Preserving and Expanding Low Tax Rates to Create American Economic Prosperity

The Council of Economic Advisers

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Executive Summary

This paper builds upon the April 2025 Council of Economic Advisers (CEA) analysis which found that extending the 2017 Tax Cuts and Jobs Act (TCJA) would avert a $4 trillion tax hike and continue the legacy of President Trump's first term when Americans enjoyed historic prosperity in the form of record high income gains, record low poverty, and low inflation. This paper studies President Trump's broader proposed tax cuts, including permanent extension of the TCJA (the topic of the April paper) and related business tax provisions along with additional temporary tax cuts proposed by President Trump as well as enhancements for households and businesses included in the "One Big Beautiful Bill" approved by the House Ways and Means Committee on May 14, 2025. Specifically, this report studies the following provisions *relative to expiration of the TCJA after 2025*:

- Permanent extension of the expiring TCJA business tax cuts;
- Permanent full expensing for equipment;
- Permanent full expensing for research and development (R&D);
- Permanent additional rate cuts for businesses, namely:
    - A 15 percent corporate tax rate for domestic manufacturing and equivalent reductions for pass-through manufacturing activities;
    - A lower tax rate for foreign-derived intangible income (FDII);
    - An increase in the section 199A deduction from 20 percent to 23 percent;
- Temporary full expensing for new factories (for four years);
- Extension and strengthening of individual tax relief from the TCJA;
- No income tax on overtime, no income tax on tips, and tax relief for seniors; and
- Renewal and enhancement of Opportunity Zones (OZ) incentives in distressed areas.

The CEA finds the following short-run effects over the next four years from the tax cuts:

- 9.8 to 14.5 percent higher investment;
- 4.2 to 5.2 percent higher GDP (in real levels);
- 6.6 to 7.4 million full-time equivalent (FTE) jobs saved or created.

In the long run, with effects gradually building up over the next four years and beyond:

- Higher investment and GDP (4.9 to 7.5 percent and 2.9 to 3.5 percent, respectively);
- 4.2 million more FTE jobs;
- $6,100 to $11,600 higher wages per worker;
- $7,800 to $13,300 higher take-home pay for a typical family with two children; and
- $100+ billion of investment, 1+ million jobs, and hundreds of thousands of new homes to support workforce growth in poor communities, especially in rural areas.

Summary of Economic Effects: All Provisions (Effects Shown for Each Row are Cumulative)					
	Investment		Level of Real GDP		Real Wages and Take-Home Pay
	Short Run	*Long Run*	*Short Run*	*Long Run*	
1. Extend business rate cuts	1.6 to 3.5%	1.6 to 3.5%	0.1 to 0.3%	0.4 to 0.9%	$2,581 to $4,430
2. +Full equipment expensing	3.4 to 5.6%	3.4 to 5.6%	0.3 to 0.5%	0.8 to 1.4%	$3,525 to $6,217
3. +Full R&D expensing	4.4 to 6.7%	4.4 to 6.7%	0.4 to 0.6%	1.0 to 1.6%	$3,955 to $7,031
4. +Further business rate reductions	4.9 to 7.5%	4.9 to 7.5%	0.4 to 0.6%	1.1 to 1.8%	$6,100 to $11,627
5. +Full factory expensing (4 years)	9.8 to 14.5%	4.9 to 7.5%	0.7 to 1.0%	1.1 to 1.8%	$6,100 to $11,627
6. +Extend/enhance household relief	9.8 to 14.5%	4.9 to 7.5%	4.0 to 4.8%	2.9 to 3.5%	$7,800 to $13,327
Total for all provisions (adds no tax on overtime/tips and senior tax cuts)	9.8 to 14.5%	4.9 to 7.5%	4.2 to 5.2%	2.9 to 3.5%	$7,800 to $13,327 + short-run boost*

*Notes: Short run is 4 years. Rows are cumulative. Wages and take-home pay are long run. Take-home is pay after taxes for a median-income household with two children. *The short run boost comes from temporary provisions and is targeted toward certain populations: $1,400 to $1,750 for overtime workers; $1,675 for tipped workers; and $400 to $450 for seniors.*

The tax package as a whole not only averts the potential recessionary impact of a historic tax hike, it additionally provides for long-term economic growth, job creation, and higher pretax wages and after-tax incomes for American families. Although this paper does not explicitly study the impact of the tax package on inflation dynamics, the heavy emphasis on supply-side incentives and the experience of low inflation following passage of the TCJA during the first Trump Administration suggests that the current tax package will lay a strong foundation of non-inflationary growth and greater affordability.

This paper is organized as follows: first, the CEA studies the impact of the business tax cuts on investment, GDP, and wages. Next, the CEA looks at the effects from the tax cuts for individuals, including permanent extension of the TCJA, no income tax on overtime and tips, and tax relief for seniors. The appendix gives more methodological details.[1]

The Pro-Growth and Pro-Worker Benefits of Business Tax Relief

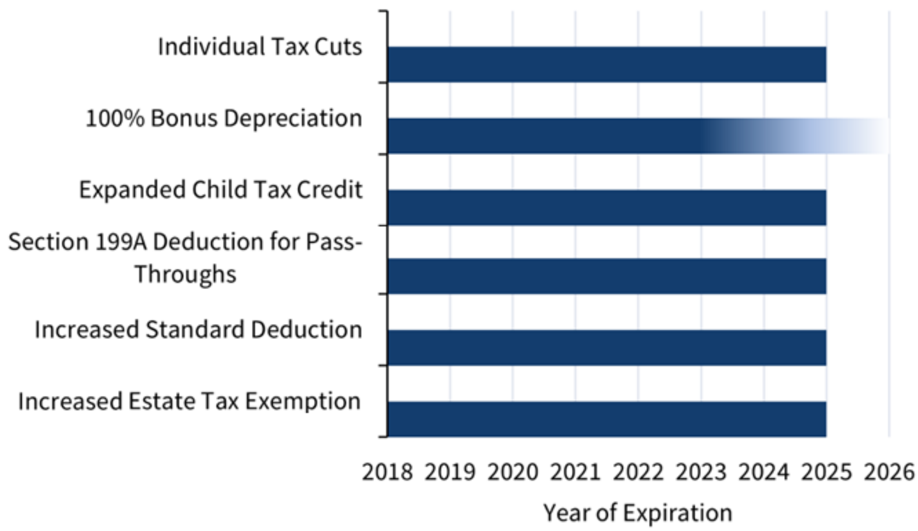
Background

The TCJA was a signature pillar of President Trump's first-term agenda to rejuvenate the U.S. economy by incentivizing private sector-driven growth following the period of malaise that defined the recovery from the 2007-09 financial crisis. To achieve these goals, the TCJA enacted broad-based tax cuts for households and businesses, with both categories of tax cuts ultimately benefiting workers through higher wages and higher after-tax take-home pay. The business tax cuts included lower marginal rates for corporations and pass-through businesses, immediate full expensing for equipment investment, and a 20 percent deduction for pass-through income. These provisions were designed to boost capital investment, worker productivity, and ultimately real wages, all of which occurred as planned. The TCJA also shifted from

[1] The CEA largely follows the same methodology as in the April 2025 report. The major difference between the reports is that the tax package studied in this report is more expansive in scope.

a worldwide toward a territorial tax system to encourage repatriation by U.S. firms of their foreign profits. The TCJA was able to permanently enshrine the corporate rate cut, which had been among the highest in the developed world prior to the law's passage, and the shift from worldwide toward territorial taxation, but several other important provisions are slated to expire at the end of 2025, as shown in Figure 1 below.

Figure 1: Key Expiring Provisions of the Tax Cuts and Jobs Act. Source: Public Law 115-97



In the first few years after the passage of the TCJA in 2017, real household income for the typical (median) family rose by $6,400—including the largest one-year jump ever recorded by the Census Bureau, occurring in 2019—wage growth accelerated, especially for those on the lower rungs of the economic ladder, and poverty reached record lows across every demographic group (CEA, 2021).

Methodological Overview for Assessing the Business Tax Cuts

In its April analysis, the CEA found that extending the expiring provisions from the TCJA would boost GDP, wages, and take-home pay. To arrive at these findings, the CEA used the same methodology that the CEA employed in President Trump's first term prior to passage of the TCJA that provided very accurate forecasts of its future economic effects. This report adheres to an extended version of the same methodology that accounts for some additional sources of economic feedback from pro-growth tax policy and applies this approach to the President's proposals and the additional enhanced tax cuts in the One Big Beautiful Bill. Throughout this report, the CEA takes a "stacking" approach to measuring the effects of these tax provisions, which begins by quantifying the impact of select provisions and then sequentially stacking additional provisions on top of those. This approach allows one to examine the economic impact of each provision while incorporating the interaction across provisions.

The methodological appendix goes into greater detail, but from a bird's eye perspective, the CEA estimates the reduction in the user cost of capital from the tax proposals and then calculates the resulting positive response of investment and GDP. Reductions in marginal rates lower the user cost of capital, as does full expensing for new investment. The CEA analysis accounts for the temporary nature of the new proposal providing full expensing of factories. Higher investment from a reduction in the user cost of capital also strengthens labor demand, which boosts wages.

Relative to the CEA's April report, the updated analysis here expands the methodology by additionally taking into account how wages grow in response to lower *effective* business tax rates that include the impact of more generous expensing provisions.

Extending Low Tax Rates for Businesses from the TCJA

To begin, the CEA examines just the effect of extending the low tax rates for businesses that are set to expire, which include the individual rate cuts applicable to pass-through business owners, the 20 percent deduction for pass-through income (section 199A), and the current tax rates for global intangible low-taxed income (GILTI) and foreign-derived intangible income (FDII). The GILTI and FDII provisions created by the TCJA work in concert to reduce the incentive for American businesses to shift intellectual property and profits abroad. Desai, Foley, and Hines (2009) find that firms that increase their investment and compensation abroad simultaneously raise domestic investment and compensation. Unless the TCJA is extended, the schedule of marginal rates is set to revert to pre-2017 levels (adjusted for inflation), the pass-through deduction is set to disappear, the FDII rate is set to increase from 13.125 percent to 16.406 percent, and the GILTI exclusion is set to shrink from 50 percent to 37.5 percent. All of these changes would create significant disincentives for economic activity.

The CEA finds that, relative to what would transpire if the expiring provisions of the TCJA are not extended, continuing the low tax rates for businesses will lead investment to be 1.6 to 3.5 percent higher in both the short run and the long run. Increased investment leads to a rise in the level of real GDP of 0.1 to 0.3 percentage points in the short run. Over the long run, the boost to GDP is even larger, at 0.4 to 0.9 percentage points, as the added investment gradually grows the stock of productive capital in the economy.[2] The CEA estimates that long-run real wages will be $2,581 to $4,430 higher.

Effects of Permanently Extending Low Tax Rates for Businesses from the TCJA

	Investment		**Level of Real GDP**		**Real Wages and Take-Home Pay**
	Short Run	*Long Run*	*Short Run*	*Long Run*	
Business rate cuts alone	1.6 to 3.5%	1.6 to 3.5%	0.1 to 0.3%	0.4 to 0.9%	$2,581 to $4,430

Permanently Instituting Full Equipment and R&D Expensing

The tax package also restores full expensing for equipment investment and reinstates full expensing for R&D, reversing the switch to amortization that began in 2022. Both for equipment and R&D, full expensing reduces up-front costs and frees up cash flow to enable businesses to make equipment investments and engage in more intensive R&D, both of which drive innovation and higher productivity that benefit American workers.

[2] Long-run effects build gradually over time, with partial effects apparent during the short-run four-year window.

The CEA estimates that stacking these provisions on top of the extension of low tax rates for businesses causes investment to be 2.7 to 3.2 percent higher in both the short run and long run compared to what would occur with only extending the low rates. The full expensing provisions push short-run GDP higher by 0.2 to 0.3 percent compared to the effect of the extension of low rates alone, with this marginal benefit growing to 0.6 to 0.7 percent in the long run. Long-run wages are an additional $1,374 to $2,601 higher as a result of enacting the expensing provisions. The total long run effect of both extending low rates and instituting permanent full expensing for equipment and R&D is an investment boost of 4.4 to 6.7 percent, a 1.0 to 1.6 percent higher level of real GDP, and increased wages of $3,955 to $7,031.

Effects of Permanent Full Expensing of Equipment and R&D

	Investment		Level of Real GDP		Real Wages and Take-Home Pay
	Short Run	*Long Run*	*Short Run*	*Long Run*	
Equipment and R&D expensing alone	2.7 to 3.2%	2.7 to 3.2%	0.2 to 0.3%	0.6 to 0.7%	$1,374 to $2,601
Total effect of provisions (1)-(3)	4.4 to 6.7%	4.4 to 6.7%	0.4 to 0.6%	1.0 to 1.6%	$3,955 to $7,031

Further Rate Reductions for Businesses

The next set of business tax cuts included in the CEA's analysis is a further reduction in rates for domestic manufacturing activity (from 21 percent to 15 percent for C-corporations and by a commensurate amount for pass-through businesses[3]), an additional drop in the FDII rate from 13.125 percent to 10.5 percent, and an increase from 20 percent to 23 percent in the section 199A deduction for pass-through income. The first two changes operate in tandem to put American manufacturing businesses in an even better position to expand and re-shore operations and revitalize critical supply chains. The more generous section 199A deduction that appears in the One Big Beautiful Bill approved by the House Ways and Means committee further aids small manufacturing businesses along with small pass-through businesses in other sectors of the economy.

The CEA estimates that the marginal impact of including the further rate reductions on top of the previously analyzed provisions is to raise investment by 0.6 to 0.8 percent and the level of real GDP by up to 0.1 percent in the short run and 0.2 percent in the long run. The boost to wages is considerably higher, with workers seeing paychecks increase by $2,145 to $4,596 in the long run. Looking at the cumulative impact of all the business tax provisions thus far analyzed, the CEA finds that investment is 4.9 to 7.5 percent higher, the level of real GDP is 0.4 to 0.6 percent higher in the short run and 1.1 to 1.8 percent higher in the long run, and long run real wages are higher by $6,100 to $11,627.

[3] The rate cut for pass-throughs is modeled as a 28.6 percent deduction in addition to the section 199A deduction.

Effects of Further Rate Reductions for Businesses					
	Investment		Level of Real GDP		Real Wages and Take-Home Pay
	Short Run	*Long Run*	*Short Run*	*Long Run*	
Further business rate cuts alone	0.6 to 0.8%	0.6 to 0.8%	<0.1%	0.2%	$2,145 to $4,596
Total effect of provisions (1)-(4)	4.9 to 7.5%	4.9 to 7.5%	0.4 to 0.6%	1.1 to 1.8%	$6,100 to $11,627

Temporary Full Expensing for New Factories

The tax package leans into the imperative to make America a stronger manufacturing power by also introducing a temporary provision for full expensing of new factories.[4] Analogous to the full expensing of equipment investment and R&D, this provision frees up resources and strengthens the incentive to build new factories, and its time-limited nature provides an incentive to act quickly. As shown in the table below, investment surges by 4.9 to 7.0 percent in the short run from this provision alone, taking the total short-run increase in investment for the first five provisions analyzed by the CEA to a range of 9.8 to 14.5 percent higher than if the tax package is not enacted and the TCJA is allowed to expire. The new factory construction adds 0.2 to 0.3 percent to the level of short-run GDP, taking the total short-run rise in GDP to between 0.7 and 1.0 percent.

Effects of Temporary Full Expensing for New Factories		
	Short Run Investment	Short Run Level of Real GDP
New factory expensing alone	4.9 to 7.0%	0.2 to 0.3%
Total effect of provisions (1)-(5)	9.8 to 14.5%	0.7 to 1.0%

Evaluating the Benefits of Tax Relief for Individuals and Families

Background and Methodology

As displayed earlier in Figure 1, several provisions from the TCJA that currently benefit individuals and families are slated to expire, including the lower marginal tax rates provided to all taxpayers, the larger standard deduction, and the more generous child tax credit. The tax package extends these provisions and provides further relief for individuals and families, notably in the form of no tax on overtime, no tax on tips, and tax relief for seniors.

To estimate the effects of these provisions, the CEA is guided by the same methodology as in its April 2025 report. Specifically, the CEA measures the increase in GDP both in the short run and long run owing to

[4] The provision applies to construction beginning after January 19, 2025, and before January 1, 2029, for factories placed in service prior to January 1, 2033.

stronger labor supply along with the added short-run demand-side boost to GDP from households raising their consumption in response to higher take-home pay.[5,6]

Extending and Enhancing Individual Provisions from the TCJA

Extending the low rates and the larger standard deduction from the TCJA improves the incentive to work, which leads to enhanced labor supply and higher GDP, both in the short run and the long run. Extending the TCJA also keeps the child tax credit at $2,000 instead of its previous lower value of $1,000. Notably, the House Ways and Means' One Big Beautiful Bill goes even further by increasing the standard deduction by $1,000 for singles and $2,000 for joint filers and raising the child tax credit to $2,500 per child for four years and indexing the $2,000 child tax credit for inflation after 2028. The One Big Beautiful Bill retains earned income requirements for the refundable portion of the child tax credit, which is $1,700 per child in 2025, and indexes it for inflation in future years. As a result, the larger value of the refundable credit relative to TCJA expiration strengthens the incentive for households to have at least one worker in the labor force and gainfully employed. The CEA's analysis incorporates these and other provisions related to extension of the TCJA, including the larger estate exemption that helps protect America's family farms and small businesses.

The CEA finds that the additional economic benefit from the individual tax relief is 3.3 to 3.9 percent higher short-run real GDP (over a four-year horizon), and 1.7 percent higher real GDP in the long run. The long-run effect comes from higher labor supply in response to workers being able to keep a larger share of their paycheck, while the short run also incorporates demand-side factors. Even without the enhancements in the One Big Beautiful Bill, a typical median-income family with two children can expect a lower tax bill of about $1,700 compared to if the TCJA expires. The cumulative GDP effect of the business provisions and the individual tax relief analyzed thus far is 4.0 to 4.8 percent in the short run and 2.9 to 3.5 percent in the long run. For a typical family, long-run take-home pay is $7,800 to $13,327 higher, reflecting the joint effect of increased wages and a lower tax bill. In the period through 2028, families also benefit from the $500 per child enhancement to the child tax credit and the $2,000 larger standard deduction for joint filers included in the One Big Beautiful Bill.

Effects of Enhanced Individual Provisions from the TCJA

	Level of Real GDP		Real Take-Home Pay for a Median-Income Family with Two Children
	Short Run	*Long Run*	
Enhanced individual TCJA relief alone	3.3 to 3.9%	1.7%	$1,700*
Total effect of provisions (1)-(6)	4.0 to 4.8%	2.9 to 3.5%	$7,800 to $13,327

**Through 2028, the estimated benefit is at least $1,000 higher, at $2,700, due to the $500 child tax credit increase.*

[5] The effect of lower marginal tax rates on pass-through business investment incentives is accounted for above in the section "Extending Low Tax Rates for Businesses from the TCJA."
[6] The higher take-home pay from certain provisions is informed by the Joint Committee on Taxation (JCT) revenue estimates of the House Ways and Means Committee's One Big Beautiful Bill.

No Tax on Overtime, No Tax on Tips, Tax Cuts for Seniors

On top of extending the TCJA, President Trump promised America's workers and seniors further tax relief. The previous section already incorporated the standard deduction and child tax credit increases. This section turns to analyzing the new middle-class tax relief that is entirely new relative to the TCJA, namely, the four-year temporary provisions to not tax overtime, to not tax tips, and to provide a larger deduction for seniors.

The CEA's analysis begins with no tax on overtime because this provision affects the largest share of the working-age population. An overtime worker currently can expect to pay taxes both on their base pay and on the premium from working overtime. The One Big Beautiful Bill eliminates the income tax on the overtime premium for most overtime workers. The CEA finds that this change will cause overtime workers to increase their overtime hours by 4.7 percent, leading to a 0.2 percent increase in aggregate labor supply while the provision is in effect. As a result, the level of GDP increases by 0.1 to 0.2 percent in the short run. The average overtime worker receives a tax cut of between $1,400 and $1,750 per year.

Turning next to no tax on tips, it is worth noting that tipped workers often earn low base wages and rely heavily on tips. The tip exemption will significantly increase take-home pay for most tipped workers, many of whom are low- to middle-income taxpayers. Using the JCT revenue estimate of tip exemption and the number of tipped workers according to the Statistics of Income W-2 tabulations, the CEA estimates that no tax on tips will increase the average take-home pay for tipped workers by $1,675 per year.

Lastly, the CEA assesses the provision to cut taxes for seniors. Most seniors rely heavily on fixed-income streams, including Social Security and retirement savings. The proposed $4,000 bonus deduction for seniors will provide financial relief to seniors who face high costs of living and healthcare expenses. Importantly, low-income and middle-income seniors will qualify for the bonus deduction regardless of whether they itemize or claim the normal standard deduction. Using the JCT revenue estimate of the bonus senior deduction and the number of seniors according to the Statistics of Income Form 1040 line item estimates, CEA estimates that the bonus senior deduction will increase the average take-home pay for qualifying seniors by $400 to $450 per year.

Home Benefit of No Tax on Overtime, No Tax on Tips, and Senior Tax Cuts		
Overtime Workers	Tipped Workers	Seniors
$1,400 to $1,750	$1,675	$400 to $450

Extension and Enhancement of Opportunity Zones Incentives

For communities most in need, the One Big Beautiful Bill extends the transformational Opportunity Zones incentives and makes them even more potent for rural areas, thus promising a continuation of the abundant job growth, investment, and new housing supply that these incentives have delivered to distressed areas across the country. The legislation provides for a new round of Opportunity Zone designations beginning in 2027. In addition, the One Big Beautiful Bill offers a more potent version of the incentive for rural areas and eases qualification criteria to allow projects in low-cost, high-need areas to receive more funding. Moreover, the One Big Beautiful Bill broadens the type of income that qualifies for the Opportunity Zone incentives beyond just capital gains, thus allowing ordinary Americans to invest money from their paychecks and participate in the rebuilding of America.

Recent studies have found that the first round of Opportunity Zones directed $89 billion of needed investment into distressed communities, created over one million jobs, and led to the construction of over 300,000 new housing units that would not otherwise have been built. The positive effects from the first round of Opportunity Zones should be seen as a floor for the potential of a new round of Opportunity Zones given the new enhancements and the increased familiarity of investors and communities with this targeted investment incentive.

The Impact of the Full Package of Tax Cut Proposals

Taken as a whole, the CEA estimates that the tax cuts in the President's proposals and the One Big Beautiful Bill will substantially boost investment and GDP relative to if expiring provisions from the TCJA are not extended. In the short run, the CEA estimates that investment will be 9.8 to 14.5 percent higher and the level of GDP will be 4.2 to 5.2 percent higher compared to what would happen if the TCJA lapses. Moreover, the tax provisions are estimated to save or create 6.6 to 7.4 million FTE jobs in the short run and 4.2 million FTE jobs in the long run. For workers and families, the CEA forecasts that wages will be about $6,100 to $11,600 higher, with family take-home pay $7,800 to $13,300 higher because of the increase in wages and reduction in tax obligations. All Americans will benefit from these provisions, and previously left-behind communities will have a promising path to renewal and restoration because of Opportunity Zones.

Summary of Economic Impact							
Investment		**Level of Real GDP**		**Real Wages and Take-Home Pay**	**Impact in Opportunity Zones**		
Short Run	*Long Run*	*Short Run*	*Long Run*		*Investment*	*Added Jobs*	*New Homes*
9.8 to 14.5%	4.9 to 7.5%	4.2 to 5.2%	2.9 to 3.5%	$7,800 to $13,327	$100+ billion	1+ million	At least 300k

Conclusions

The 2017 TCJA ushered in an era of unprecedented economic prosperity that produced surging real incomes for workers and families, plummeting unemployment and poverty, and low and stable inflation. These outcomes were not happenstance—they were the result of a sound economic philosophy that emphasized enhancing the productive capacity of the economy through private sector-driven investment, better rewards to work, and trusting in the American people to choose how to spend their own hard-earned money. The President's historic tax proposals for the One Big Beautiful Bill will cement and further build upon the TCJA's legacy, ushering in a period of more robust economic growth, improved affordability, and strong financial soundness.[7]

[7] As discussed in the CEA's April 2025 report, the 3.0 percent annual real GDP growth forecast under the Trump 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 the TCJA.

METHODOLOGICAL APPENDIX

Estimating the Investment and GDP Response

The CEA extends the user cost of capital (UCC) approach employed in its April 2025 report to estimate the effects on investment and GDP of extending the non-permanent components of the TCJA and introducing the new tax reforms for businesses. The first step involves calculating how much less costly it is for corporations and pass-through businesses to invest in equipment, structures, and intellectual property under the assumption of TCJA extension relative to if those provisions expire. Second, the CEA computes the relative increase in investment and GDP that results from keeping the UCC low instead of allowing capital costs to revert to a more expensive level. The CEA then applies this same approach to the further rate reductions and expensing provisions in the President's proposals.

A key input to these calculations is the user-cost elasticity of investment (or UCC elasticity), which measures how much investment changes in response to a given change in the cost of capital. The CEA's April 2025 report provides a more detailed description of the academic literature surrounding estimates of this elasticity, but for the purposes of that analysis and the analysis here, the CEA uses an elasticity of -1, which is in line with Cummins and Hassett (1992) and Caballero, Engel, and Haltiwanger (1995) and is roughly the average of estimates from studies in recent decades. In fact, Dwenger (2014) notes that the bulk of empirical papers on this topic from recent decades have produced findings statistically indistinguishable from this value. The meaning of a UCC elasticity of -1 is that a 1 percent increase in the cost of capital is associated with a 1 percent drop in the amount of business investment.

The CEA methodology explicitly takes into account the temporary nature of the provision for full expensing of new factories in evaluating the UCC. The temporary nature of this full expensing creates an even stronger up-front investment incentive. To incorporate this channel, the CEA uses a generalized UCC formula from Auerbach and Hassett (1992) that collapses to the typical UCC formula when a policy is permanent.

The CEA calibrates other model inputs using existing data as follows:

- 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:
    - To obtain a lower-bound estimate, the CEA relies on calculations from Goodman, White, and Whitten (2025) 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 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.

- To estimate the effects of the lower tax rate on manufacturing, a weighted average is required to calculate the new tax rate. Weights are (for C-corporations) the share of manufacturing in total C-corporation capital stock (30 percent) and (for passthroughs) the share of manufacturing in total partnership and S-corporation capital stock (14 percent). This yields about a 1.8 percentage point decrease in the tax rate for C-corporations and a range of 0.9 to 1.1 percentage points for the decrease in the tax rate for pass-through businesses.
- To estimate the effects of FDII and GILTI changes on the effective tax rate faced by corporations from extending the TCJA (namely, the avoidance of an FDII rate increase from 13.125 percent to 16.406 percent and a GILTI rate increase from 10.5 percent to 13.125 percent), the CEA observes that, according to the most recent data, FDII is 10.0 percent of all corporate income, and GILTI is 19.1 percent of total income ($574B divided by $3004B). One must then calculate a weighted-average change in the effective tax rate due to keeping the FDII and GILTI rates low, which results in a 0.8 percentage point reduction in the effective corporate tax rate.
- The above analysis can then be repeated to analyze the effects of the proposal to lower the FDII rate further to 10.5 percent. In this case, the weights are the share of C-corporate income that is FDII export income. Approximately 10 percent of C-corporate income is FDII export income, and this income would be experiencing a 2.625 percentage point (or 20 percent) decrease in the rate at which it is taxed, while the rest gets no change. This yields a decrease in the tax rate for C-corporations of about 0.3 percentage points. Note that the effects of this can be considered a lower bound because another feature of the President's proposal for FDII is to lower the threshold for income to be eligible for FDII from 10 percent of qualified business asset investment to 5 percent.
- The depreciation allowances pertaining to each category of capital asset are determined as follows:
  - The net present value of depreciation allowances in the case of TCJA non-renewal is obtained from Tax Foundation calculations.
  - Full expensing of equipment corresponds to a depreciation allowance of 1 for equipment.
  - Full expensing of factories corresponds to a depreciation allowance of 1 for structures investment in the manufacturing sector. To obtain an average NPV depreciation allowance for structures, it is necessary to take a weighted average of 1 and the allowance for the rest of structures investment, with the share of structures investment by sector as the weights.
  - Full expensing of R&D corresponds to a depreciation allowance of 1 for R&D. Because R&D investment is a subset of Intellectual Property Products (IPP) investment, a similar adjustment as above is required to obtain an overall NPV depreciation allowance for IPP.
- The share of capital income associated with each asset category is obtained from BLS Multifactor Productivity tables. 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 assuming extension of the TCJA and addition of the new business tax provisions. In total, these tax cuts yield a short-run 9.8 to 14.5 percent increase in investment and 0.7 to 1.0 percent increase in GDP. In the long run, investment increases by 4.9 to 7.5 percent and GDP increases by 1.1 to 1.8 percent.

Estimating the Impact on Worker Wages

Higher investment leads to a larger capital stock, which makes workers more productive and increases the demand for labor. The intensified competition to hire workers, in turn, bids up real wages. To quantify the relative boost to wages from extending the TCJA, the CEA in its April 2025 report uses an elasticity of wages to changes in the taxation of business pass-through income of -0.115 from Risch (2024), given that the expiring TCJA business provisions mostly apply to pass-through businesses. The overall wage impact comes from multiplying this elasticity by the percent change in the effective tax rate on pass-through income and the share of average income from wages and salaries (0.78) for a worker with average household income of $109,160 in 2023. 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, White, and Whitten (2025) 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.

In this report, the CEA additionally takes into account the wage response to the further reduction of effective tax rates coming about from the proposed expensing provisions, the enhanced section 199A deduction, and the lower tax rates for manufacturers. The changes in effective tax rates from the expensing provisions can be estimated using BEA data on the total amount of investment in each category for each of the specific assets (equipment, R&D, factories). Combining this data with data on total business income allows calculating the effective tax rate faced by businesses under different expensing scenarios.

It is also worth noting that these expensing provisions have impacts on the effective tax rate for C-corporations in addition to pass-through businesses. Thus, to compute the total effect on worker income, the CEA utilizes the elasticity of worker income to the C-corporate tax rate as well. There is a range of estimates of this elasticity in the literature. Following the approach taken by the CEA in 2017 in estimating the impacts of TCJA passage, the CEA in this report uses an elasticity of -0.17 for the lower-bound estimate and -0.43 for the upper-bound. The former number is from Azémar and Hubbard (2015), and the latter number is from Felix (2007).

Given these parameters, the CEA estimates that the full suite of tax proposals analyzed in this report will cause long-run real wages to be between $6,100 and $11,627 higher.

Estimating Short-Run and Long-Run Employment Effects

The CEA accounts for the fact that labor income taxes influence labor supply along two key 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 hours spent not earning income relatively less attractive and leading individuals to either join the labor force (extensive margin) or raise their effort or hours worked (intensive margin). These margins of adjustment are well-established in the labor supply literature (e.g., Rosen 1976; Pencavel 1986).

In modeling proposed 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, the CEA follows 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.

The CEA estimates 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, the CEA computes a weighted average labor supply response, where the weights reflect the number of tax filers in each bracket.

Using this method, the CEA finds that the lower marginal tax rate schedule in the One Big Beautiful Bill relative to expiration of the TCJA boosts aggregate labor supply by 2.4 percent (0.8 percent extensive margin, and 1.6 percent intensive margin). Based on the latest labor force and average weekly hours data from April 2025 (a labor force of about 171 million individuals and average weekly hours of 34.3), the labor supply boost gives a gain of 1.4 million jobs from the extensive margin, 2.8 million full-time equivalent jobs from the intensive margin (based on hours increasing by 0.55 per week per worker), and 1.7 percent higher GDP (based on labor comprising 70 percent of national income).

To evaluate the additional labor supply boost from not taxing overtime, the CEA utilizes data from the American Community Survey from 2021 to 2023. The CEA restricts attention to prime-age (25 to 55 years old) individuals who worked more than 40 hours per week who qualify for overtime based on not being exempt under the Fair Labor Standards Act. The CEA estimates that about 62 percent of workers are eligible for overtime (101.7 million workers out of a total worker pool of 164 million). The average pay for these overtime workers is $72,574. Thus, many overtime workers are likely to be in the 22 percent marginal tax bracket. Ending the tax on the overtime premium raises the effective wage for an additional hour of overtime by 9.4 percent.[8] The CEA takes a conservative approach by assuming that workers only respond along the intensive margin from not taxing the overtime premium, i.e., the CEA assumes the overtime tax cut does not induce anybody currently out of the labor force to enter and work overtime. Multiplying the intensive margin elasticity of 0.5 by the 9.4 percent rise in the effective overtime wage implies that the supply of overtime hours increases by 4.7 percent. With overtime-*eligible* workers currently working 2.56 hours of overtime each week (an average that includes the many eligible workers who do not actually work any overtime), the 4.7 percent increase in the supply of overtime hours amounts to just over a 0.2 percent increase in aggregate labor supply.

[8] The precise calculation is (1-0.22+0.5)/((1-0.22)*1.5))-1, where the numerator is the marginal after-income-tax dollar of base wages plus the untaxed premium, and the denominator is the marginal after-income-tax dollar of base and overtime wages without the tax cut.

By averting a $4 trillion tax hike that may prove recessionary, the tax package has additional short-run job-saving benefits. To quantify the additive short-run effect, the CEA uses Okun's law to estimate the employment impact of the positive short-run GDP effects associated with the forces boosting labor demand and then adds in the employment response associated with the positive shift in labor supply. Using this methodology, the CEA finds that the set of tax proposals saves or creates 6.6 to 7.4 million FTE jobs in the short run relative to if the TCJA expires.

Estimating the Take-Home Benefit of the President's Middle Class Tax Cuts

The first method that the CEA uses to calculate the average tax cut from not subjecting the overtime premium to income taxation is to multiply the average overtime worker's base wage by 0.5 (the overtime premium), their marginal tax rate, and annual overtime hours. Among eligible workers who actually work overtime, the American Community Survey (ACS) reports that their usual number of overtime hours per week is 12.67. As a data check, the CEA calculates that the unconditional number of overtime hours in the manufacturing sector from this data source is 6.9, which is 4 hours higher than the 2.9 hours reported by the Bureau of Labor Statistics using establishment data. Thus, the CEA applies a "correction factor" to the 12.67 hours for those who actually work overtime, reducing the number by 4 hours to 8.67. This implies the average overtime worker saves 0.5*28.16*0.22*8.67*52 = $1,397 per year, or about $1,400, where $28.16 is the average base hourly wage (ZipRecruiter, 2025).

The second method the CEA uses is to take the JCT score for the no tax on overtime provision in the One Big Beautiful Bill for fiscal year 2027, which is $35.6 billion, and divide that value by the number of people working overtime in a year. Of the 101.7 million overtime-eligible workers, the American Community Survey indicates that only 20 percent of them regularly work overtime. Thus, according to this alternative method, the average overtime worker saves $35.6/(0.1017*0.2) = $1,750.

For the no tax on tips, the CEA uses aggregate statistics from the IRS Statistics of Income W-2 file and the JCT tip exemption revenue score to estimate the effect of exempting tips from income taxation on take-home pay. Specifically, the W-2 file reports that approximately 6 million workers received tip income and the JCT estimates that the revenue effect of the tip exemption is $10.1 billion per year (average of 2027 and 2028 annual revenue estimates). Using these figures, the CEA estimates a $1,675 increase in annual take-home pay per worker.

For the new bonus deduction for seniors, the CEA uses aggregate statistics from the IRS Statistics of Income Form 1040 Line Items Estimates and the JCT bonus senior deduction revenue score to estimate the effect of the new $4,000 senior bonus deduction on seniors' take-home pay. The Line Item Estimates report that approximately 41.4 million seniors file as single or joint taxpayers and the JCT estimates that the revenue effect of the bonus deduction is $17.9 billion per year (the average of 2027 and 2028 annual revenue estimates). Using the 2024 Current Population Survey's Annual Social and Economic Supplement, which includes income data for calendar year 2023, the CEA finds that around 95 percent of seniors would be eligible for at least some portion of the bonus deduction even with the income phase-out. Using these figures, the CEA estimates an increase of $400 to $450 in annual take-home pay per senior.

Estimating the Short-Run GDP Boost from Higher Consumer Spending

The previous sections discuss the methodology for estimating the impact of the tax cuts in the tax package on long run potential GDP through the supply-side forces of higher investment and labor. In the short run, the tax cuts also boost GDP by unleashing a virtuous cycle of greater private sector demand. This cycle begins with households increasing their consumption in response to higher long-run take-home pay, an effect that ranges from $0.75 to $1 of higher consumption for every dollar of higher long-run income, consistent with Friedman (1957)'s permanent income hypothesis and Carroll (2009). The initial consumer spending surge directly boosts GDP, and the cycle continues as the increase in consumer spending prompts firms to increase hiring and wages, which further raises household income and consumption, creating an indirect multiplier effect.

Because the fiscal multiplier effect fades over time, the CEA analysis here focuses on the early part of the budget window. In the first two full fiscal years of the One Big Beautiful Bill (FY 2027 and FY 2028), the JCT estimates that households will receive an average of $469 billion of tax relief from extensions and enhancement of the individual provisions of the TCJA (the total from subtitle A minus the estimates for no tax on overtime, no tax on tips, and the enhanced deduction for seniors, net of the revenue-raising impact of the cap on the state and local tax deduction) and an additional $62 billion from no tax on overtime, no tax on tips, and the enhanced deduction for seniors. The total relief between the $469 billion and the $62 billion equals about 1.5 percent of GDP. For just the enhanced TCJA individual provisions, the CEA estimates that the "first round" effect on consumption in the multiplier sequence discussed above is between $352 and $469 billion. Adding in the no tax on overtime, no tax on tips, and larger senior deduction increases the range to $398 to $531 billion.

To assess the indirect multiplier effects, a crucial parameter is the marginal propensity to consume (MPC) out of short-lived income shocks. The CEA's April report provides an in-depth discussion of the recent macroeconomics literature that estimates the size of this MPC, but 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).

In the case of the $62 billion from no tax on overtime, no tax on tips, and the enhanced deduction for seniors, the CEA uses smaller estimates for the "first round effect" than the 0.75 to 1 cited above, because the temporary nature of these provisions means that the higher income is not permanent. At the low end, the CEA uses the MPC of 0.4 for the initial consumption impulse, and at the upper end, the CEA uses 0.75, given that the increased take-home pay does not satisfy the usual economic definition of a short-lived income shock either given the multi-year duration. If anything, the MPC choices for the $62 billion are likely to be conservative, given that MPCs rise with age and are higher for lower-income workers, such as workers who rely on tips.

Using the JCT estimate and the MPCs discussed above, the CEA finds that the One Big Beautiful Bill adds 1.6 to 2.2 percent to short-run GDP from extending and enhancing the individual provisions from the TCJA and another 0.1 to 0.2 percent from no tax on overtime, no tax on tips, and the larger senior deduction.

Recent Evidence on the Positive Impact of Opportunity Zones

The extension and enhancement of Opportunity Zones in the One Big Beautiful Bill is a recognition of their success in transforming distressed communities across America. In the short period of time following the passage of TCJA, and despite the disruption of COVID-19, $89 billion of equity investment has flowed into communities designated as Opportunity Zones. 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) measure a 3 to 4.5 percentage point employment boost in Opportunity Zone communities relative to non-Opportunity Zone communities with otherwise similar characteristics, translating to a total gain in jobs of over one million. 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, leading to the construction of over 300,000 new homes that otherwise would not have been built.

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