the budget lab

Tax Cuts and Jobs Act Expiration

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Tax Cuts and Jobs Act Expiration: Options for the Tax Code

The expiration of the Tax Cuts and Jobs Act (TCJA) offers an opportunity to discuss broad tax changes.

In the short run, extending the TCJA leads to higher real gross domestic product (GDP) levels, while a deficit-reducing tax plan that incentivizes investments leads to lower real GDP levels.

Under extension scenarios, we expect that the Federal Reserve would respond to larger deficits by increasing interest rates. Under the Full Extension scenario, the 10-year Treasury bond yield is projected to rise by 30 basis points in the longer run.

In the long run, the deficit-reducing plan leads to higher real GDP, while the TCJA extension leads to a slightly lower level of real GDP than we would have seen if the tax cuts had been allowed to expire.

Under each tax plan scenario, almost 40 percent of returns could plausibly be pre-populated by the IRS.

An option that provides more tax breaks for children who were raised in the bottom income quintile would on average raise their wages as adults by nearly 1 percent annually.

On net, the extension options would decrease the burden of filing taxes by an estimated 1.3 hours on average relative to current law. Average burdens could be lessened even more by allowing the qualified business income (QBI) deduction to expire entirely.

SUMMARY

Most individual income tax provisions of the Tax Cuts and Jobs Act (TCJA) expire at the end of 2025. This report analyzes three options for tax reform surrounding expiration: a scenario in which all elements are extended ("Full Extension")[1], an option which preserves cuts for all but those in the top 1 percent ("Partial Extension") [1], and a tax plan that includes deficit reduction proposed by professors Kimberly Clausing and Natasha Sarin ("Clausing-Sarin"). These options highlight the tradeoffs that policymakers will face in 2025.

The report begins with conventional budgetary and distributional estimates from our microsimulation model.

- Full TCJA Extension is estimated to cost nearly $3 trillion over the budget window relative to current law (which assumes full expiration). Benefits accrue to all income and age groups, with higher-income and older taxpayers benefiting somewhat more.

- Moving from Full to Partial Extension, which excludes the top 1 percent from tax cuts, would reduce costs from $3 trillion to $2 trillion.

- Finally, the Clausing-Sarin option would reduce deficits by more than $4 trillion in our accounting. Its revenue impacts grow as a share of GDP after the first decade. Lower-income and younger families would benefit on net at the expense of higher-income and older families.

- If policymakers removed rate cuts and the QBI deduction from Full Extension, they would raise revenue while cutting taxes (relative to current law) for the bottom half of the income distribution.

## Percent Change in After-Tax Income by Income Group and Corporate Tax Assumption, 2026
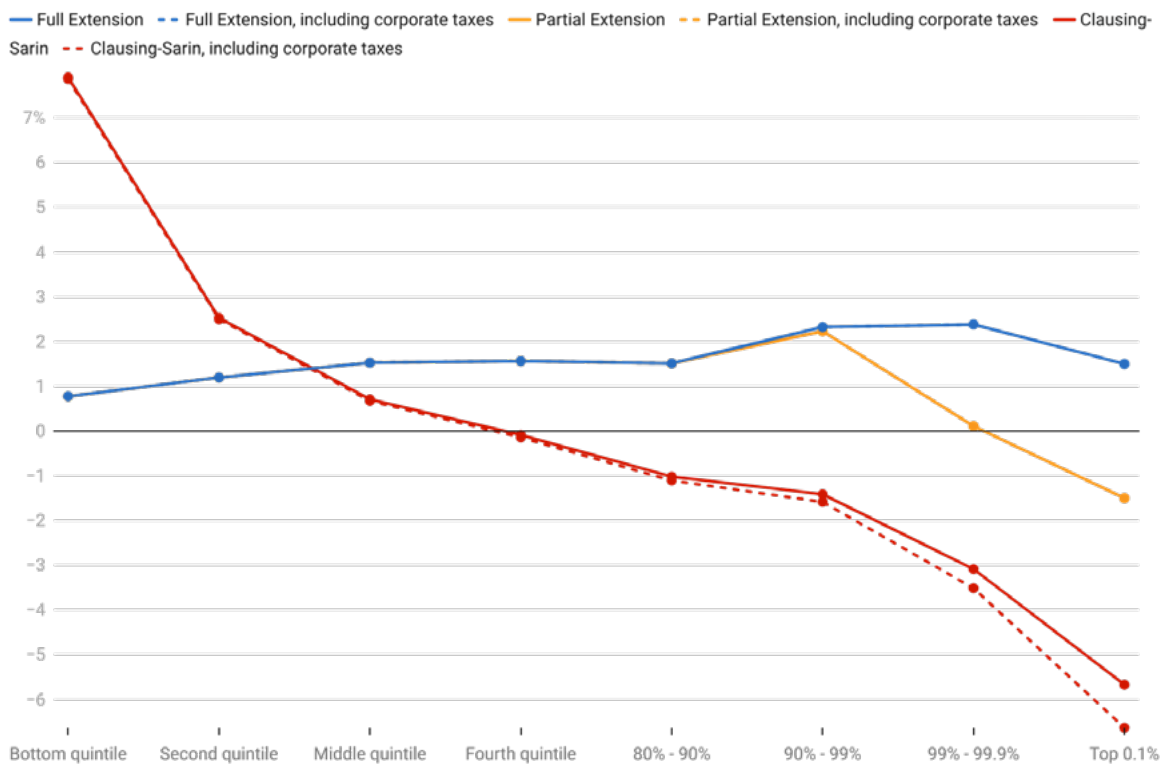
Estimate universe is nondependent tax units, including nonfilers. "Income" is measured as AGI plus: above-the-line deductions, nontaxable interest, nontaxable pension income (including OASI benefits), and employer-side payroll taxes. Income percentile thresholds are calculated with respect to positive income only and are adult-weighted.

Next, we conduct a microeconomic analysis of each reform. The Full and Partial Extension scenarios are expected to slightly increase employment, while Clausing-Sarin would induce modest labor force exits, with the difference attributable to how each reform affects the returns to labor among lower-income parents. We also model the extent to which child-oriented provisions in each plan translate to improved labor market outcomes in adulthood. These estimates are constructed using a novel methodology exploiting descriptive evidence on intergenerational mobility. Clausing-Sarin, with its Child Tax Credit (CTC) provisions providing more generous benefits to lower-income families, is projected to increase average future wages of children who were raised in the bottom income quintile by nearly 1 percent annually. The Full and Partial Extension options would generate smaller improvements in later-life outcomes.

Estimated Impact on Later-Life Earnings by Parent Income Quintile, 2050
Change in Wages Relative to Baseline, Percentage Points
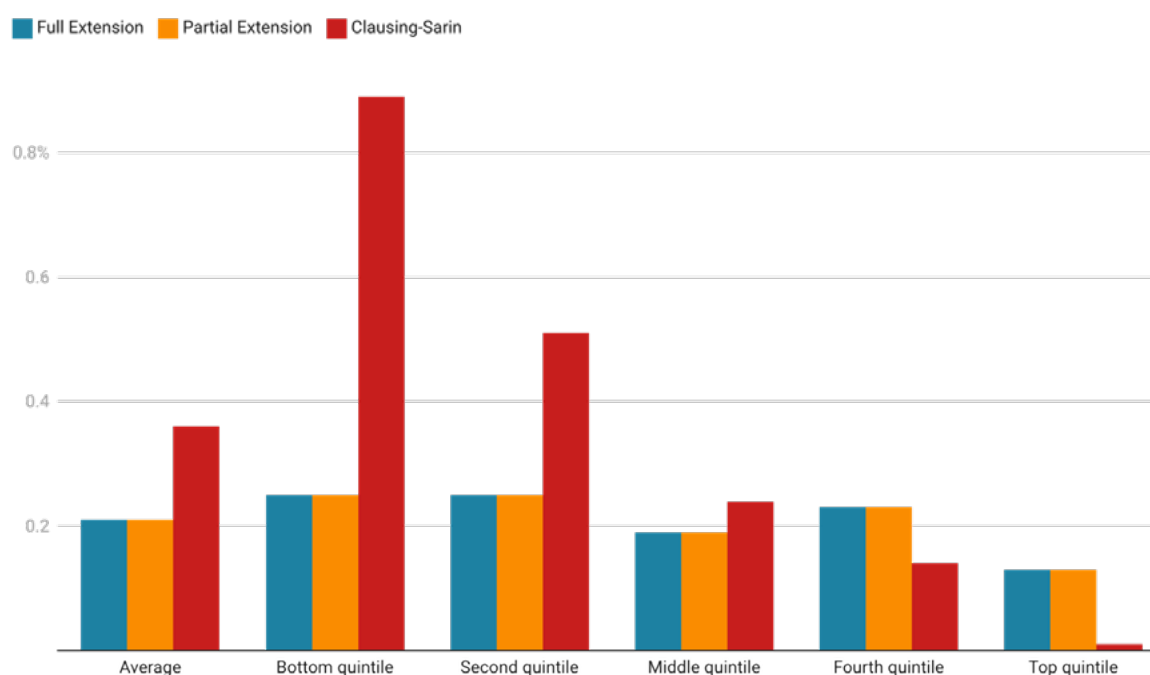
Universe is tax units with adults who were under age 18 during or after 2026. Parent income rank is determined with respect to parent tax units only.

We then conduct a macroeconomic analysis of each reform using the Federal Reserve's FRB/US model of the U.S. economy using a fiscal baseline aligned with Congressional Budget Office (CBO) projections. In the short run, we project that the Partial and Full Extension scenarios would temporarily boost real output growth by increasing deficits and thus aggregate demand. In contrast, the Clausing-Sarin scenario would reduce deficits and slow near-term real GDP growth. In the long run, the two Extension scenarios would leave the economy on a slightly slower growth path while Clausing-Sarin would leave it on a faster real growth path through increases in business investment. We expect the Federal Reserve would respond to first-order changes in price pressures by adjusting interest rates, which would be somewhat higher under both the Full and Partial Extension scenarios and lower under Clausing-Sarin.

The report concludes by estimating how each reform would affect tax compliance costs. Some elements of the TCJA (such as the QBI deduction) increased the time burden associated with filing taxes, whereas others (like the reduction in itemizing and alternative minimum tax filers) reduced it. On net, the Full and Partial Extension options would decrease the burden of filing taxes by an estimated 1.3 hours on average. The Clausing-Sarin scenario further lowers average burdens by allowing the QBI deduction to expire entirely. Finally, we estimate that the number of returns for which information could plausibly be pre-populated by the IRS would rise from roughly 36 percent to almost 39 percent under each scenario.

All macroeconomic forecasts and estimated effect sizes are subject to uncertainty, particularly in the long term and for future generations. Furthermore, since the magnitude of policy effects is in part conditional on macroeconomic conditions, the uncertainties around each effect interact with one another. Budget scoring requires educated assumptions and guesses. In addition, estimates involving future earnings outcomes rely on past research informed by models of the historical labor market. However, the labor market may look considerably different in the decades to come. We do not provide confidence intervals throughout this report, but we do attempt to communicate where we are more or less certain in our work.

Change in Real GDP Level from Current Law, 2025-2054

Percent of Current-Law Real GDP
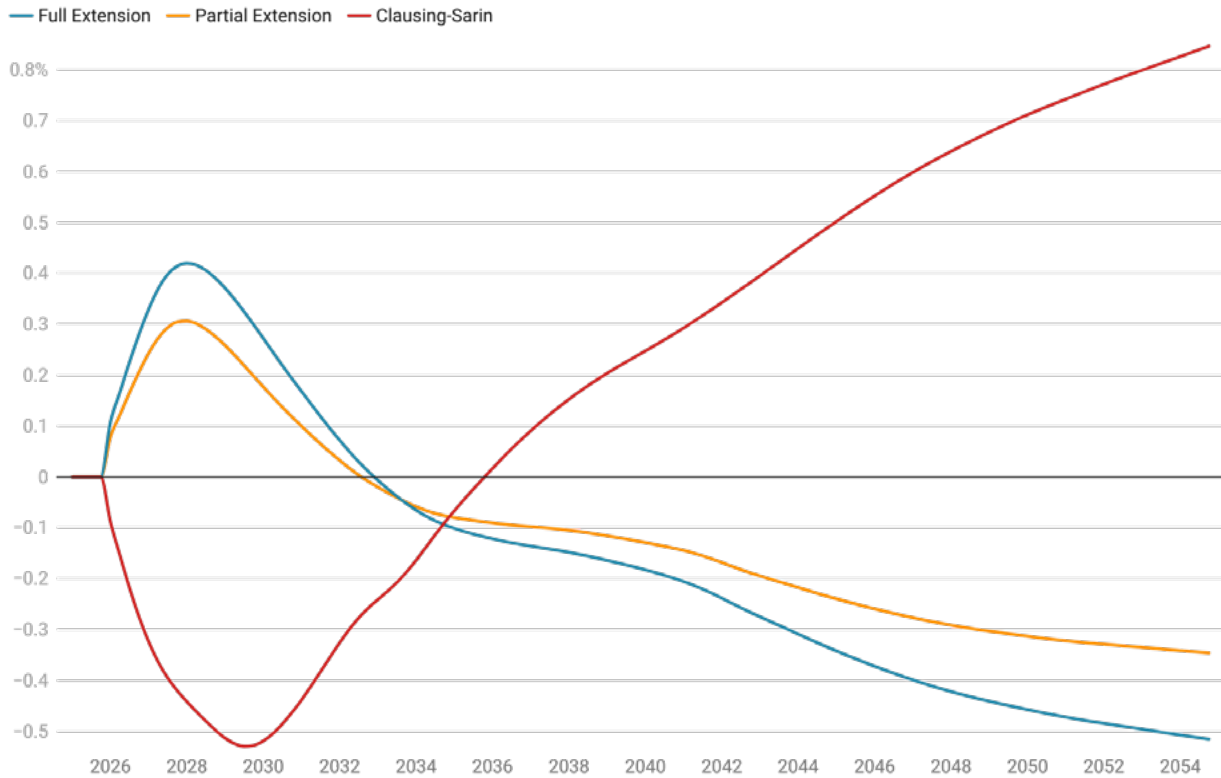
BACKGROUND

The Tax Cuts and Jobs Act (TCJA), enacted in 2017, represented a significant overhaul of the federal income tax code. In addition to making permanent and fundamental corporate tax changes, the legislation cut taxes for most families through a series of temporary changes to the individual income tax code. These individual tax changes were written to sunset at the end of 2025, building an inflection point into the government's budget baseline – a point at which, if no additional legislation is passed, taxes are scheduled to rise from current levels.

As 2026 approaches, policymakers face important questions about how to address the expiring changes. The current macroeconomic environment – one of low unemployment, inflationary pressures, and high interest rates – differs from that of 2017 when the TCJA was passed into law. Renewed interest in debt sustainability and debates over poverty and inequality will shape the contours of any extension legislation put forth. In this context, policymakers will be forced to trade off TCJA extensions that lower tax rates with other priorities, such as long-term deficit reduction, new spending initiatives, lower interest rates, and more.

This report informs the discussion about TCJA extension by exploring three illustrative reform options, designed to highlight certain tradeoffs policymakers will soon face:

1. **Full Extension** is a straightforward extension of each major individual income tax provision otherwise set to expire.

2. **Partial Extension** is an option under which only a subset of expiring provisions is extended, with the goal of targeting tax cuts to those making less than $400,000 a year.[2]

3. **Clausing-Sarin**, based on a collection of proposals put forth by Kimberly Clausing and Natasha Sarin in a Brookings white paper, uses the 2025 TCJA expiration as the jumping off point for a tax reform plan that aims to reduce the deficit, increase the progressivity of the tax code, limit existing avenues for tax avoidance, and address global issues like climate change.

This report proceeds by viewing each option through four analytical lenses.

1. **Budgetary**: By how much would each reform affect the government's fiscal picture over the next three decades?

2. **Distributional**: How much do the benefits and costs of each reform vary with income and age?

3. **Economic**: To what extent does each reform induce adults to enter or exit the workforce? Can we expect these reforms to affect future economic outcomes for today's children? How do broader indicators like GDP, inflation, and interest rates change under each option, and to what extent do these outcomes depend on the Federal Reserve's actions?

4. **Administrative burden**: How much does each reform add to or subtract from the administrative burden associated with filing tax returns?

REFORM OPTIONS

In this section, we describe each reform option in detail. All reform options are assumed to take effect beginning in tax year 2026. The table below summarizes major provisions across each proposed reform.

Table 1. Key Provisions by Reform Option

Provision	Current Law	Full Extension (current policy)	Partial Extension	Clausing-Sarin
Top Tax Rates	Sixth bracket: 35% Seventh bracket: 39.6%	Sixth bracket: 35% Seventh bracket: 37%	Same as current law.	Same as current law.
Other Tax Rates	Rates for remaining brackets: 10%, 15%, 25%, 28%, and 33%	Rates for remaining brackets: 10%, 12%, 22%, 24%, and 32%	Same as Full Extension.	Same as current law.
Personal Exemption	$5,300	$0	Same as Full Extension.	Same as current law.
Standard Deduction	$16,500 for married filing jointly in 2026	$30,500 for married filing jointly in 2026	Same as Full Extension.	Same as current law.
Child Tax Credit (CTC)	Maximum value: $1,000; not refundable.	Maximum value: $2,000; phase-out thresholds expanded relative to current law; not fully refundable.	Same as Full Extension.	Maximum value: $2,500 (with additional $750 for children under six); phase-out thresholds expanded relative to Full Extension; fully refundable.
State and Local Tax Deduction Cap	None.	$10,000	Same as Full Extension.	Same as Full Extension, with state "SALT cap workaround" laws prohibited.
Deduction for Qualified Business Income (QBI)	None.	20% deduction for pass-through income; phase-out only for certain business owners.	20% deduction for pass-through income; phase-out for all business owners.	Same as current law
Estate Tax	Rate: 40% Exemption: estimated $7.2M in 2026	Rate: 40% Exemption: estimated $14.3M in 2026	Same as current law.	Rate: 45% Exemption: estimated $5.2M in 2026
Corporate Tax Rate	21%	Same as current law.	Same as current law.	28%
Other Provisions	N/A	N/A	N/A	· International tax reforms. · Investment income tax reforms. · Carried interest tax reform. · Increased IRS funding. · Unform treatment of employment taxes. · Expensing of research and experimentation (R&E) costs. · Earned Income Tax Credit and Premium Tax Credit expansions. · Carbon tax. · Financial transactions tax.

FULL EXTENSION

The first reform option is Full Extension, the goal of which is to prevent any significant change in tax law from 2025 to 2026. Specifically, the following TCJA provisions would be made permanent: [3]

1. **Reduced tax rates.** The TCJA reduced tax rates on ordinary income and re-arranged certain bracket thresholds. The proposal would extend the current system of lower rates rather than allow rates to rise, as is scheduled under current law.

2. **Expanded Child Tax Credit (CTC).** The TCJA increased the maximum value of the CTC from $1,000 to $2,000, expanded eligibility by raising the phaseout thresholds, modified refundability rules, and added a $500 nonrefundable credit for older and non-qualifying dependents. This more generous version of the CTC would be extended under the proposal.

3. **Expanded Alternative Minimum Tax (AMT) exemption.** The TCJA curtailed the number of taxpayers who face the AMT, a parallel tax system that limits the value of tax preferences, by increasing the AMT exemption and raising the income threshold above which the exemption phases out. The proposal would extend these changes.

4. **Increased standard deduction.** The TCJA roughly doubled the standard deduction, reducing effective tax rates and limiting the number of filers who elect to itemize their deductions. This scenario keeps the standard deduction value at its current-policy level, projected to be $30,500 after inflation adjustments for married filers in 2026, rather than allow the scheduled decline (with a projected value of $16,500 for married filers in 2026).

5. **Limitations on itemized deductions.** Under the TCJA, the deduction for state and local taxes ("SALT") is capped at $10,000, the mortgage interest deduction is limited to smaller amounts of debt, tighter charitable contributions restrictions apply, and several other, smaller deductions were eliminated. It also removed the so-called "Pease" limitation, a high-income surtax related to itemized deductions. The Full Extension option would extend these changes rather than removing them, as is scheduled in 2026.

6. **Elimination of personal exemptions.** The TCJA eliminated personal and dependent exemptions, providing a per-person deduction of $5,300 after inflation adjustments in 2026. Under the reform it would remain at $0.

7. **Deduction for qualified business income (QBI).** The TCJA introduced a new 20 percent deduction for pass-through income. For those whose business consists of service industry activities or does not meet certain criteria related to wage- and capital-intensity, the deduction phases out above a taxable income threshold. This provision, which expires entirely in 2026 under current law, would be extended permanently.

8. **Limitation on deduction for pass-through losses.** The TCJA limited the current-year deduction for pass-through business losses to $500,000, adjusted for inflation. This limitation no longer applies starting in 2029, not 2026, as per more recent legislative changes. Under Full Extension, it would be extended permanently.

9. **Higher estate tax exemption.** The TCJA doubled the estate tax exemption. It is set to return to its pre-TCJA value, adjusted for inflation, beginning in 2026. The higher exemption value would be made permanent under Full Extension.

10. **Other provisions.** The TCJA made several other individual income tax changes with smaller budgetary impacts than those of provisions listed above. These include the introduction of a capital gains tax preference called Opportunity Zones, the elimination of tax preferences for moving expenses, and changes to tax-preferred accounts for those with disabilities. Each provision is scheduled to expire in 2026 under current law and would instead be made permanent under Full Extension.

While the TCJA also made several temporary changes to corporate taxes, this report focuses on expiring individual income tax and estate tax changes only.

PARTIAL EXTENSION

The *Partial Extension* scenario is designed to extend the TCJA's individual tax cuts for most taxpayers while allowing expiration of key provisions for families making more than $400,000, in keeping with President Biden's tax pledge. To that end, three changes are made to the Full Extension scenario:

1. **Expiration of changes to the top two rates/brackets.** Under Partial Extension, the TCJA's lower tax rates are extended for the first five brackets. The sixth bracket taxes income at 35 percent under both current law and the TCJA, though the bracket amount is set to rise in 2026 under current law. The seventh and final bracket taxes income at 37 percent under the TCJA but 39.6 percent under current law. The Partial Extension scenario uses current law parameters for these two brackets.

2. **Full disallowance of the QBI deduction above threshold.** The QBI deduction is designed to phase out above a taxable income threshold only if the income is derived from a service-industry business or the wage and capital structure of the business fails to meet certain tests. Under Partial Extension, the QBI deduction is extended but would phase out for all taxpayers, regardless of industry or other business characteristics.

3. **Expiration of estate tax changes.** Unlike Full Extension, which makes permanent the higher estate tax exemption under the TCJA, Partial Extension allows this change to expire.

The Biden administration has communicated a preference to limit any tax increases to the top 1-2 percent of families in terms of income. This option provides our interpretation of what that could look like.

To be clear: against a current law baseline, which is the official baseline used by government scorekeepers and reflects what is written in law, TCJA expiration does not increase taxes, since the tax system's reversion to pre-TCJA rules is included in the baseline.

It is also difficult to design a package which cleanly extends tax cuts for those below an income threshold while allowing expiration for those above it without straying too far from the original design of the TCJA. Nonetheless, like all policy debates, discussions surrounding the 2025 TCJA expiration will involve questions about tax policy's role in shaping the distribution of income.

CLAUSING-SARIN

In their paper titled [The coming fiscal cliff: A blueprint for tax reform in 2025](), authors Kimberly Clausing (Eric M. Zolt Chair in Tax Law and Policy at the UCLA School of Law) and Natasha Sarin (Professor of Law at Yale Law School) propose a series of tax reforms that include but are not limited to extending certain TCJA provisions. The paper's thesis is that TCJA expiration in 2025 provides an opportunity for policymakers to think more fundamentally about reforming taxes, arguing that policymakers should proceed with several specific goals in mind: deficit reduction, progressivity, efficiency, and cooperation on global collective action problems like climate change and corporate taxation. The authors stress that their list of proposed changes is a starting point on which specific reforms consistent with their guiding principles can be designed. In this report, we model one such interpretation of their paper.

The first component of the Clausing-Sarin reform option is a partial extension of the TCJA's expiring individual income tax cuts. As in Full Extension, the proposal would extend the AMT cuts, the larger standard deduction, the elimination of personal exemptions, the limitation on pass-through loss deductions, and the restrictions on itemized deductions. However, it would make the following modifications:

1. **Rate cut expiration.** The Clausing-Sarin reform would allow rate cuts to expire.

2. **Expanded Child Tax Credit (CTC).** The proposal includes a CTC expansion beyond that of the TCJA design. It would increase the maximum credit value to $2,500 and add an additional $750 for children under age six. It would expand credit eligibility across the income distribution, both to higher-income families (by extending the higher TCJA phase-out thresholds) and to lower-income families (by making the credit fully refundable and removing the earnings phase-in). The proposal would not extend the expiring requirement that qualifying children have Social Security Numbers.

4. **Deduction for qualified business income (QBI).** The reform would allow this provision to expire as scheduled under current law.

5. **Elimination of state and local tax (SALT) cap workarounds**. In the wake of the TCJA's limitation on the deductibility of state and local taxes on individual tax returns, [most states with an income tax]() have enacted new taxes which allow pass-through businesses to pay tax at the entity level rather than the individual level. Because business state and local taxes are generally deductible in determining net income includable in adjusted gross income (AGI), these laws encourage creative accounting to avoid the additional tax imposed by the SALT deduction limitation. Under the proposal, these so-called "SALT cap workarounds" would be prohibited.

6. **Estate tax exemption.** The TCJA doubled the estate tax exemption to $11.2 million in 2018, which we project would be $14.3 million in 2026 under full extension. Under current law, it is scheduled fall to a projected $7.2 million in 2026. The Sarin-Clausing proposal would lower the exemption even further to its inflation-indexed 2009 level of $5.2 million. It would also increase the top estate tax rate from 40 to 45 percent.

In addition to extending and modifying certain expiring components of the TCJA, the Clausing-Sarin proposal also includes a set of more comprehensive reforms:

1. **Corporate tax rate increase.** The proposal would raise the corporate tax rate from 21 percent to 28 percent.

2. **International tax reforms.** The proposal would raise the global intangible low-taxed income (GILTI) effective rate from roughly 13 percent to 21 percent and determine liability on a per-country basis while also ending the exemption on the first 10 percent of tangible assets. It would also repeal the deduction for foreign derived intangible income (FDII).

3. **Investment income tax reforms**. Under current law, when the owner of an appreciated asset dies and transfers ownership to an heir, cost basis for tax purposes is "stepped up" from its purchase price to market value. This tax treatment erases accumulated taxable gains. The Clausing-Sarin reform would change this treatment to "carryover" basis, wherein heirs retain the tax basis of the decedent. In addition, the reform would increase all tax rates on long-term capital gains and qualified dividend rates by 5 percentage points, setting rates at 5 percent, 20 percent, and 25 percent.

4. **Carried interest tax reform.** Current law allows a portion of compensation earned by investment managers, known as "carried interest," to be characterized as investment income rather than labor income. The proposal would tax this income at ordinary rates.

5. **Internal Revenue Service (IRS) funding.** The Inflation Reduction Act (IRA) allocated nearly $80 billion in mandatory funding to the IRS through 2031, some of which has been cut in subsequent legislation. The proposal would re-establish funding at IRA levels on a permanent basis.

6. **Uniform treatment of employment taxes.** Current law assesses a 3.8 percent tax rate on all income above $250,000 either through employment taxes or the net investment income tax (NIIT). Some owners of pass-through businesses, however, can avoid both taxes by characterizing income as profits rather than wages. The Clausing-Sarin reform option would eliminate this preferential treatment.

7. **Expensing of research and experimentation (R&E) costs.** Current law requires firms to amortize certain R&E expenses over time rather than immediately deduct them, a change implemented in the TCJA. This proposal would return to the pre-TCJA regime of expensing these costs.[4]

8. **Premium Tax Credit (PTC) expansion.** The American Rescue Plan Act (ARPA) and the IRA expanded the PTC, a subsidy for families to buy health insurance, by covering a greater share of costs and allowing those above an income threshold to qualify. These changes, which are scheduled to expire at the end of 2025, would be extended under this option.

9. **Earned Income Tax Credit (EITC) expansion.** The ARPA temporarily expanded the EITC by roughly tripling the maximum benefit for childless workers, lowering the minimum age from 25 to 19, and eliminating the maximum age cap of 64. The Clausing-Sarin proposes a reinstatement of these EITC parameters.

10. **Carbon tax.** The Clausing-Sarin reform would assess a new tax on carbon emissions, starting at $15 per metric ton and phasing in to an inflation-adjusted value of $65 over time. By exempting exports and taxing imports, the tax would apply only to domestic consumption. Refineries producing home heating oil and retail gasoline would be exempt from the tax.

11. **Financial transactions tax (FTT).** The proposal establishes a three basis point tax on the gross value of most securities transactions.

BUDGETARY EFFECTS

In this section, we present estimates of how each reform option would affect revenues and outlays over the coming decades.

TYPES OF BUDGET SCORES

We produce three types of budget estimate:

- A *conventional* revenue estimate, the kind produced by government scorekeepers at CBO and the Joint Committee on Taxation (JCT), measures both the mechanical (or "static") change in revenues attributable to changes in tax law, as well as changes in revenues owing to tax avoidance responses. Crucially, these responses do not reflect substantive economic decisions which could have macro-level implications. Instead, behavioral responses in a conventional estimate are limited to a narrower set of tax optimization decisions: when to realize income, through what legal form to characterize business activity, in which sectors to invest, and so forth. [5]

- A *microeconomic* feedback estimate relaxes the assumptions of a conventional estimate by accounting for first-order changes in economic decisions, but not allowing for additional rounds of macroeconomic feedback. For example, an increase in payroll taxes might cause some workers to exit the labor force. This decline is a "first-order" economic effect and might be followed by second-order effects: employers might raise wages to attract new workers, the Federal Reserve might lower interest rates (which in turn might spur investment), and so on. In this case, a microeconomic feedback estimate would capture only the forgone tax liability associated with first-order employment changes, not any other potential changes. In other words, microeconomic feedback scores do not reflect what economists call "general equilibrium" effects.

- *Macroeconomic* feedback (or dynamic) estimates, in contrast, attempt to fully incorporate all sources of macroeconomic feedback into a budget estimate. Significant policy changes have the potential to generate large economic outcomes, such that the "hold all else equal" approach of conventional and microeconomic feedback estimates becomes less justifiable. Due to comp-utational complexity, macroeconomic feedback scores sacrifice some degree of precision afforded by microsimulation; in return, they offer a more complete account of how economic changes can impact revenues.

This section focuses on conventional budget results. Microeconomic and macroeconomic feedback estimates can be found in the Economic Effects section below.

EFFECTS OVER THE BUDGET WINDOW

One of the main points of discussion around the TCJA is the implications for the federal deficit. Under current law, which reflects expiration of TCJA provisions, CBO projects that non-interest spending will exceed revenues by about 2.1 percent of GDP on average from 2025 through 2034 (compared to an average of 0.3 percent from 1990 to 2010). Figure 1 presents the projected primary budget surplus (the surplus excluding net interest spending) under current law and each reform scenario.

- We estimate that Full Extension would cost 0.9 percentage point of GDP on average over the next decade,[6] increasing primary deficits by more than 40 percent over the decade. Fully extending the expiring individual income tax provisions of the TCJA would cost approximately $2.8 trillion over the budget window. As a share of the overall economy, this revenue loss is largely stable in the longer run and remains at 0.8-0.9 percent of GDP through 2054.

Figure 1.   Projected Noninterest Surplus of the United States, FY2025-2034
Percent of GDP
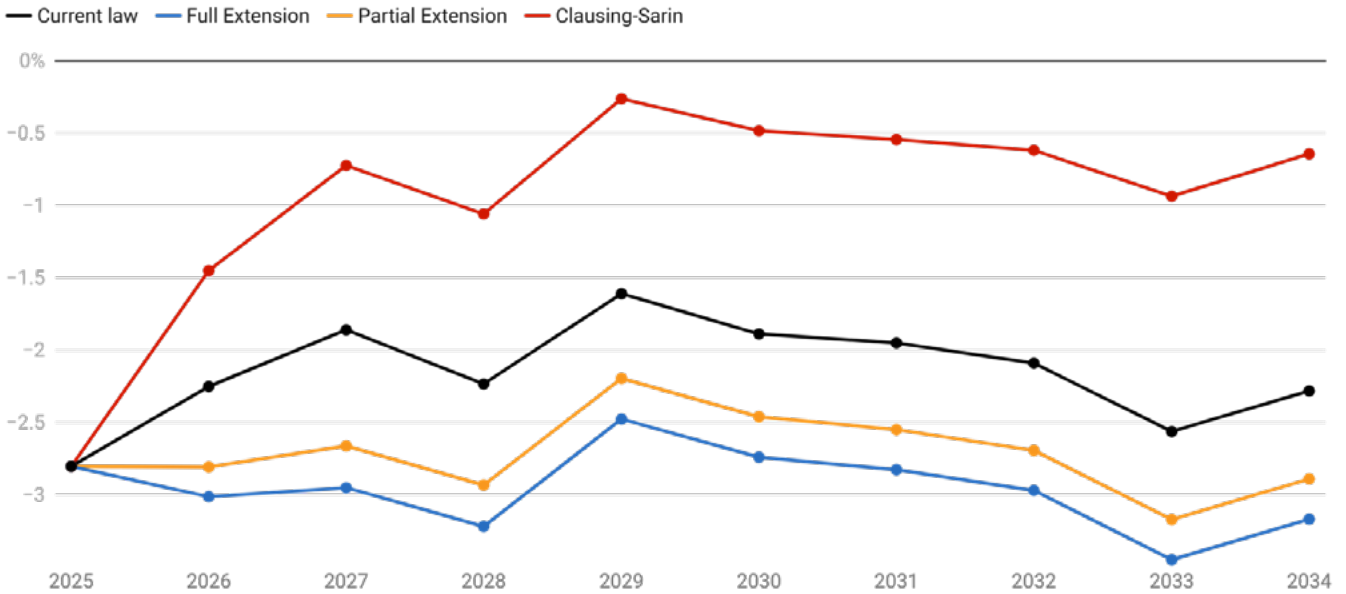
- The Partial Extension scenario has an average annual budget cost over the decade of 0.6 percentage point of GDP. This scenario costs about $1.6 trillion over the budget window and reduces revenues by 0.4-0.5 percent of GDP in the longer run.

- The Clausing-Sarin reform cuts average annual primary deficits by nearly two-thirds. It raises 1.3 percentage points of GDP of new revenues on average over the decade. We estimate the proposal would raise a net $4.3 trillion over the budget window, with more substantial savings in subsequent years.

PROVISION-LEVEL BREAKDOWN
Full Extension
Table 1 presents provision-level revenue estimates for the Full Extension scenario. Provisions are stacked against one another; that is, each provision is scored against a baseline that includes all provisions listed above it. The order in which provisions are stacked can impact the exact amount each individual provision costs because provisions interact with each other. The table below uses the same order that JCT uses in a recent CBO publication. [7]

Table 1.   Estimated Conventional Revenue Effects of the Full Extension Scenario, by Provision

Provision	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	Budget window	Budget window	Second decade	Third decade
	Billions of dollars											Share of GDP		
Lower tax rates on ordinary income	0	−156	−210	−218	−225	−234	−244	−254	−265	−273	−2,078	−0.5%	−0.7%	−0.7%
Expand the CTC	0	−68	−85	−86	−87	−89	−90	−92	−93	−94	−784	−0.2%	−0.2%	−0.1%
Expand the AMT exemption	0	−97	−130	−135	−142	−149	−157	−164	−173	−183	−1,329	−0.3%	−0.5%	−0.5%
Increase the standard deduction	0	−89	−118	−122	−126	−132	−137	−143	−148	−154	−1,169	−0.3%	−0.4%	−0.3%
Limit itemized deductions	0	86	116	120	128	133	138	145	156	161	1,182	0.3%	0.4%	0.5%
Eliminate personal exemptions	0	152	202	209	214	224	232	241	245	258	1,977	0.5%	0.6%	0.6%
Allow a deduction for pass-through income	0	−48	−64	−66	−67	−68	−70	−72	−74	−77	−605	−0.2%	−0.2%	−0.2%
Limit deduction for pass-through losses	0	0	0	0	35	37	31	27	25	24	178	0%	0%	0%
Increase the estate tax exemption	0	−3	−13	−14	−15	−16	−16	−18	−19	−20	−133	0%	0%	0%
Other provisions	0	−3	−34	−5	−4	−1	−3	−2	−1	−1	−54	0%	0%	0%
Conventional revenue estimate	**0**	**−226**	**−336**	**−316**	**−290**	**−296**	**−316**	**−331**	**−346**	**−359**	**−2,816**	**−0.7%**	**−0.9%**	**−0.8%**

The provision-level breakdown illustrates a key point about the TCJA's design: despite cutting taxes on net, the reform is a mix of revenue-losing and revenue-raising provisions. Revenue raised from base-broadening reforms (restricting itemized deductions, eliminating personal exemptions, and limiting the deductibility of certain business losses) is outweighed by rate cuts, larger and new deductions, and a more generous CTC.

Partial Extension
As seen in Table 2, the four modifications in the partial extension plan do raise substantial revenue from high-income households, although overall costs remain substantial.

Table 2.   Estimated Conventional Revenue Effects of the Partial Extension Scenario, by Provision

Provision	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	Budget window	Budget window	Second decade	Third decade
	Billions of dollars											Share of GDP		
Extend all TCJA provisions	0	−226	−336	−316	−290	−296	−316	−331	−346	−359	−2,816	−0.7%	−0.9%	−0.8%
Allow top two ordinary-rate brackets to revert	0	29	38	39	40	42	43	45	46	48	370	0.1%	0.1%	0.1%
Phase out QBI deduction for all taxpayers	0	29	38	39	39	40	41	42	43	45	356	0.1%	0.1%	0.1%
Allow estate tax exemption to revert	0	3	13	14	15	15	16	17	19	20	132	0%	0%	0%
Conventional revenue estimate	**0**	**−165**	**−247**	**−224**	**−196**	**−199**	**−216**	**−227**	**−238**	**−246**	**−1,958**	**−0.5%**	**−0.6%**	**−0.5%**

Clausing-Sarin

Unlike the Full and Partial Extension scenarios, the Clausing-Sarin reform is designed to be a net revenue-raising package. At the provision level, however, there is considerable variation in estimated budget effects.

Table 3.   Estimated Conventional Revenue Effects of the Clausing-Sarin Scenario, by Provision

Provision	Billions of dollars										Share of GDP		
	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	Budget window	Second decade	Third decade
Extend certain TCJA provisions	0	90	126	135	178	189	189	192	199	207	0.4%	0.5%	0.6%
Increase the standard deduction	0	−102	−136	−140	−145	−150	−156	−162	−167	−174	−0.3%	−0.4%	−0.4%
Eliminate personal exemptions	0	166	221	228	235	243	250	259	268	279	0.6%	0.6%	0.6%
Limit deduction for pass-through losses	0	0	0	0	36	38	32	27	25	22	0%	0%	0%
Expand the CTC	0	−70	−87	−88	−88	−89	−90	−93	−94	−95	−0.2%	−0.2%	−0.1%
Limit itemized deductions and disallow SALT cap workarounds	0	102	135	142	148	155	162	170	177	185	0.4%	0.5%	0.5%
Expand the AMT exemption	0	−6	−7	−7	−8	−8	−9	−9	−10	−10	0%	0%	0%
Raise the corporate tax rate to 28 percent	0	95	97	100	103	107	110	113	117	120	0.3%	0.3%	0.3%
Reform the taxation of multinational corporations	0	43	44	46	48	50	52	54	56	58	0.1%	0.1%	0.1%
Allow expensing of R&E expenditures	0	−68	−49	−38	−26	−15	−9	−9	−9	−9	−0.1%	0%	0%
Move to carryover basis for capital gains at death	0	10	10	10	11	11	11	12	12	12	0%	0%	0%
Increase all capital gains rates by 5 percentage points	0	29	34	35	36	38	40	41	43	45	0.1%	0.1%	0.1%
Tax carried interest at ordinary rates	0	0	1	1	1	1	1	1	1	1	0%	0%	0%
Lower the estate tax exemption and raise the top rate	0	4	14	15	16	17	18	19	20	21	0%	0.1%	0.1%
Impose a carbon tax	0	41	40	44	49	54	61	68	75	83	0.1%	0.2%	0.2%
Increase IRS funding	0	8	37	32	36	37	37	62	118	119	0.1%	0.2%	0.2%
Impose a financial transactions tax	0	65	79	80	81	83	85	87	90	93	0.2%	0.2%	0.2%
Subject all income above $250K to 3.8% Medicare tax	0	18	24	25	26	26	27	28	28	30	0.1%	0.1%	0.1%
Expand the EITC	0	−19	−20	−20	−20	−20	−20	−20	−20	−19	0%	0%	0%
Further expand the CTC	0	−57	−62	−61	−61	−60	−59	−58	−58	−58	−0.1%	−0.1%	−0.1%
Extend expansion of Premium Tax Credit	0	−23	−24	−27	−28	−30	−33	−36	−38	−39	−0.1%	−0.1%	−0.1%
Conventional revenue estimate	**0**	**237**	**351**	**377**	**450**	**488**	**508**	**552**	**634**	**664**	**1.1%**	**1.6%**	**1.6%**

Deficit reduction in the second and third decades is considerably higher than that of the first decade, as some revenue-raising provisions (the carbon tax and IRS funding) are fully phased in only after the first decade, and the move to R&E expensing represents a one-time up-front cost.

Notably, the TCJA component of the reform is a substantial revenue raiser relative to current law. The package raises $1.6 trillion by extending many expiring TCJA provisions but allowing tax rates to revert, the QBI deduction to expire, and the estate tax exemption to rise. It also raises substantial revenue from disallowing state-level SALT cap workarounds, a policy change that would require legislation or new IRS regulations.

Our findings suggest that TCJA extension could raise revenue, rather than lose revenue, if all provisions *except for the full rate cuts* are extended.

BEHAVIORAL FEEDBACK ASSUMPTIONS IN THE CONVENTIONAL SCORES
As described at the beginning of this section, our conventional scores for these three reform options reflect the budgetary impact of how taxpayers will respond to minimize tax liability under the new tax laws. Income shifting across business entity type is one such example. These reforms alter the relative tax differential between business income earned through a C corporation (which faces the corporate tax rate and eventually dividend or capital gains taxes) versus pass-through business income (which faces ordinary income tax rates and, in some cases, benefits from the QBI deduction). We expect the share of business activity organized in C-corporate form to fall under all three scenarios. Another example is charitable giving. By limiting the number of itemizers and lowering marginal tax rates, these reforms generally reduce the tax subsidy for giving; we project that taxpayers would respond by giving somewhat less, claiming fewer deductions, and thus raising tax revenue relative to baseline, all else equal.

In general, when it comes to behavioral feedback assumptions, we have largely attempted to mimic our understanding of how JCT, CBO, and Treasury's Office of Tax Analysis (OTA) would address these issues. A full accounting of our methodological choices can be found in the Technical Appendix." with "Detailed information on our methodological choices can be found at [this page](). However, we depart from government scorekeepers in two key areas that affect our Clausing-Sarin estimates.

The first is our assumed baseline capital gains elasticity value of -0.6. This elasticity is a departure from the elasticity presented by Dowd et al. (2015) of -0.72.[8] Over the last few years, there has been an active academic discussion about the revenue-maximizing capital gains rate centered on this elasticity. Gravelle (2021) presents a thorough discussion of the research and revenue implications of behavioral responses. We feel that an elasticity of -0.6 best reflects that discussion. However, some recent econometric work suggests the elasticity may be even smaller, and some may prefer a smaller elasticity.[9]

Second, we project stronger net budget returns to IRS funding than CBO has done in the past. We understand the literature to suggest that there is a significant peer effect of increased audits that increases compliance. Traditionally, CBO has not included this indirect effect of deterrence in its projection of revenue related to increased IRS funding. However, a recent CBO report updates their methodology, and they now include deterrence effects.[10] We expect subsequent CBO revenue estimates for this provision to be closer to our revenue estimates, but that remains to be seen.

DISTRIBUTIONAL EFFECTS

In addition to having different effects on the federal budget, each policy reform would affect families differently depending on their economic and demographic characteristics. This section describes the distributional effects of each reform, comparing scenarios across several metrics for both the income and age distribution.

MEASURES OF DISTRIBUTIONAL IMPACT
There are many ways to measure how a tax reform's impacts vary by type of family. The first consideration is: along which characteristics do we distinguish families from one another? In this report, we focus on income (e.g., do higher-income families pay more than lower-income families?) and age (e.g., do younger workers benefit more than older retirees?).

Second, how is the impact measured? Some possible metrics include:

- **Average tax change.** In dollars, relative to current law, how much more (or less) on average does a group owe in taxes under the reform?

- **Share with a tax cut or tax increase.** Relative to current law, what percent of tax units see their tax liability fall? What percent experience a tax increase?

- **Average tax change among those with a tax cut or tax increase.** Among those whose taxes fall under the reform, what is the average tax cut? Similarly, what is the average tax increase for tax units who owe more?

- **Percent change in after-tax income.** By how much does a tax unit's disposable income change under the reform in relative terms?

- **Share of total tax change**. How much of the total budgetary effect of the reform is allocated to a given group?

Finally, how do we account for taxes not directly levied on individuals? Specifically, who bears the economic burden of the corporate income tax? This question is a matter of ongoing debate in economic research. We present distributional metrics with and without corporate tax changes, allowing the reader to isolate the portion of a change attributable to individual and payroll taxes only.

There is no one dimension, metric, or incidence assumption which fully captures the multifaceted nature of distributional impact. This section highlights a few notable findings.

INCOME DISTRIBUTION
Average changes

We begin by looking at average impacts across the income distribution. Figure 2 shows how each reform option increases or decreases after-tax income in relative terms over the traditional budget window.

Figure 2.   Percent Change in After-Tax Income by Income Group and Corporate Tax Assumption, 2026

Estimate universe is nondependent tax units, including nonfilers. "Income" is measured as AGI plus: above-the-line deductions, nontaxable interest, nontaxable pension income (including OASI benefits), and employer-side payroll taxes. Income percentile thresholds are calculated with respect to positive income only and are adult-weighted.

- Full Extension cuts taxes on average for each income group. In relative terms, the tax cut is largest for those in the top 10 percent of the income distribution, increasing after-tax incomes by more than 2 percent. The bottom quintile, a group that includes many tax units who do not have income, sees after-tax incomes rising by less than 1 percent on average.

- Partial Extension is, by design, nearly identical in its impacts for the bottom 99 percent of filers. For those ranked in the 99th to 99.9th percentile, the mix of tax changes is a wash, leaving after-tax income mostly unchanged from current law. The top 0.1 percent of tax units see a net tax *increase* as a group.

- Under Clausing-Sarin, families in the bottom two quintiles are net beneficiaries due to larger refundable tax credits, which more than offset the lack of tax rate cuts. The middle quintile also remains a net beneficiary under Clausing-Sarin, though less so than under Full Extension. Tax units in the top quintile owe more under the proposal, and those within this group owe more as income rises. Assuming that in the first year of enactment the entire corporate tax burden falls on investors rather than workers, the reform's corporate tax changes add to the burden of all groups, though only meaningfully so at the top of the income distribution.

Figures 3, 4, and 5 decompose the total change presented in Figure 2 by provision, quantifying how each piece of a reform contributes to its overall impact.[11]

The TCJA reformed individual income taxes through a mix of revenue-losing provisions and revenue-raising provisions. On average, Full Extension generates a net tax cut for all income groups. But how that net tax cut is achieved varies by income group:[12]

- Lower-income groups receive the most benefit from the larger standard deduction and the CTC expansion. These provisions more than offset the loss of personal exemptions, which are worth less at this income level because these tax units generally face lower statutory marginal rates. For the same reason, lower rates contribute relatively little to lowering their tax burden. Neither restrictions on itemized deductions nor the QBI deduction play a role at this income level, owing to low rates of itemizing and business ownership.

- For middle to upper-middle income groups, the loss of personal exemptions (including dependent exemptions) increases taxes paid substantially, only partially offset by the more generous CTC. The driving force in generating tax cuts for this group is lower tax rates. The negative effect of limiting itemized deductions grows with income, reflecting the correlation between income and itemization under current law. AMT changes help those filers in the 90-99th percentiles who, due to higher-than-average state income tax liabilities but insufficiently high tax rates, are likely to face the AMT under current law.

- Itemizing restrictions bind most stringently for the top 1 percent, but this effect is more than offset by lower tax rates and the QBI deduction (reflecting the concentration of business income at the top). Because the CTC and personal exemptions phase out below this income group, and because very few filers at this level take the standard deduction, these provisions have no effect.

The Partial Extension option is designed so that the tax cuts under Full Extension are preserved for approximately the bottom 99 percent of tax units. Above this threshold, marginal rates are set at current law levels and the QBI deduction is disallowed. These clawbacks precisely offset tax cuts for those in the 99th to 99.9th percentiles. For the top 0.1 percent, these changes generate a net tax increase, with after-tax income falling nearly 2 percent relative to current law.

- The TCJA extension provisions in Clausing-Sarin alone generate a progressive tax change. In other words, removing rate cuts and the QBI deduction from Full Extension raises revenue and cuts taxes (against current law) for the bottom half of the income distribution.

- The bottom quintile benefits substantially from the CTC reforms that allow low-income families to fully claim the larger credit. The expansion of the EITC to younger and childless workers also benefits the bottom quintile.

- Compared with lower-income families, the top 1 percent earns a greater share of income from capital gains, dividends, and pass-through businesses. The Clausing-Sarin reform would tax income from these sources more heavily.

Some provisions in Clausing-Sarin were not included in the distributional analysis due to modeling difficulties. These include international tax reforms, the carbon tax, the financial transactions tax, the PTC provision, carryover basis, and carried interest reform.

Figure 3.   Full Extension: Contribution to Percent Change in After-Tax Income by Income Group, 2026
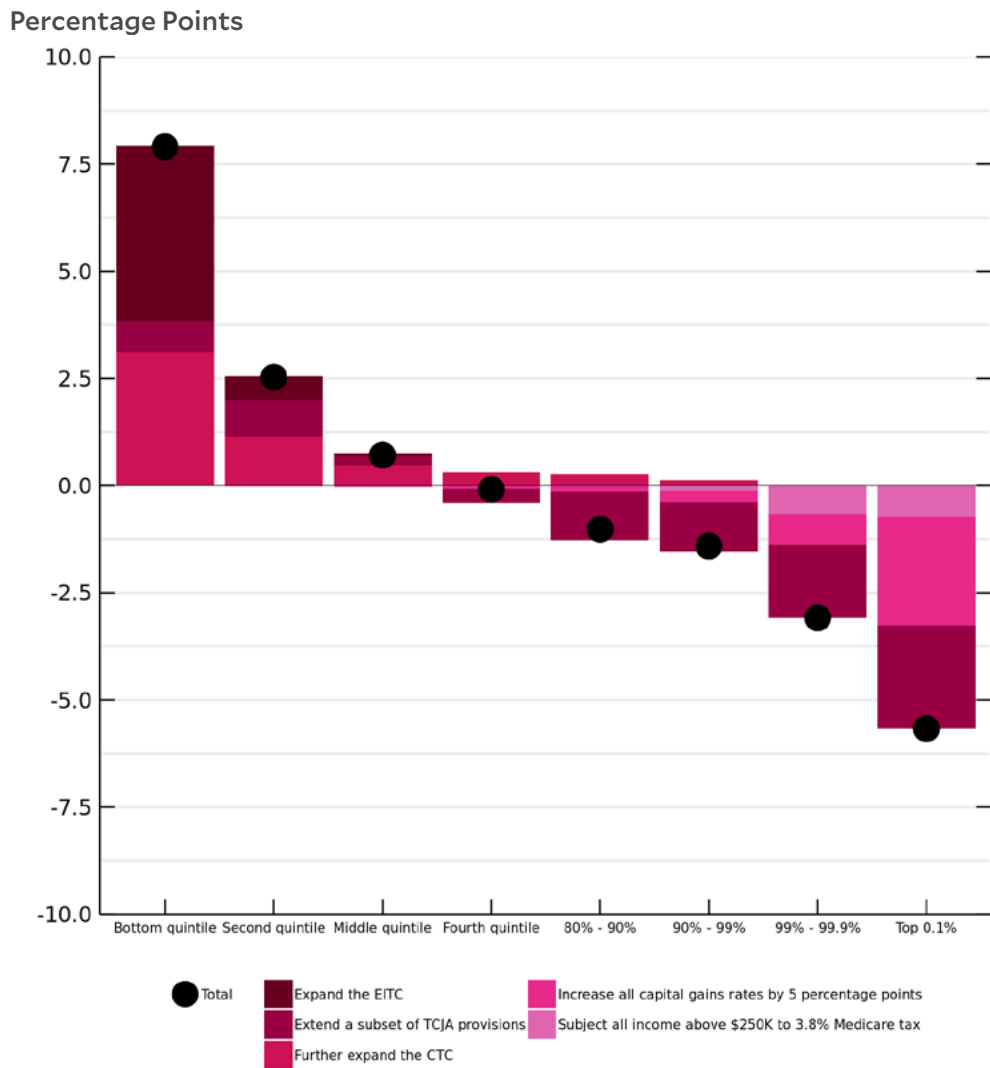
Percentage Points
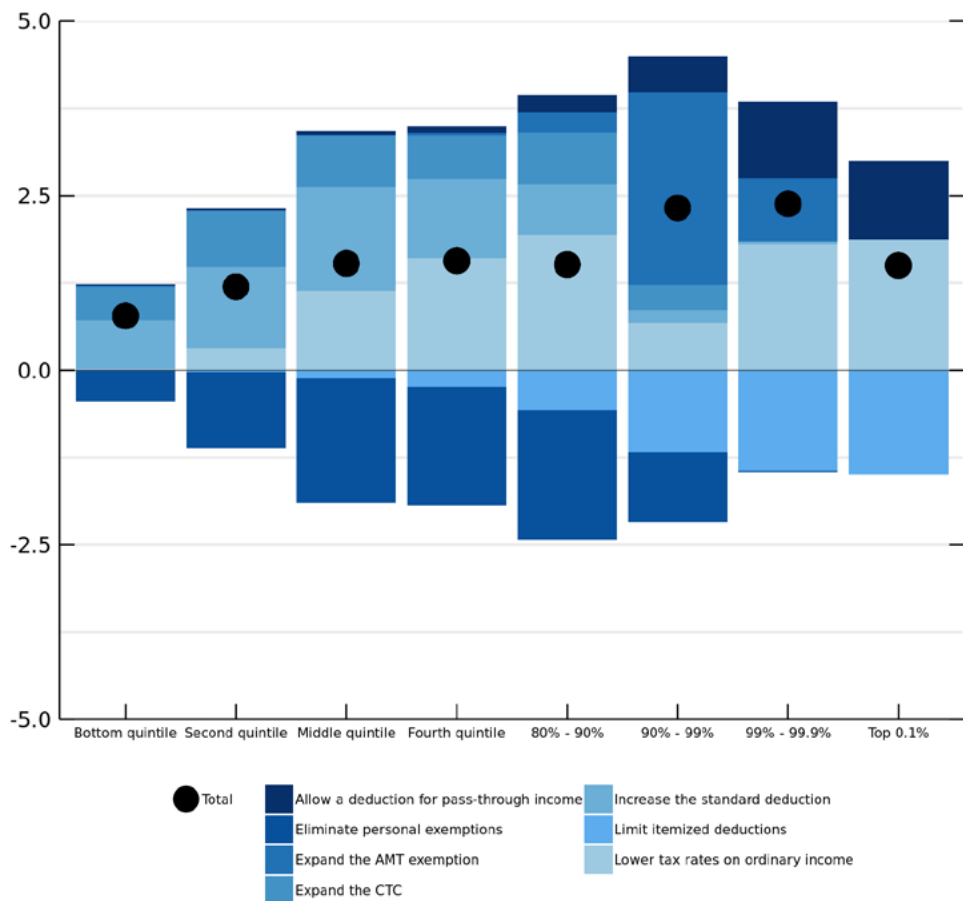
Estimate universe is nondependent tax units, including nonfilers. "Income" is measured as AGI plus: above-the-line deductions, nontaxable interest, nontaxable pension income (including OASI benefits), and employer-side payroll taxes, Income percentile thresholds are calculated with respect to positive income only and are adult-weighted.

Figure 4.   Partial Extension: Contribution to Percent Change in After-Tax Income by Income Group, 2026
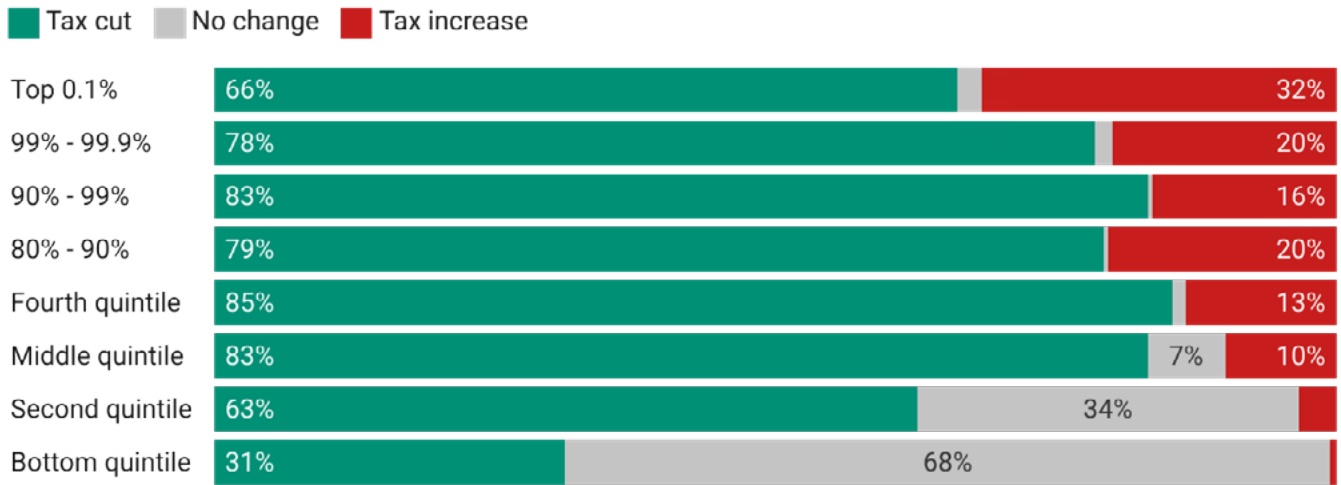
Percentage Points
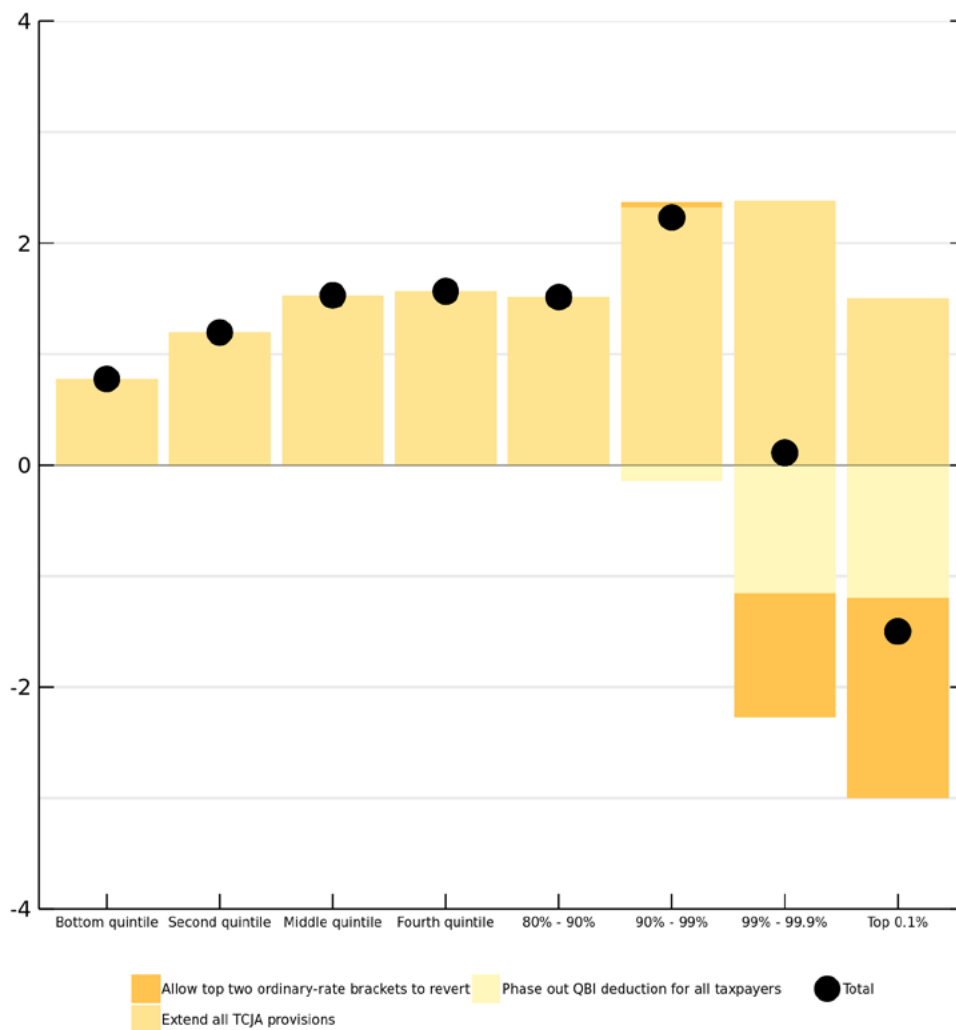
Estimate universe is nondependent tax units, including nonfilers. "Income" is measured as AGI plus: above-the-line deductions, nontaxable interest, nontaxable pension income (including OASI benefits), and employer-side payroll taxes, Income percentile thresholds are calculated with respect to positive income only and are adult-weighted.

Figure 5. Clausing-Sarin: Contribution to Percent Change in After-Tax Income by Income Group, 2026

Percentage Points

Estimate universe is nondependent tax units, including nonfilers. "Income" is measured as AGI plus:
above-the-line deductions, nontaxable interest, nontaxable pension income (including OASI benefits),
and employer-side payroll taxes, income percentile thresholds are calculated with respect to positive income only
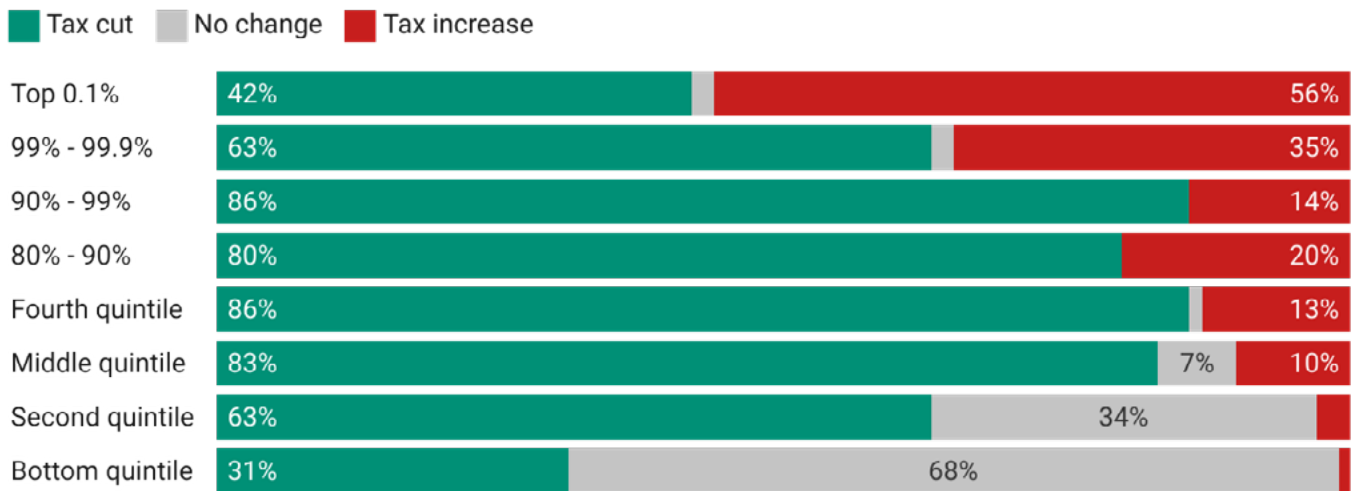and are adult-weighted.

WINNERS AND LOSERS

Average tax changes might mask variation within a group. A policy reform that delivers an overall tax cut on average to an income group might nonetheless raise taxes on some families in that group. For instance, even though the Full Extension option would cut taxes on average for all groups, some tax units would owe more compared to current law. In total, the TCJA amounted to a net tax cut, but the package comprised of both revenue-losing provisions (e.g., lower tax rates and the QBI deduction) and revenue-raising provisions (e.g., the SALT cap and the elimination of personal exemptions). Those with tax increases are filers who are disproportionately burdened by one of the revenue-raising provisions while receiving limited benefits from the revenue-losing provisions – for example, a family with a large state income tax liability and professional services business income that does not qualify for the QBI deduction.

- For each group other than the bottom quintile, the Full Extension scenario would deliver tax cuts to a majority of tax units in 2026. For groups between the 40th and 99.9[th] percentiles, approximately four in five tax units would pay lower taxes under the reform. At the lowest end of the income distribution, a larger share of tax units experience neither a tax cut nor a tax increase, reflecting the presence of many tax units who do not earn enough income to produce any income tax liability under current law.
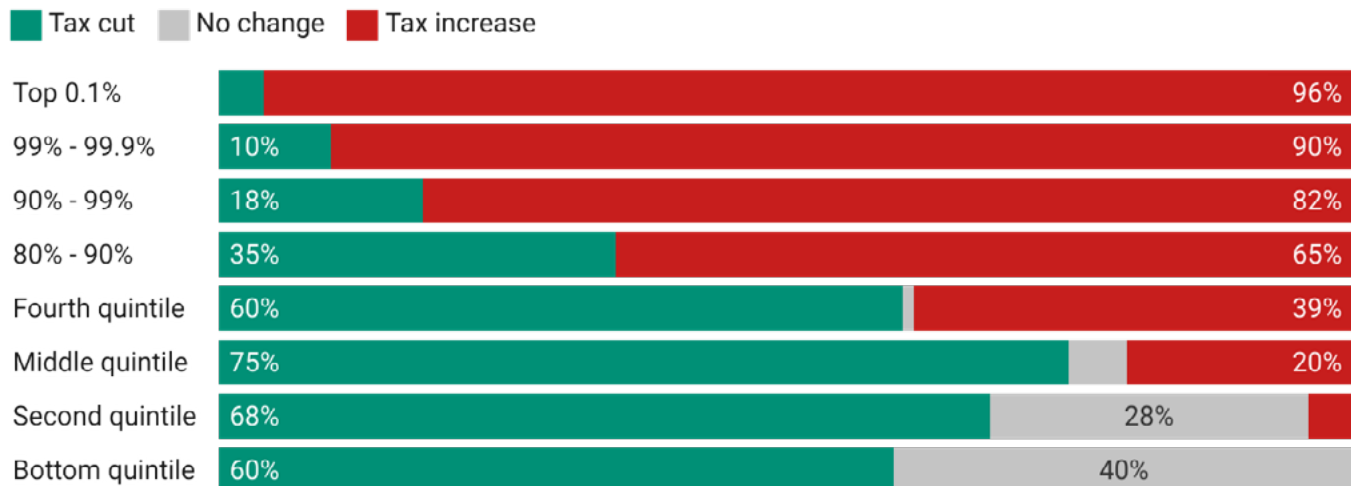
Figure 6. Share of Tax Units with Tax Cut or Tax Increase by Income Group, Excluding Corporate Tax, 2026 Full Extension

Legend: ■ Tax cut ■ No change ■ Tax increase

Income Group	Tax cut	No change	Tax increase
Top 0.1%	66%		32%
99% - 99.9%	78%		20%
90% - 99%	83%		16%
80% - 90%	79%		20%
Fourth quintile	85%		13%
Middle quintile	83%	7%	10%
Second quintile	63%	34%	
Bottom quintile	31%	68%	

Partial Extension

Legend: ■ Tax cut ■ No change ■ Tax increase

Income Group	Tax cut	No change	Tax increase
Top 0.1%	42%		56%
99% - 99.9%	63%		35%
90% - 99%	86%		14%
80% - 90%	80%		20%
Fourth quintile	86%		13%
Middle quintile	83%	7%	10%
Second quintile	63%	34%	
Bottom quintile	31%	68%	

Clausing-Sarin

Legend: ■ Tax cut ■ No change ■ Tax increase

Income Group	Tax cut	No change	Tax increase
Top 0.1%			96%
99% - 99.9%	10%		90%
90% - 99%	18%		82%
80% - 90%	35%		65%
Fourth quintile	60%		39%
Middle quintile	75%		20%
Second quintile	68%	28%	
Bottom quintile	60%	40%	

Estimate universe is nondependent tax units, including nonfilers."Income" is measured as AGI plus: above-the-line deductions, nontaxable interest, nontaxable pension income (including OASI benefits), and employer-side payroll taxes. Income percentile thresholds are calculated with respect to positive income only and are adult-weighted. Tax changes must exceed $5 to register as a "cut" or "increase".

- Like the results shown in Figure 2, the Partial Extension scenario delivers a functionally identical distribution of tax cuts and tax increases to the bottom 99 percent. For the top 1 percent, though, a larger share of tax units now sees a tax increase in 2026. The provision responsible for this difference is the SALT cap limitation, no longer offset by lower rates or a QBI deduction as in the Full Extension scenario.

- Compared to Full Extension, the Clausing-Sarin reform results in a higher share of tax units at the bottom end of the distribution whose taxes fall relative to current law. This difference is largely attributable to the plan's CTC provision, which unlike under current law or the TCJA design, allows even the poorest families with little-to-no earnings to receive the full, larger credit value.

- As income rises past the middle of the distribution, tax cuts become rarer and tax increases more common under the Clausing-Sarin reform. This pattern reflects two factors: one, it is a revenue-raising package, meaning that tax burdens are generally larger than those of current law and TCJA extension, and two, its design is more progressive than current law or TCJA extension.

ECONOMIC EFFECTS

This section presents estimated economic effects. We begin by looking at micro-level impacts, analyzing how each reform would affect labor supply decisions and children's outcomes in adulthood. We then widen our view to the broader macroeconomy and project how variables like GDP, inflation, and interest rates would change relative to current law.

MICROECONOMIC EFFECTS
As described in the Budgetary Effects section, conventional revenue estimates account for only a limited set of behavioral feedback responses, such as re-timing realizations of capital gains or shifting income into tax-preferred legal structures. In this subsection, we expand our scope to allow for other types of behavioral feedback – first-order microeconomic responses to changes in incentives and incomes. Specifically, we allow for two different kinds of microeconomic feedback: (1) employment changes in response to changes in work incentives, and (2) later-life productivity gains in response to cash assistance in childhood. These changes would not be included in a conventional score, which assumes that overall economic income is unchanged by policy reforms.

EFFECTS ON EMPLOYMENT[13]
Changes in tax policy can impact work incentives through two channels. One is the *income* effect, wherein people may decide to work less in response to tax cuts because they can maintain the same standard of living despite working fewer hours. Economists generally believe income effects are small for the range of policy reforms considered in this analysis.

The other is the *substitution* effect: people may work less or quit working entirely if the return to working more falls due to an increase in marginal tax rates. In other words, taxes affect the cost-benefit calculation of working versus not working. The precise degree to which workers respond to changes in the return to work – the "participation elasticity" – is a matter of academic contention, but there is consensus that certain subgroups of workers are meaningfully sensitive. Parents and lower-income earners are generally thought to be more responsive than workers who are childless and/or high-income.

By changing statutory tax rates, deductions, and – most importantly for the lower end of the income distribution – refundable tax credits, each reform would affect effective marginal tax rates and thus the return to work. Figure 7 plots projected average effective marginal tax rates on labor income, including employment taxes, by wage income and parental status under each reform. Full and Partial Extension have identical effects for the income groups charted.

- Under current law, the phase-in structures of the EITC and CTC generate negative effective marginal tax rates (EMTRs) for low-wage workers. That is, for each dollar of additional earnings, a worker will bring home more than one dollar. Then, as these credits plateau or phase out, EMTRs rise steeply to more than 30 percent. Non-parents, who generally do not qualify for large refundable credits, always face positive EMTRs.

- The Full and Partial Extension scenarios would slightly reduce EMTRs for both parents and non-parents, strengthening their incentive to work. This change is attributable to a larger standard deduction, lower tax rates, and a more generous CTC.

- Clausing-Sarin would affect parents' and non-parents' work incentives differently. By eliminating the CTC phase-in, the proposal would increase EMTRs at the low end of the distribution, disincentivizing work relative to current law. Put differently, this CTC design does not actively discourage work in isolation – rather, the proposal would remove an existing subsidy. For non-parents, however, the effects are mixed. The EITC would (1) phase in at a faster rate, which decreases EMTRs for those making below $10,000, and (2) phase out at a faster rate, which increases EMTRs for those in the $15,000 to $30,000 earnings range.

How would these changes in incentives translate to employment gains or losses? We answer this question by following the approach taken in Bastian (2023), wherein the author calculates the return to work under current law and the policy reform, and then applies participation elasticities ranging from 0 to 0.4 depending on economic and demographic attributes. We adapt and extend this approach in our tax microsimulation model; more information on how we model labor supply decisions can be found here.

- We estimate that Full and Partial Extension would induce an additional 100,000 adults to work.

- Under Clausing-Sarin, an estimated 200,000 workers would drop out of the labor force.

For context, from December 2011 to December 2019 an average of around 110,000 people joined the labor force each month.

Figure 7.   Average Effective Marginal Tax Rates on Wages, 2026
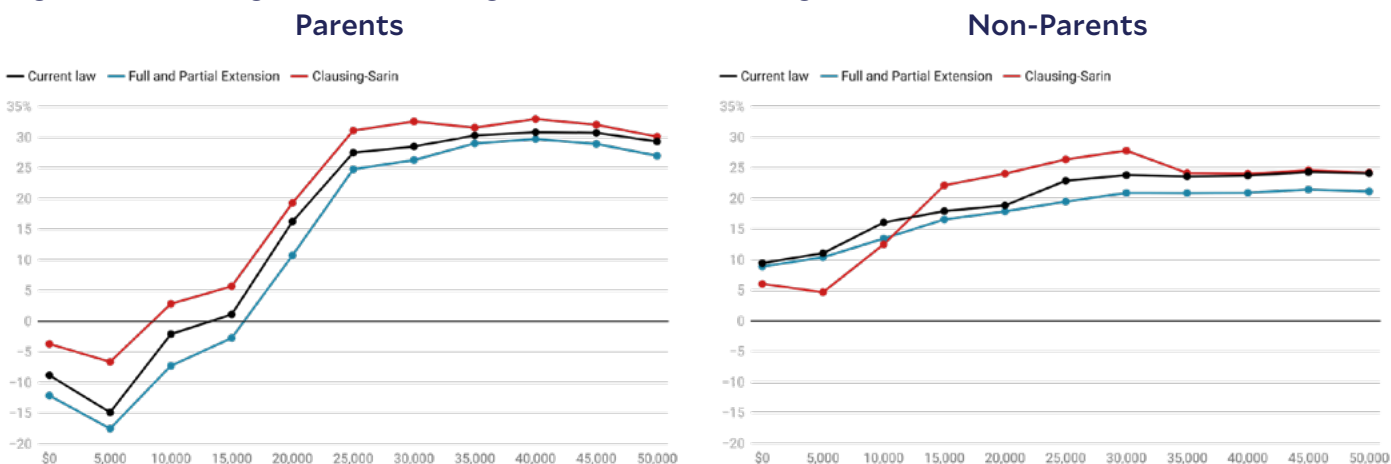
EMTRs include individual income taxes and employee-side payroll taxes are are calculated by adding $1 to W-2 wages. Calculations are with respect to individual earners, not tax units.

EFFECTS ON CHILD OUTCOMES

To what extent does additional income for families with children – particularly low-income families with children – improve economic outcomes for those children when they grow up? This question is the subject of recent attention from both academics and policymakers. The answer has important budgetary implications: if policy interventions today can increase the productivity and wages of the next generation, some fraction of the up-front costs will be offset by higher income and payroll tax revenues in the future.

Additional income in childhood might impact later-life outcomes through various channels including improved nutrition and health, better education, the ability to move to higher-opportunity geographic areas, and more. Several studies measure the long-term impacts of cash or near-cash assistance on lifetime outcomes, and their findings inform our thinking. However, our assessment is that the existing evidence is not yet suitable as a basis for parameters in our simulations. Results vary in magnitude and direction, and the specific institutional settings are of limited external validity.

That said, a body of high-quality descriptive research measures intergenerational mobility, quantifying the extent to which parental income can predict children's income. High-quality data on the distribution of later-life economic outcomes for children at each point in the parent income distribution forms the basis of our approach:

- First, we measure the impact of a reform in terms of parent income percentile. For example, imagine a CTC reform which delivers a $1,000 tax cut to a 20th percentile family. Because the distance between the 20th and 21st percentile is about $1,000, this reform is worth 1 rank unit.

- Then, we adjust future labor market outcomes of affected children to reflect those of children in the counterfactual parent rank.

Of course, an overly literal interpretation of the correlation between parental income and child outcomes would overstate the impact of policy reforms in this setting. Differences in childhood outcomes across parent income percentiles reflect factors other than income (such as differences in human capital at birth or the effects of racism) and may also indicate zero-sum status competition (for example, the ability to outbid others for a fixed supply of housing). To this end, we assume that only 20 percent of the correlation is causal; that is, only one-fifth of a reform's impact translates to later-life outcomes. For example, if a reform increases after-tax income by +5 rank units for a 10th percentile family, the labor market outcomes of children in that family will be adjusted to reflect those of the 11th percentile, not the 15th percentile. We discuss this assumption in a companion piece documenting our methodology in more detail, highlighting how it compares to that of other researchers. Our comparisons suggest that this is a conservative assumption.

Compared with our other estimates, the results in this subsection are more uncertain and speculative. This exercise involves strong assumptions and depends on multiple data imputation steps. Still, we believe it functions as a useful starting point for a discussion about plausible magnitudes.

Figure 8 displays estimated change in wages for 2050 among children exposed to a full 18 years of each reform. It breaks out effects by parent income rank.

- Full Extension and Partial Extension scenarios generate nearly identical estimated outcomes.

- We estimate that the Sarin-Clausing reform, which dedicates a greater share of its gross tax cuts to families with children, would boost wages by an average of almost 0.4 percent. The effect falls with parental income, reflecting the progressive nature of the net tax changes. Children from bottom-quintile families would see increases of almost 1 percent on average.

Figure 8. Estimated Impact on Later-Life Earnings, 2050
Change in Wages Relative to Baseline, Percentage Points
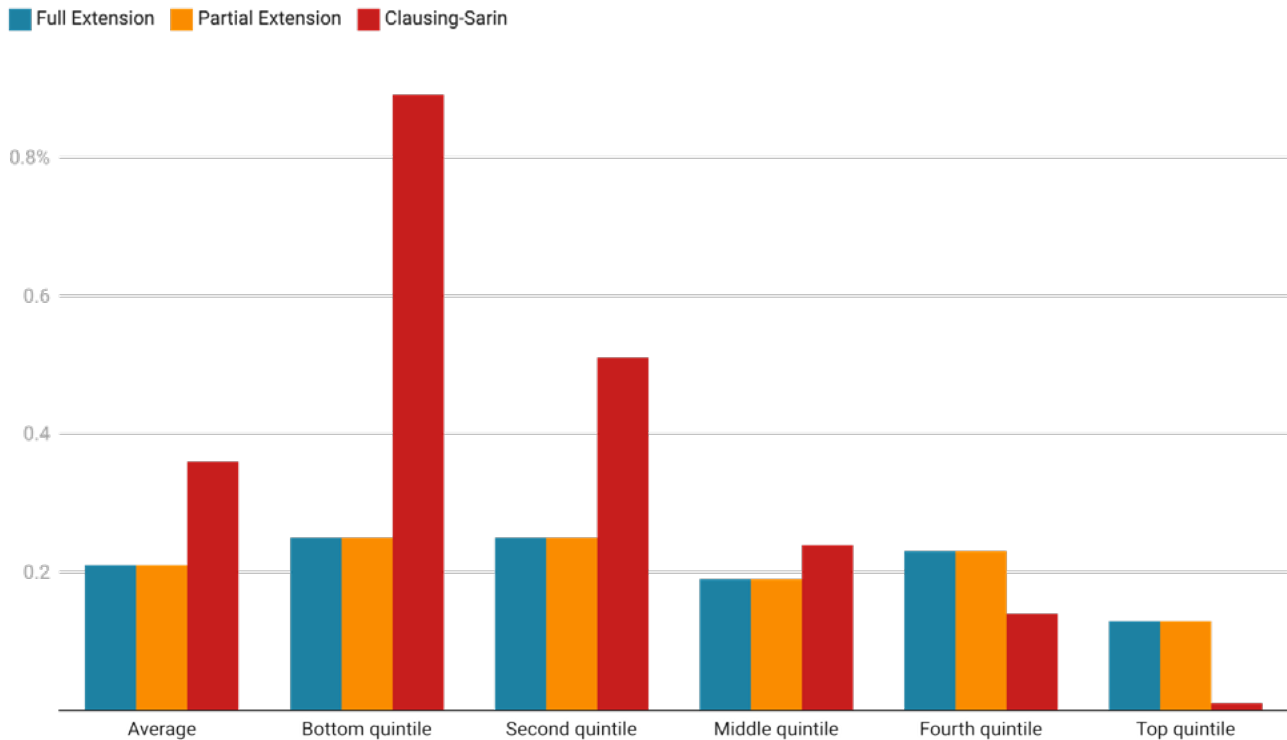
Universe is tax units with adults who were under age 18 during or after 2026. Parent income rank is determined with respect to parent tax units only.

- Note that, by construction, any deficit-financed initiative for families with children will generate positive earnings effects in the long run. In reality, this additional borrowing will eventually be financed with tax hikes, spending hikes, or faster inflation – the burden of which may fall on these same children. How to account for these costs is a topic the Budget Lab is actively exploring.

PARTIALLY DYNAMIC BUDGET EFFECTS

How does incorporating microeconomic responses affect our budget estimates? Table 4 presents the revenue change attributable to these types of behavioral feedback by scenario.

Table 4. Indirect Budget Effects Due to Microeconomic Feedback, FY2025-2054
Billions of Dollars

Scenario	Budget window	Second decade	Third decade
Full Extension	11	18	42
Partial Extension	11	19	43
Clausing-Sarin	−6	−2	35

- Under the Full Extension scenario, positive employment gains modestly increase revenues over the budget window. Children exposed to the larger CTC enter the workforce in the second and third decade, further boosting income and payroll tax revenues.

- Effects under Partial Extension are nearly identical to those of Full Extension, given design similarities.

- Employment losses, caused by work disincentives related to the design of the CTC, reduce revenues under Clausing-Sarin in the near term. As children age into the workforce, though, these negative effects are outweighed by productivity gains.

Overall, revenue feedback in each scenario is small (in the tens of billions of dollars) in comparison to the direct budgetary effects (several trillions of dollars). In other words, for this set of reforms, over this time frame, the conventional revenue estimate is a suitable approximation for the partially dynamic estimate.

MACROECONOMIC EFFECTS

In this section, we present estimates of how the reform options would each affect macroeconomic aggregates such as GDP, inflation, and interest rates, as well as the feedback effects that any changes in economic growth would have on revenues. To produce these estimates, we use the FRB/US macroeconomic model, an open-source general-equilibrium model of the U.S. economy used by staff at the Federal Reserve since 1996. We further note that the Budget Lab's macroeconomic modeling efforts are a work in progress, and we plan to refine our approach in the future.

It is important to emphasize that the magnitudes of all estimated macroeconomic effects, as well as their timing, are highly dependent on our assumptions about the response of monetary policy to fiscal shocks (both temporary and permanent). This is especially true in the case of interest rates, since in the FRB/US model the response of interest rates to changes in the federal deficit is driven almost entirely by the response of the Federal Reserve to changes in fiscal variables (revenue and outlays) driving the change in the deficit. (In other words, there is no independent "crowd out" in the FRB/US model due directly to changes in federal borrowing.) In the results presented below, we assume that the Federal Reserve follows an inertial Taylor rule in setting interest rates[14], and that the equilibrium real federal funds rate (r*) adjusts dynamically. (For a detailed explanation of our use of FRB/US for dynamic revenue estimation, see here.)

EFFECTS ON MACROECONOMIC AGGREGATES

As shown in Figure 9, the Partial and Full Extension scenarios would lead to a temporary boost in real GDP growth due to increases in aggregate demand. The Clausing-Sarin scenario, on the other hand, would lead to a temporary decrease in aggregate demand, slowing real GDP growth. After approximately five years, however, these direct demand effects would fade, with the two Extension scenarios leaving the economy on a (slightly) slower real growth path and Clausing-Sarin leaving it on a faster real growth path in the long run, largely as a result of increases in business investment.

The changes in GDP growth mean that in the short-run, the level of GDP is higher under some form of TCJA extension, but in the long-run it is higher under Clausing-Sarin.

Figure 11, meanwhile, shows that the three scenarios would have consistent effects on aggregate inflation: the two Extension scenarios would leave the economy on a slightly faster path of price growth relative to baseline, while the Clausing-Sarin proposal leads to slower inflation in both the short and long run.

A key difference between the scenarios is their effects on interest rates. As shown in Figure 12, reductions in federal borrowing under Clausing-Sarin would lead to persistently lower interest rates relative to baseline, while increases in borrowing would lead to higher interest rates under both Full and Partial Extension.

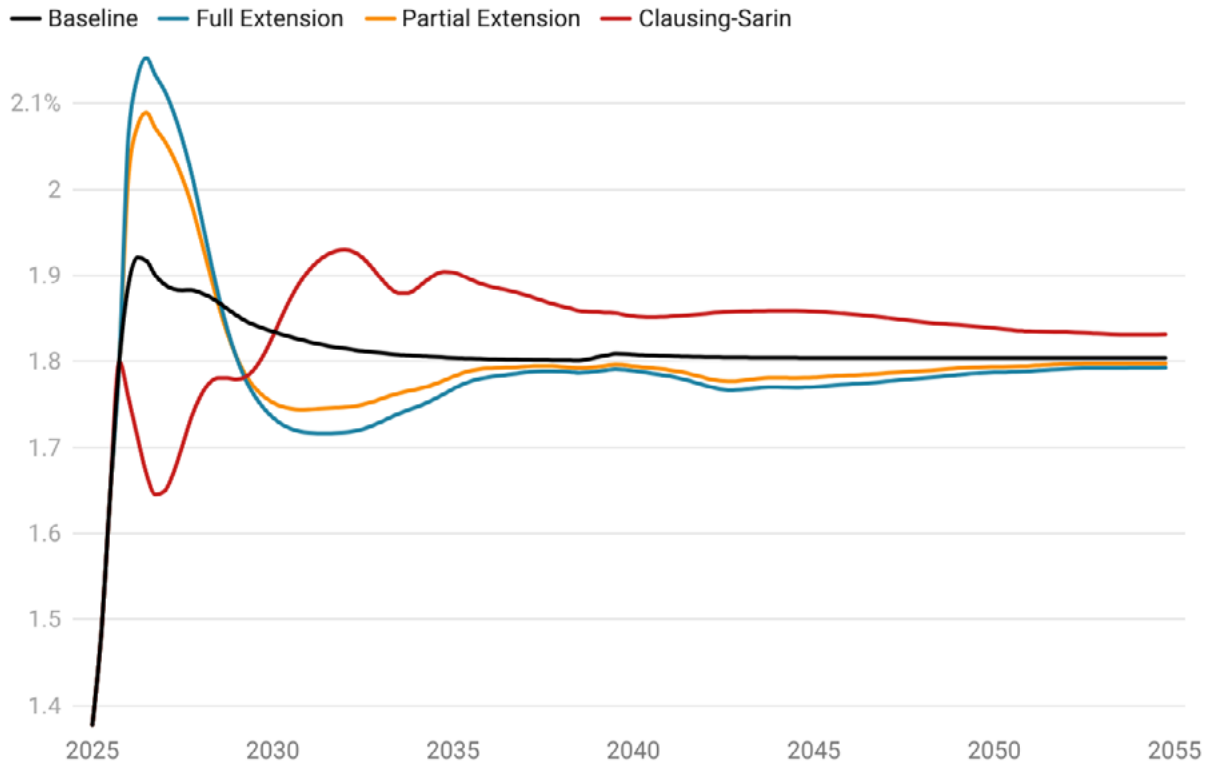**Figure 9.** Four-Quarter Real GDP Growth, 2025-2054
Percent

Figure 10. Change in Real GDP Level From Current Law, 2025-2054
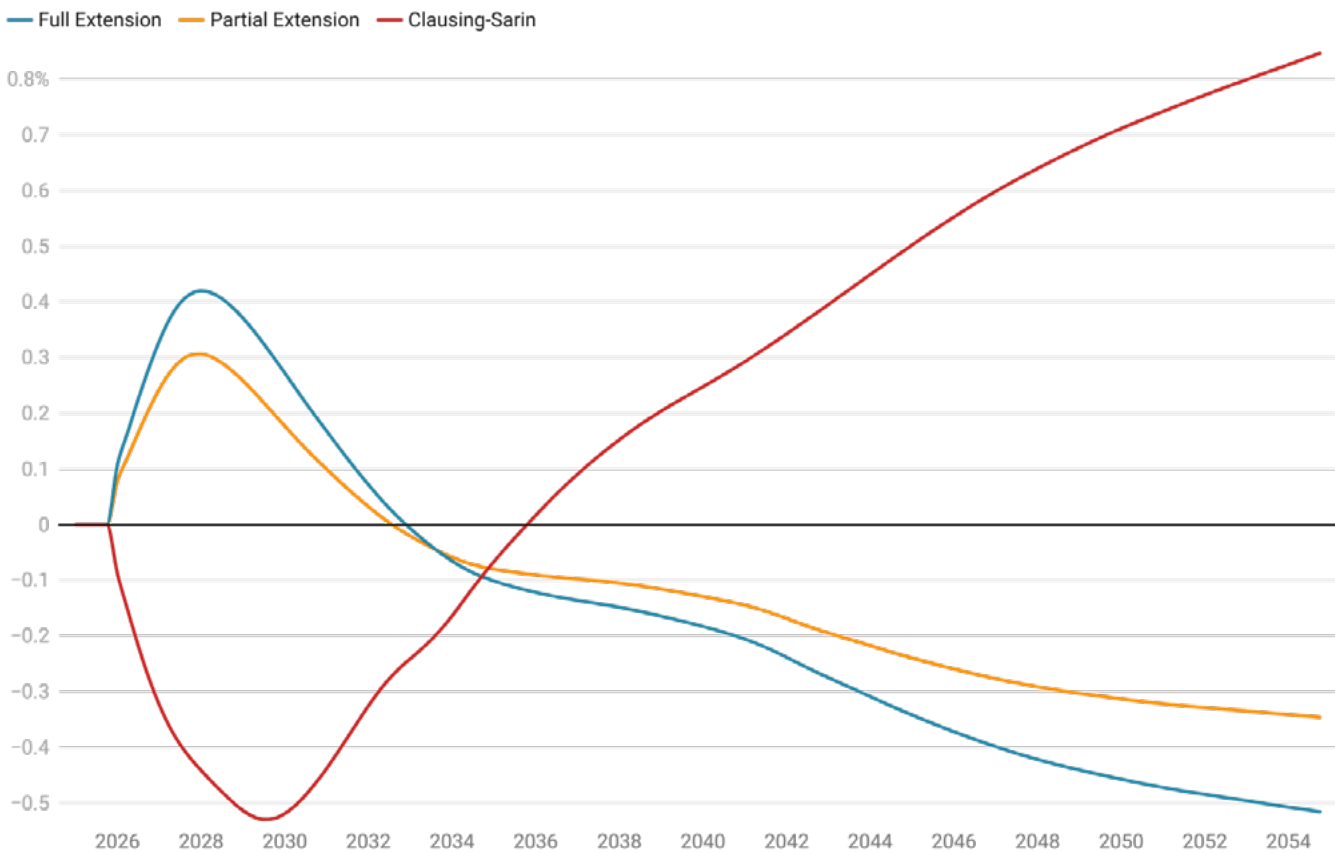Percent of Current-Law Real GDP

Figure 11. Core PCE Price Inflation, 2025-2054
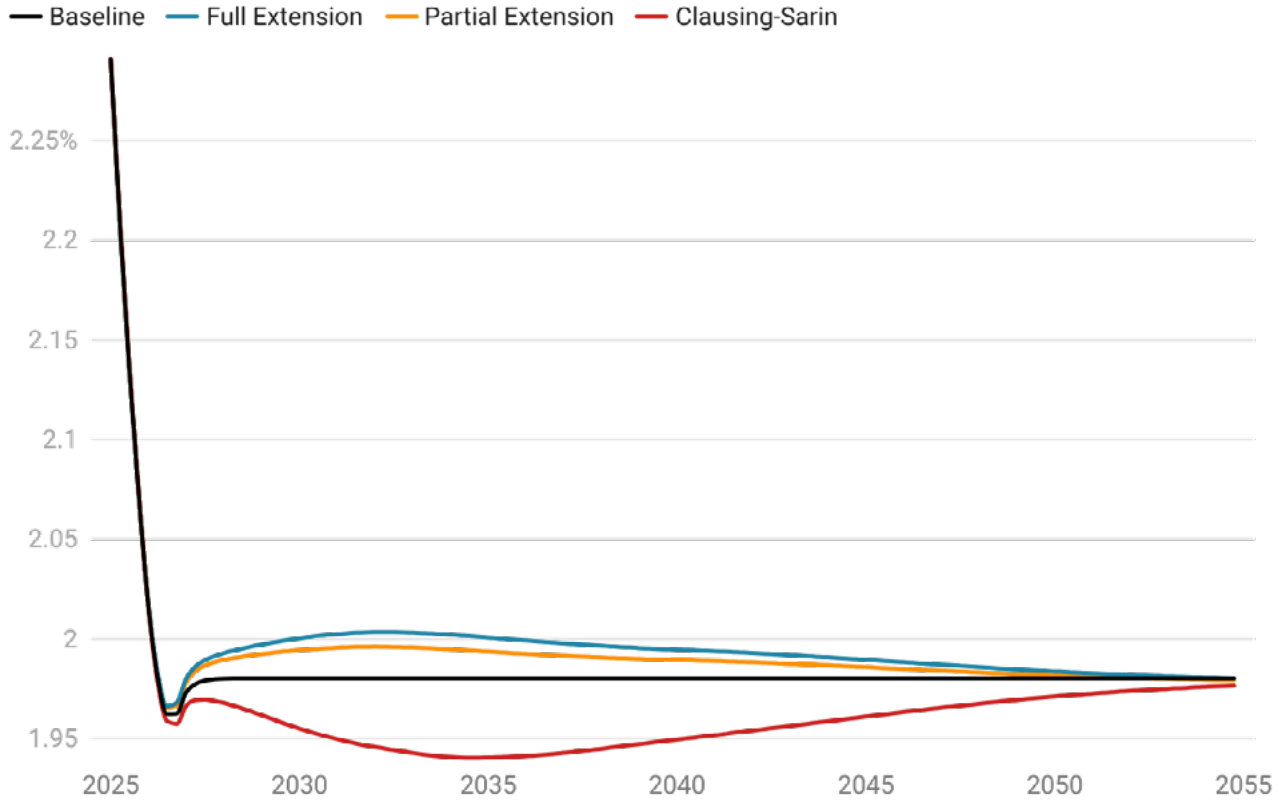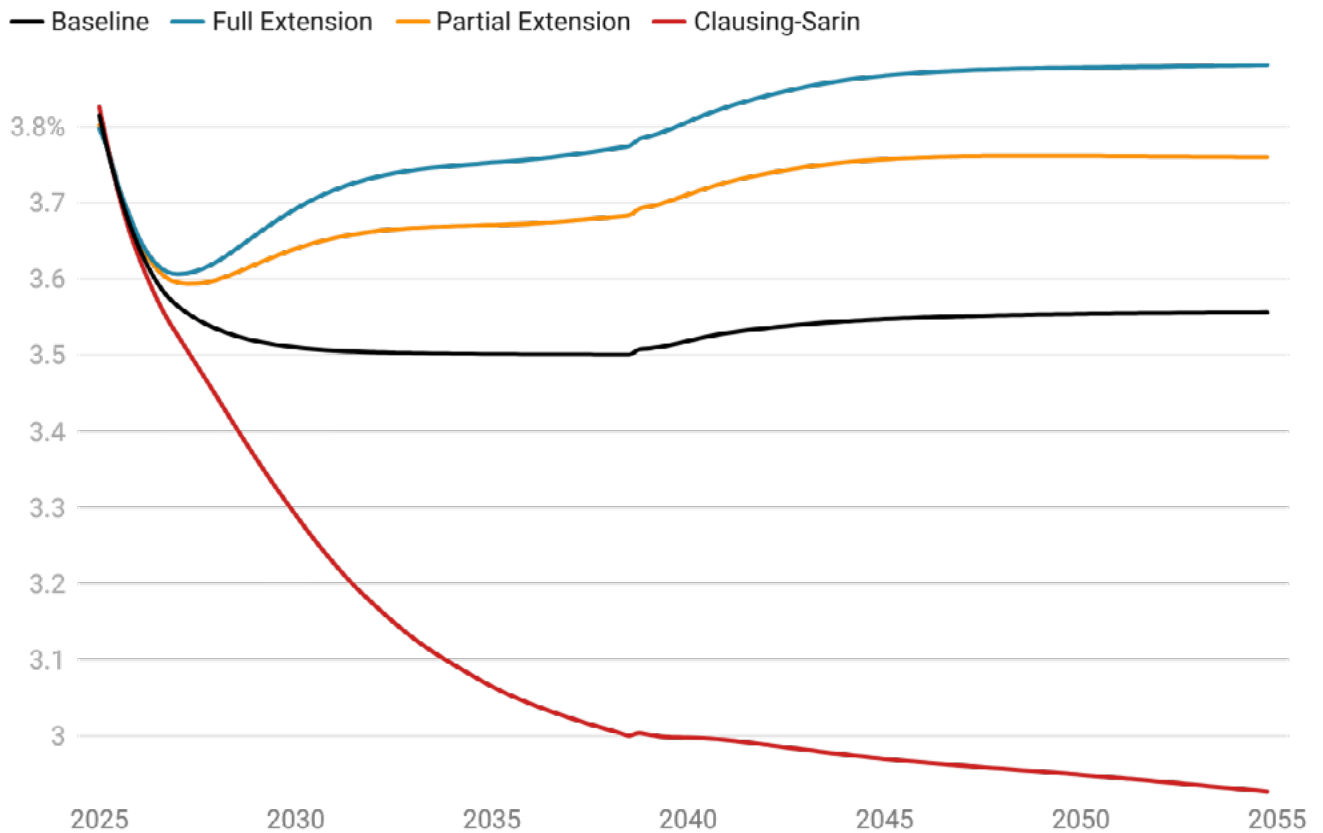
Percent Change, Annual Rate

Figure 12. Ten-Year Treasury Bond Interest Rate, Nominal, 2025-2054

Percent

DYNAMIC (MACROECONOMIC) BUDGET EFFECTS

Macroeconomic changes feed back into revenues through their effect on taxable income. Policy reforms that increase real economic growth will be less expensive (or raise more revenue) than a conventional score would suggest; the opposite is true for reforms which reduce growth. Table 5 presents the revenue change attributable to our estimated changes in the macroeconomy.

Table 5.   Indirect Budget Effects Due to Macroeconomic Feedback, FY2025-2054 [15]
Billions of Dollars

Scenario	Budget window	Second decade	Third decade
Full Extension	15	−284	−572
Partial Extension	7	−197	−391
Clausing-Sarin	−85	474	989

- Under Full and Partial Extensions, a temporary boost in real growth gives way to a permanent decrease in the level of economic activity in the long run. As such, revenue feedback is positive during the first few years of enactment but negative afterwards. In other words, after accounting for slower real economic growth, the Full and Partial extension options would cost about 10 percent more than the conventional estimate would suggest.

- For Clausing-Sarin, incorporating macroeconomic feedback effects increases the estimated amount of revenue raised by roughly 8 percent in the third decade after enactment. This positive feedback effect follows a temporary negative feedback effect during the budget window.

The values above represent only the change in the primary deficit relative to baseline for each policy. When considering the total (nominal) deficit inclusive of changes in net interest outlays, the fiscal effects of each policy are even larger. Changes in net interest outlays, shown in Figure 13, are due to both changes in the primary deficit under each scenario, and importantly, changes in the interest rate on government debt, which reflect changes in overall interest rates under each scenario (as discussed previously).

Figure 13. Net Interest Outlays as Share of GDP, 2025-2054
Percent of GDP
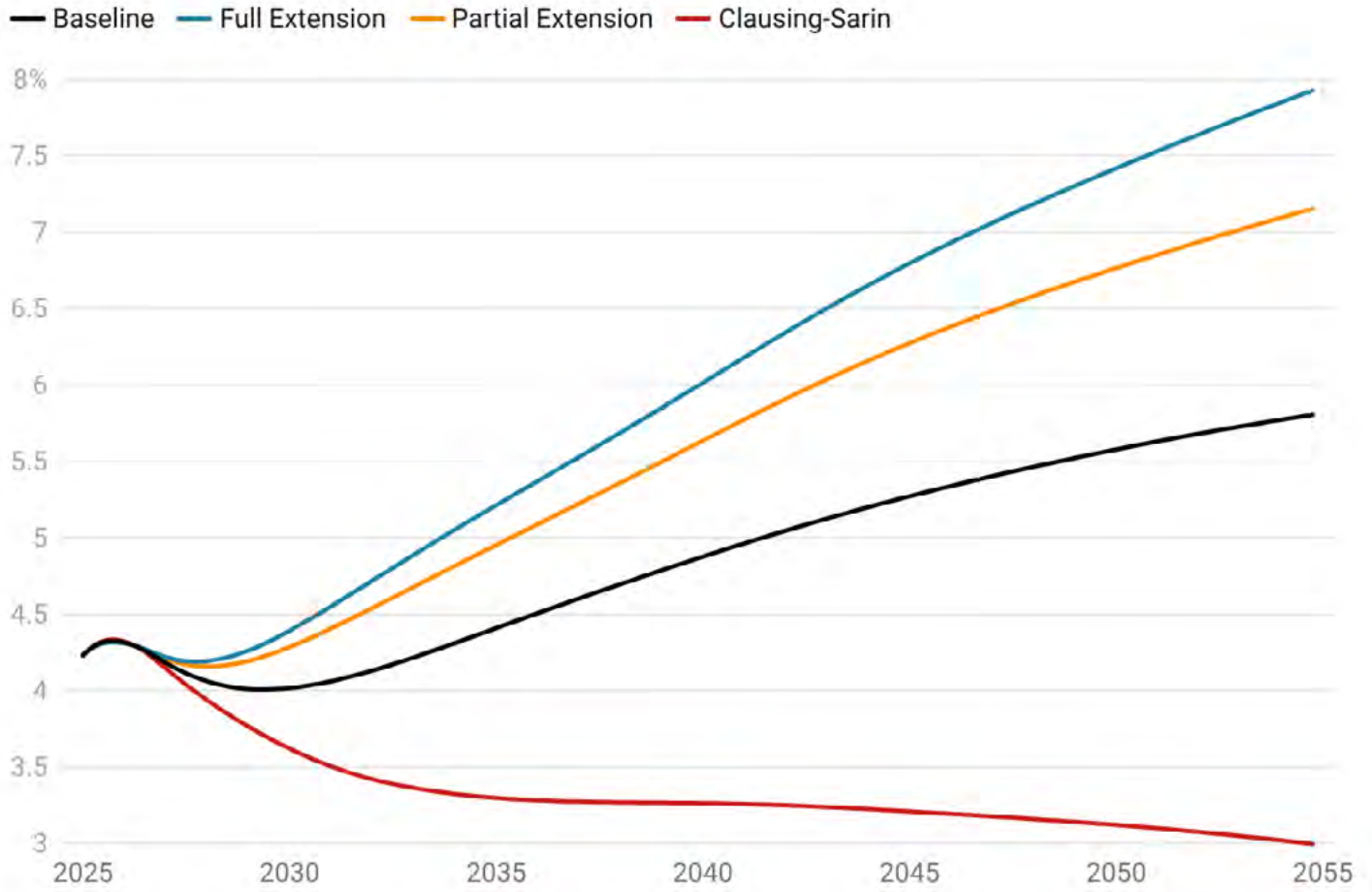
ADMINISTRATIVE BURDEN EFFECTS

TIME BURDEN

The time burden of filing taxes depends on several tax return characteristics:

- **Types of income.** Certain types of income create larger time burdens for tax-filing than others. For example, wages are relatively simple – there is a single bilateral relationship between employer and employee, and the recordkeeping is done on the employee's behalf by the employer. For those who own businesses, however, time burdens are much higher. Net business income is the combination of many transactions across both revenues and expenses, and these transactions are spread between many – potentially thousands – of customers, suppliers, and employees. As such, recordkeeping time burdens and form-filing is much higher for this group than for those who only earn wages. Other types of income, like capital gains or dividends, fall somewhere in between these two extremes.

- **Types of expenses.** Taxpayers can deduct certain expenses, such as charitable contributions and mortgage interest, by electing to itemize deductions. Tracking these expenses and filing additional schedules to claim deductions is a time-consuming process.

- **Demographic characteristics.** Certain tax benefits, like the CTC and EITC, are available to parents of children. To qualify, parents or caregivers must show that certain criteria pertaining to the relationship and support of dependents are met. Understanding these rules and filing extra forms adds to time burdens.

The IRS estimates that it takes 13 hours for the average taxpayer to do their taxes. This figure includes the time costs of recordkeeping, understanding the law, preparing all required forms, and compiling all forms into a filed return.[16] These estimates come from a model that the IRS has developed using survey data to establish statistical relationships between the time burden and aspects of the tax return.[17] The IRS highlights a large difference between business and non-business filers: the former take 24 hours on average to meet tax-filing requirements while the latter take 9 hours on average. As highlighted by Marcuss et al. (2013), over half of the cost of filing is due to reporting of income, so it is unsurprising that the IRS finds business filers spend almost 2.5 times as long as non-business filers in preparing their taxes.

The tax code includes several elements aimed at reducing the burden of reporting income, such as safe harbors and information reporting. Hence, tax reforms aiming to simplify the tax system may lower the time burden by reducing the number of forms and/or removing the need for extensive recordkeeping.

To estimate the change in time costs under the counterfactual tax policy scenarios, we use a simple model of time burden based on the IRS estimates described above. First, we assume an average time burden for categories of income, deductions, and credits. Then, we use our tax microsimulation model to project the change in the number of filers who would need (or elect) to report each category under a counterfactual reform. This model yields a metric on which we can judge tax reforms: to what extent does it affect time burdens across the income distribution?

One stated goal among proponents of the TCJA was that many families would be able to file their taxes on a "postcard."[18] The implication is that time burden would be lower either through information reporting (as is provided for W-2 wages) or fewer additional forms to file. As enacted, the TCJA reduced the number of itemizers by increasing the standard deduction and limiting certain itemized deductions. These changes reduced time burdens by limiting the number of families who need to track and report deductible expenses. On the other hand, the law increased compliance costs by introducing the QBI deduction, expanding the child tax credit, and more.[19]

Table 6. Average Time Burden by Income Group, 2026
Hours

Income group	Income cutoff	Current Law Burden	Full Extension		Partial Extension		Clausing-Sarin	
			Burden	Difference	Burden	Difference	Burden	Difference
Negative income	-	21.0	20.1	−1.0	20.0	−1.0	19.9	−1.1
Bottom quintile	$0	10.4	10.4	0.0	10.4	0.0	10.5	0.1
Second quintile	$22,800	11.1	10.6	−0.5	10.6	−0.5	10.5	−0.6
Middle quintile	$48,720	13.2	11.8	−1.4	11.8	−1.4	11.6	−1.6
Fourth quintile	$90,525	16.7	14.5	−2.3	14.5	−2.3	14.1	−2.7
80% - 90%	$159,660	21.0	17.9	−3.2	17.9	−3.2	17.3	−3.7
90% - 99%	$237,885	25.4	21.8	−3.6	21.7	−3.7	21.1	−4.3
99% - 99.9%	$890,080	29.6	27.9	−1.7	27.2	−2.4	27.1	−2.5
Top 0.1%	$4,399,550	32.0	31.8	−0.1	30.9	−1.0	30.9	−1.1
Overall	-	14.3	13.0	−1.3	13.0	−1.3	12.8	−1.5
Total (millions)	-	2443.0	2225.0	−218.0	2223.0	−220.0	2184.0	−258.0

Estimate universe is filers. "Income" is measured as AGI plus: above-the-line deductions, nontaxable interest, nontaxable pension income (including OASI benefits), and employer-side payroll taxes. Income percentile thresholds are calculated with respect to positive income only and are adult-weighted.

Table 6 presents the average burden in hours by income group under each reform option.

- Full Extension would leave tax policy unchanged from that of recent years, meaning that the average time burden should be roughly equal to the IRS's 2022 estimate of 13 hours.

- Under current law, the standard deduction is scheduled to decrease, and certain restrictions on itemized deductions are set to expire. We project that in 2026, Full Extension would result in 13 percent of filers itemizing versus 30 percent under current law; this implies a reduction in compliance costs because it is time consuming to fill out and maintain records for Schedule A. These cost savings outweigh additional time costs associated with the QBI deduction, which expires under current law. On net, average time burden is about 1.3 hours higher under current law than under Full Extension.

- The Partial Extension reform is designed to mimic Full Extension for the bottom 99 percent of tax units by income. For those in the top 1 percent, who no longer qualify for the QBI deduction, time burden is estimated to fall on average. The overall average would remain unchanged.

- The Clausing-Sarin proposal would reduce burden beyond that of Partial and Full Extension scenarios by allowing the QBI deduction to expire entirely.

These estimates highlight the distribution of benefits from the QBI deduction. In the absence of extension of the QBI, very few income groups saw a drop in burden. The groups that did benefit are in the upper tail of the income distribution and likely benefited monetarily from the deduction even in the presence of the time burden. Much of the burden of the tax code is related to receiving benefits in return (CTC, itemization, QBI

deduction, etc.). Individual taxpayers make tradeoffs between the extra filing burden and lower tax liability. However, there is a set of filers for which the time burden of filing taxes (and potentially paying a preparer) is possibly unnecessary.

NUMBER OF POTENTIAL PRE-FILLED RETURNS

The time burden of tax filing is highly variable across taxpayers. For filers who only receive income subject to information reporting, the government already has the information needed to fill out their tax returns.[20] These are filers who do not file any extra schedules, do not need to comply with complicated rules, and are not required to engage in extensive recordkeeping – they receive only W-2 wages and/or Social Security earnings, both provided on information returns (W-2 and SSA-1099, respectively). This makes this set of tax filers ideal candidates for "pre-filled" returns, with minimal burden on the taxpayer. Such filers make up almost 40 percent of filers under any of the options presented in this analysis. In other words, the government can pre-fill 40 percent of returns, obviating the need for this group to file their taxes. The IRS is currently piloting a program called Direct File that allows residents in 12 states with similarly relatively simple returns to file directly with the IRS, although these returns are not pre-filled.

The burden of filing taxes for these individuals lies solely in filling out the 1040 with information that the government already has in its possession. Wages are already reported to Social Security Administration and the IRS. The tax filer is only verifying the information the government already has in its possession. The government could provide a prepopulated 1040 with a high degree of success.[21]

Table 7 shows the share of simple filers in each income group. These simple filers are largely unaffected by the policy changes we are examining, except for the change in the standard deduction. As such, there is little difference across policy scenarios.

Table 7.   Share of Filers Eligible for Pre-Filled Returns, 2026
Percentage Points

Income group	Income cutoff	Current Law	Full Extension	Partial Extension	Clausing-Sarin
Negative income	-	2.7	2.7	2.7	2.7
Bottom quintile	$0	64.5	64.8	64.8	64.8
Second quintile	$22,800	52.5	55.0	55.0	55.0
Middle quintile	$48,720	30.1	34.5	34.5	34.5
Fourth quintile	$90,525	13.0	16.8	16.8	16.8
80% - 90%	$159,660	4.4	8.6	8.6	8.6
90% - 99%	$237,885	0.7	2.2	2.2	2.2
99% - 99.9%	$890,080	0.0	0.2	0.2	0.2
Top 0.1%	$4,399,550	0.0	0.0	0.0	0.0
Overall	-	**36.2**	**38.8**	**38.8**	**38.8**

Eligibility for pre-filled returns is defined as having only W-2 wage income or Social Security benefits and taking the standard deduction. Estimate universe is filers. "Income" is measured as AGI plus: above-the-line deductions, nontaxable interest, nontaxable pension income (including OASI benefits), and employer-side payroll taxes. Income percentile thresholds are calculated with respect to positive income only and are adult-weighted.

CONCLUSION

The expiration of the TCJA gives policymakers an opportunity to think about their priorities in the tax code. As we have shown, extensions of the TCJA will lead to higher real GDP in the short run, at the expense of long-term economic growth, inequality, inflation, interest rates, and the deficit. An alternative plan would lower real GDP in the short run but improve the other metrics and lead to better outcomes for children.

ENDNOTES

1   This option is aimed to align with campaign promises that President Biden has made and thus is our interpretation of a "Biden extension."

2   This version is designed to align with campaign promises President Biden has made to not raise taxes on this income group. It is our interpretation of what that would involve.

3   We are not looking at versions of extension that simply once again extend the provisions for 10 years, which is a likely scenario under reconciliation. We feel that it is important to look at the long-run impacts on the budget, economy, and taxpayers under these scenarios and to acknowledge that a 10-year extension sets up likely subsequent 10-year extensions.

4   The proposal also makes the credit refundable over four years to be consistent with Pillar 2 international reforms.

5   Three provisions merit special consideration in this context. First, both the rate cut and QBI deduction line items reflect our expectation that if the deduction were extended, some businesses that would organize in the C-corporate legal form under current law would instead elect to be taxed as pass-through businesses. This kind of legal tax avoidance generates modest revenue losses in addition to the mechanical, or "static", budget effects. Second, we assume that only half of net operating losses generated by the limitation on pass-through loss deductions are eventually claimed. Third, we assume that most states would continue to offer so-called "SALT cap workarounds" in the presence of a permanent limitation on the SALT deduction, and that owners of pass-through business would elect to employ these tax avoidance strategies at similar rates to those seen in recent years.

6   When calculating averages under the reform, we include years in which the policy reform is enacted only.

7   Note that the order used in this CBO report differs from that of JCT's original TCJA score.

8   Dowd, Timothy, Robert McClelland, and Athiphat Muthitacharoen, . "New Evidence on the Tax Elasticity of Capital Gains," *National Tax Journal*, 2015, 68 (3):511-44, https://EconPapers.repec.org/RePEc:ntj:journl:v:68:y:2015:i:3:p:511-544. For a discussion of the elasticity literature see Gravelle, Jane. "Capital Gains Tax Options: Behavioral Responses and Revenues." CRS R41364, 2021. https://crsreports.congress.gov/product/pdf/R/R41364.

9   For instance, Agersnap and Zidar (2021) estimate a range of long-term elasticities between -0.5 and -0.3. Agersnap, Ole, and Owen Zidar. "The Tax Elasticity of Capital Gains and Revenue-Maximizing Rates." *American Economic Review: Insights,* 2021, 3(4): 399-416.

10 Burke, Kathleen and Shannon Mok. . "How Changes in Funding for the IRS Affect Revenues." Congressional Budget Office, February 2024, https://www.cbo.gov/publication/60037#_idTextAnchor006.

11 The contribution charts are designed to highlight interactions in the individual income tax code. As such, corporate taxes are not included.

12 It is worth noting that the magnitude of provision-level contributions depends in part on stacking order. For example, the effect of eliminating personal exemptions, which reduce taxable income, is smaller when stacked after the provision that lowers tax rates.

13 The elasticity values we use generate a probability of employment with respect to taxes. What we model is the existence or non-existence of wages. Therefore, what we see is earnings on the extensive margin, which is functionally a participation decision. We have tried to be consistent in our use of "employment" or "participation" where correct.

14 Empirically, monetary policy rules with inertia tend to fit historical policy rates more closely than rules without inertia. See e.g., Figure 1 of Carlstrom and Fuerst (2008). This characteristic of inertial rules has strengthened since the Great Recession and the increasing importance of the binding zero lower bound. Carlstrom, Charles T. and Timothy S. Fuerst. "Inertial Taylor Rules: The Benefit of Signaling Future Policy." Federal Reserve Bank of St. Louis Review, May/June 2008, 90(3, Part 2):193-203. https://files.stlouisfed.org/files/htdocs/publications/review/08/05/part2/Carlstrom.pdf

15 Because we project that the price level would slightly change under each counterfactual reform, for interpretation's sake, we express the revenue offset in current-law dollars.

16 See page 108 of the 2023 1040 instructions: https://www.irs.gov/pub/irs-pdf/i1040gi.pdf

17 IRS researchers also use the IRS burden surveys to monetize the burden of filing taxes. See IRS Publication 5743. Alternatively, Benzarti (2020) uses a representative sample of tax returns to estimate the monetary burden of filing around itemizing or using the standard deduction. Benzarti, Youssef. "How Taxing Is Tax Filing? Using Revealed Preferences to Estimate Compliance Costs." *American Economic Journal: Economic Policy,* November 2020, 12(4): 38-57, https://www.jstor.org/stable/10.2307/27028630

18 https://www.businessinsider.com/can-you-file-taxes-on-a-postcard-under-trump-tax-bill-ivanka-2017-12

19 The IRS reported in 2022 that the average burden for individuals was 13 hours. This number is estimated from the IRS's Taxpayer Burden Model. In earlier versions of the model, IRS reported the time burden by specific form. Using the older model in 2004, the average time burden was slightly higher at 13 hours and 35 minutes. In our effort to quantify the burden of the different policy scenarios, we rely on these detailed time burdens as well as reported changes in time burden because of the TCJA. We generate burden amounts for each tax unit by adding the time to file the forms the tax unit files. The equation is: BURDEN = 404. 15 + A∗(556) + B∗(86) + C∗(655) + D∗(370) +E∗(374) + F∗(350) + SE∗(75) + EIC∗(34) + AMT∗(87) + CTC∗(34) + QBI∗(155) where the letters represent schedules and forms, and the numbers are the minutes required to file the form. The 404.15 minutes (about 6 and a half hours) is the baseline amount for individuals that do not file one of the forms listed in the burden equation. It is constructed using the IRS reported average of 13 hours in 2022.

Guyton, John, Pat Langetieg, Pete Rose, Brenda Schafer, Sherri Edelman, Andres Garcia, and Molly Stasko. Taxpayer Compliance Burden. Publication 5743 (Rev. 4-2023) Catalog Number 93812U, Department of the Treasury Internal Revenue Service, February 2023, https://www.irs.gov/pub/irs-pdf/p5743.pdf

20 As noted above, Marcuss et al. (2013) asserts that information reporting can be viewed as an easing of time burden on taxpayers. Marcuss, R.D., G. Contos, J.L. Guyton, P. Langetieg, B. Schafer, and M. Vigil. "Income Taxes and Compliance Costs: How Are They Related?" National Tax Journal, December 2013, 66 (4), 833–854. https://www.journals.uchicago.edu/doi/10.17310/ntj.2013.4.03

21 Goodman, Lucas, Katherine Lim, Bruce Sacerdote and Andrew Whitten. "Automatic Tax Filing: Simulating a Pre-Populated Form 1040." NBER Working Paper 30008, 2023, https://www.nber.org/papers/w30008

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