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## Corporate Lobby's New Math Doesn't Add Up for Kids

By Chuck Marr and Samantha Jacoby

A year-end tax package offers the last chance this year to expand the Child Tax Credit. The 2021 expansion of the credit helped drive the child poverty rate to a record low and helped millions of families pay their bills and afford things like an afterschool activity that previously was out of reach. But the credit expired at the end of last year, and policymakers haven't yet extended this policy success, pushing millions of children back into poverty.

At the same time, corporate lobbyists and some policymakers are promoting a series of corporate tax breaks with gimmick-laden math that masks their true cost.

If year-end legislation must include the corporate provisions alongside the Child Tax Credit expansion — and if policymakers demand that it be “balanced in cost,” as Representative Kevin Brady, ranking member of the House Ways and Means Committee, has suggested — then a fair package should accurately portray how both corporations and children would fare under it and not rely on fuzzy math to hide the value of these tax breaks to corporations that overall enjoy very low tax rates.

### **Gimmick #1: A timing ploy masking the cost of the research and experimentation (R&E) expensing provision**

In the 2017 tax law, congressional Republicans required companies to amortize their R&E expenses (that is, deduct the cost of these expenses over multiple years instead of claiming them all in the first year) beginning in 2022. This was one of the few provisions in the 2017 law that would increase revenues (if it ever went into effect) and, thus, reduced on paper the cost of the bill's large corporate tax cuts. At the time, this tax increase was estimated to raise \$120 billion over ten years — significant revenues that effectively allowed Republicans to pay for the cost of lowering the corporate tax rate by more than 1 percentage point.

The corporate lobby has been pushing hard all year to suspend this provision, underscoring its high value to companies and their shareholders. But after saying back in 2017 that the provision would generate substantial revenue, some lobbyists and policymakers are now claiming that postponing the tax would be close to costless.

Their new math relies on a classic timing gimmick. Instead of permanently eliminating the tax increase and facing the full and substantial cost, which the Congressional Budget Office (CBO) estimates to be \$153 billion over ten years or, on average, more than \$15 billion a year, proponents are advancing a “temporary” delay of the tax increase — but with no intention of ever letting it take effect.

By pushing a temporary provision, proponents can take advantage of official scorekeeping rules, which assume that the tax increase would take effect once the temporary delay expires. An official score would show high costs in the early years, while the delay is in effect. When the delay is assumed to expire, the score would then show these costs being *recovered* in the later years because deductions that otherwise would have been taken in those years were taken earlier. Thus, official estimates show that the substantial near-term cost of a temporary delay — some \$120 billion over four years if the delay lasts through 2025 — would be essentially offset by assumed revenue increases (on top of what would be raised if R&E amortization went into effect as scheduled under current law) in later years, resulting in a net cost of \$4 billion over ten years. (See Table 1.)

TABLE 1

### Delayed Research & Experimentation Amortization Creates Artificially Low Official Score Because of Timing Gimmicks (\$ billions)

Year	1	2	3	4	5	6	7	8	9	10	Total
<b>Four-year delay of R&amp;E amortization (JCT)</b>	-29.1	-39.9	-32.2	-24.1	19.3	38.0	30.0	19.9	9.3	4.9	-4.0
<b>Permanent elimination of R&amp;E amortization (CBO)</b>	-53.3	-25.2	-19.0	-12.5	-7.9	-6.7	-6.8	-7.0	-7.2	-7.5	-153.3

Note: Under delayed R&E amortization, the Joint Committee on Taxation (JCT) assumes amortization begins in Year 5 after a four-year delay, which results in revenue increases that essentially offset the revenue lost in the years expensing is in effect. The Congressional Budget Office’s (CBO) estimate of permanent R&E expensing assumes legislation retroactively lifts the amortization requirement for 2022.

Source: JCT, JCX-45-21, <https://www.ict.gov/publications/2021/jcx-45-21/>; CBO Long-Term Budget Outlook, Revenue Projections (Tab 10), <https://www.cbo.gov/data/budget-economic-data#7>.

But corporate interests never want this tax increase to go into effect — they aren’t making an argument that 2022 is a bad year for this tax increase but it will be a good idea in 2026 — and after being delayed once, it is quite likely to be delayed again. But the “temporary” delay is convenient because it allows proponents to claim that the cost to the taxpayer is a tiny fraction of its true cost over the next decade, as the table shows.

Negotiators should reject this obvious gimmick and push for fairer accounting of this provision.

If policymakers pursue a tax package that pairs the R&E provision and an expansion of the Child Tax Credit, then a fair accounting would show that the \$15 billion annual cost of the R&E provision

is more than it would take to give the full current Child Tax Credit to the 19 million children today who receive less than the maximum \$2,000 amount, or nothing at all, because their families' incomes are too low — exceeding Rep. Brady's "balance" test.

## **Gimmick #2: Delaying phase-down of aggressive deductions of businesses' plant and equipment costs to mask true costs**

Corporate lobbyists are also trying to delay the gradual decrease of a lucrative tax break in the year-end package. Under standard depreciation rules, a business deducts the cost of new equipment gradually over a set number of years. Periodically, as an economic stimulus measure, policymakers have enacted temporary "bonus depreciation" rules on top of already accelerated schedules for these purchases.

Under the most aggressive variation of bonus depreciation, known as "full expensing," businesses can deduct 100 percent of the cost of equipment in the year they buy it. In the 2017 tax law, congressional Republicans enacted full expensing through 2022, converting to a bonus depreciation approach that gradually decreased from 2023 through 2026. While it was a costly tax cut for most of the ten-year period covered by the cost analysis of the 2017 tax cuts, it allowed congressional Republicans to show that this provision would raise revenue by the end of the period, bolstering their claim that their corporate rate cuts would be paid for over the long term.

Lobbyists support *permanent* extension of full expensing of equipment, which would cost \$250 billion over ten years, or an average of \$25 billion per year, according to CBO. Because of this high cost, it would likely only be included in a year-end package on a temporary basis. If so, an official cost analysis would show costs while full expensing is in effect but then show revenues *increasing* in the years after full expensing is assumed to expire (*above* what the provision would have generated if no delay had taken place).

This is the same kind of timing gimmick as the R&E provision, masking the true cost of the tax break if done permanently. Negotiators should instead focus on the provision's true price tag over the next decade, based on the cost of making it permanent.

## **Third corporate tax break: Costly but doesn't rely on a timing gimmick**

Lobbyists are pushing a third corporate tax provision: the suspension of a tighter restriction on the amount of interest deductions certain businesses may take. In the 2017 tax law, congressional Republicans imposed a new limit on the amount of interest that large businesses can deduct each year, which primarily affects companies with large amounts of debt. To raise additional revenue, Republicans tightened this limit starting in 2022, which means that more businesses will face the limit this year.

The interest deduction limitation generated an estimated \$253 billion in ten-year savings when enacted which, like the R&E provision, were used to pay for some of the deep cuts in the corporate tax rate in 2017. The Joint Tax Committee has yet to provide an estimate of the cost of suspending

the scheduled tax increase beginning this year; the Committee for a Responsible Budget has projected it would cost \$20 billion a year, though potentially less costly options exist.<sup>1</sup>

This provision doesn't feature the timing gimmick that the provisions discussed above do, so a temporary delay would not result in an artificially low score over the ten-year budget window. But costs aside, policymakers should consider its negative policy consequences. A strong interest deduction limitation curtails multinational corporations' ability to shift profits overseas by making large interest payments to foreign affiliates and lowers the existing subsidy for debt-financed investment, which benefits highly leveraged businesses, such as private equity funds. As Axios has highlighted, and others have also noted: "corporate interest deductibility is a straw that stirs the PE [private equity] drink, better enabling buyout firms to finance acquisitions by adding debt to portfolio company balance sheets."<sup>2</sup>

The scored cost of a temporary Child Tax Credit expansion, like the interest provision, accurately reflects the cost of the provision while in effect. It does not include a timing shift, so it does not generate *savings* in the years after the expansion expires in 2026 that offset the costs incurred while it is in effect.

Over the course of the 2022 election, many candidates claimed to be on the side of families trying to raise their children and pay their bills. An expanded Child Tax Credit that helps the 19 million children who currently get a partial credit or none at all because their families' incomes are too low would demonstrate that commitment.

In today's political environment, it may be that the path to an expanded Child Tax Credit requires a "pairing" of corporate tax breaks with the expansion. If that is the case, the least we should expect is that policymakers use accurate accounting and reject gimmicks that favor corporate interests.

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<sup>1</sup> Committee for a Responsible Budget, "Year-End 'Extenders' Could Worsen Deficits and Inflation," September 20, 2022, <https://www.crfb.org/blogs/year-end-extendors-could-worsen-deficits-and-inflation>. The 2017 law limited the amount of interest payments large businesses can deduct to an amount equal to 30 percent of their "adjusted taxable income." Beginning in 2022, the law tightened the definition of adjusted taxable income, resulting in more businesses facing the limit, and lobbyists are seeking to suspend that change. A potentially less costly alternative would be for policymakers to retain the pre-2022 definition of adjusted taxable income but combine it with a lower percentage limit on adjusted taxable income.

<sup>2</sup> Dan Primack, "Private equity's other tax fight," Axios, April 22, 2021, <https://www.axios.com/2021/04/22/private-equity-corporate-interest-deductibility>.