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Details and Analysis of the American Families and Jobs Act

Erica York, Huaqun Li, Alex Durante

House Republicans have proposed three new tax bills packaged as the American Families and Jobs Act that would temporarily extend certain business provisions from the Tax Cuts and Jobs Act (TCJA)—including 100 percent expensing for investments in equipment and research and development (R&D) through the end of 2025—create a bonus standard deduction for individuals through 2025, and curtail many recently enacted green energy tax credits, among other changes.

The combined House GOP tax package is roughly revenue neutral, and, though unlikely to become law, it shows that improving incentives for businesses to invest in the U.S. is a key priority for lawmakers. The American Families and Jobs Act could be improved upon by providing permanence for business investment cost recovery provisions and paying for it by further limiting business credits and other tax expenditures.

The Build It in America Act (H.R. 3938) would temporarily cancel three business policy changes from the TCJA that took effect in 2022 or 2023 and align their new expiration with the broader expiration of the TCJA's individual income tax provisions at the end of 2025. Beginning in 2022, companies faced a switch to five-year amortization of R&D expenses (15 years for foreign cited R&D) and a tighter interest deduction limitation based on earnings before interest and tax (EBIT) rather than earnings before interest, tax, depreciation, and amortization (EBITDA). Beginning this year, companies also face the gradual phaseout of 100 percent bonus depreciation. The new proposal would extend the policies through the end of 2025 and apply them retroactively as if they had never changed. Tax Foundation estimates it would reduce revenue by about $258 billion through 2025 but raise revenue thereafter, resulting in a $29 billion cost on a conventional basis (before accounting for effects on economic growth) and $11 billion on a dynamic basis (after accounting for growth) through 2033.

To raise additional revenue, the bill would cut back on the Inflation Reduction Act's green energy credits, including repeal or modification of the clean energy production credit, the clean electricity investment credit, the previously owned clean vehicles credit, the clean vehicle credit, and the qualified commercial clean vehicle credit. In all, the Joint Committee on Taxation (JCT) estimated the changes to green energy credits would raise $216 billion from 2023 through 2033.

The Small Business Jobs Act (H.R. 3937) would permanently lift the maximum Section 179 expensing deduction to $2.5 million (from $1.08 million in 2022) and raise the phaseout threshold from $2.7 million of property to $4.0 million. It would also restore prior law reporting requirement rules for third-party network transactions (which the American Rescue Plan Act lowered but the IRS delayed implementing), increase the 1099 reporting threshold to $5,000, expand the exclusion for qualified small business stock to S corporations, and expand the Opportunity Zones program for rural areas. The JCT estimates the cost of all the Small Business Jobs Act provisions would be about $81 billion over the budget window.

The Tax Cuts for Working Families Act (H.R. 3936) would temporarily boost the standard deduction by $2,000 for single filers, $3,000 for head of household filers, and $4,000 for joint filers through 2025. The extra amount would begin to phase out by 5 percent above $200,000 for single filers, $300,000 for head of household filers, and $400,000 for joint filers. Tax Foundation estimates the bonus deduction change would reduce revenue by $94 billion on a conventional basis (similar to JCT's estimate) and $84 billion on a dynamic basis.

We explicitly modeled only four of the tax changes: extension of 100 percent bonus depreciation, R&D expensing, and EBITDA-based net interest deduction limitation, as well as the temporary bonus standard deduction. We incorporated scores from JCT for the items we did not explicitly model. Overall, we find the three bills would be revenue neutral from 2023 through 2033, including the retroactive portions of the business tax changes, when scored on a conventional basis.

The bulk of tax cuts would occur in 2023 through 2025, as tax revenue would fall by more than $100 billion in each of the three years. Afterwards, tax revenue would rise relative to the baseline. That increase is a function of both curtailing the green energy tax credits and shifting the timing of business deductions for investment.

Revenue Effects of the American Families and Jobs Act (House Republican Tax Plan)

Provisions (Billions of Dollars)	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	Total
Extension of R&D Expensing	-$91.5	-$12.6	-$4.7	$84.7	$27.9	$9.5	$0.0	$0.0	$0.0	$0.0	$0.0	**$13.4**
Extension of 100% Bonus Depreciation	-$16.2	-$41.2	-$62.0	$38.9	$23.2	$16.3	$12.5	$8.0	$4.6	$2.3	$1.3	**-$12.2**
Extension of EBITDA-Based Interest Limitation	-$16.1	-$7.4	-$6.7	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	**-$30.2**
Bonus Standard Deduction	$0.0	-$46.5	-$47.7	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	**-$94.2**
Conventional Subtotal of Scored Items	-$123.8	-$107.7	-$121.0	$123.6	$51.1	$25.9	$12.5	$8.0	$4.6	$2.3	$1.3	**-$123.2**
Dynamic Subtotal of Scored Items	-$120.7	-$97.1	-$106.6	$123.5	$51.0	$25.9	$12.5	$8.0	$4.6	$2.3	$1.3	**-$95.3**
Subtotal of Non-Scored Items from JCT, Including Repeal of Green Energy Credits, Expansion of Opportunity Zones, and Other Changes	-$1.7	-$4.1	-$5.0	$1.0	$14.1	$17.3	$16.7	$18.8	$21.3	$24.4	$20.5	**$123.2**
Conventional Total	**-$125.5**	**-$111.8**	**-$126.0**	**$124.5**	**$65.2**	**$43.1**	**$29.2**	**$26.8**	**$25.9**	**$26.7**	**$21.8**	**$0.0**
Dynamic Total	**-$122.5**	**-$101.2**	**-$111.6**	**$124.4**	**$65.1**	**$43.1**	**$29.2**	**$26.8**	**$25.9**	**$26.7**	**$21.8**	**$27.9**

Source: Tax Foundation General Equilibrium Model, June 2023, and Joint Committee on Taxation.

Because the policies are temporary, they would not result in long-run growth for the economy, wages, or jobs. But they would slightly boost growth while the more generous policies are in effect, lifting economic output by about 0.15 percent in 2024 and 2025 (followed by slight decreases in economic output starting in 2026 until economic output returns to its baseline level). As such, incorporating the economic feedback from the four provisions we modeled, we estimate the entire package would increase revenue by about $28 billion over the budget window.

While the stated intent of the expansion in the standard deduction is to provide relief from inflation, it is poorly targeted since it delays relief until next year and provides little to no benefit to low-income households. If lawmakers are trying to reduce near-term inflation, a deficit-increasing individual income tax cut is the wrong approach. While the expanded standard deduction would build on the TCJA's efforts to reduce itemization, it would be simpler for lawmakers to directly and permanently limit unwanted deductions rather than further raise the floor on itemized deductions by expanding the standard deduction.

The business tax changes are designed to help improve investment incentives, because when inflation is high, allowing worsening cost recovery to take hold would sharply increase the after-tax cost of investment. Addressing R&D amortization and the phaseout of bonus depreciation, especially during a period of high inflation, is important.

Temporarily extending full bonus depreciation and R&D expensing is a step in the right direction, but businesses should have access to full, immediate expensing on a permanent basis. Full and permanent cost recovery is the most cost-effective and pro-growth tax policy change lawmakers can prioritize—it has a proven track record of success, while place-based incentives like Opportunity Zones are less promising.

Using revenue to retroactively extend the policies is inefficient—businesses cannot go back to 2022 or early 2023 and invest more. But R&D amortization in particular is creating liquidity problems for some small businesses, raising taxes on income that doesn't exist, making retroactive relief an important element.

Ultimately, lawmakers should focus on broadly improving investment incentives and reducing uncertainty by permanently extending 100 percent bonus depreciation and R&D expensing. If made permanent, the three major business tax changes in the Build It in America Act would boost long-run economic output by 0.5 percent and hours worked by nearly 100,000 full-time equivalent jobs, driven primarily by permanent 100 percent bonus depreciation. The government would lose revenue within the 10-year budget window, but on a dynamic basis, about one-fourth of the cost would be recovered due to higher output and incomes within the budget window, and, in the long run, revenues would be slightly above baseline. Reducing credits and other tax expenditures could cover temporary deficits. Better cost recovery, especially on a permanent basis, is complementary to the Federal Reserve's inflation reduction efforts because it encourages business investment.