URBAN-BROOKINGS TAX POLICY CENTER

Tax Stimulus Report Card: Comparing the House and Senate Bills

The Urban Brookings Tax Policy Center has graded the key tax provisions of the House and Senate stimulus bills (the "American Recovery and Reinvestment Tax Act of 2009"). Our grades reflect how well these measures would boost the economy in the short run per dollar of budget cost (sometimes called "bang for the buck"). For grading purposes, we assume that each provision will expire as scheduled and consider only the effects on aggregate demand (consumption or investment) or employment in the short-term. Each grade depends on both timeliness and targeting. To receive an A, a provision would have to begin quickly and go primarily to people who would most likely spend it or to businesses that would most likely use funds to retain workers or expand. We do not consider the long-term effects on the economy. An attached write-up describes current law, the proposed change, and the short- and long-term effects on the budget, the economy, fairness, and tax complexity. There, we also discuss the likelihood that each proposal would actually expire as scheduled and, for some provisions, explain what changes would raise the grade to an A.

This report card combines the grades from our individual report cards on the two stimulus bills. Like those report cards, this one is preliminary and does not include all of the provisions in the bill – most notably we omit provisions related to the marketability and issuance of state and local debt and recovery zone credits. We may evaluate additional provisions and adjust our grades and analysis as we learn more about the proposals. In addition, TPC will update its Report Card as the stimulus bill moves through Congress.

Click here to see report card for Senate Bill

Click here to see report card for House Bill

Tax provision	Stimulus effect		Ten-year revenue cost* ($ billions)		Comments (see individual report cards for details)
	S	H	S	H	
Individual Income Tax Provisions					
"Making Work Pay" tax credit	B+	B+	139.4	144.9	Could start quickly. Payment in small increments may increase stimulus effect but two-year limit and high-income eligibility reduces impact. **Senate imposes lower income limits**.
Increase in earned income tax credit	B	B	4.7	4.7	Highly targeted. Gives cash assistance to low-income families most likely to spend quickly, but slow to start.
Increase eligibility for the refundable portion of child credit	B	B+	7.2	18.3	Highly targeted gives cash assistance only to lowest-income families most likely to spend quickly, but slow to start. **Senate less well targeted because starts phase-in of credit starts at higher earnings level.**
"American Opportunity" education tax credit	C	C	12.9	13.7	Slow to start. Refundable, so it goes to low-income students. Low-income households likely to spend quickly but only when funds become available. **Senate has less refundability (30% vs. 40%).**
Homebuyer credit	D+	C+	39.2	2.6	Small short-run stimulus to weak housing market. Large windfall gains to people who would buy anyway. Eliminating repayment simplifies administration. **Senate version goes to all buyers, is not refundable, and is twice as large as House version ($15,000 vs. $7,500).**
Exclusion from gross income for unemployment compensation benefit	B-	**	4.7	**	Generally not effective until early 2010. Goes to households whose income has fallen, increasing stimulus effect. Would be much better if designed as an increase in benefits.
Automobile Sales Tax and Interest Deduction	C-	**	10.5	**	Would generate only demand for new vehicles. Benefits go to a single industry. Most valuable to high-income taxpayers who are more likely to buy vehicles, with or without the subsidy.
Extend the alternative minimum tax patch through 2009	D-	**	69.8	**	Neither timely nor targeted; poor economic stimulus.

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Business Tax Provisions					
Extension of enhanced small businesses expensing	C	C	0.04	0.04	Simplifies filing for small businesses and may encourage some to accelerate investment in capital equipment. Impact is expected to be small and much of tax benefit is likely to go to businesses that would have invested anyway.
Extension of bonus depreciation	C	C	5.1	5.1	Previous experience suggests that investment effects would be modest at best. Severity of downturn decreases the stimulus potential.
Five-year carryback of net operating losses	B	B	19.5	15.0	Makes temporary investment incentives such as bonus depreciation and expensing more effective. By increasing cash flow to businesses, it could also stimulate new investment but the effect is likely to be modest. Under the House provision, only 90% of net operating losses qualify for the additional carry back period.
Incentives to hire unemployed veterans and disconnected youth	D	D	0.3	0.2	Based on past experience with this wage subsidy, it is unlikely to generate jobs for the target groups.
Broadband tax incentives	C	**	0.2	**	Would spur some new investment but take time to materialize. Could pay for investments that would be undertaken without the credit.
Deferral of certain income from discharge of indebtedness	C-	**	0.8	**	May help some companies deleverage, but much of the benefit would go to those businesses that least need assistance.
Increase in New Markets Tax Credit	C+	**	1.0	**	Any effect would likely be small and occur slowly. Well-targeted to communities most burdened by economic downturn. Reduces borrowing costs for developers active in low-income communities.
Renewable Energy Provisions					
Reinvestment in renewable energy	C	C	17.8	20.0	Some new investment would be added, but some projects may take time to gear up.
Tax Proposals Not Evaluated	--	--	35.0	50.1	
All Tax Proposals	--	--	368.4	274.6	Tax provisions account for 44 percent of the cost of the Senate bill and 34 percent of the cost of the House bill.

* We cite “10-year” revenue estimates but the values reported include both the 10-year budget window—2010-2019—and 2009, because significant revenue reductions occur in the latter year. Revenue estimates for the Senate bill come from Joint Committee on Taxation, Estimated Budget Effects of the Revenue Provisions Contained in the Collins-Nelson Amendment (# 570) in the Nature of a Substitute to the "American Recovery and Reinvestment Tax Act of 2009," under Consideration by the Senate, JCX-17-09, February 10, 2009 (http://www.jct.gov/x-17-09.pdf). Revenue estimates for the House bill come from Joint Committee on Taxation, “Estimated Budget Effects of the Revenue Provisions Contained in Division B, Titles I and III, of H.R. 1, as Passed by the House of Representatives on January 28, 2009,” JCX-14-09, January 30, 2009. (http://www.jct.gov/x-14-09.pdf)

** Bill contains no comparable provision.