



Calling Balls and Strikes: House W&M's “One, Big, (Modestly) Beautiful Bill”

TOPLINE: The House Ways and Means Committee’s reconciliation bill text is a step in the right direction, but there’s still time to make improvements. Importantly, it stops a multi-trillion-dollar tax hike from going into effect on American families by extending and, in many cases, making permanent, provisions from the 2017 Tax Cuts and Jobs Act.

On the other hand, it creates a number of new taxes, exemptions, expansions, and entitlements that move away from 2017’s goal for a simpler and fairer tax code. Congress should continue refining and improving the tax package until it is time for a final vote.

Read our summaries and commentary on select provisions from the latest bill text below:

PERSONAL

TCJA PERMANENCY: Many Tax Cuts and Jobs Act (2017) provisions are made permanent.

ESTATE TAX: Increases the estate exemption by \$1M (to \$15M) and indexes it for inflation.

STANDARD DEDUCTION: Temporarily boosted by an additional \$1,000 (\$2,000 for couples, and \$1,500 for heads of household, with the latter continuing to drive marriage penalties).

CHILD TAX CREDIT (CTC): While a simpler, fairer tax code is preferable to the creation and expansion of tax credits, the modest changes to the CTC (\$500 temporary boost, inflation-indexing, SSN requirement for parents and kids) avoids the worst of Biden’s temporary transformation of the CTC and Wyden-Smith's smaller steps towards the same.

STATE AND LOCAL TAX (SALT) DEDUCTION: The SALT deduction forces taxpayers in fiscally responsible states to subsidize the spending in high-tax states. Tax reform in 2017 curbed this incentive towards irresponsible budgeting by capping the deduction at \$10,000. The current reconciliation text would erode those reforms by tripling the cap.

MONEY ACCOUNTS FOR GROWTH AND ADVANCEMENT (MAGA): MAGA accounts are a new entitlement in the form of a \$1,000 government-funded investment account for newborns.

REMITTANCE TAX: Imposes a new five percent excise tax on remittances by non-U.S. citizens or U.S. nationals. Capital controls make the U.S. a less preferable place to do business.

CAR INTEREST DEDUCTION: This deduction for up to \$10,000 in car loan interest will encourage families to take on more debt and drive up already difficult-to-afford car prices.

ELIMINATES TAX ON OVERTIME: By favoring hourly income over salaried work, this ends up distorting the labor environment, encouraging overtime even when it is not efficient.

ELIMINATE TAX ON TIPS: This carveout for a tiny fraction of the workforce (2.5%) forces taxpayers in other sectors to subsidize one swath of the service sector and further accelerates the insolvency of our broken entitlement programs.

BUSINESS

PASS-THROUGHS: Makes the pass-through deduction for small businesses permanent and raises its level from 20% to 23%, a positive tax cut but one which will create tax distortion apart from simultaneously reducing corporate rates.

EXPENSING: Extends 100-percent bonus depreciation along with full expensing of domestic R&D through 2029. "Qualified" investments in new factories and upgrades to existing factories will be immediately and fully deductible through 2028. A more pro-growth alternative would be to make these expensing provisions permanent and broadly applied.

EMPLOYER-PROVIDED PAID FAMILY LEAVE: Makes permanent the tax credit for a portion employers' paid family leave insurance premiums. This places the federal government in the position of determining which types of benefits should be preferred over others.

EMPLOYER-PROVIDED CHILD CARE CREDIT: The bill expands this tax credit, favoring this form of employee compensation over others. The unintended consequence of enhancing this will be to push stay-at-home spouses into the workforce and tie childcare to employment. This makes workers less versatile and less likely to pursue opportunities.

LOW-INCOME HOUSING TAX CREDIT (LIHTC): Rather than achieve the long-time conservative goal of repealing LIHTC, the bill increases the ceiling by 12.5% and loosens the bond-financing requirements.

CUTS

INFLATION REDUCTION ACT: Current bill text terminates many provisions of Biden's Green New Deal at the end of this year. However, the bill delays by years the start of phase-outs for some of the worst pieces of Biden's environmental agenda. Even worse, the bill maintains subsidies for carbon capture and biofuel.

MEDICAID AND MEDICARE: The bill closes loopholes allowing illegal immigrants to obtain Medicaid coverage and reduces payment fraud through the use of AI. Even still, more substantive changes will be needed to change the long-run trajectory of these programs.

