Key Points

- This brief reports Penn Wharton Budget Model's (PWBM) dynamic analysis of The House Tax Cuts and Jobs Act (TCJA), as amended and reported out by the Ways and Means Committee on November 9, 2017.
- After including the tax bill's effects on economic growth, TCJA is projected to reduce revenues between $1.5 trillion and $1.7 trillion. Debt rises by about $2.0 trillion over the same period. Looking beyond the 10-year budget window, by 2040, revenue falls between $3.6 trillion and $4.4 trillion while debt increases by $6.4 to $6.9 trillion.
- In 2027, GDP is between 0.4% and 0.9% higher than with no tax changes. By 2040, the difference between GDP under the House tax bill and current policy is between 0.0% and 0.8%, due to larger debt.

The House Tax Cuts and Jobs Act, Amended (11/9/17): The Dynamic Effect on the Budget and the Economy

Introduction

Penn Wharton Budget Model's (PWBM) previously reported static analysis and dynamic analysis of the House Tax Cuts and Jobs Act (TCJA), as of November 5, 2017. Since then the bill was changed by the 1st amendment and the 2nd amendment, and reported out of the Ways and Means Committee on November 9, 2017. This brief updates our previous analysis, including changes made to taxes for pass-through businesses and a special one-time repatriation rate. Readers are encouraged to read our previous analyses for related definitions used in this brief. Table numbers in this brief closely follow those presented in our dynamic analysis.

Budget Effects of the Tax Cuts and Jobs Act

Table 1 shows that over the 10-year budget window, The House Tax Cuts and Jobs Act is projected to reduce federal tax revenues between $1.5 trillion (high initial return to capital) to $1.7 trillion (low initial return to capital). Debt rises by more, by about $2.0 trillion to $2.1 trillion, over this period, due to debt services. By 2040, revenue falls between $3.6 trillion and $4.4 trillion, whereas debt increases by $6.4 trillion to $6.9 trillion.

Table 1: TCJA Effects on Revenue and Debt Relative to Current Policy

	Revenue (billions of $)			Debt (billions of $)		
	Static	Dynamic		Static	Dynamic	
Years		High return to capital	Low return to capital		High return to capital	Low return to capital
2018-2027	-$1,840	-$1,470	-$1,697	$2,115	$1,996	$2,121
2018-2040	-$4,731	-$3,614	-$4,438	$7,042	$6,387	$6,940

Note: The above estimates focus on the official definition of "revenue" and, therefore, do not incorporate tax refunds, which are recorded as outlays. Debt rises faster than lost revenue due to debt service costs, which revenue estimates

ignore.

Economic Effects of the Tax Cuts and Jobs Act

The House Tax Cuts and Jobs Act has effects beyond federal revenues, including effects on GDP, labor income and U.S. capital services, which are summarized in Table 2. By 2027, GDP is between 0.4% and 0.9% larger than current policy in that year. However, this initial boost fades over time as more debt accumulates. By 2040, GDP is between 0.0% and 0.8% larger than current policy in that year.

Table 2: TCJA Effects on Key Macroeconomic Variables Relative to Current Policy in Year Shown

	GDP (% change)		Labor Income (% change)		Capital Services (% change)	
Year	**High return to capital**	**Low return to capital**	**High return to capital**	**Low return to capital**	**High return to capital**	**Low return to capital**
2027	0.9%	0.4%	0.9%	0.4%	2.3%	0.7%
2040	0.8%	0.0%	0.8%	0.0%	2.3%	0.0%

Note: Percentage change relative to current policy in 2027 and 2040, respectively. Consistent with our previous dynamic analysis and the empirical evidence, the projections above assume that the U.S. economy is 40% open and 60% closed. Specifically, 40% of new government debt is purchased by foreigners.

Conclusion

Penn Wharton Budget Model's dynamic analysis projects that The House Tax Cuts and Jobs Act reduces federal tax revenue in both the short- and long-run relative to current policy. In the near term, there is a small boost to GDP, but that increase diminishes over time.