Insight

The Ins and Outs of the Ways and Means Committee Reconciliation Legislation

GORDON GRAY | SEPTEMBER 22, 2021

Executive Summary

- House Committee on Ways and Means Democrats voted to report out 10 elements, or subtitles, of the forthcoming reconciliation bill that will comprise the domestic spending agenda known as the Build Back Better Act
- The Joint Committee on Taxation has estimated the budget effects of five of these elements and found that they would reduce the deficit by $871.3 billion over the next 10 years.
- This figure, however, belies the budgetary effects of the legislation, which would increase spending by $688 billion over the decade, while providing $514 billion in tax reductions, offset by a $2.1 trillion tax increase.

Introduction

Last week, the House Committee on Ways and Means Democrats voted to report out 10 elements, or subtitles, of the forthcoming reconciliation bill that will comprise the domestic spending agenda known as the Build Back Better Act. The measures include a range of tax increases on individuals and businesses, along with substantial tax subsidies and reductions. The Ways and Means Committee subtitles are the most budgetarily significant component of the larger reconciliation package that will bundle together the legislative recommendations of 12 House committees. The outlook for this tax package and the reconciliation bill in general is unclear, and indeed, congressional budget agencies are still in the process of estimating the budgetary effects of the legislation. The Joint Committee on Taxation (JCT), however, has estimated the budget effects of the tax provisions for five subtitles.

Revenue and Outlay Effects of Ways and Means Subtitles F, G, H, I, and J

($ Billions) Revenue	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2022-2031
Subtitle F	-1.1	-3.9	-5.4	-6.7	-7.7	-8.3	-9.1	-9.7	-10.2	-10.4	-73.3
Subtitle G	-3.1	-9.2	-12.3	-16.1	-18.3	-19.7	-20.6	-22.6	-24.5	-26.1	-172.4
Subtitle H	-30.1	-43.0	-48.7	-50.5	-33.4	-11.8	-12.1	-12.4	-12.9	-13.2	-268.0
Subtitle I	145.6	150.2	209.4	227.7	224.4	227.6	230.2	221.2	216.3	220.3	2,072.9
Subtitle J	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net Revenue	111.4	94.2	143.0	154.4	165.0	187.9	188.3	176.5	168.8	170.7	1,559.2
Outlays											
Subtitle F	0.3	1.3	2.9	4.6	6.0	7.1	7.9	8.6	9.4	10.2	58.2
Subtitle G	2.8	2.6	3.0	4.4	5.8	6.7	7.5	8.8	10.0	11.1	62.7
Subtitle H	83.4	109.5	112.7	116.7	44.6	19.2	19.5	20.0	20.5	21.0	567.0
Subtitle I	0.0	0.1	0.1	0.1	0.0	0.0	0.0	-0.1	-0.1	0.0	0.1
Subtitle J	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net Outlays	86.5	113.5	118.7	125.7	56.4	32.9	34.8	37.3	39.8	42.3	687.9
Deficit	24.9	-19.3	24.4	28.7	108.6	155.0	153.5	139.2	129.0	128.4	871.3
Gross Revenue Reductions	-34.2	-56.0	-66.4	-73.3	-59.4	-39.7	-41.9	-44.8	-47.6	-49.6	-513.7
Gross Revenue Increases	145.6	150.2	209.4	227.7	224.4	227.6	230.2	221.2	216.3	220.3	2,072.9
Gross Outlays	86.5	113.5	118.7	125.7	56.4	32.9	34.8	37.3	39.8	42.3	687.9

As tax measures, one could be forgiven for assuming the Ways and Means provisions affect only revenues, but embedded within many policies are significant spending effects, reflecting the substantial spending that runs through the U.S. tax code in the form of narrow tax breaks, or outright check-writing in the form of refundable tax credits. The five Ways and Means elements that have been scored by JCT include significant new tax expenditures amounting to $688 billion in spending over the next decade and $514 billion in tax reductions, for a combined deficit effect of $1.2 trillion.[1] This deficit effect is offset by $2.1 trillion in estimated tax increases, for a net deficit decrease of $871.3 billion.

The upshot of these estimates is that even within tax legislation, there are significant spending effects. The single largest outlay in this legislation is the expanded child tax credit. The JCT estimated this provision would cost $556 billion over the next decade. As a tax provision, one might assume this amounts to a $556 billion tax cut, but that would not be accurate. Rather, the provision would reduce revenues by $135 billion over the next 10 years, and increase spending by $421 billion over the same period. The credit is refundable, meaning that even if taxpayers have no tax liability, they would still receive the credit in the form of a payment, which for some would be monthly. In addition to the child tax credit, the legislation contains 19 additional provisions that affect spending, combining to increase spending by an additional $267 billion over the next decade.

Conclusion

The Build Back Better reconciliation legislation is winding its way through the House of Representatives. The legislation will substantially expand the federal government's footprint in the U.S. economy through higher taxes and higher spending. Even legislation that is nominally tax related includes substantial new spending – in this instance, $688 billion in new spending. For context, this is roughly the amount of funding the Department of Defense received in fiscal year 2019.

[1] Note that Subtitle J, which includes an excise tax on drug manufacturers was estimated as having no revenue effect.