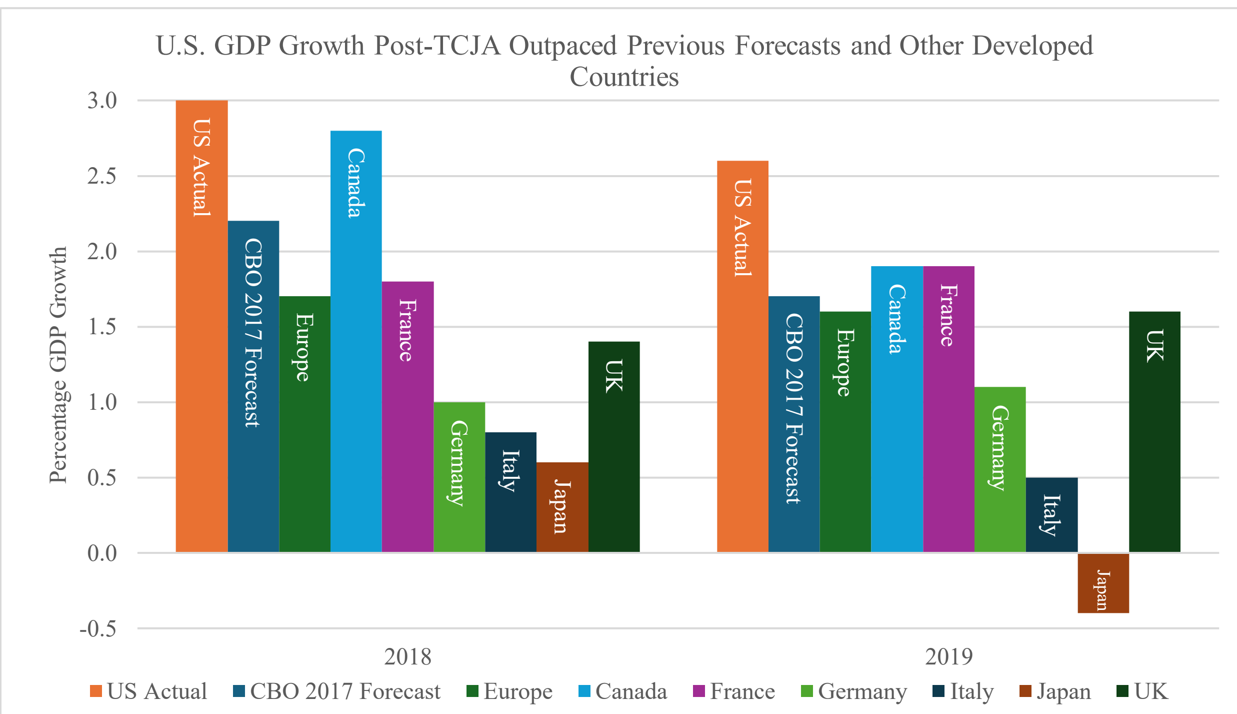
The Tax Cuts and Jobs Act ("TCJA") increased U.S. economic growth, investment, and wages

In 2017, Congress enacted the Tax Cuts and Jobs Act of 2017 ("TCJA"), which represented the most significant piece of tax legislation since the Tax Reform Act of 1986. As discussed in more detail below, TCJA:

- Accelerated economic **growth** relative to prior forecasts, relative to the rest of the world, and in the ways one would expect based on the policy changes enacted;
- Increased domestic **investment** by as much as 20 percent for the average company;
- Increased **wages** for the average household by $6,160 over 2 years, more than in the prior 10 years combined, and increased **employment** among a diverse set of employees, from groups that historically faced economic disadvantages in the labor market to patent inventors;
- Protected the domestic tax base, reduced **profit shifting**, and encouraged U.S. companies to serve foreign markets from the United States; and
- Stopped **tax-motivated corporate expatriations,** enhanced the competitiveness of the United States as a location for corporate headquarters, and shifted the geographic direction of **mergers and acquisitions** ("M&As") in favor of the United States.

Economic Growth

- Prior to enactment of the TCJA, the Congressional Budget Office ("CBO") forecast gross domestic product ("GDP") growth of 2.2 in 2018 and 1.7 percent in 2019.[1] In fact, real GDP grew by 3.0 percent in 2018 and 2.6 percent in 2019 after enactment of TCJA.[2] U.S. real GDP grew about one-percentage point faster than that of Europe and faster than every other G7 country in both 2018 and 2019.[3]



Source: Bureau of Economic Analysis, Congressional Budget Office, OECD.

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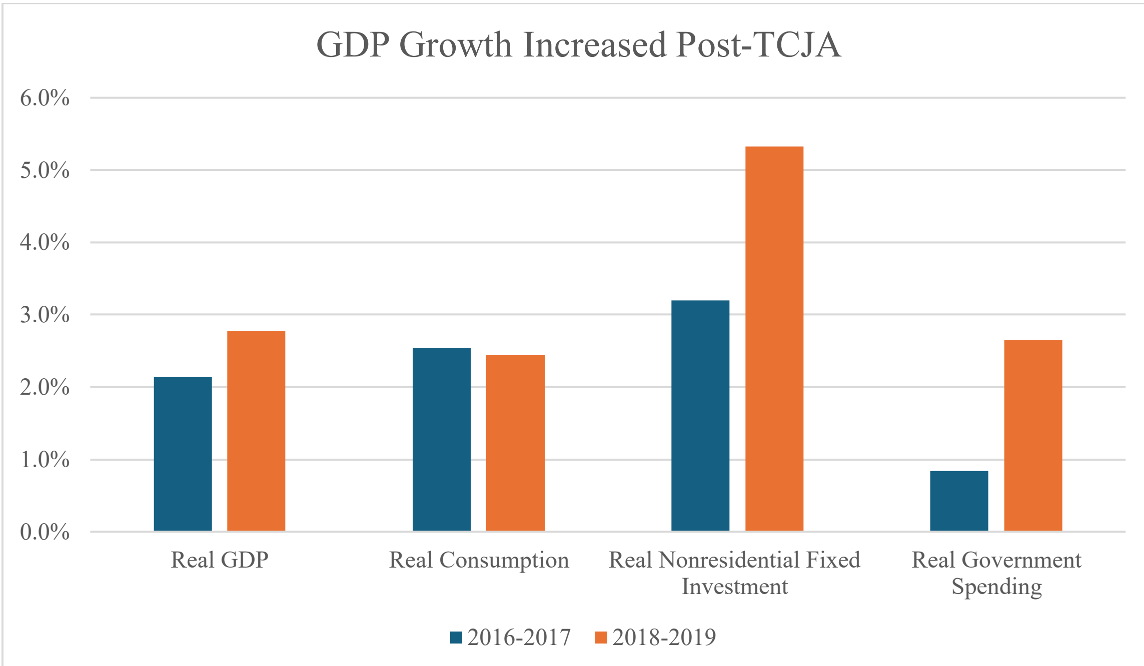
[1] Congressional Budget Office, Economic Projections, October 12, 2017.
[2] U.S. Bureau of Economic Analysis, "Table 1.1.1. Percent Change from Preceding Period in Real Gross Domestic Product."
[3] OECD, https://data.oecd.org/gdp/real-gdp-forecast.htm#indicator-chart.

- U.S. GDP grew at an average annual rate of 2.8 percent over 2018-2019 versus 2.1 percent over 2016-2017 (i.e., 33 percent faster growth after TCJA). The increase in GDP growth was led by investment, which grew at an average annual rate of 5.3 percent in the two years after TCJA vs. 3.2 percent in the two prior years (i.e., 66 percent faster growth after TCJA).



Source: Bureau of Economic Analysis.

- Research by nonpartisan Joint Committee on Taxation ("JCT") and Federal Reserve economists concludes that an additional $1 of corporate income tax reduces GDP 2-3 times as much as $1 of payroll tax and twice as much as $1 of personal income tax. Reducing this inefficiency by lowering corporate taxes increases growth.

- The corporate tax changes in the TCJA increased the annual GDP growth rate by about 0.2 percent. Every dollar of reduction in the tax on corporations in the TCJA resulted in $0.44 of additional GDP.[4] In 2018, corporate tax reductions increased GDP by at least $40 billion.

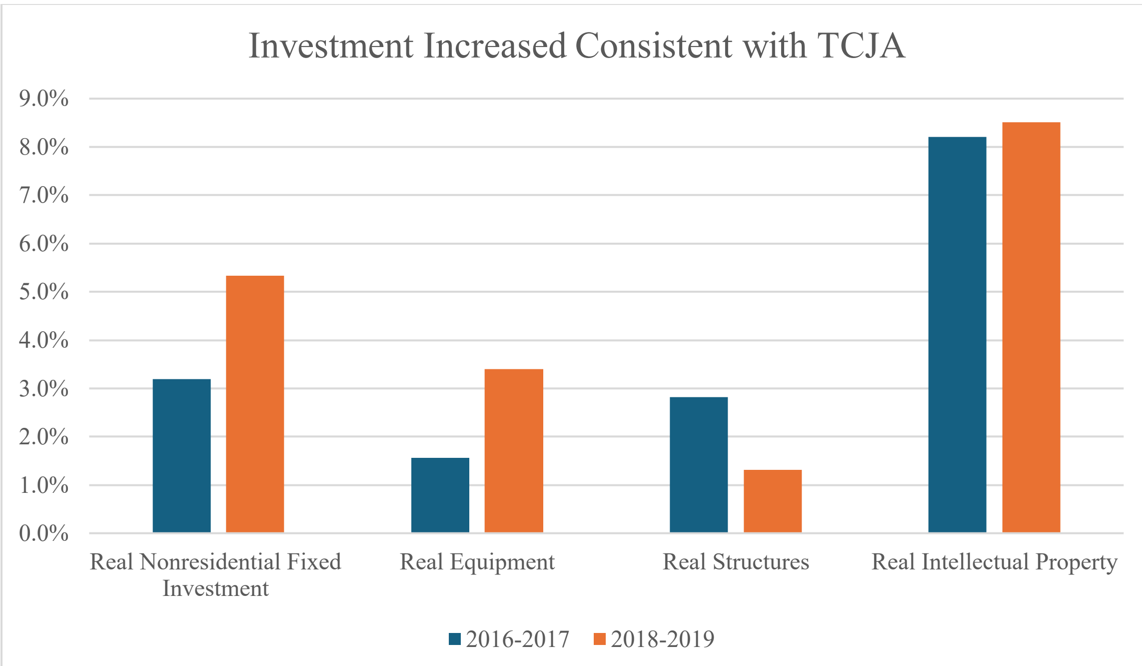
Investment

- According to a study by four economists, including a Biden Treasury official, "the reduction in the corporate rate and full expensing of investment stimulated domestic investment substantially," with investment increasing by 20 percent for the average company.[5]

- JCT identified the extension of bonus depreciation as an "important contributor to increased investment incentives" created by the TCJA.[6]

[4] Patrick Kennedy, et al., "The Efficiency-Equity Tradeoff of the Corporate Income Tax: Evidence from the Tax Cuts and Jobs Act," March 21, 2024.
[5] "Average company" refers to the company experiencing the average change in taxes due to the TCJA. Gabriel Chodorow-Reich, et al., "Tax Policy and Investment in a Global Economy," NBER Working Paper 32180, July 5, 2024.
[6] Joint Committee on Taxation, *Macroeconomic Analysis of the Conference Agreement for H.R. 1, the "Tax Cuts and Jobs Act"* (JCX-69-17), December 22, 2017, p. 7.

- The TCJA decreased disparities in effective tax rates across investment by organizational form (corporate vs. noncorporate) and source of financing (debt vs. equity), which also enhanced economic growth by improving the efficiency of the allocation of investment.[7]
- Contrary to the claims by critics,[8] the data show that investment increased more for assets with the largest reduction in effective tax rate due to the TCJA, consistent with economic theory. The TCJA reduced EMTRs on equipment (-8.2 percentage points) by more than it did for intellectual property (-5.7 percentage points), while increasing EMTRs modestly on structures (+0.1 percentage points). This made investment in equipment more attractive relative to structures compared to before the TCJA. The data show that while the average growth rate of investment in equipment increased from 1.6 percent to 3.4 percent, the rate of growth of investment in structures declined. These patterns are consistent with economic theory.



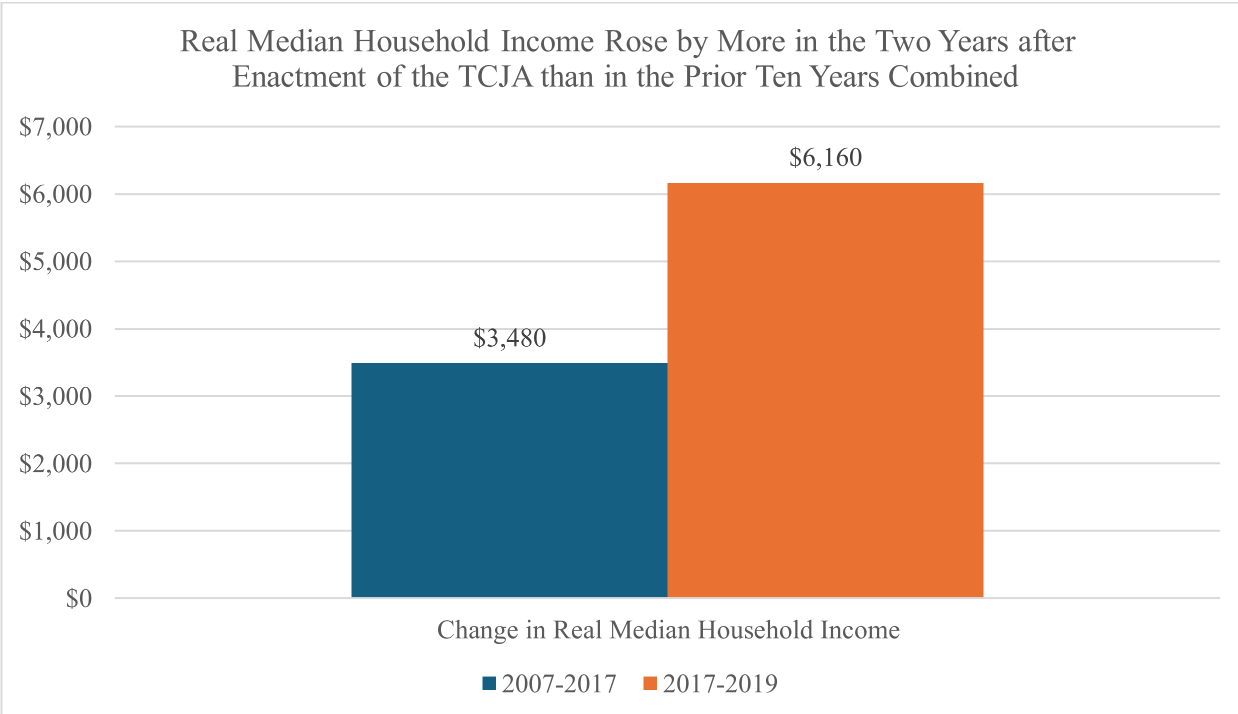
Source: Bureau of Economic Analysis.

Income and Poverty

- The average domestic company increased wages and salaries by 3.7 percent as a result of the corporate tax changes in the TCJA.[9]
- Real median household income increased by $6,160 in 2018 and 2019 after enactment of TCJA, more than in the previous 10 years combined.[10] In the years after passage of the TCJA, the lowest

[7] Congressional Budget Office, *The Budget and Economic Outlook: 2018 to 2028*, April 2018, supplementary tables 3 and 3a from https://www.cbo.gov/sites/default/files/recurringdata/53724-2018-04-tax.xlsx.
[8] Gale, William G. and Claire Haldeman, 2021. "The Tax Cuts and Jobs Act: Searching for Supply-Side Effects," *National Tax Journal* 74(4), Figure 5, p. 904. While this paper found mixed results on the effects of the TJCA on economic growth, comprehensive updates to the national economic accounts in September 2023 revised data that affect the analysis therein.
[9] "Average company" refers to the company experiencing the average change in taxes due to the TCJA. Gabriel Chodorow-Reich, et al., "Tax Policy and Investment in a Global Economy," NBER Working Paper 32180, July 5, 2024.
[10] U.S. Census Bureau, Real Median Household Income [MEHOINUSA672N], retrieved from FRED, Federal Reserve Bank of St. Louis, March 27, 2024.

10 percent of income earners saw 40 percent higher growth in incomes than those in the top 10 percent.[11] At the end of 2020, median real earnings for all wage earners were 9 percent higher than they were before the enactment of the TCJA three years earlier. That's more than triple the 2.7-percent increase over the prior 3 years, more than double the 4.5-percent increase from 2013-2016, and the fastest growth over 3 calendar years ever recorded.[12]



Source: Census Bureau.

- Many groups that historically faced economic disadvantages in the labor market benefited from the strong economy in 2018 and 2019. The unemployment rates for African Americans (5.3 percent), Hispanics (3.9 percent), and those with less than a high school education (4.8 percent) fell to the lowest rates ever before seen since the data series were first reported in 1972, 1973, and 1992, respectively.[13]
- From 2017 to 2019, total poverty and child poverty fell at the fastest rates since the 1960s.[14] The number of people of all ages in poverty fell by 14.1 percent, while the number of children in poverty fell by 17.9 percent.
- The international provisions of the TCJA boosted employment of patent inventors in the United States by 23.4 percent, considering data through 2020.[15]

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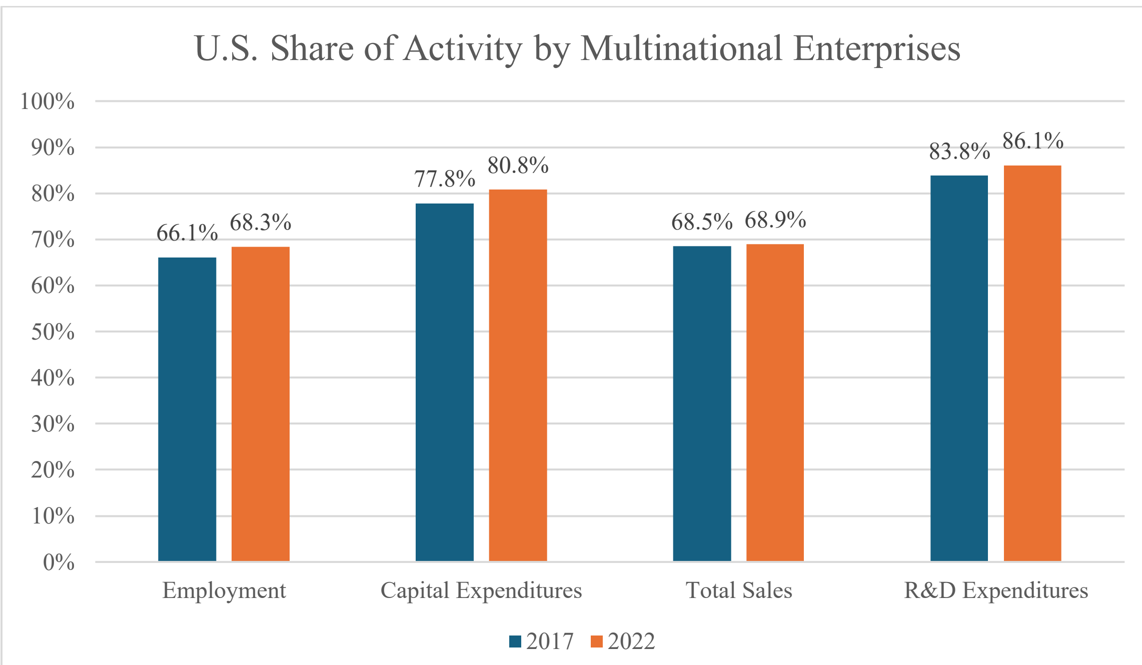
[11] U.S. Bureau of Labor Statistics, Employed full time: Usual weekly nominal earnings (first decile): Wage and salary workers: 16 years and over [LEU0252911200Q], retrieved from FRED, Federal Reserve Bank of St. Louis; April 11, 2024.
[12] U.S. Bureau of Labor Statistics, Employed full time: Median usual weekly real earnings: Wage and salary workers: 16 years and over [LES1252881600Q], retrieved from FRED, Federal Reserve Bank of St. Louis, April 11, 2024.
[13] U.S. Bureau of Labor Statistics, Unemployment Rate [LNS14000006, LNS14000009, LNS14027659], retrieved from FRED, Federal Reserve Bank of St. Louis, May 6, 2024.
[14] U.S. Census Bureau, Current Population Survey, 1960 to 2023 Annual Social and Economic Supplements. Table A-3
[15] Huang, Jing, Benjamin Osswald, and Ryan Wilson, 2023. "The Effect of U.S. Tax Reform on U.S. R&D-Intensive Multinational Companies," working paper, June 2023.

Shifting of Profits and Economic Activity

- Companies increased their domestic share of total profits from 54.6 percent in 2017 to 62.0 percent in 2023, an increase of 7.4 percentage points (13.6 percent).[16] If the global pretax earnings in 2023 for each company were as reported, but the domestic share of those earnings was the same as in 2017, these 121 companies would have reported $52 billion less in domestic pretax earnings (and $52 billion more in foreign pretax earnings).

- For U.S. multinational enterprises, employment, capital expenditures, total sales, and research and development ("R&D") expenditures in the United States grew faster than the respective levels abroad, leading to increases in the U.S. share of these activities relative to 2017.[17] U.S. employment grew to 68.3 percent of worldwide employment in 2022, the most recent year for which data are available, the highest since at least 2009. The U.S. share of capital expenditures by multinational companies in 2022 was also the highest percentage since 2009.

- The increased domestic share of U.S. multinational company activity represents 1 million more employees, $30 billion more in capital expenditures, $117 billion in sales, and $11.9 billion in R&D in the United States in 2022 compared to what would have been the case if the total economic activity for U.S. multinational enterprises were as reported in 2022, but the U.S. share of multinational activity had been the same as it was in 2017.



Source: U.S. Bureau of Economic Analysis, "Data on Activities of U.S. Multinational Enterprises."

- For U.S. multinational *manufacturers,* U.S. employment grew to 56.4 percent in 2022, the highest level since 2010. The U.S. share of capital expenditures (70.1%), sales (55.5%), and R&D (88.2%) reached the highest percentages since at least 2009. The increased domestic share of U.S. multinational manufacturers activity represents 206,000 more employees, $14 billion more in capital expenditures, $82 billion in sales, and $6.4 billion in R&D in the United States in 2022 compared to

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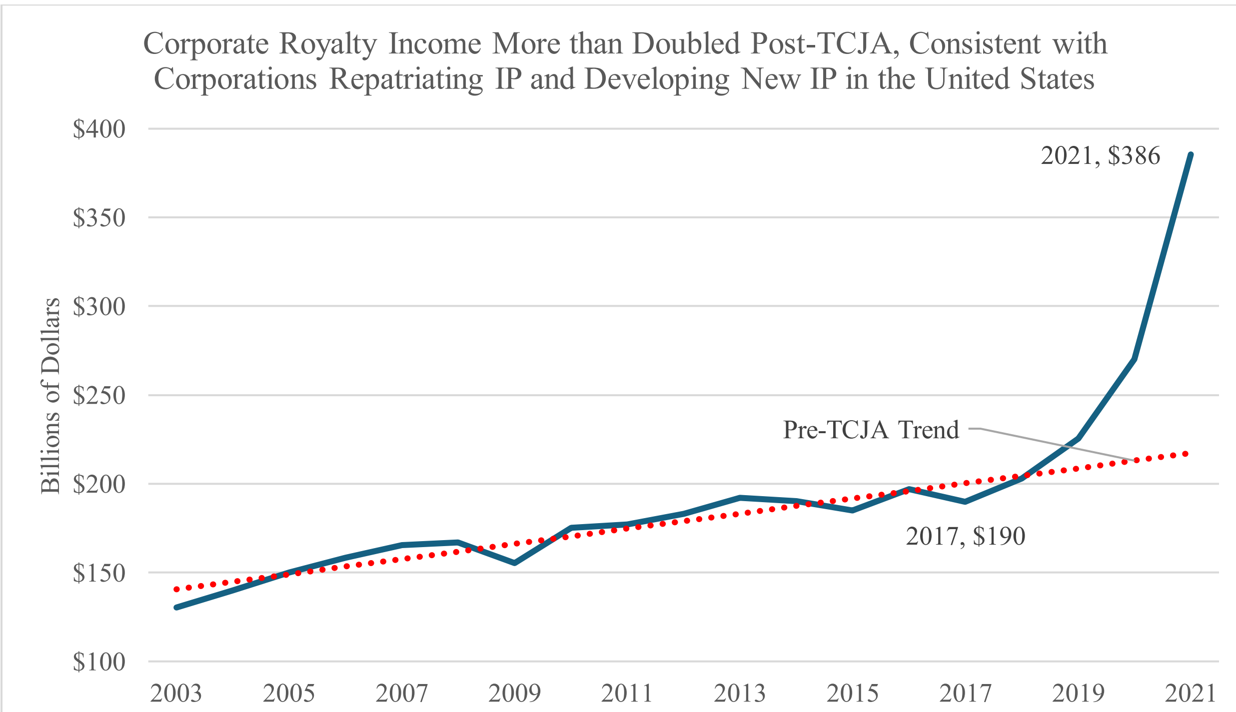
[16] S&P Capital IQ. Data are for 121 S&P 500 companies as of June 14, 2024, that had positive foreign and domestic earnings. Shares weighted by total pretax earnings. In 2023, these 121 companies accounted for 34 percent of earnings before tax of all S&P 500 companies and 50 percent of domestic earnings before tax of S&P 500 companies with domestic earnings data.

[17] U.S. Bureau of Economic Analysis, "Data on Activities of U.S. Multinational Enterprises."

what would have been the case if the total economic activity for U.S. multinational manufacturers were as reported in 2022, but the U.S. share of multinational activity had been the same as it was in 2017.[18]

- Firms with pre-TCJA foreign tax rates between 21 (i.e., the corporate tax rate after TCJA) and 35 percent (i.e., the corporate tax rate before TCJA) shifted 80 percent less income out of the United States after the TCJA.[19]
- Encouraged by the deduction for foreign derived intangible income ("FDII"), among other provisions of the TCJA, many companies repatriated intellectual property ("IP") from abroad. According to the JCT, payments to U.S. corporations for use of IP more than doubled from $190 billion in 2017 to $386 billion in 2021, consistent with corporations both repatriating IP and developing new IP in the United States.[20] Rents, royalties, and license fees received from abroad increased from $136 billion in 2017 to $336 billion in 2021 (the most recent year for which data are available).[21]



Source: Joint Committee on Taxation.

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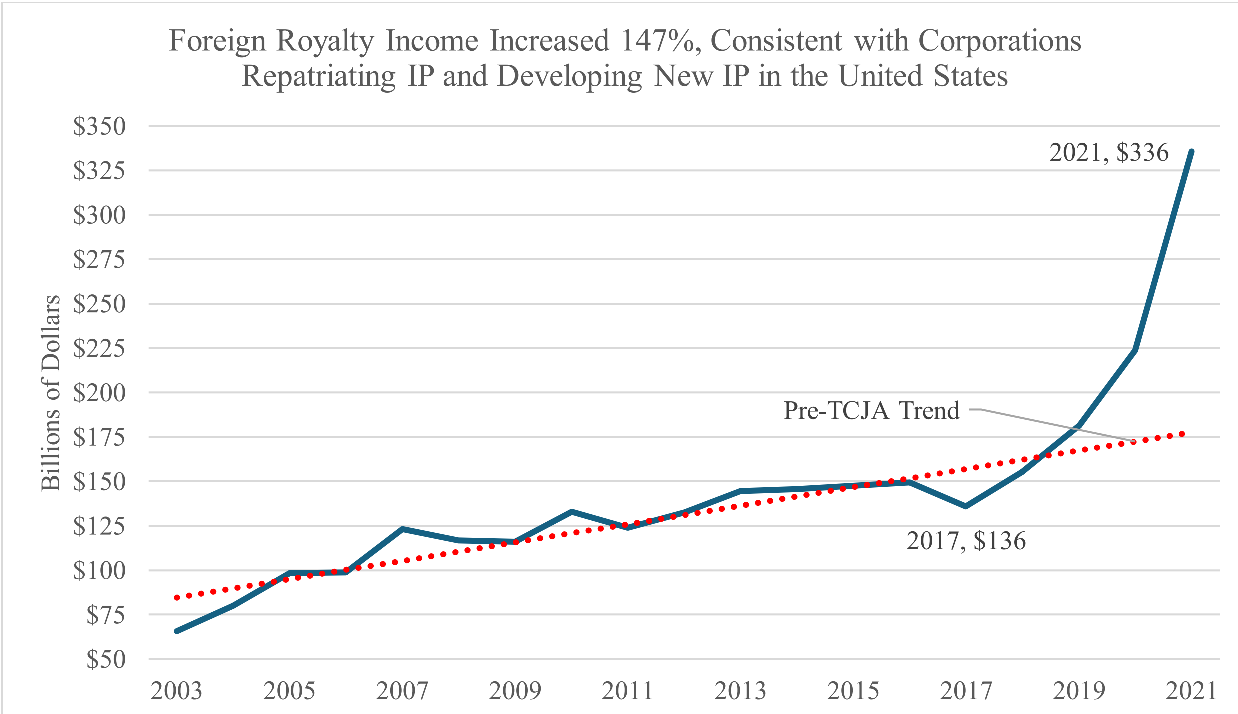
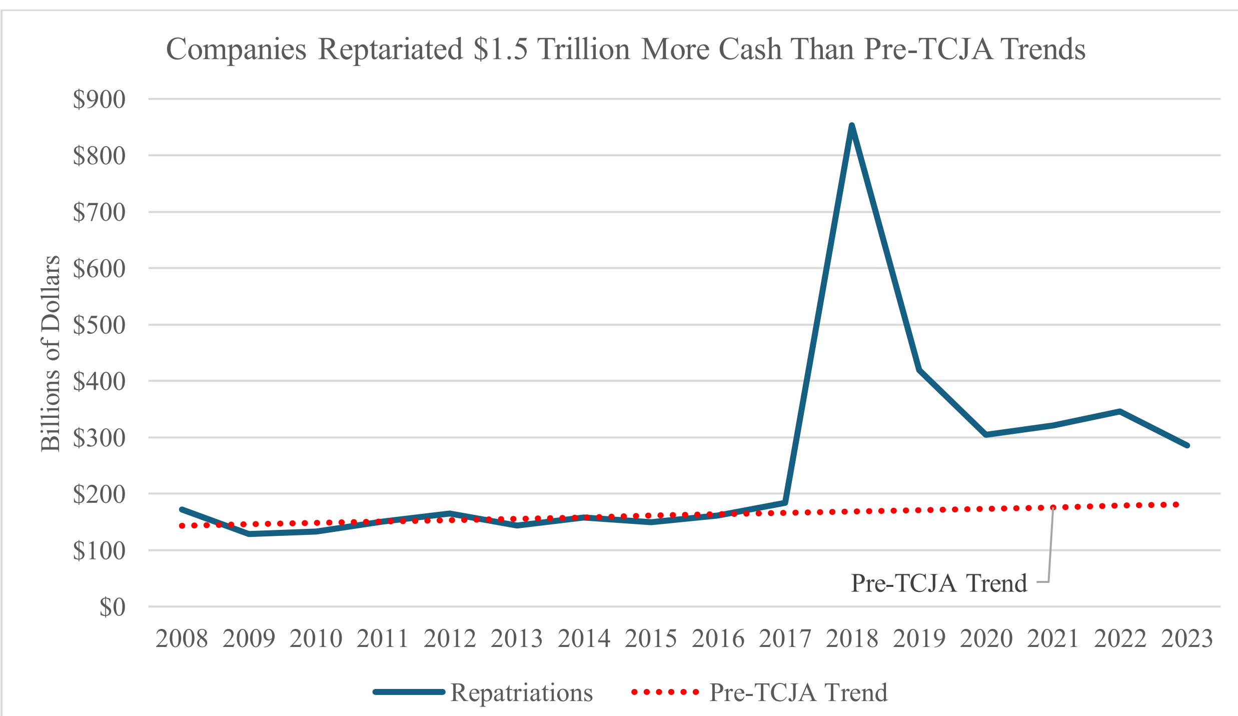
[18] In 2019, the increased domestic share of U.S. multinational manufacturers activity represented 105,000 more employees, $8.3 billion in capital expenditures, and $592 million in additional R&D in the United States compared to what would have been the case if the total economic activity for U.S. multinational manufacturers were as reported in 2019, but the U.S. share of multinational activity had been the same as it was in 2017.
[19] Krull, Linda K. and Juan Wu, 2022. "Changes in U.S. Multinational Firms' Investment and Income Shifting after the 2017 Tax Cuts and Jobs Act (TCJA)," working paper.
[20] Paul Landefeld, "Modeling International Tax Proposals at the Joint Committee on Taxation," International Tax Policy Forum – Georgetown University Law conference presentation, Washington, DC, April 5, 2024.
[21] Internal Revenue Service, Statistics of Income Division, *Corporate Foreign Tax Credit*, October 2024.



Source: IRS, Statistics of Income, Form 1118.

- Companies brought $2.7 trillion, more than 70%, of overseas earnings back into the United States since the TCJA. That is $1.5 trillion more cash than would have been the case if companies had repatriated the 35% of earnings companies averaged before the TCJA.[22]



Source: Bureau of Economic Analysis.

[22] U.S. Bureau of Economic Analysis, "Table 4.1 U.S. International Transactions in Primary Income."

Tax-Motivated Corporate Expatriations

- CBO estimated there were more than 5 companies that moved their headquarters abroad per year prior to the TCJA, costing the U.S. Treasury billions in corporate income tax revenue each year.[23] By contrast, the Tax Policy Center concluded there have been no major tax-motivated corporate expatriations since the enactment of TCJA,[24] keeping jobs and revenue in the United States.

Cross-Border Mergers and Acquisitions

- The TCJA coincided with a definitive reversal in the geographic direction of cross-border M&A activity. Research by a Biden Treasury official and academic coauthors find the dollar value of U.S. acquisitions of foreign companies increased by 19 percent after 2017, and foreign acquisitions of U.S. firms decreased by 38 percent.[25]

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[23] Congressional Budget Office, An Analysis of Corporate Inversions, September 2017.
[24] https://www.taxpolicycenter.org/briefing-book/what-are-inversions-and-how-did-tcja-affect-them
[25] Gabriel Chodorow-Reich, et al., "Tax Policy and Investment in a Global Economy," NBER Working Paper 32180, July 5, 2024.