# Tax Cuts And Jobs Act Of 2017: Evaluating Economic Growth And Fiscal Sustainability Under Trump's Administration

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# I. Abstract

The Tax Cuts and Jobs Act (TCJA) of 2017 was one of the biggest adjustments to the U.S. Taxes in a long time. It passed when Donald Trump was president, and its purpose became to develop the economic system, help organizations, and make taxes simpler to recognize. The TCJA reduces taxes for human beings and corporations to inspire funding, create jobs, and grow monetary activity. This research examines how the TCJA affects economic systems nowadays and what it could do in the future. It explains how reducing taxes for organizations, people needs to affect things like the countrywide debt and profits inequality. It also looks at the effect on other nations, and how these tax regulations compare to older U.S. tax policies.

# II. Introduction

In 2017, the U.S. passed the Tax Cuts and Jobs Act, which promised to bring a major overhaul to the American system President Trump wanted the U.S. to be more competitive, and this was to be done by cutting taxes for individuals and businesses in an attempt to get both groups more in line while also finding some jobs. The idea was that people would spend more if they paid less in taxes, which is how the economy would grow. Although it did introduce some spot-level economic benefits such as growth and activity introduction, there is much controversy surrounding its long-term impact. The gap between the rich and the poor is also expected to widen, presenting a challenge for policymakers in controlling its price range in the future. This research finds out if the TCJA succeeded in doing what it set out to do and what the greater impact is likely.

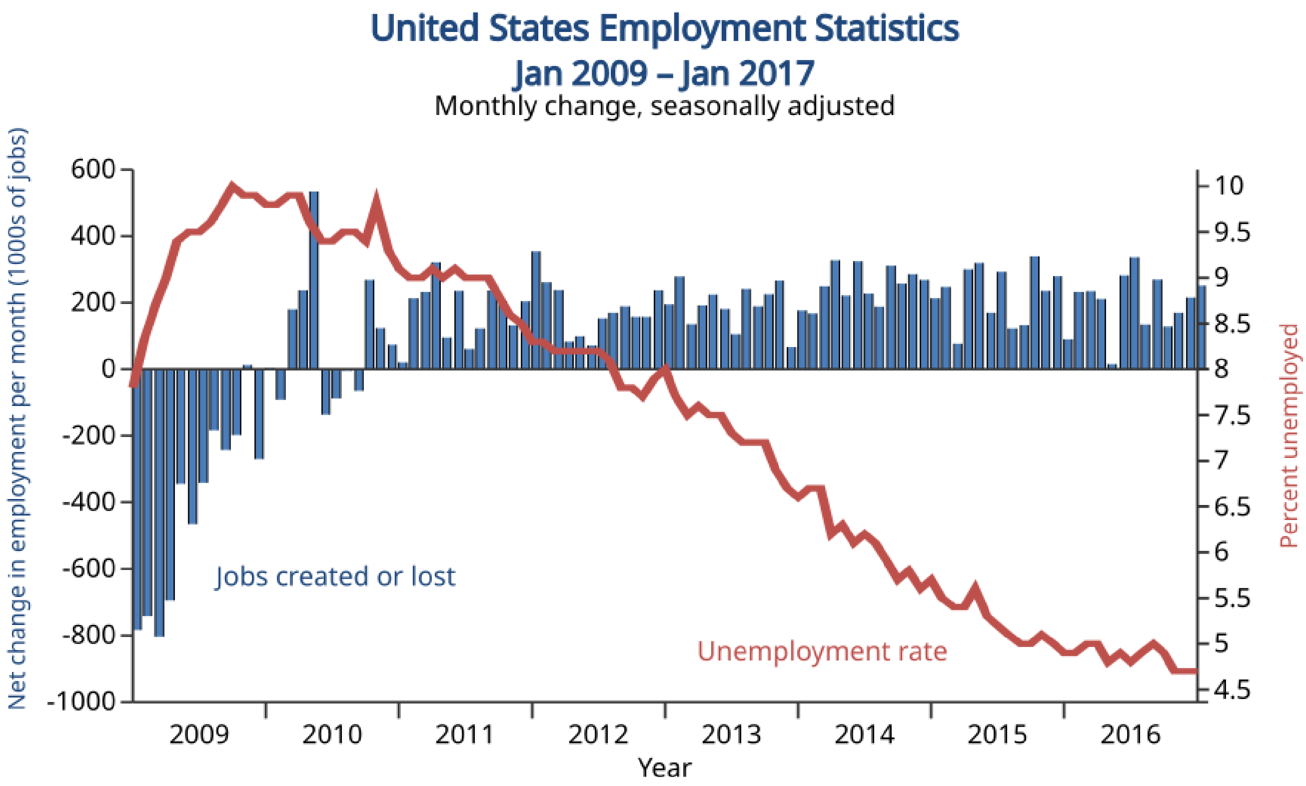
## A. Overview of Trump's economic agenda

The Donald Trump administration's Tax Cuts and Jobs Act, commonly called the TCJA, enacted in December of 2017, has been considered the biggest tax change since the U.S. Tax System of the 1980s. With three primary objectives: people and businesses' tax rates, simplifying the tax code, and funding investments further into the United States. TCJA looks forward to helping people and companies succeed. One of the most prominent aspects of Trump's economy is the temporary boom brought about by tax cuts and additional spending.

Comparing the 2014-2016 period (President Obama's last three years) with the 2017-2019 period (President Trump's first three years), results were influenced by various factors with prior trends such as the unemployment rate, which had been declining since 2010. Among the various variables, some like real GDP growth and nominal wage growth showed improvement while others like inflation and real wage growth showed deterioration. Now, in comparison to the January 2017 Congressional Budget Office (CBO) ten-year forecast shortly before Trump's inauguration, unemployment rates, job growth, and real GDP were all better during 2017-2019.

### B. TCJA under President Trump

The TCJA was one of the most important legislative achievements of the presidency of Trump regarding economic policy. It fits with the kind of vision that has come to define the Trump agenda as "America First," where the notion is not only to make the U.S. an even more preferable place for businesses but also to decrease tax pressures on middle-class families. It was also framed in the context of reducing tax code complexity and stemming the tide of sheer complexity both individuals and corporations live through.




[1]

**Image 1**: Unemployment in United States Statistics

## III. Overview of the Tax Cuts and Jobs Act (TCJA)

### A. Key objectives of the act

The Tax Cuts and Jobs Act of 2017 aimed to fix issues with the U.S. tax system, which hadn't been updated in over 30 years. One big goal was to boost economic growth by cutting corporate taxes from 35% to 21%, making the U.S. a more attractive place for businesses to invest, create jobs, and grow. The law also simplified the taxes of individuals and corporations by reducing the number of tax brackets and eliminating some of the complicated deductions. The intention was that, for individuals, lower tax rates would give people more money to spend, thus stimulating demand in the economy. Another aim was to

[1] Wikipedia

make the U.S. more competitive in the world by encouraging companies to bring back the profits they had earned overseas and invest them here.

### B. The economic rationale behind the TCJA

The TCJA was premised on the assumption that reducing business and wealthy individuals' taxes would eventually trickle down to benefit all. The theory was that businesses, with extra money from tax cuts, would hire more workers, increase wages, and invest in expanding their operations. This was to be expected over time to improve the economy and compensate for lost revenue to the government. However, critics point out that the businesses may not reinvest their savings as projected. Instead, they may use it for stock buybacks or other purposes that are not necessarily of help to the workers. There were also concerns that most of the benefits would end up with corporations and the wealthy, and little would trickle down to those people who spend their daily bread in the streets. There was also a concern that the economic boost may still be less than the loss of government revenue.

## IV. Key Provisions of the Tax Cuts and Jobs Act

### A. Individual tax cut

The TCJA brought some significant individual taxpayer changes. First, it lowered the major income tax rates across the board, shaving the highest rate to 37% from 39.6%. For most families, this will ultimately save pay increases later on because it wipes some tax brackets clean off the books. The law also doubled the standard deduction for individuals from $6,350 to $12,000 and for couples from $12,700 to $24,000-making tax filing much easier for many, as they no longer need to itemize their deductions. The TCJA also zeroed out personal exemptions, which had previously allowed taxpayers to deduct a base amount from their taxable income for each qualifying household member. It also doubled the Child Tax Credit to $2,000 per qualifying child, which greatly increased the value of this benefit for families. The law curbed and capped several itemized deductions, such as capping the deduction for SALT at $10,000 and reducing the deductibility of mortgage interest on newly issued home mortgages. However, most of these individual tax cuts are temporary and set to expire in 2025 unless Congress extends them. These provisions were considered somewhat populist for increasing disposable incomes and making tax filing easier but likely to benefit higher-income groups more.

### B. Corporate taxation reduction

Another key tax law created by the TCJA cut the corporate tax rate, from 35% to 21%. The law was partly aimed at incentivizing, as an incentive for companies to put their earnings back into the US. Also, the TCJA fully permitted businesses to expense tangible property--meaning choices other than buildings over five years, which helped incentivize investment in new equipment as well as other capital. The result was such an increase in revenue over the last couple of budget years that this even increased the Section 179 expensing limit to $1 Million. Other changes repealed the corporate alternative minimum tax (AMT) and capped an entity's deduction for interest expense at 30% of its EBITDA. These are impactful for bigger corporations with heavy doses of unsecured debt.

### C. Tax adjustments: estate tax

The TCJA doubled the estate tax exemption, or the amount that can be passed on to heirs without being taxed. In 2017, the estate tax applied to estates worth more than $5.49 million for individuals or $10.98 million for couples. Post-T.C.J.A., these thresholds have, of course, increased, but indexed for inflation, to approximately $11.2 million for individuals and $22.4 million for couples. This reform helped wealthy individuals distribute more of their estate tax-free; it greatly reduced the number of estates needing to pay estate tax.

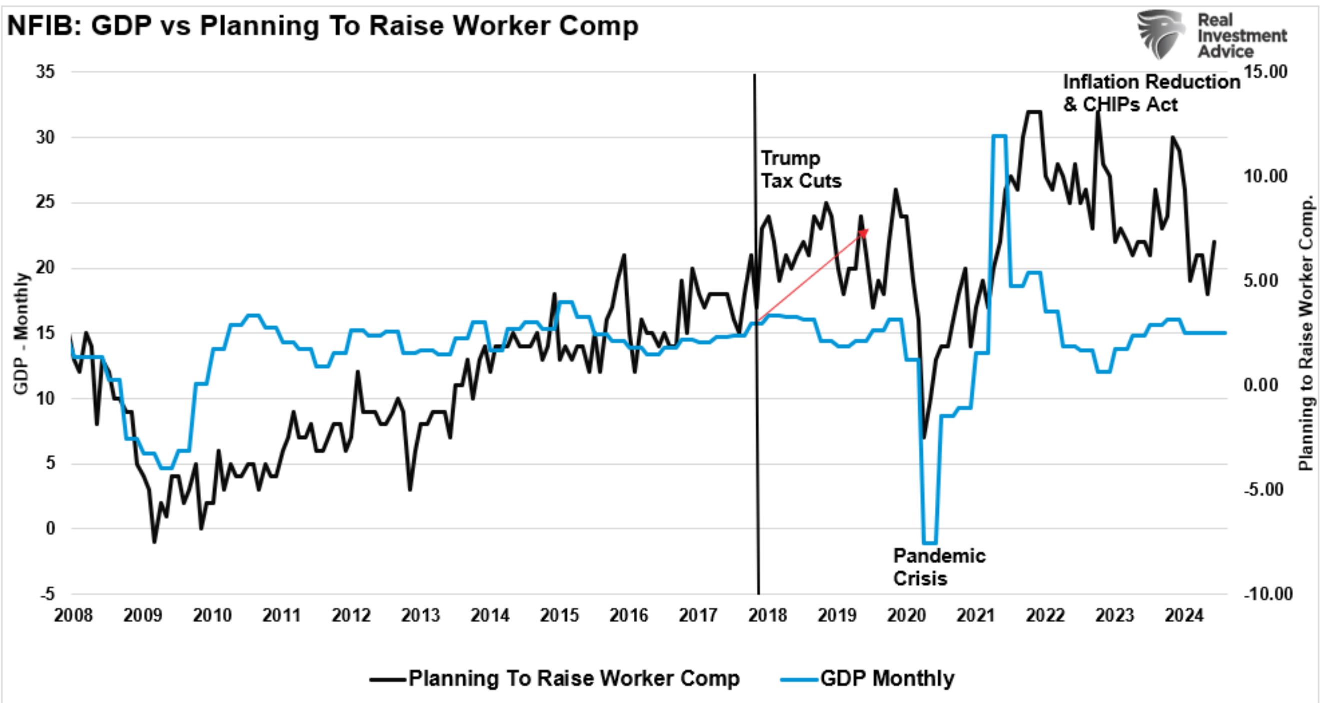
## V. Economic Growth Impact

### A. Short-term economic growth

The TCJA boosted the U.S. economic system's GDP with an **average growth of about 1.2%** for the first five Years (2018-2022) growth comes more as a result of tax relief in the corporate; increased funding incentives, along with the rise in disposable incomes of individuals, rather than tax cuts. For example, that is more accurate, real GDP would have been about 0.3% above the benchmark in 2018, and as much as 3% above the benchmark in 2025.

### B. Long-run projections of growth

Overall, for the long term, the TCJA added about 0.2 percent to GDP vis-a-vis the baseline pre-TCJA estimates. The gains in the real economy, however, fade since major provisions of the TCJA expire in 2025. The pickups in investment and labor supply that fairly proved instrumental in powering growth in start-ups will likely decline after tax cuts have run out.

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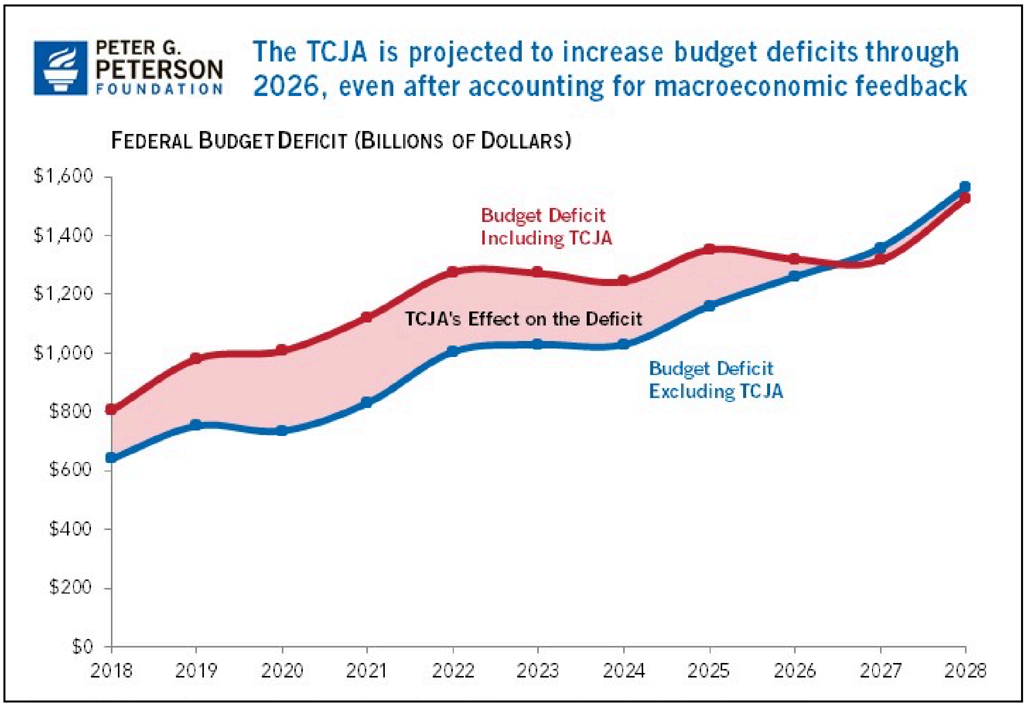
[2] Investing.com

**Image 2**: Tax cuts Translate to Economic growth

### C. Why did Trump implement the TCJA beyond economic growth?

Before the TCJA, the corporate tax rate in the U.S. was one of the highest in the world at 35%. This made it challenging for American companies to compete across the globe. This was a reason that led to the TCJA reducing the rate to 21%, with the expectation that more businesses would prefer to stay in the U.S. rather than relocate to other countries. This policy also aimed at attracting foreign-based businesses to invest in the U.S., thereby increasing the number of employees and local productions. It wanted to prevent such multinational corporations, especially the major technological companies, from using loopholes to shift all their profits out of the U.S. because of tax evasion. Keeping these revenues inside the U.S. was expected by reducing the tax rate through TCJA. From a personal aspect, the code was made more simplified, making its filing easier. It doubled the standard deduction so fewer people had to itemize deductions, and the number of tax brackets was lowered to make it less complicated. Even though its emphasis was placed on business tax cuts, TCJA also delivered some reprieve for middle-class families with reductions in income tax rates and an increase in child allowances; these benefits expire after 2025.

## VI. Impact on Fiscal Deficit and Public Debt



[3]

**Image 3**: Impact of TCJA on Federal Budget Deficits

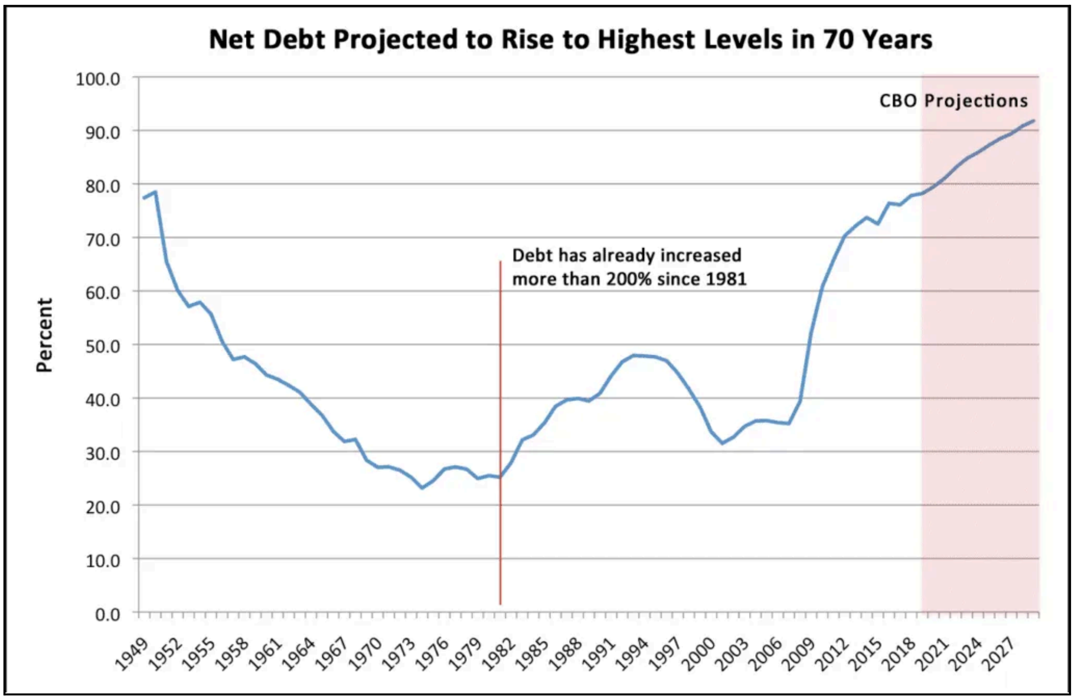
### A. Revenue collection decline

[3] Peterson Foundation

The TCJA would eliminate nearly **$1.8 trillion** in federal revenue over ten years from 2018-2027. This loss is primarily expected to arise from three sources - income tax cuts on both individuals and corporations, as well as estate taxes. Revenues lost during initial years will be quite high, but such loss of revenues is likely to reduce over time as most provisions of the legislation will begin to phase out, and some base-broadening measures will begin to have effects.

### B. Increased national debt

This also implies national debt because revenue collection declines. Individual tax cuts under the TCJA will have lost their impact by the year 2026; therefore, it promises to push the federal deficit higher unless steps to restore fiscal sustainability are instituted. Overall burden of debt will merely be deepened.



[4]

**Image 4**: Increased National Debt

## VII. Impact on Income Inequality

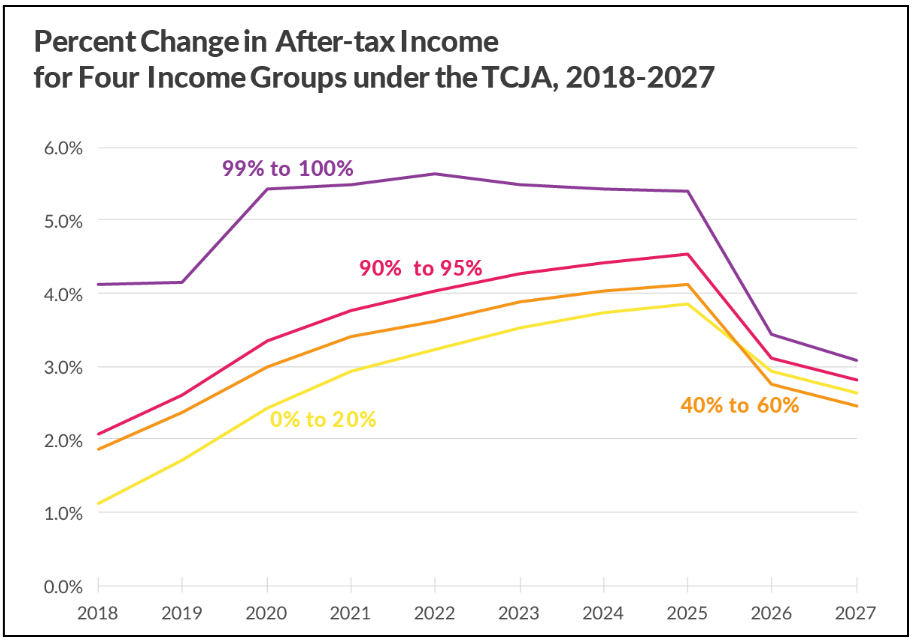
### A. Distribution of tax benefits across income groups

The TCJA was set up with the primary objective of reducing the taxation burden between the public and corporate worlds. However, the benefits accrued have been criticized for favoring the higher-end individuals more so. As per the, **83% of the tax benefits in 2018 went to the richest 1% of the earners.** Moderate-class families experienced relatively minor tax cuts while the lower classes had little

[4] Congressional Budget office

or no positive movement going on in their tax liabilities. The outcome has been the controversy of a widening gap between the citizens of America.

## B. Widening wealth gap



[5]

**Image 5**:: Positive economic growth effects of TCJA

There is a myth connecting the TCJA cuts to the concentration of assets by the wealthiest Americans, thus propelling the widening gap in wealth. The studies show the increasing income inequality in America as the result of policies that benefit only the highest levels. The reports show that the share of wealth among the top 10 percent has more than doubled since the adoption of the TCJA.

The largest increases in after-tax income were in the top 1% of earners, represented by the purple line, which experienced gains greater than 5% by 2025. This involves the best benefits. On the other hand, people in the lowest income group, who account for the bottom 20% of earners, represented by the yellow line, experienced far less in terms of growth; their after-tax income increased by less than 3%. The middle group (orange line), people within the 40% to 60% income category, didn't get as much as the high-income earners. Still, that group saw at least a slight improvement. All in all, the TCJA favored high-income earners. High-income earners did receive a good deal more dollars from tax cuts than lower and middle-income taxpayers. The tax cuts favored the rich far more than the poor or those of middle incomes. The top 1% of earners (represented by the purple line) saw the biggest increase in after-tax income with gains over 5% by 2025. This group benefited the most.

[5] Tax Foundation

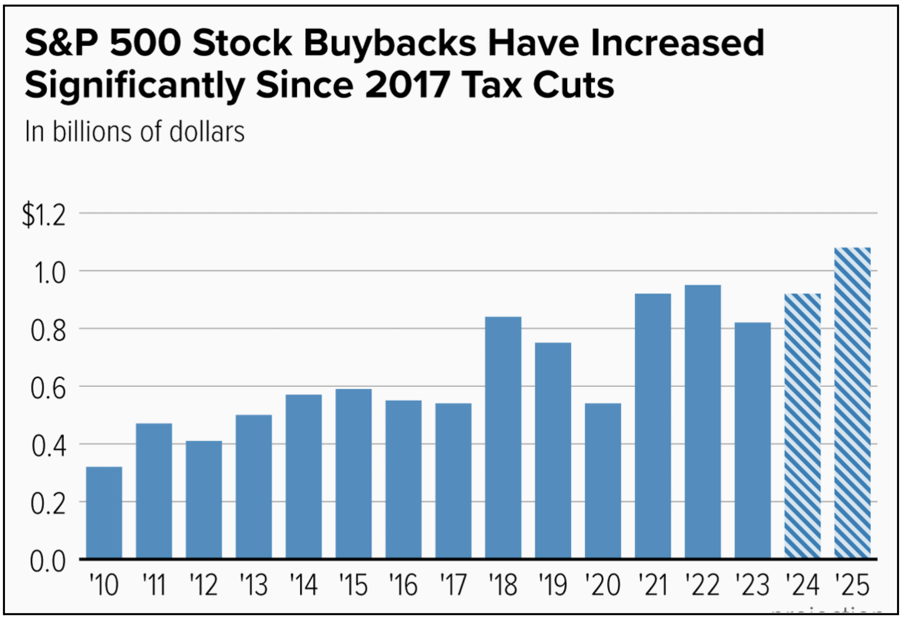
# VIII. Corporate Action on Tax Cuts

## A. Investment in domestic growth

The tax cuts are so tremendous that corporations might be encouraged to invest in domestic growth. This media report unveils that certain companies have planned to expand operations raise wages and invest more in employees. However, the shows, show that while a few firms have reinvested in their workforce, a few other companies have given the urge of shareholder returns over long-term investment.

## B. Stock buybacks and dividends

One of the more prominent corporate responses has been the rise in share buybacks. According to a report, publicly traded companies spent a record 1 trillion dollars on share buybacks last year. This practice boosts share prices and benefits the shareholders, in this case, the wealthiest investors, rather than encouraging significant wage growth or the creation of jobs for the average worker.



[6]

**Image 6**: Stock Buybacks Increased Significantly

# IX. International Repercussions

## A. Cross-border tax competition

The TCJA adds to cross-border tax competition as it increases the temptation for other countries to redesign their corporate tax rates. As explained above, the states will have reduced tax rates to woo FDI in retaliation against TCJA from reducing tax rates. This results in a "race to the bottom" because the states are willing to reduce tax revenues to get businesses.

[6] Godman sachs

### B. Change in foreign direct investment.

FDI flows also changed post-TCJAA. As noted above, the lower corporate tax rates that are seen after TCJA cause an intertemporally increasing inflow of FDI. That, however, was then subject to periodic fluctuations in outflows of FDI since firms adjusted their global strategies from taxation views in their new settings.

## X. Compared with previous U.S. tax laws

### A. Reagan's tax reform in 1981

The Reagan tax cuts, implemented by the Economic Recovery Tax Act of 1981, cut deep. Perhaps most obviously, all rates of individual income taxation were reduced by 25%. It meant the top marginal tax rate was going to be reduced from 70% to 50% to fuel investment and activity in the economy as a result of cash being made available to consumers and businesses. The tax cuts however did not pay for themselves after all. It unleashed growth in the economy but produced a steep increase in budget deficit since federal revenues have declined. Subsequent parts of the tax cuts had to be rolled back as subsequent taxes increased in the 1980s.

### B. The Bush Tax Cuts 2001 and 2003

Another significant policy act of the Bush administration was one of extreme favoritism toward tax cuts that had been enacted under the Economic Growth and Tax Relief Reconciliation Act of 2001 and the Jobs and Growth Tax Relief Reconciliation Act of 2003. Of course, this latter legislation included reducing income tax rates and reductions in capital gains and dividend tax reductions, and also the phase-out of the estate tax. Again, they were to be one other stimulus to growth in the economy. Scurrilous opponents claim they merely lined the pockets of the rich and contributed to the ever-swelling federal deficit at the cruelest possible juncture: when wars were costing the nation billions.

## XI. Criticism and support of the TCJA

### A. Proponents' arguments (including Trump's)

Proponents of the TCJA had a strong supporter, President Trump, who argued that such tax reductions would spur economic growth, increase investment, and create employment. Advocates argue that the US will be more competitive in the global marketplace and that companies may repatriate their earnings with a chance of investing them inside the country. For this, middle-class taxpayers were also included who would reap the benefits of increased standard deductions.

### B. Critics' points of view (Critics against the tenure of President Trump)

Critics argue that the tax cut law only succeeded in favoring the rich and corporations, thus intensifying income inequality. Its weak effect was government revenues due to which it added national debt, further fiscal imbalances, and concerns for a sustainability shift in the future. Corporations spent most of their tax savings on stock buybacks rather than utilizing them to boost the economy, and thus workers could only see moderate wage growth.

### C. Trump's defense against revenue loss allegations

Critics of the TCJA argued that it would significantly increase the federal deficit, as the government would borrow more money due to spending exceeding earnings. In response, Trump and his administration maintained that the tax cuts would be self-financing, as they believed the resulting economic growth would more than offset the loss in revenue. Trump claimed that the TCJA would drive faster economic growth, leading to more jobs, higher wages, and a larger taxpayer base, thus enabling the government to recover what it lost through tax cuts. Treasury Secretary Steven Mnuchin supported this, explaining that even with lower tax rates, the government would collect more money due to increased economic activity, using a "dynamic scoring" method to predict how tax changes would impact the economy. Additionally, to make up for some of the revenue loss from the tax cuts, Trump introduced tariffs on imported products like steel and aluminum, which provided another revenue stream for the government. However, tariffs were controversial as they raised the cost of imports for American consumers and led to retaliatory tariffs from other countries, negatively affecting U.S. industries, including agriculture.

## XII. The Actual Impact of the TCJA: Successes and Shortcomings

### A. Rising federal deficit and corporate priorities

The Tax Cuts and Jobs Act (TCJA) produced mixed outcomes, achieving some objectives while facing significant challenges and unintended consequences. The federal deficit rose substantially following the implementation of the TCJA, with the Congressional Budget Office (CBO) estimating it would add $1.9 trillion to the national debt over a decade (2018–2028), even after accounting for potential economic growth. The government experienced reduced revenues due to tax cuts, and the resulting economic growth was insufficient to offset these losses. The reduction in corporate tax rates enabled companies to save billions of dollars, but instead of channeling these savings into job creation or wage hikes, many corporations prioritized stock buybacks, boosting share prices to benefit shareholders. These actions largely bypassed direct benefits to workers, exacerbating criticism of the policy's limited "trickle-down" effects.

### B. Temporary household relief and modest growth

Middle-class families received temporary relief through reduced individual tax rates and an increased standard deduction. However, these tax cuts are set to expire in 2025, potentially leading to higher taxes for households if not renewed. This relief was criticized as a short-term measure without sustainable long-term impact. The economy grew by 2.9% in 2018, which, while healthy, was not significantly above pre-TCJA trends. Critics argued that the economy was already on a steady growth trajectory before the TCJA, suggesting that the tax cuts did not catalyze dramatic improvements. Over time, growth rates slowed, raising long-term concerns about the sustainability of the policy's economic impact.

# XIII. Conclusion: Policy Implications for Future U.S. Economic Policy

## A. Recommendations to achieve fiscal sustainability

The objectives of the reforms should focus on expanding the tax base and lowering the increasingly rising national debt for fiscal sustainability. Tax cuts may be controlled by the policymakers, and cuts in the right spending when required would be implemented to prevent further escalations in deficits. Sustainable tax policies will demand a balance of supporting economic growth and observing fiscal discipline.

## B. Lessons for Future Tax Reforms

One lesson learned from the Reagan and Bush tax cuts, as well as from TCJA, is that very large tax cuts are likely to produce very large budget deficits unless accompanied by corresponding spending cuts. A third further reform should ensure that the benefits are equitably distributed among different sources of income in order not to deepen income inequality. They must also take into account the fact that tax reductions have long-run fiscal consequences, and therefore hectic reforms may attract subsequent tax increases. This 2017 Tax Cuts and Jobs Act indeed marks a complete overhaul of the U.S. tax landscape, intended to spur economic growth through simplification of a complex tax code and restoration of global competitiveness. However, the near-term benefits of cash flow to tens of millions of taxpayers, increased disposable income for U.S. citizens, and corporate profits will no doubt be beneficial to participants involved in these activities; far more significant issues related to long-term fiscal sustainability and equity implications. The TCJA relieved both individuals and corporations of some tax burden but did so in a manner very skewed in favor of offering relief to more affluent individuals and companies by stretching the chasm between the rich and the poor. Corporations have used savings from tax to increase their usage of stock buybacks rather than investing in domestic growth or people. For example, there is less federal revenue when the nation incurs a debt which could compromise the future economic situation. Critical features of TCJA will have to expire by 2025 and legislators should consider the implications of maintaining the same or changing and develop new reforms.

Summarily, differential benefits and fiscal implications of TCJA mean that tax policy should be re-looked at with vigilance toward equitable growth and long-term sustainability.

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