

The Fiscal Implications of Tax Extenders

May 2014

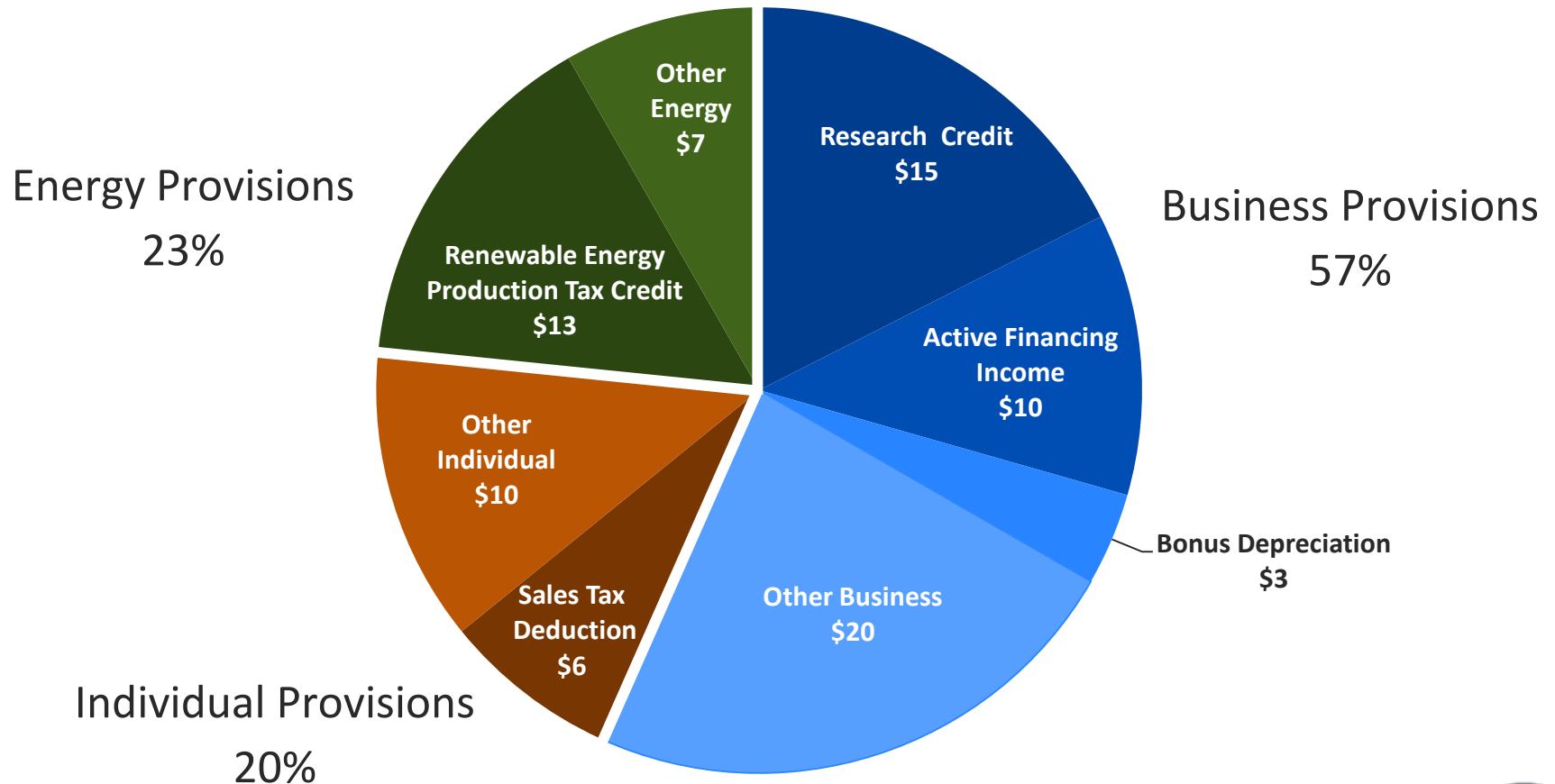


**THE COMMITTEE FOR A
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The Tax Extenders

Over 50 tax provisions expired at the end of last year. Extending them for 2014 and 2015 would cost \$85 billion.



Permanent Extenders are Much More Expensive

Extending All Extenders:

Two-year extension: \$85 billion

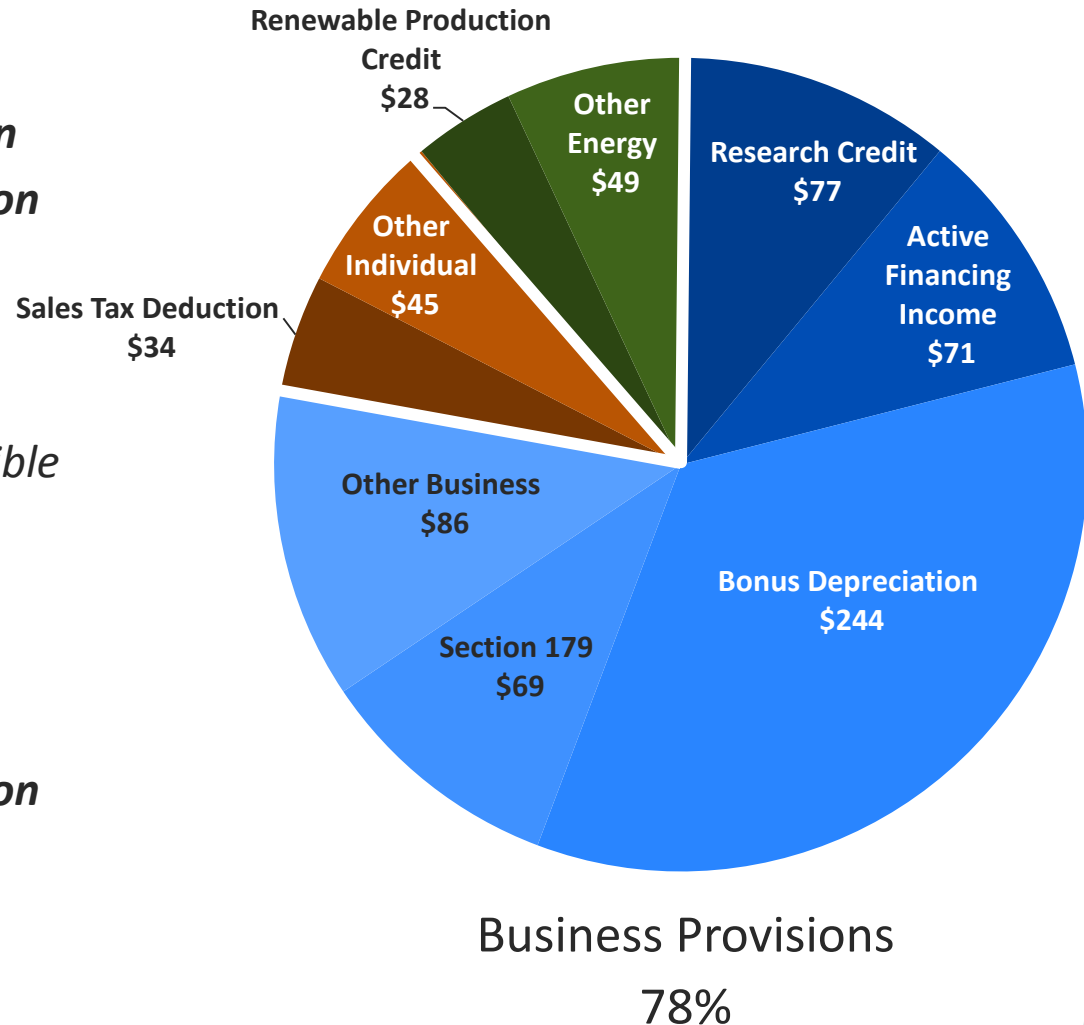
Ten-year extension: \$710 billion

Bonus Depreciation is responsible for the biggest difference:

Bonus Depreciation:

Two-year extension: \$3 billion

Ten-year extension: \$244 billion



What's Happened So Far?

House

- Ways & Means Committee reported 6 bills extending 6 extenders permanently
- An expanded Research Credit, plus continuations of Section 179 Expensing, Active Financing Exception, CFC Look-through, and two S Corporation provisions
- Total cost of 6 provisions: \$310 billion, compared to \$230 billion of extending last year's policy
- Further action expected

Senate

- Finance Committee reported one bill extending over 50 provisions for 2 years (all but 2)
- Mostly a straight extension of current policy, with added breaks for start-up research expenses, bike-share commuting, and theatre performances
- Total cost: \$84 billion, compared to \$86 billion of extending last year's policy for two years



What's Happened So Far?

Ways & Means extended six provisions that were all permanently extended in the Tax Reform Act (TRA) of 2014. The extensions increased the size of the policies, while the TRA reduced them.

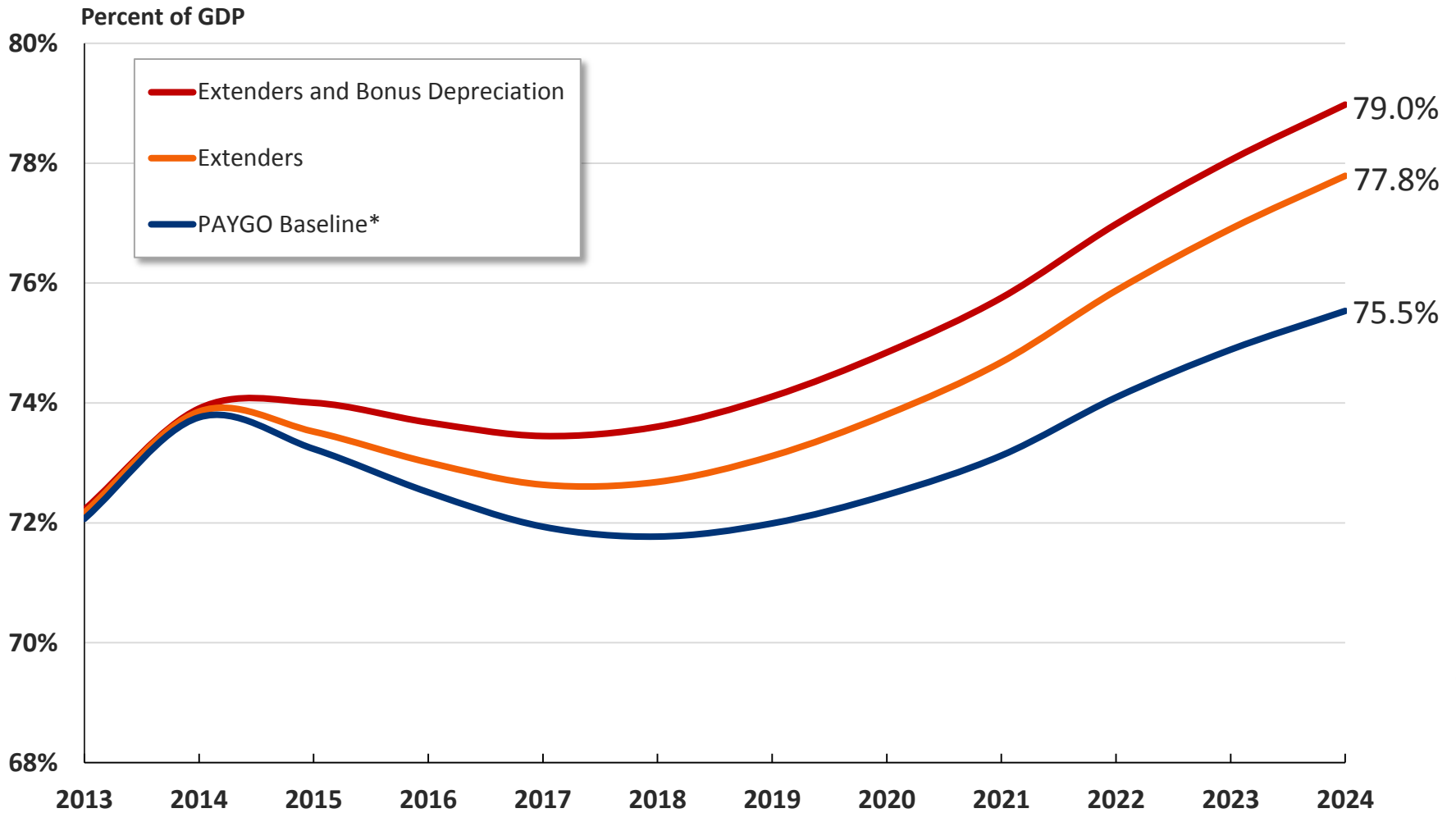
Provision	Extending Current Credit	Ways & Means Markup	Tax Reform Act of 2014
Research & Experimentation	\$77	\$156	\$34
Small Business Expensing	\$73	same	\$58
Active Financing Income	\$59	same	\$18
CFC Look-through	\$20	same	similar
S Corporation provisions	\$2	same	similar
Total	\$231	\$310	\$132
<i>Interest</i>	\$52	\$68	*
Grand Total	\$280	\$378	\$0*

(Billions of dollars)

Only most recent score used where provisions are substantially the same. The scores dropped for some of the TRA provisions because of interaction with a lower corporate rate.

*The TRA offset all the changes with revenue raised elsewhere, so there are no interest costs or net costs

Debt Worsens if Tax Breaks Are Not Paid For

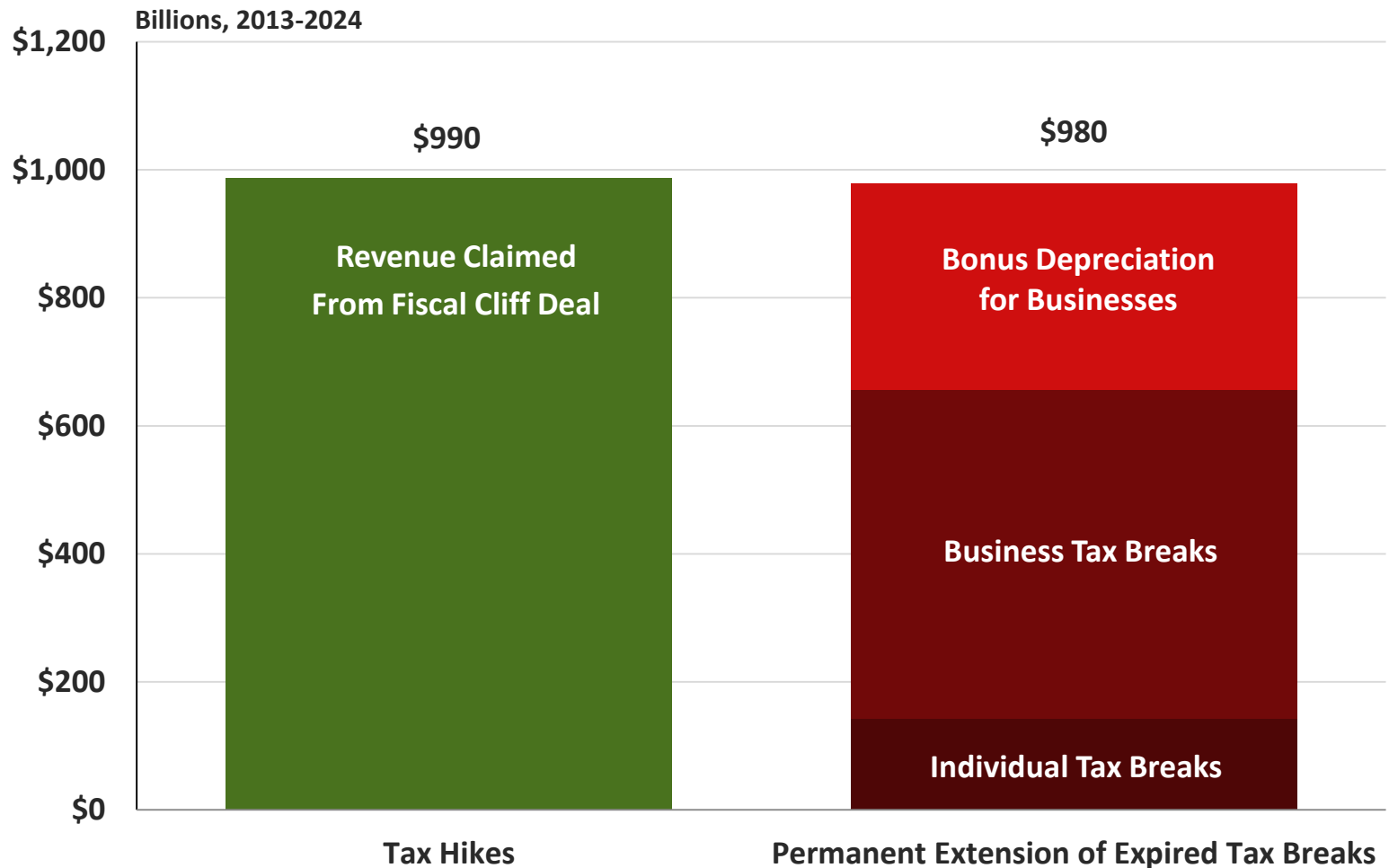


Source: Congressional Budget Office

*PAYGO Baseline assumes a continuation of current law, along with a drawdown in war spending.



Extending Tax Breaks Would Squander Fiscal Cliff Revenue

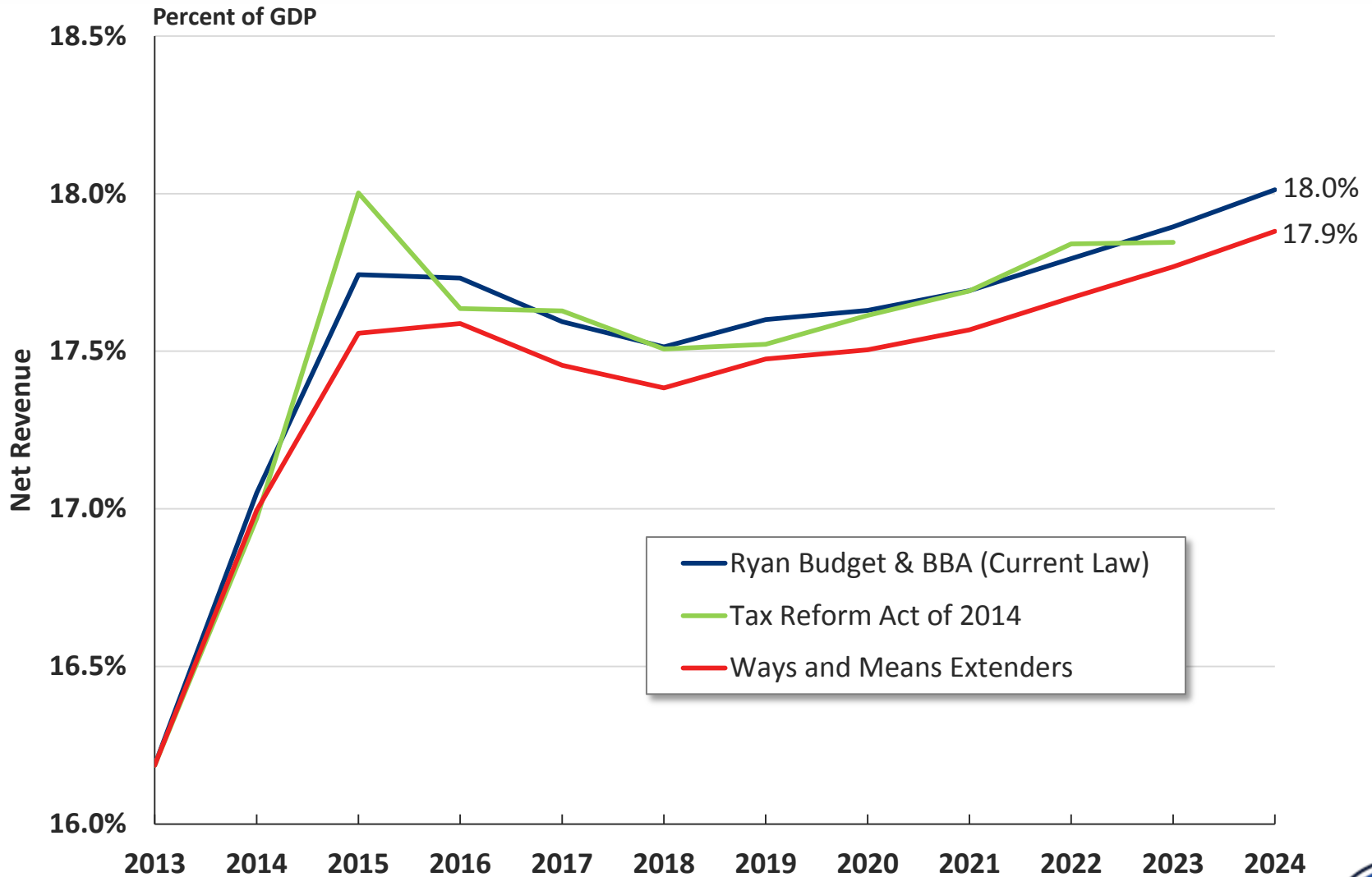


* All costs include interest effects.

** Tax cuts column shows the cost of permanently extending every tax extender, plus the cost of already enacted extenders in the fiscal cliff legislation.

*** Fiscal cliff revenue is the revenue compared to then-current policy of allowing some of the 2001/2003 tax cuts to expire

Extending Tax Breaks Without Offsets Would Shrink Revenues

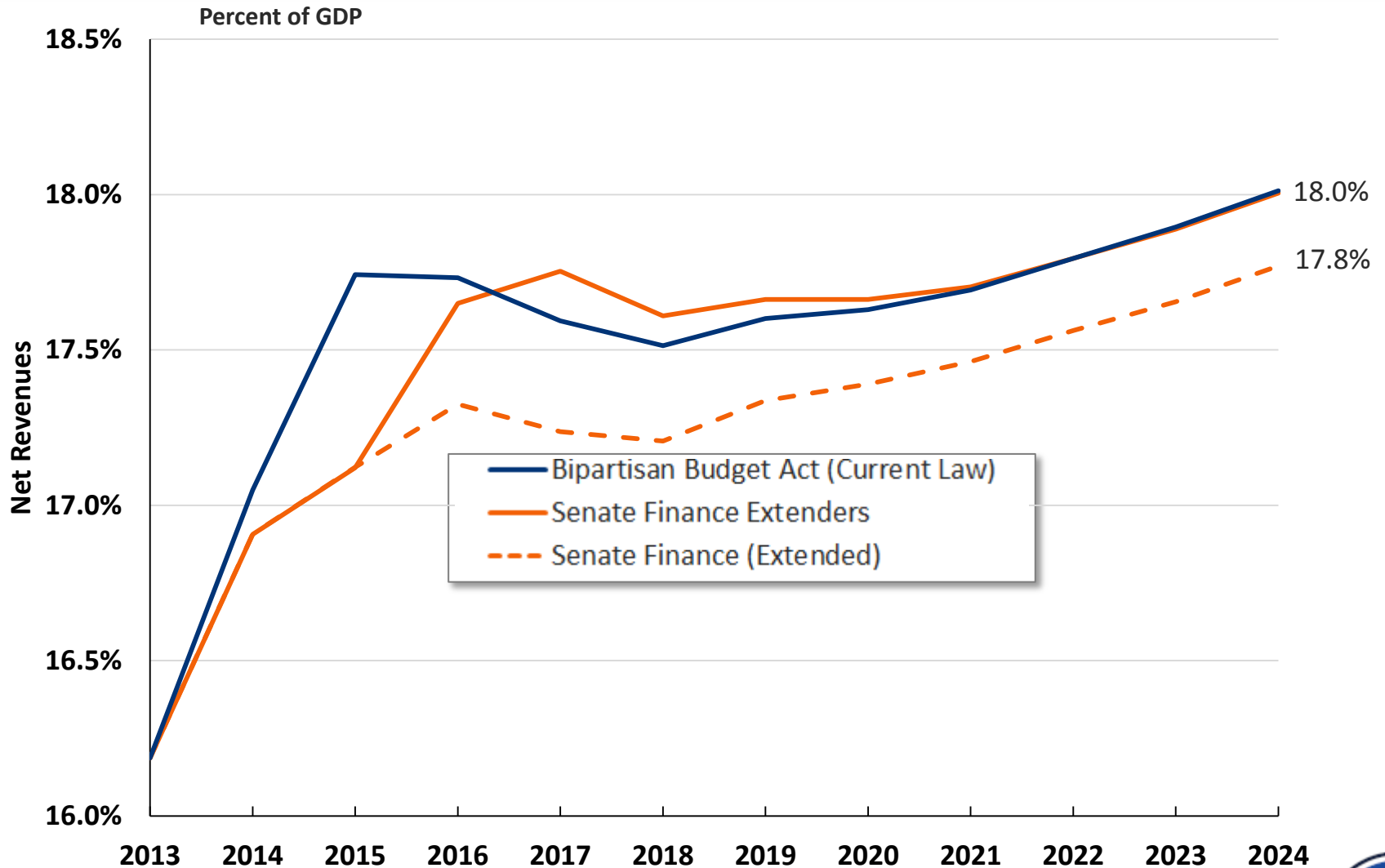


Source: CBO, JCT and CRFB calculations

Note: Net revenue refers to revenue minus refundable credits.



Extending Tax Breaks Without Offsets Would Shrink Revenues



Source: CBO, JCT and CRFB calculations

Note: Net revenue refers to revenue minus refundable credits. Senate Finance (Extended) assumes that the tax provisions extended for two years in the Senate Finance legislation are made permanent.



Scoring of Temporary Provisions

Program	Scoring of Initial Legislation	Baseline Treatment	When are costs beyond expiration scored?
TANF	Permanent	Permanent	When enacted
Extended Unemployment Benefits	Temporary	Temporary	When extended
Bonus Depreciation	Temporary	Temporary	When extended
Temporary Tax Breaks If Included in Baseline	Temporary	Permanent	Never

“A fundamental principle for the integrity of the budget process is that, when a particular policy or program has a set expiration date, its long-term cost should be scored either at the time of enactment or when it is extended beyond the expiration date. ... Scoring expiring provisions as entailing no budgetary cost after their expiration, but then assuming their extension in the baseline, would cause the costs of extending those provisions to “disappear” from the process—which would substantially undermine its integrity.”

-- CBO Director Peter Orszag (2007)

How Did Other Budgets Deal With Extenders?

President's Budget: Permanently extended several provisions: an expanded R&E tax credit, small business expensing, the 2017 refundables, hiring provisions, renewable energy, and energy efficiency; raised more revenue than it spent

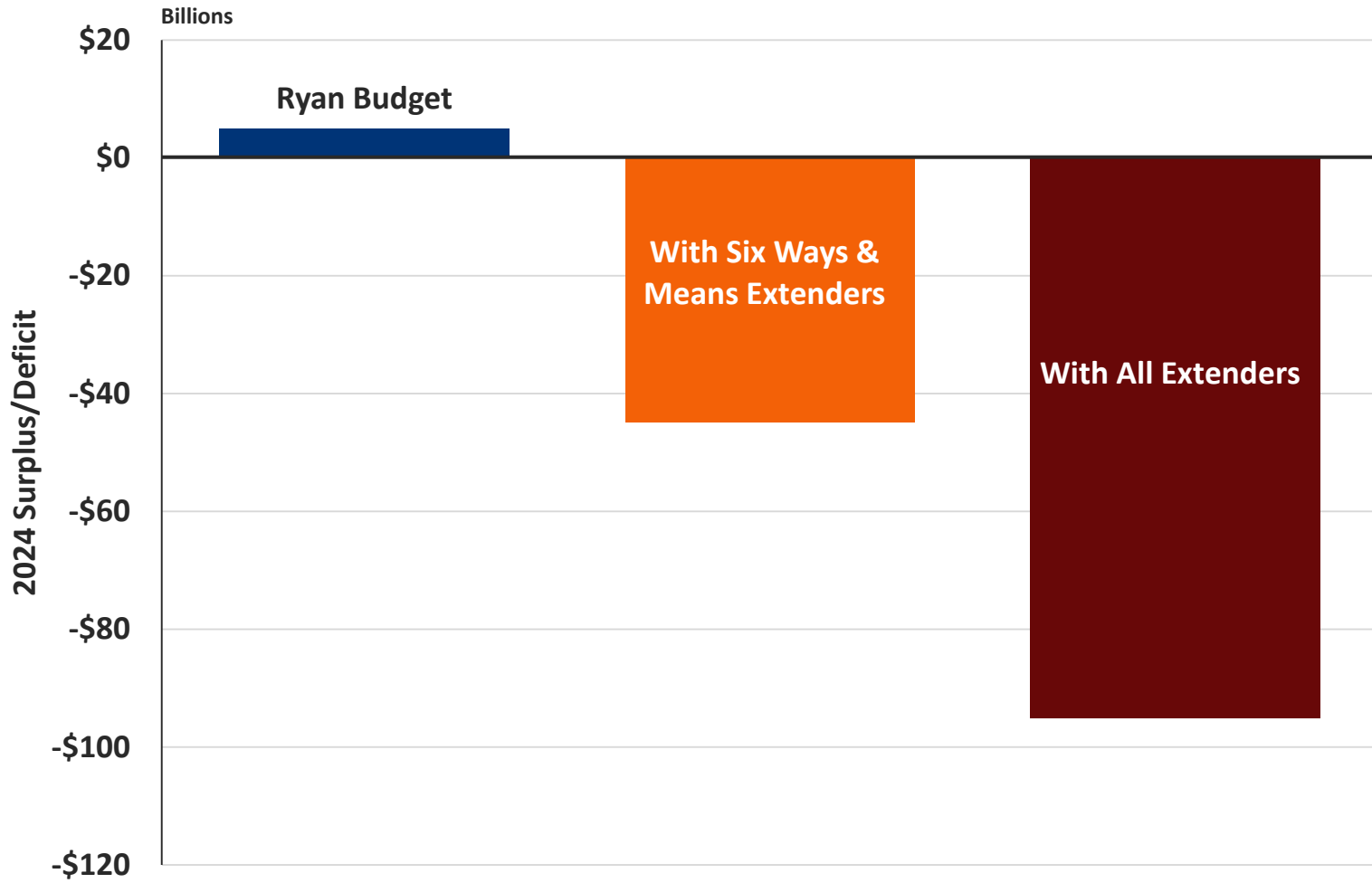
Ryan-Murray Budget Agreement: Revenues at current law levels

Ryan Budget: Revenues at current law levels; allows legislation extending expiring provisions or other tax legislation changing current law that is deficit neutral over ten years

Tax Reform Act of 2014: Permanently extended several provisions and reformed others: slightly larger R&D credit, and a renewable energy credit that phased out over 10 years; paid for the provisions it extended

Ryan Budget Does Not Balance With Extenders

Passing all the extenders would cost \$100 billion in 2024.



Potential Offsets

Policy	Ten-Year Savings From Current Policy	Proposed By
Reduce the Size of the Package		
Reform the Research & Experimentation Tax Credit	\$40 billion	Camp
Extend, reduce, and phase-out the Production Tax Credit over 10 years	\$40 billion	Camp
Find Specific Offsets		
Close the carried interest loophole	\$15 billion	Obama & Camp
Tax derivative contracts on a "mark-to-market" basis	\$15 billion	Obama & Camp
End the "John Edwards/Newt Gingrich" loophole	\$15 - \$35 billion	Obama & Camp
Repeal select tax preferences for oil and gas companies	\$10 billion	Obama & Camp
Require inherited pensions to be distributed over 5 years	\$5 billion	Obama & Camp
Close the corporate jet loophole	\$3 billion	Obama & Camp
Close estate tax loophole about reporting the value of property	\$2 billion	Obama & Camp
Close other estate tax loopholes	\$10 billion	Obama
Limit the ability of domestic companies to expatriate	\$17 billion	Obama
Impose surcharge for air traffic services	\$8 billion	Obama
Enact spectrum license user fees	\$5 billion	Obama
Enact a package of education reforms	\$100 billion	Camp
Repeal tax exemption for advance refunding bonds	\$8 billion	Camp
Eliminate "divorce subsidy" - equalize treatment of payments between married and divorced individuals	\$6 billion	Camp
Equalize payroll taxes for employees and the self-employed	\$5 billion	Camp
Repeal credit for plug-in electric vehicles	\$5 billion	Camp
Eliminate mortgage interest deduction for yachts and second homes	\$15 billion	Senate Democrats
Treat companies managed and controlled in the U.S. as U.S. companies	\$7 billion	Levin/Baucus
Extend GSE fees	\$12 billion	Extension
Extend customs fees that expire in 2023	\$4 billion	Extension
Extend mandatory receipts from TSA fees that expire in 2023	\$2 billion	Extension
Find New Revenue Pools and Broad Offsets		
Enact limitation on tax expenditures	\$500 billion	Obama & Camp
Impose financial responsibility tax	\$48 - \$86 billion	Obama & Camp
Increase and equalize alcohol taxes	\$60 billion	CBO Option
Reinstate Superfund taxes	\$20 billion	Extension



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