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CBO

An Analysis of the
President's
2016 Budget

FISCAL YEAR 2016

BUDGET

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Notes

Numbers in the text and tables may not add up to totals because of rounding.

Unless otherwise noted, years referred to in this report are federal fiscal years, which run from October 1 through September 30 and are designated by the calendar year in which they end.

Supplemental data for this analysis are available at CBO's website (www.cbo.gov/publication/49979), as is a glossary of common budgetary and economic terms (www.cbo.gov/publication/42904).



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An Analysis of the President's 2016 Budget

Summary

This report by the Congressional Budget Office presents an analysis of the proposals in the President's budget request for fiscal year 2016.¹ The analysis is based on CBO's economic projections and estimating models (rather than on the Administration's), and it incorporates estimates of the effects of the President's tax proposals that were prepared by the staff of the Joint Committee on Taxation (JCT).²

What Is Projected to Happen to Federal Deficits and Debt Under Current Law?

In conjunction with analyzing the President's budget, CBO has updated its baseline budget projections, which were previously issued in January 2015. Those projections largely reflect the assumption that current tax and spending laws will remain unchanged; they thereby provide a benchmark against which the President's proposals and other potential legislation can be measured.

According to CBO's current baseline projections, under current law, the federal deficit will be \$486 billion in 2015 and the cumulative deficit over the 2016–2025 period will total \$7.2 trillion.³ The deficit is projected to be 2.7 percent of gross domestic product (GDP) in 2015, to decline to 2.4 percent of GDP in 2016 and remain at about that level for the next two years, and then to

increase relative to the size of the economy, reaching 3.8 percent of GDP in 2025. Federal debt held by the public, which amounted to 74 percent of GDP at the end of 2014, is projected to reach 77 percent of GDP in 2025; it was less than 50 percent of GDP in every year between 1957 and 2008.

How Would the President's Proposals Affect Federal Deficits and Debt?

The President's budget request specifies spending and revenue policies for the 2016–2025 period and includes a few initiatives that would have budgetary effects in fiscal year 2015 as well. CBO and JCT estimate that if enacted, the President's proposals would have no significant net effect on the deficit in 2015 but would reduce deficits relative to those in CBO's baseline in each year between 2016 and 2025.⁴ Specifically, the President's policies are estimated to have the following consequences:

- For 2015, the deficit would total \$486 billion, equal to the deficit projected under current law. Under the President's policies, the deficit would fall to \$380 billion in 2016 and then increase (in nominal dollars) in each subsequent year of the 10-year period, growing to \$801 billion in 2025 (see Table 1).

1. CBO's analysis encompasses the budget as submitted to the Congress on February 2, 2015, as well as subsequent amendments that were transmitted on February 25, 2015.
2. For more details about the President's tax proposals, see Joint Committee on Taxation, *Estimated Budget Effects of the Revenue Provisions Contained in the President's Fiscal Year 2016 Budget Proposal*, JCX-50-15 (March 6, 2015), <http://go.usa.gov/3am8j>.
3. For information about CBO's latest baseline, see Congressional Budget Office, *Updated Budget Projections: 2015 to 2025* (March 2015), www.cbo.gov/publication/49973. That baseline incorporates the effects of legislation enacted through March 3, 2015.

4. This analysis does not include an assessment of the macroeconomic effects of the President's proposals or the feedback from those effects on the federal budget; CBO intends to publish a separate analysis of those economic and indirect budgetary effects this spring. However, the estimated budgetary effects of enacting comprehensive immigration reform that are included in this report implicitly include some effects of such legislation on the size of the labor force, economic output, and other macroeconomic measures. The projections of GDP used in this report match those CBO issued as part of its 10-year baseline economic projections in January 2015 and thus do not include any effects from the immigration proposal. For more details about CBO's economic projections, see Congressional Budget Office, *The Budget and Economic Outlook: 2015 to 2025* (January 2015), www.cbo.gov/publication/49892.

Table 1.**Comparison of Projected Revenues, Outlays, and Deficits in CBO's March 2015 Baseline and in CBO's Estimate of the President's Budget**

Billions of Dollars

	Actual, 2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	Total	
													2016- 2020	2016- 2025
CBO's March 2015 Baseline														
Revenues	3,021	3,191	3,470	3,601	3,728	3,874	4,034	4,211	4,395	4,596	4,806	5,030	18,709	41,747
Outlays	3,506	3,677	3,925	4,056	4,217	4,481	4,730	4,974	5,295	5,503	5,705	6,069	21,410	48,956
Total Deficit	-485	-486	-455	-455	-489	-607	-696	-763	-900	-907	-899	-1,038	-2,701	-7,209
CBO's Estimate of the President's Budget														
Revenues	3,021	3,202	3,578	3,742	3,904	4,063	4,229	4,369	4,573	4,791	5,017	5,260	19,517	43,526
Outlays	3,506	3,688	3,959	4,143	4,339	4,574	4,804	5,036	5,277	5,525	5,786	6,061	21,818	49,504
Total Deficit	-485	-486	-380	-401	-435	-511	-574	-668	-704	-735	-769	-801	-2,301	-5,977
Difference Between CBO's Estimate of the President's Budget and CBO's Baseline														
Revenues	n.a.	11	108	141	176	189	195	158	178	195	211	229	808	1,780
Outlays	n.a.	11	33	87	122	93	74	63	-19	22	81	-8	408	547
Total Deficit^a	n.a.	*	75	54	54	96	121	95	197	173	130	237	400	1,232
Memorandum:														
Deficit as a Percentage of GDP														
CBO's baseline	-2.8	-2.7	-2.4	-2.3	-2.4	-2.8	-3.1	-3.3	-3.7	-3.6	-3.4	-3.8	-2.6	-3.1
CBO's estimate of the President's budget	-2.8	-2.7	-2.0	-2.0	-2.1	-2.4	-2.6	-2.9	-2.9	-2.9	-2.9	-2.9	-2.2	-2.6
Debt Held by the Public as a Percentage of GDP														
CBO's baseline	74.1	74.2	73.8	73.2	72.9	73.1	73.5	74.0	74.9	75.7	76.2	77.1	n.a.	n.a.
CBO's estimate of the President's budget	74.1	74.2	73.5	72.7	72.2	72.1	72.0	72.3	72.5	72.7	72.9	73.1	n.a.	n.a.

Sources: Congressional Budget Office; staff of the Joint Committee on Taxation.

Note: GDP = gross domestic product; n.a. = not applicable.

a. Positive numbers indicate a decrease in the deficit.

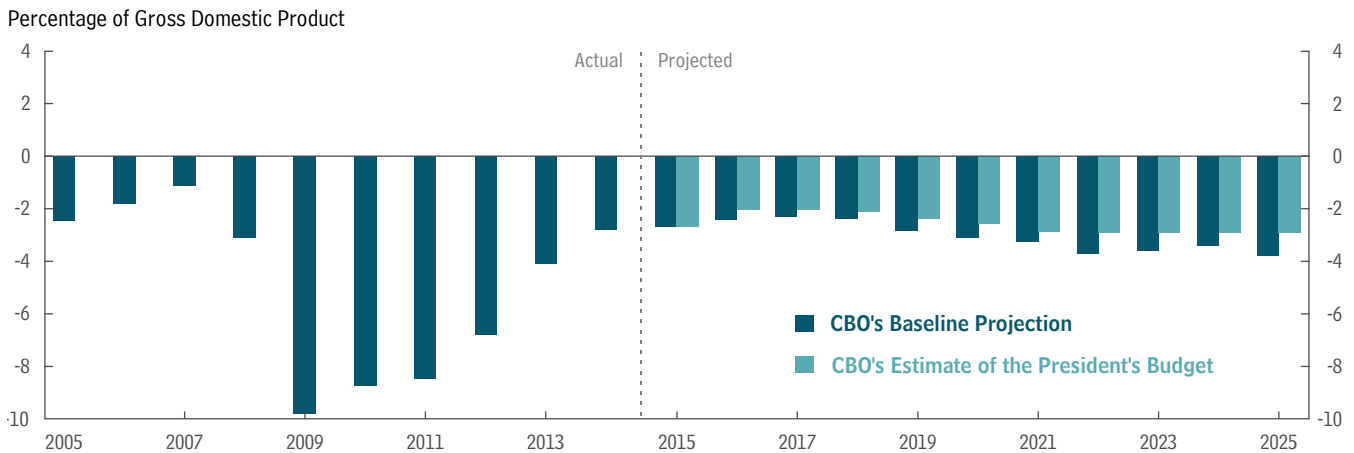
- Measured relative to the size of the economy, the deficit would equal 2.7 percent of GDP in 2015. It would then dip to around 2.0 percent of GDP for the next few years before increasing in the last half of the decade to 2.9 percent; it has averaged 2.7 percent of GDP over the past 50 years.
- Deficits would be smaller than those in CBO's baseline each year from 2016 through 2025 (see Figure 1). In all, deficits would total \$6.0 trillion over that period, \$1.2 trillion less than the cumulative deficit in CBO's baseline. By 2025, the deficit relative

to GDP under the President's budget would be nearly 1 percentage point lower than the deficit in CBO's baseline.

- Federal debt held by the public would remain in the vicinity of 72 percent or 73 percent of GDP throughout the next decade. By the end of 2025, it would total \$20.1 trillion (or 73 percent of GDP), about \$1 trillion (or 4 percent of GDP) less than the debt projected in CBO's baseline for that year (see Figure 2).

Figure 1.

Deficits Projected in CBO's Baseline and Under the President's Budget



Source: Congressional Budget Office.

What Proposals Would Have the Largest Budgetary Effects?

The estimated net reduction in the deficit of \$1.2 trillion between 2016 and 2025 under the President's proposals relative to CBO's baseline consists of the following elements:

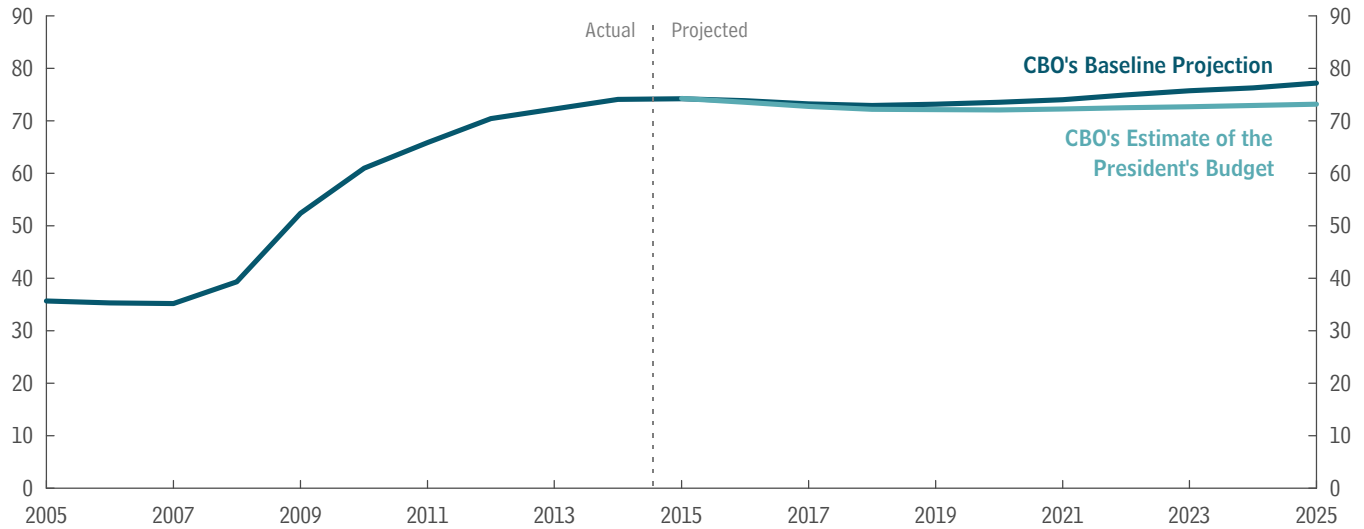
- *A reduction in funding for military operations and related activities in Afghanistan and elsewhere that are designated as overseas contingency operations.* Following the rules specified in law, CBO's baseline incorporates the assumption that in each year through 2025, funding for such operations will equal the amount provided in 2015—\$74 billion—with modest increases to keep pace with inflation. By comparison, the President's budget includes a request for \$58 billion for those operations in 2016, a placeholder amount of \$27 billion in each year from 2017 through 2021, and nothing thereafter. Consequently, estimated outlays for overseas contingency operations under the President's proposal are \$532 billion less over the 2016–2025 period than those in CBO's baseline.
- *An increase in income tax receipts from limiting the extent to which taxpayers can reduce their tax liability through certain deductions and exclusions.* The President proposes to cap the reduction in tax liability resulting from certain deductions and exclusions at 28 percent of the amount of those deductions and exclusions. That change would increase revenues by \$526 billion over the next decade, JCT estimates.

- *Reductions in spending for Medicare.* Taken together, the proposed changes to Medicare in the President's budget (excluding those related to repealing the automatic enforcement procedures known as sequestration) would decrease federal spending by \$240 billion over the 10-year projection period. The President's proposal to increase payment rates for physicians (which, under current law, are scheduled to be lowered in 2015) would boost outlays by \$6 billion in 2015 and by \$168 billion between 2016 and 2025. However, the President's other proposals affecting Medicare would reduce outlays by \$408 billion.
- *Net savings from comprehensive immigration reform similar to the legislation that was passed by the Senate in 2013—S. 744, the Border Security, Economic Opportunity, and Immigration Modernization Act.* In July 2013, CBO and JCT estimated that enacting that legislation would increase the number of legal residents and the size of the labor force, which would boost both tax receipts and spending for federal benefit programs and have various other economic and budgetary effects. Over the 2014–2023 period, according to CBO and JCT's estimates, enacting S. 744 in 2013 would have produced a net reduction in the deficit of \$158 billion.⁵

5. See Congressional Budget Office, cost estimate for S. 744, the Border Security, Economic Opportunity, and Immigration Modernization Act (July 3, 2013), www.cbo.gov/publication/44397. According to CBO and JCT's analysis, S. 744 would have increased revenues by \$456 billion and raised direct spending by \$298 billion over the 2014–2023 period.

Figure 2.**Federal Debt Held by the Public Projected in CBO's Baseline and Under the President's Budget**

Percentage of Gross Domestic Product



Source: Congressional Budget Office.

For the purposes of this analysis, CBO and JCT have updated their estimates of the budgetary effects of that legislation to incorporate changes to CBO's baseline, including changes to average per capita benefits for certain programs and the effects of the Administration's deferred action programs for unauthorized immigrants. CBO and JCT now estimate that enacting such legislation would reduce deficits by \$173 billion, on net, over the 2016–2025 period, raising revenues by \$423 billion and increasing mandatory spending by \$250 billion.

- *An increase in discretionary spending for all activities other than overseas contingency operations and surface transportation programs (which the President proposes to reclassify to the mandatory side of the budget).* In total, projected outlays for those activities under the President's budget are \$371 billion (or 3 percent) more over the 10-year projection period than those in CBO's baseline. The proposed increases in appropriations would be made possible by raising the caps on discretionary funding through 2021 relative to what they would be under current law. (Those caps would also be extended through 2025.) Under the President's budget, outlays for defense activities, other than those related to overseas contingency operations, would increase by \$193 billion over the 2016–2025 period relative to

CBO's baseline. For nondefense discretionary programs (excluding those related to surface transportation and overseas contingency operations), outlays would be about \$178 billion higher over the decade.

- *A net increase in revenues stemming from other proposals.* The President's budget includes a number of other proposed changes that would boost revenues by \$831 billion, on net, over the 2016–2025 period. Among the largest changes are proposals to increase taxes on capital gains and dividends (\$230 billion), to impose a onetime tax on certain foreign earnings (\$210 billion), and to modify estate and gift taxes (\$153 billion).
- *A net increase in noninterest spending stemming from other proposals.* All other proposals in the President's budget would boost outlays by \$852 billion, on net, over the 10-year period. The President's proposals to modify various refundable tax credits would increase outlays by \$264 billion, and proposals related to education and job training would increase spending over the next decade by \$178 billion, CBO estimates. Canceling the automatic reductions in mandatory spending would boost outlays by \$120 billion through 2025.

■ *Savings on interest payments.* Between 2016 and 2025, the policy changes proposed in the President's budget would increase revenues by \$1.8 trillion (or about 4 percent) and increase noninterest outlays by about \$700 billion (or about 2 percent), according to CBO and JCT's estimates. That reduction in deficits of \$1.1 trillion would diminish federal borrowing relative to what CBO projects would occur under current law and thereby decrease the government's interest payments by an estimated \$153 billion over the 10-year period, putting the cumulative deficit \$1.2 trillion below CBO's baseline total.

Effects of the President's Proposals on the Budget Outlook

Enacting the President's policy proposals would leave the deficit in 2015 essentially unchanged, CBO and JCT estimate—producing a \$486 billion shortfall, equal to CBO's estimate under current law. However, both revenues and outlays would increase by \$11 billion relative to CBO's baseline estimates (see Table 2).

In 2016, the effects of the President's proposals would be greater. Both outlays and revenues are estimated to be higher than projected in CBO's baseline—outlays by \$33 billion, or about 1 percent, and revenues by \$108 billion, or about 3 percent—reducing the projected deficit by an estimated \$75 billion (or 0.4 percent of GDP).

In each year between 2017 and 2025, according to CBO and JCT's estimates, the proposals would decrease the deficit relative to CBO's baseline projections. Those reductions would average 0.5 percent of GDP.

Revenues would rise from 17.8 percent of GDP in 2015 to 19.2 percent in 2025, exceeding their average over the past 50 years of 17.4 percent of GDP (see Table 3 on page 8); in the baseline, they are projected to rise from 17.7 percent of GDP to 18.3 percent over that period. Outlays would increase by a similar magnitude—from 20.5 percent of GDP in 2015 to 22.1 percent in 2025, also exceeding their average over the past 50 years of 20.1 percent of GDP; in the baseline, they are projected to rise from 20.4 percent of GDP to 22.1 percent over that period.

Proposals That Would Affect Revenues

Included in the President's budget are a number of proposed changes to tax law and other provisions of law that would affect revenues. If enacted, those changes would boost revenues by \$108 billion in 2016 and by \$1.8 trillion (or 4.1 percent) over the 2016–2025 period relative to the baseline, CBO and JCT estimate. (Those proposals would also boost outlays for refundable tax credits by \$264 billion between 2016 and 2025.)

Limit Certain Tax Deductions and Exclusions. The President proposes to limit the extent to which higher-income taxpayers can reduce their tax liability through certain deductions and exclusions by capping the reduction in tax liability at 28 percent of the value of those deductions and exclusions. That change would increase revenues by \$526 billion from 2016 to 2025, according to JCT.

Enact Comprehensive Immigration Reform. The President proposes to alter the laws related to immigration, taking an approach similar to the one embodied in the immigration legislation that the Senate passed in 2013. CBO and JCT have made adjustments to the cost estimate for that legislation to reflect changes in the baseline budget projections that have been made since 2013, including the effects of the Administration's deferred action programs. The estimated effects of immigration legislation included in this report also take into account other changes to the tax code proposed by the President. In the context of the President's other proposals, CBO and JCT project that immigration reform of that type would increase revenues by \$423 billion over the coming decade. (CBO and JCT also estimate that such reform would increase mandatory spending by \$250 billion over the same period; those costs are discussed in the section on mandatory spending.)

Increase Taxes on Capital Gains and Dividends. The President proposes to increase the tax rates on capital gains and qualified dividends for high-income taxpayers from 23.8 percent to 28 percent (including the existing 3.8 percent tax on net investment income) and to have certain transfers of assets by gift or at death result in a recognition of a gain that would be taxable if above a specified threshold. JCT estimates that the changes would increase revenues by \$230 billion between 2016 and 2025.

Table 2.**CBO's Estimate of the Effects of the President's Budget Proposals**

Billions of Dollars

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	Total	
												2016-	2016-
												2020	2025
Deficit in CBO's March 2015 Baseline	-486	-455	-455	-489	-607	-696	-763	-900	-907	-899	-1,038	-2,701	-7,209
Effect of the President's Proposals													
Revenues													
Limit the extent to which certain deductions and exclusions reduce tax liability	-1	14	48	47	50	53	56	59	63	66	70	212	526
Enact comprehensive immigration reform	0	1	7	20	30	40	45	55	65	75	85	98	423
Increase taxes on capital gains and dividends	3	22	5	19	21	22	24	26	28	30	32	89	230
Impose onetime tax on certain foreign earnings	8	54	48	49	50	43	-8	-6	-7	-7	-7	244	210
Modify estate and gift taxes	0	2	7	10	13	17	18	19	21	22	24	48	153
Impose a fee on certain financial institutions	0	6	11	11	11	11	11	12	12	12	13	49	110
Other proposals	1	10	14	21	14	9	11	12	13	13	13	67	129
Total Effect on Revenues	11	108	141	176	189	195	158	178	195	211	229	808	1,780
Outlays													
Mandatory													
Reclassify surface transportation spending as mandatory	0	14	35	44	48	52	55	57	58	60	61	193	484
Increase spending for surface transportation programs	*	4	8	10	11	11	12	11	10	9	7	44	93
Enact comprehensive immigration reform	0	5	10	15	20	20	25	30	35	40	50	70	250
Increase Medicare's payment rates for physicians	6	11	11	12	14	15	18	20	21	22	23	63	168
Other Medicare proposals ^a	*	-1	-13	-24	-32	-40	-46	-53	-59	-64	-75	-111	-408
Modify refundable tax credits	0	0	11	12	34	34	34	35	35	35	35	90	264
Increase funding for education and job training	0	-1	5	10	14	18	21	24	27	30	32	44	178
Cancel automatic spending reductions ^b	0	6	11	11	12	13	13	15	17	18	3	53	120
Increase funding for Medicaid and other non-Medicare health programs	4	12	11	12	13	8	6	6	6	6	5	56	85
Expand access to child care	0	3	4	5	5	6	8	9	11	12	14	23	76
Other proposals	*	-39	2	49	4	3	2	-56	-2	67	6	18	35
Subtotal, Mandatory Outlays	10	13	93	153	143	142	149	98	159	234	162	544	1,346
Discretionary													
Lower spending for overseas contingency operations ^c	0	-8	-23	-37	-44	-49	-52	-70	-79	-83	-86	-162	-532
Reclassify surface transportation spending as mandatory	0	-14	-35	-44	-48	-52	-55	-57	-58	-60	-61	-193	-484
Other proposals ^d	0	42	52	53	49	44	35	30	27	22	16	240	371
Subtotal, Discretionary Outlays	0	20	-5	-28	-44	-58	-71	-97	-111	-121	-131	-115	-645
Net interest	1	*	-1	-3	-6	-10	-14	-20	-27	-32	-39	-21	-153
Total Effect on Outlays	11	33	87	122	93	74	63	-19	22	81	-8	408	547
Total Effect on the Deficit^e	*	75	54	54	96	121	95	197	173	130	237	400	1,232
Deficit Under the President's Budget as Estimated by CBO	-486	-380	-401	-435	-511	-574	-668	-704	-735	-769	-801	-2,301	-5,977

Continued

Table 2. **Continued**

CBO's Estimate of the Effects of the President's Budget Proposals

Billions of Dollars

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	Total	
												2016-	2016-
												2020	2025
Memorandum:													
Effect on the Deficit of Proposals Specified as													
Part of Revenue-Neutral Business Tax Reform													
Modify the U.S. system of taxing international income	-4	13	32	31	32	33	36	36	34	34	34	141	315
Permanently extend and increase the R&E tax credit	-3	-7	-10	-12	-14	-16	-18	-20	-22	-23	-24	-61	-168
Repeal the LIFO method of inventory accounting	0	5	11	11	11	11	11	11	11	11	11	49	105
Permanently extend increased expensing of investment by small businesses	-8	-17	-16	-13	-10	-8	-6	-5	-5	-6	-6	-63	-92
Other ^f	-1	*	4	3	2	-1	-4	-6	-7	-8	-8	8	-26
Total^{e,g}	-15	-6	20	20	20	20	18	15	11	9	7	74	134
Total Effect on Noninterest Outlays	10	33	88	125	99	84	77	1	49	113	31	429	701

Sources: Congressional Budget Office; staff of the Joint Committee on Taxation.

Note: LIFO = last in, first out; R&E = research and experimentation; * = between -\$500 million and \$500 million.

- a. The figures shown here do not include the effects on Medicare spending of the President's proposal to cancel automatic spending reductions to mandatory programs for each year from 2016 to 2024 (the last year such reductions are in effect under current law).
- b. Refers to the spending reductions established by the Budget Control Act of 2011 and subsequently amended. Automatic spending reductions to mandatory programs (known as sequestration) would be canceled under the President's budget for each year from 2016 to 2024 (the last year such reductions are in effect under current law).
- c. Overseas contingency operations consist of military operations and related activities in Afghanistan and other countries.
- d. This category consists mainly of outlays stemming from the President's proposal to alter discretionary spending caps. The President proposes eliminating the automatic spending reductions in place between 2016 and 2021 and instituting caps on discretionary funding through 2021 that would be higher than those in CBO's baseline (which reflects an assumption that the automatic spending reductions remain in place) but lower than the caps originally set in the Budget Control Act. The President also proposes to extend the caps through 2025.
- e. Negative numbers indicate an increase in the deficit relative to CBO's baseline, and positive numbers indicate a decrease in the deficit.
- f. Includes proposals that, on net, would raise revenues by \$42 billion and increase outlays by \$69 billion.
- g. This total reflects policies that the Administration has specified as part of a proposed revenue-neutral reform of business taxes. Those policies would largely produce changes in revenues, but they would also cause some changes in outlays (included in the "Other" line). No estimates are included for the unspecified policies that would make that set of proposals revenue neutral. The amounts shown for this total are not included in CBO's estimate of the total effect of the President's proposals on the deficit.

Impose a Onetime Tax on Certain Foreign Earnings.

Under the President's budget, a onetime tax of 14 percent would be imposed on the accumulated earnings of foreign corporations controlled by U.S. shareholders. Only earnings that were not previously subject to U.S. taxation would face this onetime tax, and a tax credit would be allowed for a portion of the income taxes on those earnings paid to foreign governments. No additional U.S. tax would be levied if those earnings were later repatriated to the United States. JCT estimates that this proposal would

increase revenues by \$210 billion over the 2016–2025 period.

Modify Estate and Gift Taxes. Starting in 2016, the parameters used to determine estate, gift, and generation-skipping transfer taxes (which apply to wealth transferred to an heir who is more than one generation younger) would be restored to their 2009 amounts, thereby raising the maximum rate at which estates and gifts are taxed to 45 percent, lowering the amounts of wealth excluded from the tax, and eliminating the indexing of those

Table 3.**CBO's Estimate of the President's Budget**

	Actual,												Total	
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2016-2020	2016-2025
In Billions of Dollars														
Revenues														
On-budget	2,286	2,439	2,783	2,912	3,033	3,155	3,284	3,385	3,547	3,724	3,907	4,102	15,166	33,829
Off-budget ^a	736	763	795	830	872	909	946	984	1,026	1,067	1,111	1,158	4,352	9,697
Total	3,021	3,202	3,578	3,742	3,904	4,063	4,229	4,369	4,573	4,791	5,017	5,260	19,517	43,526
Outlays														
Mandatory	2,099	2,284	2,484	2,634	2,771	2,930	3,086	3,256	3,435	3,622	3,819	4,023	13,905	32,060
Discretionary	1,179	1,175	1,198	1,179	1,166	1,178	1,191	1,205	1,214	1,226	1,241	1,270	5,912	12,067
Net interest	229	229	277	330	402	466	526	576	627	678	726	769	2,001	5,377
Total	3,506	3,688	3,959	4,143	4,339	4,574	4,804	5,036	5,277	5,525	5,786	6,061	21,818	49,504
On-budget	2,800	2,947	3,177	3,314	3,453	3,630	3,795	3,959	4,126	4,296	4,473	4,659	17,368	38,880
Off-budget ^a	706	741	782	829	886	944	1,009	1,078	1,151	1,230	1,313	1,402	4,450	10,623
Deficit (-) or Surplus	-485	-486	-380	-401	-435	-511	-574	-668	-704	-735	-769	-801	-2,301	-5,977
On-budget	-514	-508	-393	-402	-421	-475	-511	-574	-579	-572	-566	-557	-2,203	-5,051
Off-budget ^a	30	22	13	1	-14	-36	-63	-93	-125	-163	-203	-244	-98	-926
Debt Held by the Public	12,780	13,375	13,844	14,332	14,844	15,432	16,078	16,813	17,583	18,381	19,213	20,078	n.a.	n.a.
Memorandum:														
Gross Domestic Product ^b	17,251	18,016	18,832	19,701	20,558	21,404	22,315	23,271	24,261	25,287	26,352	27,456	102,810	229,438
As a Percentage of Gross Domestic Product														
Revenues														
On-budget	13.3	13.5	14.8	14.8	14.8	14.7	14.7	14.5	14.6	14.7	14.8	14.9	14.8	14.7
Off-budget ^a	4.3	4.2	4.2	4.2	4.2	4.2	4.2	4.2	4.2	4.2	4.2	4.2	4.2	4.2
Total	17.5	17.8	19.0	19.0	19.0	19.0	19.0	18.8	18.8	18.9	19.0	19.2	19.0	19.0
Outlays														
Mandatory	12.2	12.7	13.2	13.4	13.5	13.7	13.8	14.0	14.2	14.3	14.5	14.7	13.5	14.0
Discretionary	6.8	6.5	6.4	6.0	5.7	5.5	5.3	5.2	5.0	4.8	4.7	4.6	5.8	5.3
Net interest	1.3	1.3	1.5	1.7	2.0	2.2	2.4	2.5	2.6	2.7	2.8	2.8	1.9	2.3
Total	20.3	20.5	21.0	21.0	21.1	21.4	21.5	21.6	21.7	21.9	22.0	22.1	21.2	21.6
On-budget	16.2	16.4	16.9	16.8	16.8	17.0	17.0	17.0	17.0	17.0	17.0	17.0	16.9	16.9
Off-budget ^a	4.1	4.1	4.2	4.2	4.3	4.4	4.5	4.6	4.7	4.9	5.0	5.1	4.3	4.6
Deficit (-) or Surplus	-2.8	-2.7	-2.0	-2.0	-2.1	-2.4	-2.6	-2.9	-2.9	-2.9	-2.9	-2.9	-2.2	-2.6
On-budget	-3.0	-2.8	-2.1	-2.0	-2.0	-2.2	-2.3	-2.5	-2.4	-2.3	-2.1	-2.0	-2.1	-2.2
Off-budget ^a	0.2	0.1	0.1	*	-0.1	-0.2	-0.3	-0.4	-0.5	-0.6	-0.8	-0.9	-0.1	-0.4
Debt Held by the Public	74.1	74.2	73.5	72.7	72.2	72.1	72.0	72.3	72.5	72.7	72.9	73.1	n.a.	n.a.

Sources: Congressional Budget Office; staff of the Joint Committee on Taxation.

Note: * = between zero and 0.05 percent; n.a. = not applicable.

- a. The revenues and outlays of the Social Security trust funds and the net cash flow of the Postal Service are classified as off-budget.
- b. These figures come from CBO's baseline economic projections and do not reflect the macroeconomic effects of the President's proposals.

excluded amounts for inflation. That proposal, along with other proposed changes to those taxes, would increase revenues by \$153 billion over the 2016–2025 period, JCT estimates.

Impose a Fee on Certain Financial Institutions. The President proposes to impose a fee on large banks and certain other large financial firms beginning in 2016. The fee would generally equal 0.07 percent of their assets minus their liabilities. By JCT's estimates, the proposal would raise revenues by \$110 billion between 2016 and 2025.

Enact Business Tax Reform That Is Revenue Neutral in the Long Run. The President's budget includes proposals that would modify business taxes in such a way that there would be no net effect on revenues in the long run. Some of those proposals, listed below, are specified in the budget; according to JCT, they would have a net effect of reducing deficits by \$134 billion over the 2016–2025 period (see the memorandum to Table 2):

- Modify the U.S. system of taxing international income, which would reduce deficits by \$315 billion;
- Permanently extend and increase the tax credit for research and experimentation, which would increase deficits by \$168 billion;
- Repeal a provision of law that allows the last-in, first-out method of accounting to be used for inventory, which would reduce deficits by \$105 billion;
- Permanently extend increased expensing of investment by small businesses, which would increase deficits by \$92 billion; and
- Implement other specified proposals for business tax reform, which would increase deficits by \$26 billion.

The Administration has not identified the components of a potential reform package that would counterbalance the budgetary effects of the specified proposals. However, because the Administration has stated a goal of revenue neutrality for business tax reform, CBO has not included any net savings from such reform in its tally of the overall budgetary effects of the President's proposals.

Proposals That Would Affect Mandatory Spending

Under the President's proposals, outlays for mandatory programs would be \$10 billion higher in 2015 than in

CBO's baseline projections.⁶ That increase stems mainly from two proposals. One proposal would increase the rates for Medicare's payments to physicians by 0.5 percent starting on April 1, 2015 (rather than allow those payments to drop by 21 percent on that date, as will occur under current law); that proposal would increase spending this year by \$6 billion. The other proposal would extend retroactively to January 1, 2015, the higher payment rates to practitioners who provide primary care services under Medicaid that expired in December 2014; that proposal would raise spending this year by \$4 billion.

Over the 2016–2025 period, net outlays for mandatory programs would be higher by \$1.3 trillion (or 4.4 percent) under the President's budget than under current law, according to CBO's estimates. Roughly one-third of that increase—\$0.5 trillion—comes from the proposed reclassification of outlays for certain transportation programs from discretionary to mandatory; the rest is related to other policy changes proposed by the Administration. Excluding the proposed reclassification, net outlays for mandatory programs under the President's budget would be \$862 billion (or 2.8 percent) higher than under current law. Mandatory outlays under the President's budget would equal 13.2 percent of GDP in 2016 and grow to 14.7 percent by 2025; in CBO's baseline, they are 13.1 percent and 14.1 percent, respectively.⁷

Reclassify and Increase Spending for Surface Transportation Programs.

The President proposes to reclassify outlays for surface transportation programs (most of which are related to highways) from discretionary to mandatory spending. By itself, that reclassification would have no net budgetary impact; it would increase mandatory outlays by \$484 billion and reduce discretionary outlays by the same amount over the 2016–2025

6. Mandatory (or direct) spending includes spending for certain benefit programs and other payments to people, businesses, nonprofit institutions, and state and local governments. It is generally governed by statutory criteria and is not normally constrained by the annual appropriation process. Discretionary spending is controlled by annual appropriation acts; policymakers decide each year how much money to provide for a broad array of government activities, including defense, law enforcement, and transportation.

7. If not for the reclassification of certain transportation outlays as mandatory, mandatory outlays in the President's proposal would equal 13.1 percent of GDP in 2016 and 14.4 percent of GDP in 2025.

period.⁸ However, the President's budget also calls for raising the overall amount of funding for surface transportation programs, which would result in an increase relative to current law of \$93 billion in mandatory outlays over that period (based on the assumption that outlays for those programs would be reclassified as the President proposes).

Enact Comprehensive Immigration Reform. The President's budget includes a proposal to enact comprehensive immigration reform similar to what passed the Senate in 2013. For the purposes of this analysis, CBO and JCT have updated their estimates of spending for that legislation to reflect changes to their baseline projections—mostly changes in projected benefits per person from certain programs and the effects of the deferred action programs. JCT also took into account other changes to refundable tax credits proposed by the President. CBO and JCT estimate that enacting such a proposal would increase mandatory outlays by \$250 billion from 2016 through 2025.

Increase Payment Rates for Physicians and Make Other Changes to Medicare. The Administration proposes numerous changes to the laws governing Medicare, which together would reduce mandatory spending (net of offsetting receipts) by \$240 billion from 2016 through 2025, CBO estimates. The President's proposal to increase the rates Medicare pays to physicians by 0.5 percent and to replace the current physician payment schedule with new systems for setting those payments would have the largest effect on outlays. Under current law, those payment rates are scheduled to be cut by 21 percent on April 1, 2015, and raised or lowered by small amounts in subsequent years. The proposal to increase physicians' payment rates and replace the fee schedule would increase mandatory spending over the 2016–2025 period by

\$168 billion relative to current law, CBO estimates. (That proposal would also increase spending in 2015 by \$6 billion.)

Most of the other proposals affecting Medicare would decrease spending for the program; they include the following:

- Reduce payments to certain health care providers, including hospitals and skilled nursing facilities;
- Increase cost-sharing amounts for some beneficiaries;
- Require manufacturers to pay rebates on prescription drugs dispensed to low-income beneficiaries who are enrolled in Part D of Medicare (which covers outpatient prescription drugs);
- Reduce payment rates for certain biological drugs (products derived from living organisms) covered under Part B of the program (which covers doctors' services, outpatient care, home health care, and other medical services); and
- Enhance Medicare's ability to reduce waste, fraud, and abuse.

Taken together, all of the additional proposed policy changes would reduce outlays by a total of \$408 billion over 10 years, CBO estimates.⁹

Modify Refundable Tax Credits. Under the President's budget, various refundable tax credits, including the earned income tax credit, the child tax credit, and the American Opportunity Tax Credit, would be modified.¹⁰ Most notably, the American Opportunity Tax Credit and certain provisions of law regarding the earned income and child tax credits that are scheduled to expire at the end of 2017 would be extended permanently. Those policy changes, along with other tax proposals that would

8. For programs funded through the Highway Trust Fund, budget authority is classified as mandatory under current law; outlays, by contrast, are considered discretionary because historically they have been controlled by obligation limitations set in appropriation acts. Reclassifying those programs—which could be done through legislation or without legislation if agreed to by the House and Senate Budget Committees, the Administration, and CBO—would shift \$404 billion in outlays from the discretionary category to the mandatory category over the 2016–2025 period covered by CBO's baseline. Some surface transportation programs are funded through discretionary budget authority and would require legislation to reclassify; in CBO's baseline, outlays for those programs total \$80 billion between 2016 and 2025.

9. That amount does not include the effects on Medicare spending of the proposal to eliminate automatic spending reductions, which is discussed separately. (In CBO's March 2015 baseline projections, those automatic reductions to the Medicare program are projected to yield \$97 billion in net savings.)

10. Tax credits reduce a taxpayer's overall income tax liability; if a refundable credit exceeds a taxpayer's other income tax liabilities, all or a portion of the excess (depending on the particular credit) is refunded to the taxpayer, and that payment is recorded as an outlay in the budget.

affect the refundable portion of those credits, would increase outlays by an estimated \$264 billion over the 2016–2025 period, according to JCT.¹¹

Increase Funding for Education and Job Training Programs.

The President's proposals for education and job training would increase mandatory spending over the next decade by \$178 billion, CBO estimates. That total includes \$66 billion in additional grants to expand access to preschool programs, \$60 billion to help pay the costs of community college for some students, \$32 billion in additional mandatory funding for the Federal Pell Grant Program, and \$18 billion in additional support for apprenticeship and job training programs. Some other proposals would increase or decrease spending for education and job training by smaller amounts.

Cancel Automatic Spending Reductions. The President proposes to cancel the automatic reductions in mandatory spending that were originally put in place through 2021 (as specified by the Budget Control Act of 2011) and subsequently extended through 2024.¹² If that sequestration were eliminated for all years beginning with fiscal year 2016, mandatory spending over the coming decade would be \$120 billion higher than under current law, CBO estimates.

Increase Funding for Medicaid and Other Non-Medicare Health Programs. Proposed changes to Medicaid and other health care programs aside from Medicare (including the Children's Health Insurance Program and the programs administered by the Health Resources and Services Administration) would raise mandatory spending by \$85 billion, on net, from 2016 through 2025, CBO estimates. Among the proposals that would raise outlays are the following:

- Provide funding for the Children's Health Insurance Program through 2019 (under current law, no new funding has been provided for that program beyond 2015);

- Give states the option to provide 12 months of continuous coverage to adults through Medicaid that would remain in effect regardless of changes in the enrollees' circumstances;
- Increase funding for community health centers, the Indian Health Service, and the Maternal, Infant, and Early Childhood Home Visiting program;
- Extend Transitional Medical Assistance and increase the amount paid to practitioners who provide primary care services under Medicaid through December 2016; and
- Expand eligibility for long-term care under Medicaid.

Other proposals would reduce outlays for Medicaid and other health care programs. They include increasing rebates paid to the government by pharmaceutical companies for drugs purchased through Medicaid, lowering the amounts that state Medicaid programs pay for generic drugs, and reducing Medicaid's payments for durable medical equipment.

Expand Access to Child Care. The Administration would provide grants to states over the 2016–2025 period for expanding access to child care for low- and moderate-income families. CBO estimates that the proposal would increase outlays by \$76 billion over that period.

Proposals That Would Affect Discretionary Spending

For discretionary programs, which receive new funding each year in appropriation legislation, CBO estimates that the President's budget would result in outlays over the next decade that are \$645 billion (or 5.0 percent) less than those in CBO's baseline. However, \$484 billion of that reduction would simply be the result of the reclassification of certain spending for surface transportation as mandatory spending.

In addition, funding in the President's budget for overseas contingency operations—\$58 billion for 2016, annual placeholders of \$27 billion from 2017 through 2021, and nothing thereafter—would reduce outlays by \$532 billion relative to the sums projected in CBO's baseline (which are based on the 2015 appropriation, with adjustments for future inflation).

11. Most of the proposals that would increase outlays for refundable tax credits would also reduce revenues. For example, the proposal to extend the American Opportunity Tax Credit would reduce them by \$36 billion over the 10-year period.

12. The President would also cancel the automatic reductions that are slated to reduce the caps on funding for discretionary programs from 2016 through 2021 and establish new, higher caps that would be extended through 2025.

Table 4.**Discretionary Budget Authority Proposed by the President for 2016, Compared With Appropriations for 2014 and 2015**

Billions of Dollars

	Actual, 2014	Enacted, 2015 ^a	President's Budget, 2016 ^b	Percentage Change	
				2014–2015	2015–2016
Defense					
Funding constrained by caps	521	521	561	0.1	7.7
Overseas contingency operations ^c	85	64	51	-24.6	-20.9
Other adjustments to the caps	0	0	0	-50.2	n.a.
Subtotal	606	586	612	-3.4	4.5
Nondefense					
Funding constrained by caps	514	514	527 [†]	-0.1	2.5 [†]
Overseas contingency operations ^c	7	9	7	42.0	-23.9
Other adjustments to the caps	7	13	9 [†]	103.1	-32.3 [†]
Subtotal	527	536	543	1.7	1.2
Total	1,134	1,122	1,155	-1.0	2.9

Source: Congressional Budget Office. [† On March 13, 2015, CBO corrected numbers in this table to reallocate about \$1 billion in the President's proposals for nondefense spending for 2016.]

Notes: The numbers shown here do not include obligation limitations for certain transportation programs.

* = between zero and \$500 million; n.a. = not applicable.

- The President does not propose any changes to appropriations for 2015.
- The President proposes to reduce budget authority by a total of \$21 billion for certain mandatory programs through the appropriation process. In keeping with long-standing procedures, those changes are initially credited against discretionary spending and therefore are included in the amounts for 2016. (For 2014 and 2015, any such effects appear in their normal mandatory accounts and are not shown here.)
- Overseas contingency operations consist of military operations and related activities in Afghanistan and other countries.

All other discretionary spending would be \$371 billion (or 2.9 percent) higher under the President's budget than it is in CBO's baseline. Such spending increases would be accommodated by increasing the caps on discretionary appropriations for the years 2016 through 2021—by both repealing the automatic reductions in the current caps that are set to occur and establishing new, higher caps for those years. (In addition, the caps would be extended through 2025.)

Measured as a share of GDP, discretionary outlays under the President's budget would equal 6.4 percent in 2016 and fall to 4.6 percent by 2025; in CBO's baseline, they are 6.3 percent and 5.1 percent, respectively. If not for the reclassification of transportation spending, discretionary outlays under the President's other proposals would be 4.8 percent in 2025. (Over the past 50 years, discretionary spending has averaged 8.8 percent of GDP.)

Proposed Appropriations for 2016. The President has requested a total of \$1.15 trillion in discretionary budget

authority for 2016. That amount is \$33 billion (or 2.9 percent) more than the amount that was appropriated for 2015 (see Table 4).

For defense discretionary programs, the President proposes appropriations of \$612 billion in 2016—\$26 billion (or 4.5 percent) more than has been provided for 2015. That proposal includes \$51 billion for defense activities classified as overseas contingency operations—\$13 billion less than the amount appropriated for 2015. Appropriations for other defense activities would total \$561 billion under the President's request, which is \$38 billion above the current limit for 2016 (including the automatic spending reductions) and \$40 billion (or 7.7 percent) more than the funding provided for those purposes in 2015.

Most of that increase would be for operation and maintenance (\$14 billion), procurement (also \$14 billion), and research and development (\$6 billion) within the Department of Defense (DoD). Of the military services, the

Air Force would receive the largest increase (\$16 billion), followed by the Navy (\$12 billion) and the Army (\$7 billion).

For nondefense discretionary programs, the President proposes appropriations of \$543 billion in 2016—\$7 billion (or 1.2 percent) more than has been provided for 2015. Funding for nondefense overseas contingency operations would fall by \$2 billion, and funding that generates other cap adjustments—including funding for emergencies—would drop by \$4 billion.* By contrast, funding subject to the revised caps would grow by \$13 billion (or 2.5 percent).*

That net increase reflects a number of partially offsetting factors. Discretionary funding for nearly all budget functions would increase under the President's proposal. For example, funding for education, job training, and social services would increase by \$7 billion (or 7.7 percent) from the 2015 amount, and funding for veterans' programs (particularly for medical care) would increase by \$5 billion (or 7.9 percent). In the other direction, the ability of the Department of Justice to obligate balances from the Crime Victims Fund would be reduced by \$13 billion in 2016 (with that amount shifted to 2017). That change—and the other proposed changes to mandatory programs to be included in appropriation bills—would have almost no effect on outlays over the 2016–2025 period as a whole.

Proposed Appropriations for 2017 Through 2025. The President's proposed budget authority dips in 2017 by \$15 billion, the net result of a reduction in funding for overseas contingency operations that more than offsets higher funding for other defense and nondefense discretionary programs. More specifically, the following changes would occur:

- Funding for overseas contingency operations would fall by \$31 billion, to \$27 billion;
- Appropriations for defense (apart from funding for overseas contingency operations) would increase by \$12 billion (or 2.1 percent) in 2017; and
- Nondefense appropriations (other than those for overseas contingency operations) would increase by \$5 billion (or 0.9 percent) in 2017.

After 2017, budget authority would increase by an average of 1.5 percent per year—from \$1.14 trillion in 2017

[*Amount corrected on March 13, 2015]

to \$1.29 trillion in 2025. That overall request reflects three policy initiatives the President has proposed to implement:

- Increase the caps on funding through 2021 relative to what they would be under current law and extend those caps through 2025,
- Reclassify certain surface transportation programs as mandatory, and
- Maintain a funding level for overseas contingency operations of \$27 billion each year through 2021, less than half of the amount requested for 2016; the Administration does not request any such funding after 2021.

Excluding the reclassification of surface transportation programs and the funding for overseas contingency operations, the proposed increases in discretionary appropriations relative to CBO's baseline peak at \$71 billion in 2016, and then decline in subsequent years. By 2025, the difference in budget authority is just \$14 billion (or 1.1 percent).

In 2025, total outlays for defense would equal 2.3 percent of GDP, down from 3.2 percent in 2015. Outlays for nondefense activities would equal 2.3 percent of GDP, down from 3.3 percent in 2015. (Those amounts are about the same as the ones in CBO's baseline projections, after adjusting for the reclassification of surface transportation spending as mandatory.)

Effects on Net Interest

The policy changes in the President's budget would decrease the government's borrowing needs by \$950 billion over the 2016–2025 period. (That figure includes the effects of nonbudgetary cash flows for credit programs; the budget records transactions for those programs on a discounted present-value basis—in other words, as if they were lump sums received or paid today.) As a result, net interest costs for the period would be \$153 billion lower than they are projected to be in the baseline. Net interest costs under the President's budget would amount to 2.8 percent of GDP in 2025, which is 0.1 percentage point lower than the 2025 estimate in CBO's baseline projections but more than double the estimated interest costs in 2015 (mostly because interest rates are expected to be much higher than they have been in recent years).

Table 5.**Sources of Differences Between CBO's and the Administration's Estimates of the President's Budget**

Billions of Dollars

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	Total	
												2016-	2016-
												2020	2025
Administration's Estimate													
Deficit Under the President's Budget	-583	-474	-463	-479	-518	-554	-600	-626	-635	-639	-687	-2,488	-5,674
Differences Between CBO's and the Administration's Estimates													
Differences in Revenues^a													
Economic	18	19	6	-16	-18	-18	-16	-19	-26	-33	-39	-27	-159
Technical	8	34	-18	-24	-53	-85	-141	-154	-170	-186	-180	-147	-978
Total, Revenues	26	53	-13	-40	-72	-103	-156	-173	-195	-219	-219	-175	-1,137
Differences in Outlays^b													
Mandatory													
Economic	1	8	12	18	20	10	22	24	8	6	8	69	137
Technical	-100	-73	-60	-77	-87	-84	-101	-110	-89	-77	-100	-381	-858
Subtotal, Mandatory	-99	-65	-47	-59	-67	-74	-79	-86	-81	-70	-93	-312	-721
Discretionary (Technical)	28	30	4	-3	6	9	11	12	8	-1	5	46	81
Net interest													
Economic	-7	-9	-12	3	11	12	12	12	14	14	16	5	73
Technical	7	2	-19	-25	-29	-29	-33	-34	-36	-32	-33	-100	-267
Subtotal, Net Interest	*	-6	-31	-22	-18	-17	-21	-21	-22	-18	-17	-95	-194
Total, Outlays	-70	-41	-75	-84	-79	-83	-89	-95	-95	-89	-105	-361	-834
Total Differences^a	97	94	62	44	7	-20	-67	-78	-100	-130	-114	187	-303
CBO's Estimate													
Deficit Under the President's Budget	-486	-380	-401	-435	-511	-574	-668	-704	-735	-769	-801	-2,301	-5,977
Memorandum:													
Total Economic Differences ^a	24	20	5	-37	-50	-39	-49	-55	-47	-53	-63	-101	-369
Total Technical Differences ^a	73	75	56	81	57	19	-18	-23	-53	-77	-51	287	66

Sources: Congressional Budget Office; staff of the Joint Committee on Taxation.

Note: * = between zero and \$500 million.

- a. Positive numbers indicate that such differences cause CBO's estimate of the deficit to be smaller than the Administration's estimate.
- b. Positive numbers indicate that such differences cause CBO's estimate of the deficit to be larger than the Administration's estimate.

Differences Between CBO's and the Administration's Estimates of the President's Budget

CBO's estimates of the deficit under the President's budget are less than the shortfalls projected by the Administration through 2019 but greater than those

reported by the Administration between 2020 and 2025 (see Table 5).

For 2015, CBO's estimate of the deficit is \$97 billion lower than the Administration's: CBO expects that revenues will be \$26 billion higher and that outlays will be \$70 billion lower. By CBO's estimate, mandatory spending will be

\$99 billion lower than the Administration anticipates, and discretionary outlays will be \$28 billion higher.

For 2016 to 2025, CBO estimates that revenues under the President's proposals would be lower than does the Administration beginning in 2017 and that the difference would grow in each year of the projection period. Outlays under the President's budget would also be lower in each year by CBO's calculations, the result of lower spending for mandatory programs and net interest but higher spending for discretionary programs. Taking all of those pieces together, CBO's estimate of the cumulative deficit for the 2016–2025 period under the President's budget is \$303 billion higher than the Administration's.

Differences in Estimates of Revenues

About two-thirds of the \$26 billion difference in estimated revenues for 2015—or \$18 billion—stems from differences in economic forecasts, and the rest reflects technical factors (that is, all factors other than those related to the economic forecasts). The most significant economic difference is that CBO expects greater domestic economic profits, and thus a larger corporate income tax base, than does the Administration. But CBO also estimates a lower effective tax rate on domestic economic profits. (That difference is categorized as technical.) All told, CBO anticipates a smaller amount of receipts in 2015 from corporate income taxes than does the Administration. In contrast, CBO expects a higher effective tax rate on personal income, boosting its projections of individual income taxes relative to the Administration's.

For 2016 to 2025, CBO projects that revenues under the President's budget would total about \$1.1 trillion (or 2.5 percent) less than the Administration estimates. CBO attributes most of that difference—about \$1.0 trillion—to technical factors, which affect both the projections under current law and the estimated effects of the President's proposals:

- CBO projects that under current law, revenues during the coming decade will be lower than the Administration projects by \$659 billion for technical reasons, mainly reflecting CBO's lower estimates of effective tax rates on domestic economic profits and on wages and salaries.

- In addition, CBO and JCT project that the President's proposals would raise revenues over the next decade by \$319 billion less than the Administration estimates that they would. The largest single component of that difference (\$78 billion) relates to the President's proposal to limit the extent to which deductions and exclusions would reduce tax liability for higher-income taxpayers.

Differences in economic forecasts lead CBO to project that revenues over the 2016–2025 period would be nearly \$160 billion lower than the Administration expects. That gap is largely the net result of CBO's expectation that wages and salaries will be lower, and domestic economic profits higher, than the Administration anticipates.

Differences in Estimates of Outlays

CBO's estimate of mandatory spending this year is below the Administration's by \$99 billion. More than half of that difference (\$56 billion) arises from CBO's assumption that the reclassification of surface transportation outlays from discretionary to mandatory would apply only to outlays from funding provided in 2016 and beyond rather than to all such spending beginning in 2015, as the Administration assumes. Among the other factors that contribute to that difference are lower estimates by CBO of outlays for student loans (\$25 billion), Social Security (\$8 billion), and unemployment insurance (\$5 billion). In the other direction, CBO's estimate of Medicaid spending exceeds the Administration's by \$14 billion. In addition, receipts from a recent auction of licenses to use the electromagnetic spectrum are \$9 billion lower than projected by the Administration, reflecting new information about the winning bids and CBO's expectation that some of the proceeds will be recorded in 2016.

By contrast, CBO's estimate of discretionary outlays in 2015 is \$28 billion higher than the Administration's. CBO's assumption that the proposal to reclassify surface transportation outlays as mandatory would begin next year, rather than this year, pushes CBO's estimate of discretionary outlays up by \$56 billion; in the other direction, CBO anticipates lower outlays in a variety of areas, including defense (\$6 billion) and international affairs (\$4 billion).

For each year of the 2016–2025 period, CBO estimates lower outlays than does the Administration, with differences ranging between \$41 billion and \$105 billion. Over the decade as a whole, CBO's estimates are lower than the Administration's by \$834 billion

(or 1.7 percent)—the net result of estimates by CBO that are \$721 billion lower for mandatory spending, \$194 billion lower for outlays for net interest, and \$81 billion higher for discretionary spending.

Mandatory Spending. Technical estimating differences make CBO's projections for mandatory spending \$858 billion lower than the Administration's. CBO has lower estimates for the 10-year period than does the Administration for a number of programs, including the following:

- For veterans' disability compensation benefits, CBO's estimates of the growth in caseloads and average benefits are lower than the Administration's, so CBO's estimates of outlays for those benefits are lower as well—by \$247 billion.
- CBO's estimates of Medicare spending are \$240 billion less than the Administration's, chiefly because the Administration anticipates more rapid growth in spending per beneficiary.
- CBO's projections of subsidies for health insurance purchased through exchanges and related spending are below the Administration's. CBO's lower estimates of per-person costs and enrollment account for most of the \$144 billion difference in projected outlays.
- CBO's estimates of Social Security spending are \$121 billion less than the Administration's, primarily because CBO expects fewer people to collect Old-Age and Survivors Insurance benefits.
- CBO assumes that spending on surface transportation from funding provided before 2016 will remain on the discretionary side of the budget, whereas the Administration assumes that it will be shifted to the mandatory side. As a result, CBO projects \$116 billion less in mandatory outlays than does the Administration.

For some other programs, technical estimating differences go in the opposite direction, pushing CBO's estimates for the 10-year period higher than the Administration's:

- CBO's projections of Medicaid spending are higher than the Administration's by \$194 billion, primarily the result of differing estimates of both per-person costs and enrollment in the program.

- CBO's projections of outlays related to Fannie Mae and Freddie Mac are \$191 billion higher than the Administration's. That gap arises primarily because CBO's projections for the period are estimates of the anticipated subsidy costs for new mortgage guarantees issued by Fannie Mae and Freddie Mac (following the budgetary practices used for federal credit programs, with an adjustment for market risk). In contrast, the Administration's projections reflect estimated cash receipts from those two entities.¹³

Different economic projections push CBO's projections of mandatory spending \$137 billion higher than the Administration's over the 2016–2025 period. The most significant effects can be seen in the agencies' projected outlays for Medicare: CBO generally expects higher inflation for medical services than does the Administration. In addition, CBO projects that the unemployment rate will be higher than the Administration estimates by 0.3 percentage points per year, on average, over the 2016–2025 period. As a result, CBO's estimate of outlays for unemployment compensation is greater than the Administration's by \$35 billion over the decade.

Discretionary Spending. CBO's estimate of discretionary spending for the 2016–2025 period exceeds the Administration's by \$81 billion. CBO projects \$116 billion more in discretionary spending for surface transportation programs over the 10-year period because it assumes that spending from funding provided before 2016 will remain on the discretionary side of the budget, whereas the Administration assumes that it will be shifted to the mandatory side. CBO's estimate of outlays for all other discretionary programs is lower by \$35 billion, mostly because the agency

13. The Administration treats Fannie Mae and Freddie Mac as nongovernmental organizations and records payments between the Treasury and the two entities on a cash basis. CBO, however, projects the budgetary impact of the two entities' operations as if they were being conducted by a federal agency because of the degree of management and financial control that the government exercises over them. Therefore, CBO estimates the net lifetime costs—that is, the subsidy costs—of new loans and guarantees to be issued by the entities and counts those costs as federal outlays in the year of issuance. To provide CBO's best estimate of what the Treasury will ultimately report as the federal deficit for 2015, CBO's baseline includes an estimate of the cash receipts from the two entities to the Treasury for this year. See Congressional Budget Office, *CBO's Budgetary Treatment of Fannie Mae and Freddie Mac* (January 2010), www.cbo.gov/publication/41887; and *Fannie Mae, Freddie Mac, and the Federal Role in the Secondary Mortgage Market* (December 2010), www.cbo.gov/publication/21992.

projects lower defense spending under the President's proposed funding than the Administration does.

Net Interest. By CBO's estimate, net outlays for interest under the President's policies would be \$194 billion (or 3 percent) lower for the 2016–2025 period than the Administration's estimate. Short-term interest rates are generally lower in CBO's forecast than in the Administration's, whereas long-term rates are somewhat higher in

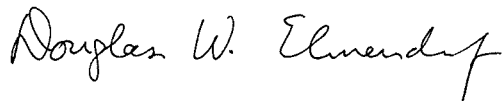
CBO's forecast. As a result of those differences, interest costs are \$21 billion lower over the 2016–2017 period and \$94 billion higher over the 2018–2025 period in CBO's projection. However, technical differences of \$267 billion over that period—from differing expectations about the mix of securities that the Treasury will issue over the next 10 years and other estimating differences—more than offset those economic differences.

About This Document

The Congressional Budget Office prepared this analysis of the President's budgetary proposals for fiscal year 2016 at the request of the Senate Committee on Appropriations. In keeping with CBO's mandate to provide objective, impartial analysis, the report makes no recommendations.

Christina Hawley Anthony and Barry Blom of CBO's Budget Analysis Division wrote the report, with assistance from Mark Booth and Pamela Greene and under the guidance of Peter Fontaine, Theresa Gullo, Holly Harvey, Jeffrey Holland, and David Weiner. The estimates described here were the work of many analysts at CBO and on the staff of the Joint Committee on Taxation.

Robert Sunshine and Jeffrey Kling reviewed the report. Bo Peery edited it, with assistance from Christine Bogusz. Maureen Costantino and Jeanine Rees prepared the report for publication. An electronic version is available on CBO's website (www.cbo.gov/publication/49979).



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