Federal Tax Cuts and Jobs Act: Impacts on Washington

Presented to Senate Ways and Means Committee

Steve Lerch
Executive Director

January 18, 2018
Olympia, Washington

WASHINGTON STATE
ECONOMIC AND REVENUE FORECAST COUNCIL

Federal tax reform is expected to increase economic activity

Sources: U.S. Congress, Joint Committee on Taxation; IHS Markit

- 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

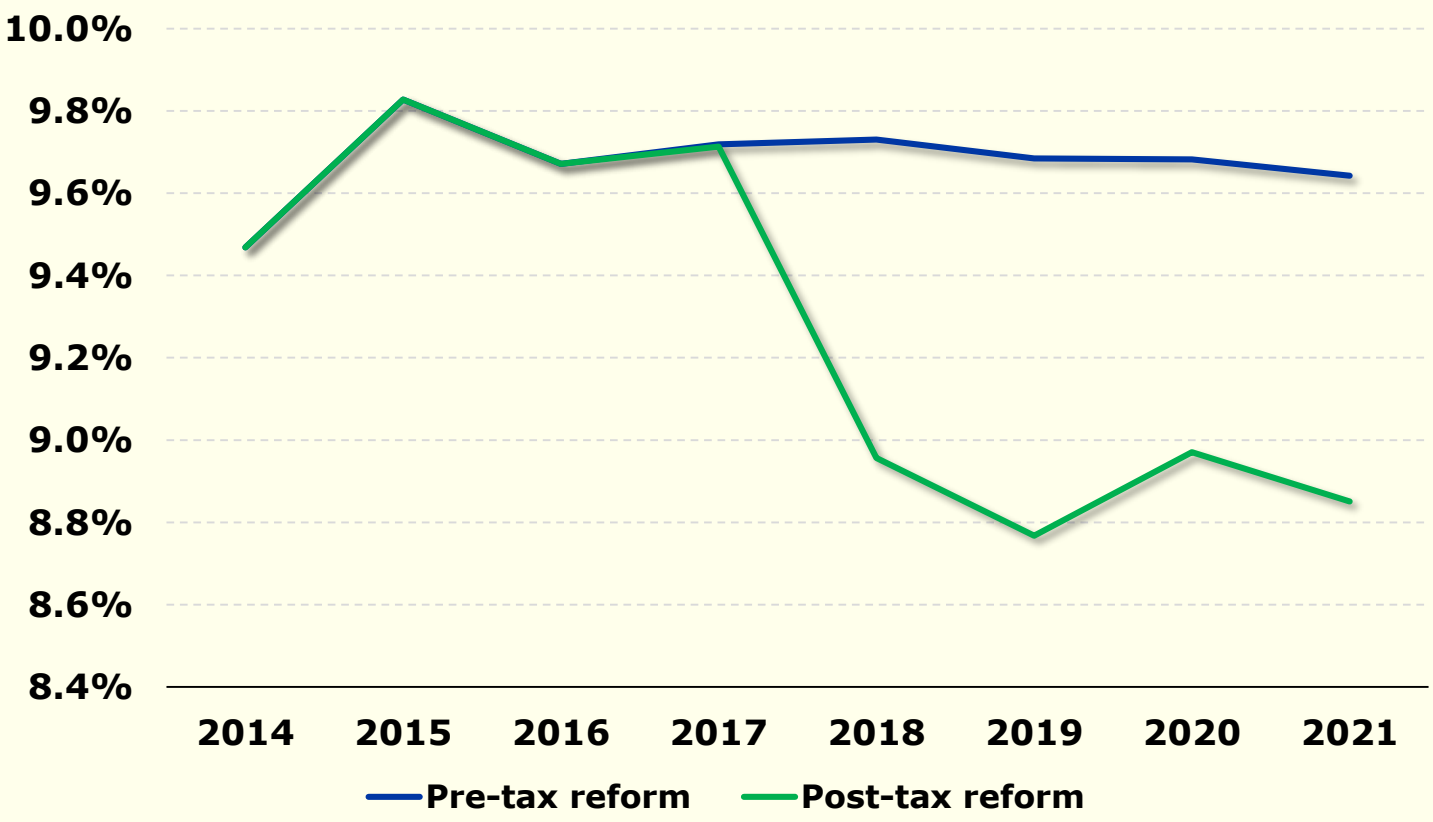
Size of personal and corporate tax reductions, 2018

- 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

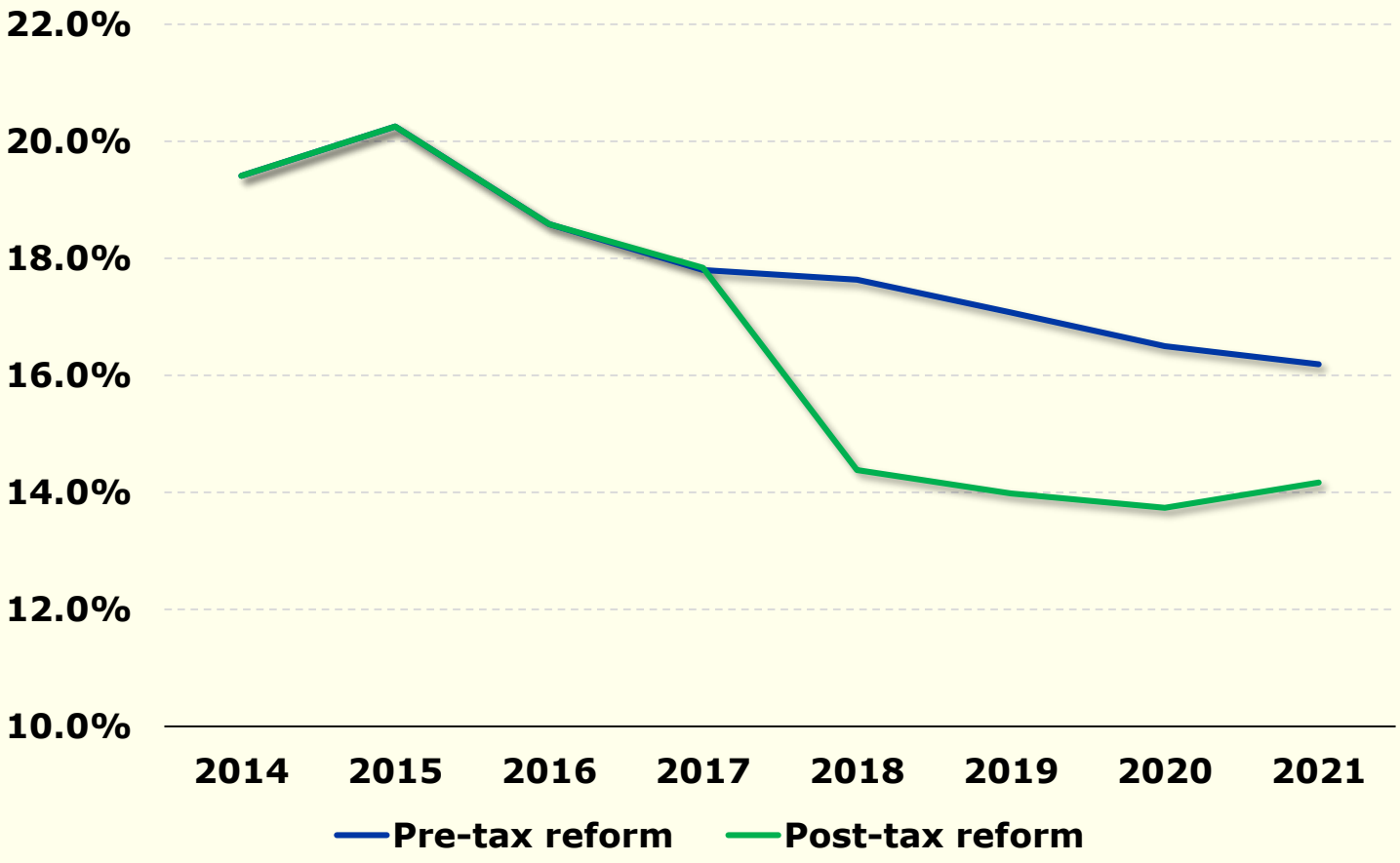
Source: IHS Markit December 2017 & January 2018 forecasts

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

Economic & Revenue Forecast Council
PO BOX 40912
Olympia WA 98504-0912

www.erfc.wa.gov
360-534-1560