Q. How did the TCJA affect the federal budget outlook?

A. The Tax Cuts and Jobs Act cut taxes substantially from 2018 through 2025. The resulting deficits will add $1 to $2 trillion to the federal debt, according to official estimates. The debt increase will be larger if some of TCJA's temporary tax cuts are extended.

At the start of 2017, congressional Republicans often spoke about revenue-neutral tax reform. The revenue losses from tax cuts would be offset by rolling back tax breaks or introducing other taxes, most notably a destination-based cash flow tax—sometimes called the border-adjusted tax. The destination-based cash flow tax attracted intense opposition from business groups, especially retailers, and was eventually dropped. Lawmakers then pivoted to a combination tax cut and reform. The Tax Cuts and Jobs Act (TCJA) was the result.

ESTIMATING TCJA'S BUDGET IMPACT

The Joint Committee on Taxation and the Congressional Budget Office have published several estimates of TCJA's expected budget impact. These estimates all show TCJA substantially reducing revenues and increasing deficits over its first decade. The specific amount varies—from about $1 trillion to $2 trillion—for three reasons.

First, the agencies estimated budget impacts using both conventional methods (which do not account for potential changes to the overall economy) and dynamic methods (which do). Second, the agencies originally estimated the budget impacts against a budget baseline established in 2017, when the act was debated and enacted. They later published updated figures using a 2018 baseline, which included new economic and budget information. Third, official scores typically do not include any new debt service costs resulting from tax cuts or spending increases. Projections for the entire budget, however, do include debt service.

CONVENTIONAL ESTIMATES

During legislative debate, the most-cited estimate was that the TCJA would increase deficits by about $1.5 trillion over 10 years. This figure comes from the Joint Committee on Taxation (JCT) and Congressional Budget Office's (CBO's) conventional score. JCT projected that the law would reduce revenues by $1.65 trillion from 2018 to 2027. That deficit increase would be partly offset, CBO and JCT projected, by $194 billion in reduced spending, primarily on health insurance.

In a subsequent update, CBO estimated the conventional budget effect at almost $1.9 trillion over the same period. That increase reflected an updated view of certain features of the law as well as new economic projections.

DYNAMIC ESTIMATES

JCT's original dynamic score found that the TCJA would boost economic activity (not growth) by an average of about 0.7 percent over the budget window. That growth would reduce the deficit impact by about $385 billion—a $451 billion boost to revenues, partly offset by $66 billion more in spending for higher interest rates. Including macroeconomic effects, TCJA would thus increase the deficit by slightly less than $1.1 trillion over a decade. CBO's 2018 update increased that figure to about $1.4 trillion.

DEBT SERVICE COSTS

To finance TCJA's tax cuts, the government will issue additional Treasury securities and pay additional debt service. Including that spending, the deficit effects of TCJA are larger. CBO's 2018 update, for example, puts the conventional deficit increase from TCJA at almost $2.3 trillion over its first decade. The corresponding dynamic score is a $1.9 trillion increase.

EXPIRING PROVISIONS

To satisfy budget process requirements, lawmakers decided to sunset some provisions of the TCJA. Most cuts to individual income taxes, for example, expire at the end of 2025. Business expensing for new investment is also temporary. As conventionally scored, the act thus increased deficits from 2018 through 2026 and decreased them thereafter. If lawmakers decide to extend all the expiring provisions, however, that would add about $480 billion to deficits through 2027 and a growing amount thereafter.

LATER DECADES

The TCJA was enacted under a process known as reconciliation. Among other things, reconciliation requires that a bill not increase the deficit beyond the 10-year budget window. At the time, JCT and CBO concluded that the act satisfied that requirement on a conventional scoring basis. Indeed, they found that the law reduced deficits starting in 2027. If TCJA's expiring provisions are eventually made permanent, however, deficits will be persistently higher.

HISTORICAL CONTEXT

Any way you slice it, the TCJA was a major tax reduction. Tax revenues will average just 16.7 percent of GDP from 2020 to 2024, according to CBO's latest projections. That's well below the 17.4 percent of GDP average from 1970 to 2019.

Revenues would rise to 18.0 percent of GDP by 2030 if all TCJA's temporary provisions expire as scheduled. Revenues would be 17.5 percent of GDP if those provisions are extended.

Those revenues are far below expected spending, which CBO sees rising from 21 percent of GDP in 2020 to 23.4 percent in 2030. Absent dramatic spending cuts or revenue increases, the public debt will continue to grow faster than the economy.

Some Background

How did the TCJA affect the federal budget outlook?

Updated May 2020

Data Sources

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Further Reading

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