



CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

Updated September 27, 2018

H.R. 6760 **Protecting Family and Small Business Tax Cuts Act of 2018**

As reported by the House Committee on Ways and Means on September 24, 2018

SUMMARY

H.R. 6760, the Protecting Family and Small Business Tax Cuts Act of 2018, would repeal the December 31, 2025, expiration date for numerous provisions of U.S. tax law that were temporarily changed by the 2017 tax act (Public Law 115-97). The bill would make permanent the individual income tax brackets and tax rates, standard deduction and child tax credit amounts, business income deduction, and exemption amounts for the Alternative Minimum Tax in effect under current law. Deductions for personal exemptions and certain itemized deductions would be permanently repealed.

Because of the magnitude of the estimated budgetary effects, this bill is considered to be “major legislation,” as defined in sections 4107 and 5107 of H. Con. Res. 71, the Concurrent Resolution on the Budget for Fiscal Year 2018. Hence, this 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.

Specifically, JCT estimates that enacting the bill would increase deficits by about \$545 billion over the 2019-2028 period. That estimate includes two components. First, excluding macroeconomic feedback effects, JCT estimates that the bill would increase deficits by about \$631 billion over the 2019-2028 period. In addition, the macroeconomic feedback would reduce deficits by about \$86 billion over that period, JCT estimates.¹ Most of those effects, both with and without the macroeconomic feedback effects, would result from changes in revenues.

JCT estimates that enacting H.R. 6760 would increase on-budget deficits by more than \$5 billion in at least one of the four 10-year periods beginning in 2029. CBO and JCT estimate that enacting the legislation also would increase net direct spending by more

1. For more details, see Joint Committee on Taxation, Macroeconomic Analysis of H.R. 6760, the “Protecting Family and Small Business Tax Cut Act of 2018” as reported by the Committee on Ways and Means, JCX-79-18, September 26, 2018, <https://www.jct.gov/publications.html?func=startdown&id=5145>.

than \$2.5 billion in at least one of the four consecutive 10-year periods beginning in 2029. Those estimates include macroeconomic feedback.

JCT has determined that the tax provisions of the bill contain no intergovernmental or private sector mandates as defined in the Unfunded Mandates Reform Act (UMRA).

This updated cost estimate supersedes the cost estimate for H.R. 6760 that CBO transmitted on September 21, 2018. This estimate has been updated to incorporate the macroeconomic analysis prepared by JCT, which was not available at the time of filing of the committee report, but the estimate is otherwise unchanged.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary effect of H.R. 6760 is shown in the following table.

	By Fiscal Year, in Billions of Dollars												
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2019-2023	2019-2028
ESTIMATED CHANGES WITHOUT MACROECONOMIC FEEDBACK													
Changes in Revenues	0	-0.4	-2.0	-1.6	0.0	0.0	-0.1	-6.1	-102.4	-233.4	-250.9	-4.0	-596.8
On-Budget	0	-0.4	-2.0	-1.6	0.0	0.0	-0.1	-6.1	-102.6	-233.6	-251.1	-4.0	-597.5
Off-Budget ^a	0	0	0	0	0	0	0	0	0.2	0.2	0.3	0	0.7
Changes in Direct Spending													
Estimated Budget Authority	0	0	0	0	0	0	0	0	0	17.0	17.1	0	34.1
Estimated Outlays	0	0	0	0	0	0	0	0	0	17.0	17.1	0	34.1
Effect on Deficit	0	0.4	2.0	1.6	0.0	0.0	0.1	6.1	102.4	250.4	268.0	4.0	630.9
On-Budget Deficit	0	0.4	2.0	1.6	0.0	0.0	0.1	6.1	102.6	250.6	268.2	4.0	631.6
Off-Budget Deficit	0	0	0	0	0	0	0	0	-0.2	-0.2	-0.3	0	-0.7
ESTIMATED BUDGETARY IMPACT OF MACROECONOMIC FEEDBACK													
Effect on Deficit	0	-0.2	0.1	*	-0.6	0.4	0.9	-7.9	-24.9	-24.3	-29.3	-0.4	-86.0
On-Budget Deficit	0	-0.5	-0.3	-0.5	-1.3	-0.5	-0.4	-8.4	-19.5	-19.2	-23.7	-3.2	-74.5
Off-Budget Deficit	0	0.3	0.4	0.5	0.7	0.9	1.3	0.5	-5.4	-5.1	-5.6	2.8	-11.5
TOTAL ESTIMATED CHANGES, INCLUDING MACROECONOMIC FEEDBACK													
Effect on Deficit	0	0.2	2.0	1.6	-0.5	0.4	1.0	-1.8	77.5	226.1	238.7	3.7	545.1
On-Budget Deficit	0	-0.1	1.6	1.1	-1.2	-0.5	-0.3	-2.3	83.1	231.4	244.6	0.9	557.3
Off-Budget Deficit	0	0.3	0.4	0.5	0.7	0.9	1.3	0.5	-5.6	-5.3	-5.9	2.8	-12.2

Source: Staff of the Joint Committee on Taxation.

Components may not add to totals due to rounding. * = Gain of less than \$50 million.

a. Off-budget revenues result from changes in Social Security payroll tax receipts.

BASIS OF ESTIMATE

Estimates of Revenues and Direct Spending Excluding Macroeconomic Feedback

The Congressional Budget Act of 1974, as amended, stipulates that revenue estimates provided by the staff of the Joint Committee on Taxation will be the official estimates for all tax legislation considered by the Congress. As such, CBO incorporates those estimates into its cost estimates of the effects of legislation. All of the estimates for the provisions of H.R. 6760 were provided by JCT.² The date of enactment is generally assumed to be October 1, 2018.

Individual Reform Made Permanent. H.R. 6760 would make permanent numerous changes to tax law pertaining to individuals made by the 2017 tax act. Such provisions estimated to reduce revenues over the 2019 to 2028 period include the following changes made by the 2017 tax act, which would no longer expire in 2026:

- Establish seven brackets with tax rates of 10 percent, 12 percent, 22 percent, 24 percent, 32 percent, 35 percent, and 37 percent;
- Increase the standard deduction;
- Establish a deduction for qualified business income;
- Repeal the overall limit on itemized deductions (“Pease limitation”);
- Increase the child tax credit, and add a \$500 credit for non-child dependents; and
- Double the exemption amount allowed under estate and gift taxes.

Provisions estimated to increase revenues over the 2019 to 2028 period include the following changes made by the 2017 tax act, which would no longer expire in 2026:

- Repeal deductions for personal exemptions; and
- Repeal and limit certain itemized deductions, including limiting the deduction for state and local taxes to \$10,000.

The largest revenue reductions would result from the provision to permanently extend the

2. For JCT’s description of the bill and estimates of the provisions, which include detail beyond the summary presented below, see Joint Committee on Taxation, Description Of H.R. 6760, the “Protecting Family And Small Business Tax Cuts Act Of 2018,” JCX-69-18, www.jct.gov/publications.html?func=startdown&id=5134, and Estimated Revenue Effects of H.R. 6760, the “Protecting Family And Small Business Tax Cuts Act Of 2018,” JCX-71-18, www.jct.gov/publications.html?func=startdown&id=5136.

current income tax rate and bracket structure, which JCT estimates would reduce revenues by \$520 billion over the period from 2019 to 2028 and increase outlays for refundable tax credits by \$2 billion over the same period. In addition, extending the increase in the standard deduction would reduce revenues by \$286 billion over the period from 2019 to 2028 and increase outlays for refundable tax credits by \$21 billion over the same period, according to JCT's estimates. Making the increased exemptions to the alternative minimum tax on individuals permanent would reduce revenues by \$283 billion from 2019 to 2028.

JCT also estimates that permanently extending the deduction for qualified business income would reduce revenues by \$179 billion over the period from 2019 to 2028, and that extending the modified child tax credit would, over the same 10-year period, reduce revenues by \$155 billion and increase outlays for refundable tax credits by \$53 billion. JCT estimates that additional revenue reductions, totaling \$28 billion from 2019 to 2028, would result from making the 2017 tax act modifications to estate and gift taxes permanent.

The largest revenue increases would result from permanently repealing deductions for personal exemptions, which JCT estimates would increase revenues by \$463 billion and reduce outlays for refundable credits by \$36 billion over the 2019 to 2028 period. In addition, JCT estimates that the permanent repeal and limitation of certain itemized deductions would increase revenues by \$317 billion and reduce outlays for refundable credits by \$828 million from 2019 to 2028.

Macroeconomic Feedback Effects

JCT has separately provided a discussion of the macroeconomic feedback effects of the bill (see Joint Committee on Taxation, JCX-79-18). CBO has incorporated those effects into the estimates shown here. The net effect of the macroeconomic feedback would be to reduce deficits by about \$86 billion over the 2019-2028 period. Among those effects, JCT estimates a small increase in interest rates from increases in federal debt would increase the cost of federal debt service by about \$7 billion over the 2019-2028 period.

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 outlays and revenues that are subject to those pay-as-you-go procedures are shown in the following table and include macroeconomic feedback. Only on-budget changes to outlays or revenues are subject to pay-as-you-go procedures.

CBO Estimate of Pay-As-You-Go Effects for H.R. 6760, as reported by the House Committee on Ways and Means on September 24, 2018.

	By Fiscal Year, in Billions of Dollars												2019-	2019-
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2023	2028	
NET INCREASE IN THE ON-BUDGET DEFICIT EXCLUDING MACROECONOMIC FEEDBACK														
Statutory Pay-As-You-Go Effects	0	0.4	2.0	1.6	0.0	0.0	0.1	6.1	102.6	250.6	268.2	4.0	631.6	
Memorandum:^a														
Change in Outlays	0	0	0	0	0	0	0	0	0	17.0	17.1	0	34.1	
Change in On-Budget Revenues	0	-0.4	-2.0	-1.6	0.0	0.0	-0.1	-6.1	-102.6	-233.6	-251.1	-4.0	-597.5	
NET INCREASE IN THE ON-BUDGET DEFICIT INCLUDING MACROECONOMIC FEEDBACK														
Statutory Pay-As-You-Go Effects	0	-0.1	1.6	1.1	-1.2	-0.5	-0.3	-2.3	83.1	231.4	244.6	0.9	557.3	

Source: Staff of the Joint Committee on Taxation.

Components may not add to totals due to rounding.

a. A positive sign for outlays indicates an increase in outlays. A negative sign for revenues indicates a reduction in revenues.

INCREASE IN LONG TERM DIRECT SPENDING AND DEFICITS

JCT estimates that enacting H.R. 6760 would increase on-budget deficits by more than \$5 billion in at least one of the four 10-year periods beginning in 2029. CBO and JCT estimate that enacting the legislation would increase net direct spending by more than \$2.5 billion in at least one of the four consecutive 10-year periods beginning in 2029. Those estimates include macroeconomic feedback.

MANDATES

JCT has determined that H.R. 6760 contains no private-sector or intergovernmental mandates as defined by UMRA.

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