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SUMMARY

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Marginal Effective Tax Rates: Changes in P.L. 119-21, the 2025 Reconciliation Act

The 2025 reconciliation act, P.L. 119-21, commonly known as the One Big Beautiful Bill Act (OBBBA), made a number of changes that affect marginal effective tax rates (METRs) on investment. These changes largely extend or restore provisions enacted in the 2017 tax revision, P.L. 115-97, commonly known as the Tax Cuts and Jobs Act (TCJA). This report summarizes these changes and presents updated METRs.

The OBBBA makes the individual rate reductions, passthrough deduction, and changes in the standard deduction enacted in the TCJA permanent; further increases the standard deduction and the amounts of income taxed at the two lowest marginal tax rates; reinstates 100% expensing (or bonus depreciation) for equipment and other shorter-lived assets (40% expensing was allowed in 2025); reinstates 100% expensing and basis adjustment for the tax credit for research investments; and provides 100% expensing for manufacturing structures. The individual provisions were already in effect for 2025, so the change for 2025 was primarily through the expensing provisions.

Under both the TCJA and OBBBA tax regimes, the tax system favors equipment and intangible assets, but METRs on them are lower under the OBBBA regime. The most significant reduction was for manufacturing structures, where METRs fell from 23.5% to 1.9%. The aggregate tax rate for corporate assets fell from 12.5% to 7.0%, while the rate for noncorporate assets fell from 16.1% to 11.7%.

The rate reductions under OBBBA are larger when compared to the regime that would have occurred under pre-OBBBA law (under which expensing, the passthrough deduction, and lower individual rates would have expired in 2026): the METRs would have been 14.8% in the corporate sector and 24.4% in the noncorporate sector. Rates under OBBBA in these sectors are lower than the rates in TCJA before any phaseouts began (8.7% and 13.5%), and below pre-TJCJA rates (15.4% and 21%).

METRs on owner-occupied housing remained unchanged from their rates under any era of TCJA, at -0.9%, but the subsidy would have been larger in 2026 without OBBBA, returning to the pre-TCJA rate of -9.5% in 2026.

Investment effects are likely to be relatively small. The user cost of capital (the measure of the cost of capital inputs) for business assets fell by 2.3% in 2025 as a result of the OBBBA expensing changes, implying a 1.4% increase in investment using central estimates of investment response. The user cost also declined by a similar amount compared to pre-TCJA law in 2017. The decline user cost compared to the 2027 law absent OBBBA would have been slightly larger at 2.9%.

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Introduction

The 2025 reconciliation bill, P.L. 119-21, commonly known as the One Big Beautiful Bill Act (OBBBA), made a number of changes that affect the marginal effective tax rate (METR) on investment. These changes largely extend or restore provisions enacted in the 2017 tax revision, P.L. 115-97, commonly known as the Tax Cuts and Jobs Act (TCJA). This report summarizes these changes and presents updated METRs.

Revisions of Tax Provisions in OBBBA

Table 1 summarizes the changes in relevant tax provisions that affect METRs.

Table 1. Investment-Related Provisions in the OBBBA

Provision	Changes in OBBBA
Individual Statutory Tax Rates	Makes TCJA's temporary reductions across the brackets for 2018 through 2025 permanent, while also slightly adjusting the brackets to account for an extra year of inflation.
Expensing for Equipment, Structures With Lives of No More Than 20 Years, Software, Theatrical Movies and Television Programs, Disallows Regulated Public Utilities	Expensing provisions in the TCJA allowed 100% expensing in 2018 through 2022, 80% in 2023, 60% in 2024, 40% in 2025, 20% in 2026, and 0% in 2027. OBBBA restores 100% expensing permanently.
Expensing for Manufacturing Structures	New provision in the OBBBA.
Expensing for Research and Experimentation	TCJA eliminated 100% expensing after 2021 and allowed deductions in equal amounts over five years thereafter (permanently). OBBBA restores 100% expensing.
Basis Adjustment for Research Credit	OBBBA restores basis adjustment (the reduction in the research credit for the tax saving from expensing), which TCJA eliminated after 2021.
Noncorporate Pass-Through Deduction	TCJA allowed a 20% deduction for certain pass-through income from 2018 through 2025. OBBBA makes the deduction permanent.
Limit on Interest Deductibility	TCJA limited the interest deduction to 30% of earnings before interest, taxes, depreciation, and amortization (EBITDA) from 2018 through 2021, and limited it to 30% of earnings before interest and taxes (EBIT) after 2021, excluding regulated public utilities. OBBBA restores EBITDA as the income measure.
Standard Deduction	TCJA nearly doubled the standard deduction from 2018 through 2025. OBBBA makes this increase permanent and further increases the standard deduction by an additional $750 for single filers, $1,125 for head of household filers, and $1,500 for married joint filers.
Limit on itemized deduction for state and local taxes	TCJA limited the deduction for state and local taxes to $10,000 from 2018 through 2025 ($5,000 for married couples filing separately). OBBBA temporarily increases the limit to $40,000 (increased 1% per year through 2029), with a phaseout for taxpayers with incomes over $500,000 (a threshold that also increases 1% per year through 2029). Between 2025 and 2029, the phaseout may not reduce a taxpayer's deduction to less than $10,000 ($5,000 in the case of married couples filing separate returns). Starting in 2030, the maximum deduction reverts to $10,000 ($5,000 for married couples filing separately).

Source: CRS.

While most of these provisions directly affect the METR by changing the tax rate and deductions from business income, two have an indirect effect: the increased standard deduction and the dollar limit on itemized deductions for state and local taxes. These provisions reduce the number of individual taxpayers who itemize their deductions, and therefore make deducting mortgage interest and property taxes for investments in owner-occupied housing worthwhile for fewer households. The estimated METRs presented below do not reflect the effects of the increase in the standard deduction or the temporary increase in the limit on state and local tax deductions through 2029. (For taxpayers with modified adjusted gross incomes above $600,000 in 2025, the maximum deduction remains $10,000.)

Statutory Tax Rates

The TCJA permanently lowered the corporate statutory tax rate from 35% to 21%, but made individual tax rate reductions temporary. The TCJA lowered individual tax rates through 2025, but by smaller amounts than the change in the corporate rate (no more than four percentage points for the largest statutory rate reduction in any tax bracket). On average, the weighted statutory tax rates that apply to business income and deductions were lowered by about two percentage points under the temporary TCJA changes.[1] The lower rates benefit noncorporate equity investment but raise the tax on debt-financed investment both in the noncorporate business sector and for owner-occupied housing by reducing the value of interest deductions.[2] The OBBBA makes the lower rates permanent.

Cost Recovery

The more quickly the cost of acquiring an asset is deducted for tax purposes, the lower the effective tax rate. If the deductions allowed for tax purposes reflect the true decline in value due to economic depreciation, then a firm's effective tax rate on equity investment is the statutory rate. The quickest recovery—expensing—allows for the cost of an investment to be deducted immediately. Expensing results in the equivalent of a zero effective tax rate on equity investments at the firm level, as the present value of taxes paid in the future is offset by the immediate deduction in cost. Thus, the effective tax rate on both corporate and noncorporate equity-financed investments that are expensed is zero. Debt-financed investments have negative tax rates with expensing.

In 2017, before the TCJA took effect, 50% of the costs of equipment, software, and structures with lives no longer than 20 years could be expensed. The TCJA increased that share to 100% for five years, and then began phasing out expensing ratably over five years. Beginning in 2027, expensing would have ended and all costs would have been recovered through the modified accelerated cost recovery system (MACRS), which has been in place since 1986. MACRS provides quicker recovery than is estimated for economic depreciation, and therefore lowers effective tax rates on equity-financed investment below the statutory rate. The TCJA added theatrical movies and television programs to eligible assets, but excluded regulated public utilities.

[1] The Congressional Budget Office's (CBO's) estimates indicated a statutory tax rate of 31.4% after the tax cut and 33.5% when the individual tax cuts would have expired. See Paul Burnham and Dorian Carloni, *CBO's Model for Estimating the Effect That Federal Taxes Have on Capital Income From New Investment*, Congressional Budget Office, Working Paper 2022-01, February 2022, https://www.cbo.gov/publication/57429.

[2] The weighted statutory rates for mortgage interest changed little, and those for property tax deductions rose, because many lower-income homeowners no longer itemized their deductions under the 2018-2025 regime.

The OBBBA restores 100% expensing on a permanent basis for the assets described above. A new provision in the OBBBA also extends expensing to structures used in manufacturing, production, or refining of tangible property.

Under pre-2018 law and through 2021, businesses could expense research investment costs, but beginning in 2022, taxes were increased as costs were recovered in equal amounts over five years. This treatment also applied to in-house developed software. TCJA also apparently eliminated the basis adjustment for expensing, which reduced the credit by the value of the amount expensed.[3] The OBBBA restores the original basis adjustment rules.

Other assets, such as certain buildings, mining and oil and gas structures, and entertainment, did not have any changes in their cost recovery rules. Investments in other intangibles—advertising and human capital—are also expensed, and this treatment is unchanged.

Pass-Through Deduction

The TCJA pass-through deduction allows a deduction of 20% of taxable business income for noncorporate taxpayers. It is the equivalent of reducing the statutory tax rate by 20%. Because of various phaseouts and restrictions, not all noncorporate income benefits from the pass-through deduction.[4] The OBBBA made the deduction permanent.

Limit on Business Interest Deductions

The TCJA interest limit restricts the amount of interest that can be deducted to 30% of earnings. Prior law also included a restriction, but it was rarely applied because of certain debt-to-equity safe harbors. Through 2021, the interest limit was less restrictive compared with the rules starting in 2022 because it was equal to 30% of earnings before the deduction of interest, taxes, depreciation, and amortization (EBITDA). After 2021, the interest limit is 30% of earnings before deductions for taxes and interest (EBIT). EBITDA is a larger measure of earnings than EBIT, and thus provides a less-restrictive limit. The OBBBA restored and made permanent the prior EBITDA income measure. The interest limit does not apply to regulated public utilities.

Explanation of Marginal Effective Tax Rates

The marginal effective tax rate (METR) is a forward-looking measure that estimates, in present-value terms, the share of the rate of return on a prospective investment that is paid in taxes over the life of that investment. It differs from the statutory tax rate, which measures the rate on taxable income, and the average effective tax rate, which measures taxes paid in a year as a percentage of total income. (For example, if a corporation has $150,000 of total income and receives a $50,000 deduction, it will pay a 21% *statutory tax rate* on $100,000 of taxable income, or $21,000 overall. This $21,000 payment is 14% of the corporation's total income, meaning it has an *average effective tax rate* of 14%.)[5]

The METR is measured by comparing the pretax return on an investment with its after-tax return. In the neoclassical model of investment, the pretax return is derived from the first-order condition

[3] CRS In Focus IF12815, *How the "Tax Cuts and Jobs Act" (TCJA, P.L. 115-97) Changed Cost Recovery and the Tax Credit for Research*, by Jane G. Gravelle and Mark P. Keightley.

[4] CRS In Focus IF12838, *Selected Issues in Tax Policy: Section 199A Deduction for Pass-Through Business Income*, by Mark P. Keightley.

[5] Two businesses with the same total income and the same statutory tax rate may pay different average effective tax rates if they receive different amounts of credits and deductions.

of a profit-maximizing firm with respect to its capital decision. That is, the pretax return is the return necessary to pay taxes and to earn the required after-tax return to investors. The after-tax return is the break-even return on an investment; in other words, it is the return required by investors to justify making an investment. It accounts for the timing of income and deductions by using the present-value concept so that future dollars are less valuable than current dollars. By accounting for the value of when deductions can be taken, the after-tax return reflects major investment incentives that depend on timing, such as accelerated tax depreciation that is taken earlier than true economic depreciation. The METR is then calculated by measuring the difference between the pretax and after-tax returns, relative to the pretax return.

The METR accounts for the major features of the tax code that affect investment incentives. It includes the statutory rate; cost recovery (depreciation deductions, allowance for the depletion of natural resources, and the deductions for inventory sold); the research tax credit; deductions for interest payments; and, for owner-occupied housing, deductions for mortgage interest and property taxes. It also captures taxes paid by creditors and shareholders (both U.S. and foreign) on interest, dividends, and capital gains. The effective tax rate calculation assumes that the current tax regime will continue indefinitely.

The METR differs from the average effective tax rate, both because the METR only accounts for the major elements of the tax system that affect investment, and because it captures the value of the timing of income and deductions. The average effective tax rate, by contrast, is a snapshot that reflects taxes paid in a single year on past as well as current investments. It reflects elements of the tax system that are not currently included in the CRS METR model, including credits that apply to selected investments (such as credits for investments in renewable energy and affordable housing).[6] The average effective tax rate can be a misleading measure of the tax on prospective investments and cannot distinguish between the taxes paid on different types of investments. It also differs from the METR because METR reflects the limits on the deduction of losses; under current law, losses above deduction limits must be carried forward to offset future income.

The statutory tax rate is an input into the METR. For corporations subject to a flat rate, the input is simply the corporate tax rate (currently 21%). For tax rates that vary across taxpayers, such as for owners of pass-through businesses, the input reflects the average statutory tax rate on an additional dollar of taxable income.

Marginal Effective Tax Rates: Current Treatment and Treatment Under OBBBA

The estimates presented in this section are based on the CRS model for estimating marginal tax rates. The model, data, and data sources are outlined in CRS Report R48277, *CRS Model Estimates of Marginal Effective Tax Rates on Investment Under Current Law*, by Mark P. Keightley and Jane G. Gravelle. The data reflected in that document are based on prior-law rules. Since many of the provisions in the OBBBA were extensions of the 2025 tax code, most inputs into the model remain the same. However, for estimating OBBBA, the current expensing shares of 40% are increased to 100%, R&D costs are expensed rather than recovered over five years, the R&D credit is subject to a basis adjustment, manufacturing structures are expensed, and the share of interest deducted is increased from 0.9617 to 0.98085 for corporations and from 0.9911 to 0.99555 for noncorporate businesses.

[6] Future versions of the CRS model may incorporate credits for selected investments.

Mixed-Finance Assets

Table 2 reports the METRs under prior law and OBBBA for assets with the typical financing mix for each sector. The share of debt is 0.3226 for corporations, 0.2285 for noncorporate businesses, and 0.4241 for owner-occupied housing. A negative METR implies that investments in a given asset are subsidized on net.

Table 2. Marginal Effective Tax Rates for Investment, Mixed Finance, 2025

Asset	Corporate Prior Law	Corporate OBBBA	Noncorporate Prior Law	Noncorporate OBBBA
Equipment	10.8%	3.3%	8.2%	-2.9%
Intangible Assets	-5.4%	-15.5%	-9.4%	-26.7%
Advertising	1.9%	1.9%	-5.4%	-5.4%
Firm-Specific Human Capital	1.9%	1.9%	-5.4%	-5.4%
Prepackaged Software	20.2%	1.9%	21.6%	-5.4%
Custom Software	13.3%	1.9%	11.9%	-5.4%
R&D	-28.5%	-50.5%	-32.3%	-74.0%
Theatrical Movies	11.9%	1.9%	9.8%	-5.4%
TV Programs	14.7%	1.9%	13.9%	-5.4%
Books, Music, Other	21.4%	21.3%	23.1%	23.1%
Inventories	25.0%	24.9%	27.8%	27.7%
Land	22.5%	22.4%	24.4%	24.4%
Nonresidential Structures	21.5%	17.1%	23.1%	17.3%
Commercial and Health Care	22.2%	22.1%	24.0%	24.0%
Farm	11.2%	1.9%	8.6%	-5.4%
Communications	9.7%	1.9%	6.4%	-5.4%
Manufacturing	23.5%	1.9%	25.8%	-5.4%
Other	22.7%	22.6%	24.7%	24.7%
Oil, Gas, Mining Structures	12.3%	12.3%	9.0%	9.0%
Power Structures	13.8%	11.6%	12.8%	9.6%
Residential Structures	17.9%	17.9%	18.0%	18.0%
Owner-Occupied Housing				
Land			-0.9%	-0.9%
Structures			-0.9%	-0.9%

Source: CRS calculations based on CRS Report R48277, *CRS Model Estimates of Marginal Effective Tax Rates on Investment Under Current Law*, by Mark P. Keightley and Jane G. Gravelle.

The asset with the biggest positive reduction in METR is manufacturing structures, which were made eligible for expensing.[7] Equipment benefited from full expensing (as compared to 40% in

[7] In terms of absolute value of the tax rate change, there is a larger effect on R&D, which is subject to large negative tax rates, or subsidies. However, as measured by the tax wedge, t/(1-t), where t is the tax rate, effects of large changes in highly negative tax rates are smaller because the denominator is very large.

2025), and R&D benefited from the restoration of expensing. Other assets experienced little or no change.

The tax system, as is typical historically, favors equipment, utilities, and most intangible assets, especially investments in research. Other structures are generally taxed at higher rates, except for farm buildings and, after OBBBA, manufacturing structures. Power structures (utilities) are somewhat favored, but regulated power structures are not allowed expensing, and oil and gas are somewhat favored.

Equity-Financed Assets

Table 3 reports the METRs under prior law and OBBBA for assets financed by *equity* (investments made by shareholders or other business owners).

Table 3. Marginal Effective Tax Rates for Investments, Equity Financed, 2025

Asset	Corporate Prior Law	Corporate OBBBA	Noncorporate Prior Law	Noncorporate OBBBA
Equipment	16.1%	9.3%	13.0%	2.4%
Intangible Assets	3.1%	-6.2%	-1.9%	-17.9%
Advertising	7.8%	7.8%	0.0%	0.0%
Firm-Specific Human Capital	7.8%	7.8%	0.0%	0.0%
Prepackaged Software	24.5%	7.8%	25.0%	0.0%
Custom Software	18.2%	7.8%	16.1%	0.0%
R&D	-13.7%	-33.1%	-19.3%	-55.8%
Theatrical Movies	17.2%	7.8%	14.4%	0.0%
TV Programs	19.6%	7.8%	18.0%	0.0%
Books, Music, Other	25.8%	25.8%	26.7%	26.7%
Inventories	29.0%	29.0%	31.0%	31.0%
Land	27.2%	27.2%	28.3%	28.3%
Nonresidential Structures	26.2%	22.1%	27.0%	21.5%
Commercial and Health Care	26.8%	26.8%	27.9%	27.9%
Communication	15.4%	7.8%	11.5%	0.0%
Farm	16.7%	7.8%	13.6%	0.0%
Manufacturing	27.9%	7.8%	29.4%	0.0%
Other	27.2%	27.2%	28.5%	28.5%
Oil, Gas, Mining Structures	17.1%	17.1%	13.2%	13.2%
Power Structures	19.5%	17.3%	17.9%	14.8%
Residential Structures	23.2%	23.2%	22.6%	22.6%
Owner-Occupied Housing				
Land			-0.2%	-0.2%
Structures			-0.2%	-0.2%

Source: CRS calculations based on CRS Report R48277, *CRS Model Estimates of Marginal Effective Tax Rates on Investment Under Current Law*, by Mark P. Keightley and Jane G. Gravelle.

Equity-financed investment METRs are higher than METRs for mixed-finance assets because they do not have the advantage of deducting interest, which is generally taxed at low rates.

Debt-Financed Assets

Table 4 reports the METRs under prior law and OBBBA for assets financed with debt.

Table 4. Marginal Effective Tax Rates for Investments, Debt-Financed, 2025

Asset	Corporate Prior Law	Corporate OBBBA	Noncorporate Prior Law	Noncorporate OBBBA
Equipment	-10.7%	-21.2%	-30.8%	-41.4%
Intangible Assets	-43.8%	-58.9%	-71.0%	-102.4%
Advertising	-22.3%	-23.3%	8.7%	-45.4%
Firm-Specific Human Capital	-22.3%	-23.3%	3.4%	-45.4%
Prepackaged Software	3.4%	-23.3%	2.7%	-45.4%
Custom Software	-6.4%	-23.3%	-6.8%	-45.4%
R&D	-113.6%	-154.8%	-9.3%	-318.6%
Theatrical Movies	-9.2%	-23.3%	-3.6%	-45.4%
TV Programs	-4.7%	-23.3%	8.7%	-45.4%
Books, Music, Other	4.2%	3.5%	3.4%	-1.3%
Inventories	8.7%	8.0%	5.0%	4.8%
Land	3.4%	2.6%	-3.9%	-4.2%
Nonresidential Structures	2.7%	-3.5%	-4.2%	-12.8%
Commercial and Health Care	3.5%	2.8%	-3.1%	-3.4%
Communication	-13.3%	-23.3%	-29.7%	-45.4%
Farm	-11.3%	-23.3%	-26.4%	-45.4%
Manufacturing	5.8%	-23.3%	0.5%	-45.4%
Other	4.4%	3.6%	-1.7%	-2.0%
Oil, Gas, Mining Structures	-6.8%	-7.6%	-19.5%	-19.8%
Power Structures	-9.3%	-11.7%	-20.8%	-24.8%
Residential Structures	-3.6%	-4.5%	-14.6%	-15.0%
Owner-Occupied Housing				
Land			-2.6%	-2.6%
Structures			-2.6%	-2.6%

Source: CRS calculations based on CRS Report R48277, *CRS Model Estimates of Marginal Effective Tax Rates on Investment Under Current Law*, by Mark P. Keightley and Jane G. Gravelle.

Debt-financed investments are generally subject to negative tax rates because nominal interest is deducted, while most interest received by creditors (in the form of tax-free retirement assets and imputed income from management services, such as bank accounts) is not taxed. In addition, debt-financed returns are subject to tax benefits such as expensing or accelerated depreciation.

Aggregate Tax Rates

Table 5 reports economy-wide METRs. The table presents measures excluding land, which is not reproducible, and also measures excluding both land and inventories. Inventories tend to be held for a short time, and their rate of return is a small part of acquiring and selling inventories, such that any change is generally negligible. One measure also excludes intangible assets created from advertising and human capital, whose size is more difficult to measure than for other assets.

Table 5. Economy-Wide and Sector-Wide Marginal Effective Tax Rates, 2025

Asset Type	Economy Wide	Corporate Sector	Noncorporate Sector	Owner-Occupied Housing
Prior Law				
All Assets	10.7%	14.9%	20.0%	-0.9%
All Assets Excluding Land	9.9%	13.9%	17.1%	-0.9%
All Assets Excluding Land and Inventories	8.7%	12.5%	16.1%	-0.9%
All Assets Excluding Land, Inventories, Advertising, and Human Capital	9.0%	13.3%	16.5%	-0.9%
OBBBA				
All Assets	8.5%	10.8%	17.8%	-0.9%
All Assets Excluding Land	6.7%	9.1%	13.%1	-0.9%
All Assets Excluding Land and Inventories	5.3%	7.0%	11.7%	-0.9%
All Assets Excluding Land, Inventories, Advertising, and Human Capital	5.5%	7.4%	12.1%	-0.9%

Source: CRS calculations based on CRS Report R48277, *CRS Model Estimates of Marginal Effective Tax Rates on Investment Under Current Law*, by Mark P. Keightley and Jane G. Gravelle.

Aggregate METRs for business assets are lower under OBBBA because of the additional expensing allowed, while owner-occupied housing is not affected. Noncorporate investments are taxed at higher rates than corporate investments, largely due to the greater concentration of higher-taxed assets in the noncorporate sector: most residential structures are in the noncorporate sector, and intangibles are a smaller portion of the asset mix than in the corporate sector. The average economy-wide METR under OBBBA is 5.3% excluding land and inventories.

Effects on the User Cost of Capital

The effect of tax changes on investment incentives is based on changes in the user cost of capital, the ratio of required earnings per dollar of investment, also called the rental price of capital. This measure reflects all the costs of using depreciable assets: the after-tax rate of return necessary to attract investment; taxes; and the decline in value as the asset is used up, or economic depreciation. This measure can be thought of as the price that would have to be paid to rent the asset, and it reflects the price of capital inputs in the production process in the same way that wages are the price of labor inputs. The taxation of pretax returns yields the after-tax rate of return, which is assumed to be common to all assets.

Assets vary substantially in their depreciation rates, with equipment and software depreciating more quickly than buildings. Therefore, a change in the taxes paid for a prospective investment

will have a smaller percentage change on the user cost of short-lived assets than of long-lived ones. That is, more of the price of using short-lived assets is their rapid depreciation.

The overall user cost of capital for assets excluding land and inventories decreased 1.8% under the OBBBA. The change in the user cost for business investment (excluding owner-occupied housing) was -2.3%. These changes are the result of the expensing provisions, since statutory tax rates remained constant. **Table 6** reports the effects of OBBBA on the user cost of capital by asset type, excluding land and inventories.

Table 6. User Cost of Capital and Percent Change Relative to Prior Law

Asset	User Cost, Corporate Prior Law	Corporate Percentage Change	User Cost, Noncorporate Prior Law	Noncorporate Percentage Change
Equipment	0.1889	-2.5%	0.1892	-3.6%
Intangible Assets	0.3547	-1.3%	0.3545	-2.0%
Advertising	0.657	0.0%	0.6549	0.0%
Firm-Specific Human Capital	0.457	0.0%	0.4549	0.0%
Prepackaged Software	0.7784	-1.7%	0.7821	-2.4%
Custom Software	0.4458	-1.7%	0.447	-2.4%
R&D	0.218	-2.9%	0.2182	-4.8%
Theatrical Movies	0.1565	-4.2%	0.1571	-5.9%
TV Programs	0.2336	-3.7%	0.2352	-5.2%
Books, Music, Other	0.2369	0.0%	0.2409	0.0%
Nonresidential Structures	0.0976	-3.9%	0.1015	-5.1%
Commercial and Health Care	0.0966	-0.1%	0.1008	0.0%
Communication	0.0856	-5.8%	0.0855	-8.1%
Farm	0.0869	-7.0%	0.0872	-9.6%
Manufacturing	0.1045	-15.5%	0.1093	-21.0%
Other	0.0995	-0.1%	0.104	0.0%
Oil, Gas, Mining Structures	0.1088	-7.6%	0.1086	0.0%
Power Structures	0.0868	-11.7%	0.0882	-2.6%
Residential Structures	0.0821	-4.5%	0.0846	0.0%
Owner-Occupied Housing Structures			0.0673	0.0%

Source: CRS calculations based on CRS Report R48277, *CRS Model Estimates of Marginal Effective Tax Rates on Investment Under Current Law*, by Mark P. Keightley and Jane G. Gravelle.

The largest reduction in user cost is for manufacturing structures (15.5% for the corporate sector, where most manufacturing occurs), which became eligible for expensing. Manufacturing structures are long-lived assets where the rate of return is relatively more important. Most other assets with declining user costs experienced reductions of between 1% and 5%.

Comparisons to Past and Future Tax Regimes

The METR and user cost estimates compare the changes in OBBBA to law in 2025. This section compares these METRs with pre-TCJA law (2017), the first year of the TCJA (2018), and permanent law after expiration of the TCJA provisions (2027). The prior law and permanent law after expiration are from estimates in CRS Report R48153, *Marginal Effective Tax Rates on Investment and the Expiring 2017 Tax Cuts*, by Jane G. Gravelle and Mark P. Keightley. **Table 7** compares aggregate tax rates in the economy.[8]

Table 7. Marginal Effective Tax Rates for Alternative Tax Regimes

Tax Regime	Assets Excluding Land and Inventories	Corporate Assets Excluding Land and Inventories	Noncorporate Assets Excluding Land and Inventories	Owner-Occupied Housing
2017	8.9%	15.4%	21.0%	-9.5%
2018	5.5%	8.7%	13.5%	-0.9%
2027 Pre-OBBBA	9.8%	14.8%	24.4%	-9.5%
2025 Pre-OBBBA	8.7%	12.7%	16.1%	-0.9%
Post OBBBA	5.3%	7.0%	11.7%	-0.9%

Source: CRS calculations based on CRS Report R48277, *CRS Model Estimates of Marginal Effective Tax Rates on Investment Under Current Law*, by Mark P. Keightley and Jane G. Gravelle. 2017 and 2027 tax rates are from CRS Report R48153, *Marginal Effective Tax Rates on Investment and the Expiring 2017 Tax Cuts*, by Jane G. Gravelle and Mark P. Keightley

Tax rates under OBBBA are the lowest of any of the regimes, though they are similar to the tax rates from 2018, reflecting the lowest-tax years from the TCJA era. The rates for business investments are lower because of the additional provision that allows for expensing of manufacturing structures. Tax rates for business investments are significantly lower than they would be had pre-OBBBA law continued, since provisions for lower tax rates on noncorporate investments and expensing would no longer be allowed for any asset.

Table 8 reports the overall changes in user cost compared to the alternative regimes.

Table 8. Percentage Change in User Cost of Capital in OBBBA Compared to Alternative Tax Regimes

Tax Regime	Assets Excluding Land and Inventories	Assets Excluding Land, Inventories and Owner-Occupied Housing
2017	-1.8%	-2.4%
2018	-0.6%	-0.8%
2027 Pre-OBBBA	-2.3%	-2.9%
2025 Pre-OBBBA	-1.8%	-2.3%

[8] That study also estimated 2018 law, but the baseline numbers were slightly different, so the estimates reflect the current baseline.

Source: CRS calculations based on CRS Report R48277, *CRS Model Estimates of Marginal Effective Tax Rates on Investment Under Current Law*, by Mark P. Keightley and Jane G. Gravelle. 2017 and 2027 user costs are from CRS Report R48153, *Marginal Effective Tax Rates on Investment and the Expiring 2017 Tax Cuts*, by Jane G. Gravelle and Mark P. Keightley.

The user cost is lower under the OBBBA changes for the aggregate economy compared to other regimes, and business investments show a larger decline. Owner-occupied housing (not shown in the table) is 5.4% higher compared to 2017 and 2027, with no change compared with other regimes. This effect is from the reduction in itemizers (people choosing to itemize their deductions rather than claim the standard deduction).

Potential Effects on Investment

The estimated effects on investment reflect the percentage change in user cost multiplied by an elasticity, or the percentage change in investment divided by a percentage change in user cost. Empirical estimates of the long-run elasticity with respect to user cost for business investment have generally been below 1 (between 0.3 and 0.7),[9] though a 2014 study found a higher elasticity of around 0.9.[10] Taken together, these figures imply a midpoint elasticity of around 0.6 (0.3 plus 0.9 divided by two).[11] These estimates are for business investment.

The estimated change in the user cost compared to 2025 tax rules is a decrease of 2.3%, which implies an increase in investment of 0.7% to 2.1% with a midpoint of 1.4%. Effects are slightly larger when compared to permanent law, with a decrease in user cost of 2.9% and a mid-point increase in investment of 1.7%. These relatively small differences illustrate the greater importance of the expensing provisions in OBBBA, since the differences due to expiring individual tax cuts and the pass-through deduction account for a 0.3% additional reduction in user cost and a 0.2% increase in investment.

The effect compared to pre-2017 law is similar to the effect for the change from 2025 rules, while the user cost is slightly lower compared to 2018 (i.e., before any of the TCJA phaseouts began). This difference reflects the effect of expensing for manufacturing structures, which is a new provision in OBBBA.

[9] George C. Bitros and M. Ishaq Nadiri, *Elasticities of Business Investment in the U.S. and Their Policy Implications: A Disaggregate Approach to Modeling and Estimation*, July 2017, https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2999105. A recent review of the literature finds a similar range of 0.25 to 0.75. See Gabriel Chodorow-Reich, *The Neoclassical Theory of Firm Investment and Taxes: A Reassessment*, National Bureau of Economic Research, Working Paper 33922, June 2025, https://www.nber.org/papers/w33922.

[10] Nadia Dwenger, "User Cost Elasticity of Capital Revisited," *Econometrica*, vol. 81, no. 321 (January 2014), pp. 161-186.

[11] A new estimate using the Tax Cuts and Jobs Act as an event study found much higher elasticities. See Jonathan S. Hartley et al., *Firm Investment and the User Cost of Capital: New U.S. Corporate Tax Reform Evidence*, National Bureau of Economic Research Working Paper 33914 June 2025, https://www.nber.org/papers/w33914. The estimates may be strongly affected by the growth in investment in power structures in the post-TCJA period and a misspecification of the user cost for that asset, since regulated utilities lost expensing rather than having an increase from 50% to 100%. The percentage change in user cost reported by Hartley et al. (2025) was a reduction of 10%, while the CRS model found an increase of 1%. The user cost rose for regulated power structures and fell for unregulated ones. For further discussion of problems with other studies of TCJA investment effects due to misspecifications of user cost, see CRS Report R48485, *Economic Effects of the Tax Cuts and Jobs Act*, by Jane G. Gravelle and Donald J. Marples.

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