Federal Tax Cuts and Jobs Act: Impacts on Washington

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Steve Lerch
Executive Director

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Federal tax reform is expected to increase economic activity

- Lower overall Federal personal income taxes
  - Reduces average tax rate on wage income by about 1%
  - Employment is expected to be 0.6% higher on average over next ten years
  - Positive employment impacts expected to decline after 2025 when personal tax rate cuts and increased child tax credit expire

- Lower overall Federal corporate income taxes
  - Business investment is expected to be 0.9% higher on average over next ten years due to lower corporate tax rate, 100% bonus depreciation (deduction of cost of capital goods), increased deduction for some pass-through business income
  - Positive investment impacts decline after 2022 due to phase-out of bonus depreciation, expiration of increased pass-through income deduction

Sources: U.S. Congress, Joint Committee on Taxation; IHS Markit
Size of personal and corporate tax reductions, 2018

- Lower overall Federal personal income taxes
  - Nationally, personal income taxes decrease by approximately $130 billion in 2018
  - Approximately 8% reduction in 2018 personal income taxes

- Lower overall Federal corporate income taxes
  - Nationally, corporate income taxes decrease by about $85 billion in 2018
  - Approximately 20% reduction in 2018 corporate income taxes

Source: IHS Markit December 2017 & January 2018 forecasts
U.S. personal income taxes as % of U.S. personal income, before and after tax reform

Source: IHS Markit
U.S. corporate income taxes as % of U.S. pre-tax corporate profits, before and after tax reform

Source: IHS Markit
Washington impacts of tax reform

- Assuming JCT estimate of tax reform impact on employment of 0.6%, Washington employment would be roughly 20,000 to 21,000 jobs per year higher than our November 2017 forecast
  - For 2018, this would mean total nonfarm employment of 3,440,000 in Washington

- Assuming JCT estimate of tax reform impact on business investment of 0.9%, Washington business capital investment would be $500 to $700 million higher in 2018

Source: IHS Markit December 2017 & January 2018 forecasts
Washington impacts of tax reform

- Washington share of personal tax cuts in 2018 would be roughly $3.3 billion, or 0.8% of personal income.

- Ballpark impact on revenue collections in 2018: $85 million
  - Could be lower: income tax cuts are largest for high income households, who are likely to save more and spend less of their tax cuts than average household.
  - Could be higher: tax cuts will induce some increases in employment and investment, which in turn will increase income and spending.
  - IHS Markit continues to refine their national estimates of tax reform impacts, which will impact our February forecast.

Source: IHS Markit December 2017 & January 2018 forecasts
Questions