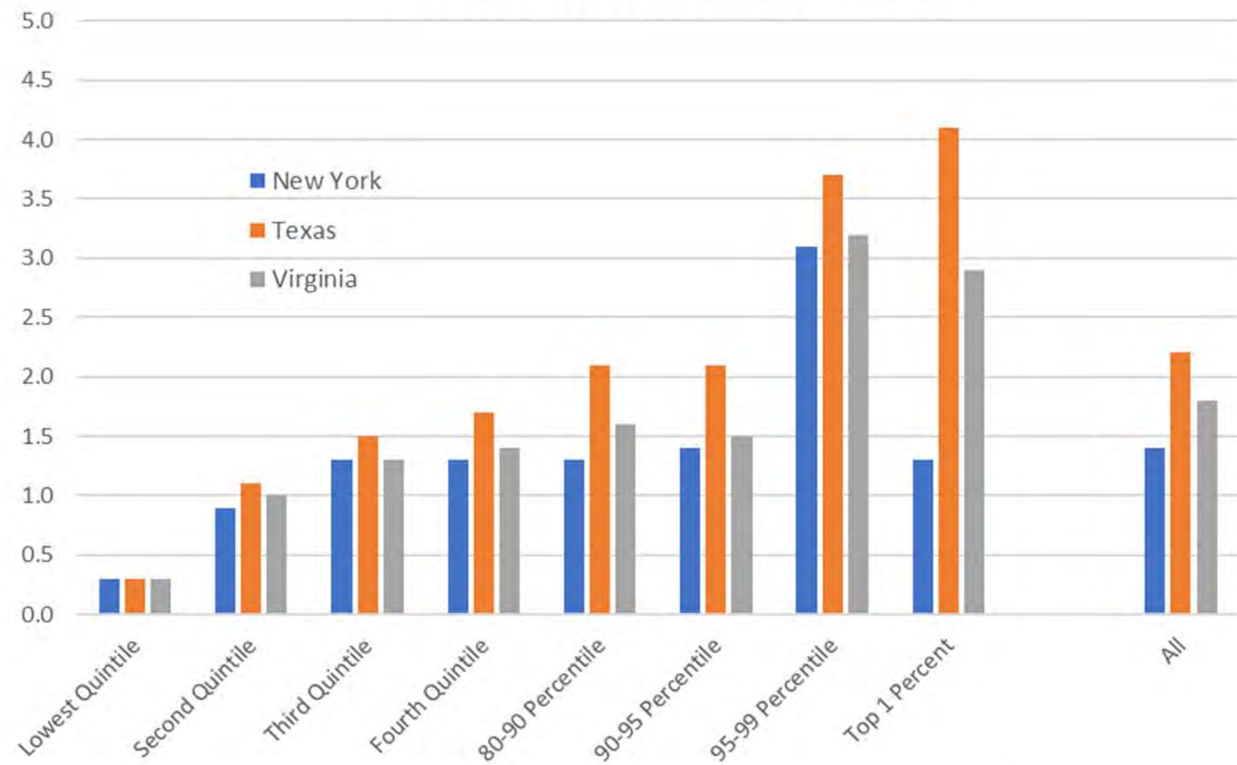


Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0217-1), Table T18-0029.

[The Effect of The TCJA Individual Income Tax Provisions Across Income Groups and Across the States]()

The average tax cut is similar in NY, TX, and VA for taxpayers in the three lowest income quintiles, but there differs among higher-income groups.

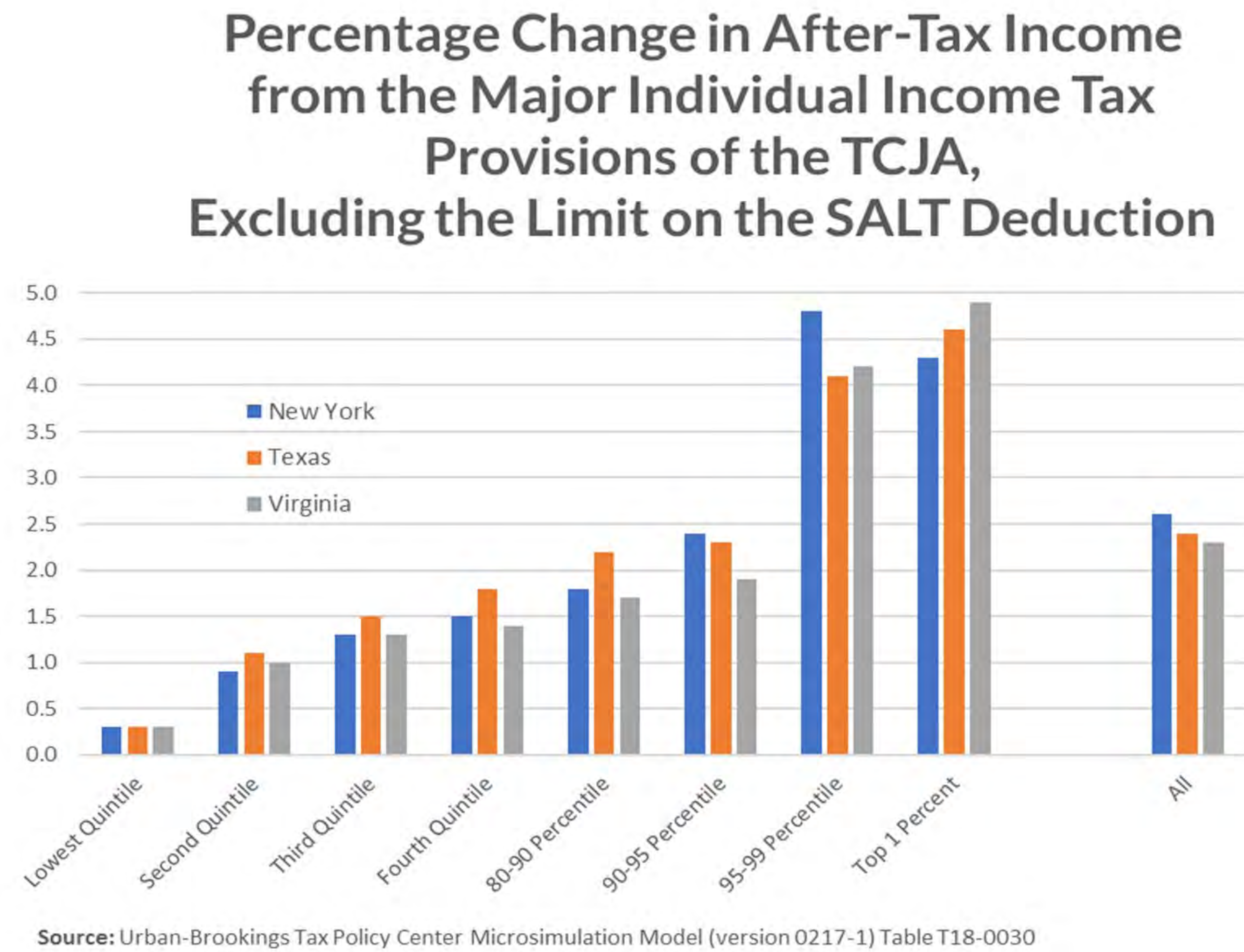
Percentage Change in After-Tax Income from the Major Individual Income Tax Provisions of the TCJA



Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0217-1) Table T18-0028

See: The Effect of The TCJA Individual Income Tax Provisions Across Income Groups and Across the States

Eliminating the limit on the SALT deduction removes much of the cross state differences.



[See: The Effect of The TCJA Individual Income Tax Provisions Across Income Groups and Across the States]

TCJA Conformity Issues

- TCJA made few changes to individual AGI
  - Most states did not face large conformity issues on the individual income tax
  - More decisions/changes for states that begin with taxable income or link to the federal standard deduction or personal exemptions
- The most meaningful individual changes were:
  - Increased standard deduction
  - $0 personal exemption
  - Larger child tax credit
  - Pass-through deduction

State Individual Income Tax Starting Points Pre-TCJA[1]

How states link to the federal tax code with definitions of income

Federal taxable income				
Colorado	Minnesota	North Dakota	South Carolina	Vermont
Federal adjusted gross income				
Arizona	California	Connecticut	Delaware	District of Columbia
Georgia	Hawaii	Idaho[2]	Illinois	Indiana
Iowa	Kansas	Kentucky	Louisiana	Maine
Maryland	Michigan	Missouri	Montana	Nebraka
New Mexico	New York	North Carolina	Ohio	Oklahoma
Oregon[2]	Rhode Island	Utah	Virginia	West Virginia
Wisconsin				
State definition of income				
Alabama	Arkansas	Massachusetts	Mississippi	New Jersey
Pennsylvania				

Source: Federation of Tax Administrators; state statutes.

Note: Alaska, Florida, Nevada, South Dakota, Texas, Washington, and Wyoming do not tax individual income. New Hampshire and Tennessee tax only interest and dividends.

[1] This table reflects state conformity as of December 22, 2017, when the TCJA was passed.

[2] Idaho and Oregon both conform to the federal treatment of pass-through income.

Individual Income Tax Conformity in Five Jurisdictions

	Federal Tax Base	Federal Personal Exemptions	Federal Standard Deduction	Federal Child Tax Credit
Colorado	Taxable Income	Yes	Yes	No
District of Columbia	Adjusted Gross Income	Yes	Yes	No
Missouri	Adjusted Gross Income	No	Yes	No
New York	Adjusted Gross Income	No	No	Yes
Utah	Adjusted Gross Income	Yes	Yes	No

Note: Missouri sets its own state personal exemption amount but uses the number of exemptions claimed on a taxpayer's federal income tax return.

Change in State Individual Income Taxes

Cumulative percent change

	Personal Exemptions	Personal Exemptions Standard Deduction	Personal Exemptions Standard Deduction Itemized Deductions	Personal Exemptions Standard Deduction Itemized Deductions Child Tax Credit
Colorado	12.4%	2.9%	3.1%	3.1%
District of Columbia	6.4%	1.6%	0.9%	0.9%
Missouri	-0.6%	-9.1%	-9.1%	-8.7%
New York	-0.1%	0.0%	0.9%	-1.9%
Utah	13.1%	3.8%	4.2%	4.2%

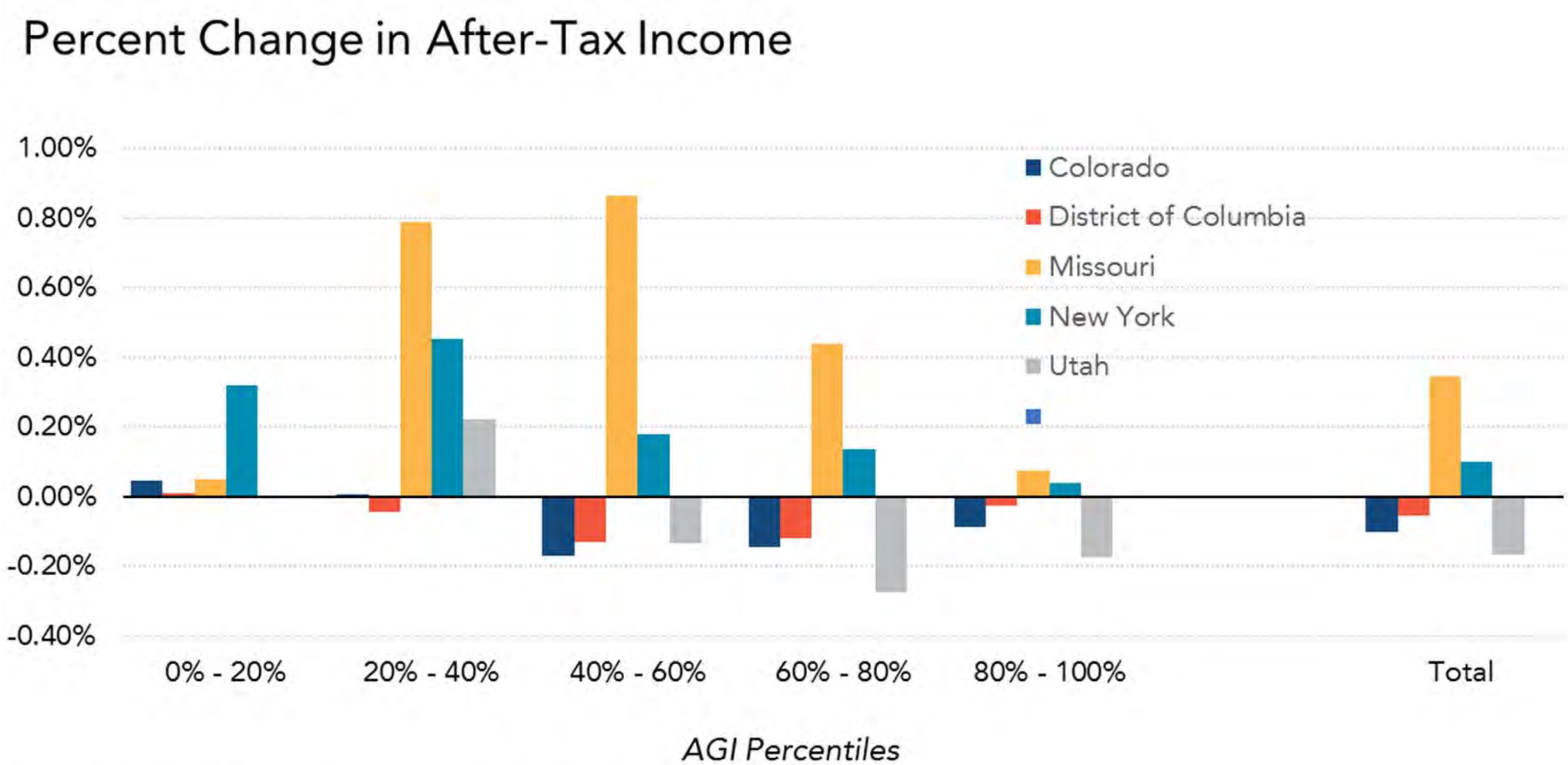
Source: Tax Policy Center Microsimulation Model and author's calculations.

Note: The table shows the cumulative percentage in taxes from TCJA.

The cumulative percentage change for Missouri would be -1.9% if it conformed to the change in federal personal exemptions.

See: Effects of TCJA on State Individual Income Taxes (forthcoming)

Distribution of Changes in State Income Taxes



Source: Tax Policy Center Microsimulation Model and author's calculations.
Note: After-Tax Income equals Adjusted Gross Income minus state individual income taxes.

See: Effects of TCJA on State Individual Income Taxes (forthcoming)

THANK YOU

For more information please contact:

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https://www.taxpolicycenter.org/feature/states-and-tax-cuts-and-jobs-act