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BILL ANALYSIS | Center for American Prosperity

Bill Analysis: The Tax Relief for American Families and Workers Act

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Introduction

On January 19, the House Ways and Means Committee approved H.R. 7024, The Tax Relief for American Families and Workers Act of 2024, advancing it with a bipartisan 40–3 vote. The bill provides several key extensions to provisions created through H.R. 1, the Tax Cuts and Jobs Act (TCJA) of 2017, which began to phase out at the end of 2022. Below, the America First Policy Institute highlights several key provisions of H.R. 7024.

Section 1: Research and Development (R&D) Tax Credit.

A. What it would do: The bill would re-instate a key provision that allows businesses to fully deduct the cost of their investments in Research and Development (R&D) in the year the cost is incurred. Companies currently spread these costs over a five-year period, creating a mismatch between when the expense occurs and when it is recognized for tax purposes, discouraging R&D. This bill fixes the mismatch and aligns with international practice in deducting such costs. This extension would remain in effect until the end of 2025.

B. What it means for the economy: Investment in R&D is key to economic growth and improvements in worker productivity, but it faces severe startup costs because revenues from R&D often take years to materialize. By allowing businesses to deduct the full cost of R&D immediately, this bill would encourage higher levels of investment in knowledge creation while also reducing businesses' immediate cash outlays, providing more money for investment in new projects. By allowing companies to expense R&D investments in assets, equipment, and salaries fully, this bill would advance pro-growth policies for domestic industries. Since these provisions would be extended only until the end of 2025, more must be done to ensure that pro-growth policies will continue after the deadline.

C. Verdict: Excellent framework, but a longer extension is needed to ensure that investment capital can truly reach its full potential.
    a. Source: [Details and Analysis of the Tax Relief for American Families and Workers Act of 2024]

Section 2: Bonus Depreciation

A. What it would do: The bill would temporarily provide bonus depreciation for 100% of purchases made for equipment and short-lived capital assets, re-instating a provision from TCJA. This would mean that firms could take a tax deduction for the full cost of their cash outlays in the year they were incurred rather than spreading them over many years. Under current law, this deduction has started phasing out—from a 100% deduction to 80% in 2023, falling further to 60% in 2024.

B. What it means for the economy: Front-loading the tax deduction and aligning it with when the investment was made relaxes businesses' financing costs, resulting in higher investment. Higher investment boosts productivity, worker wages, and economic growth overall. The longer that bonus depreciation is extended, the greater the positive effect on the economy. Dynamic scoring estimates that if bonus depreciation were extended until 2031, then by the end of the 10-year budget window, the federal government would see an increase in federal revenues. If bonus depreciation were made permanent, it is estimated that 73,000 more Americans would be employed, wages would rise by 0.3%, and economic output would increase by 0.4%.
    a. Source 1: [Congress: Make Expensing of Machinery and Equipment Permanent ASAP]
    b. Source 2: [Research Report: Make the Tax Cuts and Jobs Act Permanent]

C. Verdict: Bonus depreciation provides tax relief for producers and consumers while generating a long-term return on investment for federal revenues, making it a clear policy winner.

Section 3: Employee Retention Tax Credit (ERTC)

A. What it would do: To pay for the 10-year budget impact of this bill, the coronavirus-era ERTC would be ended immediately, setting a final date to file for new ERTC claims of January 31, 2024. The current sunset date for the ERTC is April 15, 2025, five years after businesses needed economic relief from the devastation of the pandemic. The result is an estimated savings to taxpayers of roughly $70 billion.

B. What it means for the economy: Ending the ERTC early would be good for the economy. The ERTC was originally estimated to cost $86 billion, according to the Congressional Budget Office. However, the ERTC went over budget by $144 billion, totaling $230 billion, a 267% increase from the original budgeted amount. If companies have survived the consequences of the pandemic this long, they clearly do not need this relief.

a. Source 1: The Budgetary Effects of the Employee Retention Tax Credit During the Coronavirus Pandemic
b. Source 2: IRS Shuts Door on New Pandemic Tax Credit Claims Until at Least 2024
c. Source 3: Why Did It Take a 267% Overrun to Pause the ERC?

C. Verdict: This is an excellent inclusion that absolutely should be enacted into law. The IRS already placed a moratorium on applications for the ERTC last September due to rampant cases of ineligible businesses fraudulently claiming the credit. By sunsetting this provision early, the bill would pay for itself while reducing fraud and waste of taxpayer dollars.

a. Source: To protect taxpayers from scams, IRS orders immediate stop to new Employee Retention Credit processing amid surge of questionable claims; concerns from tax pros

Section 4: Interest Deductibility

A. What it would do: The bill would increase the portion of interest on borrowed capital eligible to be deducted from businesses' income taxes. It raises the cap to 30% of EBITDA (earnings before interest, taxes, depreciation, and amortization) rather than 30% of EBIT (earnings before interest and taxes). For industries making significant investments in physical capital, and therefore higher depreciation rates, capping the deduction at 30% of EBITDA would decrease their tax liability the most. This rule would apply retroactively to provide looser limitations for the 2022–2025 tax years, providing businesses with more flexibility to utilize debt to fund their activities.

B. What it means for the economy: While this provision would reduce taxes for high-leverage companies, making the EBITDA policy apply retroactively for the last two tax years essentially subsidizes businesses that have already filed and paid taxes for the last two years. The provision would reduce revenue without increasing investment incentives because firms cannot alter their behavior from the past. In addition, it would encourage companies to borrow excessive debt because it would artificially lower the cost of borrowing relative to raising more money from shareholders. One additional concern is that this policy would lead to a higher volume of amended tax returns being filed for the last two years, which would place a strain on the IRS to deliver tax payments and process tax forms for the current year in a timely manner.

C. Verdict: Mixed. Given the dramatic increase in interest rates over the last two years because of the Biden Administration's failed economic policies, this provision would free up cash flows for businesses that have struggled financially. However, the purpose of this provision originally was to have firms use less debt by gradually phasing out the EBITDA cap and phasing in EBIT as the cap. By retroactively applying EBITDA to the last two years, businesses would still be reliant on borrowing debt as opposed to raising more equity capital, which inherently makes businesses more vulnerable to economic shocks. If the economy takes a significant downturn, businesses with more tax-subsidized debt would be at higher risk of collapse, which would place the economy overall in a worse position. The intent of this provision is well-meaning, but the risks associated with this policy should not be understated. *A more pro-growth alternative would be to omit this provision and look at extending the length of the R&D and full expensing provisions.*

Section 5: Child Tax Credit (CTC)

A. What it would do: This provision would increase the phase-in rate for lower-income families with multiple children, allow recipients to use either current year or previous year income to qualify, create an automatic inflation adjustment, and increase the portion that is refundable.

B. What it means for the economy: Because of 40-year high inflation fueled by failed Biden Administration policies, the cost of raising a family has risen significantly in the last three years, with the cost of energy, food, and housing crushing American family budgets. These provisions aim to reverse the erosion of the CTC's purchasing power, making it more generous while avoiding the worst pitfalls of the Biden Administration's temporary expansion of the CTC in the 2021 American Rescue Plan Act. That expansion completely eliminated work requirements by allowing families with zero earnings to receive the full credit. The academic literature finds that removing these work requirements deters labor force participation, causing more people to sit on the sidelines while businesses are struggling to find workers. The work incentives in the proposed CTC changes would move in opposite directions. The more generous phase-in rate would increase the reward for labor force participation and increase earnings for the lowest-income households with multiple children. However, the lookback provision that would allow households to qualify by using last year's income instead of current income would substantially weaken work requirements.
   a. Source: The Anti-Poverty, Targeting, and Labor Supply Effects of the Proposed Child Tax Credit Expansion

C. Verdict: Mixed. This proposal would prevent inflation from further eroding the purchasing power of the CTC, and it would not sever the link between income and work in the way that progressives have previously sought to do by eliminating work requirements entirely. In that sense, the proposed changes here would be clearly superior to the damaging and partisan 2021 CTC expansion. However, the lookback provision is anti-work and anti-growth, even if it is the progressive's ransom demand in exchange for acquiescence to the pro-growth tax policies contained elsewhere in the compromise legislation.

Section 6: Low-Income Housing Tax Credit (LIHTC)

A. What it would do: The bill would increase the allocation of the more generous form of LIHTC credits (the "9% credit") for years 2023 through 2025 and loosen the bond financing requirement for the less generous form of LIHTC credits (the "4% credit"). Both changes would make it easier for developers to obtain LIHTC financing, enabling more projects to move forward. As background, the LIHTC program is the largest affordable housing program in the U.S., costing the federal government about $13.5 billion annually in foregone tax revenue. LIHTC works as a tax subsidy that offsets development costs for properties that charge "affordable" rents, as defined by law. The LIHTC program comes in two variants: the more generous but competitively-awarded 9% credit that developers receive over a 10-year period—offsetting about 70% of project costs on a present value basis—and the less generous but non-competitive 4% credit. In both cases, developers typically sell the credits to investors in exchange for up-front cash to cover project costs. The federal government allocates the 9% credit to states each year based on a per-capita formula (with a floor for small states). By contrast, there is no capped allocation of 4% credits, provided that such projects also receive 50% of their financing from tax-exempt municipal bonds. The bill would boost the allocation of the more generous credits by 12.5%, similar to what was done in the 2018 Consolidated Appropriations Act for the years 2018 through 2021. In addition, the bill would lower the municipal bond financing requirement for 4% credits from 50% to 30%, making it easier for projects to qualify.

B. What it means for the economy: These changes would almost surely increase the number of LIHTC projects, but what is much less clear is whether these new projects would lead to a net increase in the affordable housing supply, especially for the lowest-income families. While this may sound counterintuitive at first, multiple peer-reviewed studies have found that the LIHTC program causes almost complete crowd out, with new LIHTC-financed units offset by reductions in the number of newly built unsubsidized units. It may change the *location* of low-moderate income rental housing, but not the total number. Moreover, the affordability criteria that developers must satisfy to receive LIHTC are quite loose and of little benefit to the lowest-income households. Other research finds that LIHTC does little to reduce poverty concentration. What LIHTC does accomplish, however, is an inflation of construction costs of around 20%. Even some of the most positive studies find mixed results, with LIHTC improving some indicators in low-income neighborhoods while hurting them in high-income areas.
   a. Source 1: Crowd out effects of place-based subsidized rental housing: New evidence from the LIHTC program
   b. Source 2: Do low-income housing subsidies increase the occupied housing stock?
   c. Source 3: Input distortions in the Low-Income Housing Tax Credit: Evidence from building size
   d. Source 4: Poverty concentration and the Low Income Housing Tax Credit: Effects of siting and tenant composition

C. Verdict: Dubious. LIHTC has vociferous defenders who profit directly from the program, and it has another set of principled defenders who support the *objectives* of the program. However, achieving those objectives would require a number of different reforms that are not addressed in this bill.

Conclusion

While the Tax Relief for American Families and Workers Act is far from perfect, it would provide key tax reforms that are pro-business, pro-growth, and anti-waste and corruption. In order to realize the full effects of this bill, the elements of this bill that were originally found within the 2017 TCJA should be made permanent.

Two years after the enactment of the TJCA, economic data showed that the reforms led to GDP growth that was a full percentage point higher than the previous 10-year average. Investment in R&D rose by 18% during this period, leading to more than $2 trillion of new investments in R&D. Additionally, unemployment fell to its lowest rate in 50 years, and wages grew at a rate of 4.9% higher than inflation, leading to annual household incomes rising by more than $5,000.

Source 1: Tax Relief for American Families and Workers Act Restores Proven Pro-Growth Tax Policies to Support Workers, Help Small Businesses Grow & Compete Against China

Source 2: The 2017 Tax Cuts and Jobs Act

Final Verdict: This bill has flaws, but the pro-growth investment provisions in particular make it a net positive for American families and the economy.