APPENDIX

A

Changes in CBO's Baseline Since August 2014

The Congressional Budget Office anticipates that in the absence of further legislation affecting spending and revenues, the budget deficit for fiscal year 2015 will total $468 billion. That amount is almost identical to the deficit that CBO projected in August 2014—when it released its previous set of baseline projections—and it is the result of changes to CBO's estimates of revenues and outlays that almost exactly offset each other (see Table A-1).[1] CBO currently expects that revenues this year will be $93 billion (about 3 percent) less and outlays will be $94 billion (or about 2½ percent) less than it previously projected.

CBO projects that over the 2015–2024 period the cumulative deficit would be $175 billion less than it projected in August—$7.0 trillion rather than $7.2 trillion—if current laws remained the same. Almost all of that reduction occurs in the projections for fiscal years 2016 through 2018; baseline deficits for other years are virtually unchanged. The cumulative projections of both revenues and outlays are lower than those CBO published in August 2014. On net, about half of the differences arise from the enactment of new legislation.

Changes to Projections of Outlays

CBO has trimmed its estimate of outlays for 2015 by $94 billion, mainly because of technical updates—notably, larger-than-expected receipts to the U.S. Treasury from auctions of licenses for commercial use of the electromagnetic spectrum and the recording of receipts from the mortgage finance institutions Fannie Mae and Freddie Mac. In both cases, those collections are recorded in the budget as offsetting receipts, which are a credit against outlays.

CBO has reduced its projections of outlays for the 2015–2024 period by $590 billion (or 1.2 percent). Nearly half of that change is the result of revisions to its economic forecast.

Economic Changes

CBO's current economic forecast incorporates updated projections of gross domestic product (GDP), the unemployment rate, interest rates, inflation, and other factors that affect federal spending and revenues (see Chapter 2 for details). Those updates led the agency to reduce its estimates of outlays by $25 billion for 2015 and by $272 billion for the 2015–2024 period. That 10-year change is almost entirely the result of projections of lower spending for mandatory programs ($105 billion) and reduced net interest costs ($147 billion).

Mandatory Spending. Revisions to the economic forecast led CBO to reduce its projections of mandatory spending by $6 billion for 2015 and by $105 billion for the 2015–2024 period. The largest changes occurred in CBO's projections for Social Security and Medicare.

1. Those projections were published in Congressional Budget Office, *An Update to the Budget and Economic Outlook: 2014 to 2024* (August 2014), www.cbo.gov/publication/45653. CBO constructs its baseline projections in accordance with provisions of the Balanced Budget and Emergency Deficit Control Act of 1985 and the Congressional Budget and Impoundment Control Act of 1974. To project revenues and mandatory spending, CBO assumes that current laws, with only a few exceptions, will remain unchanged throughout the 10-year projection period. To project discretionary spending, CBO assumes that annual appropriations through 2021 will adhere to the caps and automatic spending reductions established in the Budget Control Act of 2011 (Public Law 112-25), as amended, and that appropriations for 2022 through 2025 will increase from the 2021 amounts at the rate of inflation. CBO assumes that certain discretionary appropriations not constrained by the caps, such as those for overseas contingency operations, will increase in future years at the rate of inflation. The resulting baseline projections are not intended to be a prediction of future budgetary outcomes; rather, they serve as a benchmark against which to measure the potential effects of changes in laws governing taxes and spending.

Table A-1.

Changes in CBO's Baseline Projections of the Deficit Since August 2014

Billions of Dollars

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Total 2015-2019	Total 2015-2024
Deficit in CBO's August 2014 Baseline	-469	-556	-530	-560	-661	-737	-820	-946	-957	-960	-2,777	-7,196
Changes to Revenue Projections												
Legislative Changes												
Individual income taxes	-31	6	4	3	2	*	*	*	*	*	-16	-16
Corporate income taxes	-50	12	7	4	3	1	*	-1	-1	-1	-24	-27
Payroll taxes	*	*	*	*	*	*	*	*	*	*	*	*
Other	*	*	*	*	*	*	*	*	*	*	*	*
Subtotal	-81	18	11	7	5	1	*	-1	-2	-2	-40	-44
Economic Changes												
Individual income taxes	12	9	-4	-15	-21	-25	-26	-25	-25	-25	-19	-146
Corporate income taxes	18	5	-3	-2	-2	-1	4	8	12	18	17	58
Payroll taxes	-1	-4	-8	-14	-18	-16	-21	-21	-21	-20	-45	-144
Other	1	1	-2	-4	5	3	*	-2	-2	-1	1	-1
Subtotal	29	11	-17	-34	-36	-39	-43	-40	-36	-29	-47	-234
Technical Changes												
Individual income taxes	-3	6	11	9	7	7	8	6	7	9	30	68
Corporate income taxes	-30	-1	-18	-18	-17	-17	-17	-17	-17	-18	-83	-169
Payroll taxes	-8	-3	-2	-1	-4	-12	-2	-4	-3	-2	-17	-40
Other	*	5	-1	3	2	1	1	*	-2	-4	9	4
Subtotal	-40	7	-11	-6	-11	-20	-9	-15	-16	-16	-61	-137
Total Revenue Changes	**-93**	**37**	**-17**	**-33**	**-43**	**-58**	**-52**	**-56**	**-53**	**-46**	**-149**	**-415**
Changes to Outlay Projections												
Legislative Changes												
Discretionary outlays	*	-9	-8	-13	-14	-16	-16	-16	-16	-16	-44	-125
Mandatory outlays	*	-2	-1	*	3	*	1	*	*	*	-1	-1
Net interest outlays (Debt service)	*	1	1	*	*	-1	-1	-2	-3	-3	1	-9
All Legislative Changes	1	-10	-9	-13	-12	-17	-17	-18	-19	-20	-44	-134
Economic Changes												
Mandatory outlays												
Social Security	-3	-11	-13	-11	-11	-11	-12	-12	-13	-14	-49	-110
Medicare	*	*	1	2	4	6	8	10	12	13	7	57
Unemployment compensation	-2	-2	-2	-3	-2	-2	-2	-2	-2	-1	-11	-19
Medicaid	*	-2	-2	-2	-2	-2	-2	-2	-2	-2	-8	-16
Other	*	-4	-5	-4	-2	-1	-1	*	*	*	-15	-16
Subtotal	-6	-18	-21	-18	-13	-9	-8	-5	-4	-3	-75	-105
Discretionary outlays	*	*	*	-1	*	*	*	*	*	*	-2	-3
Net interest outlays												
Effect of rates and inflation	-19	-6	-5	-2	-12	-19	-20	-21	-21	-21	-45	-147
Debt service	*	-1	-2	-3	-2	-2	-2	-2	-1	-1	-8	-17
Subtotal	-19	-8	-7	-4	-15	-21	-22	-23	-23	-23	-53	-164
All Economic Changes	-25	-26	-29	-22	-28	-31	-30	-28	-27	-26	-130	-272

Continued

Table A-1. **Continued**

Changes in CBO's Baseline Projections of the Deficit Since August 2014

Billions of Dollars

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Total 2015-2019	Total 2015-2024
						Changes to Outlay Projections (Continued)						
Technical Changes												
Mandatory outlays												
Spectrum auctions	-30	10	1	-7	-5	-2	-2	-1	*	*	-31	-35
Fannie Mae and Freddie Mac	-29	*	1	1	1	1	*	*	*	1	-25	-23
Health insurance subsidies and related spending	-5	-13	-11	-2	-3	-6	-7	-8	-9	-8	-34	-71
Social Security	-1	-3	-6	-6	-7	-7	-8	-8	-9	-10	-23	-65
Medicaid	7	-4	-9	-9	-8	-7	-6	-6	-8	-10	-23	-60
Student loans	2	3	4	4	4	4	4	4	5	5	17	39
Other	4	*	4	2	5	5	4	8	7	9	15	48
Subtotal	-52	-5	-16	-18	-13	-12	-15	-10	-13	-14	-104	-168
Discretionary outlays	-13	-7	-4	-2	-1	*	1	1	*	*	-27	-25
Net interest outlays												
Debt service	*	1	1	1	1	1	1	2	2	2	5	12
Other	-6	-5	-2	1	2	3	2	1	*	2	-10	-3
Subtotal	-5	-4	-1	2	3	4	3	2	2	4	-6	9
All Technical Changes	-70	-16	-21	-17	-12	-8	-11	-7	-11	-9	-137	-184
Total Outlay Changes	**-94**	**-52**	**-58**	**-53**	**-52**	**-55**	**-58**	**-54**	**-57**	**-55**	**-310**	**-590**
						All Changes						
Total Effect on the Deficit[a]	**2**	**89**	**41**	**20**	**9**	**-3**	**6**	**-2**	**4**	**9**	**161**	**175**
Deficit in CBO's January 2015 Baseline	-468	-467	-489	-540	-652	-739	-814	-948	-953	-951	-2,615	-7,021
Memorandum:[a]												
Total Legislative Changes	-82	28	20	21	17	18	17	17	17	18	4	91
Total Economic Changes	54	37	12	-12	-8	-8	-13	-12	-9	-3	83	38
Total Technical Changes	30	24	10	11	1	-12	2	-8	-5	-6	75	46

Source: Congressional Budget Office.

Note: * = between -$500 million and $500 million.

a. Negative numbers indicate an increase in the deficit; positive numbers indicate a decrease in the deficit.

Social Security. Because of changes in the economic forecast since August, CBO's projections of Social Security spending over the 2015–2024 period have declined by $110 billion (or 1 percent). The cost-of-living adjustment of 1.7 percent that Social Security beneficiaries received in January 2015 is 0.5 percentage points less than CBO had projected. CBO also anticipates a smaller cost-of-living adjustment in 2016 (0.9 percent compared with 1.9 percent in the August forecast). Those reductions are partially offset by an increase in CBO's projections for inflation over the 2016–2021 period. Taken together, those changes reduce the agency's estimates of benefit payments for the period by $81 billion. A further reduction of $29 billion resulted from revisions to CBO's projections of growth in wages and salaries (which affect its projections of initial benefit amounts for new retirees).

Medicare. Under current law, payment rates for much of Medicare's fee-for-service sector (such as hospital care and services provided by physicians, home health agencies, and skilled nursing facilities) are updated automatically. Those updates are tied to changes in the prices of the labor, goods, and services that health care providers purchase, coupled with an adjustment for economywide gains in productivity (the ability to produce the same output using fewer inputs, such as hours of labor, than before) over a 10-year period. CBO's current projections of productivity growth are slightly lower than the agency forecast in August. Consequently, CBO now anticipates higher payment rates for Medicare services than it did in August—a change that increases its projections of outlays over the 2015–2024 period by $57 billion (or 0.8 percent).

Unemployment Compensation. CBO's forecast of the unemployment rate over the next 10 years was revised downward by an average of 0.2 percentage points for each year. As a result, projections of outlays for unemployment compensation have dropped by a total of $19 billion (or 4 percent) for 2015 through 2024.

Medicaid. Reductions in the prices projected for most medical services and in projected labor costs, combined with a drop in the anticipated unemployment rate, have reduced estimates of Medicaid spending—by about $16 billion (or 0.4 percent)—over the 2015–2024 period.

Net Interest. Since August, CBO has revised its projections of net interest costs because of changes in the agency's forecasts for interest rates and inflation as well as changes in CBO's projections of government borrowing that resulted from changes in the economic outlook (labeled in Table A-1 as debt service). Together, those revisions led CBO to reduce—by $164 billion—the amount it projects for net interest spending over the 2015–2024 period, mostly because of the revisions related to interest rates and inflation.

Specifically, CBO now expects that interest rates on most Treasury securities will be lower throughout the period. The agency also has markedly reduced (by about 1 percentage point) its estimate of inflation for 2015, which results in a lower projection of the cost of Treasury inflation-protected securities, but has slightly increased its estimate (by no more than 0.2 percentage points) of inflation over the 2016–2024 period. Overall, those and other changes to CBO's economic forecast since last August have led the agency to project net interest outlays that are $19 billion lower for 2015 and an additional $128 billion lower for the 2016–2024 period.

Furthermore, changes to CBO's economic projections have reduced the agency's calculation of the total deficit for the 2015–2024 period by $21 billion (the net effect of updates to projections of revenues and outlays). Because of the reduced borrowing associated with lower deficits, CBO has decreased its projections of debt-service costs for the 2015–2024 period by $17 billion.

Legislative Changes

Laws enacted since August have led CBO to increase its estimate of outlays in 2015 by less than $1 billion and to reduce its 10-year projection by $134 billion (or 0.3 percent). Changes to projections of discretionary spending for activities that are not constrained by the annual funding caps established in the Budget Control Act of 2011 are responsible for almost all of that decrease.

Discretionary Spending. On net, legislative changes to discretionary programs led CBO to leave its estimates for 2015 outlays nearly unchanged but to cut $125 billion from its outlay projections for the 2015–2024 period. Because most discretionary spending is subject to the caps, the changes to spending projections in the baseline result mostly from changes in appropriations that are not constrained by the caps—those for overseas contingency operations, disaster relief, emergency requirements, and program integrity initiatives.[2]

In CBO's current baseline, the changes in discretionary spending that are attributable to legislation stem primarily from funding for overseas contingency operations (that is, military operations and related activities in Afghanistan and other countries). As a result of legislation enacted to date, such funding for 2015 is $18 billion less than the amount provided for 2014. Because projections of future appropriations for such operations are based on the assumption that they will equal current appropriations with an adjustment for inflation, the smaller amount provided for 2015 caused CBO to reduce its projection of discretionary outlays for the 2015–2024 period by about $200 billion.

In contrast, lawmakers provided $5.4 billion in emergency funding for responding to the outbreak of the Ebola virus (no emergency funding was provided for 2014), and funding in 2015 for disaster relief and program integrity initiatives is about $1 billion higher than it

2. Program integrity initiatives are aimed at reducing improper benefit payments in one or more of the following programs: Disability Insurance, Supplemental Security Income, Medicare, Medicaid, and the Children's Health Insurance Program. For more information on the discretionary caps, see Congressional Budget Office, *Final Sequestration Report for Fiscal Year 2015* (January 2015), www.cbo.gov/publication/49889.

was in 2014; extrapolating those amounts adds about $65 billion to the projection for discretionary outlays.

Mandatory Spending. Legislative activity since August has not substantially changed CBO's estimates of mandatory outlays either for the current year or for the 2015–2024 period.

Net Interest. All told, the changes that CBO made to its projections of revenues and outlays because of recently enacted legislation reduce its projection of the cumulative deficit for the 2015–2024 period by $82 billion (excluding interest costs). The resulting decrease in the estimate of federal borrowing led CBO to reduce its projection of outlays for interest payments on federal debt by $9 billion through 2024.

Technical Changes

As a result of technical updates to spending estimates for various programs and certain receipts, CBO has lowered its estimate of outlays in 2015 by $70 billion. Such changes have led CBO to reduce its projection of outlays for the 10-year period by $184 billion (or 0.4 percent), mostly because of lower projections of mandatory outlays.

Mandatory Spending. Technical revisions have reduced the amount of mandatory outlays projected for the current year by $52 billion, mostly because of receipts related to auctions of the electromagnetic spectrum and the recording of the Treasury's transactions with Fannie Mae and Freddie Mac. For the 2015–2024 period, technical updates involving several programs lowered the total projection for mandatory spending by $168 billion.

Spectrum Auctions. CBO estimates that receipts from auctions of licenses to use the electromagnetic spectrum will total $59 billion over the 2015–2024 period, which is $35 billion more than it projected in August 2014. (Those collections are classified as offsetting receipts and are shown in the budget as a reduction in outlays.) Most of the increase stems from bids for licenses already auctioned during this fiscal year. Those bids were much higher than expected: In all, on the basis of the bids that were placed at the time this report was completed, CBO estimates gross receipts of $45 billion from auctions held in 2015. After adjusting for bidding credits that will be awarded to certain firms, CBO estimates that the net proceeds over the next two years will be about $27 billion more than the agency had previously anticipated. Those results led CBO to boost its estimates of the net proceeds from other auctions that may be held before the Federal Communications Commission's auction authority expires in 2022. The year-by-year change in CBO's projections also reflects updated information about the timing of future auctions and revised estimates of the federal spending that will be needed to make portions of the spectrum available for commercial use.

Fannie Mae and Freddie Mac. Because the government placed Fannie Mae and Freddie Mac into conservatorship in 2008 and now controls their operations, CBO considers their activities to be governmental. For the 10-year period after the current fiscal year, CBO projected subsidy costs of the entities' new activities using procedures that are similar to those specified in the Federal Credit Reform Act of 1990 for determining the costs of federal credit programs, but with adjustments to reflect the market risk associated with those activities. The Administration, in contrast, considers Fannie Mae and Freddie Mac to be outside the federal government for budgetary purposes and records cash transactions between those entities and the Treasury as federal outlays or receipts. (In CBO's view, those transactions should be considered intragovernmental.)

To provide CBO's best estimate of the amount that the Treasury ultimately will report as the federal deficit for 2015, CBO's current baseline includes an estimate of the cash receipts from the two entities to the Treasury for this year (that is, adopting the Administration's treatment for 2015 while retaining CBO's risk-adjusted projections of subsidy costs for later years). CBO estimates that payments from Fannie Mae and Freddie Mac to the Treasury will total $26 billion in 2015 (on the basis of the entities' most recent quarterly financial releases); those payments are recorded in the budget as offsets to outlays (offsetting receipts). By comparison, CBO's August 2014 baseline showed an estimated subsidy cost—that is, additional outlays—of about $3 billion for the entities' activities in 2015. All told, that difference—mostly conceptual in nature—reduces CBO's estimate of outlays in 2015 by $29 billion.

For 2016 through 2024, CBO's baseline follows the agency's customary approach of showing the estimated subsidy costs of mortgage guarantees provided and loans purchased by Fannie Mae and Freddie Mac. Those estimates are calculated on a fair-value basis, reflecting the market risk associated with the activities of the two institutions. For the 2016–2024 period, CBO now estimates that those subsidy costs will total $19 billion—about

$6 billion more than it projected in August, mostly because Fannie Mae and Freddie Mac's regulator announced that in January 2015 the two entities will begin making cash contributions to certain affordable-housing programs. Those programs, and the annual contributions from Fannie Mae and Freddie Mac, were authorized in the Housing and Economic Recovery Act of 2008 (Public Law 110-289).

Health Insurance Subsidies and Related Spending. CBO and the staff of the Joint Committee on Taxation have reduced their projections of outlays for exchange subsidies and related spending by $71 billion for the 2015–2024 period. (The subsidies are provided to eligible people to purchase health insurance through exchanges established under the Affordable Care Act, or ACA, or to assist them in paying out-of-pocket costs.) That reduction largely consists of a $39 billion decrease in cost-sharing subsidies, primarily stemming from higher actual and projected enrollment in insurance plans for which those subsidies are not available, and a $24 billion decrease in outlays for premium assistance tax credits, mainly resulting from lower estimated enrollment through the exchanges in every year.[3] The remainder of the reduction is accounted for by the Administration's reclassification of the risk corridor program from a mandatory to a discretionary program, along with other small revisions to projected outlays for risk adjustment and grants to states for establishing health insurance exchanges.[4] (See Appendix B for a more extensive discussion of the changes in CBO's baseline projections related to the ACA's insurance coverage provisions.)

3. People who enroll in health insurance plans through the exchanges are potentially eligible for at least one of two types of subsidies. Premium assistance tax credits cover a portion of eligible individuals' and families' health insurance premiums, and cost-sharing subsidies reduce out-of-pocket payments for low-income enrollees. Eligible low-income people must enroll in a "silver" plan (one that pays about 70 percent of the costs of covered benefits) to receive cost-sharing subsidies, but they are not required to enroll in a silver plan to receive premium assistance tax credits.

4. The risk corridor program reduces risk for health insurers by using a portion of some insurers' large profits to partially offset others' large losses. CBO's April 2014 baseline included net collections and payments for risk corridors as mandatory outlays and revenues. The risk corridors program is now recorded in the budget as a discretionary program; CBO estimates, as it did prior to the reclassification, that payments and collections will offset each other in each year, resulting in no net budgetary effect. CBO now projects that those offsetting transactions will total about $5 billion over the 2015–2017 period, a decrease of about $4 billion from the agency's previous projection.

Social Security. CBO has reduced its projections of outlays for Social Security for the 2015–2024 period by $65 billion (or 0.6 percent) on the basis of updated population projections and new information about participation in the Old-Age and Survivors Insurance program and the Disability Insurance program. Specifically, CBO has reduced its projections of the total number of people eligible to receive benefits. In addition, CBO now expects that a slightly smaller percentage of eligible people will collect benefits for the Old-Age and Survivors Insurance program than it projected in August. Also, on the basis of recent data regarding new awards, CBO expects that fewer people will be newly awarded benefits under the Disability Insurance program than it had previously projected.

Medicaid. CBO reduced its projections of spending for Medicaid over the 2015–2024 period by $60 billion (or about 1.3 percent) compared with its August 2014 estimates. That drop represents the net effect of several adjustments. The largest change is attributable to a reduction in spending growth for long-term services and supports. CBO lowered its estimate of spending for those services for the 2015–2024 period by $69 billion on the basis of an analysis of recent growth in such spending, which slowed from an estimated average annual rate of 6 percent between 1999 and 2009 to less than 2 percent over the past four years. CBO also lowered its projections of Medicaid spending as a result of new analysis indicating a lower expected per capita cost for some children who would enroll in Medicaid if funding for the Children's Health Insurance Program (CHIP) declined in 2016, as it does in CBO's baseline projections. CBO now estimates that Medicaid costs for those children would be lower than the program average, and it therefore has reduced its estimate of outlays by $31 billion over the 10-year projection period. Finally, CBO lowered its projection for spending by $19 billion because of certain technical adjustments and because actual spending in 2014 was less than anticipated in August.

Partially offsetting those reductions in projected spending was an update to CBO's estimate of the effects of the ACA. The agency now projects that a larger share of Medicaid enrollees will consist of people who will be newly eligible under the act. That change boosts spending projections because the federal government pays states a higher matching rate for those enrollees—between 90 percent and 100 percent—depending on the year. In addition, CBO now projects, a drop in funding for CHIP that starts in 2016 (as assumed in the baseline) would shift more children into Medicaid and fewer into coverage obtained through the exchanges or from employment-based insurance. Together those changes increase spending estimates by $59 billion for the 2015–2024 period (see Appendix B).

Student Loans. CBO increased its projection of outlays for federal student loans by $39 billion over the 2015–2024 period. That increase is primarily attributable to higher projections of participation in repayment plans that are based on a borrower's income. Under those plans, the government forgives the loans of borrowers who meet certain criteria, so they cost more than other repayment plans.

Other Mandatory Programs. Technical updates led CBO to boost its projections of outlays for several other mandatory programs, by $4 billion for 2015 and by $48 billion over the 2015–2024 period. CBO now projects that spending for the agricultural programs of the Commodity Credit Corporation will be $18 billion higher over the 2015–2024 period than it projected in the August baseline, primarily because of lower estimated crop prices and higher estimates of spending for livestock disaster assistance. In addition, CBO boosted its projections of Medicare outlays by $14 billion (because of higher projected outlays for Part C, known as Medicare Advantage, and for prescription drug coverage under Part D) and for federal civilian retirement benefits by $13 billion (stemming largely from updated projections of federal employee retirements and other technical adjustments) over the 2015–2024 period.

Discretionary Spending. Technical updates to CBO's projections of discretionary spending have the net effect of reducing its estimates of outlays by $13 billion for 2015 and by $25 billion for the 2015–2024 period (mostly in the first three years). The largest reductions in the 10-year period stem from higher projections of receipts (which reduce outlays) related to mortgage guarantees provided by the Federal Housing Administration and from lower projections of outlays for some categories of military spending, mainly for military personnel and for operations and maintenance.

Net Interest. As a result of technical updates to its spending and revenue projections, CBO's estimate of net interest outlays declined by $5 billion for 2015 but increased by $9 billion for the 2015–2024 period. Excluding debt service, CBO's estimate of interest outlays decreased by $13 billion for the 2015–2017 period but increased by $10 billion over the 2018–2024 period. Those changes are mainly attributable to new information about the Treasury's auctions of securities: Since CBO issued its projections in August, the Treasury has issued a higher proportion of bills, or short-term debt, than CBO had anticipated, leading CBO to project lower interest costs for the near term and higher costs for later in the baseline period as interest rates are forecast to rise. All told, such changes reduce the projection for net interest outlays by $3 billion over the 2015–2024 period.

In the opposite direction, CBO projects that higher debt-service costs—mostly related to what is known as other means of financing—will add $12 billion to net interest outlays over the same period.[5]

Changes to Projections of Revenues

Since releasing its baseline projections in August, CBO has reduced its estimates of revenues by $93 billion for 2015 and by $415 billion for the 2015–2024 period. Recent enactment of the Tax Increase Prevention Act of 2014 (Division A of P.L. 113-295) explains most of the reduction for 2015. In later years, economic factors—mostly slightly lower projections of GDP—account for the bulk of the reductions in the revenue projections. Technical factors (those not related to legislative activity or to changes in the economic forecast) resulted in smaller reductions.

Economic Changes

Revisions to CBO's economic projections have caused the agency to increase its revenue estimates by $29 billion (or 0.9 percent) for 2015 and by $11 billion (or 0.3 percent) for 2016 but to decrease them by $274 billion (or 0.8 percent) for the period from 2017 through 2024. CBO raised its revenue projections for the first two years of the 10-year period mostly because it now anticipates higher corporate profits than it did last year, which results in projections of higher payments of corporate income taxes and, to a much lesser extent, of individual income taxes. (Those upward revisions for revenues for 2015 were more than offset by technical and legislative changes, as described below.) The projection of larger profits is made

5. *Other means of financing* refers to the borrowing needs of the Treasury that are not directly included in budget totals; those factors include changes in the government's cash balances and the cash flows of federal programs that provide loans and loan guarantees.

on the basis of recent information from the national income and product accounts of the Bureau of Economic Analysis, which indicate that profits in 2014 were larger than CBO projected last August.

A change in CBO's forecast of economic growth lowered revenue projections for the 2017–2024 period. CBO has slightly reduced its projection for the pace of economic growth over the 2016–2019 period: Real (inflation-adjusted) GDP is now projected to be about 1.1 percent lower, on average, over the 2017–2024 period than CBO anticipated in August, and nominal GDP—the main source of taxable income—is projected to be lower by 1.2 percent over the same period. (The projection for inflation as measured by the price indexes for GDP is little changed.)

Consequently, CBO also has lowered its projections for wages and salaries—the most highly taxed type of income specified in the economic forecast—by an average of 1.2 percent over the 2017–2024 period. That change in the forecast has led CBO to make a downward adjustment—of slightly more than $300 billion (or 1.1 percent)—in its projections of revenue from individual income and payroll taxes for that period.

CBO's projections of corporate profits overall are up slightly from its previous forecast, mostly because lower interest costs for businesses are projected to raise profits; that effect is only partially offset by the reduction in CBO's projections of economic activity generally.[6] As a result of those and other smaller effects of the new economic forecast, CBO's updated projections for corporate income taxes are slightly higher, on net, for the 2021–2024 period.

Technical Changes

CBO has reduced its projections of revenues by $40 billion (or 1.2 percent) for 2015 and by $137 billion (or 0.3 percent) for the 2015–2024 period for reasons that are unrelated to new legislation or to changes in the economic outlook. Those technical changes can be traced to new information from tax returns and about recent tax collections, new analysis of elements of the projections, and other factors.

Of the projections for the different revenue sources, those for corporate income taxes have changed the most since August as a result of technical factors: Corporate income tax receipts are projected to be lower by $30 billion (or 7.6 percent) for 2015 and by $169 billion (or 3.8 percent) for the 10-year projection period. The largest effects arise from new information from corporate income tax returns and, to a lesser extent, from an updated projection of the growing reductions in the corporate tax base that are anticipated to result from corporations' following international tax avoidance strategies. Corporate inversion—in which a U.S. company merges with a foreign enterprise to become an affiliate of that foreign company—is one such strategy. CBO also incorporated an anticipated delay in the payment of corporate income taxes in 2015, with the effect of decreasing revenues in 2015 and increasing them equally in 2016. That change arises from rules that allow businesses to delay increasing their tax payments when their depreciation deductions drop significantly in a year, as occurs in 2015 under current law with the expiration at the end of 2014 of enhanced equipment-expensing provisions.

Legislative Changes

Legislation enacted since August 2014 has prompted CBO to reduce its revenue projections for 2015 by $81 billion (or 2.5 percent) but to raise them by $38 billion for the 2016–2024 period, resulting in a net $44 billion (or 0.1 percent) decrease for the 2015–2024 period.

Those changes result almost entirely from the Tax Increase Prevention Act of 2014, which extended about 50 expiring tax provisions for one year through 2014. Those provisions, which reduced the tax liabilities of individuals and businesses, include the tax credit for research and experimentation, certain eligibility rules for renewable energy facilities claiming energy tax credits, the deferral of certain active financing income of multinational corporations, and other provisions with smaller 10-year effects on revenues. The act will increase revenues over the 2016–2024 period largely because it retroactively extended (for 2014) enhanced expensing provisions that allowed businesses to take larger up-front deductions for investments in equipment or, for companies with relatively small investments in new equipment, to fully deduct those costs; that change will result in larger deductions being applied to the calculation of 2014 tax liabilities (when tax returns are filed in 2015), but it will lead to smaller deductions in later years.

6. The lower projected interest costs for businesses are also reflected in lower personal interest income, thereby reducing projected revenues from individual income taxes.