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Budget Model

The Long-Term Budget Effects of Permanently Extending the 2017 Tax Cuts and Jobs Act's Expiring Provisions

Summary: Several revenue and spending provisions in The Tax Cuts and Jobs Act (TCJA) are scheduled to expire ("sunset") by the end of 2025. We estimate that "extenders" ("no sunset") would increase the federal debt held by the public from 226.0 percent of GDP to 261.1 percent of GDP by 2050.

Key Points

- Most of the cost of TCJA extenders arises on the federal receipts side of the budget.
- By the year 2050, permanent extension of TCJA laws would reduce federal revenues from 18.4 percent to 17.1 percent of annual Gross Domestic Product (GDP). Federal debt held by the public would rise from 226.0 percent of GDP to 261.1 percent by 2050.
- TCJA Extenders would increase the federal government's permanent fiscal imbalance from 8.2 percent to 9.4 percent of all future GDP. Put differently, to avoid missing payments on its debt or other spending, the government would have to raise tax revenue, cut spending or some combination of both, by an amount equivalent in present value to 9.4 percent of all future GDP.

Introduction

Several major provisions of the Tax Cuts and Jobs Act of 2017 are temporary and will expire ("sunset") by the end of 2025. Some of the temporary measures began to phase out starting in 2022, while most of the temporary measures will be fully expired by the end of 2025.[1]

The 10-Year Budget Window

Table 1 shows estimates of changes in the federal deficit (from reduced federal receipts and higher federal expenditures) from extending the TCJA provisions over the next decade.[2] Projections for 2023-32 indicate a total increase in the federal deficit of $2.8 trillion, most of it arising from the continuation of TCJA cuts to individual income taxes. By construction, these values are aligned with CBO estimates since this particular brief focuses on the longer term.

Table 1. Change in Federal Receipts and Expenditures from Extension of TCJA Provisions

Billions of dollars; Deficit increase (-)/decrease (+)

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Year	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2
Taxes											
Individual Income Taxes	0.0	-0.1	-6.0	-167.2	-301.2	-295.4	-306.6	-316.8	-328.6	-345.6	-2,
Business/Investment Taxes	-61.0	-45.7	-48.4	-58.4	-66.9	-62.8	-52.9	-47.0	-48.9	-51.5	-5
Payroll Taxes	0.0	0.0	0.0	0.5	0.7	0.7	0.8	0.8	0.9	0.9	
Estate and Gift Taxes	0.0	-0.1	-0.6	-1.9	-13.2	-15.0	-16.0	-17.1	-17.7	-18.6	-1
Expenditures											
Child Tax Credit	0.0	0.0	0.0	-10.3	-13.4	-13.4	-14.0	-14.3	-14.7	-15.5	-
Deficit Increase (-)	-61.1	-45.9	-55.0	-237.3	-394.0	-385.9	-388.8	-394.3	-409.0	-430.2	-2,

Source: Values through 2030 from the Congressional Budget Office, *Budget and Economic Outlook*, May 2022, Table 5.2.
Projected values after 2030 based on PWBM's microsimulation.

Longer Term Projections

Figure 1 shows the long-term effect of extending TCJA provisions on federal receipts and annual deficits as a percentage of projected GDP. The difference between the baseline (sunset) and no-sunset alternatives on expenditures is small. However, the difference in receipts and annual deficits is larger. The net effect on the national debt grows over time due to compounding.

Figure 1. Long term projections of the effects of extending TCJA's provisions on federal rec eipts, expenditures, and deficits

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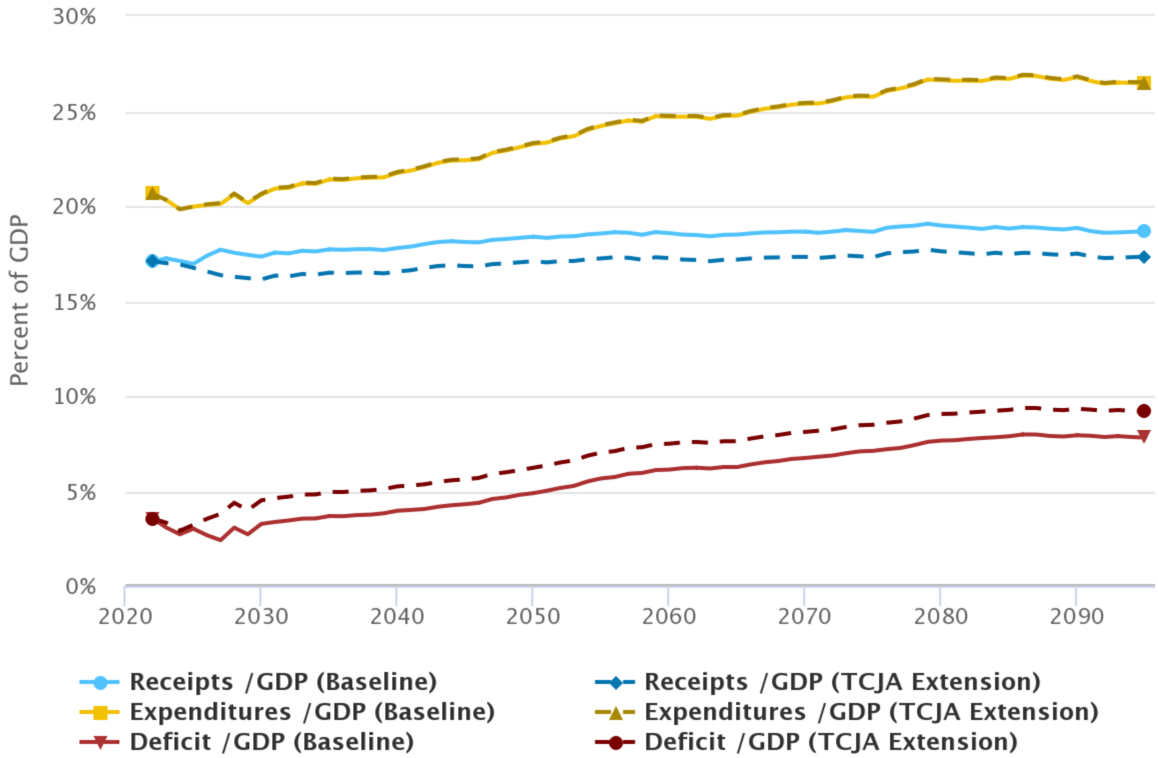

Source: Author's calculations based on PWBM's microsimulation.

For example, by the year 2030, extending TCJA provisions would reduce federal receipts from 17.3 percent to 16.1 percent of GDP. As a result, cumulative debt through the year 2030 would be 132.9 percent instead of 126.1 percent of GDP in that year. However, by the year 2050, the revenue reduction would be from 18.4 percent to 17.1 percent of GDP. By the year 2050, cumulative debt would be 261.1 percent instead of 226.0 percent of GDP in that year.

Table 2 summarizes the total federal financial shortfall with sunset (baseline) versus permanent extension (extenders). The financial shortfall is measured as federal *fiscal imbalance*: The present discounted value of the shortfall of annual receipts compared to annual expenditures measured over (1) the next 75 years and (2) without a time limit (infinite horizon).[3]

Table 2. Fiscal imbalance under sunset versus extension of TCJA provisions

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	75 years		Infinite Horizon	
Fiscal Imbalance	**Sunset**	**No-Sunset**	**Sunset**	**No-Sunset**
Net Value (Trillions of dollars)	93.3	109.8	202.9	231.7
Percent of the Present Value of GDP	7.0	8.2	8.2	9.3

Source: Author's calculations based on PWBM's microsimulation.

The fiscal imbalance measures the size of future financial shortfalls in terms of dollars today. For example, at a 5 percent interest rate, a perpetual obligation to pay of 5 cents each year is equivalent to owing $1 today. Thus, given projected federal expenditures under current spending laws, extending the TCJA would reduce federal revenues and create a larger federal funding shortfall. The fiscal imbalance metric expresses the increase in the federal funding shortfall in today's dollars.

The federal government's existing fiscal imbalance (under current fiscal laws including sunsets on TCJA provisions) is estimated to be $93.3 trillion over the next 75 years.[4] Without time limit, the fiscal imbalance is estimated at $202.9 trillion. A permanent extension of TCJA provisions would increase the fiscal imbalance by $16.5 trillion -- from ($93.3 trillion to $109.8 trillion) over the next 75 years. Measured without a time limit, the increase in the fiscal imbalance from extending TCJA provisions would be $28.8 trillion (from $202.9 trillion to $231.7 trillion).

Measured as a percent of the present value of GDP, the 75-year fiscal imbalance increases from 7.0 percent under TCJA sunset to 8.2 percent under TCJA extension. When calculated over the infinite horizon, the federal fiscal imbalance increases from 8.2 percent under the baseline (TCJA sunset) to 9.3 percent under TCJA extension.

This analysis was produced by Jagadeesh Gokhale. Mariko Paulson prepared the brief for the website.

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1. Bonus depreciation deduction of 100 percent (and a few minor provisions) began their phase-outs after 2022. Some provisions will adjust more rapidly in 2025, including the higher estate-and-gift tax exclusion limit, which will revert to the 2018 value ($5.5 million) in 2025. Several additional TCJA provisions for individuals and businesses – such as individual income tax rates, the increased child tax credit, increased alternative minimum tax threshold, increased standard deduction limits on state and local tax deduction, mortgage interest deduction, qualified business income deduction, global intangible low-taxed income deduction, foreign derived intangible income deduction etc. -- are also set to expire in 2025. ↩

2. Budget and Economic Outlook, May 2022, Congressional Budget Office, publication number 51118. Note that CBO estimates are reported through 2030. Long-term (after year 2030) annual estimates of budget effects are based on PWBM's microsimulation. ↩
3. For a detailed definition and calculation of fiscal imbalance metric, see here. ↩
4. The current law fiscal imbalance estimates below are provided in an earlier PWBM Brief. See here. ↩