APPENDIX

# A

# Changes in CBO's Baseline Projections

## Overview

The Congressional Budget Office estimates that in the absence of further legislation affecting spending and revenues, the budget deficit for fiscal year 2019 will total \$897 billion.[1] That amount is \$75 billion smaller than the \$973 billion deficit estimated in CBO's adjusted April 2018 baseline projections.[2] CBO also now projects that the cumulative deficit for the 2019–2028 period would be about \$1.2 trillion smaller than shown in the adjusted April projections—\$11.2 trillion rather than \$12.4 trillion—if current laws generally remained the same. All told, in CBO's new projections, outlays over that period are about 2.5 percent smaller, and revenues are about 0.4 percent smaller.

The differences between the current projections and the previous ones consist of three types of changes:

- Legislative changes, which result from the enactment of new laws and generally reflect the budgetary effects reported in CBO's cost estimates at the time the new laws were enacted;
- Economic changes, which result from the agency's updated economic forecast (and include the macroeconomic effects associated with legislative changes); and
- Technical changes, which are updates to projections other than legislative or economic changes.

The decrease in the projected deficit for 2019 stems primarily from \$47 billion in technical changes. Economic and legislative changes together reduce the estimated deficit for 2019 by an additional \$29 billion.

Over the 2019–2028 period, legislative changes are the main reason for the reduction in projected deficits; they reduce the projected cumulative deficit by \$774 billion, almost entirely because of less projected emergency spending (see Figure A-1). Revisions to CBO's economic forecast since April—chiefly lower anticipated interest rates—cause \$336 billion in reductions to projected deficits.[3] Technical updates to the agency's projections of revenues and outlays largely offset one another, decreasing the 10-year total deficit by \$115 billion.

## Legislative Changes

Since CBO issued its adjusted April 2018 projections, the largest changes in its projections of the deficit for the 2019–2028 period stem from recently enacted legislation and are seen almost entirely in changes to outlays (see Table A-1 on page 114).

### Changes in Revenues

The differences between CBO's current and previous projections of revenues that are attributable to legislative changes are small: less than \$1 billion in any year and for the 10-year projection period. The largest such change is a \$0.9 billion decrease in customs duties over the 2019–2021 period caused by the Miscellaneous Tariff Bill Act of 2018 (Public Law 115-239), which reduced or suspended the duty rates on certain imports. (Larger

1. Some agencies experienced a lapse in appropriations when authorities contained in the Continuing Appropriations Act, 2019—as extended by Public Law 115-298—expired on December 22, 2018. For those agencies, CBO's current baseline projections incorporate the amount of fiscal year 2019 funding that was provided before that expiration, annualized (that is, as if it was provided for the entirety of the fiscal year).

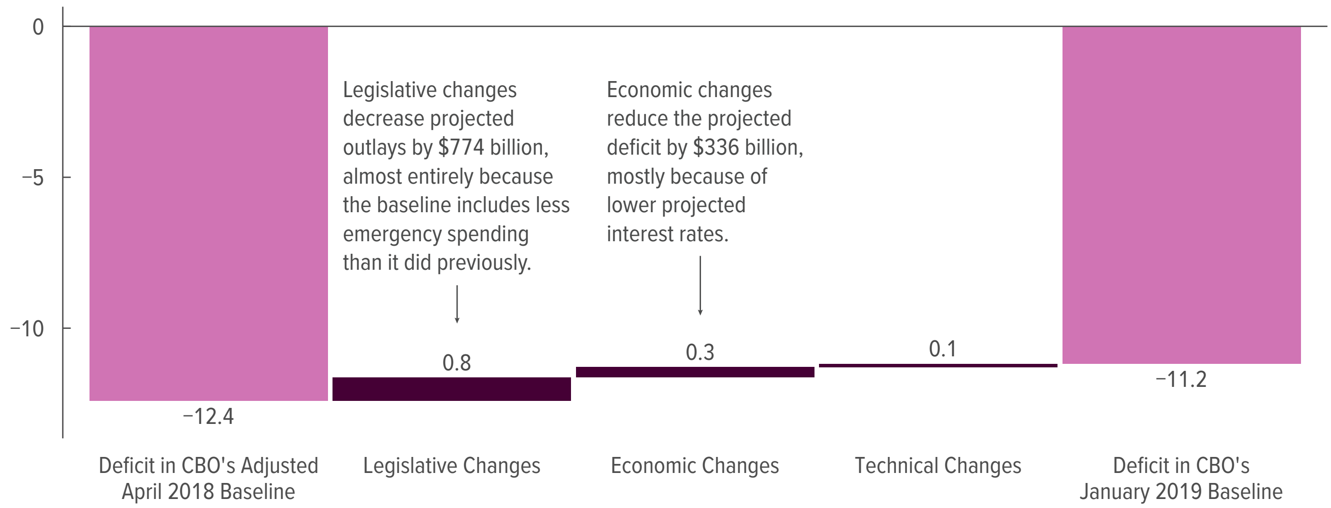
2. CBO's adjusted April 2018 baseline projections are those published in *An Analysis of the President's 2019 Budget* (May 2018), www.cbo.gov/publication/53884. CBO made them by adjusting the projections published in *The Budget and Economic Outlook: 2018 to 2028* (April 2018), www.cbo.gov/publication/53651. The changes decreased projected deficits by \$17 billion over the 2019–2028 period and are detailed in Table 6 in *An Analysis of the President's 2019 Budget*.

3. This appendix describes the budgetary effects of the revisions to CBO's economic forecast since April 2018. Some of those revisions were made between April and August, when CBO updated its economic forecast but not its budget projections. See Congressional Budget Office, *An Update to the Economic Outlook: 2018 to 2028* (August 2018), www.cbo.gov/publication/54318.

Figure A-1.

**Changes in CBO's Baseline Projection of the 10-Year Deficit Since Spring 2018**

Trillions of Dollars




Source: Congressional Budget Office.

The adjusted April 2018 baseline refers to projections that CBO published in *An Analysis of the President's 2019 Budget* (May 2018), www.cbo.gov/publication/53884, which reflect a number of relatively small changes to the projections published in *The Budget and Economic Outlook: 2018 to 2028* (April 2018), www.cbo.gov/publication/53651.

revisions to projected receipts from customs duties are classified as technical changes and discussed below.)

### Changes in Outlays

As a result of recently enacted legislation, CBO has reduced its estimate of outlays in 2019 by $12 billion, primarily for discretionary spending. For the 10-year period, the agency has reduced projected outlays by $774 billion (or 1 percent). There were two main drivers of that change. Projected spending for nondefense discretionary programs fell; so did the associated costs for debt service (the interest that the government pays on its debt).

**Changes in Discretionary Spending.** Legislative changes to discretionary programs enacted since CBO published its adjusted April 2018 projections led the agency to reduce projected outlays by $16 billion in 2019 and by a total of $686 billion for the 2019–2028 period.[4] Over that 10-year period, CBO's projections of nondefense and defense outlays are now $633 billion and $53 billion lower, respectively. Because most discretionary funding is subject to the caps established by the Budget Control Act of 2011 (P.L. 112-25), legislative changes to CBO's projections of that funding result chiefly from changes in appropriations for programs and activities that are not constrained by the caps: overseas contingency operations, disaster relief, emergency requirements, program integrity initiatives, and certain health-related programs.[5]

The substantial reduction over the 10-year period is almost entirely because appropriations for 2019 that are

4. Discretionary spending is controlled by annual appropriation acts that specify the amounts that are to be provided for a broad array of government activities, including defense, law enforcement, education, and veterans' health programs.

5. Overseas contingency operations are war-related activities (primarily in Afghanistan), and program integrity initiatives aim to reduce improper benefit payments in 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, *Sequestration Update Report: August 2018* (August 2018), www.cbo.gov/publication/54357. In addition, obligation limitations—constraints that discretionary appropriation acts apply to the use of mandatory funding provided in certain authorizing legislation, primarily for ground and air transportation programs—are not constrained by the caps on discretionary funding and are assumed to grow with inflation.

designated as emergency requirements total $2 billion so far—a sharp reduction from the $108 billion that was appropriated in 2018, mostly for relief and recovery efforts related to the hurricanes and wildfires that occurred in 2017. In accordance with the statutory rules that govern the agency's projections of discretionary spending, CBO's adjusted April 2018 projections were based on the amounts appropriated for 2018 (adjusted for inflation). CBO's current projections, by contrast, are based on the much smaller amount of funding provided for 2019.

**Changes in Mandatory Spending.** Mandatory outlays are largely unchanged by legislation since CBO published its adjusted April 2018 projections.[6] Those outlays are now projected to be $3 billion higher in 2019 and over the entire 2019–2028 period.

*Farm Bill.* The recently enacted Agriculture Improvement Act of 2018 (P.L. 115-334, often called the farm bill) is projected to increase mandatory outlays by $1.4 billion in 2019. But because the bill is estimated to reduce outlays in future years in relation to the amounts previously projected, the net change in outlays is an increase of only $70 million over the 2019–2028 period.[7] Following the rules specified in the Balanced Budget and Emergency Deficit Control Act of 1985 (P.L. 99-177), that estimate incorporates the assumption that the programs authorized by the farm bill will remain in effect after 2023, the final year covered by the bill's authorizations.

*VA MISSION Act.* CBO estimates that the recently enacted VA MISSION Act of 2018 (P.L. 115-182) will increase outlays by $2.4 billion in 2019 and $2.8 billion in 2020 for the Veterans Choice Program, which pays for certain veterans to receive health care from participating providers in the private sector.

**Changes in Debt Service.** Excluding the cost of debt service, the changes that CBO made to its projections because of recently enacted legislation decreased the projection of the cumulative deficit for the 2019–2028 period by $683 billion. The resulting decrease in the estimate of federal borrowing led CBO to reduce projected outlays for interest on federal debt by $91 billion over the 10-year period.

## Economic Changes

The economic forecast underlying CBO's current projections was completed in December 2018 and updates the agency's projections of gross domestic product (GDP), income, the unemployment rate, interest rates, inflation, and other factors that affect federal spending and revenues. The economic forecast also incorporates the macroeconomic effects of legislation enacted through early December 2018. CBO's previous budget projections were based on an economic forecast that was published in April 2018.

Incorporating the most recent economic forecast led CBO to make its estimates of the deficit $16 billion smaller for the current year, and $336 billion smaller for the 2019–2028 period, than in the adjusted April 2018 baseline projections. The largest factor in the 10-year change is a decrease in projected outlays for interest costs.

### Changes in Revenues

Revisions to CBO's economic forecast caused the agency to increase its projections of revenues by $13 billion for 2019 and by $70 billion (or less than 1 percent) for the 2019–2028 period.

**Individual Income Taxes.** Changes in the economic forecast led CBO to increase its projection of revenues from individual income taxes by $23 billion (or 1 percent) for 2019 and by $102 billion (or less than 1 percent) over the 2019–2028 period. CBO's forecast of wages and salaries over the next decade has been revised downward, lowering projected individual income taxes. However, that economic change has been more than offset by effects of large revisions made by the Bureau of Economic Analysis (BEA) in the national income and product accounts for earlier years. Specifically, BEA revised upward its estimates of proprietors' income and monetary interest income (which is the share of personal interest income that does not come from marketed goods and services). Those revisions led to a boost in those kinds of income, and in taxes on such income, in CBO's projections. (They also led CBO to lower its estimates of average tax rates on those sources of income; that change is a technical one and is described below. It largely offsets the upward economic changes stemming from BEA's revisions.)

6. Mandatory spending is governed by statutory criteria and is not normally controlled by the annual appropriation process.

7. See Congressional Budget Office, *Direct Spending and Revenue Effects for the Conference Agreement on H.R. 2* (attachment to a letter to the Honorable K. Michael Conaway, December 11, 2018), www.cbo.gov/publication/54880.

Table A-1.

## Changes in CBO's Baseline Projections of the Deficit Since Spring 2018

Billions of Dollars

| | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | Total, 2019–2023 | Total, 2019–2028 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Deficit in CBO's Adjusted April 2018 Baseline | -973 | -1,003 | -1,118 | -1,275 | -1,273 | -1,245 | -1,352 | -1,321 | -1,314 | -1,527 | -5,642 | -12,401 |
| **Legislative Changes** | | | | | | | | | | | | |
| Changes in Revenues | * | * | * | * | * | * | * | * | * | * | * | * |
| Changes in Outlays | | | | | | | | | | | | |
| Mandatory outlays | 3 | 3 | * | * | 1 | * | * | -1 | -2 | -2 | 7 | 3 |
| Discretionary outlays | | | | | | | | | | | | |
| Defense | -1 | -3 | -4 | -5 | -6 | -6 | -7 | -7 | -7 | -7 | -18 | -53 |
| Nondefense | -15 | -34 | -40 | -54 | -63 | -71 | -79 | -86 | -93 | -98 | -206 | -633 |
| Subtotal, discretionary | -16 | -36 | -44 | -60 | -69 | -78 | -85 | -93 | -100 | -106 | -225 | -686 |
| Debt service | * | -1 | -2 | -4 | -7 | -9 | -12 | -15 | -19 | -23 | -14 | -91 |
| Total Change in Outlays | -12 | -35 | -47 | -64 | -74 | -86 | -97 | -108 | -120 | -130 | -232 | -774 |
| **Decrease in the Deficit From Legislative Changes** | **13** | **34** | **47** | **64** | **74** | **86** | **97** | **108** | **120** | **130** | **232** | **774** |
| **Economic Changes** | | | | | | | | | | | | |
| Changes in Revenues | | | | | | | | | | | | |
| Individual income taxes | 23 | 17 | 18 | 17 | 16 | 13 | 9 | 2 | -4 | -9 | 90 | 102 |
| Corporate income taxes | -14 | -14 | -12 | -9 | -4 | 1 | 2 | 3 | 3 | 3 | -52 | -41 |
| Payroll taxes | 1 | -3 | -3 | -4 | -4 | -4 | -4 | -7 | -8 | -9 | -13 | -45 |
| Other | 3 | 6 | 6 | 5 | 3 | 5 | 6 | 7 | 6 | 8 | 22 | 53 |
| Total Change in Revenues | 13 | 5 | 9 | 9 | 11 | 15 | 12 | 5 | -3 | -8 | 48 | 70 |
| Changes in Outlays | | | | | | | | | | | | |
| Mandatory outlays | | | | | | | | | | | | |
| Social Security | 4 | 3 | 4 | 5 | 5 | 6 | 6 | 4 | 2 | * | 21 | 40 |
| Other | -2 | -3 | -4 | -2 | 2 | 2 | 3 | 4 | 5 | 7 | -10 | 12 |
| Subtotal, mandatory | 2 | * | -1 | 3 | 7 | 8 | 9 | 9 | 8 | 7 | 11 | 52 |
| Discretionary outlays | * | * | * | * | * | * | -1 | -1 | -1 | -1 | * | -3 |
| Net interest | | | | | | | | | | | | |
| Debt service | * | -1 | -2 | -4 | -6 | -8 | -9 | -10 | -10 | -11 | -13 | -61 |
| Effect of interest rates and inflation | -5 | -17 | -39 | -50 | -47 | -33 | -24 | -17 | -13 | -8 | -159 | -255 |
| Subtotal, net interest | -5 | -18 | -41 | -55 | -53 | -41 | -33 | -27 | -23 | -19 | -172 | -315 |
| Total Change in Outlays | -3 | -18 | -42 | -52 | -46 | -33 | -25 | -19 | -16 | -13 | -161 | -267 |
| **Decrease in the Deficit From Economic Changes** | **16** | **23** | **51** | **61** | **58** | **48** | **37** | **24** | **14** | **5** | **209** | **336** |

Continued

Table A-1. Continued

## Changes in CBO's Baseline Projections of the Deficit Since Spring 2018

Billions of Dollars

| | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | Total, 2019–2023 | Total, 2019–2028 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Technical Changes** | | | | | | | | | | | | |
| Changes in Revenues | | | | | | | | | | | | |
| Customs duties | 34 | 37 | 37 | 37 | 37 | 38 | 39 | 39 | 40 | 40 | 182 | 377 |
| Individual income taxes | -11 | -13 | -8 | -17 | -26 | -32 | -38 | -56 | -50 | -54 | -75 | -305 |
| Corporate income taxes | -17 | -19 | -22 | -25 | -26 | -23 | -21 | -24 | -25 | -25 | -111 | -229 |
| Payroll taxes | 2 | -1 | -5 | -8 | -8 | -9 | -10 | -9 | -10 | -11 | -21 | -69 |
| Other | 4 | -2 | 1 | * | -13 | 10 | -3 | -2 | 1 | -16 | -9 | -18 |
| Total Change in Revenues | 11 | 1 | 3 | -13 | -35 | -15 | -33 | -52 | -44 | -66 | -33 | -243 |
| Changes in Outlays | | | | | | | | | | | | |
| Mandatory outlays | | | | | | | | | | | | |
| Social Security | -8 | -11 | -12 | -12 | -13 | -13 | -14 | -14 | -14 | -15 | -57 | -127 |
| Medicare | -7 | -7 | -10 | -10 | -9 | -9 | -10 | -11 | -12 | -8 | -43 | -94 |
| Health insurance subsidies and related spending | 1 | -6 | -7 | -8 | -9 | -8 | -7 | -6 | -7 | -7 | -29 | -64 |
| Earned income and child tax credits | -5 | -5 | -6 | -6 | -6 | -6 | -7 | -7 | -5 | -5 | -28 | -57 |
| Medicaid | 5 | 4 | 3 | 2 | 2 | 2 | 3 | 5 | 6 | 8 | 16 | 40 |
| Veterans' compensation and pensions | 4 | 5 | 3 | 4 | 4 | 3 | 4 | 4 | 4 | 4 | 19 | 37 |
| Fannie Mae and Freddie Mac | -27 | 0 | 1 | 2 | 1 | 1 | 1 | 2 | 2 | 2 | -23 | -15 |
| Other | 10 | -8 | -8 | -1 | -2 | * | -4 | -4 | -4 | -5 | -9 | -26 |
| Subtotal, mandatory | -27 | -29 | -36 | -30 | -32 | -30 | -33 | -32 | -30 | -25 | -154 | -305 |
| Discretionary outlays | -8 | -7 | -3 | -3 | -2 | * | -1 | -2 | -2 | -2 | -23 | -30 |
| Net interest | | | | | | | | | | | | |
| Debt service | -2 | -6 | -7 | -9 | -9 | -9 | -10 | -10 | -10 | -9 | -33 | -81 |
| Other | 1 | 1 | 3 | 6 | 6 | 5 | 6 | 7 | 10 | 13 | 17 | 58 |
| Subtotal, net interest | -1 | -5 | -5 | -2 | -4 | -4 | -4 | -3 | * | 4 | -17 | -23 |
| Total Change in Outlays | -36 | -41 | -44 | -35 | -37 | -34 | -38 | -37 | -32 | -23 | -194 | -358 |
| **Increase (-) or Decrease in the Deficit From Technical Changes** | **47** | **43** | **47** | **22** | **2** | **19** | **6** | **-16** | **-12** | **-43** | **161** | **115** |
| **All Changes** | | | | | | | | | | | | |
| **Decrease in the Deficit** | **75** | **100** | **145** | **147** | **134** | **153** | **140** | **117** | **122** | **92** | **601** | **1,225** |
| Deficit in CBO's January 2019 Baseline | -897 | -903 | -974 | -1,128 | -1,139 | -1,091 | -1,212 | -1,204 | -1,192 | -1,435 | -5,041 | -11,176 |
| **Memorandum:** | | | | | | | | | | | | |
| Changes in Revenues | 24 | 6 | 12 | -3 | -24 | * | -20 | -47 | -47 | -74 | 15 | -173 |
| Changes in Outlays | -51 | -94 | -133 | -150 | -158 | -153 | -160 | -164 | -169 | -166 | -586 | -1,398 |

Source: Congressional Budget Office.

The adjusted April 2018 baseline refers to projections that CBO published in *An Analysis of the President's 2019 Budget* (May 2018), www.cbo.gov/publication/53884, which reflect a number of relatively small changes to the projections published in *The Budget and Economic Outlook: 2018 to 2028* (April 2018), www.cbo.gov/publication/53651.

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

**Corporate Income Taxes.** Economic changes led CBO to decrease its projection of corporate income taxes by $14 billion (or 5 percent) in 2019 and by $41 billion (or less than 1 percent) over the 2019–2028 period. Specifically, CBO now forecasts lower domestic profits than it did previously.

**Payroll Taxes.** Changes in the economic forecast led CBO to reduce its projections of payroll tax receipts by $45 billion (or 1 percent) over the 2019–2028 period, on net. The downward revision in CBO's forecast of wages and salaries over the next decade was responsible for pushing down the projections, though that revision was partially offset by the upward revisions made by BEA to proprietors' income, which boost that source of income in CBO's projections. (With payroll taxes, as with individual income taxes, the economic changes stemming from BEA's revisions to proprietors' income are largely offset by corresponding technical changes.)

**Other Revenues.** For economic reasons, CBO increased its projection of revenues from other sources by $3 billion in 2019 and by $53 billion over the 2019–2028 period. An increase of $39 billion (or 6 percent) in projected remittances from the Federal Reserve to the Treasury over that period explains most of that change.[8] CBO lowered its forecast of short-term interest rates over the first half of the 10-year period—decreasing projections of the interest payments that the Federal Reserve will make to depository institutions and thereby increasing remittances.[9] Remittances are projected to be larger in the second half of the period as well, reflecting the expectation that the Federal Reserve will hold more assets than CBO had previously projected, increasing its net earnings and remittances.

### Changes in Outlays

As a result of the updated economic forecast, CBO lowered its estimate of outlays for the current year by $3 billion. For the 2019–2028 period, economic updates led CBO to decrease its projection of outlays by $267 billion (or less than 1 percent), mostly because of reductions in net interest costs ($315 billion) that were partially offset by an increase in mandatory spending ($52 billion).

**Mandatory Outlays.** Because of changes in the economic forecast, CBO increased its projections of mandatory spending by $2 billion for 2019 and by $52 billion for the 2019–2028 period. The largest economic changes were in CBO's projections for Social Security.

*Social Security.* CBO increased projected outlays for Social Security over the 2019–2028 period by $40 billion (or less than 1 percent), mostly because the cost-of-living adjustment (COLA) that beneficiaries received in January 2019 was larger than CBO had expected when making its adjusted April 2018 projections. Social Security's COLAs are based on changes in the consumer price index for urban wage earners and clerical workers (CPI-W), which turned out to be larger than CBO had anticipated.[10]

*Other Mandatory Programs.* As a result of CBO's revised economic forecast, the agency updated its projections for a number of other mandatory programs; in total, those changes increased projected outlays by $12 billion over the 2019–2028 period, the net result of both upward and downward adjustments. The largest projected increase ($10 billion), for the earned income and child tax credits, was because of higher projected inflation in the near term and lower projected wage growth. In the other direction, the largest projected reduction (also $10 billion), for the costs of student loans, was because of lower interest rates projected for the near term.

**Discretionary Outlays.** Changes to the measures of inflation that CBO is required to use in developing its baseline projections of discretionary funding drove the economic changes in discretionary outlays. In CBO's baseline projections, the agency adjusts discretionary funding related to federal personnel using the employment cost index for wages and salaries, and it adjusts other discretionary funding using the GDP price index. As a result of minor projected changes in those measures, discretionary funding is projected to be slightly lower over the 2019–2028 period than it was in CBO's

8. The income produced by the various activities of the Federal Reserve System, minus the cost of generating that income and the cost of the system's operations, is remitted to the Treasury and counted as revenues.

9. Most of that change in projected interest rates was made in CBO's August 2018 forecast.

10. Most of those changes in the CPI-W were reflected in CBO's August 2018 economic forecast.

previous baseline projections, and corresponding outlays are lower by $3 billion.[11]

**Net Interest.** Since CBO published its April projections, revisions to its economic forecast have led the agency to reduce its baseline projection of net interest outlays. The reduction amounts to $315 billion for the 2019–2028 period.

Two economic factors had a direct effect on net interest outlays. First, CBO has decreased its projections of rates on Treasury securities in relation to those underlying its adjusted April 2018 baseline. Both short- and long-term interest rates are projected to be lower through 2023—by roughly 0.3 percentage points, on average—than they were previously. Second, in the other direction, inflation through 2020 is projected to be higher than the agency projected in April 2018, which raises estimated net interest outlays on inflation-protected securities.[12] Primarily as a result of the lower interest rates, CBO decreased its projection of net interest outlays by $255 billion over the 2019–2028 period.

In addition, CBO reduced its projection of net interest outlays by $61 billion over that period to account for the smaller deficits resulting from economic changes. That reduction reflects updates to projections of revenues and outlays that are attributable to CBO's economic forecast—specifically, a net reduction in the deficit of $276 billion over the period (not including the effects on debt-service costs).

## Technical Changes

Technical changes—that is, changes other than the legislative and economic changes discussed above—also affect CBO's baseline projections for revenues and outlays. Such changes caused CBO to reduce its estimate of the deficit by $47 billion in 2019 and by $115 billion over the 2019–2028 period.

### Changes in Revenues

CBO increased its projections of revenues over the 2019–2021 period by $15 billion because of technical changes but decreased those projections for subsequent years. Over the entire 2019–2028 period, the net change came to a reduction of $243 billion (or 0.5 percent).

**Customs Duties.** The largest technical revision to projected revenues was in customs duties—increases of $34 billion in 2019 and of $377 billion (or 76 percent) over the 2019–2028 period. The increases reflect new tariffs imposed by the Administration during 2018; CBO's projections incorporate the assumption that the new tariffs will continue at current rates throughout the 10-year period.[13] (For more discussion of the effects of the new tariffs on revenues, see Chapter 4. For a discussion of the effects of recent changes in trade policy on the economy, see Chapter 2.)

**Individual Income Taxes.** Technical revisions reduced projections of individual income tax receipts by $11 billion in 2019 and by $305 billion (or 1 percent) over the 2019–2028 period. Most of the 10-year change stemmed from new data about past income and taxes. Tax liabilities reported on recent tax returns were smaller than CBO had projected, and BEA has revised upward its estimates of some of the sources of income on which those taxes were levied (in particular, proprietors' income and monetary interest income). Consequently, CBO now estimates that the average tax rates on those types of income—that is, tax liabilities as a percentage of income—were lower than previously projected. CBO has decreased its projections of future revenues from those taxes accordingly. In addition, recent taxable distributions from pension plans have been smaller than CBO previously projected; that weakness continues in CBO's current projections.

**Corporate Income Taxes.** For technical reasons, CBO reduced its projection of receipts from corporate income taxes by $17 billion in 2019 and by $229 billion (or 6 percent) over the 2019–2028 period. Most significantly, to better reflect historical relationships, CBO increased its estimate of U.S. multinational firms' foreign

11. Most of the changes in the projections of the employment cost index and the GDP price index were incorporated in CBO's August 2018 economic forecast.

12. To account for inflation, the Treasury Department adjusts the principal of its inflation-protected securities each month using the consumer price index for all urban consumers; those adjustments are recorded as interest outlays. Most of that change in projected inflation was incorporated in CBO's August 2018 economic forecast.

13. Specifically, the baseline projections incorporate the assumption that, in cases in which the Administration exercises its broad authority to impose tariffs without legislative action, the tariffs and corresponding rates in effect at the time the analysis was completed would continue permanently without planned or unplanned changes.

income before the enactment of P.L. 115-97 (referred to in this report as the 2017 tax act) and also increased its estimate of foreign tax credits applied to that income, on net reducing receipts. CBO also lowered its projection of corporate taxes to reflect new data from corporate income tax returns for 2016. Those data revealed larger losses accruing to corporations subject to the corporate income tax than CBO had expected, which went partway toward explaining what had been surprisingly weak collections in recent years. As a result, CBO now expects more of the weakness in collections to persist.

**Payroll Taxes.** CBO reduced its projection of payroll taxes by $69 billion (or less than 1 percent), on net, over the 2019–2028 period, largely as a result of incorporating new administrative and tax data about the relationship in recent years between earnings and payroll tax receipts. In addition, because BEA has revised upward its estimates of past proprietors' income, CBO now estimates that the average tax rate on that income was lower than previously projected. CBO has decreased its projections of future revenues from those taxes accordingly.

**Other Revenues.** Technical revisions led CBO to reduce its projection of revenues from the remaining, smaller sources of revenues by $18 billion (or less than 1 percent), on net, over the 2019–2028 period. Revenues from one of those sources, miscellaneous fees and fines, were reduced by $22 billion (or 5 percent) over the period. That change reflects the net effect of several changes: downward revisions to projected collections for the risk-adjustment program, in which health insurers make payments to the government or receive payments from it according to the health of their enrollees; downward revisions to projected collections of the Universal Service Fund of the Federal Communications Commission; and an upward revision to projected penalties collected from employers that do not offer health insurance to their employees. (The first two of those changes have corresponding and offsetting changes to outlays, leaving projections of the deficit largely unchanged.)

### Changes in Outlays

Because of technical updates—largely to estimates of mandatory spending—CBO lowered its estimate of outlays in 2019 by $36 billion and its estimate of outlays over the 2019–2028 period by $358 billion.

**Mandatory Outlays.** CBO reduced its projection of mandatory spending in the current year by $27 billion. For the 2019–2028 period, technical changes decreased the projection of mandatory outlays by $305 billion (or 1 percent).

*Social Security.* For technical reasons, CBO's 10-year projection of spending for Social Security is $127 billion (or 1 percent) lower than the agency last projected. That change arises largely from a reduction in the projected Old-Age and Survivors Insurance caseload of nearly 1 percent and a reduction in the projected Disability Insurance caseload of about 5 percent. The reduced caseload projections stem primarily from smaller-than-expected actual caseloads in 2018, lower projected population growth, and (in the Disability Insurance program) a reduction in the projected share of the population receiving benefits.

*Medicare.* CBO lowered its projection of Medicare outlays by $94 billion (or 1 percent) over the 2019–2028 period for technical reasons. Most of that reduction was because spending in 2018 for Medicare's Part D (prescription drugs) and Part A (Hospital Insurance) was less than CBO had projected in its adjusted April 2018 baseline; in response, CBO revised downward its projections of spending for the next decade. Those reductions were partially offset by an increase in projected spending over the 2019–2028 period for Part B (Medical Insurance, which covers doctors' services, outpatient care, home health services, and other medical services). That change was based on higher-than-expected outlays for Part B in 2018. In addition, CBO increased its estimates of the government's income from premiums (which are recorded as offsetting receipts—that is, reductions in outlays) in order to maintain the projected reserve balance in the Part B account of the Supplementary Medical Insurance Trust Fund at the historical level of about two months' worth of spending.

*Health Insurance Subsidies and Related Spending.* For technical reasons, CBO reduced its projections of spending for subsidies for health insurance purchased through the marketplaces established under the Affordable Care Act and related spending by $64 billion (or 8 percent), on net, over the 2019–2028 period. The current projections reflect premiums for health insurance purchased through the marketplaces in 2019 that are lower than previously expected. Those lower estimates of premiums lead to a $58 billion reduction in the estimated costs of subsidizing the premiums over the 10-year period and a reduction in projected spending on the risk-adjustment program.

*Earned Income and Child Tax Credits.* Because outlays reported for those refundable tax credits in 2018 were lower than expected, CBO reduced its 10-year projection of spending by $57 billion in relation to the adjusted April 2018 baseline. (Refundable tax credits reduce a filer's overall income tax liability; if the credit exceeds the filer's income tax liability, the government pays all or some portion of that excess to the taxpayer.)

*Medicaid.* CBO's 10-year projection of spending for Medicaid is $40 billion (or 1 percent) higher than it was in the agency's adjusted April 2018 projections, primarily because actual spending in 2018 was greater than previously projected.

*Veterans' Compensation and Pensions.* CBO increased its projections of total outlays for veterans' disability compensation and pensions by $37 billion over the 2019–2028 period. The two components of that combined increase moved in different directions, however. On the basis of 2018 data, CBO increased its projections of average disability payments. But the agency reduced its estimates of the number of pension beneficiaries and therefore reduced its projections of pension costs.

*Fannie Mae and Freddie Mac.* The largest technical change in mandatory outlays for 2019 is a $27 billion reduction in net outlays associated with Fannie Mae and Freddie Mac, two institutions that facilitate the flow of funding for home loans nationwide. The reason is that in CBO's baseline projections, those entities are treated differently in the current fiscal year and in the later years of the 10-year period. For the current year, the baseline includes an estimate of the net cash payments from those entities to the Treasury, following the treatment in the Administration's budget reports. For later years, the baseline includes risk-adjusted projections of subsidy costs.[14]

On the basis of their most recent quarterly financial releases, CBO estimates that the net payments from Fannie Mae and Freddie Mac to the Treasury, which are recorded in the budget as offsetting receipts, will total $24 billion in 2019. By comparison, CBO's adjusted April 2018 baseline showed an estimated subsidy *cost*—that is, additional federal outlays—of about $3 billion for Fannie Mae and Freddie Mac in 2019. All told, projected 2019 outlays are reduced by $27 billion.

For the 2020–2028 period, CBO now estimates that subsidy costs will total $28 billion—about $12 billion more than it previously projected. That increase is largely driven by an increase in CBO's estimate of the compensation that private lenders would require for market risk (that is, the risk that they cannot protect themselves against by diversifying their portfolios). In total, CBO's projection of net outlays for Fannie Mae and Freddie Mac is $15 billion lower for the 2019–2028 period than in its adjusted April 2018 baseline.

*Other Mandatory Programs.* Technical updates led CBO to increase projected outlays for other mandatory programs by $10 billion for 2019 but to decrease them by $26 billion for the 10-year period. CBO reduced its 10-year projection of outlays for Supplemental Security Income by $13 billion because of updated data on benefit amounts and caseloads. The agency also reduced projected outlays for military retirement benefits by $12 billion because of slightly higher projected mortality rates and a downward revision to projected average payments. And CBO reduced its projections of outlays for child nutrition programs by $12 billion because fewer free meals were provided in 2018 than expected. In the other direction was an $18 billion increase in projected outlays for the Children's Health Insurance Program as a result of higher-than-expected spending in 2018. Smaller adjustments to projections for a number of other mandatory programs reduced projected outlays by a further $6 billion, on net.

**Discretionary Outlays.** Because of technical updates, CBO's estimates of discretionary outlays in 2019 are $8 billion smaller than they were previously. Projected

14. The government placed Fannie Mae and Freddie Mac into conservatorship in 2008 and now controls their operations. As a result, CBO considers the two entities' activities to be governmental and includes their budgetary effects in its projections as though they were federal agencies. On that basis, for the 10 years after the current fiscal year, CBO projects subsidy costs for new activities according to 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 associated market risk. 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.)

outlays over the 2019–2028 period are also lower, by $30 billion (or less than 1 percent). The largest changes over the 10-year period arise from lower projections of outlays for international assistance programs ($15 billion) and housing assistance ($4 billion). Those reductions are partially offset by a $10 billion increase in projected defense outlays. Those changes all stem from adjustments to better reflect the recent rates at which funding for those programs has been spent.

**Net Interest.** Technical changes led CBO to decrease its projections of net interest outlays by $1 billion for 2019 and by $23 billion for the 2019–2028 period. That change results from two partly offsetting effects. In one direction, lower debt-service costs subtract $81 billion from net interest outlays projected over the 10-year period. That reduction is a result of the reduced deficits that are attributable to two changes: technical changes in CBO's baseline projections for revenues and outlays, and reductions in CBO's estimates of the borrowing needed to finance the government's credit programs, such as student loans. In the other direction, interest costs are higher by $58 billion over the 2019–2028 period because of larger-than-expected debt at the beginning of 2019 and changes to CBO's projections of the mix of securities that the Treasury uses in its borrowing.