

## Summary

Penn Wharton Budget Model's static analysis projects that The Senate Tax Cuts and Jobs Act reduces federal tax revenue in relative to current policy. Some provisions continue to affect revenue beyond the 10-year budget window due to provisions that are permanent, shift income across years, and/or reclassify the type of income.

## Key Points

- This brief reports Penn Wharton Budget Model's (PWBM) conventional (static) analysis of The Senate Tax Cuts and Jobs Act (TCJA), as amended on November 15, 2017, which includes numerous sunsets to comply with the Byrd Rule governing the budget reconciliation process.
- PWBM's conventional (static) analysis finds that the bill lowers tax revenues by \$1.3 trillion over the first 10 years.
- PWBM projects that provisions in TCJA continue to reduce revenue after the 10-year window and we list the reason for each: (a) permanent revenue losses due to a lack of sunset; (b) income shifting across years to exploit sunsets; and (c) reclassification of income to exploit differences in marginal tax rates, potentially permanent or due to sunsets.

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# The Senate Tax Cuts and Jobs Act, Amended (11/15/17): Static Revenue Effects

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## Introduction

Penn Wharton Budget Model (PWBM) previously reported [static and dynamic analysis](#) of The Senate Tax Cuts and Jobs Act (TCJA), as of November 9, 2017. The bill was [amended](#) on November 15, 2017. This brief updates our previous static analysis, including the expiration of several provisions and changes to other tax provisions. Readers are encouraged to read our previous analyses for related definitions used in this brief.

## Sunset Provisions

To maintain consistency with budget reconciliation requirements (Byrd Rule), the amended Senate TCJA involves numerous major sunsets (expiry of provisions). Tax provisions that expire on December 31, 2025 include the new individual tax rates, expansion of the standard deduction and repeal of personal exemptions, the new pass-through business deduction and loss limits, the expansion of the Child Tax Credit, modifications to itemized deductions, the repeal of the Alternative Minimum Tax, expansion of the Estate Tax exemption, and modifications to other individual tax expenditures.

## Static Revenue Effects of the Senate Tax Cuts and Jobs Act

Table 1 shows PWBM's estimate of the revenue effects of the Senate version of TCJA over the 10-year budget window as well as until 2040. Table 1 also compares PWBM's estimated revenue losses against those estimated by the Joint Committee on Taxation (JCT), which is staffed by leading government tax economists.

PWBM estimates a static revenue loss from 2018 - 2027 equal to \$1,327 billion, or about \$87 billion less than that estimated by JCT. However, within the similar totals between PWBM and JCT, there are considerable

differences in the estimated costs of individual items, including the individual AMT. These differences are due to several factors: interactions when changing multiple parts of the tax code at the same time; moderately different macroeconomic forecasts and parameters; and, PWBM's forecast of demographic changes compared to JCT's focus on tax filers.

From 2018 - 2040, PWBM estimates federal revenues will be \$1,302 billion lower under the bill than otherwise. Since this total cost is less than its 10-year value, each provision in the bill that increases the deficit beyond the 10-year window might be offset-able by another provision(s) that lowers the deficit by even more, thereby following satisfying one of the [Byrd Rule exceptions](#).<sup>1</sup>

For each major provision in the bill, Table 1 indicates the reason why PWBM's estimate of that provision alters revenue after the 10-year window. There are three potential reasons: (a) permanent revenue losses due to a lack of sunset; (b) income shifting across years to exploit sunsets; and (c) reclassification of income to exploit differences in marginal tax rates, potentially permanent or due to sunsets. This information might be useful for informing JCT's analysis and guidance to the Senate Parliamentarian following a point of order related to the Byrd Rule.

## Table 1: Estimates of the Effect of the Senate Tax Cuts and Jobs Act on Federal Tax Revenues

Tax Provision	Revenue Effect 2018-2027		Revenue Effect 2018-2040	Explanation of Revenue Effect After 10-Year Window
	JCT	PWBM	PWBM	
<b>Individual</b>				
New tax rate and bracket structure	-1,174	-1,182	-1,239	Intertemporal income shifting
Expand the standard deduction and repeal personal exemptions	484	462	462	Sunset 12/31/25
Index tax provisions to chained CPI	134	89	766	Permanent
New pass-through business deduction	-362	-466	-586	Intertemporal income shifting and income reclassification
Pass-through business loss limits	137	147	124	Intertemporal income shifting and income reclassification
Expand Child Tax Credit (CTC) and new non-child dependent credit	-584	-557	-533	Intertemporal income shifting and income reclassification
Repeal and modifications to itemized deductions	978	809	819	Intertemporal income shifting and income reclassification
Repeal Alternative Minimum Tax (AMT) <sup>2</sup>	-769	-290	-306	Intertemporal income shifting and income reclassification
Reforms to certain deductions and credits <sup>3</sup>	32	22	25	Intertemporal income shifting and income reclassification
Reforms to certain exclusions <sup>4 5</sup>	322	322	1,198	Repeal of ACA individual mandate is permanent
Estate tax exemption doubled <sup>6</sup>	<u>-83</u>	<u>-83</u>	<u>-83</u>	Sunset 12/31/25
<i>Subtotal</i>	-886	-726	646	
<b>Corporate</b>				

Tax Provision	Revenue Effect 2018-2027		Revenue Effect 2018-2040	Explanation of Revenue Effect After 10-Year Window
	JCT	PWBM	PWBM	
New corporate tax rate and repeal of corporate Alternative Minimum Tax (AMT)	-1,370	-1,403	-4,243	Permanent and income reclassification
Net interest deduction capped at 30% of income (EBIT)	308	299	832	Permanent and income reclassification
100% bonus depreciation ("full expensing") for 5 years and reduce recovery period for real property	-87	-49	-47	Sunset 12/31/22
Modification to net operating loss deductions	158	108	137	Permanent and income reclassification
Amortize research & experimentation costs	62	36	77	Permanent and income reclassification
Repeal of Domestic Production Deduction	81	108	320	Permanent and income reclassification
Reforms to certain business tax expenditures <sup>7</sup>	<u>165</u>	<u>140</u>	<u>554</u>	Permanent and income reclassification
<i>Subtotal</i>	-682	-762	-2,370	
<b>International <sup>8</sup></b>				
Territorial System	-216	-155	-437	Permanent
Special one-time repatriation rate	185	140	123	Permanent
Other international reforms <sup>9</sup>	<u>184</u>	<u>176</u>	<u>735</u>	Permanent
<i>Subtotal</i>	155	161	421	
<b>TOTAL</b>	<b>-1,414</b>	<b>-1,327</b>	<b>-1,302</b>	
<i>Memo: Total without Outlay Effects</i>	-1,633	-1,639	-2,448	

Note: Estimates are net of effects on federal outlays.

## Conclusion

Penn Wharton Budget Model's static analysis projects that The Senate Tax Cuts and Jobs Act reduces federal tax revenue in relative to current policy. Some provisions continue to affect revenue beyond the 10-year budget window due to provisions that are permanent, shift income across years, and/or reclassify the type of income.

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1. In particular, according to the Byrd Rule, "a provision that mitigates direct effects attributable to a second provision which changes outlays or revenue when the provisions together produce a net reduction in outlays". ↩
2. Absent other changes, PWBM's estimate of the revenue loss of repealing the individual AMT compared to baseline is \$515 billion. ↩
3. Reforms to certain credits and deductions includes requiring Social Security numbers for each child to claim refundable portion of CTC and repeal of the moving expense deduction. ↩
4. Reforms to certain exclusions includes repeal of exclusion for employer-provided bicycle commuter fringe benefit, qualified moving expense reimbursements, modified exclusion of gain from sale of a principal residence, repeal of the ACA individual mandate, and other provisions. ↩
5. For these items PWBM applies PWBM's macroeconomic forecast to JCT estimates. ↩
6. For these items PWBM applies PWBM's macroeconomic forecast to JCT estimates. ↩
7. For these items PWBM applies PWBM's macroeconomic forecast to JCT estimates. ↩
8. PWBM's estimates include lower cross-border profit flows than JCT's. ↩
9. For these items PWBM applies PWBM's macroeconomic forecast to JCT estimates. ↩