Macroeconomic impacts of proposed IRC Section 899 in the House-approved budget reconciliation bill

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EY Quantitative Economics and Statistics (QUEST) practice

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Executive summary

- This analysis uses the EY Macroeconomic Model to estimate the macroeconomic impacts of proposed IRC Section 899 in the House-approved budget reconciliation bill ("Section 899").
- Section 899 is estimated to make the United States a less attractive location for foreign investment. When foreign investment declines, there is less capital available to build new factories, upgrade equipment, and expand businesses. With less capital per worker, productivity declines, ultimately resulting in fewer job opportunities and reduced wages across the economy.
- Section 899 is estimated to have the following macroeconomic impacts (relative to the size of the 2026 US economy):*

  Gross domestic product (GDP)

  - GDP measures the value of final goods and services produced within the United States. Section 899 is estimated to decrease US GDP by:
    - **$55 billion annually**, on average, in each of the first ten years
    - This grows to **$100 billion annually** in the long run

  Job equivalents

  - A significant portion of the macroeconomic impacts of enacting Section 899 would fall on US workers through decreased labor productivity, wages, and employment. The tax change is estimated to decrease US job equivalents by approximately:
    - **360,000 job equivalents**, on average, in each of the first ten years
    - This grows to **700,000 job equivalents** in the long run
- The revenue and macroeconomic impacts of Section 899 are subject to significant uncertainty. This analysis follows the Joint Committee on Taxation (JCT) assumption of a current-law baseline (i.e., there is no policy response by foreign jurisdictions).**

*Job equivalents summarize the impact of both the decrease in hours worked and decreased labor income. Specifically, job equivalents are calculated as the total change in labor income divided by baseline average labor income per job. "Long run" denotes when the economy has fully adjusted to the policy change; generally, 2/3 to 3/4 of this adjustment occurs within 10 years.
**Section 899 would provide enormous pressure on foreign jurisdictions to either repeal existing "unfair foreign taxes" or exempt US-headquartered groups from such taxes. The provision similarly discourages the enactment of new "unfair foreign taxes" or the removal of existing US exemptions. This creates a high degree of uncertainty for the revenue and macroeconomic impacts: if foreign jurisdictions respond by exempting US-headquartered groups, few taxpayers may be subject to Section 899; conversely, if such taxes remain in place, many taxpayers may be subject to Section 899. This analysis follows the JCT assumption of a current-law baseline (i.e., there is no policy response by foreign jurisdictions). Note that this assumption also excludes potential retaliation or new "unfair foreign taxes" that are not in effect or scheduled for implementation under current law. See the methodology, caveats, and limitations slides for a discussion.

Internal Revenue Code Section 899 as proposed in the House-approved budget reconciliation bill (1/2)

Overview of Section 899[1]

Section 899 would increase federal income tax and withholding tax rates and expand the application of the Base Erosion and Anti-Abuse Tax (BEAT) rules on certain foreign-parented groups. It would also apply to inbound investors, including certain individuals, foreign governments, private foundations, certain trusts, and certain foreign partnerships. It would apply to residents of countries with certain "unfair foreign taxes."

Unfair foreign taxes

"Unfair foreign taxes" specifically include:

- Undertaxed profits rules (UTPR), digital services taxes (DST), diverted profits taxes (DPT), and other taxes as determined by the US Treasury Department and Internal Revenue Service (IRS).

Tax rate increases

For applicable persons, the following tax rates would increase by an "applicable number of percentage points" (including both statutory rates and any reduced treaty rates that would otherwise apply):

Income tax rates

- 30% rate on fixed or determinable annual or periodical gains, profits, and income (FDAP income), certain capital gains, and certain other types of US-source income for nonresident alien individuals or foreign corporations
- Individual income tax rates on effectively connected income (ECI) for nonresident alien individuals, but only on gains from the disposition of a US real property interest (USRPI)
- 21% corporate income tax rate on a foreign corporation's ECI
- 30% branch profits tax on dividend equivalent amounts
- 4% rate on US-source gross investment income of foreign private foundations

Continued...

1. For a more detailed summary of Section 899, see Ernst & Young Global. (2025, May 16). United States: New IRC Section 899 would increase tax rates and expand BEAT for certain inbound taxpayers. EY Global Tax News. https://globaltaxnews.ey.com/news/2025-1085-united-states-new-irc-section-899-would-increase-tax-rates-and-expand-beat-for-certain-inbound-taxpayers; Joint Committee on Taxation. (2025, May 12). Description of the tax provisions of the chairman's amendment in the nature of a substitute to the budget reconciliation legislative recommendations related to tax. https://www.jct.gov/publications/2025/jcx-21-25/.

Internal Revenue Code Section 899 as proposed in the House-approved budget reconciliation bill (2/2)

Withholding tax rates

- 30% withholding rate on FDAP income, certain capital gains, and certain other types of US-source income made to an applicable person
- 15% withholding rate on USRPI dispositions by applicable persons
- Other withholding rates on certain dispositions, distributions, or transactions involving applicable persons

Rate increase schedule

The "applicable number of percentage points" means:

- 5-percentage-point increase during the first one-year period, increasing by an additional 5 percentage points for each one-year period thereafter
- Increases are capped at the statutory rate plus 20 percentage points

BEAT expansion

Section 899 expands the BEAT to any non-publicly held corporation that is majority owned by "applicable persons." These corporations would be subject to BEAT as if they met the standard gross receipts and base erosion percentage tests, even if they don't actually meet them.

Key BEAT changes

- Rate increase: From 10% to 12.5%
- Credit treatment: Regular tax liability reduced by "the sum of all credits allowed under Chapter 1 of the Code"
- Fewer exceptions

Macroeconomic impacts of proposed IRC Section 899 in the House-approved budget reconciliation bill

Percent change in level relative to baseline

	2026-2029	2030-2034	Long run
Gross domestic product	-0.2%	-0.2%	-0.3%
Investment	-1.9%	-1.6%	-0.8%
After-tax wage rate	*	-0.1%	-0.3%
Labor supply	-0.2%	-0.2%	-0.1%
Private capital	-0.1%	-0.3%	-0.8%
Annual impact scaled to 2026 US economy			
Gross domestic product	-$50b	-$60b	-$100b
Job equivalents	-310,000	-410,000	-700,000

*Less than 0.05% in magnitude.
Note: Job equivalents summarize the impact of both the decrease in hours worked and decreased labor income. Specifically, job equivalents are calculated as the total change in labor income divided by baseline average labor income per job. "Long run" denotes when the economy has fully adjusted to the policy change; generally, 2/3 to 3/4 of this adjustment occurs within 10 years. Section 899 would provide enormous pressure on foreign jurisdictions to either repeal existing "unfair foreign taxes" or exempt US-headquartered groups from such taxes. The provision similarly discourages the enactment of new "unfair foreign taxes" or the removal of existing US exemptions. This creates a high degree of uncertainty for the revenue and macroeconomic impacts: if foreign jurisdictions respond by exempting US-headquartered groups, few taxpayers may be subject to Section 899; conversely, if such taxes remain in place, many taxpayers may be subject to Section 899. This analysis follows the JCT assumption of a current-law baseline (i.e., there is no policy response by foreign jurisdictions). Note that this assumption also excludes potential retaliation or new "unfair foreign taxes" that are not in effect or scheduled for implementation under current law. See the methodology, caveats, and limitations slides for a discussion. Figures are rounded.
Source: EY analysis.

Methodology, caveats, and limitations (1/6)

The methodology used in this analysis is outlined below. As with any modeling effort, the economic model developed here is only an approximation of the complex economic forces it aims to represent. Accordingly, key caveats and limitations are discussed alongside the methodology below.

Revenue estimation and behavioral uncertainty

The federal revenue implications of Section 899 are difficult to estimate with precision due to significant uncertainty surrounding the behavioral responses of both foreign jurisdictions and foreign investors:

- *Jurisdictional response uncertainty:* Section 899 would provide enormous pressure on foreign jurisdictions to either repeal existing "unfair foreign taxes" or exempt US-headquartered groups from such taxes. The provision similarly discourages the enactment of new "unfair foreign taxes" or the removal of existing US exemptions. This creates a high degree of revenue uncertainty: if foreign jurisdictions respond by exempting US-headquartered groups, few taxpayers may be subject to Section 899; conversely, if such taxes remain in place, many taxpayers may be subject to Section 899. Additionally, foreign jurisdictions may respond by increasing taxes on outbound US investment, similar to the tit-for-tat escalation that has occurred recently with trade policy.
- *Behavioral response uncertainty:* Peer-reviewed academic literature has found that both foreign portfolio investment (FPI) and foreign direct investment (FDI) are highly sensitive to their tax treatment.[2] Additionally, the literature has found that multinational enterprises (MNEs) make significant use of tax planning—employing mechanisms such as transfer pricing optimization, debt structuring, and intellectual property repositioning—in response to international tax differentials.[3] However, due to the novel structure and magnitude of Section 899, the magnitude of the behavior may differ from historical patterns.

Analytical approach and revenue baseline

The JCT estimates that Section 899 would raise $116 billion over the 2025-2034 budget window.[4] There are important considerations for interpreting this revenue estimate:[5]

- *Current law assumption:* JCT revenue estimates, by design, compare projected federal revenue under the proposal to baseline revenue under current law. As a result, this assumes no policy response by foreign jurisdictions. This assumption could overstate how many companies would ultimately be subject to Section 899 given the strong incentives for jurisdictional policy changes. However, this assumption would also exclude potential retaliation or new "unfair foreign taxes" that are not in effect or scheduled for implementation under current law.

2. de Mooij, R. A., & Ederveen, S. (2008). Corporate tax elasticities: A reader's guide to empirical findings. Oxford Review of Economic Policy, 24(4), 680–697. https://www.jstor.org/stable/23606837; Desai, M. A., & Dharmapala, D. (2009). Dividend taxes and international portfolio choice (Revised ed.). Harvard Business School & National Bureau of Economic Research. SSRN. https://doi.org/10.2139/ssrn.1000680; Feld, L. P., & Heckemeyer, J. H. (2011). FDI and taxation: A meta-study. Journal of Economic Surveys, 25(2), 233–272. https://doi.org/10.1111/j.1467-6419.2010.00674.x.
3. Beer, S., de Mooij, R., & Liu, L. (2020). International corporate tax avoidance: A review of the channels, magnitudes, and blind spots. Journal of Economic Surveys, 34(3), 660–688. https://doi.org/10.1111/joes.12305.
4. Joint Committee on Taxation. (2025, May 13). Estimated revenue effects of provisions to provide for reconciliation of the fiscal year 2025 budget (JCX-22-25R). https://www.jct.gov/publications/2025/jcx-22-25r/.
5. Joint Committee on Taxation. (2025, January 28). The Joint Committee on Taxation Revenue Estimating Process. https://www.jct.gov/publications/2025/revenue-estimating-process-january-2025/.

Methodology, caveats, and limitations (2/6)

- *Data limitations:* Notably, explicit modeling of Section 899's revenue impact is constrained by limited publicly available data on the relevant tax bases and affected entities. However, the JCT's access to confidential tax return data represents a significant analytical advantage that enhances the reliability of their estimate relative to alternative modeling approaches.
- *Embedded behavioral responses:* Although there is no policy response from foreign jurisdictions, the JCT estimate incorporates significant behavioral responses. The revenue estimate—growing from $12.6 billion in 2026 to $31.8 billion in 2028 before declining to $0.2 billion in 2032 and -$8.1 billion in 2034—reflects both the phased implementation of Section 899 and significant behavioral adjustments by affected entities. JCT chief of staff Thomas Barthold, for example, has stated that the JCT revenue estimate includes a "decline in foreign demand for US direct and portfolio investment" and "general avoidance and compliance behavior."[6]

Given these considerations, the modeling in this analysis relies on a modified version of the JCT's revenue estimate for approximating the policy's investment incentive effects. Specifically, the analysis draws on the early years of the revenue estimate (which has more limited behavior) to extrapolate the static revenue estimate and then incorporates modeling of tax avoidance responses to estimate Section 899's impact on investment incentives.[7] The decline in foreign demand for US direct and portfolio investment is discussed below. Note that this methodology retains the current law assumption.

Responsiveness of foreign investment to taxation

Section 899 increases various US tax rates for "applicable persons" (primarily individuals and entities that are tax residents of jurisdictions imposing "unfair foreign taxes" such as DSTs or UTPRs). The provision affects foreign investment through multiple channels, creating incentives for capital reallocation away from the United States.[8]

- First, FPI, such as purchases of US stocks and bonds, is affected when higher US taxes reduce the after-tax return to affected foreign investors. When after-tax returns fall, US financial assets become less attractive compared to similar investments in other countries. As a result, foreign investors may shift their capital elsewhere, reducing the flow of funds into US markets and potentially raising financing costs for US businesses.[9]

6. Bloomberg Tax. (2025, May 30). Trump 'revenge' tax to cut foreign investment, scorekeeper says. Bloomberg Industry Group. Trump 'Revenge' Tax to Cut Foreign Investment, Scorekeeper Says.
7. Note that in their macroeconomic analysis of the tax provisions of the budget reconciliation legislative recommendations related to tax as ordered reported by the Committee on Ways and Means on May 14, 2025 the JCT states: "Due to the temporary nature of some of the business deductions, including bonus depreciation, OLG and DSGE predict a stronger capital response, and MEG predicts a less negative response, in the first half of the budget window than in the second half. Changes to multinational corporate taxation result in a large and permanent effective marginal tax increase for foreign-headquartered firms operating domestically. This, and the elimination of energy tax credits, discourage corporate investment in capital. Based on the projections of all three models, the Joint Committee staff estimates that capital stock will increase by about 0.1 percent and decrease by 0.4 percent relative to baseline levels during the first and second halves of the budget window, respectively, averaging to a decrease of 0.1 percent over the entire budget window." Joint Committee on Taxation. (2025, May 22). Macroeconomic Analysis Of The Tax Provisions Of The Budget Reconciliation Legislative Recommendations Related To Tax As Ordered Reported By The Committee On Ways And Means On May 14, 2025. https://www.jct.gov/publications/2025/jcx-25-25/.
8. As noted above, the primary intended mechanism is to pressure discriminatory foreign jurisdictions to repeal "unfair taxes" or exempt US-headquartered groups. If successful, this would effectively eliminate the tax and restore baseline investment incentives. However, foreign jurisdictions may respond by increasing taxes on outbound US investment, similar to the tit-for-tat escalation that has occurred recently with trade policy; this would likely result in larger macroeconomic impacts than those estimated by this analysis. Finally, note that companies are likely to respond with tax planning to reduce exposure to Section 899. The magnitude of investment responses will depend critically on: (1) whether discriminatory jurisdictions modify their tax policies in response to Section 899, (2) the availability and cost of tax avoidance strategies, and (3) the concentration of affected investors in particular asset classes or sectors.
9. Desai, M. A., & Dharmapala, D. (2009). Dividend taxes and international portfolio choice (Revised ed.). Harvard Business School & National Bureau of Economic Research. SSRN. https://doi.org/10.2139/ssrn.1000680.

Methodology, caveats, and limitations (3/6)

- Second, FDI—such as building factories or acquiring controlling stakes in US companies—faces two distinct but related tax incentive effects.[10] For businesses already operating in the United States, expansion decisions depend on the Marginal Effective Tax Rate (METR). The METR measures the tax burden on the "last dollar" of investment (i.e., a marginal project that just breaks even). As established in the Devereux-Griffith framework, this rate impacts the "intensive margin" of investment, or how much existing investors choose to expand their operations. Section 899's higher rates increase the METR for affected foreign companies, reducing investment levels and potentially causing them to scale down US operations.

  For companies deciding whether to be in the US market at all, the relevant metric is the Effective Average Tax Rate (EATR). Unlike the METR, which focuses on marginal investments, the EATR measures the overall share of total profits paid in tax (i.e., it focuses on the "extensive margin" of investment). The EATR becomes particularly important for large, discrete investment decisions like market entry because it captures the tax burden on all profits, not just the marginal return. That is, while the METR measures the tax burden only on normal returns to capital, the EATR measures the tax burden on both normal returns and supernormal returns.[11] Since these profits are highly mobile across borders and alternative investment locations compete for the same capital, even modest increases in the EATR can significantly reduce the probability that a company chooses the United States over other jurisdictions.[12]
- Finally, other forms of investment and activity, including activities by foreign individuals, foreign foundations, and certain business structures, may face similar deterrent effects if Section 899's elevated tax rates apply to their activities.

Model implementation

Subject to the above methodology, caveats, and limitations, macroeconomic impacts were then estimated using the EY Macroeconomic Model. The EY Macroeconomic Model used for this analysis is similar to some of those used by the Congressional Budget Office (CBO), JCT, and US Treasury Department.[13] In this model, changes in tax policy affect the incentives to work, save and invest, and to allocate capital and labor among competing uses. Representative individuals and firms incorporate the after-tax return from work, savings, and investment, into their decisions on how much to produce, save, and work.

10. Devereux, M. P., & Griffith, R. (1998). The taxation of discrete investment choices (Working paper W98/16). Institute for Fiscal Studies. https://hdl.handle.net/10419/90851; Devereux, M. P., & Griffith, R. (2003). Evaluating tax policy for location decisions. International Tax and Public Finance, 10(2), 107–126. https://doi.org/10.1023/a:1023364421914.
11. Cronin, J.-A., Lin, E. Y., Power, L., & Cooper, M. (2012, May). Distributing the corporate income tax: Revised U.S. Treasury methodology (Technical Paper No. 5). US Department of the Treasury, Office of Tax Analysis. https://home.treasury.gov/system/files/131/TP-5.pdf.
12. de Mooij, R. A., & Ederveen, S. (2008). Corporate tax elasticities: A reader's guide to empirical findings. Oxford Review of Economic Policy, 24(4), 680–697. https://www.jstor.org/stable/23606837; Feld, L. P., & Heckemeyer, J. H. (2011). FDI and taxation: A meta-study. Journal of Economic Surveys, 25(2), 233–272. https://doi.org/10.1111/j.1467-6419.2010.00674.x.
13. For example, see: Nelson, J., Phillips, K., Benzell, S. G., Berkovich, E., Carroll, R., DeBacker, J., Diamond, J., Evans, R., Gokhale, J., Kotlikoff, L., LaGarda, G., Mackie, J., Moore, R., Pecoraro, B., Pizzola, B., Ye, V. Y., & Zodrow, G. (2019). Macroeconomic effects of reducing OASI benefits: A comparison of seven overlapping-generations models. National Tax Journal, 72(4), 671–706. https://www.journals.uchicago.edu/doi/abs/10.17310/ntj.2019.4.02; Joint Committee on Taxation. (2024, December 12). JCT methodology for analyzing macroeconomic effects 2024. https://www.jct.gov/publications/2024/jct-methodology-for-analyzing-macroeconomic-effects-2024/; Congressional Budget Office. (2019, February). An overview of CBO's life-cycle growth model. https://www.cbo.gov/system/files/2019-02/54985-OLGmodel.pdf; and President's Advisory Panel on Federal Tax Reform. (2005, November). Simple, fair, and pro-growth: Proposals to fix America's tax system. US Department of the Treasury. https://home.treasury.gov/system/files/131/Report-Fix-Tax-System-2005.pdf.

Methodology, caveats, and limitations (4/6)

The general equilibrium methodology accounts for changes in equilibrium prices in factor (i.e., capital and labor) and goods markets and simultaneously accounts for the behavioral responses of individuals and businesses to changes in taxation (or other policies). Behavioral changes are estimated in an overlapping generations (OLG) framework, whereby representative individuals with perfect foresight incorporate changes in current and future prices when deciding how much to consume and save in each period of their lives. The EY Macroeconomic Model explicitly models the ways in which Section 899 impacts foreign investment incentives discussed above, with estimates of the responsiveness of foreign investment to taxation drawn from the relevant academic literature as cited in footnotes.

Production

Firm production is modeled with the constant elasticity of substitution (CES) functional form, in which firms choose the optimal level of capital and labor subject to the gross-of-tax cost of capital and gross-of-tax wage. The model includes industry-specific detail through use of differing costs of capital, factor intensities, and production function scale parameters. Such a specification accounts for differential use of capital and labor between industries as well as distortions in factor prices introduced by the tax system. The cost of capital measure models the extent to which the tax code discriminates by asset type, organizational form, and source of finance.

The industry detail included in this model corresponds approximately with three-digit North American Industry Classification System (NAICS) codes and is calibrated to a stylized version of the US economy. Each of 36 industries has a corporate and pass-through sector except for owner-occupied housing and government production. Because industry outputs are typically a combination of value added (i.e., the capital and labor of an industry) and the finished production of other industries (i.e., intermediate inputs), each industry's output is modeled as a fixed proportion of an industry's value added and intermediate inputs to capture inter-industry linkages. These industry outputs are then bundled together into consumption goods that consumers purchase.

Consumption

Consumer behavior is modeled through use of an OLG framework that includes 55 generational cohorts (representing adults aged 21 to 75). Thus, in any one year, the model includes a representative individual optimizing lifetime consumption and savings decisions for each cohort aged 21 through 75 (i.e., 55 representative individuals) with perfect foresight. The model also distinguishes between two types of representative individuals: those that have access to capital markets (savers) and those that do not (non-savers or rule-of-thumb agents).

Non-savers and savers face different optimization problems over different time horizons. Each period non-savers must choose the amount of labor they supply and the amount of goods they consume. Savers face the same tradeoffs in a given period, but they must also balance consumption today with the choice of investing in capital or bonds. The model assumes 50% of US households are permanently non-savers and 50% are permanently savers across all age cohorts.

Methodology, caveats, and limitations (5/6)

The utility of representative individuals is modeled as a CES function, allocating a composite commodity consisting of consumption goods and leisure over their lifetimes. Representative individuals optimize their lifetime utility through their decisions of how much to consume, save, and work in each period subject to their preferences, access to capital markets, and the after-tax returns from work and savings in each period. Representative individuals respond to the after-tax return to labor, as well as their overall income levels, in determining how much to work and thereby earn income that is used to purchase consumption goods or to consume leisure by not working. In this model the endowment of human capital changes with age – growing early in life and declining later in life – following the estimate of Altig et al. (2001).[14]

Government

The model includes a simple characterization of both federal and state and local governments. Government spending is assumed to be used for either: (1) transfer payments to representative individuals, or (2) the provision of public goods. Transfer payments are assumed to be either Social Security payments or other transfer payments. Social Security payments are calculated in the model based on the 35 years in which a representative individual earns the most labor income. Other transfer payments are distributed on a per capita basis. Public goods are assumed to be provided by the government in fixed quantities through the purchase of industry outputs as specified in a Leontief function.

Government spending in the model can be financed by collecting taxes or borrowing. Borrowing, however, cannot continue indefinitely in this model. Eventually, the debt-to-GDP ratio must stabilize so that the government's fiscal policy is sustainable. The model allows government transfers, government provision of public goods, or government tax policy to be used to achieve a selected debt-to-GDP ratio after a selected number of years. This selected debt-to-GDP ratio could be, for example, the initial debt-to-GDP ratio or the debt-to-GDP ratio a selected number of years after policy enactment.

Key model parameters

Intertemporal substitution elasticity	0.400
Intratemporal substitution elasticity	0.487
Leisure share of time endowment	0.309
Capital-labor substitution elasticity	1.000
Adjustment costs	2.000

Source: Key model parameters are generally from Joint Committee on Taxation. (2024, January 24). *Macroeconomic analysis of H.R. 7024, the "Tax Relief for American Families and Workers Act of 2024," as ordered reported by the Committee on Ways and Means, on January 19, 2024 (JCX-6-24).* https://www.jct.gov/publications/2024/jcx-6-24/; Joint Committee on Taxation. (2017, December 22). *Macroeconomic analysis of the conference agreement for H.R. 1, the "Tax Cuts and Jobs Act," December 22, 2017 (JCX-69-17).* https://www.jct.gov/publications/2017/jcx-69-17/.

14. Altig, D., Auerbach, A. J., Kotlikoff, L. J., Smetters, K. A., & Walliser, J. (2001). Simulating fundamental tax reform in the United States. American Economic Review, 91(3), 574-595. https://www.aeaweb.org/articles?id=10.1257/aer.91.3.574.

Methodology, caveats, and limitations (6/6)

Additional caveats and limitations

- Estimated macroeconomic impacts are based on a stylized depiction of the US economy. The macroeconomic model used for this analysis is, by its very nature, a stylized depiction of the US economy. As such, it cannot capture all of the detail of the US economy, the existing US tax system, or the tax policy change.
- Estimates are limited by available public information. The analysis relies on information reported by government agencies (primarily the CBO, JCT, and US Bureau of Economic Analysis). The analysis did not attempt to verify or validate this information using sources other than those described.
- Full employment model. The EY Macroeconomic Model is an overlapping generations general equilibrium model that assumes that all resources throughout the economy are fully employed; that is, there is no slackness in the economy (i.e., a full employment assumption with no involuntary unemployment). As such, this type of general equilibrium model tends to be more focused on the longer-term incentive effects of policy changes. For this type of model, any increase in labor supply is a voluntary response to a change in income or the return to labor that makes households choose to substitute between consumption and leisure. This is a common assumption used in many macroeconomic models, including some used by the CBO, JCT, and US Treasury Department to analyze tax policy.
- Macroeconomic estimates are sensitive to how tax revenue changes are accommodated. It is not possible to separate entirely the impact of a given tax change from its revenue impacts. Revenue changes must eventually be accommodated in some way, which can affect the estimated impacts. Typical assumptions in analyses like this have included changes in government deficits, government spending or transfers, other taxes, or a combination thereof. This analysis assumes that the revenue change associated with Section 899 changes government transfers, a standard assumption for macroeconomic analyses of tax changes as it generally isolates the tax incentive effects of the policy analyzed.[15]
- Estimated macroeconomic impacts limited by calibration. This model is calibrated to represent the US economy and then forecast forward. However, because any particular year may reflect unique events, no particular baseline year is completely generalizable.

15. This is discussed, for example, in Congressional Research Service. (2023, June 20). Dynamic scoring for tax legislation: A review of models (CRS Report No. R43381). https://www.congress.gov/crs-product/R43381. For papers modeling a tax increase where changes in revenue are offset by changes in government spending (transfers or government consumption) see, for example, Moore, R., & Pecoraro, B. (2023). Quantitative analysis of a wealth tax for the United States: Exclusions and expenditures. Journal of Macroeconomics, 78, Article 103546. https://doi.org/10.1016/j.jmacro.2023.103559; Nishiyama, S. (2013). Fiscal policy effects in a heterogeneous-agent overlapping-generations economy with an aging population (Working Paper No. 2013-07). Congressional Budget Office. https://www.cbo.gov/sites/default/files/113th-congress-2013-2014/workingpaper/44941-Nishiyama_1.pdf; and US Department of the Treasury. (2006, July 25). A dynamic analysis of permanent extension of the President's tax relief. https://home.treasury.gov/system/files/131/Report-Dynamic-Analysis-2006.pdf.

Appendix. Long-run annual macroeconomic impacts, by state

	Job equivalents	GDP		Job equivalents	GDP		Job equivalents	GDP
United States	-700,000	-$100,000	Kentucky	-10,700	-$1,500	Ohio	-25,700	-$3,700
Alabama	-10,300	-$1,500	Louisiana	-8,000	-$1,100	Oklahoma	-6,700	-$1,000
Alaska	-1,400	-$200	Maine	-3,000	-$400	Oregon	-7,200	-$1,000
Arizona	-13,200	-$1,900	Maryland	-11,600	-$1,700	Pennsylvania	-27,700	-$4,000
Arkansas	-5,400	-$800	Massachusetts	-18,200	-$2,600	Rhode Island	-2,500	-$400
California	-77,500	-$11,100	Michigan	-23,500	-$3,400	South Carolina	-12,900	-$1,800
Colorado	-12,200	-$1,700	Minnesota	-13,100	-$1,900	South Dakota	-1,700	-$200
Connecticut	-8,700	-$1,200	Mississippi	-4,900	-$700	Tennessee	-16,500	-$2,400
Delaware	-2,600	-$400	Missouri	-12,100	-$1,700	Texas	-61,700	-$8,800
District of Columbia	-2,400	-$300	Montana	-1,700	-$200	Utah	-6,300	-$900
Florida	-44,200	-$6,300	Nebraska	-3,900	-$600	Vermont	-1,300	-$200
Georgia	-23,700	-$3,400	Nevada	-6,100	-$900	Virginia	-18,100	-$2,600
Hawaii	-3,100	-$400	New Hampshire	-3,700	-$500	Washington	-14,200	-$2,000
Idaho	-2,800	-$400	New Jersey	-22,300	-$3,200	West Virginia	-2,800	-$400
Illinois	-29,300	-$4,200	New Mexico	-2,700	-$400	Wisconsin	-12,000	-$1,700
Indiana	-16,100	-$2,300	New York	-44,400	-$6,300	Wyoming	-1,200	-$200
Iowa	-6,300	-$900	North Carolina	-24,500	-$3,500			
Kansas	-6,300	-$900	North Dakota	-1,600	-$200			

Note: Job equivalents summarize the impact of both the decrease in hours worked and decreased labor income. Specifically, job equivalents are calculated as the total change in labor income divided by baseline average labor income per job. "Long run" denotes when the economy has fully adjusted to the policy change; generally, 2/3 to 3/4 of this adjustment occurs within 10 years. Figures are rounded.