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Corporate Income/Net Receipts Tax: TCJA Impacts

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Overview

Tax Cuts and Jobs Act Provisions and The Corporate Income/Net Receipts Tax Model

In December 2017, President Trump signed the Tax Cuts and Jobs Act (TCJA) into law.

This legislation included a reduction in the corporate income tax from 35% to 21% and a myriad of other provisions.

Most of the legislation went into effect January 1, 2018, six months into Washington's 2017-19 fiscal biennium.

The Corporate Income/Net Receipts Tax Model must account for the TCJA provisions. This presentation discusses our approach and shares some tentative results.

Approach

Approach to modelling impact of TCJA provisions

1. Prepare a counterfactual model of US corporate income taxes (to 2019)
 - Based on the pre-TCJA tax structure and 2008-16 data/statistics
 - Project forward based on growth in corporate profits.
 2. Adapt model to account for effects of TCJA provisions
 - Primarily using the Joint Committee on Taxation's (JCT) December 2017 estimates of TCJA provisions' budget impacts.
 - 2a. Account for interactions between certain key TCJA provisions.
 3. Reconcile model to actual IRS tax collections by treating residual as a change in deductions.
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Implementation of JCT Budget Impacts

Characterization of Most TCJA Provisions and Impact to Model

Type of Provision	Budget Impact	Implementation in Model
Total Income	+X	Increase Total Income by $\frac{X}{.21}$
Deduction	-X	Increase Deductions by $\frac{X}{.21}$
Credit	-X	Increase Credits by X
Alternative Tax	+X	Increase Alternative Taxes by X

$$Taxable_{US} = Total\ Income_{US} - Total\ Deductions_{US} - Special\ Deductions_{US} - NOL_{US}$$

$$Taxable_{US} = \frac{Tax\ Due_{US} + Total\ Credits_{US} - Alternative\ Taxes_{US}}{Tax\ Rate_{US}}$$

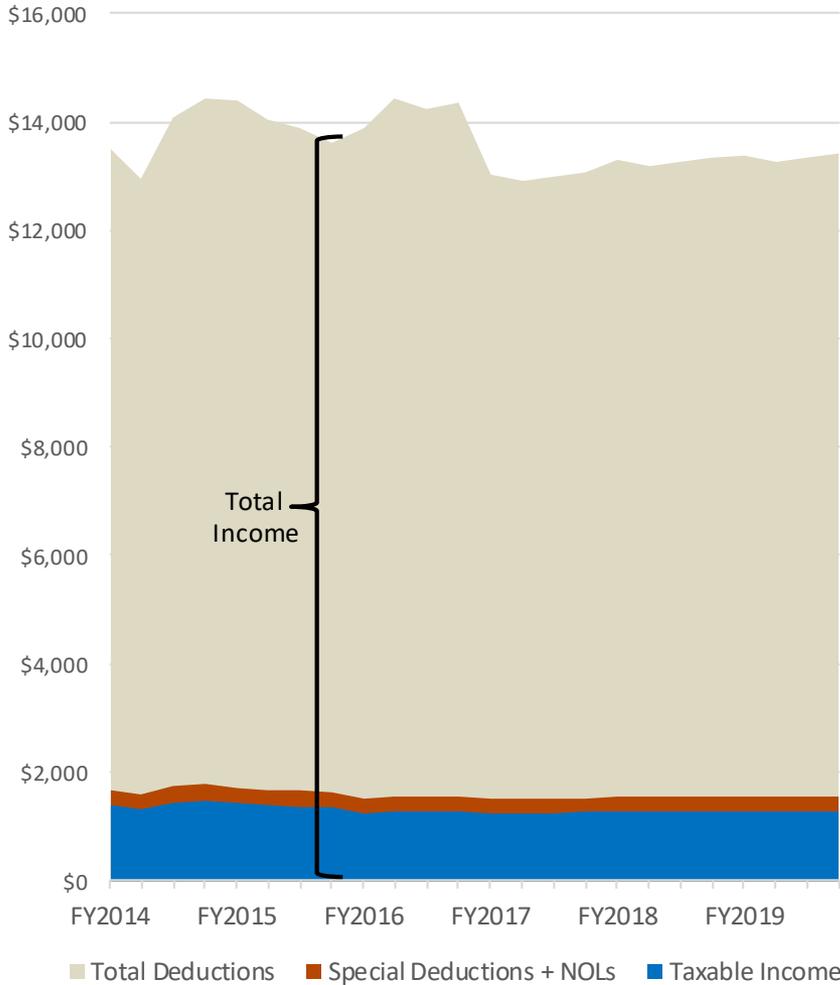
Interactions between TCJA Provisions

Modelled Interactions

1. Reduction in Tax Rate: ↓ Foreign Tax Credits (FTCs)
2. Deduction for Dividends Received from Foreign Corporations: ↓ FTCs
3. Tax on Deemed Repatriation of Foreign Income: ↑ FTCs

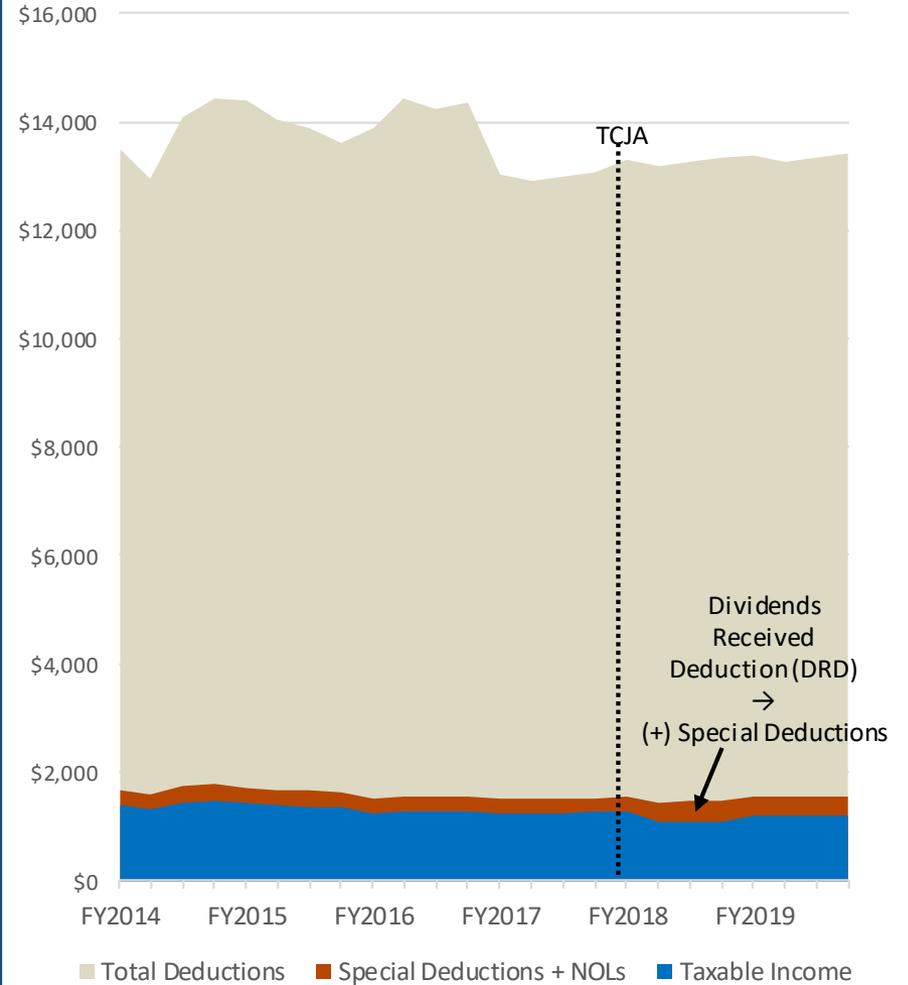
Counterfactual (No TCJA)

US Total Income 2014-19 (\$ Billions)

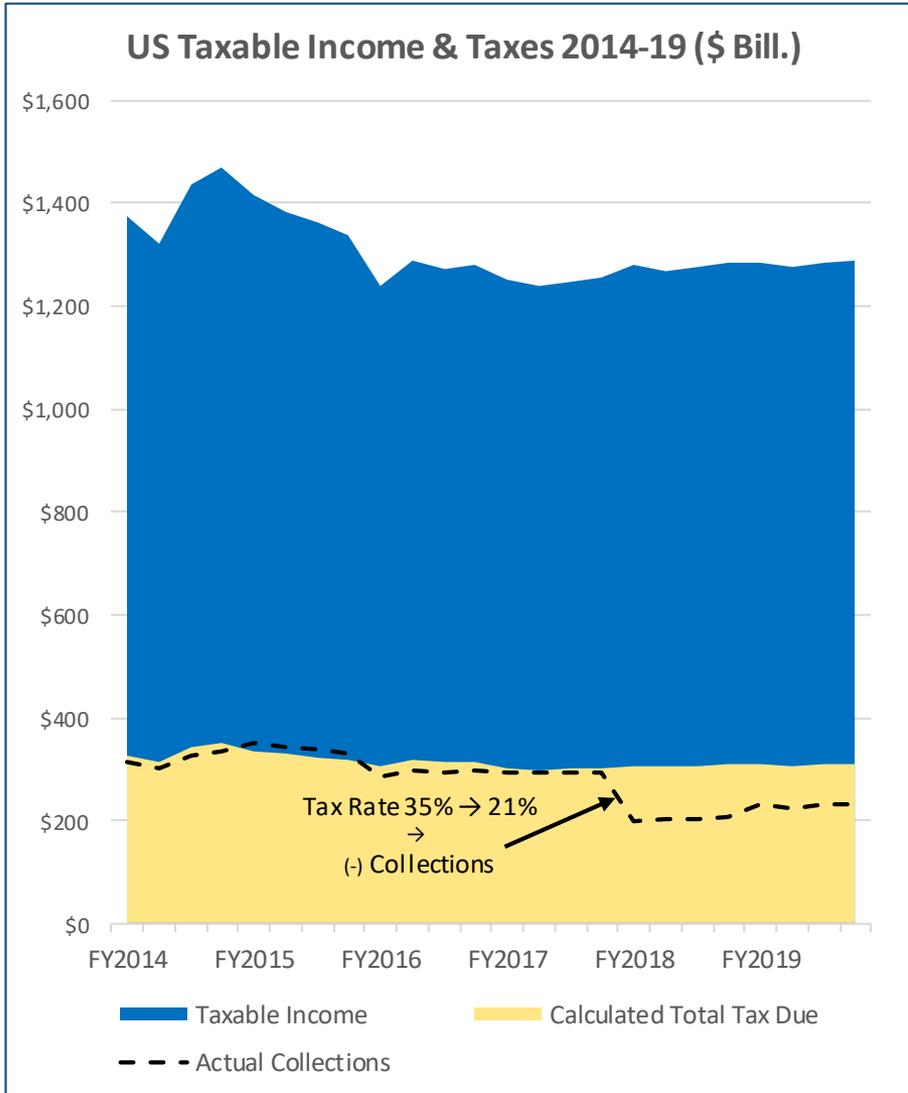


Modeled TCJA Impacts

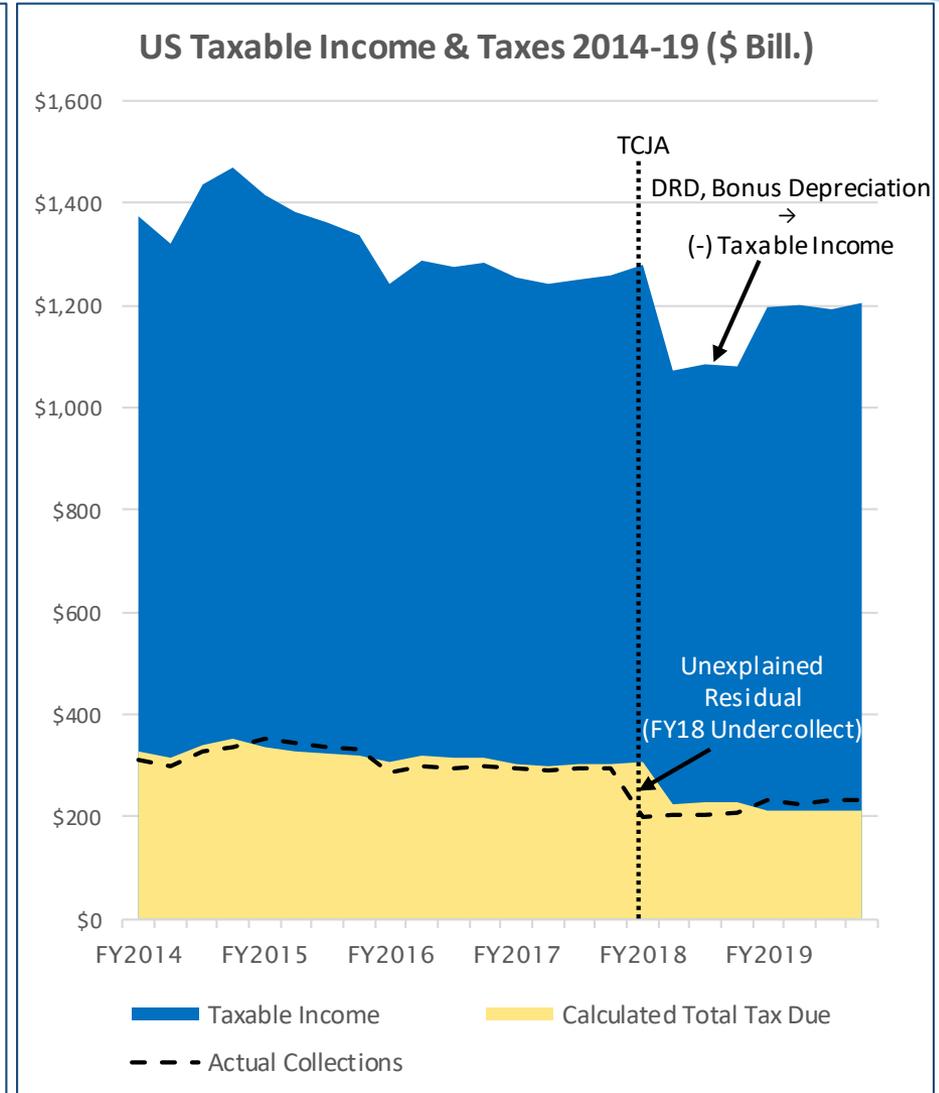
US Total Income 2014-19 (\$ Billions)



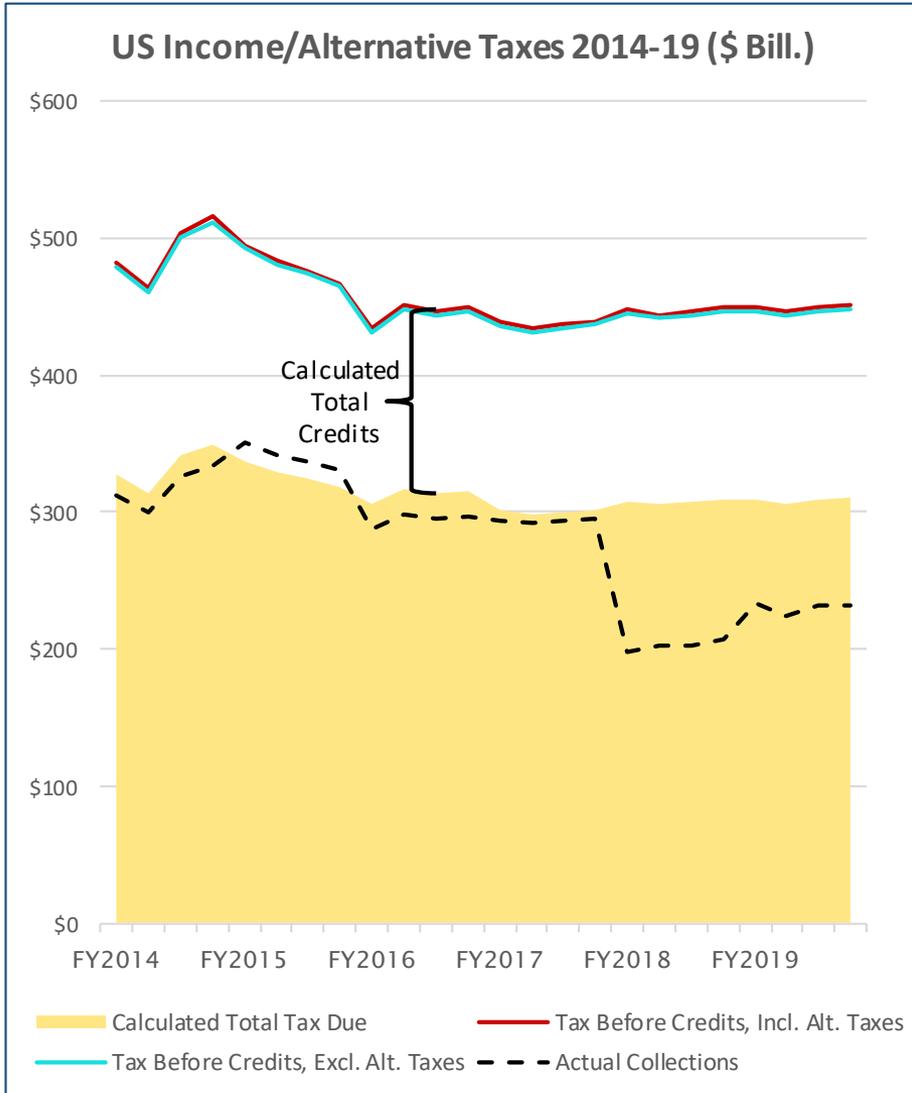
Counterfactual (No TCJA)



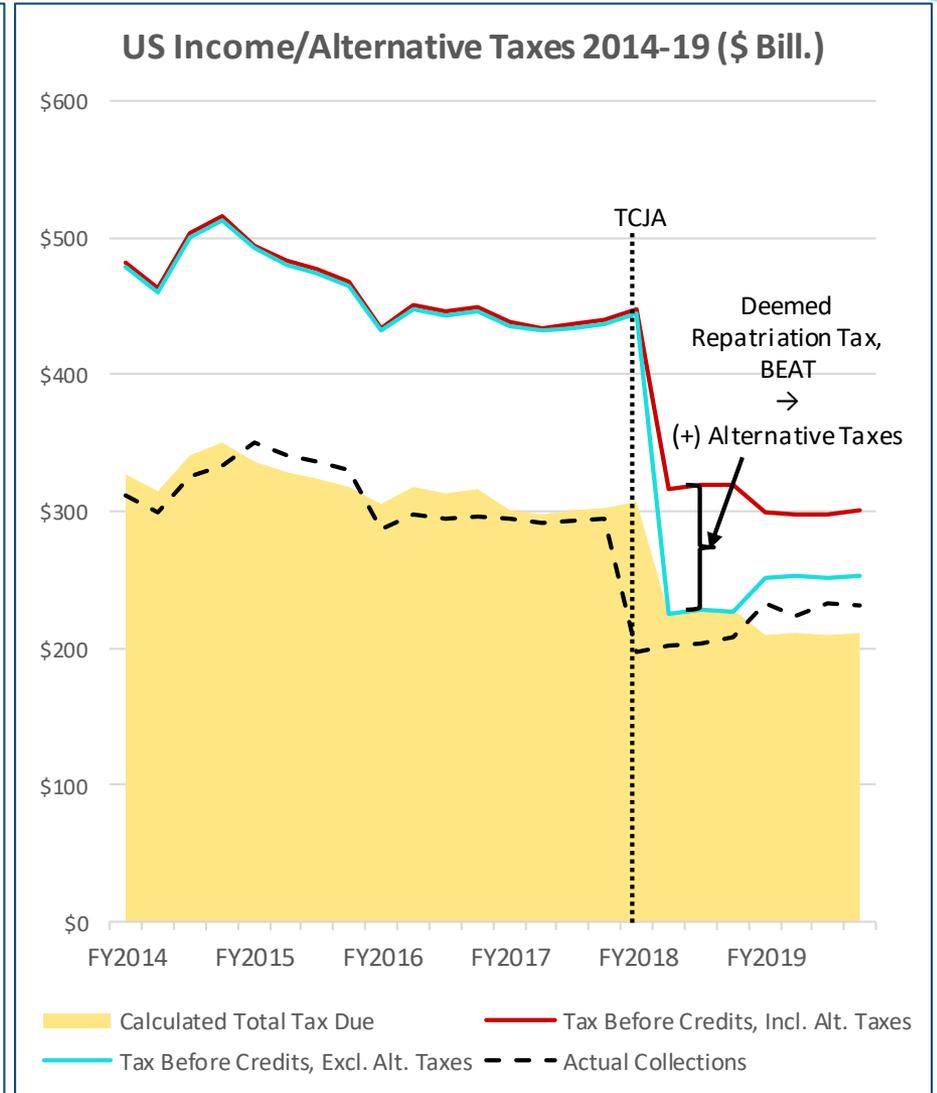
Modeled TCJA Impacts



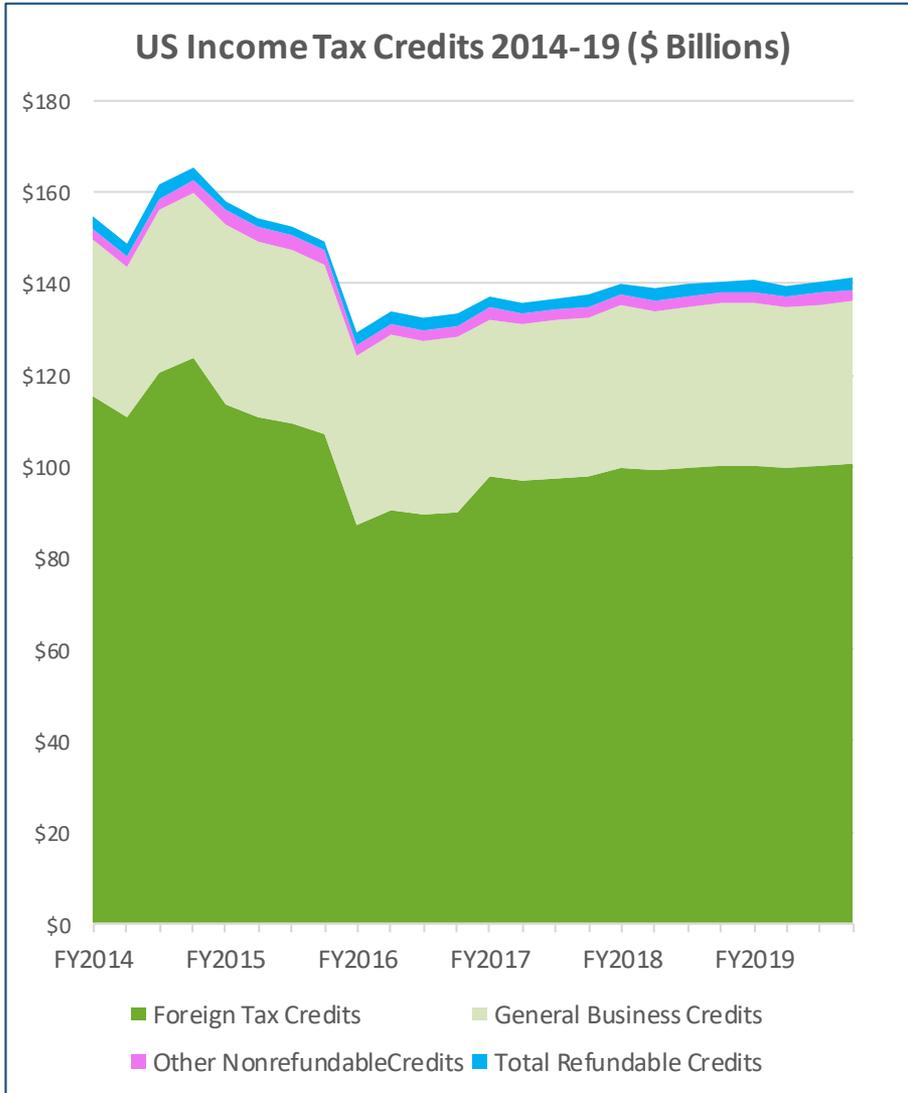
Counterfactual (No TCJA)



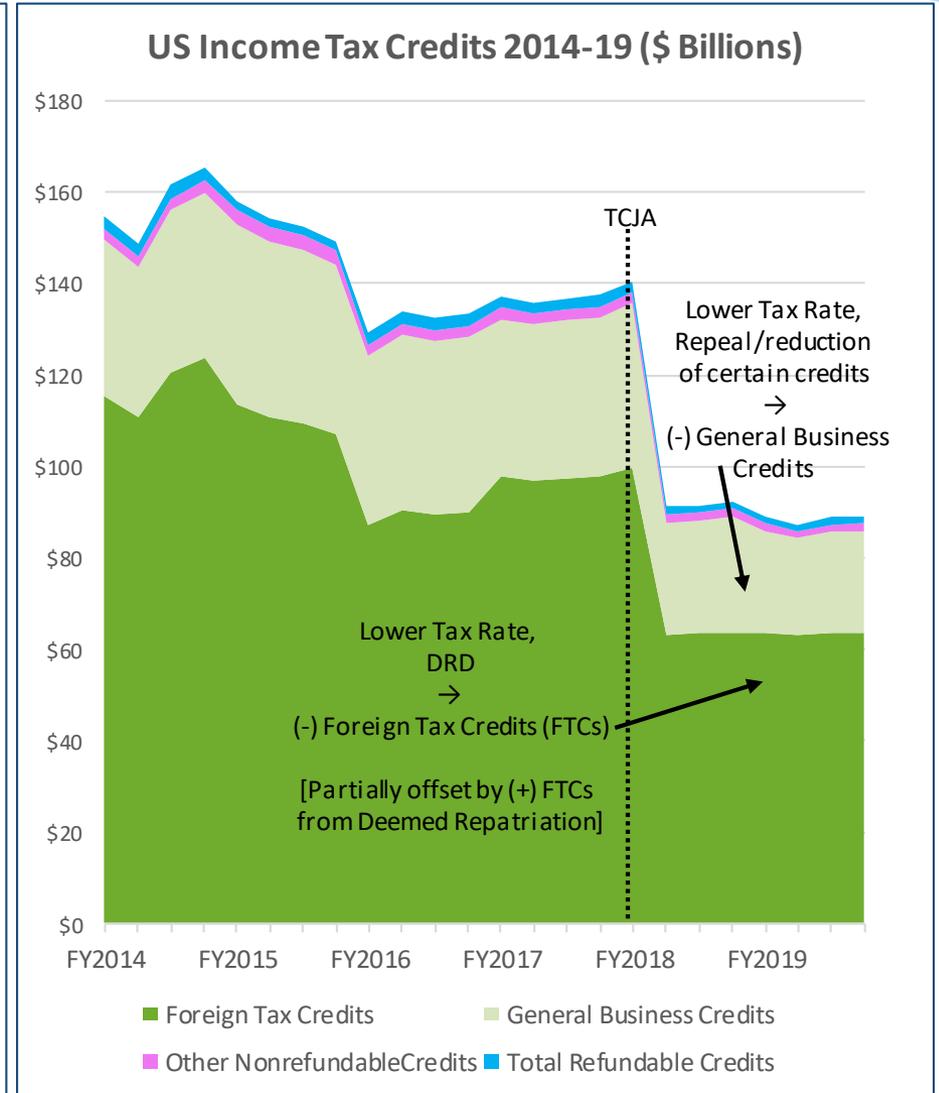
Modeled TCJA Impacts



Counterfactual (No TCJA)



Modeled TCJA Impacts

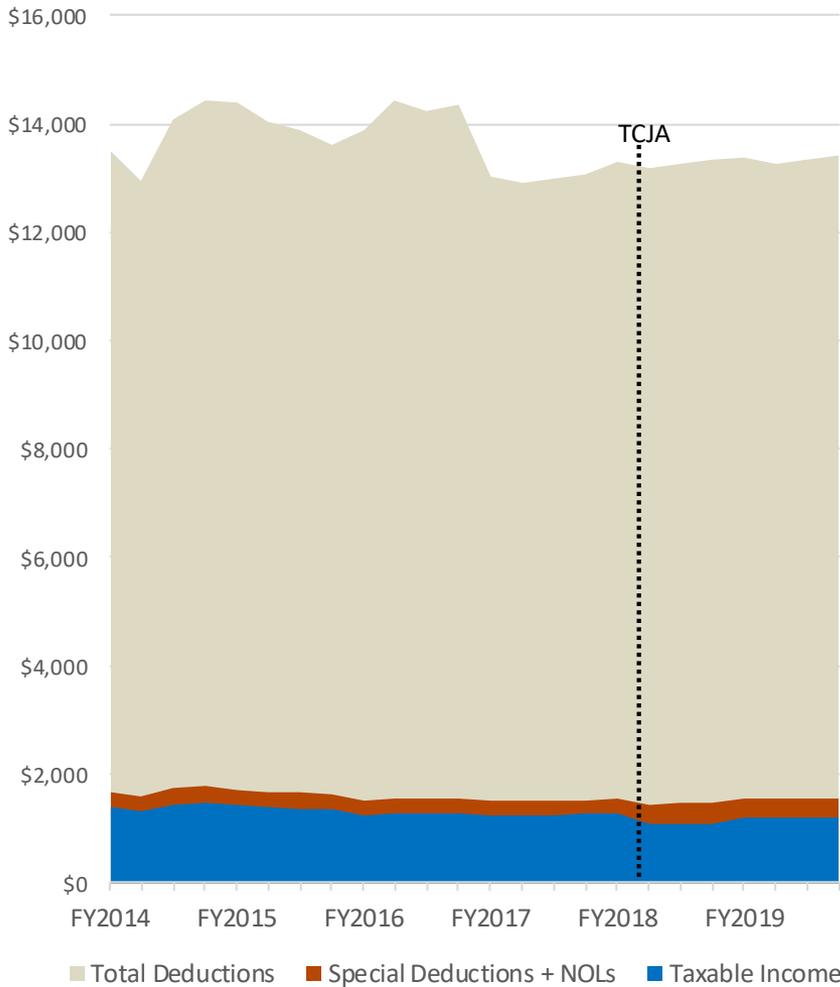


Technical Advisory Group Question 1

What is a reasonable estimate of (or way of estimating) the average foreign tax rate on deemed repatriated foreign earnings of US corporations? (This tax rate is likely relatively low, because pre-TCJA, there was a stronger incentive for taxpayers to avoid repatriating earnings from low tax jurisdictions.)

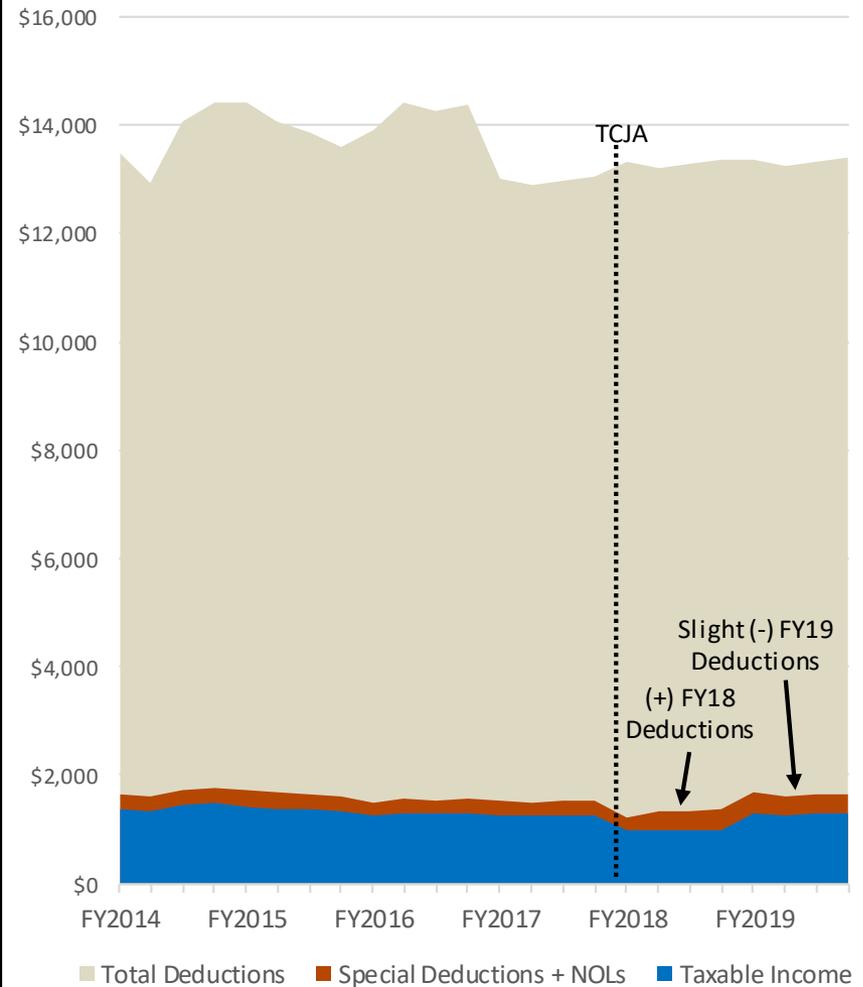
Modeled TCJA Impacts

US Total Income 2014-19 (\$ Billions)

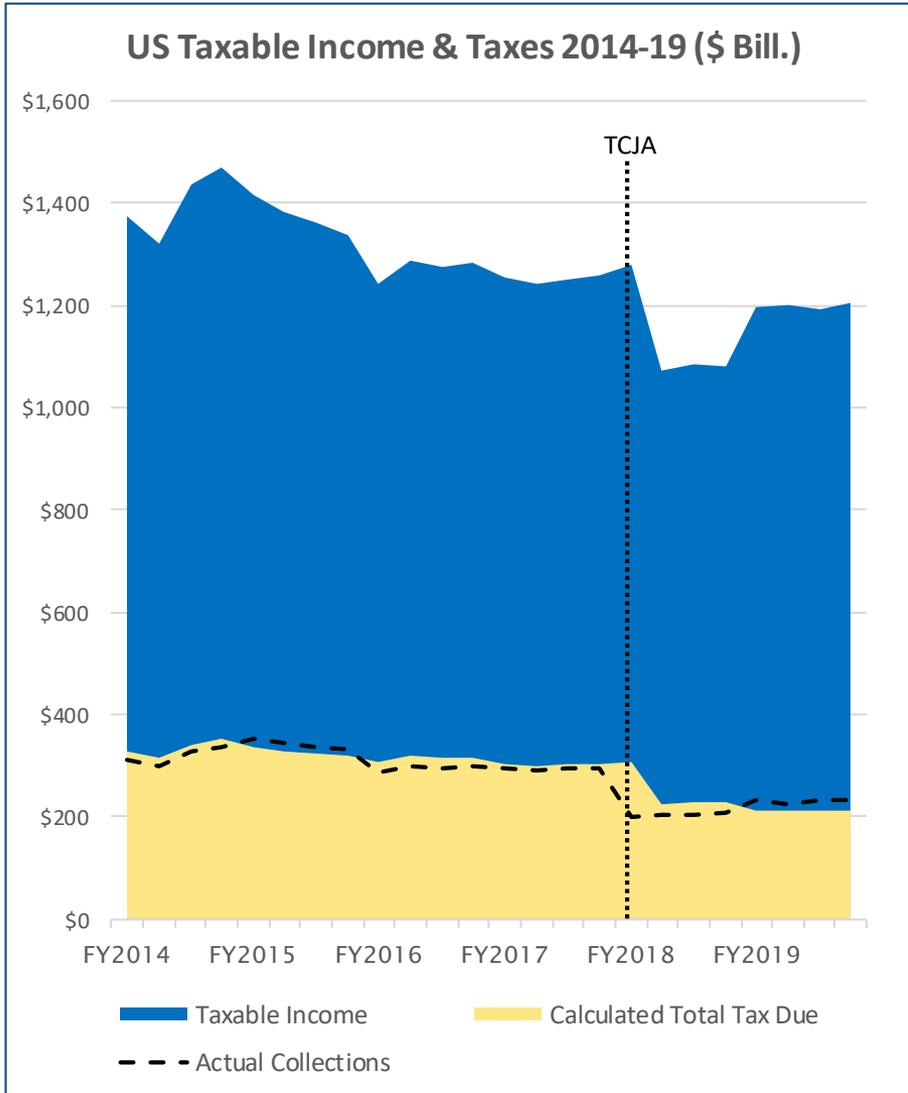


Reconciled to Actual Collections

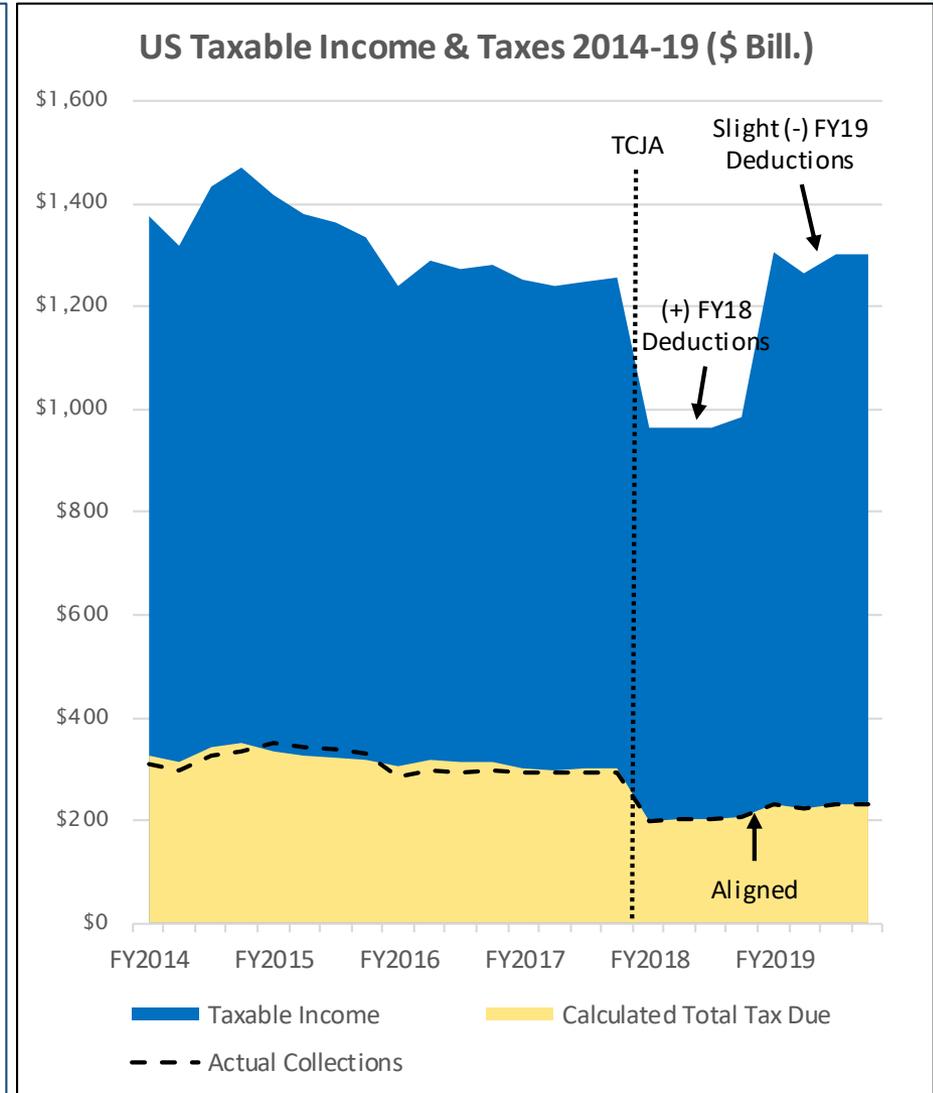
US Total Income 2014-19 (\$ Billions)



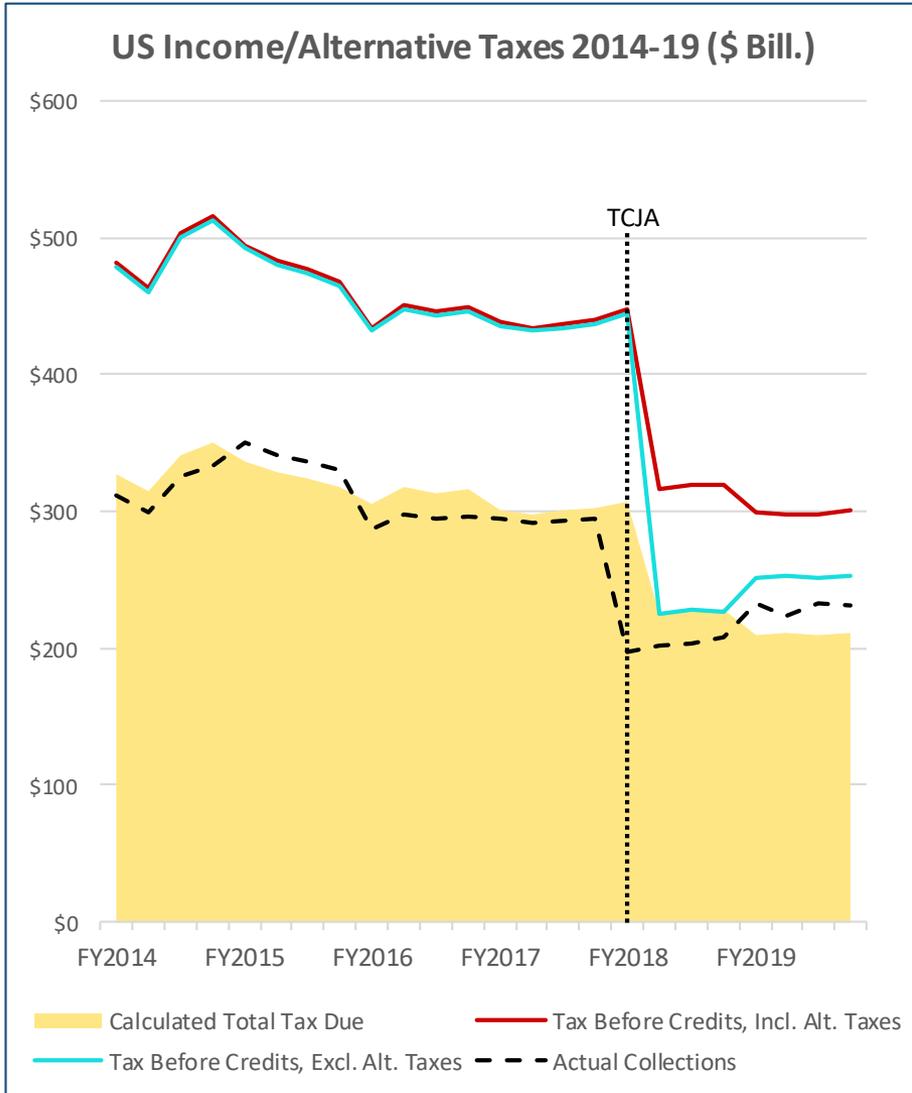
Modeled TCJA Impacts



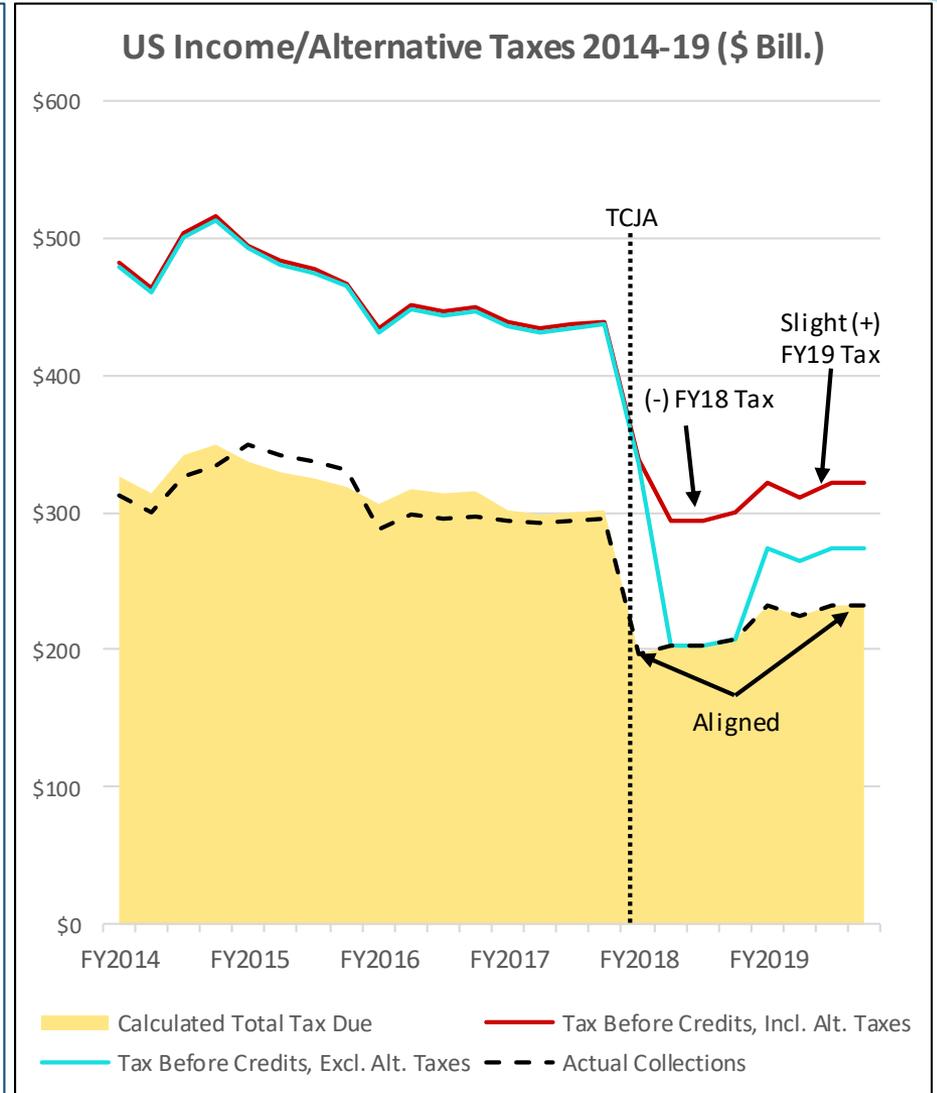
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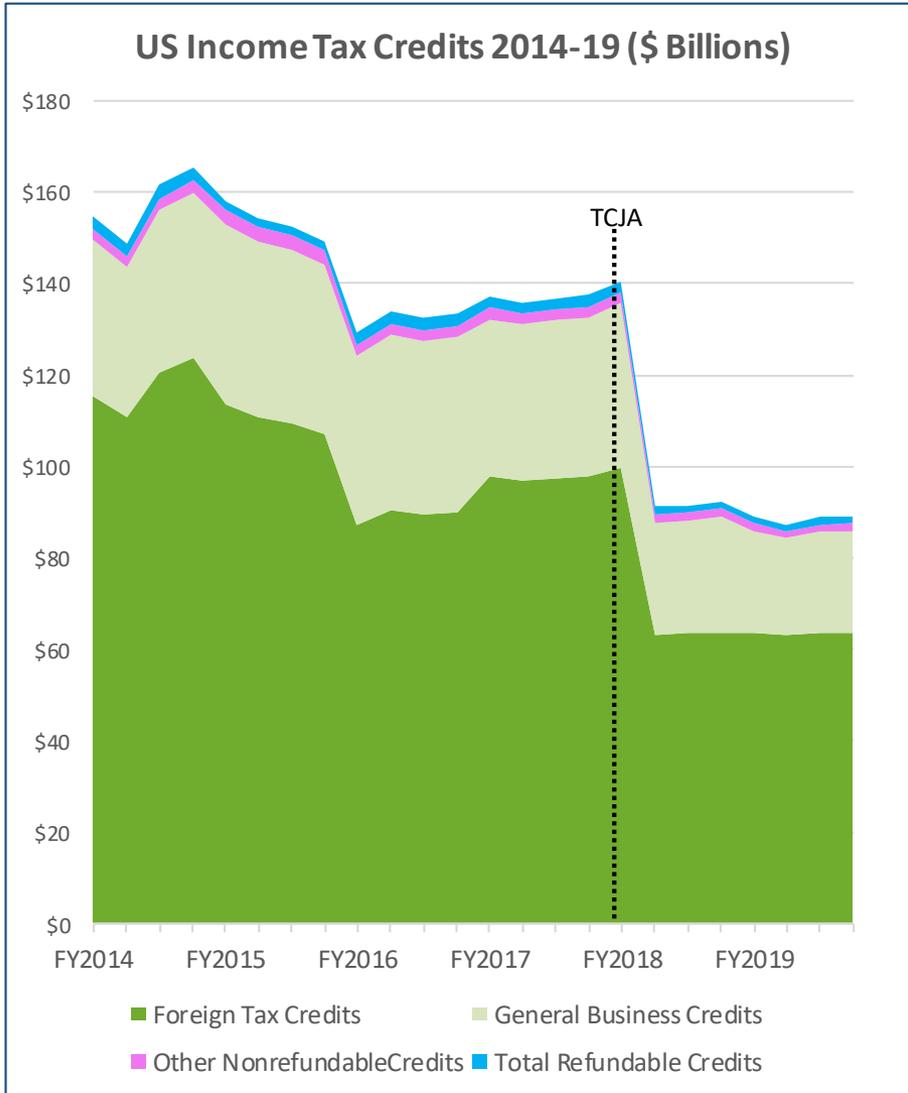
Modeled TCJA Impacts



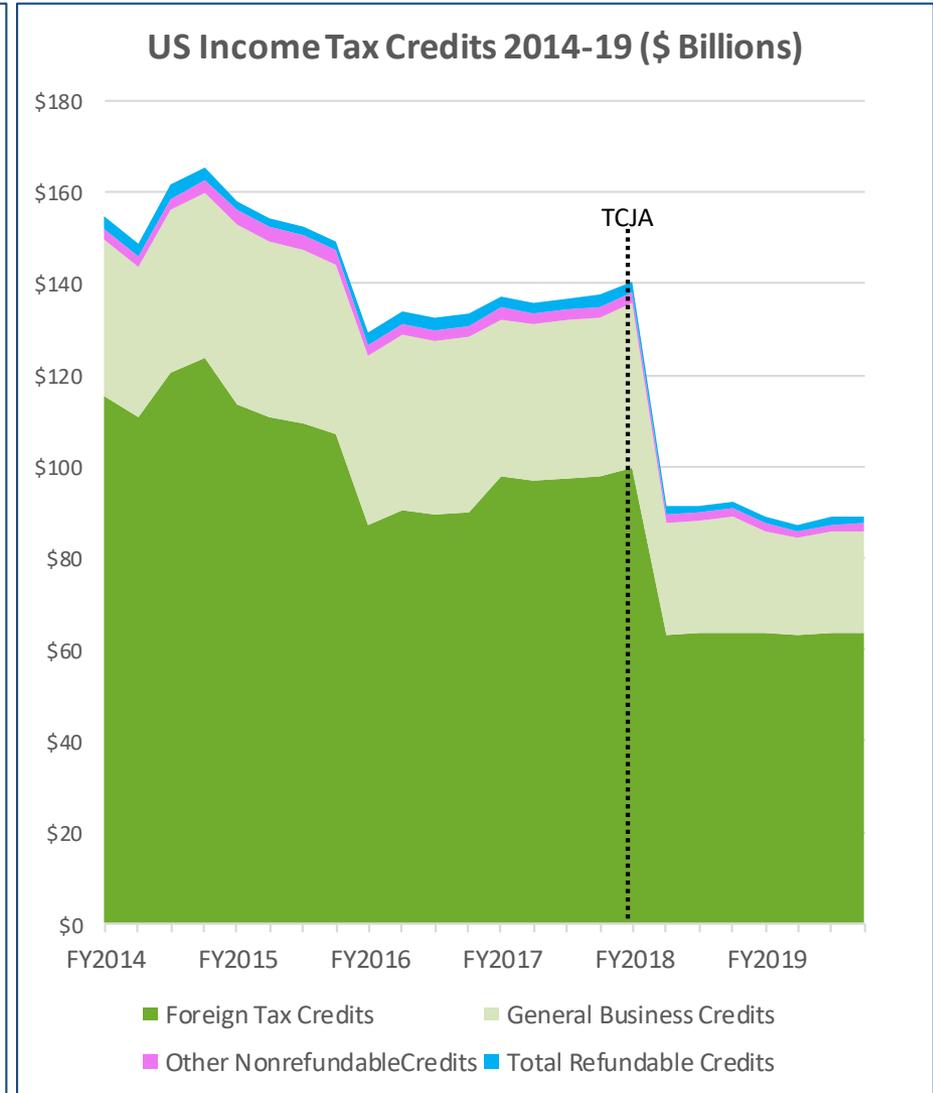
Reconciled to Actual Collections



Modeled TCJA Impacts



Reconciled to Actual Collections



Technical Advisory Group Question 2

We welcome any suggestions relating to data sources, methods, and references.

Questions for us?