



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

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Key Takeaways

- 1 The expiration of the Tax Cuts and Jobs Act (TCJA) offers an opportunity to discuss broad tax changes.
- 2 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.
- 3 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.
- 4 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.
- 5 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.
- 6 Under each tax plan scenario, almost 40 percent of returns could plausibly be pre-populated by the IRS.

Summary

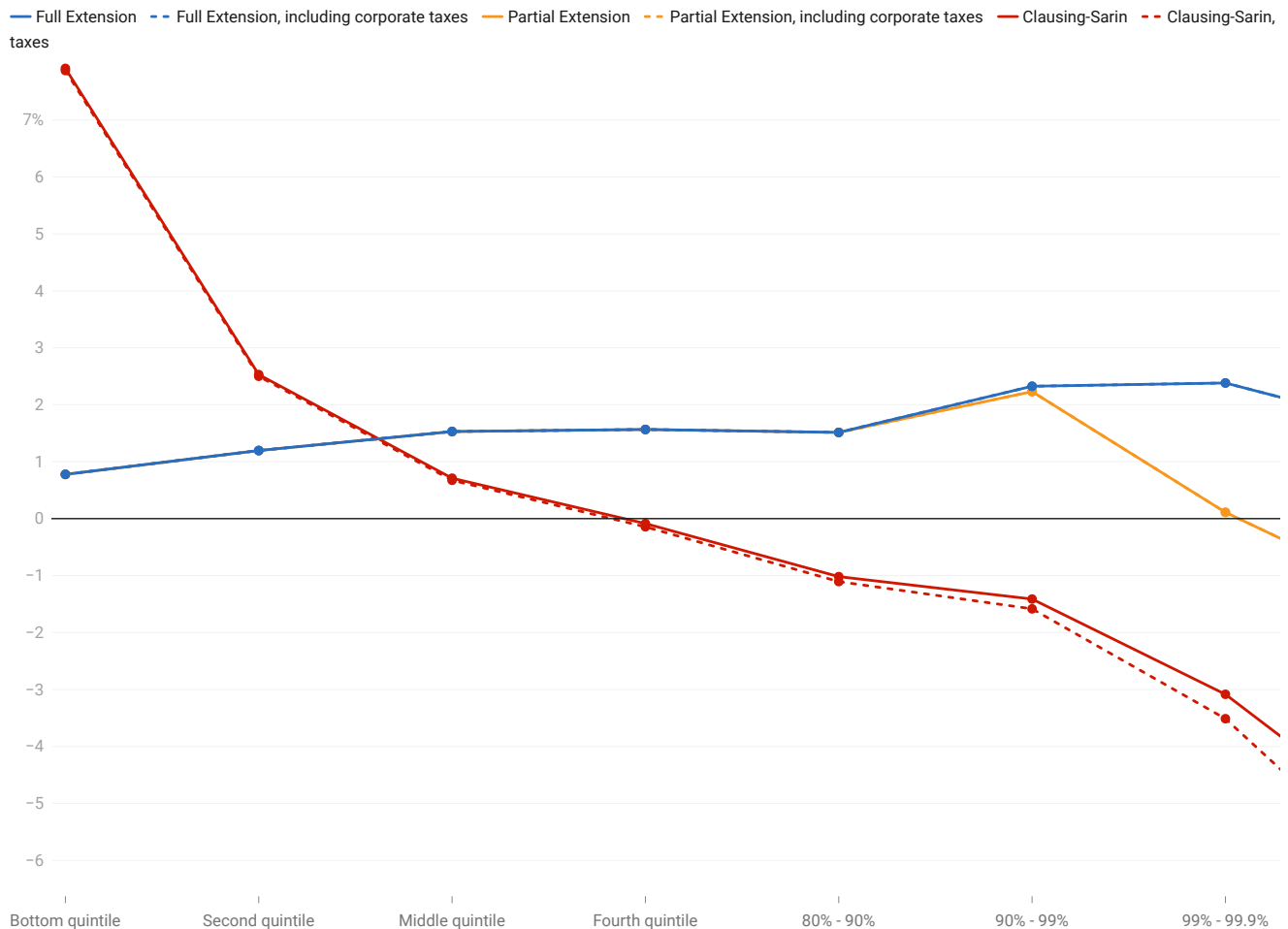
Most individual income tax provisions of the Tax Cuts and Jobs Act (TCJA) expire at the end of 2025. This report analyzes three options for tax reform surrounding expiration: a scenario in which all elements are extended (“Full Extension”), an option which preserves cuts for all but the highest-earning Americans (“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 highest-earning Americans 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.
 Source: [The Budget Lab](#) • Created with [Datawrapper](#)

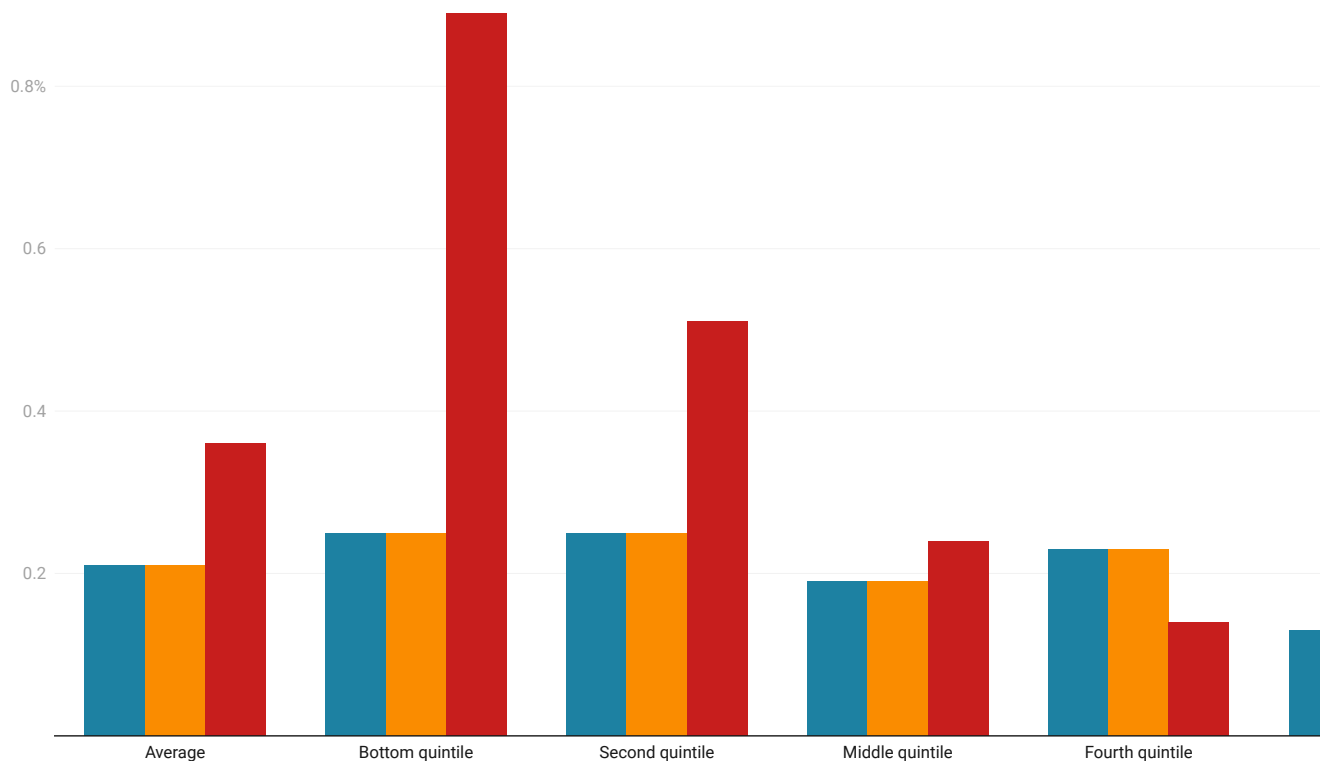
Next, we conduct a [microeconomic analysis](#) of each reform. The Full and Partial Extension scenarios are expected to slightly increase employment, while Clausing-Sarin would induce modest labor force exits, with the difference attributable to how each reform affects the returns to labor among lower-income 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

Full Extension Partial Extension Clausing-Sarin



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.

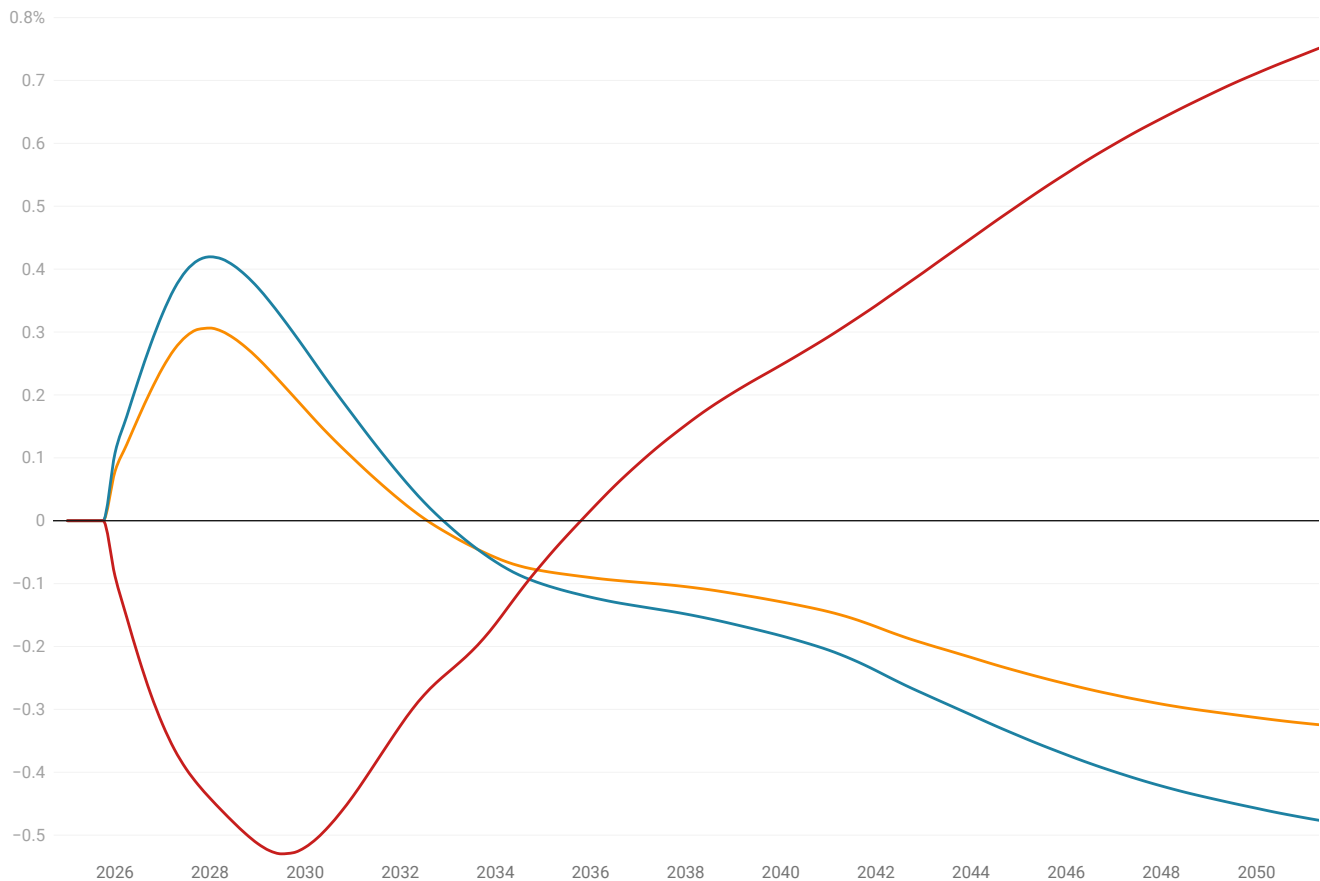
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We then conduct a [macroeconomic analysis](#) of each reform using the Federal Reserve's FRB/US model of the U.S. economy using a fiscal baseline aligned with Congressional Budget Office (CBO) projections. In the short run, we project that the Partial 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.

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

Percent of Current-Law Real GDP

— Full Extension — Partial Extension — Clausing-Sarin



Source: [The Budget Lab](#) • Created with [Datawrapper](#)

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.

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 be consistent with President Biden's past pledges.
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 go into effect beginning in tax year 2026.

The table below summarizes major provisions across each proposed reform.

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 Full Extension.
Standard deduction	\$16,500 for married filing jointly in 2026	\$30,500 for married filing jointly in 2026	Same as Full Extension.	Same as Full Extension.
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. Uniform treatment of employment taxes. Expensing of R&E (research and experimental) costs. Earned Income Tax Credit and Premium Tax Credit expansions. Carbon tax. Financial transactions tax.

Created with [Datawrapper](#)

[+ Full Extension](#)

[+ Partial Extension](#)

[+ Clausing-Sarin](#)

Footnotes

1. This version is designed to align with campaign promises President Biden has made to not raise taxes on those who are not among the highest-earning Americans. It is our interpretation of what that would involve.
2. 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.
3. The proposal also makes the credit refundable over four years to be consistent with Pillar 2 international reforms.