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Executive Summary: The 2017 Trump Tax Law Was Skewed to the Rich, Expensive, and Failed to Deliver on Its Promises

A 2025 Course Correction Is Needed

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A high-stakes tax policy debate will accelerate this year through 2025 over the pending expiration of the individual income and estate tax provisions of the 2017 Trump tax law. Policymakers should use this opportunity to work toward a tax code that raises more revenues, is more progressive and equitable, and supports investments that make the economy work for everyone.

As this debate unfolds, policymakers and the public should understand that the 2017 Trump tax law:

- **Was skewed to the rich.** Households with incomes in the top 1 percent will receive an average tax cut of more than \$60,000 in 2025, compared to an average tax cut of less than \$500 for households in the bottom 60 percent, according to the Tax Policy Center (TPC).¹ As a share of after-tax income, tax cuts at the top — for both households in the top 1 percent and the top 5 percent — are more than *triple* the total value of the tax cuts received for people with incomes in the bottom 60 percent.²
- **Was expensive and eroded the U.S. revenue base.** The Congressional Budget Office (CBO) estimated in 2018 that the 2017 law would cost \$1.9 trillion over ten years,³ and recent estimates show that making the law’s temporary individual income and estate tax cuts permanent would cost another roughly \$350 billion a year beginning in 2027.⁴ Together with the 2001 and 2003 tax cuts enacted under President Bush (most of which were made permanent in 2012), the law has severely eroded our country’s revenue base. Revenue as a share of GDP has fallen from about 19.5 percent in the years immediately preceding the Bush tax cuts to just 16.3 percent in the years immediately following the Trump tax cuts, with revenues expected to rise to an annual average of 16.9 percent of GDP in 2018-2026 (excluding pandemic years), according to CBO. This is simply not enough revenue given the nation’s investment needs and our commitments to Social Security and health coverage.
- **Failed to deliver promised economic benefits.** Trump Administration officials claimed their centerpiece corporate tax rate cut would “very conservatively” lead to a \$4,000 boost in

household income.⁵ New research shows that workers who earned less than about \$114,000 on average in 2016 saw “no change in earnings” from the corporate tax rate cut, while top executive salaries increased sharply.⁶ Similarly, rigorous research concluded that the tax law’s 20 percent pass-through deduction, which was skewed in favor of wealthy business owners, has largely failed to trickle down to workers in those companies who aren’t owners.⁷ Like the Bush tax cuts before it,⁸ the 2017 Trump tax cut was a trickle-down failure.

Policymakers should seize the opportunity the 2025 expirations provide and make a course correction in the nation’s revenue policies. This would mean reversing the regressive tilt of the 2017 law, raising more revenue, and correcting priorities to advance the interests of low- and moderate-income families across the country instead of those of wealthy shareholders. Several key principles should guide this new course:

- **Tax cuts for people making over \$400,000 should end on schedule.** The 2017 law’s provisions primarily benefiting high-income households are costly and do not trickle down. They should all end in 2025.
- **The tax system needs to raise more revenues from wealthy people and profitable corporations to offset any tax cuts extended or expanded for those with incomes below \$400,000, to finance high-value investments in people and communities, and to improve our fiscal outlook.** President Biden’s prior budgets have proposed raising progressive revenue to pay for extensions of provisions affecting households with earnings below \$400,000. This should include revisiting the 2017 law’s permanent and deeply unpopular corporate tax rate cut and strengthening the law’s international corporate tax provisions, which continue to allow significant foreign profit-shifting. New progressive tax policies should also reduce the tax advantages for wealthy people by, for example, curtailing their ability to permanently avoid taxes on their large unrealized capital gains and rolling back the special breaks they receive when they do pay tax. Policymakers can also generate progressive revenues by extending and making permanent the mandatory IRS funding enacted in the Inflation Reduction Act, which supports revenues by increasing tax collections primarily from high-income households.
- **Top priorities for extending and expanding tax provisions in 2025 should be the Child Tax Credit, the Earned Income Tax Credit (EITC) for adults not raising children, and the enhanced premium tax credits for Affordable Care Act (ACA) marketplace coverage.** These credits have a long history of success — in stark contrast to the record of failure of the corporate tax rate cut and other regressive tax cuts. This includes a marked drop in the child poverty rate in 2021 under the American Rescue Plan’s expansion of the Child Tax Credit — a policy that should be made permanent in 2025. Additionally, some 16 million people who work for low wages and who are not raising children in their homes received help through the Rescue Plan’s EITC expansion in 2021, and there were historic gains in the number of people receiving health coverage in the ACA marketplaces during the 2024 open enrollment season, with most enrollees able to find coverage for less than \$10 per month. Revenues also can be used for investments outside of the tax code. For example, the costs of child care, home-based care for older adults and people with disabilities, and housing remain unacceptably high for millions of families, and federal investment in these areas falls far short of need.

¹ Tax Policy Center (TPC), “T17-0314 - Conference Agreement: The Tax Cuts and Jobs Act; Baseline: Current Law; Distribution of Federal Tax Changes by Expanded Cash Income Percentile, 2025,” December 18, 2017, <https://www.taxpolicycenter.org/model-estimates/conference-agreement-tax-cuts-and-jobs-act-dec-2017/t17-0314-conference-agreement>.

² *Ibid.* This includes the effects of all the law’s provisions in 2025, including its permanent provisions and those that expire after 2025.

³ Congressional Budget Office (CBO), “The Budget and Economic Outlook: 2018 to 2028,” April 9, 2018, <https://www.cbo.gov/publication/53651>.

⁴ CBO, “Budgetary Outcomes Under Alternative Assumptions About Spending and Revenues,” May 2023, <https://www.cbo.gov/system/files/2023-05/59154-Budgetary-Outcomes.pdf>.

⁵ Council of Economic Advisers, “Corporate Tax Reform and Wages: Theory and Evidence,” October 2017, <https://trumpwhitehouse.archives.gov/sites/whitehouse.gov/files/documents/Tax%20Reform%20and%20Wages.pdf>.

⁶ Patrick J. Kennedy *et al.*, “The Efficiency-Equity Tradeoff of the Corporate Income Tax: Evidence from the Tax Cuts and Jobs Act,” November 14, 2023, https://patrick-kennedy.github.io/files/TCJA_KDLM_2023.pdf. The \$114,000 threshold for the 90th percentile of the within-firm earnings distribution appears in an earlier version of the paper, dated December 9, 2022 (Table 5, Panel A).

⁷ Lucas Goodman *et al.*, “How Do Business Owners Respond to a Tax Cut? Examining the 199A Deduction for Pass-through Firms,” NBER Working Paper 28680, January 2024, https://www.nber.org/system/files/working_papers/w28680/w28680.pdf. See also Chuck Marr and Samantha Jacoby, “The Pass-Through Deduction Is Tilted Heavily to the Wealthy, Is Costly, and Should Expire as Scheduled,” CBPP, June 8, 2023, <https://www.cbpp.org/research/federal-tax/the-pass-through-deduction-is-tilted-heavily-to-the-wealthy-is-costly-and>.

⁸ An analysis of the Bush tax cuts by Brookings Institution economist William Gale and Dartmouth professor Andrew Samwick, former chief economist on George W. Bush’s Council of Economic Advisers, found that “there is, in short, no first-order evidence in the aggregate data that these tax cuts generated growth.” William Gale and Andrew Samwick, “Effects of Income Tax Changes on Economic Growth,” Brookings Institution, February 2016, https://www.brookings.edu/wp-content/uploads/2016/07/09_Effects_Income_Tax_Changes_Economic_Growth_Gale_Samwick_.pdf.