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Senators are right to want to make business provisions permanent.

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Making a More Beautiful Tax Bill

REVIEW & OUTLOOK

Senate Republicans are pitching President Trump on improvements to the House tax bill, and one important priority is making its business tax cuts permanent. This would help the economy and provide businesses with more certainty amid tariff disruption and deficit fears.

One of the 2017 tax reform's most constructive changes was letting businesses immediately deduct the full cost of capital investments rather than spread them out. Instead of writing off a $100,000 machine over its useful life-span—say, $10,000 a year over 10 years—businesses were allowed to immediately expense the full cost as they do operating costs.

Note

Because inflation reduces the value of future deductions, a company might recover only 80% or less of the cost of an investment under typical depreciation schedules. By reducing the cost of capital, expensing spurs investment. It also eliminates tax distortions that are created when businesses in different industries write off assets on different schedules.

Republicans in 2017 made full expensing temporary because they wanted to keep the estimated cost of their tax bill to $1.5 trillion. Full expensing for equipment began to phase out after 2022. Companies that year also had to begin deducting their research and development costs over five years rather than immediately, which upended a decades- old policy.

R& D spending has consequently flagged, as the nearby chart shows, growing 3.6% annually on average since January 2022 compared with 7.4% in 2018 and 2019 and 8.8% in 2021. Higher interest rates and uncertainty from the Inflation Reduction Act's drug price controls may also be culprits, but businesses say they have put R& D plans on ice because of uncertainty about the deduction.

Business investment today will boost future productivity and economic growth, so it's good that the House tax bill restores full expensing for equipment and R& D, though only through 2029. The bill also expands bonus depreciation to new factories through 2028. House Republicans made expensing temporary to reduce the bill's cost under the Congressional Budget Office's 10-year budget window. But this will steal from future growth as investment is moved forward to take advantage of the temporary expensing provision. The Joint Committee on Taxation estimates full expensing will cost $524 billion through 2029, but only $207 billion over 10 years in part because businesses are expected to move forward investments.

But businesses plan investments over many years and need certainty. Because of government permitting headaches, it can take years to get approval to build a pipeline or factory. Trials for an experimental drug typically take more than a decade. Businesses might not embark on projects if they are unsure whether full expensing will continue.

If Democrats control Washington in 2029, they are unlikely to extend the bill's expensing provisions, at least not without horse-trading that could raise other taxes. Democrats might also seek to limit expensing to their preferred industries like green energy.

Making the tax provisions permanent makes it harder for Democrats to repeal them even if they control Congress and the White House, as we saw with their failure to raise the corporate income-tax rate in the Biden years. Permanence increases the bill's cost on paper by a few hundred billion dollars without accounting for faster growth. But Republicans have several ways to offset the cost. they could reduce the House bill's $40,000 stateand- local tax deduction cap or scrap one or all of Mr. Trump's tax breaks for tips, overtime, seniors and auto loan interest. These are all expensive and do nothing to boost growth.

The 2017 bill succeeded politically because it was pro-growth. The biggest failure of the House bill is that it mainly extends the 2017 tax rates with little new supply-side reform. Making the business provisions permanent would be a welcome exception.

