CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

October 28, 2015

H.R. 2510
A Bill to Amend the Internal Revenue Code of 1986 to Modify and Make Permanent Bonus Depreciation

As ordered reported by the House Committee on Ways and Means on September 17, 2015

SUMMARY

H.R. 2510 would amend the Internal Revenue Code to permanently provide an additional first-year depreciation deduction of 50 percent of the adjusted basis of qualified property, effective January 1, 2015. Under current law that additional deduction expired for most property placed in service after December 31, 2014. The bill would also expand the definition of qualified property and make other modifications to that deduction.

Because of the magnitude of its budgetary effects, this bill is “major legislation,” as defined in section 3112 of S. Con. Res. 11, the Concurrent Resolution on the Budget for Fiscal Year 2016. Hence, the cost estimate prepared by CBO and the staff of the Joint Committee on Taxation (JCT) incorporates the federal budgetary effects of changes in economic output and other macroeconomic variables that would result from enacting the legislation.

JCT estimates that enacting the bill would increase deficits by about $267 billion over the 2016-2025 period. That estimate includes two components. First, excluding macroeconomic feedback effects, JCT estimates that the bill would increase deficits by about $281 billion over the 2016-2025 period. In addition, the macroeconomic feedback would reduce deficits by about $14 billion over that period, JCT estimates.[1] Most of the effects on deficits would result from changes in revenues. In addition, JCT estimates that enacting the legislation would decrease revenues and increase the on-budget deficit by at least $5 billion in one or more of the four consecutive 10-year periods beginning in 2026. That estimate includes macroeconomic feedback.

Enacting the legislation would affect direct spending and revenues; therefore, pay-as-you-go procedures apply.

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[1] For more details, see Joint Committee on Taxation, *A Report to the Congressional Budget Office of H.R. 2510, “Macroeconomic Effects of the Bonus Depreciation Modified and Made Permanent,” as Ordered to be Reported by the House Committee on Ways and Means* (JCX-134-15), October 27, 2015.

JCT has determined that the bill contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA).

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impacts of the bill are shown in Table 1.

TABLE 1. SUMMARY OF ESTIMATED EFFECTS ON DIRECT SPENDING AND REVENUES OF A BILL TO AMEND THE INTERNAL REVENUE CODE OF 1986 TO MODIFY AND MAKE PERMANENT BONUS DEPRECIATION

	By Fiscal Year, in Billions of Dollars											
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2016-2020	2016-2025
ESTIMATED CHANGES WITHOUT MACROECONOMIC FEEDBACK												
Effects on Outlays	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Effects on Revenues	**-97.5**	**-43.4**	**-34.0**	**-26.3**	**-20.7**	**-16.8**	**-12.0**	**-9.7**	**-9.9**	**-10.3**	**-221.9**	**-280.7**
On-budget	-97.5	-43.4	-34.0	-26.3	-20.7	-16.8	-12.0	-9.7	-9.9	-10.3	-221.9	-280.7
Off-budget	0	0	0	0	0	0	0	0	0	0	0	0
Effects on the Deficit [a]	**97.5**	**43.4**	**34.0**	**26.3**	**20.7**	**16.8**	**12.0**	**9.7**	**9.9**	**10.3**	**221.9**	**280.7**
On-budget	97.5	43.4	34.0	26.3	20.7	16.8	12.0	9.7	9.9	10.3	221.9	280.7
Off-budget	0	0	0	0	0	0	0	0	0	0	0	0
ESTIMATED BUDGETARY IMPACT OF MACROECONOMIC FEEDBACK												
Effects on Outlays	**1.2**	**2.0**	**2.2**	**2.3**	**2.2**	**2.1**	**1.8**	**1.5**	**1.1**	**0.6**	**9.9**	**17.0**
Effects on Revenues	**2.2**	**2.5**	**2.3**	**2.4**	**2.5**	**2.8**	**3.1**	**3.6**	**4.3**	**5.0**	**11.9**	**30.7**
On-budget	1.4	0.8	0.5	0.7	0.6	1.0	1.1	1.3	1.9	2.5	4.0	11.8
Off-budget	0.8	1.7	1.8	1.7	1.9	1.8	2.0	2.3	2.4	2.5	7.9	18.9
Effects on the Deficit [a]	**-0.9**	**-0.5**	**-0.1**	**-0.1**	**-0.3**	**-0.7**	**-1.3**	**-2.1**	**-3.2**	**-4.4**	**-2.0**	**-13.7**
On-budget	-0.2	1.2	1.7	1.6	1.6	1.1	0.7	0.2	-0.8	-1.9	5.9	5.2
Off-budget	-0.8	-1.7	-1.8	-1.7	-1.9	-1.8	-2.0	-2.3	-2.4	-2.5	-7.9	-18.9
TOTAL ESTIMATED CHANGES, INCLUDING MACROECONOMIC FEEDBACK												
Effects on Outlays	**1.2**	**2.0**	**2.2**	**2.3**	**2.2**	**2.1**	**1.8**	**1.5**	**1.1**	**0.6**	**9.9**	**17.0**
Effects on Revenues	**-95.4**	**-40.8**	**-31.7**	**-23.9**	**-18.2**	**-14.1**	**-8.9**	**-6.1**	**-5.6**	**-5.3**	**-210.0**	**-249.9**
On-budget	-96.1	-42.6	-33.5	-25.6	-20.0	-15.9	-10.9	-8.4	-8.0	-7.8	-217.8	-268.8
Off-budget	0.8	1.7	1.8	1.7	1.9	1.8	2.0	2.3	2.4	2.5	7.9	18.9
Effects on the Deficit [a]	**96.6**	**42.8**	**33.9**	**26.2**	**20.4**	**16.1**	**10.7**	**7.6**	**6.7**	**5.9**	**219.9**	**267.0**
On-budget	97.4	44.6	35.7	27.9	22.2	17.9	12.7	9.9	9.1	8.4	227.8	285.8
Off-budget	-0.8	-1.7	-1.8	-1.7	-1.9	-1.8	-2.0	-2.3	-2.4	-2.5	-7.9	-18.9

Source: Staff of the Joint Committee on Taxation.

a. Positive numbers indicate increases in the deficit, and negative numbers indicate reductions in the deficit.

Note: Components may not sum to totals because of rounding.

BASIS OF ESTIMATE

H.R. 2510 would extend the additional first-year depreciation deduction that expired for most property placed in service after December 31, 2014. H.R. 2510 would also expand the definition of qualified property to include certain qualified improvement property and provide a special election for certain plants bearing nuts or fruits. In addition, the legislation would permanently extend an increase in the limitation on depreciation deductions allowed in the first year with respect to certain passenger automobiles, and index that increase for automobile price inflation. Finally, the legislation would expand and make permanent recently expired provisions that allowed corporations to claim additional credits against the alternative minimum tax instead of claiming the additional first-year depreciation deduction.

JCT estimates that the bill would increase deficits by about $281 billion over the 2016-2025 period, excluding the effects of macroeconomic feedback. Reductions in revenues account for all of that effect.

JCT expects that the bill would reduce the cost of capital and thereby increase the capital stock over the 2016-2025 period. As a result, JCT estimates that gross domestic product (GDP) would be higher, increasing revenues by about $31 billion over the 2016-2025 period. At the same time, a small increase in interest rates from higher federal debt would increase the cost of federal debt service by about $17 billion over the 2016-2025 period. The net effect of the macroeconomic feedback would be to reduce deficits by about $14 billion over the 10-year period.

LONG-TERM IMPACTS

JCT estimates that enacting the legislation would decrease revenues and increase the on-budget deficit by at least $5 billion in one or more of the four consecutive 10-year periods beginning in 2026. That estimate includes macroeconomic feedback.

JCT has estimated the following long-term effects:

“In the second and third decades after enactment, because the bill is expected to result in continuing increases in Federal debt, it is expected to make private borrowing more expensive, reducing investment incentives, and thus reducing the rate of increase in capital stock, GDP, and associated revenues relative to those effects within the budget period. The extent to which this crowding out of private investment incentives could eventually lead to the macroeconomic effects of the proposal reducing revenues relative to the conventional estimate is too uncertain to enable a prediction on the sign of the macroeconomic revenue feedback effects in the second or third decades after enactment and beyond.”

PAY-AS-YOU-GO CONSIDERATIONS

The Statutory Pay-As-You-Go Act of 2010 establishes budget-reporting and enforcement procedures for legislation affecting direct spending or revenues. The net changes in revenues and outlays that are subject to those pay-as-you-go procedures are shown in the following table, with and without the macroeconomic feedback. Only on-budget changes to outlays or revenues are subject to pay-as-you-go procedures.

TABLE 2. CBO ESTIMATE OF PAY-AS-YOU-GO EFFECTS FOR A BILL TO AMEND THE INTERNAL REVENUE CODE OF 1986 TO MODIFY AND MAKE PERMANENT BONUS DEPRECIATION, AS ORDERED REPORTED BY THE HOUSE WAYS AND MEANS COMMITTEE ON SEPTEMBER 17, 2015

	By Fiscal Year, in Millions of Dollars											
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2016-2020	2016-2025
NET INCREASE IN THE ON-BUDGET DEFICIT EXCLUDING MACROECONOMIC FEEDBACK												
Statutory Pay-As-You-Go Effects	97,532	43,362	33,977	26,345	20,657	16,827	12,043	9,731	9,878	10,307	221,872	280,659
Memorandum:												
Changes in Revenues	-97,532	-43,362	-33,977	-26,345	-20,657	-16,827	-12,043	-9,731	-9,878	-10,307	-221,872	-280,659
Changes in Outlays	0	0	0	0	0	0	0	0	0	0	0	0
NET INCREASE IN THE ON-BUDGET DEFICIT INCLUDING MACROECONOMIC FEEDBACK												
Statutory Pay-As-You-Go Effects	97,356	44,575	35,704	27,919	22,229	17,915	12,699	9,894	9,126	8,423	227,781	285,840
Memorandum:												
Changes in Revenues	-96,135	-42,588	-33,466	-25,646	-20,011	-15,851	-10,901	-8,402	-8,007	-7,807	-217,844	-268,815
Changes in Outlays	1,221	1,987	2,238	2,273	2,218	2,064	1,798	1,492	1,119	616	9,937	17,025

Source: Staff of the Joint Committee on Taxation.

Note: Components may not sum to totals because of rounding.

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

JCT has determined that the bill contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act.

ESTIMATE PREPARED BY:

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