The Daily Dish

Confusing Tax Math

DOUGLAS HOLTZ-EAKIN | APRIL 16, 2018

Eakinomics: Confusing Tax Math

When the Tax Cuts and Jobs Act (TCJA) passed Congress, the Joint Committee on Taxation (JCT) — the official scorer for tax bills — wrote that the revenue loss for 2017-2027 would be "$1,456 billion over that period." This is entirely consistent with the notion that the bill was passed using reconciliation instructions that permitted it to lose $1.5 trillion. Recently, however, there has been a spate of reporting about how the cost of the bill has risen, e.g. the Washington Post: "Earlier this week, the CBO [Congressional Budget Office] said the new tax law would cost the United States $1.8 trillion over the next decade, in part because of its significant reduction in the tax rate paid by corporations." There are even opinion pieces asserting even worse, like "the budget deficit will be an additional $2.6 trillion higher than what CBO estimated."

For those who view supporting the TCJA as a tough call on the tradeoff between needed tax reforms and the fiscal outlook, these assertions are troubling. As I reflected on them, however, they simply became puzzling. The TCJA did not change between December and April. It is the same (digital) words on the same (vapor) paper. How could it possibly cost more?

Here are the wrong answers:

1. It is not a JCT versus CBO estimating fight. Yes, the recent estimates are from CBO, while JCT scored the bill at passage. But that is not the story.

2. It is not a dynamic versus static scoring issue. JCT and CBO each has both static and dynamic scores. JCT wrote, "The Joint Committee staff estimates that this proposal would increase the average level of output (as measured by Gross Domestic Product ("GDP")) by about 0.7 percent relative to average level of output in the present law baseline over the 10-year budget window. That increase in output would increase revenues, relative to the conventional estimate of a loss of $1,456 billion over that period by about $451 billion." CBO wrote, "CBO estimated that the tax act would increase the primary deficit by $1.8 trillion…. The feedback is estimated to lower the cumulative primary deficit by about $550 billion, mostly because the act is projected to increase taxable income and thus push tax revenues up." CBO has a slightly bigger impact on GDP, but both can take dynamic growth effects into account.

3. It is not the fact that scores exclude interest costs. When CBO or JCT scores a bill for Congress, it does not assign interest costs. As borrowing goes up interest expense gets bigger, but both JCT and CBO made note of this fact, even if the bottom line score did not include this effect.

No, its not the budget math bells and whistles. The shocking fact is that the plain vanilla, "static" score of the TCJA went up from $1.5 trillion to $1.8 trillion. How can that be?

When JCT scored the bill in December 2017, it used the January 2017 CBO projection of the economy. Notably, that forecast pegged 2018 growth at 2.0 percent and the average for 2019-2020 at 1.6 percent. When

CBO put out its analysis of the TCJA as part of the 2018 Budget and Economic Outlook, its projected growth rates for 2018, 2019, and 2020 were 3.3 percent, 2.4 percent, and 1.8 percent, respectively. That is simply much faster growth that produces much more imaginary revenue loss compared to a world without TCJA. Along with the faster growth comes higher interest rates, which also inflates the perceived cost of the bill. (It is also worth noting that CBO estimate covers 11 years from 2018 to 2028, while JCT looked at 10 years from 2018-2027.)

The TCJA is part of the reason that CBO radically upgraded its outlook for U.S. economic growth. Perversely it is getting more budget criticism simply because it is working.