CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

September 21, 2018

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

As ordered reported by the House Committee on Ways and Means on September 13, 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 Deductions for personal exemptions and certain itemized deductions would be permanently repealed.

The staff of the Joint Committee on Taxation (JCT) estimates that enacting the bill would reduce revenues by about $597 billion over the 2019-2028 period, and increase outlays by $34 billion over the same period, leading to an increase in the deficit of $631 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 $687 million increase in off-budget revenues over the next 10 years, JCT estimates that H.R. 6760 would increase on-budget deficits by about $632 billion over the period from 2019 to 2028. Pay-as-you-go procedures apply because enacting the legislation would affect direct spending and 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 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.

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 a macroeconomic analysis incorporating the full effects of all of the provisions in the bill, including interactions between these provisions, is not available at the time of 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. 6760 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. All of the estimates for the provisions of H.R. 6760 were provided by JCT.[1] The date of enactment is generally assumed to be October 1, 2018.

1. 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, https://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, https://www.jct.gov/publications.html?func=startdown&id=5136.

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2019-2023	2019-2028
	By Fiscal Year, in Billions of Dollars												
CHANGES IN REVENUES													
Estimated 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													
Total 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
NET INCREASE OR DECREASE (-) IN THE DEFICIT FROM CHANGES IN DIRECT SPENDING AND REVENUES													
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

Source: Staff of the Joint Committee on Taxation.

Components may not add to totals due to rounding.

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

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 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.

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. 6760, as ordered reported by the House Committee on Ways and Means on September 13, 2018.

	By Fiscal Year, in Billions of Dollars												
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2019-2023	2019-2028
NET INCREASE IN THE ON-BUDGET DEFICIT													
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

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.

MANDATES

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

ESTIMATE PREPARED BY

Staff of the Joint Committee on Taxation and Cecilia Pastrone

ESTIMATE REVIEWED BY

Joshua Shakin
Chief, Revenue Estimating Unit

John McClelland
Assistant Director for Tax Analysis