CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

August 4, 2015

Tax Relief Extension Act of 2015

As ordered reported by the Senate Committee on Finance on July 21, 2015

SUMMARY

The Tax Relief Extension Act of 2015 would reinstate and extend certain expired tax provisions through December 31, 2016; almost all of the provisions expired on December 31, 2014, and those provisions would be retroactively reinstated, extended, and in a few cases amended. The bill also would make a few additional changes to tax law.

Because of the magnitude of its budgetary effects, this bill is "major legislation," as defined in section 3112 of S. Con. Res. 11, the Concurrent Resolution on the Budget for Fiscal Year 2016. Hence, the cost estimate prepared by CBO and the staff of the Joint Committee on Taxation (JCT) incorporates the federal budgetary effects of changes in economic output and other macroeconomic variables that would result from enacting the legislation.

Specifically, JCT estimates that enacting the bill would increase deficits by about $87 billion over the 2015-2025 period. That estimate includes two components. First, excluding macroeconomic feedback effects, JCT estimates that the bill would increase deficits by about $97 billion over the 2015-2025 period. In addition, the macroeconomic feedback would reduce deficits by about $10 billion over that period, JCT estimates.[1] Most of the effects on deficits would result from changes in revenues.

Enacting the legislation would affect direct spending and revenues; therefore, pay-as-you-go procedures apply.

JCT has determined that the bill contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA).

1. For more details, see Joint Committee on Taxation, *A Report to the Congressional Budget Office of the Macroeconomic Effects of the "Tax Relief Extension Act of 2015," as Ordered to be Reported by the Senate Committee on Finance* (JCX-107-15), August 4, 2015.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impacts of the bill are shown in Table 1.

TABLE 1. SUMMARY OF ESTIMATED EFFECTS ON DIRECT SPENDING AND REVENUES OF THE TAX RELIEF EXTENSION ACT OF 2015

	By Fiscal Year, in Billions of Dollars											
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2015-2020	2015-2025
ESTIMATED CHANGES WITHOUT MACROECONOMIC FEEDBACK												
Effects on Outlays	*	*	0	0	0	0	0	0	0	0	*	*
Effects on Revenues	-153	-17	34	21	14	7	1	*	-2	-2	-100	-97
Effects on the Deficit [a]	154	17	-34	-21	-14	-7	-1	*	2	2	101	97
ESTIMATED BUDGETARY IMPACT OF MACROECONOMIC FEEDBACK												
Effects on Outlays	2	1	1	1	1	*	*	*	*	*	6	7
Effects on Revenues	2	2	2	2	2	2	2	2	1	1	10	17
Effects on the Deficit [a]	*	-1	-1	-1	-1	-1	-1	-1	-1	-1	-4	-10
TOTAL ESTIMATED CHANGES, INCLUDING MACROECONOMIC FEEDBACK												
Effects on Outlays	2	1	1	1	1	*	*	*	*	*	6	7
Effects on Revenues	-152	-14	37	23	16	8	3	1	-1	-1	-91	-79
Effects on the Deficit [a]	154	16	-36	-22	-15	-8	-3	-1	1	1	97	87

Sources: Congressional Budget Office; staff of the Joint Committee on Taxation.

Note: * = between -$0.5 billion and $0.5 billion.

a. Positive numbers indicate increases in the deficit, and negative numbers indicate reductions in the deficit.

Because the estimate of macroeconomic effects incorporates the impact of all of the bill's provisions taken together, the estimates of the bill's effects by type of provision do not reflect the macroeconomic feedback effects. Those estimates are shown in Table 2.

TABLE 2. ESTIMATE OF DIRECT SPENDING AND REVENUE EFFECTS OF THE TAX RELIEF EXTENSION ACT OF 2015

	By Fiscal Year, in Billions of Dollars											
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2015-2020	2015-2025
ESTIMATED CHANGES WITHOUT MACROECONOMIC FEEDBACK												
Changes in Revenues												
Individual Tax Extensions	-9.8	-6.8	-0.3	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-17.1	-17.6
Business Tax Extensions	-138.4	-8.3	35.1	21.9	15.2	8.1	2.9	1.1	-0.2	-0.1	-74.4	-62.6
Energy Tax Extensions	-5.2	-1.4	-0.4	-0.9	-1.1	-1.3	-1.4	-1.5	-1.6	-1.7	-9.0	-16.6
Other Provisions	*	*	*	*	0.1	*	*	*	*	*	0.1	0.2
Total Revenues	-153.4	-16.6	34.4	21.1	14.1	6.7	1.4	-0.5	-1.9	-1.9	-100.5	-96.6
On-budget	-153.4	-16.5	34.4	21.1	14.1	6.7	1.4	-0.5	-1.9	-1.9	-100.4	-96.5
Off-budget	-0.1	*	0	0	0	0	0	0	0	0	-0.1	-0.1
Changes in Direct Spending												
Rum Excise Tax Payments												
Estimated Budget Authority	0.3	*	0	0	0	0	0	0	0	0	0.3	0.3
Estimated Outlays	0.3	*	0	0	0	0	0	0	0	0	0.3	0.3
Net Increase or Decrease (-) in the Deficit from Changes in Direct Spending and Revenues Without Macroeconomic Feedback												
Effects on Deficits	153.7	16.6	-34.4	-21.1	-14.1	-6.7	-1.4	0.5	1.9	1.9	100.8	96.9
On-budget	153.7	16.6	-34.4	-21.1	-14.1	-6.7	-1.4	0.5	1.9	1.9	100.7	96.9
Off-budget	0.1	*	0	0	0	0	0	0	0	0	0.1	0.1
ESTIMATED BUDGETARY IMPACT OF MACROECONOMIC FEEDBACK												
Effects on Outlays	1.8	1.4	1.0	0.7	0.6	0.4	0.3	0.2	0.1	0.1	5.6	6.8
Effects on Revenues	1.7	2.3	2.2	1.8	1.7	1.7	1.7	1.6	1.4	1.2	9.6	17.2
Effects on the Deficit [a]	0.1	-0.9	-1.2	-1.0	-1.1	-1.3	-1.4	-1.3	-1.2	-1.1	-4.1	-10.4
TOTAL ESTIMATED CHANGES, INCLUDING MACROECONOMIC FEEDBACK												
Effects on Outlays	2.1	1.4	1.0	0.7	0.6	0.4	0.3	0.2	0.1	0.1	5.9	7.1
Effects on Revenues	-151.7	-14.3	36.6	22.8	15.7	8.4	3.2	1.1	-0.5	-0.7	-90.8	-79.4
Effects on the Deficit [a]	153.9	15.7	-35.6	-22.1	-15.2	-8.0	-2.8	-0.8	0.7	0.8	96.7	86.6

Sources: Congressional Budget Office; staff of the Joint Committee on Taxation.

Notes: Details may not add to totals because of rounding; * = between -$50 million and $50 million.

a. Positive numbers indicate increases in the deficit, and negative numbers indicate reductions in the deficit.

BASIS OF ESTIMATE

JCT provided the estimates of all provisions except one dealing with outlays of certain rum excise taxes. The estimates reflect an assumed enactment date of October 1, 2015.

Estimates Excluding Macroeconomic Feedback

JCT and CBO estimate that the Tax Relief Extension Act of 2015 would increase deficits by about $97 billion over the 2015-2025 period, excluding the effects of macroeconomic feedback. The effects of the main provisions, excluding any macroeconomic feedback, are highlighted below.

Extensions of Individual Tax Provisions. The individual income tax provisions would reduce revenues by $17.6 billion over the 2016-2025 period, JCT estimates. Those amounts include, among others, the effects of extending provisions that would allow:

- Individuals to claim state and local sales taxes as an itemized deduction in lieu of state and local income taxes in calculating their individual income tax liability; JCT estimates that enacting this provision would reduce revenues by a total of $6.7 billion over the 2016-2018 period.

- An exclusion from gross income for the discharge of indebtedness on a principal residence; JCT estimates that this provision would reduce revenues by $5.2 billion over fiscal years 2016 and 2017.

Extensions of Business Tax Provisions. The business tax provisions would reduce revenues by $62.6 billion over the 2016-2025 period, JCT estimates. In addition, CBO estimates that those provisions would increase outlays by $0.3 billion over the 2016-2025 period. Those amounts include, among others, the effects of provisions that would allow:

- Businesses to qualify for both additional first-year depreciation of 50 percent of the basis for qualifying property and additional expensing (that is, immediate deduction from taxable income) for qualifying property under section 179 of the Internal Revenue Code. JCT estimates that those provisions would reduce revenues by $113.2 billion in 2016, and increase revenues by $106.7 billion over the 2017-2025 period, with the net effect of reducing revenues by $6.5 billion over the 2016-2025 period.

- Businesses to claim the research tax credit, which JCT estimates would reduce revenues by $22.6 billion over the 2016-2025 period. The provision would extend the credit in effect in 2014 in modified form.

- Certain foreign subsidiaries that engage in banking, financial, and related businesses to defer taxation of certain income until it is repatriated to the U.S. parent corporation; JCT estimates that the provision would reduce revenues by $13.5 billion over fiscal years 2016 and 2017.

- The Treasuries of Puerto Rico and the Virgin Islands to receive increased payments relating to excise taxes on rum manufactured in those places as well as rum imported from other countries. CBO estimates that those payments, which are recorded in the budget as outlays, would total $336 million over the 2016-2025 period.

Extensions of Energy Tax Provisions. The extension of the energy tax provisions would lower revenues by about $16.6 billion over the 2016-2025 period, JCT estimates. The provision with the largest effect on revenues—reducing them by an estimated $10.5 billion over the 2017-2025 period—would extend, to the end of 2016, the date by which construction must begin in order for renewable power facilities to be eligible for the electricity production credit or the investment credit in lieu of the production credit.

Other Provisions. JCT estimates that the three other provisions in the bill would increase revenues by $0.2 billion over the 2016-2025 period. The other provision with the largest effect would modify the tax credit for certain alternative fuels.

Macroeconomic Feedback Effects

JCT has separately provided a description of the macroeconomic feedback effects of the bill (see Joint Committee on Taxation, JCX-107-15). CBO has incorporated those effects into the estimates shown here.

JCT estimates that the bill would increase the capital stock at the beginning of the budget period, increasing revenues by about $17 billion over the 2016-2025 period. At the same time, a small increase in interest rates from higher federal debt would increase the cost of federal debt service by about $7 billion over the 2016-2025 period. The net effect of the macroeconomic feedback would be to reduce deficits by about $10 billion over the 10-year period.

LONG-TERM IMPACTS

CBO and JCT estimate that enacting the legislation would not increase direct spending, revenues, or the deficit by at least $5 billion in any of the four consecutive 10-year periods beginning in 2026. That estimate includes macroeconomic feedback.

In the second and third decade after enactment, because the bill is expected to result in an increase in federal debt, JCT expects it to make private borrowing more expensive, thus slightly lowering the capital stock relative to present law and reducing economic growth and associated revenues relative to present law. The expected increase in debt generated by the proposal is quite small relative to the overall size of the economy; therefore the long-run effect is expected to be small.

PAY-AS-YOU-GO CONSIDERATIONS

The Statutory Pay-As-You-Go Act of 2010 establishes budget-reporting and enforcement procedures for legislation affecting direct spending or revenues. The net changes in revenues and outlays that are subject to those pay-as-you-go procedures are shown in the following table and include macroeconomic feedback. Only on-budget changes to outlays or revenues are subject to pay-as-you-go procedures.

TABLE 3. CBO ESTIMATE OF PAY-AS-YOU-GO EFFECTS FOR THE TAX RELIEF EXTENSION ACT OF 2015, AS ORDERED REPORTED BY THE SENATE COMMITTEE ON FINANCE ON JULY 21, 2015

	By Fiscal Year, in Millions of Dollars												
	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2016-2020	2016-2025
NET INCREASE OR DECREASE (-) IN THE ON-BUDGET DEFICIT													
Statutory Pay-As-You-Go Effects	0	155,494	17,191	-35,118	-22,105	-15,217	-8,044	-2,878	-911	540	602	100,245	89,552
Memorandum:													
Changes in Revenues	0	-153,347	-15,773	36,137	22,854	15,783	8,485	3,214	1,149	-393	-542	-94,345	-82,430
Changes in Outlays	0	2,147	1,418	1,019	749	566	441	336	238	147	60	5,900	7,122

Sources: Congressional Budget Office and staff of the Joint Committee on Taxation.

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

JCT has determined that the bill contains no intergovernmental or private sector mandates as defined in UMRA.

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