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BACKGROUNDER

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The American Families and Jobs Act: A Decidedly Mixed Bag as 2025 Tax Cliff Looms

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KEY TAKEAWAYS

The American Families and Jobs Act's bonus guaranteed deduction would add about $700 billion to the deficit if included in a 10-year extension of the Trump tax cuts.

Deficit-funded, temporary tax cuts that are not designed to expand the economy can drive inflation and interest rates higher if not offset by adequate spending cuts.

By ignoring the urgent deficit problem now, lawmakers are making a permanent extension of the Trump tax cuts' pro-growth provisions in 2025 less likely.

Three tax bills, collectively known as the American Families and Jobs Act (AFJA), passed out of the House Ways and Means Committee in June.[1] It is unclear if the bills will advance to the floor of the House of Representatives for a vote this year, but the bills making it through the House's tax-writing committee may shed light on the direction and prospects for future tax reform.

The AFJA would temporarily pause the phase out of full and immediate expensing of capital equipment and research and development (R&D), would eliminate some tax credits for electric vehicles and "clean electricity," would create rural opportunity zones, and would relax some income-reporting rules, among other changes. Full and immediate expensing was a core pro-growth part of the 2017 Tax Cuts and Jobs Act (often referred to as "the Trump tax cuts"). Congress should not just enact a temporary extension but should make expensing permanent policy.

Nothing written here is to be construed as necessarily reflecting the views of The Heritage Foundation or as an attempt to aid or hinder the passage of any bill before Congress.

The centerpiece of the AFJA and the provision with the largest budget impact, though, is a bonus "guaranteed deduction" of $2,000 for single tax filers, $3,000 for heads of household, and $4,000 for married joint filers. The bonus guaranteed deduction would be subtracted from taxable income along with taxpayers' existing standard deduction. Unless extended, the bonus deduction would apply only in 2024 and 2025, exacerbating the looming tax cliff from the coming expiration of the Trump tax cuts. Further, by increasing the bonus deduction for married filers by less than the increase for a head of household filer plus a single filer, this provision would increase the marriage penalty inherent in the tax code.

A temporary, two-year bonus guaranteed deduction would reduce tax revenue by nearly $100 billion (and would add a total of about $800 billion in deficits between 2024 and 2035 if extended along with the Trump tax cuts after 2025). Despite driving up short-term inflationary deficits, the temporary provision would likely do nothing to spur lasting growth in productivity, the size of the labor force, household production, or overall economic vitality.[2] Although less egregious than some of the COVID-19-era "economic impact payments," the proposed bonus deduction would have similar economic effects: shifting forward consumer demand but also contributing to higher inflation and potentially higher interest rates.[3]

The three tax bills each cleared the committee with zero Democratic votes, so the legislation is unlikely to become law in its current form.[4] However, if these bills make it to the House floor for a vote, it may set the baseline expectation for what future tax legislation should include. Because of the looming expiration of the 2017 Tax Cuts and Jobs Act, most of which will sunset after 2025, the next Congress will almost certainly consider a major tax bill. The only alternative would be for Congress to allow a major tax increase on almost all taxpayers.

There are some beneficial provisions in the AFJA, however the package of bills is lacking in some important respects. This *Backgrounder* acknowledges and describes the positive elements of the tax package, then discusses some of its key problems. It concludes by briefly describing the path to meaningful tax reform in 2025 and beyond.

Five Things the American Families and Jobs Act Gets (Mostly) Right

On the mostly positive side, the proposed AFJA:

1. Continues Full Expensing for Capital Equipment and Machinery (But Only Temporarily). One of the most important reforms in the Trump tax cuts was to allow full and immediate expensing for business investments

in equipment and machinery. Under full and immediate expensing, businesses need not apply convoluted 20-year depreciation schedules to claim deductions on these valid business expenses: Businesses simply subtract the expense from taxable income in the year they purchased the assets and put them to work in their business, just as they can deduct expenses for employee wages, rent, and utilities. This is an economically sound tax policy that avoids discouraging companies from investing in assets that expand or improve their operations.[5] It grows the economy, lowers costs for consumers, and benefits workers whose productivity and wages rise as more workers are given the equipment and technology they need to do their jobs well.[6] It also makes tax compliance substantially simpler. However, full and immediate expensing for equipment and machinery under the Trump tax cuts only applied between 2018 and 2022. Under current law, full expensing is phasing out by 20 percent each year between 2023 and 2026. By 2027, it is set to disappear altogether.

The AFJA would forestall the 20 percent, 40 percent, and 60 percent phaseout of expensing in 2023, 2024, and 2025, respectively. This would be, however, only a temporary reprieve for business taxpayers, as the 80 percent phaseout would be scheduled to resume in full force in 2026.[7]

In addition to the temporary reprieve for most businesses under the AFJA, some small and midsize businesses would benefit from an increase in the Section 179 deduction from $1 million to $2.5 million.[8] The Section 179 deduction allows businesses with limited investments in equipment, machinery, and other qualifying tangible property to expense those costs up to the deduction limit. However, when such costs exceed the "investment ceiling" of $2.5 million ($4 million under the AFJA), the result is a dollar-for-dollar decrease in allowable expensing.[9]

So, while the Section 179 deduction encourages investment up to a point, for many midsize businesses it *penalizes* further investment beyond the deduction phaseout threshold. Ideally, lawmakers would allow businesses to claim deductions on machinery and equipment without arbitrarily reversing allowable deductions for businesses that spend "too much" on these investments. The AFJA could be improved and simplified for midsize businesses by eliminating this investment penalty, so that allowable Section 179 deductions are capped but do not phase out.

2. Resumes Full Expensing for Research and Development (But Only Temporarily and Retroactively). Since the 2022 tax year, full expensing no longer applies to R&D costs.[10] Instead, companies must amortize these costs over a period of five years in the case of domestic R&D, and 15 years in the case of foreign R&D.[11] Denying firms the ability to fully deduct R&D costs

is ill-advised. This punitive tax treatment acts as an impediment to research and innovation in areas as important and varied as drugs, medical devices, software and hardware technology, consumer goods, and energy efficiency.[12]

The AFJA would temporarily rectify this situation by allowing full expensing of R&D through 2025. However, in addition to allowing expensing for 2023 to 2025, the legislation would also retroactively allow full expensing for R&D costs going back to 2022.[13] Retroactive tax cuts have minimal impact on investment because businesses cannot go back in time to increase past investments to take advantage of the improved tax treatment. Instead, lawmakers should focus tax-cutting on current or future tax years to ensure the most positive impact.

3. Increases the Threshold for Third-Party Payment Reporting. The 2021 American Rescue Plan Act lowered the reporting threshold for third-party payment networks from $20,000 per year to $600 per year.[14] This lowered threshold was originally to take effect in 2022, but the IRS delayed its implementation until the 2023 tax year in response to concerns that companies were unprepared to comply with the lower reporting threshold.[15] Companies like Venmo, eBay, and Cash App that facilitate payments between third parties must report to the IRS and individuals the amount of "income" the individuals received if a person's gross payments received on the network exceed the annual reporting threshold.

Third-party payment networks process business transactions but also process untaxable personal transactions, such as when roommates make Venmo payments to one another to aggregate their rent before writing a check to the landlord, or when someone sells used furniture on eBay for less than the price he paid for it. The lower $600 reporting threshold captures many more people using these platforms for personal reasons and would increase the number of individuals mistakenly paying taxes on nontaxable receipts that show up on 1099-K forms that many would receive for the first time.[16]

The AFJA would restore the $20,000 reporting threshold that was law prior to 2021.[17] This change would not affect what is taxable under the federal income tax, only which transactions are reported to the IRS and taxpayers. While some small "side-hustle" transactions that are subject to income tax may, unfortunately, go unreported if the higher threshold is restored, this appears to be a minor issue. The Joint Committee on Taxation (JCT) estimates that the higher threshold would reduce tax revenues by less than $1 billion a year (about 0.02 percent).[18] At least a portion of the lost revenue would be due to the fact that fewer individuals would mistakenly pay taxes they do not owe. As with the justice system, protecting the interests of the innocent sometimes results in bad actors getting away, but raising the threshold has

other compensating benefits: In particular, it would significantly reduce the compliance burden on companies and individuals. The benefits of raising the reporting threshold to $20,000 almost certainly outweigh the costs.

4. Repeals New Tax Hike on Oil and Petroleum Products. The 2022 Inflation Reduction Act (IRA) added a 16.4 cent tax *per barrel* on domestic crude oil and imported petroleum products.[19] This tax is small (a fraction of a percent) relative to the existing federal and state excise taxes on gasoline and diesel, federal leasing fees and royalties, and other taxes paid by oil companies. However, it is problematic because it piles yet more taxes onto an already overtaxed and overregulated conventional energy industry. The AFJA would rightly repeal this misguided tax.

5. Scales Back Electric Vehicle Credits and "Clean Electricity" Tax Credits (on Paper). The IRA added a bevy of tax credits for wind, solar, and other alternative energy sources, electric vehicles, carbon sequestration, and various other products and activities ostensibly connected to reducing carbon emissions. The expected cost of these special interest handouts has soared to multiple times above what government forecasters estimated when the bill was originally debated, passed, and signed into law in August 2022.[20]

The AFJA would eliminate a few of these misguided credits. It would scale back the IRA's expansion of electric vehicle tax credits, largely returning them to what they were prior to the IRA. It would also repeal tax credits for investments in and production of "clean electricity."

This repeal does not go far enough: *All* crony green tax credits added in the IRA should ultimately be eliminated.

However, there is no viable path to enact legislation that repeals these credits in the current divided government, because even if it passed Congress, President Joe Biden would almost certainly veto it. Since the repeal of these credits is the only revenue raiser in the AFJA, it is unclear how—or if—Congress would offset the tax cuts if a version of the legislation passed in 2023 or 2024. This implies that the legislation could result in an additional $216 billion or more of higher 10-year deficits than current JCT scoring suggests, even assuming that Congress allowed the bonus guaranteed deduction to expire after 2025.

Five Problems in the American Families and Jobs Act

On the negative side, the proposed AFJA:

1. Creates a Flawed Bonus Guaranteed Deduction. The standard deduction, which the AFJA would rename the "guaranteed deduction," is currently $13,850 for single filers, $20,800 for heads of household, and

$27,700 for married joint filers.[21] Taxpayers who are 65 or older can claim an additional standard deduction amount and many individuals and households can also claim refundable and non-refundable tax credits that offset several thousand dollars of tax liability.

The bonus guaranteed deduction would temporarily (for 2024 and 2025) increase the standard deduction amount by $2,000 for single tax filers, $3,000 for heads of household, and $4,000 for married joint filers. The $2,000 deduction in taxable income would reduce tax liability by $240 for a taxpayer in the 12 percent bracket, for example, or $480 for a taxpayer in the 24 percent tax bracket. The additional deduction would phase out beginning at $200,000, $300,000, or $400,000 of income, depending on filing status.[22]

The Bonus Guaranteed Deduction Would Increase the Marriage Penalty. The bonus guaranteed deduction is problematic for a few reasons. First, it adds to the existing marriage penalty by providing a $3,000 deduction for heads of household plus a $2,000 deduction for single filers ($5,000 total), compared to a $4,000 deduction for married joint filers. In other words, unmarried and divorced individuals could receive up to 25 percent more benefit from the bonus guaranteed deduction than their married counterparts. When added to current amounts, two unmarried taxpayers could claim a standard deduction amounting to almost $8,000 more than married filers. At the tax rates applicable to the bonus guaranteed deduction (10 percent to 32 percent), the standard deduction marriage penalty would rise to as high as $795 to $2,544.

The marriage penalty inherent in the standard deduction is significant, and it exacerbates the marriage penalty in other parts of the tax code and welfare system. The marriage penalty is particularly problematic for low-income parents (where fatherlessness is most prevalent). For example, under the earned income tax credit, a single mother with three children earning $21,500 in annual income can receive a refundable tax credit of $7,430. However, if she gets married, the credit phases out at a rate of 21 cents per dollar of the father's income if he earns between $6,600 and $41,900 per year. Under the bonus guaranteed deduction, if the father has an income of $21,500 (identical to the mother's), the total marriage penalty would be about $3,700. If the father has an income of $43,000 (double the mother's), the marriage penalty would be about $7,900.[23]

Especially given the size of existing marriage penalties, Congress must avoid compounding them further with provisions like the bonus guaranteed deduction. Instead, Congress should seek to reduce or eliminate existing penalties to stop incentivizing single parenthood.[24]

The Bonus Guaranteed Deduction Would Increase the Number of Households that Pay Zero or Negative Income Taxes. Each year between 2020 and 2022, an average of about half of U.S. households paid zero or negative federal income tax.[25] Enacting the bonus guaranteed deduction would add to the number of households with zero or negative federal income tax liability. Because the bonus guaranteed deduction would be layered onto existing refundable tax credits that allow taxpayers to reduce tax liability to below zero, more than 9 percent of the bonus deduction would consist of new outlays (payments to individuals who pay no net federal income tax).[26] The fewer taxpayers there are, of course, the greater the burden borne by those who *do* pay taxes. In addition to fairness concerns, given America's exploding deficits and enormous unfunded liabilities, allowing still more households to avoid paying any federal income tax would be unsustainable without dramatic (though advisable) reductions in spending that Congress has long resisted.

The Large Budget Impact of the Bonus Guaranteed Deduction Would Jeopardize Pro-Growth Reforms. The bonus guaranteed deduction would apply only for tax years 2024 and 2025 unless Congress opted to extend the change. There would be significant pressure to do just that. The bonus deduction would sunset in the same year as the Trump tax cuts' individual provisions. This would make an already steep looming tax cliff even steeper, adding to the level of uncertainty in both family budgets and the federal budget. If Congress were to allow all the Trump tax cuts to expire in 2026 with the bonus guaranteed deduction, then in 2026:[27]

- The standard deduction for a married joint filer would drop from $31,700 to $15,000.
- The child tax credit would also drop from $2,000 to $1,000.
- Individual tax rates would rise almost across the board, though the return of personal exemptions would offset some of these individual tax increases.
- The net result would be large, nearly across-the-board individual tax hikes. For example, married joint filers who earn $80,000 per year and have three kids would face a tax increase of about $2,500 between 2025 and 2026, with $480 of this tax cliff relating to the expiration of the bonus guaranteed deduction.[28]

On the other hand, if Congress were to attach the bonus guaranteed deduction to the extension of the Trump tax cuts:

- The bonus guaranteed deduction alone would add about $700 billion to the estimated deficit impact of a 10-year extension of the Trump tax cuts after 2025.[29]

Such a large increase in the estimated deficit impact could be fatal to the prospects of extending more critical, pro-growth elements of the Trump tax cuts, such as the expensing provisions. A major 2025 tax bill is very likely to go through the budget reconciliation process to circumvent the Senate filibuster. As a result, lawmakers who want to extend the tax cuts will be constrained by reconciliation rules that prevent, for example, adding to the scored deficit outside the budget window.[30]

The Bonus Guaranteed Deduction Offers Little Economic Bang for the Buck. Increasing the standard deduction from its current level is hard to justify on economic grounds.[31] It would not expand the economy because it fails to improve incentives. In a few narrow bands of the income distribution near the income bracket thresholds, people would move down a tax bracket and so would be able to keep a larger share of each incremental dollar earned. However, most households would remain in the same tax bracket with no change in tax rates and, hence, no greater incentive to work.[32] In fact, for some individuals, the bonus guaranteed deduction would lead to *increased* marginal tax rates and *reduced* work incentives. The deduction phases out based on income, so taxpayers in the phaseout range (from $200,000 to $240,000 for single taxpayers and from $400,000 to $480,000 for married joint filers), the bonus guaranteed deduction would *increase* their effective marginal tax rates by 5 percent. Instead of reducing tax rates on productive activities such as working, saving, and investing, the bonus guaranteed deduction merely provides a blunt reduction in most households' taxes that is not clearly connected to how much they work or earn.

2. Provides Suboptimal, Retroactive Tax Breaks. The government should raise tax revenues in the least damaging way possible. However, after the government has imposed a harmful tax, most of the damage cannot be undone, so retroactive tax cuts to rectify it are suboptimal. The AFJA's retroactive allowance of full expensing for R&D expenditures incurred in 2022 is an example of policymakers mistakenly trying to undo a bad prior-year policy after the fact.[33]

Under current law, a business with a qualifying domestic R&D expenditure in 2022 could only deduct 10 percent of the expense in the year it

was incurred (2022), 20 percent for each of the next four years, and then the final 10 percent in the sixth year. This delayed deduction discouraged companies from engaging in R&D in 2022. It is particularly unfavorable treatment with high inflation, because by the time companies can fully deduct those 2022 expenditures, inflation would have greatly diminished the real value of the deductions.[34] (Soaring interest rates demonstrate the extent to which companies would prefer a current tax deduction over the same tax deduction in a few years.) While the desire to give relief to businesses that were previously overtaxed is understandable, it is far better to cut taxes in a way that is more distinctly pro-growth or pro-family (such as by eliminating marriage penalties).

The AFJA would provide another form of retroactive relief to businesses by allowing them to deduct a larger amount of interest expenses in 2022. The Trump tax cuts capped business interest deductions at 30 percent of earnings before interest, taxes, depreciation and amortization (EBITDA) through 2021. However, a stricter limitation—30 percent of earnings before interest and taxes (EBIT)—went into effect in 2022.[35] The AFJA would retroactively revert to the looser 2021 limitation.[36] An economic case can be made for or against a higher interest limitation because it alleviates some of the over-taxation of capital, but at the same time it expands the relative preference in the tax system for debt financing over equity financing.[37] Regardless, retroactively extending more generous tax treatment to 2022 interest payments is a missed opportunity for a more meaningful reform. This retroactive tax relief for previous R&D and interest expenditures is especially hard to defend in a tax package that fails to extend the same tax treatment past 2025.

3. Expands Opportunity Zones. The AFJA would also expand opportunity zones to include more rural areas.[38] Opportunity zones are flawed place-based tax preferences that funnel scarce capital out of productive investments determined by market forces and into those that meet arbitrary federal criteria. Instead of reducing marginal taxes on investment more broadly, opportunity zones provide tax incentives only to companies that make investments meeting certain criteria based on location, investment type, timing, and reporting standards. Expanding opportunity zones does not increase the value of total investments or expand the broader economy. Existing research suggests that most of the benefit of opportunity zones accrues to businesses that would have made capital investments in the area with or without the tax incentive, meaning that individuals living in the areas designated as opportunity zones see very limited impact. To the extent opportunity zones do increase investment or employment in an area, it comes at a greater expense to other areas.[39]

4. Risks Permanent Setbacks for Short-Term Gains. The highest priority that the AFJA addresses is the expiration of expensing for capital equipment and R&D. However, the AFJA changes merely act as a bandage, briefly extending the correct tax treatment, instead of providing a long-term fix. If anything, by exacerbating America's fiscal situation and setting up a steeper tax cliff of expiring individual tax provisions, passing the AFJA would weaken the prospects of making expensing a permanent and universal feature of the tax code.

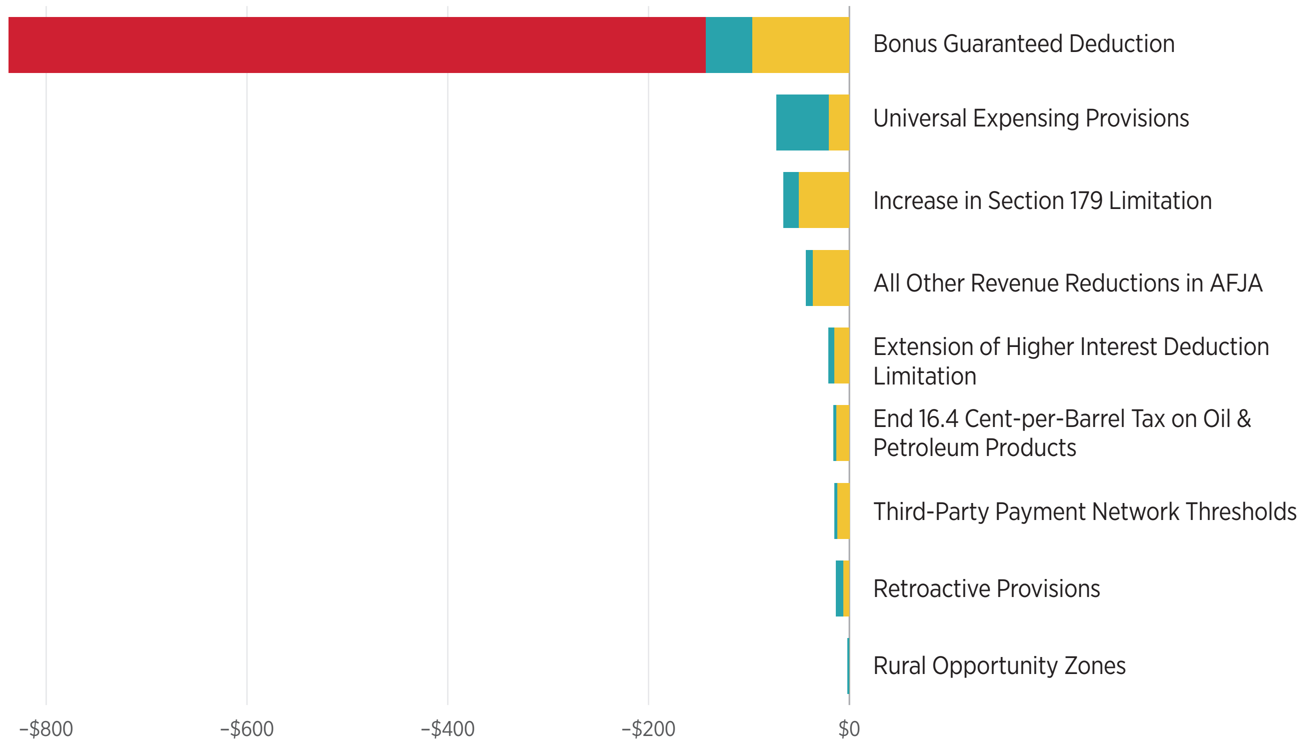
The AFJA would change the debate for the worse in 2025, setting up an expectation that an extension of expensing and other pro-growth Trump tax cuts would have to include an extension of the bonus guaranteed deduction. If the bonus guaranteed deduction is tied into the Trump tax cut extension, it would force Congress to find and implement more than half a trillion dollars *more* in spending cuts or revenue raisers between 2026 and 2035 or to accept higher deficits and the higher inflation or interest rates that would bring. Chart 1 shows the outsized negative revenue impact of the bonus guaranteed deduction compared to the other provisions in the AFJA if Congress permanently extends the guaranteed deduction increase. Passing the bonus guaranteed deduction would crowd out extensions of more pro-growth tax cuts, let alone new meaningful tax reforms.[40] Under such a scenario, the crucial expensing provisions would be among the first to be discarded to make room for provisions that do little to expand prosperity and economic opportunity.

To be sure, JCT scoring has flaws and biases that cause it to exaggerate the deficit impacts of many tax cuts. Typically, JCT scoring does not account for dynamic economic growth effects, and when it does respond to requests for estimates of macroeconomic effects, it tends to underestimate the economic benefits of tax cuts.[41] Tax reforms that expand the economy lead to a greater national income and can offset much—if not all—of the revenues directly lost from a tax cut.[42] However, the biases that plague JCT scoring mostly overstate the "cost" of *pro-growth* tax policy. JCT scoring much more accurately estimates the deficit impact of provisions that are not designed to grow the economy, such as the bonus guaranteed deduction.

5. Fuels Higher Deficits and More Inflation. According to JCT estimates, the AFJA would reduce tax revenues by more than $300 billion through 2025 (substantially more if the bonus guaranteed deduction were extended beyond 2025). This would drive up deficits at a time when interest rates are at the highest level in two decades and in the aftermath of one of the major credit rating agencies, Fitch, downgrading U.S. debt from a AAA rating to AA+.[43]

CHART 1

Deficits Caused by AFJA Tax Cut Provisions



NOTES: The estimated deficit impact of American Families and Jobs Act provisions includes the direct revenue effects as estimated by the Joint Committee on Taxation; additional accumulated net interest payments through 2035 based on the author's calculations using Congressional Budget Office-forecasted nominal interest rates on 10-year Treasury notes; and estimated added deficit effect if temporary provisions are added to a 2026-2035 extension of the Tax Cuts and Jobs Act (including added net interest payments). Estimates shown do not account for dynamic growth effects.

SOURCES: Author's calculations based on data from:

- Joint Committee on Taxation, "Description of the Chairman's Amendment in the Nature of a Substitute to H.R. 3936 the 'Tax Cuts for Working Families Act,'" June 12, 2023, https://www.jct.gov/publications/2023/jcx-30-23/ (accessed August 17, 2023).
- Joint Committee on Taxation, "Estimated Revenue Effects of H.R. 3937, the 'Small Business Jobs Act' Scheduled for Markup by the Committee on Ways and Means on June 13, 2023," June 9, 2023, https://www.jct.gov/publications/2023/jcx-27-23/ (accessed August 17, 2023).
- Joint Committee on Taxation, "Estimated Revenue Effects of H.R. 3938, the 'Build It in America Act' Scheduled for Markup by the Committee on Ways and Means on June 13, 2023," June 9, 2023, https://www.jct.gov/publications/2023/jcx-29-23/ (accessed August 17, 2023).
- Congressional Budget Office, "Long-Term Economic Projections," June 2023, https://www.cbo.gov/data/budget-economic-data#1 (accessed August 17, 2023).

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If Congress adds further to the debt without improving America's growth prospects, the Treasury will have an even harder time inducing wary borrowers to take on more U.S. debt. As the deficit grows, the Federal Reserve

faces a choice. It can accommodate Congress's borrowing by purchasing the new debt itself, a process which introduces more money into circulation and leads to higher inflation. Alternatively, it can let the debt flood financial markets, forcing the Treasury to offer more generous interest rates to attract more creditors willing to purchase increasingly risky U.S. debt. Excessive debt combined with high interest rates could be a major drag on the economy. Estimates show that economic growth rates in countries with external debt-to-GDP (gross domestic product) ratios that exceed 90 percent are about *half* that of countries with lower debt levels.[44] The U.S. had an external debt-to-GDP ratio of 95 percent in the second quarter of 2023.[45]

Tax cuts that are offset by federal spending reductions are generally economically beneficial. However, when the government uses deficits to fund tax breaks, but in a way that does not encourage growth, the temporary boost in wealth fades quickly in the face of higher inflation, higher interest rates, or both. The bonus guaranteed deduction (with no corresponding reduction in spending or regulations) would not give Americans more *real* wealth in the long run because it would not cause Americans to produce more goods and services or higher-value products. More money chasing the same amount of goods and services is a recipe for higher prices, not more prosperity.

Recommendations for Congress

Though it has some positive elements, the AFJA would penalize marriage and may put at risk permanent, pro-growth tax reform. Lawmakers should discard the temporary bonus guaranteed deduction and should prioritize reducing federal outlays. Congress should develop an agenda for more comprehensive tax legislation in 2025 that expands the economy in a fiscally responsible, moral way. Federal lawmakers should:

- **Eliminate** marriage penalties;

- **Increase** Americans' incentives to work, save, and invest;

- **Broaden** the tax base by eliminating unwarranted, market-distorting tax breaks, specifically including the *full* set of green tax credits enacted under the IRA;[46]

- **Avoid** temporary tax provisions to the extent possible under budget reconciliation rules;

- **Reduce** combined marginal tax rates; and
- **Simplify** the tax code.

Conclusion: The Path Ahead

Since 2021, deficit-fueled inflation has hammered Americans economically, sapping their real wages and leaving them with dwindling life savings. In the face of deteriorating economic well-being, Congress's desire to provide Americans relief through a bonus guaranteed deduction is understandable. However, Congress must recognize that the federal budget situation is dire. The U.S. faces a $33 trillion national debt and $2 trillion deficit in the 2023 fiscal year.[47] Congress is in no position to provide Americans temporary tax relief that does not expand the economy unless it simultaneously addresses the government's runaway spending problem. On paper, the AFJA provides Americans with temporary tax relief, but because it fails to adequately cut spending or to prioritize economic growth, it risks exacerbating America's growing problems of rising debt, inflation, and interest rates.

America's debt problem will not go away on its own. First and foremost, Congress must get runaway federal spending in check. The federal government has so far spent 10 percent more this fiscal year than it had at the same point last year, despite talk of fiscal reform.[48] The same impulse that leads to tax measures like the AFJA's bonus guaranteed deduction is the one standing in the way of meaningful spending reforms. Conservative lawmakers must prioritize cutting spending and restoring fiscal balance so that America's long-term prosperity is not jeopardized.

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Endnotes

1. The individual bills are H.R. 3936, The Tax Cuts for Working Families Act; H.R. 3937, The Small Business Jobs Act; and H.R. 3938, The Build It in America Act.
2. The Joint Committee on Taxation, "Description of the Chairman's Amendment in the Nature of a Substitute to H.R. 3936, The 'Tax Cuts for Working Families Act,'" JCX-30-23, June 12, 2023, https://www.jct.gov/publications/2023/jcx-30-23/ (accessed August 2, 2023). Lasting economic growth through tax reform cannot be achieved without reducing the tax code's distortions and disincentives against productive activities. A relatively flat reduction in most households' taxes (including many Americans who pay zero or negative net income tax) is not a pro-growth reform.
3. Alex Brill, Kyle Pomerleau, and Grant M. Seiter, "Flawed Approach: The Working Families Tax Cut Act as a Response to Inflation," American Enterprise Institute, June 8, 2023, https://www.aei.org/economics/flawed-approach-the-working-families-tax-cut-act-as-a-response-to-inflation/ (accessed August 2, 2023).
4. House of Representatives Ways and Means Committee, "Markup of H.R. 4004, H.R. 3936, H.R. 3937, H.R. 3938," June 13, 2023, https://waysandmeans.house.gov/event/markup-of-h-r-____-h-r-3936-h-r-3937-h-r-3938/ (accessed August 2, 2023).
5. Adam N. Michel, "Expensing and the Taxation of Capital Investment," Cato Institute *Briefing Paper* No. 159, June 7, 2023, https://www.cato.org/briefing-paper/expensing-taxation-capital-investment (accessed August 2, 2023).
6. Adam N. Michel, "An Economic History of the Tax Cuts and Jobs Act: Higher Wages, More Jobs, New Investment," Heritage Foundation *Backgrounder* No. 3592, March 16, 2021, https://www.heritage.org/taxes/report/economic-history-the-tax-cuts-and-jobs-act-higher-wages-more-jobs-new-investment.
7. H.R. 3936—Tax Cuts for Working Families Act, 118th Congress, https://www.congress.gov/bill/118th-congress/house-bill/3936 (accessed August 2, 2023).
8. 26 U.S. Code (Internal Revenue Code) § 179. These amounts are inflation-adjusted using the Chained Consumer Price Index for All Urban Consumers to account for price increases since 2017.
9. In addition to increasing the Section 179 deduction by $1.5 million, the AFJA would increase the investment ceiling by the same amount, so the same dollar-for-dollar phaseout would continue to apply.
10. 26 U.S. Code § 174.
11. Because the deduction is applied using a midpoint rule, a domestic R&D expenditure may not be fully deducted until the sixth year after the expense is borne: 10 percent of the deduction applies to the first tax year, 20 percent to each of the next four years, then 10 percent in the sixth year.
12. Alex Muresianu, "R&D Amortization Hurts Economic Growth, Growth Industries, and Small Businesses," Tax Foundation, June 1, 2023, https://taxfoundation.org/blog/rd-amortization-impact/ (accessed August 2, 2023).
13. H.R. 3938—Build It in America Act, 118th Congress, https://www.congress.gov/bill/118th-congress/house-bill/3938/ (accessed August 2, 2023).
14. Public Law 117–2, The American Rescue Plan Act of 2021, March 11, 2021.
15. News release, "IRS Announces Delay for Implementation of $600 Reporting Threshold for Third-Party Payment Platforms' Forms 1099-K," Internal Revenue Service, December 23, 2022, https://www.irs.gov/newsroom/irs-announces-delay-for-implementation-of-600-reporting-threshold-for-third-party-payment-platforms-forms-1099-k (accessed August 2, 2023).
16. If payments are identified by the payment networks as nonbusiness transactions, the company generally will not include the payments on 1099-K reporting, but the third-party payment companies are ill-equipped to separate all personal payments received from taxable ones. Demian Brady, "Taxpayers Aren't Ready for the Coming 1099-K Deluge—and the IRS May Not Be Either," National Taxpayers Union Foundation, July 12, 2023, https://www.ntu.org/foundation/detail/taxpayers-arent-ready-for-the-coming-1099-k-deluge-and-the-irs-may-not-be-either (accessed August 2, 2023).
17. H.R. 3937—Small Business Jobs Act, 118th Congress, https://www.congress.gov/bill/118th-congress/house-bill/3937/ (accessed August 2, 2023).
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19. Public Law 117–169, August 16, 2022.
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22. H.R. 3936, Tax Cuts for Working Families Act.
23. Based on author's calculations and Internal Revenue Service, "2023 Instruction 1040 Tax and Earned Income Credit Tables," August 22, 2023, https://www.irs.gov/pub/irs-dft/i1040tt--dft.pdf (accessed September 22, 2023).
24. Joshua McCabe, "The Working Families Tax Cut Act Increases Marriage Penalties for Single Parents," Niskanen Center, July 19 2023, https://www.niskanencenter.org/the-working-families-tax-cut-act-increases-marriage-penalties-for-single-parents/ (accessed August 3, 2023).

25. Based on calculations from the Tax Policy Center, in the three years from 2020 to 2022, an average of about 52 percent of tax units had zero or negative individual income taxes. A "tax unit" is not quite the same as a household, because, for example, roommates or unmarried partners living in the same housing unit would be in the same household, but in separate tax units, as they are responsible for paying their own taxes. Tax Policy Center, "Tax Units with Zero or Negative Federal Individual Income Tax Under Current Law, 2011–2032," October 27, 2022, https://www.taxpolicycenter.org/model-estimates/tax-units-with-zero-or-negative-federal-individual-income-tax-oct-2022/t22-0128 (accessed July 27, 2023).
26. Because of the outlays from the two-year bonus guaranteed deduction, the Joint Committee on Taxation estimates that the AFJA would increase federal outlays in the five-year period from 2023 to 2027. The primary reduction in outlays in the legislation is from the modification of clean vehicle credits. The Joint Committee on Taxation, "Description of the Chairman's Amendment in the Nature of a Substitute to H.R. 3936, The 'Tax Cuts For Working Families Act.'"
27. Based on author's calculation of the IRS's estimated cost-of-living adjustments to the standard deduction since the passage of the Tax Cuts and Jobs Act in 2017. This ignores cost-of-living adjustments between now and 2026.
28. Assuming full expiration of the Trump tax cuts, after cost-of-living adjustments, the personal exemption would be approximately $5,000. Five such exemptions plus a $15,000 standard deduction would offset $40,000 of the couple's taxable income. The remaining $40,000 would be taxed in the 10 percent and 15 percent tax brackets, yielding a $4,900 tax liability before tax credits. Three $1,000 child tax credits would leave the couple with a net federal income tax liability of $1,900. Under current policy (without the bonus guaranteed deduction), the couple would have $52,300 of taxable income after claiming the $27,700 standard deduction. That income would be taxed at the 10 percent and 12 percent tax brackets, yielding a tax liability of approximately $5,836 before tax credits. Three $2,000 child tax credits would leave the couple with a net federal income tax liability of (negative) –$164. Adding the couple's bonus guaranteed deduction would reduce taxable income in the 12 percent bracket by $4,000, meaning a further $480 reduction in federal taxes to (negative) –$644. Therefore, barring an extension of the Trump tax cuts and/or the bonus guaranteed deduction, this couple would face a roughly $2,544 tax hike between 2025 and 2026.
29. This estimate is based on the author's extrapolation of the JCT's scores of the two-year bonus guaranteed deduction and the accumulation of higher interest payments on the national debt.
30. Matthew D. Dickerson, "Consequential Decisions on Reconciliation and the Byrd Rule," Heritage Foundation *Backgrounder* No. 3583, February 4, 2021, https://www.heritage.org/budget-and-spending/report/consequential-decisions-reconciliation-and-the-byrd-rule.
31. The increase in the standard deduction under the Trump tax cuts was more justifiable for a few reasons. First, part of the increase merely offset the (temporary) elimination of personal exemptions. Since personal exemptions reduce taxes for both taxpayers that itemize deductions and those that claim the standard deduction, trading a higher standard deduction for a lower personal exemption was a sensible change that allowed more taxpayers to avoid the time-consuming task of itemizing their deductions. On a related note, the increase in the standard deduction under the Trump tax cuts reduced the number of taxpayers that itemized by about 30 million, so that only about 12 percent of taxpayers still need to itemize. Further increases in the standard deduction have a diminishing effect on the number of taxpayers that itemize. Brill, Pomerleau, and Seiter, "Flawed Approach: The Working Families Tax Cut Act as a Response to Inflation," estimate that the bonus guaranteed deduction would reduce the number of taxpayers that itemize by 4.1 million. The Heritage Center for Data Analysis's Individual Income Tax Model yields a similar estimate.
32. If anything, the wealth effect suggests that individuals who remain in the same tax bracket would have a diminished incentive to increase their work effort.
33. H.R. 3938–Build It in America Act, 118th Congress.
34. Muresianu, "R&D Amortization Hurts Economic Growth, Growth Industries, and Small Businesses."
35. 26 U.S. Code § 163(j).
36. Muresianu, "R&D Amortization Hurts Economic Growth, Growth Industries, and Small Businesses."
37. Kyle Pomerleau, "Lawmakers Should Not Increase Tax Subsidies for Borrowing," American Enterprise Institute, September 19, 2022, https://www.aei.org/economics/lawmakers-should-not-increase-tax-subsidies-for-borrowing/ (accessed August 3, 2023).
38. H.R. 3938–Small Business Jobs Act, 118th Congress.
39. Joel Griffith and Adam N. Michel, "Opportunity Zones: Understanding Them in the Context of Past Place-Based Incentives," Heritage Foundation *Backgrounder* No. 3420, July 10, 2019, https://www.heritage.org/sites/default/files/2019-07/BG3420.pdf.
40. Even the permanent increase in the Section 179 limitation of full expensing of capital equipment from $1 million to $2.5 million has the undesirable effect of creating the perception that some businesses will be allowed to keep full expensing and others will lose it. This effect may lead businesses and industries to lobby to ensure that they are in the group that will be allowed to keep expensing; it is no concern of theirs if some of their competitors are forced to depreciate machinery and equipment.
41. Gavin Ekins and Nicole Kaeding, "JCT's Dynamic Score Is Positive But Underestimates Economic Benefits," Tax Foundation, November 30, 2017, https://taxfoundation.org/blog/jct-dynamic-score-tax-cuts-and-jobs-act/ (accessed August 3, 2023).
42. William McBride, "Some Tax Cuts Pay for Themselves," Tax Foundation, May 29, 2014, https://taxfoundation.org/blog/some-tax-cuts-pay-themselves/ (accessed August 3, 2023).

43. Nick Timiraos, "Federal Reserve Raises Interest Rates to 22-Year High," *The Wall Street Journal*, July 26, 2023, https://www.wsj.com/articles/federal-reserve-raises-interest-rates-to-22-year-high-3c3e499c (accessed August 15, 2023), and EJ Antoni, "Default by Another Name: Why U.S. Debt Deserved a Downgrade," Heritage Foundation *Commentary*, August 11, 2023, https://www.heritage.org/debt/commentary/default-another-name-why-us-debt-deserved-downgrade.
44. Carmen M. Reinhart and Kenneth S. Rogoff, "Growth in a Time of Debt," *American Economic Review*, Vol. 100, No. 2 (May 2010), pp. 573–578, https://www.aeaweb.org/articles?id=10.1257/aer.100.2.573 (accessed September 22, 2023).
45. U.S. Office of Management and Budget and Federal Reserve Bank of St. Louis, "Federal Debt Held by the Public as Percent of Gross Domestic Product [FYGFGDQ188S]," retrieved from FRED, Federal Reserve Bank of St. Louis, https://fred.stlouisfed.org/series/FYGFGDQ188S (accessed September 19, 2023).
46. A note of caution is warranted on the topic of base broadening. Many tax provisions that are labeled "tax breaks," "tax carveouts," or "tax expenditures" are justifiable because they remove duplicative taxation as opposed to providing a subsidy. See, for example, Chris Edwards, "Tax Expenditures and Tax Reform," Cato Institute *Policy Analysis* No. 954, July 25, 2023, https://www.cato.org/policy-analysis/tax-expenditures-tax-reform (accessed August 3, 2023).
47. U.S Department of the Treasury, "Debt to the Penny," https://fiscaldata.treasury.gov/datasets/debt-to-the-penny/debt-to-the-penny (accessed September 18, 2023).
48. U.S Department of the Treasury, Bureau of the Fiscal Service, "Monthly Treasury Statement," July 2022 and July 2023, https://fiscal.treasury.gov/reports-statements/mts/ (accessed August 14, 2023).