WELLS FARGO

Special Commentary — September 19, 2024

Talking Taxes: What Will Happen to the Tax Cuts and Jobs Act?

Economist(s)

Jay H. Bryson, Ph.D.
Chief Economist | Wells Fargo Economics
Jay.Bryson@wellsfargo.com | 704-410-3274

Michael Pugliese
Senior Economist | Wells Fargo Economics
Michael.D.Pugliese@wellsfargo.com | 212-214-5058

Aubrey Woessner
Economic Analyst | Wells Fargo Economics
Aubrey.B.Woessner@wellsfargo.com | 704-410-2911

Summary

Perhaps the biggest U.S. fiscal policy decision in 2025 will be how to handle the looming expiration of large parts of the Tax Cuts and Jobs Act (TCJA). The TCJA was enacted in 2017 under President Trump and reduced taxes for households and businesses. Many of the bill's changes, particularly those impacting households, will expire at year-end 2025.

What if the tax hikes go into effect as scheduled under current law?

- Although fiscal policy would be tightened in this scenario, we doubt it would be enough to knock the U.S. economy into recession single-handedly. We believe the hit to economic growth from the expiration of the TCJA would be a few tenths of a percentage point in 2026 and 2027, all else equal.

What if the TCJA is extended in full?

- The fiscal cost of extending the TCJA is sizable. If done without offsetting revenue raisers or spending cuts, a TCJA extension would cost roughly $4.6 trillion over the next decade and increase annual federal budget deficits to 7%-8% of GDP, a degree of borrowing unprecedented outside of wartime or recession.
- Extending the TCJA would avert fiscal tightening rather than expand fiscal accommodation. Our forecast assumes the TCJA is extended, and as a result, an extension probably would not have a major impact on our outlook for economic growth, inflation and the federal budget deficit in 2026/2027.

What other tax policy changes are under consideration?

- Countless tax policy changes could shake out on the other side of the 2024 election. Because this year's Senate races generally are more conducive to a sizable Republican Senate majority than a big Democratic one, we believe there is probably a wider distribution of potential tax policy outcomes in a Republican sweep scenario.
- Former President Trump supports extending the TCJA, and he has floated some new tax cut ideas, such as exempting Social Security benefits from taxation and further reducing the corporate income tax rate. An expansion of the TCJA without offsets would be fiscal stimulus and probably would be associated with faster economic growth, higher inflation, larger budget deficits and higher interest rates, all else equal, with the magnitude dictated by the size of the fiscal expansion.
- It is possible that the deficit pressure from new tax cuts could be offset by the revenue raised from tariffs on U.S. imports. This would help limit the increase in the budget deficit and national debt in the years to come, but it would also boost inflation and act as a countervailing drag on economic growth in 2026/2027.
- Vice President Harris supports extending the TCJA for those earning less than $400K per year and letting it lapse for those earning above that threshold. We think the near-term drag on the U.S. economy under this scenario would be relatively small, perhaps a tenth or so on GDP growth in 2026.
- Vice President Harris also has announced support for a variety of other tax increases and tax cuts, such as raising the corporate income tax rate and expanding the Child Tax Credit, but we suspect a Harris administration would be accompanied by either a Republican Senate or a very small Democratic Senate majority, limiting the scope of potential tax policy changes.

All estimates/forecasts are as of 9/19/2024 unless otherwise stated. 9/19/2024 6:30:00 EDT. **This report is available on Bloomberg WFRE**

Major Policy Decision for 2025: How to Handle the TCJA?

The U.S. general election on November 5 is only 47 days away. The outcomes for the presidency and control of Congress are unknown at this time, but as the election draws nearer, analysts increasingly have started to look ahead to looming policy fights in 2025. One of the top issues that the new president and incoming Congress will need to address is the partial expiration on December 31, 2025 of the Tax Cuts and Jobs Act (TCJA) of 2017.[1] We addressed this topic in a report we published earlier this year, but given the important implications of the legislation's expiration for the U.S. economy, we analyze the subject more deeply in this follow-up report.

Recap: How Did We Get Here?

The TCJA was enacted in 2017 under President Trump and a Republican-controlled Congress. The law reduced the corporate income tax to 21% from 35%, lowered individual income tax brackets, doubled the standard deduction and expanded the Child Tax Credit, among numerous other changes. Budget scorekeepers estimated at the time the TCJA would reduce federal tax revenues (and, by extension, increase federal budget deficits) by a net $1.5 trillion over ten years.[2] Congressional Democrats unanimously opposed the legislation as it was being debated in 2017, so Republicans resorted to “budget reconciliation” to get the TCJA through the Senate. A major benefit of the budget reconciliation process is that it allows legislation to bypass the Senate filibuster, ensuring that a simply majority can enact a law without having to clear a 60-vote threshold.

The TCJA was enacted in 2017 under President Trump and a Republican-controlled Congress. Many of the tax code changes from the TCJA are set to expire at the end of 2025.

A drawback of utilizing budget reconciliation, however, is that a bill passed using this process cannot increase the deficit beyond the budget window (typically 10 years). Because a fully permanent TCJA would have increased budget deficits over the longer-run, lawmakers set many TCJA provisions to sunset on December 31, 2025. Generally speaking, most of the corporate income tax changes were made permanent, while most of the changes to the individual income tax code are set to expire at year-end 2025. For example, the change in the corporate income tax rate from 35% to 21% is not scheduled to change. But, a single filer making between roughly $45K and $95K per year currently faces a top marginal tax rate of 22%. That rate is scheduled to jump back up to 25% beginning in 2026. A more comprehensive list of the expiring provisions of the TCJA can be found in the table at the end of this report.

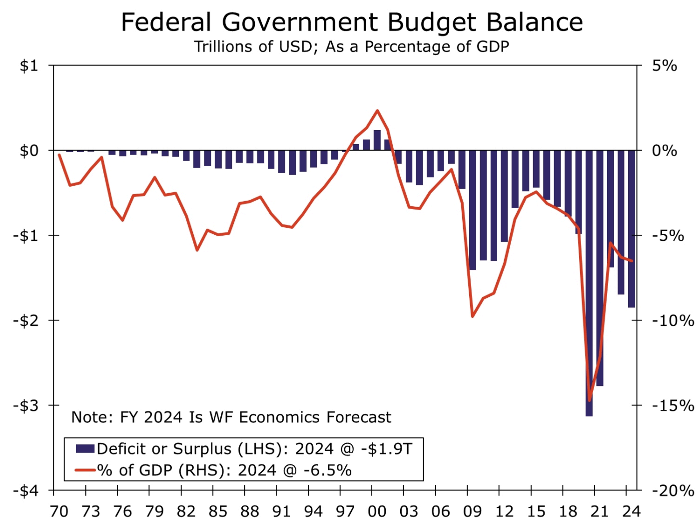
What's at Stake in the TCJA Debate?

The stakes of the looming TCJA debate are sizable. The impact on economic growth, inflation and interest rates could vary significantly depending on the degree of fiscal policy tightening/stimulus that shakes out of the TCJA decisions. The effect on the federal budget will be particularly meaningful. Fiscal year 2024 will end in a few days on September 30. If, as we estimate, the federal budget deficit totals $1.85 trillion in FY 2024, then the deficit-to-GDP ratio would rise to about 6.5% (Figure 1). The Congressional Budget Office (CBO) currently projects that annual budget deficits will average 6.2% of GDP over the next ten years under the assumption that the TCJA expires as scheduled under current law. Budget deficits of more than 6% of GDP per year would be nearly double the average deficit of 3.5% of GDP over the past 50 years.

Full extension of the TCJA would cost $4.6 trillion over the next decade, inclusive of debt service costs.

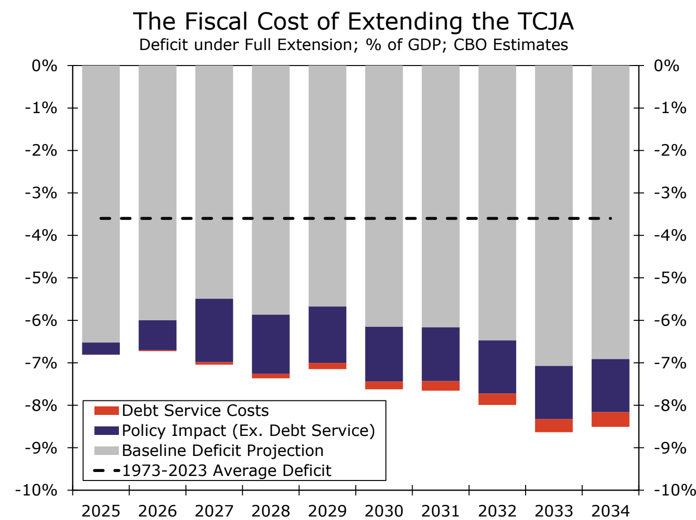
If Congress fully extends the TCJA, then CBO estimates federal budget deficits would be 1.2-1.6 percentage points of GDP larger per annum over that period, all else equal (Figure 2). This amounts to about $4.6 trillion of additional borrowing over the next decade, inclusive of debt service costs.[3] An expansion of the TCJA in addition to an extension would add even more debt to the borrowing outlook in the years ahead and further push federal budget deficits into unchartered territory.

Figure 1



Source: U.S. Dept. of Commerce, U.S. Dept. of the Treasury and Wells Fargo Economics

Figure 2



Source: Congressional Budget Office and Wells Fargo Economics

What Happens on the Other Side of Election Day?

The fate of the TCJA ultimately depends on the outcome of the November 5 election.

What happens with the TCJA ultimately depends on the outcome of the November 5 election. At a high level, Republicans want to extend the TCJA and possibly expand it further, while Democrats only want to extend it partially. A divided government scenario means the two parties would need to work together to find an acceptable solution to the TCJA issue. A "clean sweep" scenario in which one of the political parties wins control of the White House and both houses of Congress likely means the final bill will hew more closely to each respective party's current priorities. In this scenario, Congress probably would again need to use the budget reconciliation process to get the bill through the Senate.

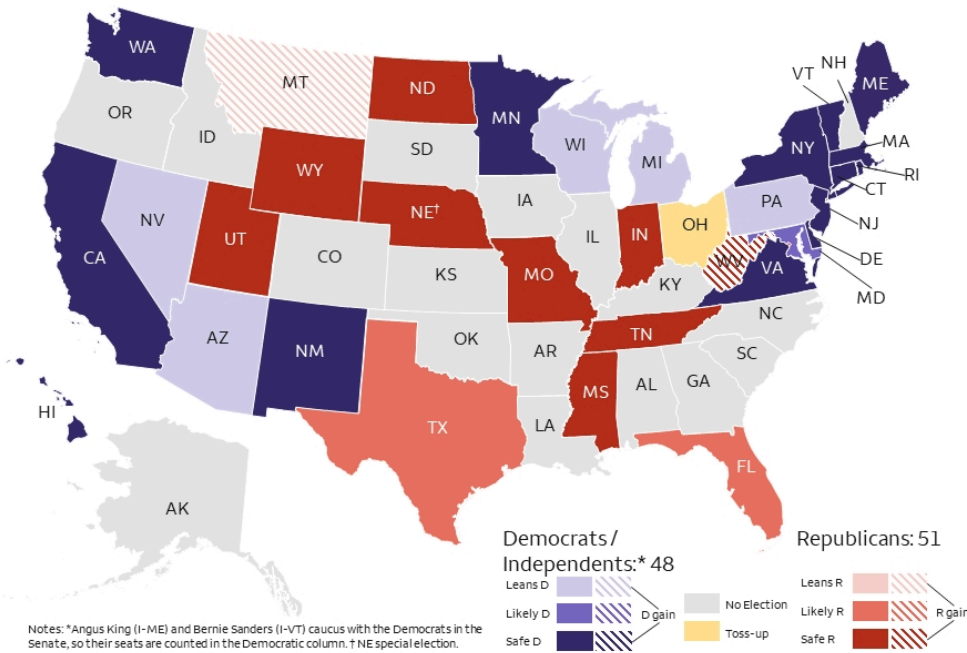
One thing we can say about the path forward is that this year's round of Senate races generally are more conducive to a sizable Republican Senate majority than a big Democratic majority. The Senate is currently split between 49 Republicans, 48 Democrats and 3 Independents. Those three independents all caucus with the Democrats, thus giving the Democrats majority control of the chamber, albeit with a very small margin. There are 34 Senate seats up for grabs in the 2024 election: 20 are held by Democrats, 11 are held by Republicans and the remaining three are held by the independents who caucus with the Democrats. As a result, Democrats are playing "defense" in many more states (23) than Republicans (11).

At a high-level, Republicans want to extend the TCJA and possibly expand it further, while Democrats only want to extend it partially.

Hypothetically, if Republicans sweep all the Senate races rated as "toss-up" or "leans Republican or Democrat" in political forecaster Larry Sabato's Crystal Ball projections, then Republicans would have a 57-43 Senate majority, all else equal (Figure 3). If realized, this would be the largest Republican Senate majority in nearly 100 years. In contrast, if Democrats sweep all the toss-up and lean states, the Senate would be tied 50-50, with the vice president casting the tie breaking vote. Consequently, it is easier for us to envision a strong election night for Republicans yielding the sizable Senate majority needed to enact many items on the Republicans' tax policy wishlist, while the path forward for the Democrats' wishlist is trickier.

Figure 3

Sabato's Crystal Ball 2024 Senate Ratings



Source: Sabato's Crystal Ball at the University of Virginia Center for Politics and Wells Fargo Economics

But even under a clean sweep scenario, there would be numerous details to be ironed out that may slow down the process of drafting legislation. For example, will lawmakers change the cap on state and local tax (SALT) deductions? Will they revisit the "permanent" changes in the TCJA, such as the 21% corporate income tax rate? Will they try to pay for the TCJA extension, either wholly or in part, via other revenue increases and/or spending reductions? Under a scenario of divided government, even more horse-trading likely would be needed to craft passable legislation. But recall that the TCJA does not expire until the end of 2025. Lawmakers will have nearly a year, if they need it, to come up with a solution once the 119th Congress convenes in early 2025. We suspect the macroeconomic effects of TCJA changes will not be felt until 2026 as a result.

We suspect the macroeconomic effects of TCJA changes will not be felt until 2026.

The "No Deal Scenario": Full TCJA Expiration

There are countless combinations that could shake out on the other side of the 2024 election regarding U.S. tax policy. Perhaps the easiest place to start is here: what happens if Congress chooses not to extend the TCJA and individual income tax rates return to their pre-2018 levels in 2026? Could the tax hikes cause the U.S. economy to fall into a recession?

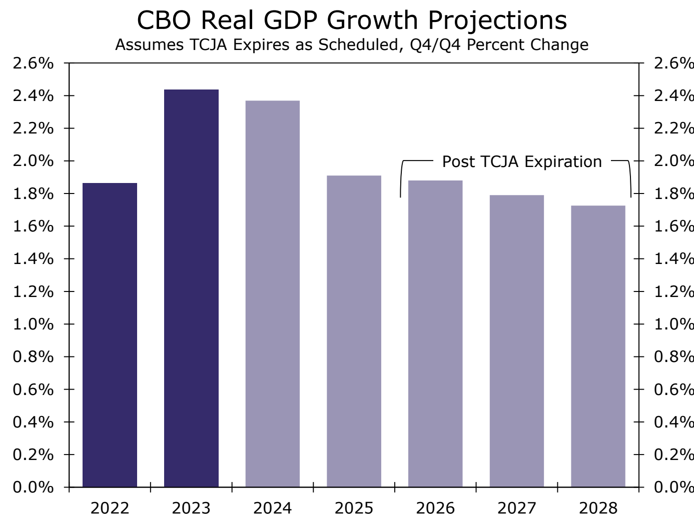
If the TCJA were to expire as scheduled, it likely would dent economic growth in the near-term—though not enough to knock the U.S. economy into a recession.

Although fiscal policy would be tightened under a scenario of TCJA sunset, we doubt that it would be enough to knock the U.S. economy into a recession single-handedly. The tax increases slated to take effect in 2026 amount to roughly 1.4% of GDP. As we noted in our March report, the U.S. economy avoided recession in 2013 when the belt tightening from the original "fiscal cliff" was larger, around 2.5% of GDP.[4] CBO estimated in 2018 that the tax cuts enacted by the TCJA would boost real GDP growth by about 0.3 percentage points per year in 2018 and 2019, and subsequent research suggests CBO's initial estimate likely was in the ballpark.[5,6]

On the flip side, CBO's current baseline economic projections seem to suggest that the *hit* to economic growth from the expiration of the TCJA would be just a couple tenths of a percentage point in 2026 and 2027 (Figure 4).[7] Utilizing the marginal propensity to consume estimates from Brookings' Fiscal Impact Measure yields a slightly larger but still fairly similar result.[8] A drag of roughly a few tenths of a percentage point on GDP growth likely would not be enough to cause a recession in an economy with a potential economic growth rate of roughly 2% per annum unless growth had already been weakened by some other negative economic shock(s).

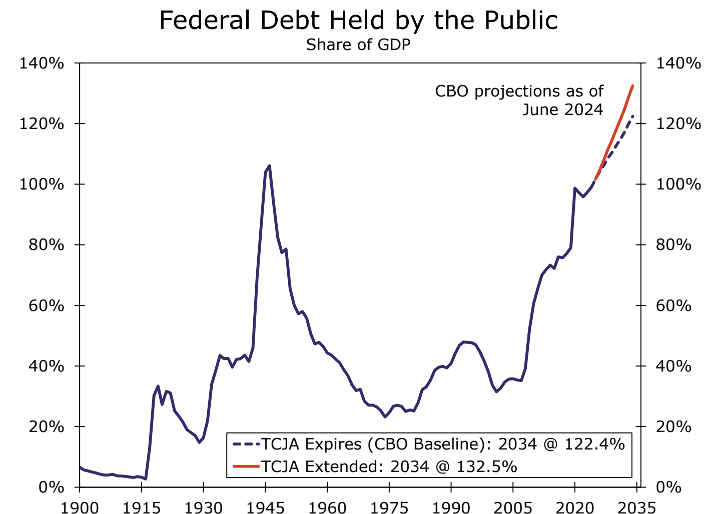
Furthermore, reverting to pre-2018 individual tax rates may dent economic growth in the near-term, but it would come with the benefit of keeping federal budget deficits and the national debt from growing even more in the years to come (Figure 5). Higher taxes on individuals would have some shorter and longer-run negative economic implications, but one mitigating longer-run economic benefit would be less public debt. Over the longer-run, a smaller national debt would lead to lower interest rates, a larger capital stock and higher living standards, all else equal.[9] Yet, even these tax increases would not be enough to stabilize the U.S. debt-to-GDP ratio, as Figure 5 illustrates. Additional tax increases and/or spending cuts would be needed to put U.S. federal debt on a sustainable path over the long run.

Figure 4



Source: Congressional Budget Office and Wells Fargo Economics

Figure 5



Source: Congressional Budget Office and Wells Fargo Economics

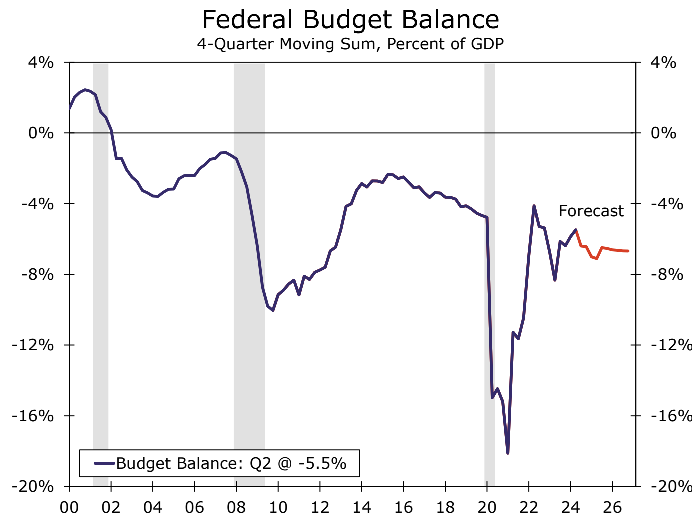
The Status Quo Scenario: Full TCJA Extension

Ultimately, neither presidential candidate seems to want the TCJA to completely lapse, and as a result we are skeptical that this will occur. Perhaps policymakers will get to 2025 and decide that the TCJA should be extended in full, either for a short period to buy more time for negotiations or for a longer period of time, such as several years. The economic implications of such a move probably would not have a material impact on our current economic forecast. It is important to remember that a simple extension of the TCJA would be a continuation of current policy. For example, if the next Congress and president decide to extend the TCJA in full, taxes paid by households will not fall in 2026; they will remain unchanged. Extending the TCJA would avert fiscal tightening rather than expand fiscal accommodation.

An extension of the TCJA would be a continuation of current policy and would avert fiscal tightening rather than expand fiscal accommodation.

Our current forecasts for real GDP growth, inflation and the federal budget deficit assume that the TCJA is extended into 2026 (Figures 6 and 7). Thus, any deviation from this assumption toward fiscal tightening (i.e. higher taxes) or fiscal accommodation (i.e. lower taxes) would generate a change in our economic outlook. Put another way, it would take an expansion of the TCJA, such as new or even bigger tax cuts, to generate a fresh fiscal tailwind.

Figure 6



Source: U.S. Department of the Treasury and Wells Fargo Economics

Figure 7

U.S. Department of Commerce and Wells Fargo Economics

What New Tax Policy Ideas Are on the Table?

Of course, once the election has passed and the next president and Congress have taken office, the debate likely will be more complex than a binary decision between full TCJA extension or expiration. Both presidential candidates as well as many members of Congress have floated new tax policy ideas, and the various combinations of potential new policies is nearly limitless this far out from a decision. Furthermore, the devil is often in the details when it comes to economic analysis of tax plans, and campaign season is often about high-level ideas rather than nitty-gritty policy details. That said, in the below sections we attempt to sketch out some leading policy ideas suggested by the two presidential candidates and their parties. We would encourage interested readers to check out the policy platforms on Vice President Harris's website (found here) and former President Trump's website (found here).

President Trump Scenario: Extend and (Possibly) Expand

Not only is former President Trump in favor of fully extending the TCJA, but he has suggested expanding those tax cuts further. The budgetary effect of an expansion obviously depends on the details, and the Trump campaign has been somewhat light on concrete proposals. That said, there have been some new tax cut ideas floated by the Trump campaign. For example, former President Trump has suggested exempting tips and Social Security benefits from taxation as well as further reducing the corporate income tax rate.

Expanding the TCJA may not be a budget buster if it is paid for via other revenue raisers or spending cuts, though these would come with their own policy tradeoffs.

Would a potential expansion of the TCJA, on top of a full extension, be a budget buster? All else equal, additional tax cuts would push baseline budget deficits and the national debt further into unchartered territory. Of course, an expansion of the TCJA could be paid for via other revenue raisers or spending cuts. Two potential pay-fors that we expect to be on the table under a Republican sweep scenario are new tariffs and the repeal of some green energy tax credits.

Former President Trump has proposed a 10% across-the-board tariff on imports of foreign goods with a 60% tariff applied to Chinese goods, the macroeconomic effects of which we analyzed in a report we published in July. We did not discuss the tax revenue implications of Trump's proposed tariffs in that report, but we estimate they could raise a meaningful amount of money if implemented in full. American imports of foreign goods totaled roughly $3 trillion in 2023, $427 billion of which came from China. Had a 60% tariff been in effect on Chinese imports and a 10% tariff applied to the remainder, the U.S. government would have collected more than $500 billion in tariff revenue last year.

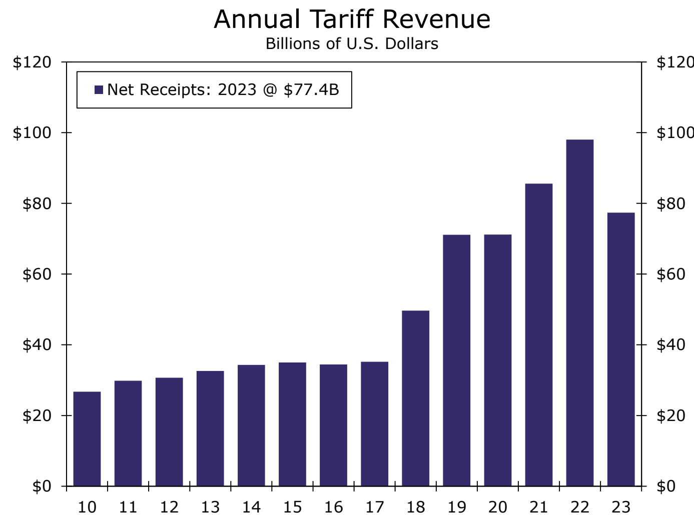
A significant increase in tariffs could raise hundreds of billions of dollars each year and help

Of course, a 60% tariff would cause the proportion of imports coming from China to shrink markedly, thereby depressing total tariff revenue. Nevertheless, the federal government would likely continue to collect tariff revenues worth hundreds of billions of dollars annually under Trump's proposal. A similar analysis from the Tax Policy Center at the Brookings Institute found that Trump's proposed tariffs would increase gross tariff revenues by $3.7 trillion and net federal revenues by $2.8 trillion over the next decade.[10] A few hundred billion dollars per year in new tariff revenue would be a major

increase from the roughly $77 billion of total tariff revenue generated by the federal government in 2023 (Figure 8). It is clear that a significant increase in tariff rates could help to finance an extension or expansion of the TCJA, at least in part. Additionally, tariffs are also a tax policy area where the president has more unilateral power and does not need to rely on Congress for as much cooperation.

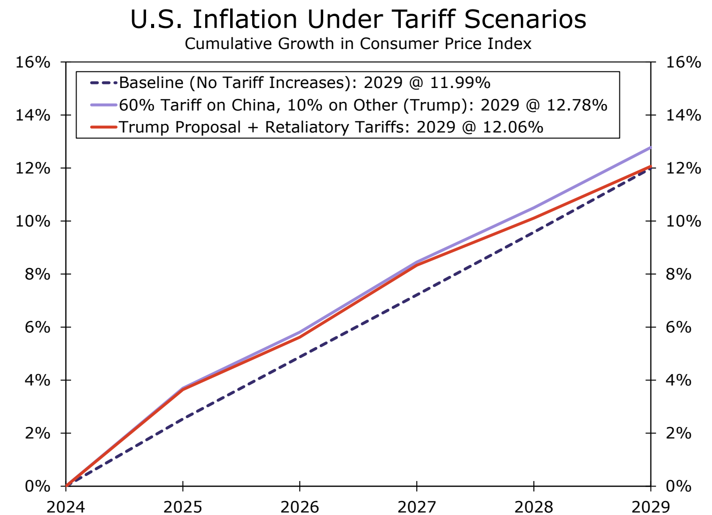
to finance a possible TCJA expansion.

Figure 8



Source: U.S. Department of the Treasury and Wells Fargo Economics

Figure 9



Source: Oxford Economics and Wells Fargo Economics

Another pay-for we expect Republicans to consider is a repeal of some or all of the green energy tax credits enacted under President Biden and Congressional Democrats in the Inflation Reduction Act (IRA) of 2022. The IRA touched on numerous economic policy areas, and most of these are beyond the scope of this report. But, the IRA created and expanded a slew of tax credits targeted at expanding the production and consumption of green energy. Some Republicans have argued for repealing these green energy initiatives. A repeal of the IRA's green energy subsidies in 2026 could save the federal government about $500-900 billion over ten years depending on what exactly is repealed.[11] Taken together, a repeal of the IRA green energy tax credits and a full implementation of Trump's tariff proposal could generate significant amounts of new federal tax revenue.

An expansion of the TCJA without offsets would be a form of fiscal stimulus and probably would be associated with faster economic growth, higher inflation, larger budget deficits, higher interest rates and a steeper yield curve, all else equal, with the magnitude dictated by the size of the fiscal expansion. Using the original TCJA as a template, additional tax cuts on the order of $1.5 trillion over 10 years might be enough to boost our U.S. real GDP growth by a couple tenths of a percentage point in 2026 and 2027, should it come to pass. And as we have written previously, our preferred rule of thumb is that a one percentage point increase in the structural budget deficit is associated with an increase in longer-term yields on Treasury securities of roughly 15-30 bps, all else equal.[12]

Financing a TCJA expansion with offsets, such as new tariffs or green energy tax credit repeals, would help limit the increase in the federal budget deficit and national debt, but it would come with some policy tradeoffs. We noted in our July report that the tariff increases, especially if met with retaliation by America's trading partners, would impart a modest stagflationary shock to the U.S. economy. That is, inflation would rise and economic growth would slow, at least for a period of time (Figure 9). Repealing the IRA's green energy tax credits would have a much smaller impact on the macro-economy compared to a 10% universal tariff and a 60% tariff on Chinese imports, but it likely would still dent economic growth on the margin. Thus, an expansion of the TCJA with offsets might prove to be a wash for our economic growth forecast over the next couple of years depending on the details of the ultimate plan.

President Harris Scenario: Partially Extend and Alter

Vice President Harris, the Democratic nominee for president, has said she broadly supports President Biden's position on the TCJA. That is, the administration has said taxes should not be raised on households earning less than $400K per year. There is a recent historical precedent for an outcome

Extending the TCJA for those making less than $400K would be less costly for the

along these lines. The "Bush tax cuts" were set to expire at year-end 2012 under somewhat similar circumstances to next year's TCJA situation. That expiration of tax cuts was part of a larger slate of fiscal tightening that eventually became known as the "fiscal cliff." The final result involved extending the tax cuts from the George W. Bush era for all tax brackets below $400K per year, but for those earning above this threshold the top marginal tax rate rose to 39.6% from 35%.[13] In the event of a divided Congress or Democratic sweep with small majorities, an outcome like this would not surprise us.

federal government than a full extension, but it would still not come cheaply.

Extending the TCJA for those making less than $400K per year but letting tax rates rise for those earning above that threshold would be less costly for the federal government than a full extension, but it would still not come cheaply. Using the Committee for a Responsible Federal Budget's analysis, such a move would shrink the cost of extending the TCJA from $4.6 trillion to a bit less than $4 trillion over 10 years relative to current law. We think the near-term drag on the U.S. economy under this scenario would be relatively negligible, perhaps a tenth or so on GDP growth in 2026.

What about other policies? The Harris campaign has proposed several new tax policies, some of which have been previously proposed by the Biden administration. These policy ideas include several revenue raisers, such as increasing the corporate income tax from 21% to 28% and taxing long-term capital gains and qualified dividends at 28% for taxable income above $1 million dollars. However, these tax increases would come with tax cuts in other areas, such as a significant expansion of the Child Tax Credit and a $25,000 tax credit for first time home buyers.

As more details have become available, various think tanks and third party analysts have scored these tax plans from Vice President Harris.[14] That said, there are still outstanding questions about how the expiration of the TCJA would fit in with Vice President Harris's other tax policy proposals, and there are countless combinations of different policies that could happen. Even so, as we discussed earlier, the Senate map makes sizable Democratic majorities in the upper chamber unlikely over the next two years in our view. Under a scenario where Harris wins the White House, Democrats retake the House of Representatives and the Senate is split roughly 50-50, we think the scale of the IRA's tax changes are a good example of roughly what kinds of new policies to expect.

If Democrats have a solid night on November 5, we think the scale of President Biden's 2022 Inflation Reduction Act tax changes are a good example of roughly what kinds of new policies to expect.

In 2020, President Biden campaigned on sweeping changes to tax and spend policies, but the 2020 election yielded a Senate that was split 50-50 between the two parties for the first two years of his administration. President Biden and Congressional Democrats eventually used their majority to enact the IRA, and this bill included some new revenue raisers, such as a 1% excise tax on stock buybacks and a 15% corporate alternative minimum tax (Figure 10). However, it did not include any changes to the individual tax code, and it did not change the primary corporate income tax rate. The IRA has had some important economic implications at the sector level of the economy, but from a higher level macro perspective, it did not have a material impact on our forecasts for economic growth, inflation and monetary policy. Similar-sized changes under a Harris administration probably would yield similarly-modest forecast changes on our end.

Figure 10

Inflation Reduction Act Tax Changes

Tax Provision	Description
Corporate alternative minimum tax	Imposed a new alternative minimum tax of 15% (based on financial income) on corporations with profits over $1 billion
Excise tax on repurchase of corporate stock	Created a 1% excise tax on corporate stock repurchases
Tax credits for green energy	Provided, extended and modified numerous tax credits for green energy, such as for electricity from renewable resources or for projects to increase energy or water efficiency of affordable housing
Health insurance premium tax credit	Extended the changes made in the American Rescue Plan Act of 2021, which expanded the number of eligible households able to receive the premium tax credit through 2025
Limitation on excess business losses of noncorporate taxpayers	Extended by two years the TCJA provision to curb the extent to which individuals can use business losses to offset income; losses in excess of the threshold are instead carried to other years as net operating losses

Source: Congressional Research Service and Wells Fargo Economics

Election Night Just the First Step in a Long Journey

The expiration of large parts of the TCJA creates a deadline for action unless Congress and the president want the tax code to revert to its pre-2018 state. There is some overlap between the two parties on their core views regarding the looming expiration. Republicans generally want to extend the TCJA in full, while Democrats generally desire to extend the tax cuts for those earning less than $400K per year. Under both scenarios, federal budget deficits would remain historically large in the years ahead, and our forecasts for 2026 economic growth and inflation probably would not vary much.

No matter what happens, we expect major tax policy changes to take time.

Perhaps the bigger question is what new tax policies will be introduced as part of the TCJA debate. This far out and with the election outcome still unknown, the possibilities are nearly limitless. That said, we think one important factor to keep in mind is the makeup of this year's competitive Senate races. It is generally much easier to envision a Senate Republican majority with at least a few extra seats of wiggle room compared to the same scenario for Democrats. As a result, there is probably a wider distribution of potential tax policy outcomes in a Republican sweep scenario.

If Republicans introduce new tax cuts without offsetting spending reductions or alternative revenue raisers, it likely will amount to additional fiscal policy accommodation. This would provide a modest boost to economic growth in the near-term, but it could spark higher inflation, higher interest rates, larger budget deficits and more debt. Offsetting the deficit impact from bigger tax cuts with policy changes like higher tariffs on imports and a repeal of green energy tax credits would limit the deficit impact, but it would also limit the fiscal accommodation.

If Democrats have a good election night and Kamala Harris enters the White House, we think the historical precedent created by the 2013 "fiscal cliff" experience and the IRA serve as useful templates for what kind of tax policy changes may be plausible. Some or all of these revenues may be redirected to other policy areas, such as a more generous Child Tax Credit or expanding the Affordable Care Act. Depending on what shakes out, this very well could yield fiscal accommodation or fiscal tightening, although we would note the IRA was not a major needle-mover in our economic forecast in 2022.

No matter what happens, we expect major tax policy changes to take time. It took all of former President Trump's first year in office to craft and enact the TCJA, and we would expect something similar this time. Election night will help narrow the range of outcomes, but it will still only mark the first step in what likely will be a long journey for the future of U.S. tax policy.

Expiring Provisions	Description	Expiration Date
Individuals / Families		
Marginal tax rates	Lowered marginal tax rates to 10%, 12%, 22%, 24%, 32%, 35%, and 37% for successively higher income brackets from 10%, 15%, 25%, 28%, 33%, 35%, and 39.6% previously	12/31/2025
Standard deduction	Increased the standard deduction to $12,000 from $6,500 for single filers, $18,000 from $9,550 for heads of households, and $24,000 from $13,000 for joint filers; levels have since been inflation-adjusted	12/31/2025
Personal exemptions	Effectively eliminated personal exemptions by reducing the amount that can be subtracted from gross income to $0; it would have been $4,150 in 2018	12/31/2025
Child tax credit	Doubled the child tax credit to $2,000 and increased the maximum additional child tax credit from $1,000 to $1,400; increased the phaseout threshold	12/31/2025
Other dependent credit	Created a $500 credit for each dependent ineligible for the child tax credit	12/31/2025
Charitable contributions deduction	Raised the deduction limit to 60% from 50% of adjusted gross income	12/31/2025
State and local tax (SALT) deduction	Capped the SALT deduction at $10,000; it was previously uncapped	12/31/2025
Mortgage interest deduction	Lowered mortgage interest rate deductions to the first $750,000 borrowed from $1,000,000 previously; eliminated deductions from interest on the first $100,000 of home equity debt	12/31/2025
Itemized deduction for miscellaneous expenses	Eliminated the deduction up to 2% of adjusted gross income for unreimbursed employee expenses, tax preparation fees and other expenses	12/31/2025
Overall limitation on itemized deductions	Eliminated the cap on reductions previously set at 80% of itemized deductions; eliminated income phaseout thresholds of $320,000 for joint and $267,000 for single filers	12/31/2025
Alternative minimum tax exemptions and phaseouts	Increased the amount and phaseout thresholds of the AMT exemption for joint and single filers	12/31/2025
Businesses		
Deduction for pass-through business income	Granted a deduction of 20% on qualified business income, with certain limitations, to sole proprietorships, partnerships and S corporations	12/31/2025
Limitation on losses for noncorporate taxpayers	Disallowed current-year deductions for excess business losses for businesses other than C corporations; excess business losses are considered net operating loss carryovers to the next year	12/31/2028
Full expensing of cost of property	Allowed full expensing (i.e., 100% first-year depreciation) when businesses are capitalizing the cost of property used in business; phases down to 80% in 2023, 60% in 2024, 40% in 2025, and 20% in 2026	1/1/2023 - 12/31/2026
Employer credit for paid family / medical leave	Provided tax credits equal to a portion of the wages received by employees while on leave	12/31/2025

Source: Congressional Research Service and Wells Fargo Economics

Endnotes

1 – Technically, the 2017 tax law is "An Act to provide for reconciliation pursuant to titles II and V of the concurrent resolution on the budget for fiscal year 2018." For brevity's sake, we refer to it by its colloquial name, the Tax Cuts and Jobs Act. (Return)

2 – The Joint Committee on Taxation. Estimated Budget Effects Of The Conference Agreement For H.R.1, The Tax Cuts And Jobs Act. JCX-67-17. December 18, 2017. (Return)

3 – Congressional Budget Office. The Long-Term Budget Outlook Under Alternative Scenarios for the Economy and the Budget. May 21, 2024 (Return)

4 – For more detail on the fiscal drag on the economy around this time see Jane G. Gravelle. "The "Fiscal Cliff": Macroeconomic Consequences of Tax Increases and Spending Cuts." Congressional Research Service. January 9, 2013; and Parinitha Sastry and Louise Sheiner. "The Fiscal Headwinds Have Finally Subsided." The Hutchins Center on Fiscal and Monetary Policy at The Brookings Institution. November 3, 2014. (Return)

5 – See Table B-2. Congressional Budget Office. The Budget and Economic Outlook: 2018 to 2028. April 2018. (Return)

6 – Congressional Research Service. "The Economic Effects of the 2017 Tax Revision: Preliminary Observations." June 7, 2019; and Filippo Occhino. "The Macroeconomic Effects of the Tax Cuts and Jobs Act." Federal Reserve Bank of Cleveland. December 13, 2019. (Return)

7 – Congressional Budget Office. An Update to the Budget and Economic Outlook: 2024 to 2034. June 18, 2024. (Return)

8 – See Louise Sheiner, Sage Belz, Sophia Campbell and Manuel Alcalá Kovalski, The Hutchins Center's Fiscal Impact Measure: Methodology. The Brookings Institution. December 23, 2021. (Return)

9 – University of Pennsylvania Penn Wharton Budget Model: The Budgetary and Economic Effects of permanently extending the 2017 Tax Cuts and Jobs Acts' expiring provisions. May 30, 2024. (Return)

10 – Gleckman, Howard. "Trump Tariffs Would Raise Household Taxes And Slow Imports." Tax Policy Center, Urban Institute & Brookings Institution. August 15, 2024. (Return)

11 – See Donald Trump Tax Plan Ideas: Details & Analysis from the Tax Foundation on September 10, 2024 and the Committee for a Responsible Federal Budget's Build Your Own Tax Extensions online tool. (Return)

12 – Edward Gamber and John Seliski. "The Effect of Government Debt on Interest Rates." Congressional Budget Office. March 2019. (Return)

13 – See The Tax Policy Center's Briefing Book: What did the American Taxpayer Relief Act of 2012 do? Tax Policy Center, Urban Institute & Brookings Institution. (Return)

14 – See the following: University of Pennsylvania Penn Wharton Budget Model: The 2024 Harris Campaign Policy Proposals: Budgetary, Economic and Distributional Effects on August 26, 2024; The Tax Foundation: Kamala Harris Tax Plan Ideas: Details and Analysis on September 10, 2024; and Committee for a Responsible Federal Budget: The Kamala Harris Agenda to Lower Costs for American Families from August 16, 2024. (Return)

Subscription Information

To subscribe please visit: www.wellsfargo.com/economicsemail

Via The Bloomberg Professional Services at WFRE

Economics Group

Jay H. Bryson, Ph.D.	Chief Economist	704-410-3274	Jay.Bryson@wellsfargo.com
Sam Bullard	Senior Economist	704-410-3280	Sam.Bullard@wellsfargo.com
Nick Bennenbroek	International Economist	212-214-5636	Nicholas.Bennenbroek@wellsfargo.com
Tim Quinlan	Senior Economist	704-410-3283	Tim.Quinlan@wellsfargo.com
Sarah House	Senior Economist	704-410-3282	Sarah.House@wellsfargo.com
Azhar Iqbal	Econometrician	212-214-2029	Azhar.Iqbal@wellsfargo.com
Charlie Dougherty	Senior Economist	212-214-8984	Charles.Dougherty@wellsfargo.com
Michael Pugliese	Senior Economist	212-214-5058	Michael.D.Pugliese@wellsfargo.com
Brendan McKenna	International Economist	212-214-5637	Brendan.Mckenna@wellsfargo.com
Jackie Benson	Economist	704-410-4468	Jackie.Benson@wellsfargo.com
Shannon Grein	Economist	704-410-0369	Shannon.Grein@wellsfargo.com
Nicole Cervi	Economist	704-410-3059	Nicole.Cervi@wellsfargo.com
Jeremiah Kohl	Economic Analyst	212-214-1164	Jeremiah.J.Kohl@wellsfargo.com
Aubrey Woessner	Economic Analyst	704-410-2911	Aubrey.B.Woessner@wellsfargo.com
Delaney Conner	Economic Analyst	704-374-2150	Delaney.Conner@wellsfargo.com
Anna Stein	Economic Analyst	212-214-1063	Anna.H.Stein@wellsfargo.com
Ali Hajibeigi	Economic Analyst	212-214-8253	Ali.Hajibeigi@wellsfargo.com
Coren Miller	Administrative Assistant	704-410-6010	Coren.Miller@wellsfargo.com

Required Disclosures

This report is produced by the Economics Group of Wells Fargo Bank, N.A. (“WFBNA”). This report is not a product of Wells Fargo Global Research and the information contained in this report is not financial research. This report should not be copied, distributed, published or reproduced, in whole or in part. WFBNA distributes this report directly and through affiliates including, but not limited to, Wells Fargo Securities, LLC, Wells Fargo & Company, Wells Fargo Clearing Services, LLC, Wells Fargo Securities International Limited, Wells Fargo Securities Europe S.A., and Wells Fargo Securities Canada, Ltd. Wells Fargo Securities, LLC is registered with the Commodity Futures Trading Commission as a futures commission merchant and is a member in good standing of the National Futures Association. WFBNA is registered with the Commodity Futures Trading Commission as a swap dealer and is a member in good standing of the National Futures Association. Wells Fargo Securities, LLC and WFBNA are generally engaged in the trading of futures and derivative products, any of which may be discussed within this report.

This publication has been prepared for informational purposes only and is not intended as a recommendation, offer or solicitation with respect to the purchase or sale of any security or other financial product, nor does it constitute professional advice. The information in this report has been obtained or derived from sources believed by WFBNA to be reliable, but has not been independently verified by WFBNA, may not be current, and WFBNA has no obligation to provide any updates or changes. All price references and market forecasts are as of the date of the report or such earlier date as may be indicated for a particular price or forecast. The views and opinions expressed in this report are those of its named author(s) or, where no author is indicated, the Economics Group; such views and opinions are not necessarily those of WFBNA and may differ from the views and opinions of other departments or divisions of WFBNA and its affiliates. WFBNA is not providing any financial, economic, legal, accounting, or tax advice or recommendations in this report, neither WFBNA nor any of its affiliates makes any representation or warranty, express or implied, as to the accuracy or completeness of the statements or any information contained in this report, and any liability therefore (including in respect of direct, indirect or consequential loss or damage) is expressly disclaimed. WFBNA is a separate legal entity and distinct from affiliated banks, and is a wholly-owned subsidiary of Wells Fargo & Company. © 2024 Wells Fargo Bank, N.A.

Important Information for Non-U.S. Recipients
For recipients in the United Kingdom, this report is distributed by Wells Fargo Securities International Limited ("WFSIL"). WFSIL is a U.K. incorporated investment firm authorized and regulated by the Financial Conduct Authority (“FCA”). For the purposes of Section 21 of the UK Financial Services and Markets Act 2000 (the “Act”), the content of this report has been approved by WFSIL, an authorized person under the Act. WFSIL does not deal with retail clients as defined in the Directive 2014/65/EU (“MiFID2”). The FCA rules made under the Act for the protection of retail clients will therefore not apply, nor will the Financial Services Compensation Scheme be available. For recipients in the EFTA, this report is distributed by WFSIL. For recipients in the EU, it is distributed by Wells Fargo Securities Europe S.A. (“WFSE”). WFSE is a French incorporated investment firm authorized and regulated by the Autorité de contrôle prudentiel et de résolution and the Autorité des marchés financiers. WFSE does not deal with retail clients as defined in MiFID2. This report is not intended for, and should not be relied upon by, retail clients.

SECURITIES: NOT FDIC-INSURED - MAY LOSE VALUE - NO BANK GUARANTEE