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INSIGHT

Changes in After-Tax Income from Tax Provisions in the Build Back Better Act (BBBA; H.R. 5376)—Distributional Analysis

November 24, 2021

Distributional analysis can illustrate how changes in tax policy may affect the economic well-being of different taxpayers. Broadly, distributional analyses can be used to examine how system-wide tax burdens are shared across taxpayers, or the "fairness" of the tax system. The Joint Committee on Taxation (JCT) regularly prepares distributional analyses of major tax proposals. One useful metric for understanding the impact of tax policy on taxpayers' well-being is the percentage change in after-tax income. This can be calculated as an extension of JCT's distributional analyses.

On November 23, 2021, JCT released a distributional analysis of the "Build Back Better Act" (BBBA; H.R. 5376), as passed in the House. (The tax provisions in this version of the BBBA are described in this CRS report.) An earlier distributional analysis, released on September 14, 2021, provided information relating to the House Ways and Means Committee's budget reconciliation legislative recommendations, an earlier version of the BBBA (described in this CRS report). This Insight compares the changes in after-tax income expected to result from the House-passed BBBA (**Figure 1**) and the earlier version of the BBBA considered by the Ways and Means committee in September (**Figure 2**). Changes are relative to current law, which assumes that the temporary provisions enacted as part of P.L. 115-97 (commonly referred to as the "Tax Cuts and Jobs Act" [TCJA]) expire at the end of 2025, as scheduled.

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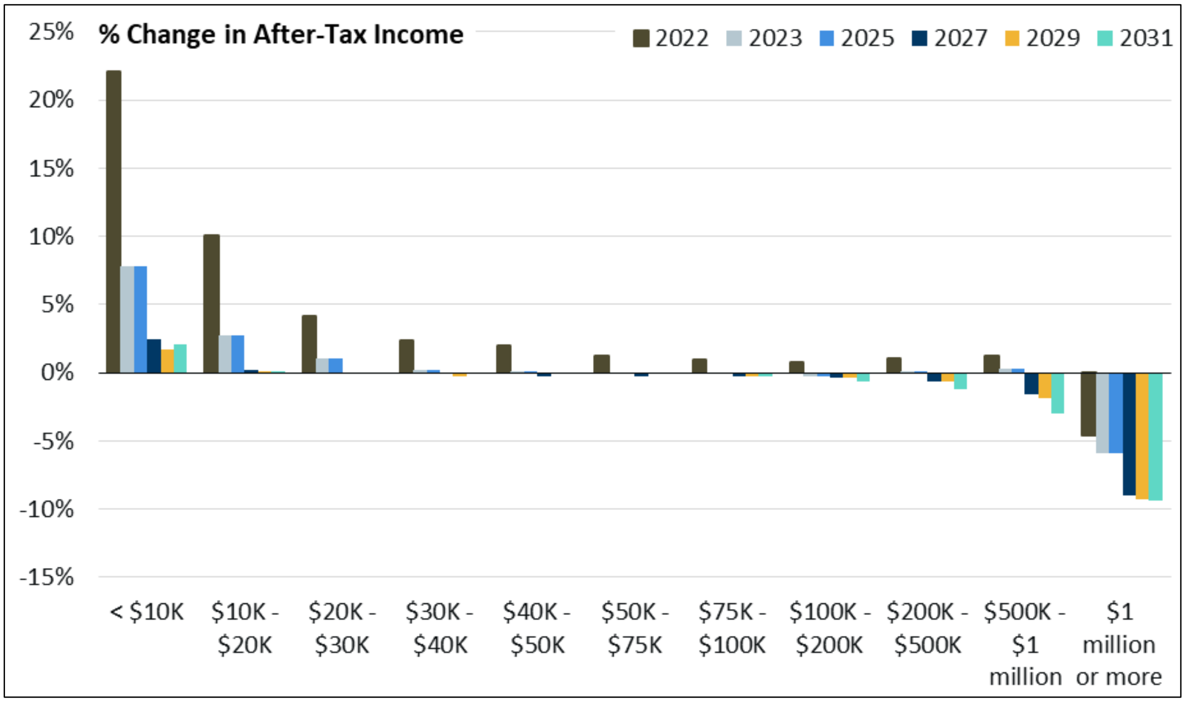
Figure 1. The Revenue Provisions in the Housed-Passed Build Back Better Act: Estimated Changes in After-Tax Income



Source: Joint Committee on Taxation, JCX-46R-21.

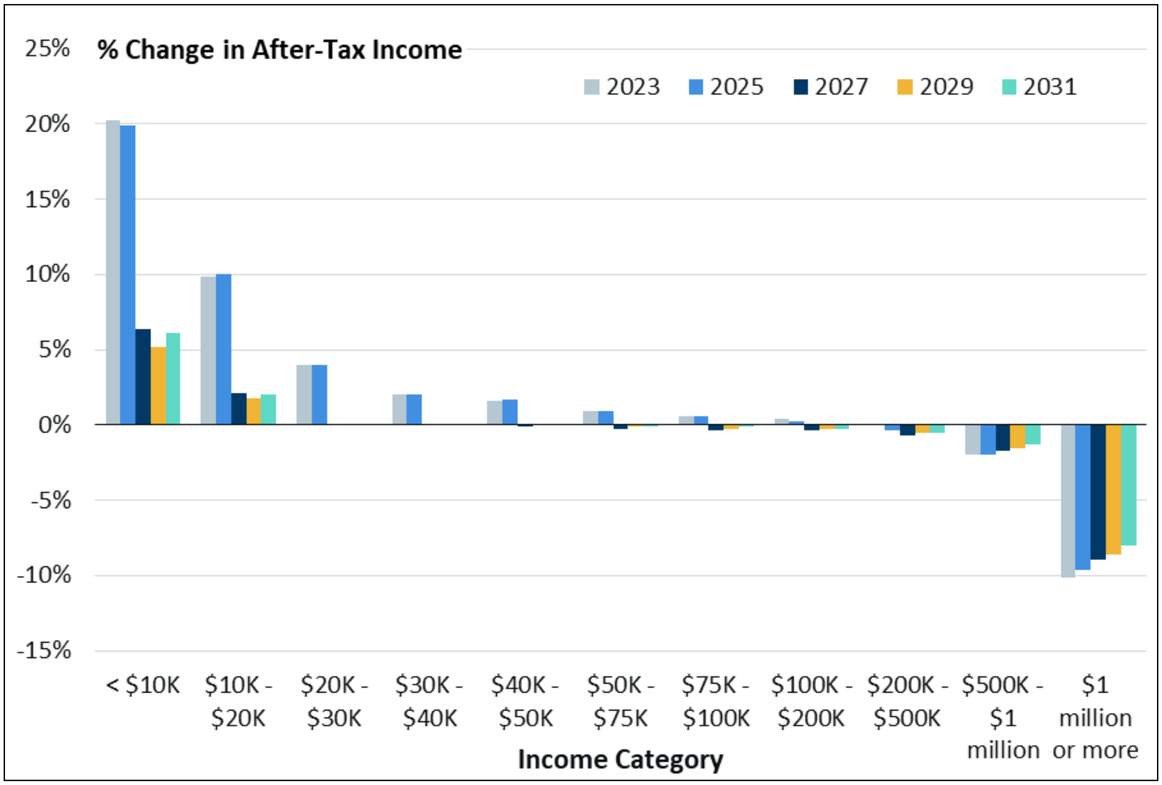
Notes: JCT provided estimates for 2022, and odd years only afterward. The percentage change in after-tax income is calculated using JCT's average tax rate estimates as [(1-proposal average tax rate)-(1-present law average tax rate)] / (1-present law average tax rate). Income is measured as adjusted gross income (AGI) plus other items, as described by JCT.

The largest increases in after-tax income resulting from the House-passed version of BBBA appear in 2022. (The year 2022 was not included in JCT's analysis of the initial legislative recommendations, as summarized in **Figure 2** and discussed in this earlier Insight.) Two provisions explain much of the increase in after-tax income in 2022 in the House-passed version of BBBA: (1) the one-year extension of the expanded child tax credit; and (2) the increased limit on the state and local taxes (SALT) deduction. The relatively large increases in after-tax income for the lowest income groups in 2022 are primarily driven by the one-year extension of the 2021 expansion of the child credit. The increased SALT deduction reduces tax burdens for those with higher incomes, which means more after-tax income. The SALT deduction in the House-passed BBBA would be capped at $80,000 through 2030 and $10,000 in 2031, meaning reduced taxes through 2025, but then increased taxes after 2025 (when the current $10,000 SALT deduction cap, enacted under the TCJA, is set to expire). However, after 2022, the other revenue-raising provisions in the legislation would offset the SALT deduction's effect on after-tax income, leaving most taxpayers in the middle of the income distribution with little change in after-tax income.

The House-passed version of BBBA would tend to increase the progressivity of the tax system over time by reducing after-tax income for taxpayers at the very top of the income distribution (those with income of $1 million or more). Taxpayers in the lowest-income category (less than $10,000) would experience an increase in after-tax income, with the largest increases occurring in 2022 (a 22% increase for the group as a whole), more modest increases in 2023 and 2025, and small increases (approximately 2%) after 2025.

The tax provisions in the House-passed version of the BBBA are less progressive than the tax provisions in the earlier Ways and Means Committee legislative recommendations. The earlier version of the legislation would have extended the expanded child tax credit through 2025, as opposed to the one-year extension through 2022 in the House-passed version of the legislation. The earlier version also did not modify the temporary $10,000 SALT deduction limit. Setting the SALT cap at $80,000 would increase after-tax income, particularly for those at the top of the income distribution, through 2025. Taxpayers in the $500,000 to $1 million income group would have experienced a reduction in after-tax income, on average, under the earlier version of BBBA. However, under the House-passed BBBA, which includes the $80,000 SALT cap, this group no longer would experience a reduction in after-tax income, on average.

Figure 2. The Revenue Provisions in the Build Back Better Act as Recommended by the Ways & Means Committee: Estimated Changes in After-Tax Income



Source: Joint Committee on Taxation, JCX-44-21.

Notes: JCT provided estimates for odd years only. See **Figure 1** notes regarding the calculation of changes in after-tax income.

The largest revenue-raising provision of the earlier version of the BBBA was an increase in the corporate tax rate, from 21% to 26.5%. This provision did not appear in the House-passed version of the BBBA, which added two new revenue-raising provisions: (1) a 15% minimum tax on financial statement ("book") income; and (2) an excise tax on stock repurchases. Similar to an increase in the corporate rate, these provisions are likely progressive, with the largest reductions in after-tax income being toward the top of the income distribution. Some of the revenue-raising provisions are not effective until 2023, including the 15% minimum tax on financial statement income. In 2022, the tax reductions offset tax increases; taxpayers in all income groups below $1 million experience an increase in after-tax income on average. For taxpayers in the $1 million or more income category, the average reduction in after-tax income is smaller in 2022 than it is expected to be in the later years.

The percentage change in after-tax income is one metric for analyzing the distributional effects of proposed changes in tax policy. JCT has also examined the share of taxpayers who would have a tax increase or tax decrease. This analysis also only considers the distributional effects of the revenue provisions in BBBA, which on net raise revenue. It does not consider the distributional effects of additional government spending on physical capital or social spending programs.

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