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Restoring and Expanding Tax Reforms to Empower Women and Families

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HIGHLIGHT

A top 2025 agenda item for D.C. policymakers is extending expiring provisions of 2017 tax cuts. Because most corporate tax changes are permanent, policymakers will focus on small businesses and individual taxes. Making tax rate reductions permanent will lower taxes for 80 percent of taxpayers—a critical need for Americans seeking economic relief. If tax cuts are not made permanent, tax increases begin in 2026.

INTRODUCTION

Next month, Congress and the incoming Trump 2.0 White House are poised to renew expiring provisions and add additional reforms to the Tax Cuts and Jobs Act (TCJA). In December 2017, a Republican Congress passed and President Trump signed the Tax Cuts and Jobs Act (TCJA), a package of sweeping reforms to the U.S. tax code, both for individual filers and corporations. The TCJA cut income tax rates for workers at every level and nearly doubled the standard deduction, shielding more income from taxation. It expanded the Child Tax Credit and preserved other popular tax benefits like the deductions for mortgage interest and charitable deductions, among others.

Before the TCJA, American corporations faced one of the world's highest statutory corporate income tax rates at 35 percent. The TCJA lowered this rate to 21 percent, putting the U.S. rate near the global average. Many small businesses known as "pass-through entities" (because income "passes through" to the owner and is taxed as personal income) benefited from tax reform because the law provides them with a 20-percent deduction on business profits.

Trump vowed on the 2024 campaign trail to build on the expiring tax cuts by eliminating taxes on tips, overtime, and Social Security benefits. These would save households money and assist small business profitability. The big question will be how these tax cuts will be paid for. Trump created the Department of Government Efficiency (DOGE) to reduce government waste. Trump will also work with Congress, which could also extend the cuts temporarily to control costs.

Americans kept more of every hard-earned dollar, and other changes to the individual income tax reduced tax liabilities and increased credits for the vast majority of filers.

While the TCJA took effect on January 1, 2018, it did not apply retroactively to 2017 taxes. However, the impact of the law immediately became clear. The IRS published and employers adopted new withholding tables to reflect the tax cuts, so American families could keep more money from every paycheck. In the two years after the TCJA was signed into law, real wages rose by 4.9 percent—the fastest growth in twenty years.

A huge reduction of the corporate tax rate (from 35 to 21 percent) largely benefited workers, who indirectly pay the lion's share of corporate taxes. Corporations responded to the reduced corporate income tax rate with immediate investments in their workforces through wage raises, bonuses, expanded benefits and training programs, and new jobs. These results suggested the tax reform law helped American families, expanded work opportunities, and fostered strong economic growth.

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MORE INFORMATION

The 2017 Tax Cuts and Jobs Act reformed government tax revenue collection. These reforms created significant benefits for American families and workers. American workers and families received an immediate boost from tax cuts. Lower rates meant

Tyler Cowen, an economics professor at George Mason University, reported in July 2024—some 6.5 years after the TCJA took effect—that as a result of the law, "Total tangible corporate investment went up by about 11%" and "there has been a long-run increase in GDP of 0.9%—a substantial sum in an economy of more than $27 trillion."

A POPULAR LAW

The changes from the Tax Cuts and Jobs Act made it easier for more filers to take the standard deduction, meaning they no longer needed to track itemized deductions. The changes also flattened tax brackets and broadened the tax base. Given all these benefits, it's no wonder the TCJA is popular today. For example, in September 2024, Americans for Prosperity (AFP) released new polling on Americans' views on the coming expiration of the TCJA.

The TCJA eliminates all personal exemptions (worth about $4,000 per person), but it nearly doubles the standard deductions from $6,350 (for singles), $9,350 (for heads of household), and $12,700 (for married filers) to $12,000, $18,000, and $24,000, respectively.

The poll, conducted by Public Opinion Strategies, found that the majority of Americans have heard very little about portions of the TCJA expiring at the end of 2025 and what these looming expirations would mean for their families and the economy as a whole. Still:

- **More than three-quarters** of Americans say that now is a bad time to increase taxes.
- **Ninety percent** of Americans oppose tax hikes and want to keep their current rates.
- A **majority** of Americans say that failing to renew the 2017 tax cuts would hurt middle-class families, small businesses, American consumers, and the economy.
- **Seventy-eight percent** of Americans say that raising taxes on businesses would only raise prices overall and squeeze family budgets even more.

A SIMPLER, FAIRER TAX CODE:

Before the TCJA, Americans filed in one of seven tax brackets at rates of 10, 15, 25, 28, 33, 35, and 39.6 percent. These rates are progressive, meaning the higher rates apply to higher levels of income. Importantly, these tax rates are marginal, meaning that, for example, someone earning $100,000 would have fallen in the 28 percent bracket. This individual would not owe $28,000 in taxes but rather $20,981.75, because her income would be taxed at lower rates until she reached the threshold for her tax bracket, when every additional dollar earned would be taxed at 28 percent.

The Tax Cuts and Jobs Act lowered the income tax rates to 10, 12, 22, 24, 32, 35 and 37 percent, respectively. It also adjusted the income thresholds for each bracket, resulting in lower income tax liabilities for people at every income level.

Rates and brackets, however, are only part of the picture. For most filers, the amount of their income subject to the income tax plays an even bigger role in determining their net tax bill. Taxable income is income remaining after exemptions and deductions are taken into account. The TCJA eliminates all personal exemptions (worth about $4,000 per person), but it nearly doubles the standard deductions from $6,350 (for singles), $9,350 (for heads of household), and $12,700 (for married filers) to $12,000, $18,000, and $24,000, respectively.

This change had two effects: It increased the number of filers who took the standard deduction, rather than itemizing (tallying deductions individually). This made filing taxes simpler for those filers and reduced tax compliance burdens by 2 billion hours from

2017 to 2020—a time savings worth over $50 billion. An increased standard deduction also shielded more income from taxation by reducing taxable income for many filers.

If the TCJA is not extended, the Tax Foundation finds that more than 62 percent of tax filers will experience tax increases in 2026. The average family of four making $75,000 will see their taxes increase by $1,500 if Congress does not take action on the TCJA.

TAX TREATMENT OF CHILD AND ELDER CARE

The TCJA also expanded the Child Tax Credit (CTC) from $1,000 to $2,000 per child and increased the "phase-out" income level to $200,000 or $400,000 for married households (up from $55,000 and $110,000 respectively). It also increased the amount of the credit that is refundable from $1,000 to $1,400. Taken together, these changes meant more families were able to get more tax benefits from the CTC, even if their tax liability didn't exceed the amount of the credit. There was also a new $500 credit now available for non-child dependents. This is especially beneficial for families with dependent adult children, for example.

As part of extending the 2017 tax cuts, the second incoming Trump administration says it would extend or make permanent the expanded CTC that was doubled to $2,000 per child under 17. This is an area of bipartisan agreement. Democrats want an expanded credit as well but have called for increasing it up to as much as $6,000 per child under one and removing work requirements. The expanded CTC should be extended and perhaps made permanent. However, we caution conservatives not to warp it into a new Universal Basic Income (UBI) check by relaxing work requirements and making it fully refundable. Data show UBI has negative effects on people choosing to work.

During his 2024 campaign, Trump floated a new tax credit for family caregivers. This would defray the costs for families providing caregiving for elderly family members. How this would be passed or details about who would qualify have not been provided. This might be part of the tax-cut extensions or provided later. IWF has endorsed another avenue to help families afford elder care. We believe that an au pair program for elderly care is one way to do so without burdening taxpayers.

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INDIVIDUAL TAX FILERS, HEALTH CARE AND EDUCATION

The TCJA changes a few specific deductions for individual tax filers. The State and Local Tax (SALT) deduction, previously unlimited, was limited to $10,000 per family. The mortgage interest deduction was limited to $750,000 for new home mortgages (taken out after Dec. 14, 2017), and $1 million for mortgages taken out before Dec. 15, 2017.

These changes had the biggest impact only on tax filers with the highest state and local tax liabilities and the highest home mortgage interest costs. These are overwhelmingly tax filers with very high levels of income.

SALT deduction reductions today are a contentious issue, with displeasure from Democrat-leaning states in particular, which tend to have higher levels of income and property values. Next year, this could prove to be a hot-button issue of debate.

The charitable giving deduction under TCJA allowed people to give up to 60 percent of their income rather than 50 percent, leaving it essentially unchanged for most filers. This balances against tax filers who no longer itemize their deductions because of the doubling of the standard deduction. Charitable giving dipped after the first two years, but has recovered and, in 2023, exceeded 2017 levels.

SMALL BUSINESS PASS-THROUGHS

Small businesses are the foundation of the U.S. economy. These small "pass-through" businesses are taxed under individual income tax rates. This includes sole proprietorships, partnerships, and Subchapter-S corporations. These small businesses are critical to our economy, employing nearly half of the American workforce and representing nearly 44 percent of America's GDP.

Prior to the TCJA, some small businesses that filed through the individual income tax code faced tax rates of up to 39.6 percent. Less than a year after the TCJA's enactment, the National Federation of Independent Business's small-business optimism index hit the highest level ever recorded during its 45-year history (the previous record was in 1983, set during the second year of Ronald Reagan's presidency).

A significant challenge facing these businesses is the expiration of the 20 percent small business deduction at the end of next year, which could lead to small businesses facing increased taxes. It was viewed as a means to reduce tax burdens for small and mid-sized businesses similar to how C-corporations benefitted from the corporate tax rate cut.

The TCJA also eliminated the penalty for going without health insurance, which was originally part of the 2010 Affordable Care Act. The medical expense deduction threshold increased from 7.5 percent of adjusted gross income to 10 percent in 2019. The TCJA expanded the use of Education Savings Accounts (also known as 529 plans) so that families can use them for K-12 education expenses, not just college.

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ADDRESSING COST CONCERNS

Critics of Republican plans to extend and expand tax reforms in the TCJA express concern about both the costs and the reduction in government revenue as a result of the tax cuts. However, the latter criticism has been proven false. The Wall Street Journal reported in November 2024: "More than six years after the TCJA took effect, tax revenue has exceeded CBO projections from June 2017. By 2023 annual tax revenue had recovered from the Covid-19 recession and returned to its historical average of about 16.5% of GDP." Additionally, the TCJA did not lead to cuts in government services as a result of a decrease in tax revenue, because many federal programs need structural reforms, and wasteful spending needs to be restrained.

At the same time, the Trump administration is poised to reduce the federal budget. Tech entrepreneurs Elon Musk and Vivek Ramaswamy have been tasked by President-Elect Trump with reforming government spending through the creation of a Department of Government Efficiency (DOGE). This agency is expected to find hundreds of billions to cut from the federal budget.

The legal process for enacting reforms to the TCJA is through a concept called "reconciliation." This legislative process makes "tax and mandatory spending changes necessary to meet the levels proposed in the Congressional budget resolution" according to the Committee for a Responsible Federal Budget Reconciliation. This process would not require a 60-vote threshold in the U.S. Senate, but a simple majority vote.

It's clear the American people desire a simpler, fairer tax system, and enacting sensible reforms, extensions and updates to the Tax Cuts and Jobs Act will do just that.

There remains debate about whether the expiring provisions of TCJA should be fully paid for. Extending the expiring provisions would cost roughly $4 trillion according to the Congressional Budget Office. One argument posits that the tax cuts extensions do not need new funding, because they are extending current tax provisions or the status quo. Furthermore, historically, Congress extended tax cuts without paying for them such as President George W. Bush's 2001 and 2003 tax cuts that Congress extended without offsets.

Democrats and Republicans alike used the reconciliation process to pass laws.

CONCLUSION

It's clear the American people desire a simpler, fairer tax system, and enacting sensible reforms, extensions, and updates to the Tax Cuts and Jobs Act will do just that.

The timing, public sentiment, data, and legal pathway are aligned: it's time for additional tax reforms for the American people.

WHAT YOU CAN DO

Get Informed

Learn more about tax reform. Visit:

- National Taxpayers Union Foundation
- Tax Foundation
- Reconciliation 101

Talk to Your Friends

Help your friends and family understand these important issues. Share this information, tell them about what's going on, and encourage them to join you in getting involved.

Become a Leader in the Community

Start an Independent Women's Network chapter group so you can get together with friends each month to talk about a political/policy issue (it will be fun!). Write a letter to the editor. Show up at local government meetings and make your opinions known. Go to rallies. Better yet, organize rallies! A few motivated people can change the world.

Remain Engaged Politically

Too many good citizens see election time as the only time they need to pay attention to politics. We need everyone to pay attention and hold elected officials accountable. Let your Representatives know your opinions. After all, they are supposed to work for you!

ABOUT INDEPENDENT WOMEN'S FORUM

Independent Women's Forum (IWF) is dedicated to building support for free markets, limited government, and individual responsibility. IWF, a non-partisan, 501(c)(3) research and educational institution, seeks to combat the too-common presumption that women want and benefit from big government, and build awareness of the ways that women are better served by greater economic freedom. By aggressively seeking earned media, providing easy-to-read, timely publications and commentary, and reaching out to the public, we seek to cultivate support for these important principles and encourage women to join us in working to return the country to limited, Constitutional government.