CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

November 13, 2017

H.R. 1

A bill to provide for reconciliation pursuant to titles II and V of the Concurrent Resolution on the Budget for Fiscal Year 2018

As ordered reported by the House Committee on Ways and Means on November 9, 2017

SUMMARY

H.R. 1, the Tax Cuts and Jobs Act, would amend numerous provisions of U.S. tax law. The bill would modify the individual income tax brackets and tax rates in effect under current law. The bill also would increase the standard deduction and the child tax credit. Deductions for personal exemptions and certain itemized deductions would be repealed, along with the individual and corporate alternative minimum tax (AMT) and, starting in 2025, the estate tax. H.R. 1 would replace the structure of corporate income tax rates, which has a top rate of 35 percent under current law, with a single 20 percent rate, and would establish a maximum tax rate of 25 percent for qualified business income of an individual from certain pass-through entities. Among other changes, the bill would also substantially alter the current system under which U.S. corporations are subject to taxation on their worldwide income.

The staff of the Joint Committee on Taxation (JCT) estimates that enacting the bill would reduce revenues by about $1,438 billion over the 2018-2027 period, and decrease outlays by $2 billion over the same period, leading to an increase in the deficit of $1,437 billion over the next 10 years. A portion of the changes in revenues would be from Social Security payroll taxes, which are off-budget. Excluding the estimated $19 billion increase in off-budget revenues over the next 10 years, JCT estimates that H.R. 1 would increase on-budget deficits by about $1,456 billion over the period from 2018 to 2027. Pay-as-you-go procedures apply because enacting the legislation would affect direct spending and revenues.

JCT estimates that enacting the legislation would not increase net direct spending by more than $2.5 billion in any of the four consecutive 10-year periods beginning in 2028.

Because of the magnitude of the estimated budgetary effects, this bill is considered to be “major legislation,” as defined in section 5107 of H. Con. Res. 71, the Concurrent Resolution on the Budget for Fiscal Year 2018. Hence, it triggers the requirement that the cost estimate, to the extent practicable, include the budgetary impact of its

macroeconomic effects. The staff of the Joint Committee on Taxation is currently analyzing changes in economic output, employment, capital stock, and other macroeconomic variables resulting from the bill for purposes of determining these budgetary effects. However, JCT indicates it is not practicable for a macroeconomic analysis to incorporate the full effects of all of the provisions in the bill, including interactions between these provisions, within the very short time available between completion of the bill and the filing of the committee report.

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).

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary effect of H.R. 1 is shown in the following table.

BASIS OF ESTIMATE

Revenues and Direct Spending

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. Virtually all of the estimates for the provisions of H.R. 1 were provided by JCT. The date of enactment is generally assumed to be December 1, 2017.

JCT estimates that, together, the provisions contained in H.R. 1 would decrease federal revenues on net by about $118 billion in 2018, by $937 billion over the period from 2018 to 2022, and by $1,438 billion over the period from 2018 to 2027. Net outlays would decrease by $9 billion in 2018, increase by $13 billion from 2018 to 2022, and decrease by $2 billion over the period from 2018 to 2027. On net, deficits would increase by $108 billion in 2018, by $950 billion from 2018 to 2022, and by $1,437 billion from 2018 to 2027. A portion of those effects reflect changes to revenues from Social Security taxes, which are off-budget. Over the 2018 to 2027 period, the bill would increase on-budget deficits by $1,456 billion and reduce off-budget deficits by $19 billion, as estimated by JCT.

	By Fiscal Year, in Billions of Dollars											
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2018-2022	2018-2027
CHANGES IN REVENUES												
Tax Reform for Individuals	-64.2	-134.3	-124.5	-123.8	-123.3	-88.9	-69.1	-70.4	-88.8	-88.4	-569.6	-975.9
Business Tax Reform	-124.3	-129.3	-116.3	-101.6	-89.0	-24.8	2.4	-27.0	-55.0	-80.4	-560.4	-744.5
Taxation of Foreign Income and Foreign Persons	70.7	42.2	24.4	27.2	27.6	28.6	28.3	28.1	10.4	-7.2	191.9	279.3
Exempt Organizations	0.3	0.4	*	0.1	0.2	0.2	0.5	0.5	0.5	0.5	1.1	2.7
Total Estimated Changes in Revenues	**-117.6**	**-221.0**	**-216.5**	**-198.2**	**-184.5**	**-84.9**	**-37.9**	**-68.8**	**-132.9**	**-175.4**	**-937.1**	**-1,438.4**
On-Budget	-116.7	-220.6	-216.3	-198.2	-185.0	-88.8	-43.0	-73.0	-136.6	-178.7	-936.0	-1,457.7
Off-Budget[a]	-0.9	-0.4	-0.2	*	0.5	3.9	5.1	4.2	3.7	3.3	-1.1	19.3
CHANGES IN DIRECT SPENDING												
Tax Reform for Individuals												
Estimated Budget Authority	-11.7	3.6	3.4	3.1	2.5	3.5	-3.4	-4.3	-4.8	-4.2	1.6	-12.2
Estimated Outlays	-11.7	3.6	3.4	3.1	2.5	3.5	-3.4	-4.3	-4.8	-4.2	1.6	-12.2
Business Tax Reform												
Estimated Budget Authority	2.2	2.3	1.7	1.9	1.8	-0.1	-0.1	-0.1	-0.1	-0.1	10.1	9.7
Estimated Outlays	2.2	2.3	1.7	1.9	1.8	-0.1	-0.1	-0.1	-0.1	-0.1	10.1	9.7
Taxation of Foreign Income and Foreign Persons												
Estimated Budget Authority	0.3	0.1	0.1	0.1	0.1	*	0	0	0	0	0.8	0.9
Estimated Outlays	0.3	0.1	0.1	0.1	0.1	*	0	0	0	0	0.8	0.9
Total Changes in Direct Spending												
Estimated Budget Authority	-9.2	6.0	5.2	5.1	4.4	3.4	-3.5	-4.4	-4.9	-4.3	12.5	-1.6
Estimated Outlays	-9.2	6.0	5.2	5.1	4.4	3.4	-3.5	-4.4	-4.9	-4.3	12.5	-1.6
NET INCREASE OR DECREASE (-) IN THE DEFICIT FROM CHANGES IN DIRECT SPENDING AND REVENUES												
Impact on Deficit	**108.4**	**227.0**	**221.7**	**203.3**	**188.9**	**88.3**	**34.4**	**64.4**	**128.0**	**171.1**	**949.6**	**1,436.8**
On-Budget Deficit	107.5	226.6	221.5	203.3	189.4	92.2	39.5	68.6	131.7	174.4	948.5	1,456.1
Off-Budget Deficit	0.9	0.4	0.2	*	-0.5	-3.9	-5.1	-4.2	-3.7	-3.3	1.1	-19.3

Source: Staff of the Joint Committee on Taxation.

Note: Components may not add to totals due to rounding; * = between -$50 million and $50 million.

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

Tax Reform for Individuals. H.R. 1 would make numerous changes to tax law pertaining to individuals. Provisions in this section include all of those in Title I of the bill and the part of Title II pertaining to the individual alternative minimum tax. Such provisions estimated to reduce revenues over the 2018 to 2027 period include the following changes, which would take effect in 2018 unless otherwise noted:

- Establish four brackets instead of the seven in place under current law, with tax rates of 12 percent, 25 percent, 35 percent, and 39.6 percent, plus a phase out of the 12 percent tax bracket for taxpayers with taxable income above $1 million ($1.2 million for joint filers);

- Increase the standard deduction;

- Repeal the alternative minimum tax on individuals;

- Establish a maximum tax rate of 25 percent for qualified business income of an individual from certain pass-through entities, namely partnerships, S corporations, and sole proprietorships;

- Increase the child tax credit, which would be consolidated into a new family tax credit that would also include a temporary $300 credit for each taxpayer (including both spouses for joint filers) and nonchild dependents; and

- Double the exemption amount allowed under estate and gift taxes, and, starting in 2025, repeal the estate tax and the generation-skipping transfer tax.

Provisions estimated to increase revenues over the 2018 to 2027 period include the following changes:

- Repeal deductions for personal exemptions;

- Repeal and limit certain itemized deductions, including repealing the deductions for state and local income and sales taxes, limiting the deduction for real property taxes, and limiting the deductions for mortgage interest; and

- Index tax parameters by the chained consumer price index instead of the traditional consumer price index.

JCT estimates that the individual tax provisions would, on net, reduce revenues by $976 billion from 2018 to 2027. In addition, the provisions would affect outlays for refundable tax credits, decreasing them by an estimated $12 billion over the 2018 to 2027 period. Some of the provisions in this section would affect off-budget revenues, increasing them by $15 billion over the period from 2018 to 2027, JCT estimates. On-budget revenues would decrease by an estimated $991 billion.

The largest revenue reductions would result from the provision to establish a new income tax rate and bracket structure, which JCT estimates would reduce revenues by $1,104 billion over the period from 2018 to 2027 and reduce outlays for refundable tax credits by $15 billion over the same period. In addition, the increase in the standard deduction would reduce revenues by $819 billion over the period from 2018 to 2027 and increase outlays for refundable tax credits by $103 billion over the same period, according to JCT's estimates. The repeal of the alternative minimum tax on individuals would reduce revenues by $696 billion from 2018 to 2027.

JCT also estimates that the provisions providing a maximum tax rate for pass-through entities would reduce revenues by $597 billion over the period from 2018 to 2027, and that modifications to the child tax credit and the new family tax credit would, over the same 10-year period, reduce revenues by $504 billion and increase outlays for refundable tax credits by $136 billion. JCT estimates that additional revenue reductions, totaling $151 billion from 2018 to 2027, would result from the modifications to estate and gift taxes.

The largest revenue increases would result from the provision to repeal deductions for personal exemptions, which JCT estimates would increase revenues by $1,383 billion and reduce outlays for refundable credits by $179 billion over the 2018 to 2027 period. In addition, JCT estimates that the repeal and limitation of certain itemized deductions would increase revenues by $1,258 billion and reduce outlays for refundable credits by $4 billion from 2018 to 2027. The change in the inflation measure used to index tax parameters would increase revenues by $109 billion and reduce outlays for refundable credits by $19 billion over the 2018 to 2027 period, according to JCT estimates.

Business Tax Reform. The bill would make many changes to business taxes. Provisions in this section include all of Title III and the part of Title II pertaining to the corporate alternative minimum tax. The ones with the largest effects on revenues, as estimated by JCT, are the following:

- Replace with a single 20 percent rate the graduated structure of income tax rates for corporations under current law that has a top rate of 35 percent;

- Limit the amount of deductions for net interest expenses to the sum of business interest income and 30 percent of an adjusted measure of taxable income; and

- Limit the deduction for past net operating losses to 90 percent of current taxable income and generally repeal the two-year period over which losses may be carried back to previous tax years.

JCT estimates that the business tax provisions would, on net, reduce revenues by $745 billion from 2018 to 2027. In addition, the provisions would increase outlays for refundable tax credits by an estimated $10 billion over the 2018 to 2027 period.

JCT estimates that the modifications to the corporate tax rate structure, including reducing the top tax rate from 35 percent that is assessed on most taxable income to a 20 percent rate that would apply to all amounts of taxable income, would reduce revenues by $1,456 billion over the 2018-2027 period. JCT further estimates that limiting the deductions for interest expenses would increase revenues by $172 billion over the same 10-year period. In addition, limiting the use of net operating losses would raise revenues by $156 billion over the period from 2018 to 2027.

Other changes to business taxes, including the following ones, would increase revenues, on net, according to JCT:

- Requiring that certain research or experimental expenditures be amortized over a five-year period or longer, starting in 2023, would increase revenues by $109 billion over the period from 2023 to 2027.

- Repealing the deduction for income attributable to domestic production activities would increase revenues by $95 billion over the 2018 to 2027 period;

- Repealing the tax credit for clinical testing expenses for certain drugs for rare diseases or conditions would increase revenues by $54 billion over the same period; and

- Terminating private activity bonds would increase revenues by $39 billion over the next 10 years.

Those increases in revenues would be partially offset by the repeal of the alternative minimum tax on corporations, which JCT estimates would reduce revenues by $30 billion from 2018 to 2027 and increase outlays for refundable credits by $10 billion over the same period.

Taxation of Foreign Income and Foreign Persons. Changes to taxes pertaining to foreign income and foreign persons are contained in Title IV of H.R. 1. The bill would substantially modify the current system under which U.S. corporations are subject to taxation on their worldwide income, generally including foreign earnings in taxable income when paid to them as dividends by their foreign subsidiaries and with an allowance for tax credits for certain foreign taxes paid. The system under H.R. 1 would provide an exemption for dividends paid by a foreign corporation to its U.S. parent, with no foreign tax credits allowed for taxes paid on the amount of such dividends. A number of other changes would also be implemented by Title IV.

The provisions in Title IV with the largest estimated effects on revenues are the following:

- Require that certain untaxed foreign income of U.S. corporations be deemed to be immediately paid to them as dividends and included in taxable income, subject to taxation at a 14 percent rate (or 7 percent for certain illiquid assets), and with an option to spread the resulting tax amounts equally over an eight-year period;

- Provide a deduction for the foreign-source portion of dividends received by domestic corporations from certain foreign corporations;

- Impose an excise tax of 20 percent on certain payments to related foreign corporations; and

- Require that U.S. corporations include in taxable income a portion of a specified high income amount earned by their foreign subsidiaries.

JCT estimates that the provisions related to foreign taxation would, on net, increase revenues by $279 billion from 2018 to 2027. The provisions would also increase outlays by $1 billion over the 2018 to 2027 period, resulting from an extension of certain payments to Puerto Rico and the Virgin Islands of rum excise taxes, as estimated by CBO.

JCT estimates that the deduction for dividends received from foreign corporations would reduce revenues by $205 billion over the 2018-2027 period. Other provisions would result in revenue increases from 2018 to 2027 as estimated by JCT: requiring a deemed repatriation of untaxed foreign income ($293 billion); imposing an excise tax on certain payments ($95 billion); and requiring the inclusion in taxable income of certain foreign earned high returns ($68 billion). The additional revenue from the provision regarding deemed repatriations would be concentrated earlier in the ten-year period: it would increase revenues by an estimated $79 billion in 2018, $54 billion in 2019, between $26 billion and $27 billion per year from 2020 through 2025, and $9 billion in 2026, before resulting in a reduction in revenue of $8 billion in 2027.

Exempt Organizations. Title V of H.R. 1 would make several changes to the tax treatment of tax-exempt organizations. Those changes include the following: imposing an excise tax based on the investment income of private colleges and universities; revising the unrelated business income tax; and modifying restrictions on political campaign activity for certain tax-exempt organizations. JCT estimates that the changes from Title V would, on net, increase revenues by $0.5 billion or less in each year of the 2018 to 2027 period, for a total increase of $3 billion over the 10-year period. No single provision would have an effect of greater than $0.5 billion in any year, according to JCT estimates.

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. 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. 1, as ordered reported by the House Committee on Ways and Means on November 9, 2017.

	By Fiscal Year, in Billions of Dollars											
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2018-2022	2018-2027
NET INCREASE OR DECREASE (-) IN THE ON-BUDGET DEFICIT												
Statutory Pay-As-You-Go Effects	107.5	226.6	221.5	203.3	189.4	92.2	39.5	68.6	131.7	174.4	948.5	1,456.1
Memorandum:[a]												
Change in Outlays	-9.2	6.0	5.2	5.1	4.4	3.4	-3.5	-4.4	-4.9	-4.3	12.5	-1.6
Change in On-Budget Revenues	-116.7	-220.6	-216.3	-198.2	-185.0	-88.8	-43.0	-73.0	-136.6	-178.7	-936.0	-1,457.7

Source: Staff of the Joint Committee on Taxation.

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

Note: Components do not add to totals due to rounding.

INCREASE IN LONG TERM DIRECT SPENDING

JCT estimates that enacting the legislation would not increase net direct spending by more than $2.5 billion in any of the four consecutive 10-year periods beginning in 2028.

MANDATES

JCT has determined that H.R. 1 contains no private-sector or intergovernmental mandates as defined by UMRA.

ESTIMATE PREPARED BY

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