

Tax Subcommittee Hearing

Your Paycheck, Returned: How the Working Families Tax Cuts Delivered for Americans

Introduction

Chairman Kelly, Ranking Member Thompson, and members of the Ways and Means Committee thank you for the opportunity to testify on the Working Families Tax Cuts Act (also referred to as the One Big Beautiful Bill Act or OBBBA). It is an honor to be back before this committee albeit in a different capacity as I previously served on the staff of this Committee under Chairmen Ryan and Brady. In my current role, I am the Deputy Head of US Policy at Piper Sandler, an investment bank. My job is to conduct macroeconomic research and help our clients, institutional investors, to navigate how US policy affects markets. It is important to note that I am here today representing my own personal views and the comments I express today and in my written testimony do not reflect the views of my employer.

Tax Cuts For Individuals

The OBBBA contained sweeping tax reforms. First, it prevented an over \$400 billion annual tax increase on individuals by permanently extending the reforms made in the Tax Cuts and Jobs Act (TCJA). In addition, many provisions were created or reformed, including on a retroactive basis, to provide tax relief to working families. These provisions are the subject of my testimony today.

First, the law expanded on existing reforms in the TCJA by expanding the child tax credit to \$2,200 (indexed for inflation) and increasing the standard deduction by \$750/\$1,500 (single/joint). The law also increased the state and local tax (SALT) cap from \$10,000 to \$40,000 (with an income limitation beginning at \$500,000).

Several other new provisions were enacted retroactively as well. The legislation created a deduction for overtime income up to \$12,500/\$25,000 (single/joint) for those with incomes below \$150,000/\$300,000, a deduction for tip income up to \$25,000 for those with incomes below \$300,000 (half of that amount for single filers), a \$6,000 deduction for senior citizens with incomes below \$75,000/\$150,000 (single/joint), an auto interest deduction up to \$10,000 with an income limit of \$100,000/\$200,000 (single/joint), and a \$1,000 deposit into tax advantaged savings accounts (known as Trump Accounts) for newborn children.

According to my analysis derived from the Joint Committee of Taxation's cost estimate, these provisions were expected to deliver \$106 billion in retroactive tax relief to households for tax year 2025 (see the table on the following page for the provision-by-provision amounts). Other estimators have found similar but slightly larger tax cuts. For example, the Tax Policy Center estimated OBBBA would deliver \$124 billion in tax relief retroactively while the Tax Foundation and American Enterprise Institute estimated \$137 billion in tax relief for individuals. The Tax Foundation and AEI analysis also found that about \$18 billion retroactive business tax changes (such as full expensing and the EBITA interest limitation) would accrue to pass-through businesses and thus show up as a reduction in income taxes. When adding the pass-through tax relief to each of the estimates, it implies a range of individual income tax cuts from \$124 billion to \$156 billion.

RETROACTIVE TAX RELIEF FOR INDIVIDUALS IN OBBBA, \$BN

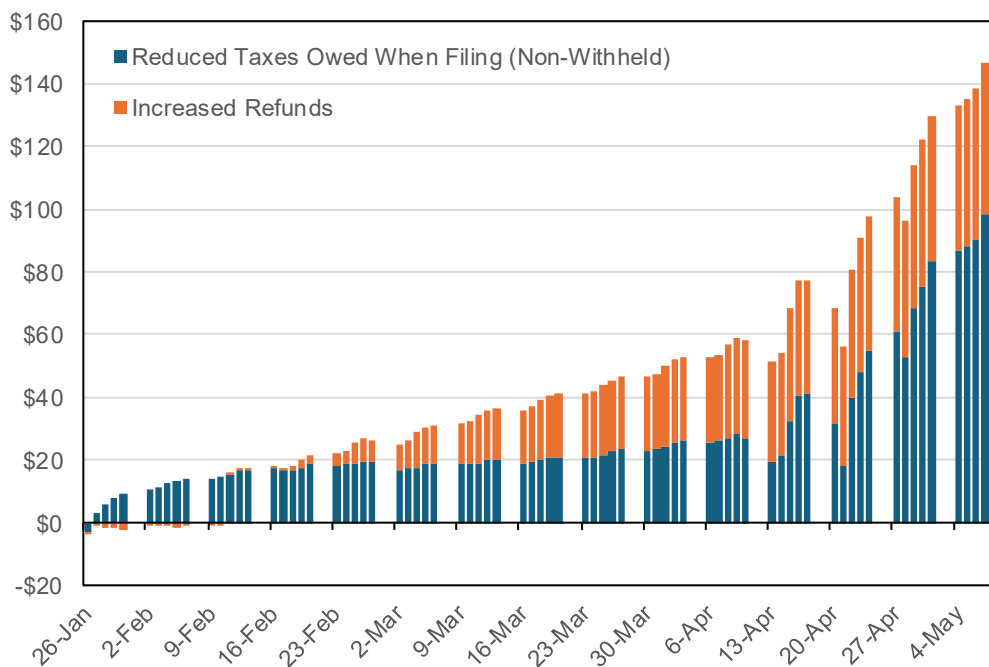
Tax Provision	Analysis of JCT Data	AEI & TF
SALT Cap Increase	\$29.4	\$32.2
Deduction for Overtime Income	\$22.4	\$38.7
\$6,000 Additional Deduction for Seniors	\$15.1	\$16.8
Standard Deduction Increase	\$12.3	\$18.3
Deduction for Tips	\$7.8	\$7.0
Deduction for Auto Loan Interest	\$7.3	\$6.8
Child Tax Credit Increase	\$5.5	\$8.9
Other (Including Trump Accounts)	\$6.4	\$8.7
TOTAL	\$106.1	\$137.4

Sources: Tax Foundation, AEI, and analysis of JCT data.

Revenue Analysis

It is one thing to describe estimates of tax relief, it is another to see the results in practice. Tax filing season began on January 26 and ended on April 15. Using daily data from the Treasury Department, we can track tax relief as it is disbursed through a combination of tax refunds and lower tax payments (formally known as non-withheld taxes). According to my analysis of the data, the tax changes enacted in OBBBA provided \$148 billion in tax relief to individuals during the filing season – right in the middle of the range predicted by revenue estimators (see the chart below for the daily cumulative total). I find that OBBBA increased tax refunds by \$48 billion and lowered tax payments by \$100 billion. To put this figure into context, there have been 146 million returns filed as of May 2, which means OBBBA provided roughly \$1,000 in tax relief per return.

CUMULATIVE TAX RELIEF BY SOURCE, \$BN

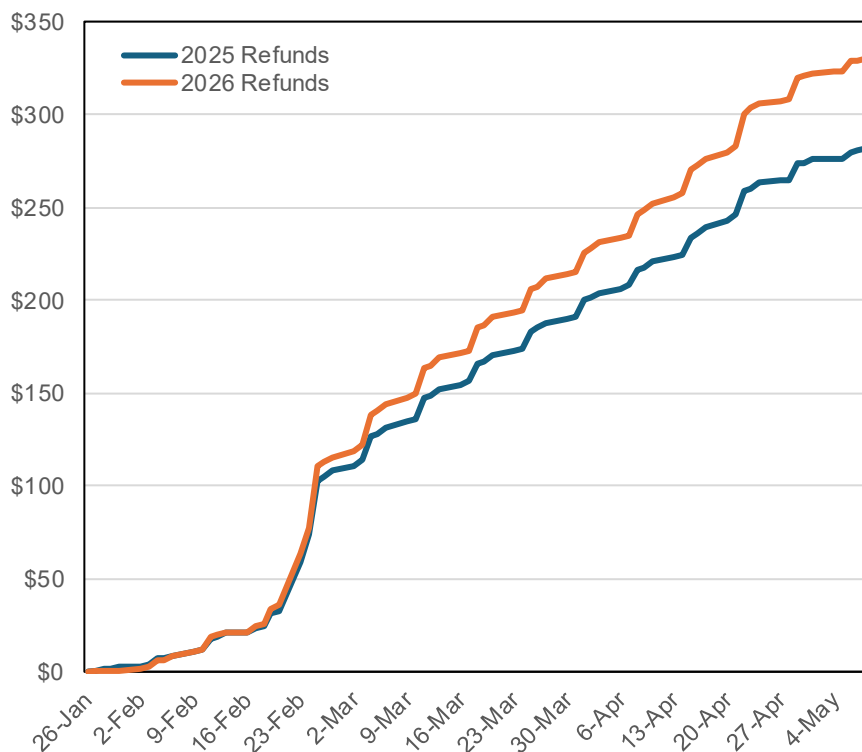


Sources: Analysis of Treasury Department data.

When disaggregating the data we can observe a substantial increase in tax refunds that accumulated steadily during the filing season and continued well into early May (as payouts continue after the formal end of the season on April 15). The end result was an increase in refunds from \$282 billion to \$330 billion – a \$48 billion or 17% increase versus 2025. At the same time, the average tax refund increased from \$2,947 to \$3,273 – an increase of \$326 or 11%.

The difference between these two figures implies something very interesting. Consider the fact that 63.5% of taxpayers received a refund in 2025 but 68.2% did in 2026 (a 4.6% increase). This means that over 6.6 million returns flipped from owing when they file to receiving a refund. This increases the aggregate amount of tax refunds paid but reduces the average increase in refunds because, almost definitionally, someone who flips from owing to getting a refund will get a below-average refund. In other words, average tax refunds were a victim of their own success, and they would have increased further were it not for this phenomenon.

CUMULATIVE TAX REFUNDS DURING 2025 AND 2026 FILING SEASONS, \$BN

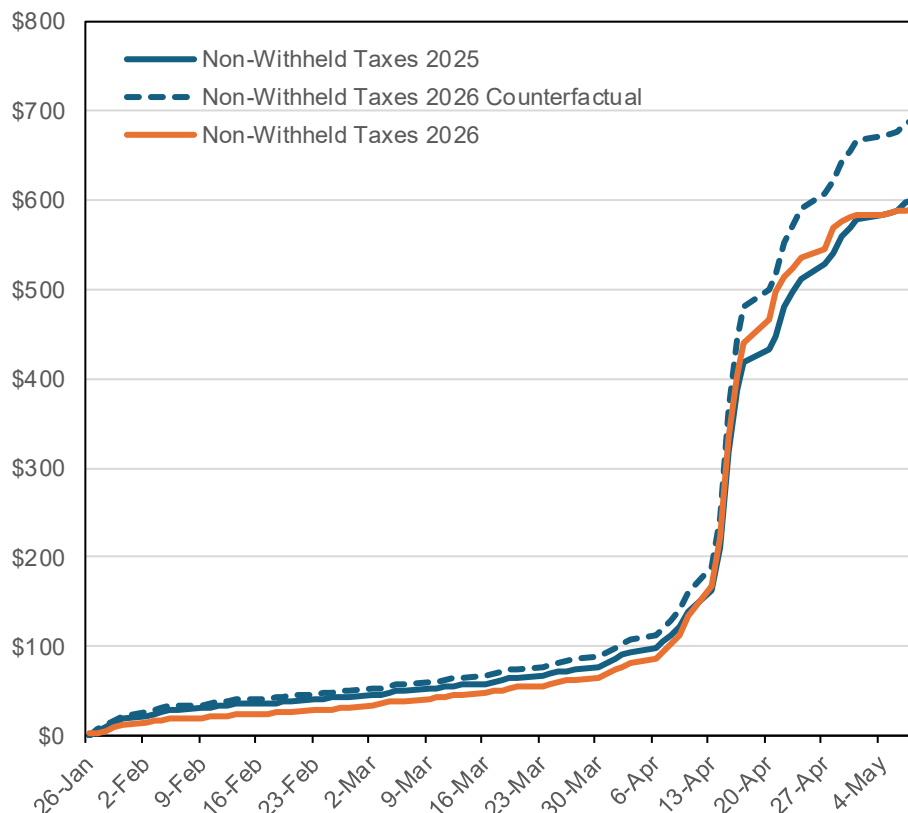


Sources: Analysis of Treasury Department data.

While it is straightforward to compare tax refunds on a year-over-year basis (as there is not much variance by year) it is technically trickier to observe the reduction in taxes owed when filing. This is because we need to compare taxes paid to what would have otherwise occurred had OBBBA not been enacted. Last year, during the analogous filing season period, we collected \$600 billion in non-withheld individual income taxes. Non-withheld taxes are not only a residual between what taxpayers pay during the year and what they owe, but they are also comprised of capital gains taxes and quarterly estimated payments for pass through businesses.

I estimate that absent OBBBA, non-withheld taxes would have grown \$90 billion (an increase of 15%). An increase of this magnitude makes sense given strong gains in financial markets and healthy economic growth. This figure is consistent with the Congressional Budget Office baseline as I derive the projection from their data (note: the CBO forecasts an increase in capital gains taxes alone of \$50 billion year-over-year). In other words, in the counterfactual projection in which OBBBA was not enacted, non-withheld taxes would cumulatively total \$690 billion. As the chart below shows, non-withheld taxes came in far below the counterfactual (\$100 billion), and even \$10 billion below last year's levels.

CUMULATIVE NON-WITHHELD TAXES DURING 2025 AND 2026 FILING SEASONS, \$BN



Sources: Analysis of Treasury Department data.

In short, revenue estimators predicted OBBBA would provide somewhere between \$124 and \$156 billion in tax relief during the filing season and, by my estimates, provided up to \$148 billion. OBBBA delivered as expected.

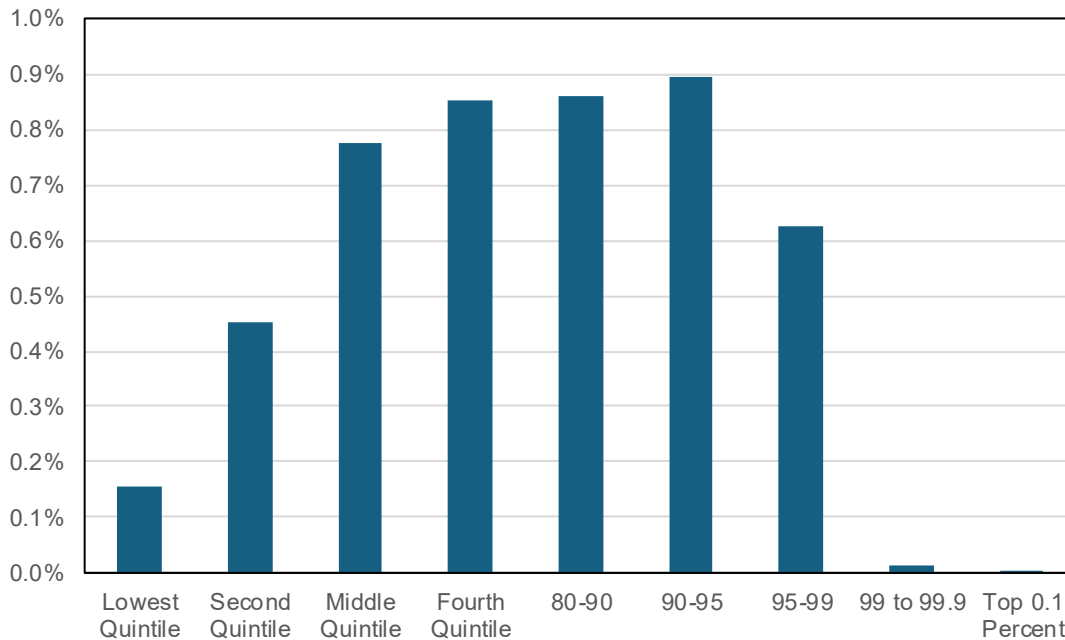
Distributional Analysis

There are a variety of ways to convey the distributional impact of policy change, but the fairest way to do so is to look at the percent change in after-tax income by income group. According to an analysis of the retroactive tax provisions produced by the Tax Policy Center, OBBBA would boost after-tax incomes by 0.2% for the bottom quintile, 0.5% for the second quintile, about 0.9% on average for those between the 40th percentile and the 95th percentile, 0.6% for those in the 95th to 99th percentiles, and virtually nothing for those in the top 1%. In other words, there is

relatively little tax relief at the very low end of the income spectrum, robust tax relief in the middle, and virtually none at the top.

This pattern is understandable. First, very low-income households typically do not pay income taxes (or are in a net negative income tax position) so they do not benefit from deductions. Second, very high-income households do not benefit from any of these tax provisions because each of them has an income limitation ranging from \$75,000 to \$500,000 (with phase outs) depending on the provision and filer type (single/joint).

**INDIVIDUAL INCOME TAX CUTS FROM OBBBA FOR TAX YEAR 2025
% CHANGE IN AFTER TAX INCOME**



Sources: Analysis of Tax Policy Center data. According to TPC the percentile thresholds are defined as: 20% \$34,000; 40% \$65,800; 60% \$117,100; 80% \$213,000; 90% \$312,000; 95% \$453,100; 99% \$1,125,700; 99.9% \$5,225,500.

I look forward to your questions. Thank you.