



Tax Cuts and Jobs Act: Impact on Rhode Island

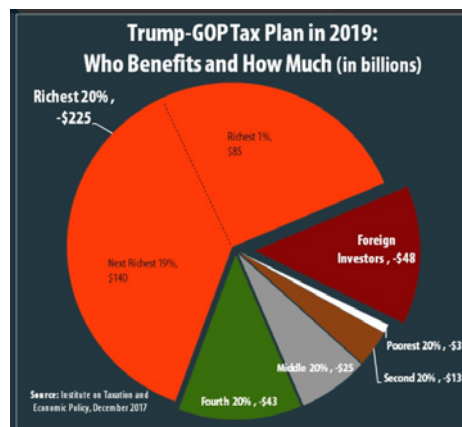
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March 27, 2018



The "Tax Cuts and Jobs Act": national overview

- \$1.5 trillion in tax cuts, most going to:
 - The very wealthy
 - Corporations (and through them, to the very wealthy)
 - Foreign investors



Key features shouldn't surprise us

- Basic parameters of the ***Tax Cuts and Jobs Act*** (“the Act”*) entirely consistent with GOP tax proposals over past several years

House Republicans Propose \$4 Trillion in Cuts Over Decade

By CARL HULSE APRIL 3, 2011

2011

Paul Ryan's Fairy-Tale Budget Plan

By DAVID A. STOCKMAN AUG. 13, 2012

2012

Paul Ryan Has a Plan for the Poor. It's Terrible.

How his 2015 budget could sink America's neediest deeper into poverty.

STEPHANIE MENCIMER APR. 2, 2014 8:46 PM

2014

Paul Ryan's Budget, Simplified: Save the Rich, Spare the Old, Forget the Poor

DEREK THOMPSON | MAR 12, 2012 | BUSINESS

2013

Etc.

[*Misleading title: for most, “Tax Cuts” are temporary, primary “Jobs” impact result not of specific tax measures, but macro-economic impact of \$1.5T cut]

Waiting for the other shoe to drop

- Unlikely that Trump/Ryan plan to ‘pay for’ entire \$1.5T tax plan
- BUT – key elements of the federal safety net are clearly in jeopardy [though deep cuts avoided in just passed \$1.3T “omnibus spending bill” for remainder of FY2018]

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Top Republicans are already talking about cutting Medicare and Social Security next

The idea of cutting popular programs in an election year has vulnerable Republicans asking, why not infrastructure?

By Tara Goldhamer | Updated Dec 20, 2017, 12:56pm EST

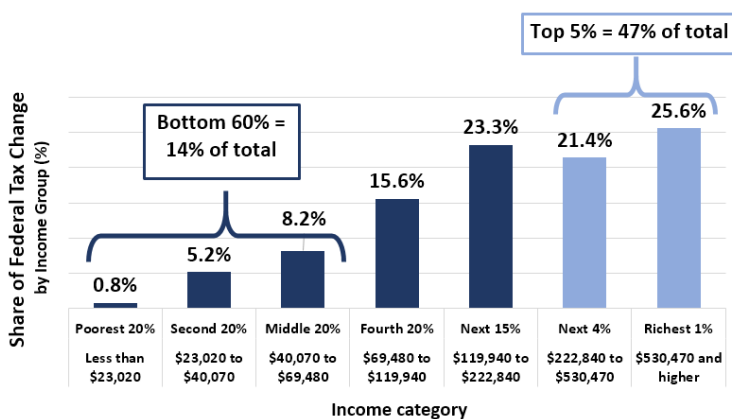
President's Budget Would Cut Food Assistance for Millions and Radically Restructure SNAP

FEBRUARY 15, 2018 | BY DOTTIE ROSENBAUM, STACY DEAN, ED BOLEN, ELIZABETH WOLKOMIR, BRYNNE KEITH-JENNINGS, LEXIN CAL, AND CATLIN NICHAKO

How does the Tax Cuts and Jobs Act affect Rhode Islanders?

Wealthy Rhode Islanders benefit the most

Benefits of federal tax changes accrue disproportionately to Rhode Island's wealthiest families: nearly half to top 5%



Source: ITEP microsimulation model, January 2018

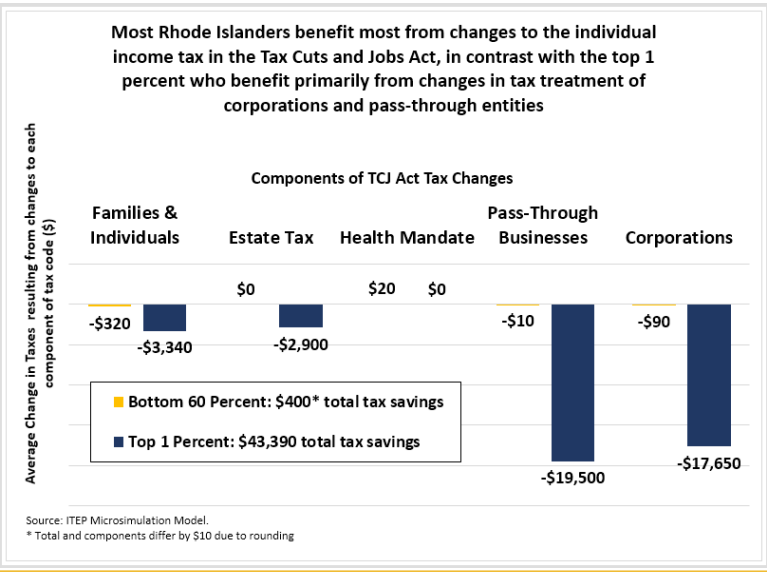
The Act impacts the very wealthy differently

- Most Rhode Islanders benefit (initially) from changes to the personal income tax affecting families and individuals
- Very wealthy also benefit substantially from changes to the personal income tax, BUT their main source of tax reduction is through changes affecting pass-through entities and corporations

What is a “pass-through entity” anyway?

- There are important legal distinctions for different types of corporate entities.
- **C-corporations** are those subject to the corporate income tax (in Rhode Island, the *Business Corporations Tax*).
- **Pass-through corporations** are corporate entities that pass their income through (eg, to limited liability partners) to be taxed as personal income.
- the very wealthy benefit significantly from the provisions of the Act as both shareholders of corporations and as partners or investors in pass-through entities.

Wealthy Rhode Islanders benefit most from business tax changes



A closer look at personal income tax changes (1/3)

- **Rates and Brackets:** The Act changes the personal income tax brackets, retaining seven different rates, reducing the rates for most filers

Married Filing Jointly			
Previous Rates & Brackets		Tax Rates & Brackets under the Tax Cuts and Jobs Act	
Tax Rate	Tax Bracket	Tax Rate	Tax Bracket
10%	\$0-\$19,050	10%	\$0-\$19,050
15%	\$19,050-\$77,400	12%	\$19,050-\$77,400
25%	\$77,400-\$156,150	22%	\$77,400-\$165,000
28%	\$156,150-\$237,950	24%	\$165,000-\$315,000
33%	\$237,950-\$424,950	32%	\$315,000-\$400,000
35%	\$424,950-\$480,050	35%	\$400,000-\$600,000
39.60%	\$480,050+	37%	\$600,000+

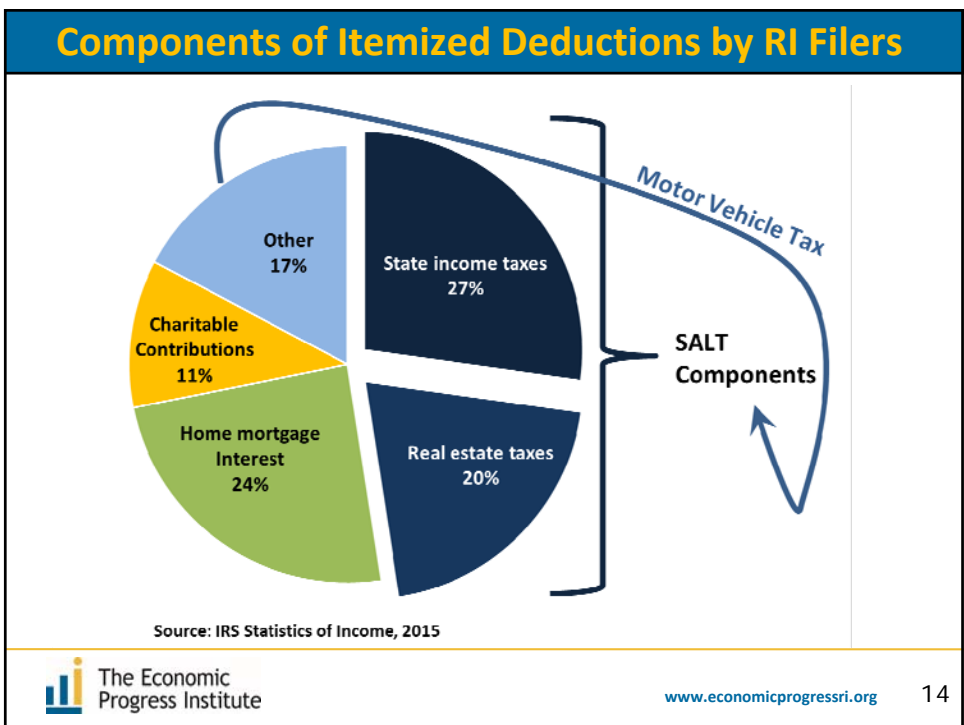
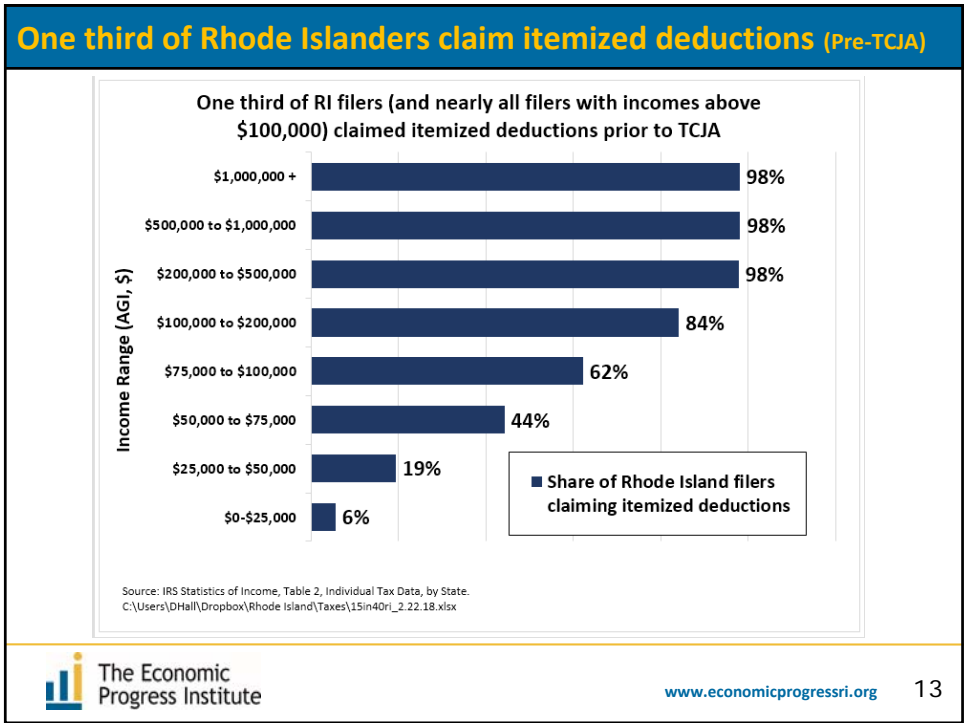
- **Standard Deduction:** The Standard Deduction is nearly doubled (from \$13,000 to \$24,000 for married filing jointly and from \$6,500 to \$12,000 for single filers).

A closer look at personal income tax changes (2/3)

- **Personal Exemption:** The value of the personal exemption—previously set at \$4,150 per person for 2018—that taxpayers can claim for each family member is set to \$0, effectively eliminating it.
- **Child Tax Credit:** The child tax credit is increased to \$2,000 for each child from \$1,000 per child, and taxpayers are newly able to claim a \$500 credit for each non-child dependent.

A closer look at personal income tax changes (3/3)

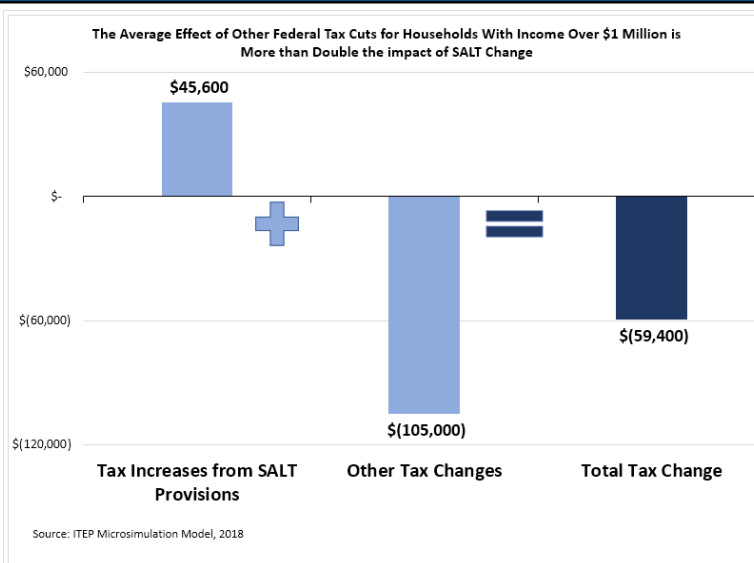
- **Mortgage Interest Deduction:** The Act caps the value of mortgages—the interest payments of which can be claimed as an income tax deduction at \$750,000 (down from the previous limit of \$1M). The Act also eliminates the tax deductibility of home equity loans and retains (subject to the \$750,000 cap) the tax deductibility of second homes (a provision that benefits higher income earners who can afford to own and maintain two homes).
- **State and Local Tax Deduction:** The Act limits the amount of state and local taxes that are deductible on federal income to a combined \$10,000 for income, sales, and property taxes.



A closer look at state and local tax deductions

- **SALT Deduction** is one of largest components of Rhode Islanders' itemized deductions (27 percent)
 - Components of SALT
 - State income tax (OR state sales tax – rarely used)
 - Local real estate tax
 - Local motor vehicle tax
- Limiting SALT Deduction (combined with nearly doubling the **standard deduction**) means a substantial share of RI taxpayers will stop itemizing **[threat for charitable deductions?]**
- **Impact of SALT Deduction** on very wealthy best examined in broader context

Even with limits on SALT Deduction, wealthy fare very well



Impact on Rhode Island businesses

- **C-corporations** will see the permanent reduction in the federal corporate income tax from 35 percent to 21 percent,
- **Pass-through entities** (LLCs, LLPs, Partnerships, Limited Partnerships, etc.) get **temporary 20 percent deduction on qualified business income**. When individual tax changes expire in 2025, the tax benefits for these pass-through entities will be significantly reduced.
 - Limits on income that qualifies are substantial, reducing potential impact of this deduction on RI businesses

Impact of the Act on RI taxes and budget

- **RI personal income tax largely unaffected*** because Rhode Island one of 29 states that use federal **Adjusted Gross Income (AGI**)** as starting point for determining state income tax, and not linked to other federal tax changes. [*this may change if RI corporations shift to or from C-Corporation status]

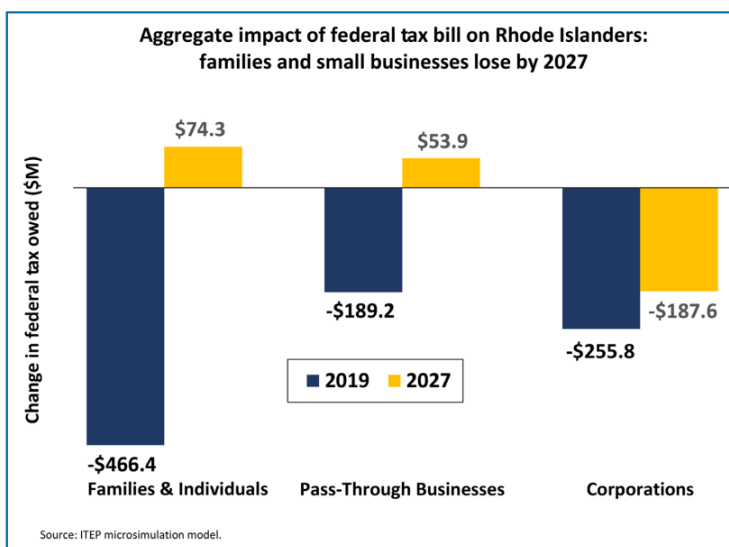
Adjusted Gross Income	23	Educator expenses	23	
	24	Certain business expenses of reservists, performing artists, and fee-basis government officials. Attach Form 2106 or 2106-EZ	24	
	25	Health savings account deduction. Attach Form 8889	25	
	26	Moving expenses. Attach Form 3903	26	
	27	Deductible part of self-employment tax. Attach Schedule SE	27	
	28	Self-employed SEP, SIMPLE, and qualified plans	28	
	29	Self-employed health insurance deduction	29	
	30	Penalty on early withdrawal of savings	30	
	31a	Alimony paid b Recipient's SSN ▶	31a	
	32	IRA deduction	32	
	33	Student loan interest deduction	33	
	34	Reserved for future use	34	
	35	Domestic production activities deduction. Attach Form 8903	35	
	36	Add lines 23 through 35	36	
	37	Subtract line 36 from line 22. This is your adjusted gross income	37	RI Income Tax

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Impact of the Act on RI taxes and budget

- Impact on **corporate income taxes** will depend on how RI corporations respond to new rules (and on how many pass-through entities choose to become C-Corporations).
- Biggest impact for Rhode Island state officials will occur when we see depth of cuts when “the other shoe drops” (ie, budget cuts).

By 2027 RI families and pass-throughs pay more



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