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Budget Model

Budgetary Cost of the Wyden-Smith (H.R. 7024) Tax Proposal: Conventional Estimates

Summary: PWBM estimates that the Wyden-Smith tax proposal (H.R. 7024) would reduce revenues by $3 billion over the next decade on a conventional basis.

Key Points

- The Wyden-Smith tax proposal would temporarily and retroactively boost the Child Tax Credit (CTC) and reduce various business taxes for certain activities. While the 10-year revenue cost of each of the CTC and business incentives are similar, business taxes receive most of the short-term benefit. However, most of the short-term business tax benefits are “self-financed” by simply shortening the timing of the tax savings inside of the 10-year budget window.
- The 10-year costs are mostly financed by curtailing the Employee Retention Credit (ERC), a COVID-era program. We estimate that curtailing the ERC will produce a $77 billion revenue gain over 10 years. The Wyden-Smith proposal falls short of paying for itself by $3 billion over 10 years on a conventional basis.
- However, there is substantial uncertainty about the cost saving from curtailing the ERC. The IRS suspended processing of ERC claims in September 2023 due to a significant number of fraudulent claims. There are now 1,000,000 claims in the IRS backlog. While we estimate that curtailing the ERC will produce a $77 billion revenue gain over 10 years, values between $65 billion and $90 billion are reasonable.

The Wyden-Smith tax proposal (H.R. 7024) has several provisions that we discuss in turn.

Increasing the Child Tax Credit

Under current law, taxpayers are allowed a child tax credit of $2,000 per child (not adjusted for inflation). The amount of the credit that is refundable is equal to 15% of earnings above $2,500, subject to an annual cap ($1,600 in 2023 and adjusted for inflation in 2024 and 2025). Starting in 2026, when the TCJA is scheduled to expire, the credit would drop to $1,000 per child.

The Wyden-Smith proposal would multiply the refundable phase-in rate of 15% by the number of children in the tax unit, thus allowing families with more children to access a greater share of the refundable portion of the credit. It would also raise the annual cap on the refundable portion for 2023 through 2025 and would adjust the base amount of the credit for inflation in 2025.

The proposal also includes a “lookback” provision for earned income in 2024 and 2025, allowing filers to use either current year or previous year earned income when calculating the refundable credit.

The proposal would have no effect on the child tax credit after 2025, meaning that the currently scheduled reduction in 2026 would still occur.

Reducing Business Taxes for Qualified Activities

The Wyden-Smith proposal would make several changes to business taxes:

- Reinstate 100 percent bonus depreciation for property placed in service in 2023 through 2025 and increase the limitation on expensing of depreciable business assets (Section 179) starting in 2024.
- Allow for the deduction of spending on domestic research and experimentation activities made in 2022 or later.
- Extend the allowance for depreciation, amortization, or depletion in determining the limitation on business interest through 2025.

Curtailing the Employee Retention Credit (ERC)

The cost of the Wyden-Smith proposal is mostly offset by changes to the Employee Retention Credit (ERC). The program was implemented to incentivize employers to continue paying workers during the COVID-19 pandemic. However, the IRS has noted that the program has faced fraudulent claims and costs that were much higher than originally anticipated. The Wyden-Smith proposal changes the claim deadline for the ERC from April 2025 to January 2024 and increases penalties for businesses that aid in the submission of false claims.

The IRS suspended processing claims in September 2023. There are now over 1,000,000 claims in the backlog. There is very little way to understand how the quality of claims in the backlog might have changed over time, especially after the IRS stopped processing claims.

The Appendix discusses how we calculate the cost saving for curtailing the ERC.

Other Provisions

H.R. 7024 also contains several small tax changes that reduce revenues. Those include a tax agreement between the U.S. and Taiwan, assistance for disaster-impacted communities, tax credits for affordable housing development, and a change to certain information reporting thresholds.

Budgetary Costs

Table 1 presents the 10-year budgetary costs of the Wyden-Smith proposal on a conventional basis without macroeconomic effects. (We will consider macroeconomic effects as the proposal gets solidified in more detail.) While business taxes are reduced by $39 billion over 10 years, business tax revenue falls by about $200 billion over the next two years. Most of the difference comes from the simple acceleration of the business tax incentives within the 10-year budget window as more-immediate expensing replaces slower depreciation allowances that would have otherwise happened before the Wyden-Smith proposal. Overall, we project a revenue loss of $3 billion over 10 years for the Wyden-Smith proposal. However, values between a revenue loss of $15 billion and a revenue gain of $11 billion are reasonable, given the uncertainty in the ERC-related cost estimate.

Table 1: 10-Year Revenue Estimate of H.R. 7024, Wyden-Smith Tax Proposal

Revenue change, billions of dollars, excluding the effects of debt service

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Provision	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2024-2033**
Increase child tax credit	-8	-12	-10	0	0	0	0	0	0	0	-30
Business tax breaks	-140	-60	7	52	37	27	18	10	6	4	-39
Deduction for R&E expenditures	-90	-20	10	27	24	17	10	5	3	2	-11
100% bonus depreciation + Section 179 asset expensing limitations	-38	-35	0	26	14	11	8	5	3	2	-4
Net interest deduction	-12	-5	-3	-1	-1	0	0	0	0	0	-23
Other tax changes[1]	-3	-1	-1	-1	-1	-1	-1	-1	-1	-1	-12
Restrict Employee Retention Credit[2]	34	43	0	0	0	0	0	0	0	0	77
Total	**-117**	**-30**	**-4**	**51**	**36**	**26**	**17**	**9**	**5**	**3**	**-3**

Appendix: Method to Calculate Cost Saving from Curtailing the ERC

As of September 2023, the IRS had processed 3,000,000 ERC claims for $230 billion and had a backlog of 600,000 unprocessed claims. Because there is limited public information on ERC developments since then, this analysis required the adoption of several assumptions. First, it assumes that the monthly rate of ERC claims dropped from just under 200,000 to just under 100,000 when the IRS announced the ERC processing moratorium in September 2023. Second, it assumes that in the absence of H.R. 7024, 95% of claims filed by the final ERC deadline of April 2025 would have been paid. Third, it assumes that the IRS will have just over 1,000,000 unprocessed claims on 1/31/24, and that H.R. 7024 will reduce the approval rate of those claims from 95% to 75%. Finally, it assumes that in the absence of H.R. 7024, the deadline for ERC claims for tax year 2020 would be April 2024 and the deadline for tax year 2021 would be April 2025, making the average monthly cost of processing claims from February 2024 through April 2024 double the average monthly cost of processing claims for May 2024 through April 2025.

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1. The category “Other tax changes” includes several provisions that had relatively small revenue effects: a tax agreement between the U.S. and Taiwan, assistance for disaster-affected communities, changes to tax credits for affordable housing development, and a change in the threshold for required reporting of certain tax information. ↩

2. See the Appendix for calculation methodology. ↩