The Economic Impact Of Extending Expiring Provisions Of The Tax Cuts And Jobs Act

The Council of Economic Advisers

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Executive Summary

The 2017 Tax Cuts and Jobs Act (TCJA) was the largest tax cut in history and a generational reform of the tax code designed to strengthen domestic investment, boost economic growth, increase take-home pay, and reduce poverty. The TCJA lowered taxes across-the-board for workers, families, and American businesses. Among its most consequential reforms, the TCJA fundamentally reoriented the corporate tax system by reducing the statutory corporate tax rate from one of the highest in the world at 35 percent to a much more internationally competitive rate of 21 percent—making it more attractive for firms to locate in the United States—and by shifting the United States from a worldwide toward a territorial tax system. This further enhanced the competitiveness of American corporations and removed tax barriers to repatriating foreign earnings. International tax provisions in the TCJA put an end to corporate "inversions", whereby domestic companies move overseas in search of a more favorable tax environment.

Importantly, the TCJA also instituted full expensing for equipment investment, which paved the way for businesses to grow and expand by enabling them to immediately deduct the full value of these capital expenditures. The TCJA also prioritized the health and vitality of small businesses by enacting a 20 percent deduction for pass-through entities and by reducing their marginal tax rates. In addition to benefiting from the higher wages and job opportunities created by these reforms, workers and families have seen their take-home pay increase from the reduction in lower individual income tax rates. They have also benefited from the TCJA's doubling of the child tax credit from $1,000 to $2,000 per child and its near doubling of the standard deduction, which greatly simplified the tax code by reducing the number of taxpayers who itemize. One of the more innovative pillars of the TCJA was the creation of Opportunity Zone (OZ) tax incentives, which reward long-term investment and economic development in distressed communities designated as OZs, helping to create economic opportunity for communities most in need.

While most of the TCJA corporate reforms were made permanent, many of the other provisions are scheduled to expire at the end of 2025. If these provisions expire:

- Individual marginal tax rates will increase;
- The standard deduction will fall by nearly half;
- The child tax credit will be cut in half from $2,000 to $1,000;
- Small businesses will lose the 20 percent pass-through deduction (Section 199A);
- Businesses will have to deduct investment slowly over time rather than immediately; and

- Distressed communities will see decreased investment from the disappearance of OZs.

Before passage of the TCJA, the Council of Economic Advisers (CEA) accurately forecasted the impact that the tax reforms would have on the U.S. economy. Specifically, the CEA estimated that the TCJA would result in a 2.0 to 4.0 percent long-run increase in real GDP and a $4,000 increase in real (inflation-adjusted) wages per worker. The data validate the CEA's forecasts: real GDP was 2.5 percent higher at the end of 2019 relative to the pre-TCJA baseline from the Congressional Budget Office (CBO), and real wages increased by $4,992.

Extending the expiring provisions of the TCJA will deliver enormous benefits for the U.S. economy, our workers, and our families. The TCJA's extension, together with the full suite of Trump Administration policies—such as deregulation, which the CEA previously estimated would add 0.1 to 0.2 percentage points to real GDP growth rates over a decade—is expected to result in 3.0 percent annual real GDP growth rates over the next 10 years. The TCJA's extension will also prevent the unthinkable consequence of a more than $4 trillion tax hike on Americans. Applying the same successful methodology to forecast the effects of extending the TCJA, the CEA predicts that extension, relative to allowing the reforms to expire, would:

- Boost the level of short-run real GDP by 3.3 to 3.8 percent and long-run real GDP by 2.6 to 3.2 percent;
- Raise annual real wages by $2,100 to $3,300 per worker;
- Increase real annual take-home pay for a median-income household with two children by roughly $4,000 to $5,000;
- Save over 4 million full-time equivalent jobs from being destroyed; and
- Facilitate $100 billion of investment in distressed communities.

The table below demonstrates the accuracy of the CEA's original TCJA forecasts and presents estimates for the impact of extending the TCJA.

	CEA 2017 TCJA Forecast	Post-TCJA, Pre-COVID Data	CEA 2025 TCJA Extension Forecast*
GDP Level vs. Baseline	Corporate: +0.4% year 1 +2.0% to + 4.0% long run Individual: +0.4% to 1.6% by 2020	+2.5% in 2019Q4	Business**: +0.1% year 1 +0.9% to +1.5% long run Individual: +3.2% to +3.7% year 1 +1.7% long run Opportunity Zones: $100B cumulative investment impact in distressed communities
Real Wages	+$4,000	+$4,992 from 2017 to 2019	+$2,100 to +$3,300; median family take-home pay +$4,000 to +$5,000 +3 to 4.5 percentage points employment in Opportunity Zone communities
*Relative to expiration. **Section 199A 20% pass-through deduction, full expensing of equipment and R&D, and marginal tax rates for pass-throughs. The corporate rate cut from 35% to 21% is permanent.			

Academic and industry research validates the CEA's conclusions. For example, in one academic study, Chodorow-Reich, Smith, Zidar, and Zwick (2024) find that the TCJA induced an investment boom, with effects varying by how much a firm's effective tax rate fell. Firms experiencing the average tax reduction increased domestic investment by 20 percent and boosted domestic labor compensation. In another academic study, Hartley, Hassett, and Rauh (2025) conclude that TCJA-induced declines in the user cost of capital led to a strong positive investment response, with each percentage point fall in the user cost of capital translating to a 1.27 to 2.39 percentage point rise in the investment rate. According to EY, one of the world's largest consulting firms, extending TCJA provisions would save almost 6 million jobs, boost aggregate wages by $540 billion, and increase GDP by $1.1 trillion compared to if TCJA expires.

The remainder of this paper is organized as follows: section 1 provides background on the TCJA and the expiring provisions, section 2 summarizes the economic impacts of the TCJA, and section 3 provides a methodological overview. The paper concludes by summarizing the key findings and dispelling some of the arguments made against TCJA extension.

Background on the TCJA & Expiring Provisions

Motivation for the TCJA

Enacted in 2017 after an extended period of economic malaise, the TCJA was the largest tax cut in U.S. history and the most significant overhaul of the U.S. tax system since the Tax Reform Act of 1986. The law was [intended] to reinvigorate economic growth, increase U.S. global competitiveness, and simplify the tax code by reducing tax rates and restructuring key tax provisions.

By reducing the corporate tax rate from 35 percent to 21 percent, allowing full expensing for equipment investment, and shifting from a worldwide toward a territorial tax system, lawmakers intended to encourage domestic investment, job creation, real wage and productivity growth, and the repatriation by U.S. firms of their foreign profits. By reducing the tax burden on individuals by lowering marginal income tax rates, doubling the standard deduction, expanding the child tax credit, and increasing the estate tax exemption, lawmakers intended to increase disposable income for individuals and families, boost consumer spending, and protect America's family farms. The doubling of the standard deduction also greatly simplified the tax code for the vast majority of Americans by reducing the number of people who itemize. Raising Alternative Minimum Tax (AMT) exemption thresholds further added to simplification efforts by reducing the number of individual taxpayers subject to the complex AMT reporting regime. The creation of the 20 percent deduction for pass-through income was another hallmark of the TCJA that enshrined in the tax code a recognition of the central role that America's small businesses play for the overall strength of the American economy.

Expiring TCJA Provisions

While the corporate tax rate reduction and the shift toward a territorial tax system were made permanent as part of the 2017 law—in order to promote long-term business certainty—several TCJA provisions are scheduled to expire at the end of 2025, while some have already begun to phase out. The expiring provisions are summarized below (Figure 1).

Tax Provision
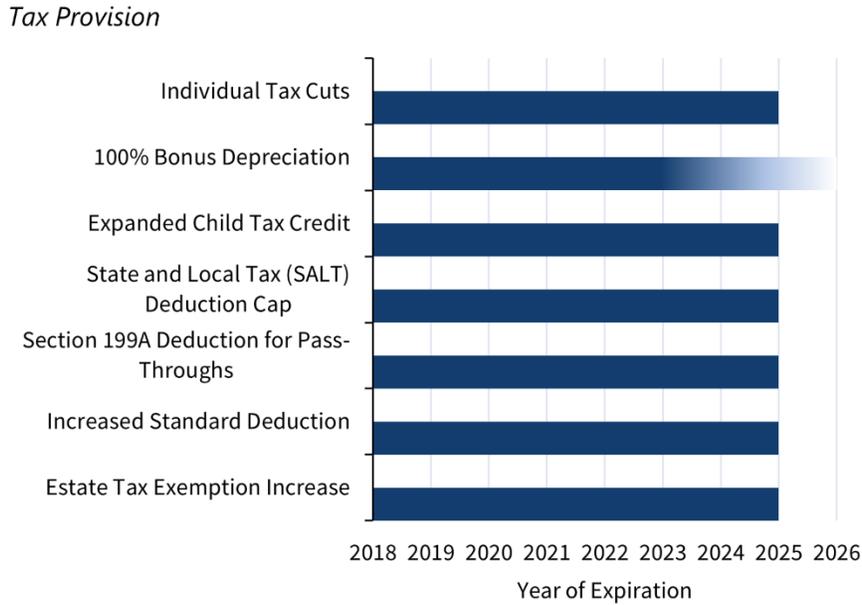
Full expensing for equipment investment began to phase out in 2023, with businesses only able to immediately deduct 80 percent of investment costs in 2023, 60 percent of investment costs in 2024, 40 percent of investment costs in 2025, 20 percent of investment costs in 2026, and 0 percent of investment costs in 2027. Further, immediate expensing of research and development (R&D) expenditures was replaced with 5-year amortization for domestic R&D and 15-year amortization for foreign R&D beginning with the 2022 tax year.

Summary of Economic Impacts of the TCJA

Prior to the law's passage, the CEA forecasted that the TCJA would raise investment, GDP, and wages. The 2018 Economic Report of the President (ERP) provides a comprehensive explanation of the CEA's methodology for its pre-TCJA forecasts. In brief, a jump in the growth rate of investment emerges as a result of the reduction in the statutory corporate tax rate and introduction of full expensing for equipment investment, both of which lower the user cost of capital. This jump in investment, in turn, results in a growing capital stock that pushes up GDP and wages. The estimated size of the increase in wages is derived from empirical estimates of the elasticity of wages to corporate tax changes.

Subsequently, observations of the actual data in the post-TCJA period have validated the CEA's earlier findings. TCJA's economic accomplishments include:

- Stronger GDP growth: the CEA predicted business tax reforms would result in a 2.0 to 4.0 percent higher long-run level of real GDP, with another 0.4 to 1.6 percent higher level of real GDP from individual tax reforms. By the end of 2019, the level of real GDP was already 2.5 percent higher relative to the CBO's pre-TCJA baseline.
    - Real GDP has continued to outpace the pre-TCJA projections since then, although the COVID-19 pandemic complicates the long-run analysis.
- Record high wage and income gains: the CEA predicted real wages would increase by $4,000 after full phase-in of the reforms. Data show that median household income rose $6,400, with $4,992 attributed to wages, based on wages and salaries comprising 78 percent of income.
    - Notably, real worker earnings grew 40 percent faster from January 2017 to February 2020 compared to the period from July 2009 to December 2016.
    - The gains were broad-based, with low-wage and less formally educated workers experiencing a faster uptick in earnings compared to workers at the top end of the income distribution. As detailed by the House Ways and Means Committee, wages increased by 4.9 percent under the TCJA, and the rate of wage growth was 50 percent higher for working-class families than households with higher incomes.
    - Based on the most recent data, 2019 remains the high watermark for real incomes. Beginning in 2021, inflation eroded Americans' purchasing power. TCJA extension would help re-fuel non-inflationary wage growth.
- Record low poverty and unemployment: The CEA did not make projections for unemployment and poverty, but the U.S. economy outperformed CBO's pre-TCJA forecasts by achieving 50-year lows in the unemployment rate and record lows in poverty for all socioeconomic groups, as shown in Figures 2,3, and 4 below.
    - Using state-level tax data, Kumar (2024) finds that a tax cut equal to 1.0 percent of Adjusted Gross Income under the TCJA was associated with a 1.0 percentage point increase in the labor force participation rate and a 1.5 percentage point acceleration in job growth over the 2018-2019 time period.

2017 dollars (trillions)
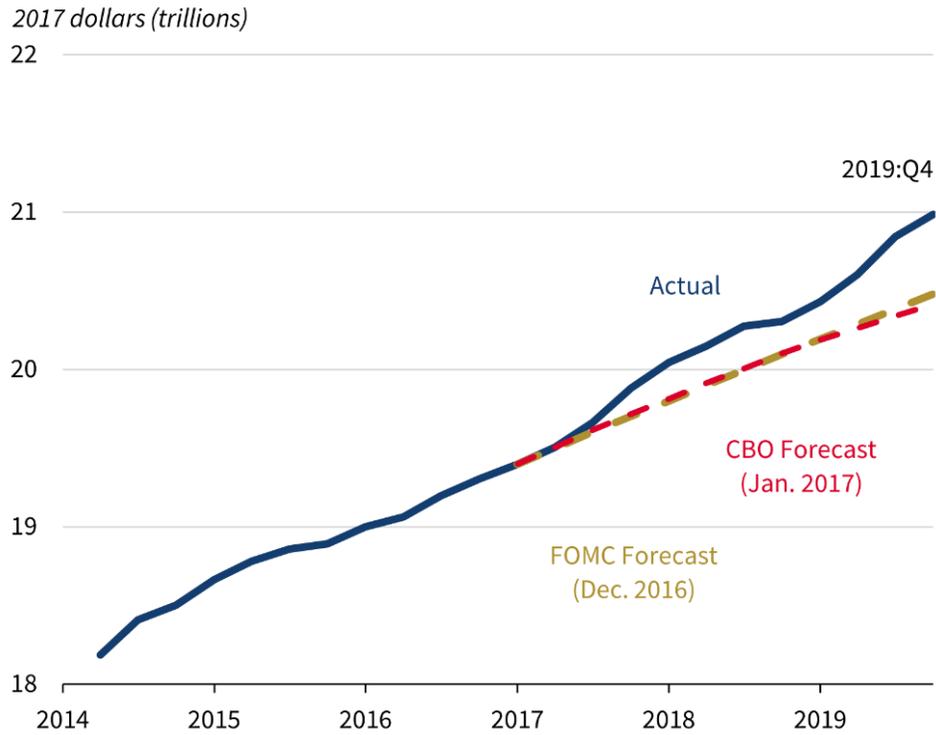
2019:Q4

Actual

CBO Forecast
(Jan. 2017)

FOMC Forecast
(Dec. 2016)

Figure 3: After the TCJA, Pre-COVID Unemployment Beat CBO Projections from Jan 2017. Source: Figure 1-3, 2021 ERP

Unemployment rate (percent)
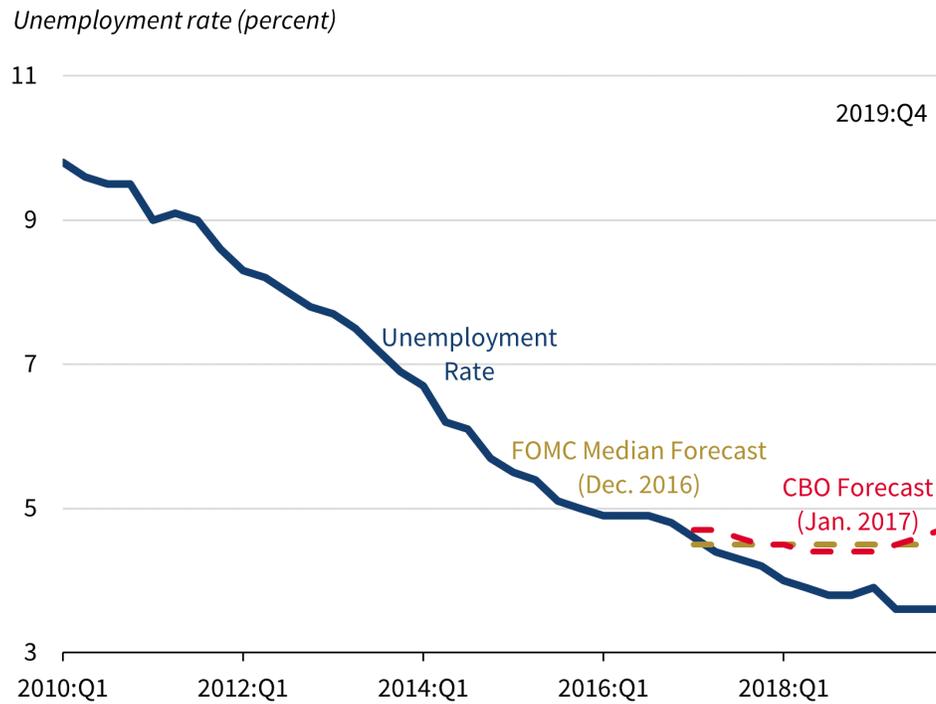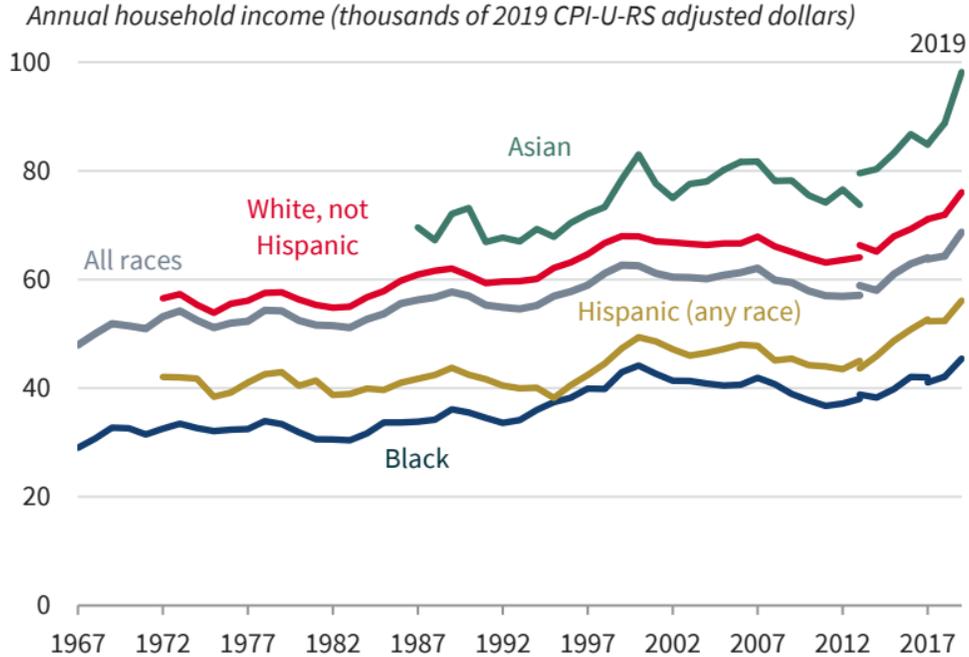
2019:Q4

Unemployment
Rate

FOMC Median Forecast
(Dec. 2016)

CBO Forecast
(Jan. 2017)

Figure 4: Surging Household Income after TCJA Passage. Source: Figure 1-4, 2021 Economic Report of the President

Annual household income (thousands of 2019 CPI-U-RS adjusted dollars)

Overview of the CEA Approach to Estimating the Impact of Extending the TCJA

The CEA's forecasting approach takes into account the impact of supply-side expansion through greater investment and labor supply as well as the short-run output response that also takes into account demand-side factors like changes in consumer spending. The total effect of the TCJA's extension on real GDP takes into account all of these factors.

Beginning with investment, the current analysis utilizes the same user cost of capital framework that the CEA employed in the 2018 Economic Report of the President (ERP) to study the impact of extending lower marginal rates, extending the Section 199A deduction for pass-through businesses, and reinstating full expensing for equipment investment and R&D.

The analysis then proceeds to determine the impact of extending the individual provisions of the TCJA on labor supply and real GDP in the long run using empirical estimates of labor supply elasticity from the academic literature.

Augmenting these changes to output, the analysis quantifies the consumption response to extending the TCJA as households adjust their spending behavior in anticipation of higher income and take-home pay. This consumption response, in turn, boosts output and creates a virtuous cycle of increased spending, greater labor demand, and higher income to produce a short-run surge in output on top of the long-run, supply-driven expansion.

Lastly, the CEA analysis compares the total output response from this building-block approach to a simpler forecast that utilizes empirical estimates of the output response to tax policy changes based on estimates from the academic literature. These distinct approaches yield comparable estimates to each other.

Separately, this report notes that recent research has found a robust impact of the OZ incentives created by the TCJA on employment and housing supply growth in distressed communities. Extending and building upon the OZ incentives would enable continued progress in bringing jobs and improved housing affordability to all corners of America.

The Appendix provides more detailed information about the CEA's methodology.

Conclusions

In 2017, the CEA estimated that the TCJA would boost real investment, real GDP growth, and real wage growth. The data available after passage of the TCJA validates these findings, as well as the estimation methodology used by the CEA prior to the reform's enactment. Applying a similar approach in this paper, the CEA finds that the TCJA's extension would have similarly strong pro-growth effects for the U.S. economy.

Critics of the TCJA's extension have expressed concerns that extending the non-permanent provisions of the TCJA would adversely affect the U.S. deficit. Soon after passage of the TCJA, the CBO estimated that the growth in real tax revenues from 2018 to 2024 would be $1.1 trillion lower than it would have been without the TCJA. However, the gap between actual and projected real revenues ended up being only half that large, despite the disruption from the COVID-19 pandemic. By 2024, the gap between pre-TCJA projected and actual real revenues disappeared entirely, aided by faster than expected economic growth over the 2018 to 2024 period. However, whereas the CBO projection for 2024 real revenues was based on the assumption of growth in government—with revenues as a share of GDP rising by over a percentage point to 18.3 percent—the TCJA achieved the same level of real revenues with a growing private sector economy while keeping revenues to GDP at their pre-TCJA ratio of 17.1 percent. This performance underscores a central reality: the Federal government does not have a

revenue problem, it has a spending problem. Going forward, the TCJA's extension, along with other Administration policies, will continue to produce healthy revenues because of a growing economy. The 3.0 percent annual real GDP growth forecast under the Administration's policies is projected to result in $4.1 trillion in additional revenue over the next 10 years relative to the CBO's GDP growth projections that assume the expiration of TCJA.

It is also important to not evaluate the merits of the TCJA's extension purely based on how it affects government. What especially matters is the impact to the private sector and American households. The success of the TCJA is clear. Prior to the TCJA's enactment, the CBO predicted that real GDP would grow 13.4 percent from 2017-2024 without any tax reforms. However, with the TCJA, the level of real GDP grew by 18.8 percent—a significant 5.4 percentage points more than the CBO projected. Moreover, prior to the COVID-19 pandemic and the dramatic spike in inflation during the Biden Administration, the United States recorded high real median household income, record low poverty, and 50-year lows for unemployment, including for groups traditionally left behind.

Extending the expiring TCJA provisions will help ensure U.S. economic prosperity and provide a strong foundation for additional efforts to address other key national priorities, including fiscal sustainability.

APPENDIX
CEA Estimation Methodology

Estimating Supply Expansion from Higher Investment and its Impact on Wages and GDP

Investment and GDP

The expiring provisions of the TCJA have a meaningful effect on investment in the economy, which translates directly into GDP. Intuitively, capital, such as equipment, intellectual property, and buildings, generates income for businesses. However, this income is taxed. Therefore, lower tax rates and immediate expensing reduce the costs—and thereby increase the net returns—to capital ownership, thus incentivizing businesses to invest in accumulating more capital, which means expanding their operations: more employees, more goods, more services.

To concretely estimate the effects on investment and GDP of extending the non-permanent components of the TCJA, the CEA in this report applies a user cost of capital (UCC) approach. The approach is directly analogous to the one the CEA applied to estimate the effects of the TCJA's initial passage. First, it entails calculating how much more costly it becomes for corporations and pass-through businesses to invest in equipment, structures, and intellectual property if TCJA provisions are not extended. Second, it entails computing the reduction in investment and, ultimately, GDP that results from this change in costs.

Among the most important inputs into this process is the user-cost elasticity of investment (or UCC elasticity), which quantifies how much investment changes in response to a given change in the cost of capital. A broad literature attempts to estimate this elasticity. Early theoretical discussions suggested that this elasticity should be -1.0 (Jorgenson 1963; Hall and Jorgenson 1967). A UCC elasticity of -1.0 would imply that a 1.0 percent increase in the cost of capital is associated with a 1.0 percent reduction in the amount of investment undertaken by businesses—a simple and intuitive benchmark. Econometric studies (e.g., Eisner and Nadiri 1968) found evidence of much smaller elasticities in the data, but their results were subject to a variety of the endogeneity issues common in early empirical work.

Later work increasingly confirmed elasticities near -1.0. Cummins and Hassett (1992) study the 1986 tax reform in the United States and find elasticities of -1.1 for equipment and -1.2 for structures. Examining some additional US tax reforms, Cummins, Hassett, and Hubbard (1995) find elasticities in the range of -0.6 to -0.75. Using establishment-

level micro data, Caballero, Engel, and Haltiwanger ([1995]) find an elasticity of -1.0 on average, though varying across sectors. Djankov et al. ([2010]) take a cross-sectional approach that involves comparing outcomes in countries that did and did not undergo tax reforms, finding a mean elasticity of -0.835. Schaller ([2006]) finds a UCC elasticity of -1.6 using Canadian data, and Dwenger ([2014]) finds an elasticity of -0.9 using German data.

The CEA employed an elasticity of -1.0 to estimate the effects of TCJA extension because it was the initial neoclassical benchmark and is roughly the average of estimates from studies in recent decades. Further, as noted by Dwenger ([2014]), the bulk of empirical papers on this topic from recent decades have produced findings statistically indistinguishable from this number.

Other inputs into the model can be calibrated using existing data.

- The share of investment attributable to C-corporations and pass-through businesses is derived from IRS annual data on the level of depreciable assets by business form.
- Investment, capital, and income by category of capital asset (equipment, structures, intellectual property, and rental residential) is available from BLS Multifactor Productivity tables.
- Depreciation rates by category of capital investment are estimated using the aforementioned data.
- The effective tax rates on pass-through businesses if the TCJA is allowed to expire and if it is fully renewed are determined as follows:
  o To obtain a lower-bound estimate, the CEA relies on calculations from Goodman, White, and Whitten ([2024]) on the average effective tax rate for pass-through businesses and the increase that would be associated with expiration of Section 199A. The CEA adds 2.0 percentage points for the expiration of the lower individual rates and 4.3 percentage points for the average state tax rate. This yields an effective tax rate of 27.4 percent if all provisions are extended and 33.3 percent if all provisions expire.
  o To obtain an upper-bound estimate, the CEA assumes all pass-through businesses are in the top bracket and benefit fully from the Section 199A deduction. The CEA adds 4.3 percentage points for the average state tax rate. This yields an effective tax rate of 33 percent if all provisions are extended and 43.9 percent if all provisions expire.
- The depreciation allowances pertaining to each category of capital asset are determined as follows:
  o Full expensing of equipment corresponds to a depreciation allowance of 1.

- o Otherwise, the net present value of depreciation allowances is obtained from Tax Foundation calculations.
- The share of capital income associated with each asset category is obtained from BLS Multifactor Productivity tables. Essentially, this provides information on the effects on GDP of additional capital in each asset category. This is the final step in the process to estimating effects on GDP.

With these inputs, the user cost of capital can be calculated under a variety of scenarios corresponding to some or all expiring provisions of TCJA being renewed. Relative to a scenario where full expensing of equipment, the Section 199A deduction, and the lower individual rates are allowed to expire, renewing all these provisions and restoring full expensing of R&D would yield a 4.2 to 6.6 percent increase in investment and a 0.9 to 1.5 percent increase in the level of long-run real GDP.

In other words, our estimates suggest the benefits through the user-cost-of-capital channel of extending TCJA are meaningful. As a point of reference, average annual U.S. GDP growth from 2000 through the present has been a little over 2.0 percent. The upper-bound estimate associated with full renewal of the TCJA is thus the equivalent of an almost nine months' worth of GDP growth during this period.

In recent work, Hartley, Hassett, and Rauh (2025) utilize the TCJA to study the responsiveness of investment to changes in the user cost of capital. In particular, they focus on the response of the investment *rate* (i.e., the ratio of investment to capital). Their study is particularly relevant to the CEA estimates for obvious reasons: they study the effects of the TCJA's implementation, whereas the CEA is interested in estimating the effects of the TCJA extension. In parallel to the above estimates, the CEA applied the methodology of Hartley, Hassett, and Rauh (2025) and the analysis yielded similar results: full extension of the expiring provisions with the addition of full expensing of the TCJA induce GDP growth of 0.8 to 1.4 percent (compared to 0.9 to 1.5 percent above).

Wages and Take-Home Pay

As noted in the preceding section, extending the expiring provisions of the TCJA that lower effective tax rates for businesses is associated with a meaningful increase in investment and the capital stock. A higher level of capital means more demand for labor from businesses. With the new machinery, software, and factories, businesses will compete for workers to operate those machines, use that software, and staff those factories. This competition will tend to bid up workers' wages.

To estimate the effect on wages of renewing the non-permanent components of the TCJA relative to letting them expire, the CEA relied on recent estimates from Risch (2024) on the effects of pass-through income tax changes on wages. While there is a broad literature estimating the effects of corporate tax changes on wages—which was previously utilized by the CEA in 2017 to estimate the likely effects of the TCJA on wages—the expiring TCJA provisions mostly apply to pass-through businesses. The analogous literature for pass-through businesses is limited, but Risch (2024) fills the gap.

Risch (2024) finds that there are significant negative effects on worker income when taxes on pass-through income are increased. His results imply an elasticity of -0.115. The CEA multiplied this elasticity by the percent change in the effective tax rate on pass-through income and the share of average income from wages/salary (0.78) and the average household income of $109,160. As in the case of investment and GDP above, The CEA uses two separate measures of the percent change in the effective tax rate on pass-throughs:

- To obtain a lower-bound estimate, the CEA relies on calculations from Goodman (2024) on the average effective tax rate for pass-through businesses and the increase that would be associated with expiration of Section 199A. The CEA adds 2.0 percentage points for the expiration of the lower individual rates and 4.3 percentage points for the average state tax rate. This yields an effective tax rate of 27.4 percent if all provisions are extended and 33.3 percent if all provisions expire.
- To obtain an upper-bound estimate, the CEA assumes all pass-through businesses are in the top bracket and experience the full benefit of the Section 199A deduction. The CEA adds 4.3 percentage points for the average state tax rate. This yields an effective tax rate of 33 percent if all provisions are extended and 43.9 percent if all provisions expire.

Based on the measures above, the CEA estimates that the effect on wages of TCJA renewal (relative to expiry of the non-permanent provisions) will be **an increase of between $2,100 and $3,300**. Importantly, this increase in wages actually underestimates the positive impact of TCJA extension for take-home pay as households send less of their income to the government. For a median-income household with two children, **take-home pay would increase by around $4,000 to $5,000.**

Estimating Supply Expansion from a Greater Willingness to Work

Keeping marginal tax rates low increases labor supply by 2.4 percent relative to allowing the TCJA to expire. This estimate is based on a Frisch elasticity of 0.75 and the distribution of the implied changes in the marginal tax changes across the distribution of

tax filers. **The labor supply increase causes long run GDP to be 1.7 percent higher** because labor is [70 percent](#) of national income.

Labor income taxes can influence labor supply along two primary dimensions: *the extensive margin*, referring to the decision of whether or not to participate in the labor force, and the *intensive margin*, referring to the number of hours worked conditional on participation. When labor income taxes fall, they increase the after-tax wage, making leisure relatively less attractive and leading individuals to either join the labor force (extensive margin) or increase their effort or hours worked (intensive margin). These theoretical mechanisms are well-established in the labor supply literature (e.g., Rosen [1976](#); Pencavel [1986](#)).

In modeling counterfactual tax changes, it is essential to account for both margins. For example, a labor income tax cut might bring non-participants into the labor force while also increasing the labor supply of those already employed. Conversely, a tax hike could reduce employment and hours worked simultaneously. To capture the total behavioral response, we follow Chetty, Guren, Manoli, and Weber ([2011](#)), who recommend a composite elasticity estimate of 0.75, which incorporates both the extensive (elasticity of 0.25) and intensive margins (elasticity of 0.5) and reflects empirically grounded, policy-relevant labor supply responses.

We estimate the behavioral response to a tax increase by combining the labor supply elasticity with the change in the after-tax wage for individuals in each income bracket. A filer will increase labor supply in response to a tax decrease by an amount that depends on the current marginal tax rate. Because the extension of the TCJA involves bracket-specific continuations in marginal tax rates, we compute a weighted average labor supply response, where the weights reflect the number of tax filers in each bracket.

Using this method, we find that extending the TCJA would boost aggregate labor supply by 2.4 percent. This increase is composed of a 0.8 percent rise in labor force participation (extensive margin) and a 1.6 percent increase in hours worked among those employed (intensive margin) compared to if TCJA were allowed to expire. Assuming a labor force of [about 170](#) million individuals and average weekly [hours of 34.1](#), this corresponds to:

- A gain of around 1.4 million jobs (from the extensive margin), and
- An increase of an estimated 0.55 hours per week per worker, equivalent to a further 2.7 million jobs (from the intensive margin).

In total, extending the TCJA would save about 4.1 million full-time equivalent jobs. Together, the positive investment and labor responses to TCJA extension provide a needed supply-side boost to the economy that grows economic output and dampens inflationary pressures.

Estimating Short-Run GDP and the Added Boost from Higher Consumption

The previous sections focus on how TCJA extension will enhance long run potential GDP by expanding supply through higher investment and labor. In the short run, TCJA permanence will deliver an added short-run GDP boost by unleashing a virtuous cycle of greater private sector demand. This virtuous cycle begins with households responding to the permanent rise in take-home pay by increasing their consumption by $0.75 to $1 for every dollar of permanently higher annual income, consistent with Friedman ([1957](#))'s permanent income hypothesis and Carroll ([2009](#)). The initial consumer spending surge directly boosts GDP, but the cycle continues as the increase in consumer spending prompts firms to increase hiring and wages, which further boosts household income and consumption, creating a multiplier effect for GDP.

Because these multiplier effects of fiscal policy are short-run effects, the CEA analysis here focuses on the early part of the budget window. In each of the first two full fiscal years of TCJA extension, the CBO estimates that households will retain $430-440 billion of their income relative to if TCJA were to expire. These annual gains grow over time in absolute dollar terms but remain stable as a share of GDP (1.2 percent).

Thus, the CEA estimates that the direct "first round" consumption effect in the multiplier sequence referred to above is between $325-435 billion. To assess the indirect multiplier effects, a crucial parameter is the marginal propensity to consume (MPC) out of short-lived income shocks. The idea in this case is that the virtuous cycle referenced above will lead to additive short-run income gains on top of the first-round effects, and households will allocate some of the income to higher consumption and some to savings.

Until recent years, conventional wisdom was that low-income, borrowing-constrained households have a high MPC (sometimes as high as 1) while other households have much lower MPCs, often times well under 0.1. However, there has been a significant shift in thinking over the past decade as macroeconomists have discovered that many households have high MPCs, including households with relatively high net worth. So-called "wealthy hand-to-mouth" households exhibit a strong consumption response to temporary income gains because much of their wealth is held in illiquid assets, which

results in them behaving as if they are more financially constrained because it is costly for them to adjust their holdings of illiquid assets for consumption smoothing purposes.

For purposes of this analysis, the CEA uses an annual MPC of 0.4, which is consistent with evidence documented by Auclert, Rognlie, and Straub (2024); Kaplan, Moll, and Violante (2018); Kaplan and Violante (2022); Kaplan, Violante, and Weidner (2014), and Carroll, Slacalek, Tokuoka, and White (2017). Using the CBO estimates for the TCJA extension size and the MPC estimate of 0.4, accounting for the sequence of multiplier effects, the CEA forecasts that permanent TCJA extension will boost short run GDP by 1.5-2 percent relative to expiration just from this consumer demand channel.

Adding up the short-run GDP response from consumption, along with higher investment and labor supply gives an overall short-run GDP boost from TCJA extension of 3.3-3.8 percent. The overall short-run tax multiplier implied by this estimate is around 3 based on the TCJA averting annual tax hikes of 1.2 percent relative to GDP in static terms. This behavior is in line with empirical estimates from Mertens and Ravn (2014) and an extensive body of literature that they cite. The Mertens and Ravn (2014) estimates in particular suggest that tax multipliers reach 3 within a year and half of a tax cut's implementation.

The Positive Impact of Opportunity Zones on Distressed Communities

Another major aspect of TCJA extension is the revitalization of distressed communities through Opportunity Zone investments. In the short period of time following the passage of TCJA, and despite the disruption of COVID-19, about $85 billion of equity investment has flowed into opportunity zone communities. The total investment figure may be much larger when one considers leverage from debt financing added to projects.

In one prominent study, Arefeva, Davis, Ghent, and Park (2024) find a 3 to 4.5 percentage point employment boost in opportunity zone communities relative to non-Opportunity Zone communities with otherwise similar characteristics. Another recent study by Glasner, Ozimek, and Lettieri (2025) finds that opportunity zones nearly doubled the total amount of new housing added to low-income communities between 2019 and 2024.

Put another way, extending and building upon Opportunity Zones as part of TCJA extension would likely pave the way for $100 billion or more in ongoing new investment in distressed communities, dramatically boosting job growth and serving a crucial role in addressing America's ongoing housing affordability crisis.

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