Budget Model

The Build It in America Act: Budgetary and Macroeconomic Effects of Title I

Summary: PWBM estimates that Title I of the Build It in America Act would add $76 billion to the budget deficit over the next decade and reduce deficits by $18 billion during the subsequent second decade. It would temporarily boost business investment and GDP during the next two years while lowering GDP in subsequent years. If lawmakers made the extensions permanent, the budgetary cost would rise to $1.25 trillion over the next two decades and GDP would largely remain unchanged, as the tax incentive effects and debt effects mostly offset.

Key Points

- The Build It in America Act would temporarily extend three expiring business tax provisions through 2025, which would increase the ability of businesses to recover the costs of their investments and defer some tax until after 2025. That temporary extension would increase deficits by a total of $58 billion over the next two decades, with nearly three quarters of that increase coming from additional debt service costs due to delaying some revenue collection until after 2025.
- As an illustrative alternative, if the extensions were made permanent, cumulative budget deficits would be $1.25 trillion higher over the next two decades. In that scenario, interest outlays would account for more than one quarter of the total cost.
- Making the extensions permanent would boost GDP by 0.3 percent in the near-term, but the increase in output would diminish over time and GDP would be essentially unchanged by 2052.

Introduction

Public Law 115-97 ("Tax Cuts and Jobs Act of 2017", or TCJA) included a number of provisions that changed the ability of businesses to recover the cost of their investments through the tax code. Several of those provisions included sunsets and have now expired, making it more expensive for businesses to invest. In response, House lawmakers recently introduced legislation (H.R. 3938, "Build It in America Act", or BIAA) that temporarily extends

three of the expired policies into tax years 2023, 2024, and 2025. Such an extension would maintain the more generous tax treatment of investment enacted in the TCJA.

Current law includes three limitations on businesses' ability to recover the cost of their investments, relative to what was enacted in the TCJA. First, businesses are required to capitalize and amortize their research and experimentation (R&E) expenditures over a five-year period, instead of deducting them immediately. Second, businesses may no longer include depreciation, amortization, or depletion when calculating the limitation on their deduction for net interest expense. Third, businesses can only deduct 80 percent of the cost of new investments in 2023 as "bonus" depreciation, down from 100 percent in 2022. The bonus depreciation percentage is scheduled to drop by an additional 20 percentage points each year until it reaches zero in 2027.

In response, Title I of the Build It in America Act proposes modifying each of those provisions. First, the proposal would allow businesses to immediately deduct their R&E expenditures from 2023 through 2025, delaying the use of the five-year amortization until 2026. Second, the allowance for depreciation, amortization, and depletion when calculating the interest deduction limitation would be restored for 2023, 2024, and 2025. Finally, businesses would be allowed to immediately deduct 100 percent of the cost of assets that are deployed through 2025, rather than following the scheduled 20 percentage point per year decrease.

Conventional (Non-Interest) Revenue Effects

Table 1 shows the estimated revenue effects of Title I of the BIAA over the next ten years and in the following decade. PWBM estimates that extending the three investment provisions through 2025 would decrease revenues by a total of $42 billion from 2023 to 2032 and increase revenues by $25 billion from 2033 to 2042, compared with current law.[1]

Table 1 also shows PWBM's estimates for an alternative illustrative scenario in which the extensions are made permanent, instead of expiring after 2025. If the proposed changes were made permanent, revenues would decrease by $558 billion over the coming decade and by $352 billion over the following decade.

Table 1. Estimated Revenue Effects of Title I of the Build It in America Act and of Permanent Extension Scenario

Billions of dollars, by fiscal year

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	BIAA: Extension to 2025			Permanent extension		
	2023-2032	2033-2042	Total, 2023-2042	2023-2032	2033-2042	Total, 2023-2042
Deduction for R&E expenditures	-15.9	11.5	-4.4	-157.1	-81.6	-238.7
Allowance for depreciation, amortization, and depletion in interest expense limitation	-23.7	-5.7	-29.4	-65.7	-98.8	-164.5
100 percent bonus depreciation	-2	19.5	17.5	-335.4	-171.4	-506.8
Total effect on revenues	**-41.6**	**25.3**	**-16.3**	**-558.2**	**-351.7**	**-909.9**

In total, the extension to 2025 in the BIAA would reduce revenues by $16 billion over the next two decades, compared with a cumulative revenue cost of $910 billion for the first 20 years of permanent extension. These figures imply an average annual revenue cost of around $5 billion for each of year of temporary extension compared with $46 billion for each year of permanent extension.[2]

This substantial difference in the cost per year of extension is due to the two expensing provisions – the deduction for R&E expenditures and 100 percent bonus depreciation. Extending those provisions temporarily lets businesses pay less tax over the next few years in exchange for owing more tax after the extension ends.[3] As a result, revenue lost during the extension may be largely recovered in later years. Under a permanent extension, the lost revenue is never recovered.

Figure 1. Estimated Revenue Effects of Extending the Deduction for R&E Expenditures

Billions of dollars, by fiscal year

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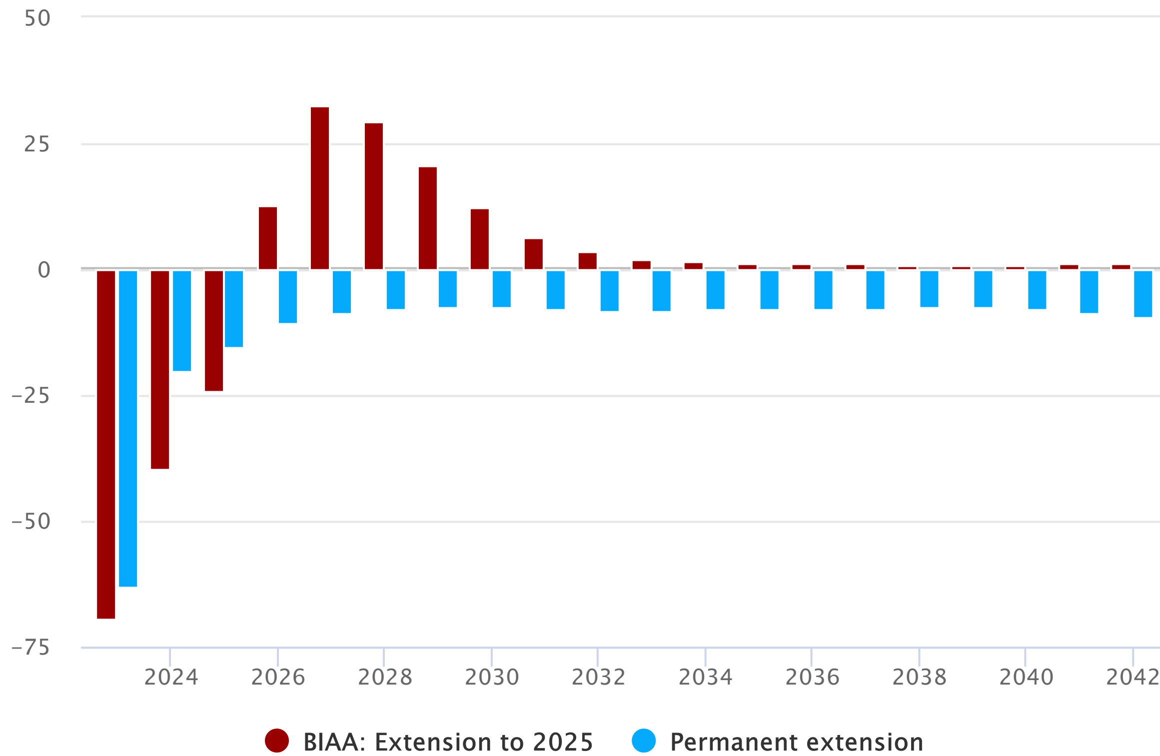

To illustrate these dynamics, Figures 1 and 2 plot PWBM's estimates of the annual revenue effects of the two expensing provisions over the next two decades (on a fiscal year basis). Under a temporary extension, each provision would decrease revenues by tens of billions of dollars per year from 2023 to 2025, totaling $133 billion from the R&E deduction (Figure 1) and $79 billion from bonus depreciation (Figure 2). After the extensions sunset in 2025, those revenue losses would largely be reversed: from 2026 to 2032, the expiration of the deduction for R&E expenditures would increase revenues by $118 billion, while the end of 100 percent bonus depreciation would increase revenues by $77 billion. Hence, the effect of a temporary expensing extension is mainly to delay the collection of some revenues from the next few years until after the extension sunsets.

Figure 2. Estimated Revenue Effects of Extending 100 Percent Bonus Depreciation

Billions of dollars, by fiscal year

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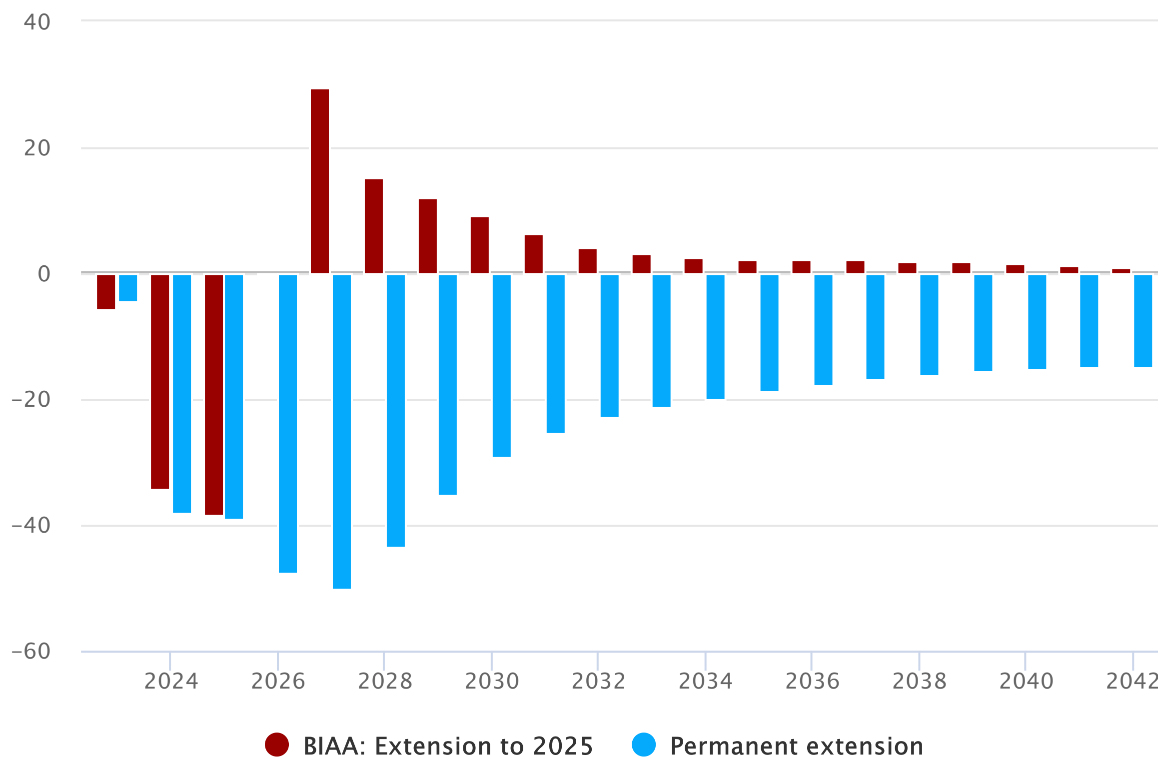

Effects on the Budget Deficit, Including Interest Payments

Under the BIAA's temporary extension, federal borrowing would have to increase in 2023 to 2025 to cover the lost revenue. To service the additional debt, PWBM estimates that outlays for interest would rise by $34 billion over the next decade, relative to current law, and by $8 billion over the following decade.

Table 2 shows PWBM's estimates of the proposal's total effect on budget deficits over the next two decades, which includes changes in outlays for interest on public debt as well as the revenue effects described above. Over the full 2023 to 2042 period, interest outlays would add $42 billion to the $16 billion revenue cost of a temporary extension. The additional interest is the cost of delaying revenue collections until later in the decade and accounts for nearly three quarters of the $58 billion total increase in deficits from a temporary extension.

Table 2. Estimated Effects on the Budget Deficit of Title I of the Build It in America Act and of Permanent Extension Scenario

Billions of dollars, by fiscal year

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	BIAA: Extension to 2025			**Permanent extension**		
	2023-2032	**2033-2042**	**Total, 2023-2042**	**2023-2032**	**2033-2042**	**Total, 2023-2042**
Decrease in revenues	41.6	-25.3	16.3	558.2	351.7	909.9
Interest outlays for public debt	34	7.8	41.9	98.7	239.1	337.7
Total effect on the budget deficit	**75.6**	**-17.5**	**58.1**	**656.9**	**590.8**	**1247.6**

If the three provisions were extended permanently, Table 2 shows that federal debt issuance and interest costs would be significantly higher. To service the debt needed to cover the $910 billion in lost revenues from 2023 to 2042, federal interest outlays would increase by $338 billion over the next two decades, raising the total cost by more than one third.

Macroeconomic Effects

Figure 3 shows the effects of temporary and permanent extension on annual GDP. Table 3 presents long-run estimates for macroeconomic outcomes.

PWBM projects that the BIAA's temporary extension would add about 0.2 percentage points to GDP growth in 2023, driven largely by businesses accelerating their investments to take advantage of the more generous tax treatment. Then, GDP remains higher until the extension sunsets and declines thereafter. From 2026 through the end of the decade, GDP falls below levels expected under current law. Beyond 2030, the proposal has no significant economic effects.

Figure 3. Estimated Effects on GDP of Title I of the Build It in America Act and of Permanent Extension Scenario

Percentage difference from current law, by calendar year

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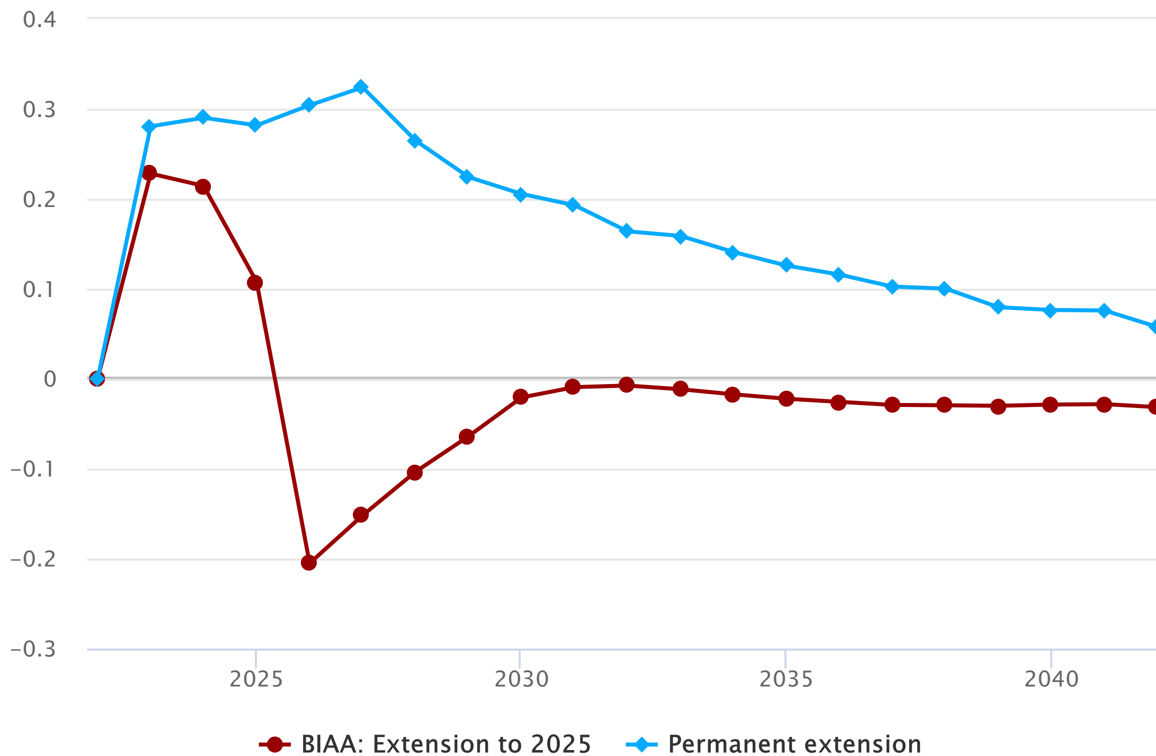

Under a permanent extension, the initial increase in GDP would be greater – rising 0.3 percent above current law – and would largely persist over the next two decades, while gradually diminishing. The increase in GDP is driven by a large and sustained increase in business investment, which boosts the stock of productive capital by 0.5 percent in 2032. An increase in the private capital stock – which includes investments in structures, equipment, software, research and development, and more – makes workers more productive, and that increased productivity is reflected in higher wages: PWBM projects that the average hourly wage would be 0.2 percent higher in 2032 than under current law.

Table 3. Estimated Economic Effects of Title I of the Build It in America Act and of Permanent Extension Scenario

Percentage difference from current law, by calendar year

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	BIAA: Extension to 2025			Permanent extension		
	2032	**2042**	**2052**	**2032**	**2042**	**2052**
GDP	*	*	*	0.2	0.1	*
Capital stock	*	-0.1	-0.1	0.5	0.2	-0.1
Hourly wage	*	*	*	0.2	0.1	*
Hours worked	*	*	*	*	*	*
Public debt	1.0	1.2	1.3	4.9	7.4	8.7

* = between −0.1 percent and 0.1 percent

However, a permanent extension would also lead to a sustained decline in revenues and an increase in federal debt. PWBM projects that debt held by the public would be 5 percent higher than under current law by 2032 and nearly by 9 percent higher by 2052. As the increase in government borrowing draws resources from the private sector, the rise in the stock of private capital would fade over time. By 2052, both the capital stock and GDP would be essentially the same as under current law.

This analysis was produced by Alex Arnon and Jon Huntley and written with Ed Murphy. Mariko Paulson prepared the brief for the website.

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1. Revenue estimates are presented on conventional basis. They incorporate behavioral effects, such as changes in the timing of investments, but do not include macroeconomic responses, which are presented separately in the next section. All estimates assume the date of enactment is July 1, 2023. ↩
2. The average cost per year of extension is the 20-year total revenue cost divided by the duration of the extension in years. For the BIAA's temporary extension, $5 billion per year equals $16 billion divided by 3 to 4 years (4 years for the R&E deduction and interest limitation, 3 years for bonus depreciation). For a permanent extension, $46 billion per year equals $910 billion divided by 20 years. ↩
3. The expensing provisions allow businesses to claim larger deductions from their investment expenditures in the year an investment made, thereby reducing their taxable income in that year. However, the total amount of deductions claimable over the lifetime of the investment is unchanged. A taxpayer who claims

greater deductions during a temporary expensing extension will have less deductions left over after it sunsets, raising their taxable income in those later years above what it would be under current law. ↩