Chapter 5: Budgetary Outcomes Under Alternative Assumptions About Spending and Revenues

Overview

The baseline budget projections in this report show federal spending, revenues, and deficits under the assumption that the laws governing spending and taxes generally remain unchanged. Those projections are not intended to be a forecast of budgetary outcomes; rather, they are meant to provide a benchmark that policymakers can use to assess the potential effects of policy decisions.

The Congressional Budget Office's baseline projections for spending and revenues follow procedures set in law as well as long-standing guidelines. For example, those laws require CBO to incorporate the assumption that future discretionary funding will match amounts most recently provided, with adjustments for inflation.[1] Those provisions also require CBO to incorporate the assumption that laws governing mandatory spending will generally continue beyond their statutory expiration and that payments from trust funds would be made even after a program's balance was exhausted and annual dedicated revenues were inadequate to fund them. In contrast, projections of revenues generally reflect scheduled changes to provisions affecting the tax code, including changes in statutory tax rates.

In addition to being affected by rules about baseline construction, CBO's current projections are affected by assumptions about administrative actions. One of those assumptions is the end date of the public health emergency stemming from the coronavirus pandemic. (The Secretary of Health and Human Services officially determines when to lift the emergency declaration.) Specifically, outlays for certain mandatory spending programs and revenue reductions from related tax credits might be larger or smaller depending on whether the public health emergency lasts longer or ends sooner than July 2023, the end date incorporated in CBO's baseline. That timing would also affect CBO's projections of the deficit (see Box 5-1).

This chapter shows how different assumptions about future legislated policies would affect CBO's budget projections. The first part of the chapter examines alternative assumptions about future funding for discretionary programs, and the second part discusses the continuation of certain revenue provisions currently scheduled to change. (For a discussion about how laws governing CBO's projections for mandatory spending affect the baseline, see Chapter 3.) The estimated effects of those alternative assumptions do not account for any resulting changes to the economy or for how those changes could, in turn, affect the budget.

Most of the alternatives examined in this chapter would increase projected deficits and debt.[2]

Alternative Assumptions About Discretionary Funding

For the most part, current law does not specify discretionary appropriations for years after 2022. However, section 257 of the Balanced Budget and Emergency Deficit Control Act of 1985 (Public Law 99-177) requires projections of funding for discretionary programs to grow each year with inflation. CBO's projections translate that funding into outlays by estimating how quickly agencies will spend the money provided.

1. For nearly all discretionary spending, the measure CBO uses to adjust funding for future years is a weighted mixture of the gross domestic product price index and the employment cost index for wages and salaries of workers in private industry. The weights are determined using data from the Office of Management and Budget that indicate how much of a program's funding is spent on compensation for federal employees and how much for other purposes.

2. For a discussion of the consequences of higher deficits and debt, see Congressional Budget Office, *The Economic Effects of Waiting to Stabilize the Federal Debt* (April 2022), www.cbo.gov/publication/57867.

Box 5-1.

Effects of the Pandemic-Related Public Health Emergency on CBO's Baseline Projections

On January 31, 2020, the Secretary of Health and Human Services declared a public health emergency in response to the coronavirus pandemic. Nearly two months later, lawmakers enacted the Families First Coronavirus Response Act (FFCRA, Public Law 116-127), which linked the operation of some programs to that public health emergency. Most notably, that law increased Medicaid's federal medical assistance percentage (or FMAP, the formula that determines the matching amount the federal government pays to states for Medicaid) by 6.2 percentage points for most categories of enrollees for the duration of the public health emergency. To receive the enhanced federal funding, states must provide continuous coverage, which generally allows people to remain enrolled in Medicaid during that period regardless of changes in their circumstances. (Typically, Medicaid enrollees must meet certain financial guidelines to remain enrolled in the program.)

As a result, the Congressional Budget Office's baseline projections—especially those that cover the next few years—depend on when the emergency ends. The projections in this report are based on the expectation that the emergency declaration will be lifted in July 2023. That could occur sooner or later, however. (The public health emergency was most recently renewed on April 16, 2022, for an additional 90 days.)

If the public health emergency ended a year later, in July 2024, additional Medicaid outlays, along with related changes to revenues and outlays, would increase deficits in the baseline by $72 billion over the 2023–2032 period.[1] (The 10-year deficit in CBO's current baseline projections is $15.7 trillion.) That increase would occur for two major reasons. First, the FMAP increase provided under the FFCRA would persist in states that maintained continuous coverage. Second, enrollment in those states would stay elevated until July 2024 and would then slowly decline through 2025.

If the public health emergency ended nine months sooner, in September 2022, changes to Medicaid outlays and other related changes would reduce deficits in CBO's baseline by $84 billion over the 2022–2032 period. Those savings would materialize because the FMAP increase would be shorter than currently expected, and the policy's effects on enrollment would end sooner. The savings realized from a shorter public health emergency would be greater than the costs of a longer emergency because more states would be affected by the former; CBO expects some states to choose to discontinue receiving the enhanced FMAP in 2023 even if the public health emergency is extended.

1. That estimate includes potential interactions with enrollment in employer-sponsored health insurance plans, the insurance marketplaces created under the Affordable Care Act, and other health insurance programs. It also includes interactions with Medicare Part D and title IV-E (federally subsidized) foster care.

However, lawmakers can, and do, set funding at amounts that differ from what is projected in the baseline, which could lead to larger or smaller outlays.

To illustrate how discretionary spending could differ from amounts in CBO's baseline projections, the agency estimated budgetary outcomes under three alternative assumptions about future funding (see Table 5-1). The alternative projections would increase future discretionary funding using a different growth rate, freeze discretionary funding at current amounts, or exclude projected additional funding for the Infrastructure Investment and Jobs Act (IIJA, P.L. 117-58).

Increase Discretionary Funding at the Growth Rate of Nominal GDP After 2022

Projecting discretionary funding using a measure that grows faster than the measure CBO currently uses would provide an alternative benchmark to CBO's baseline projections of discretionary spending. If discretionary appropriations and obligation limitations for certain transportation programs instead grew at the rate of nominal gross domestic product (GDP), outlays would be $1.4 trillion higher—and thus the deficit would be $1.4 trillion larger—than they are in CBO's baseline and would amount to 6.9 percent of GDP by 2032 rather than the 6.2 percent projected in the baseline (see Figure 5-1).[3] The debt-service costs associated with those additional outlays would amount to $131 billion. (Debt

3. Funding for most ground and air transportation programs is mandatory, but lawmakers typically limit the ability of the Administration to obligate that funding in annual appropriation acts. Like other appropriations, those limitations are projected to grow with inflation in CBO's baseline. Outlays that result from those limitations are considered discretionary.

Table 5-1.

Budgetary Effects of Selected Alternative Assumptions About Future Discretionary Funding

Billions of Dollars

	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	Total 2023–2027	Total 2023–2032
Increase Discretionary Funding at the Growth Rate of Nominal GDP After 2022													
Increase (-) in the deficit, excluding debt service	0	-18	-40	-62	-84	-108	-136	-168	-205	-244	-286	-312	-1,351
Debt-service costs	0	*	-1	-2	-5	-7	-11	-16	-22	-29	-38	-15	-131
Freeze Discretionary Funding at the 2022 Amount													
Decrease in the deficit, excluding debt service	0	34	76	120	164	210	259	306	357	409	461	603	2,395
Debt-service savings	0	*	2	5	9	14	21	30	41	53	68	30	243
Exclude Projected Additional Funding for the IIJA[a]													
Decrease in the deficit, excluding debt service	0	3	15	34	50	74	98	120	138	150	159	175	839
Debt-service savings	0	*	*	1	2	4	6	10	14	19	24	7	80

Data source: Congressional Budget Office. See www.cbo.gov/publication/57950#data.

In CBO's baseline projections, discretionary funding grows from its current amount at the projected rate of inflation, which is measured by a weighted mixture of the GDP price index and the employment cost index for wages and salaries of workers in private industry.

Estimates do not account for how the alternatives could affect the economy or for how those potential changes could, in turn, affect the budget.

Debt service is the change in interest payments resulting from an increase or decrease in estimates of the deficit.

GDP = gross domestic product; IIJA = Infrastructure Investment and Jobs Act; * = between -$500 million and $500 million.

a. Funding provided by the IIJA would remain at the amounts specified in law instead of growing with inflation (as it does under the rules that govern how CBO constructs its baseline projections).

service is the change in interest payments resulting from an increase or decrease in estimates of the deficit.)

Freeze Discretionary Funding at the 2022 Amount

Projecting spending under the assumption that discretionary funding was frozen at the 2022 amount provides another alternative benchmark to CBO's baseline projections of discretionary spending. (In the case of appropriations that have already been provided for years beyond the current year, discretionary funding would be frozen at the latest amount provided in advance.) If lawmakers generally froze appropriations and obligation limitations for certain transportation programs at the nominal 2022 amount from 2023 through 2032, outlays would be $2.4 trillion less over that period than the amount projected in the baseline, excluding associated debt-service savings (which would amount to $243 billion). In 2032, discretionary outlays under such a freeze would total 4.9 percent of GDP rather than the 6.2 percent projected in the baseline.

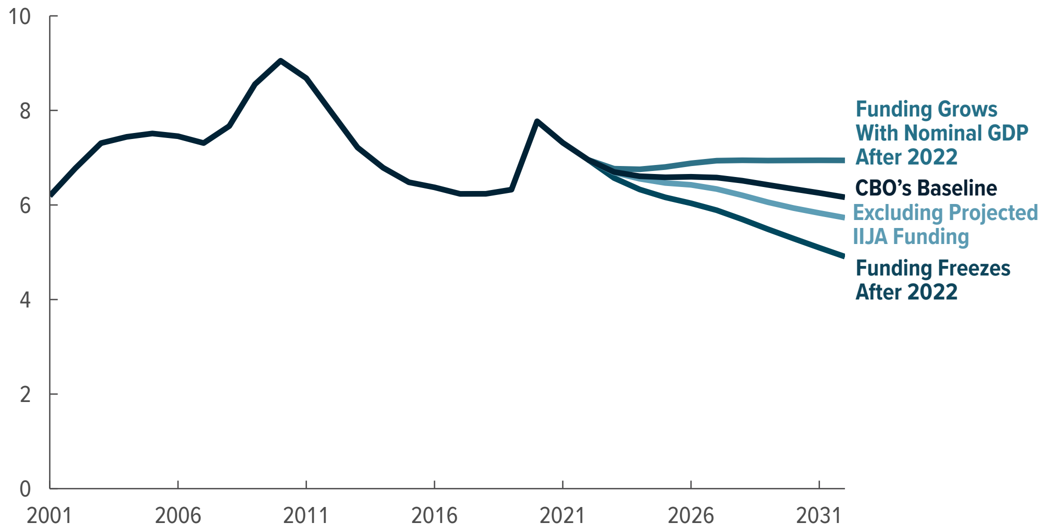
Exclude Projected Additional Funding for the IIJA

The Infrastructure Investment and Jobs Act—signed into law in November 2021—appropriated funds for investment in transportation programs, environmental programs, and other programs for each year from 2022 through 2026. The total funding provided by the IIJA decreases each year over that period as funding for different programs ends in different years.

In CBO's baseline, however, funding related to the IIJA increases each year. That is because, in consultation with the budget committees, CBO applied its typical baseline construction to that funding. As a result, for future years in which the IIJA has not provided funding, CBO projected funding by adjusting existing appropriations for inflation. (For more information about how the IIJA's funding affects CBO's discretionary baseline, see Box 3-4 on page 76.)

Figure 5-1.

Discretionary Outlays in CBO's Baseline and Under Three Alternatives



Under a scenario in which appropriations grew with nominal GDP, discretionary outlays as a share of the economy would remain relatively steady. Under the other three scenarios, including the scenario underlying CBO's baseline budget projections, outlays would fall to or below recent historical lows as a percentage of GDP.

Data source: Congressional Budget Office. See www.cbo.gov/publication/57950#data.

When October 1 (the first day of the fiscal year) falls on a weekend, certain payments that would have ordinarily been made on that day are instead made at the end of September and thus are shifted into the previous fiscal year. Outlays have been adjusted to exclude the effects of those shifts.

GDP = gross domestic product; IIJA = Infrastructure Investment and Jobs Act.

If, instead, CBO had excluded the additional projected funding for the IIJA (counting just the funding specifically provided by the law), discretionary outlays would be $839 billion lower through 2032 than they are in CBO's baseline, excluding debt-service savings. Those debt-service savings would reduce interest payments by $80 billion, in CBO's estimation. Under that scenario, discretionary outlays would amount to 5.7 percent of GDP in 2032 rather than the 6.2 percent projected in CBO's baseline.

Alternative Assumptions About Revenue Policies

CBO's baseline projections generally reflect the effects of scheduled changes in revenue provisions, including the assumption that temporary provisions will expire as scheduled under current law and that recently expired provisions will not be retroactively extended.[4] If certain temporary revenue provisions were instead made permanent, though, or if selected provisions were retroactively extended, revenues would differ from amounts in CBO's baseline projections. To illustrate how revenues could differ, the agency estimated budgetary outcomes under seven alternative assumptions. The first four assumptions relate to provisions of the 2017 tax act (P.L. 115-97), and the last three address other revenue provisions.

To assess those budgetary outcomes, CBO mainly used revenue estimates prepared by the staff of the Joint Committee on Taxation (JCT), which are the official estimates for most tax legislation considered by the Congress. (CBO estimated the cost of the alternative that would extend certain trade promotion programs, as well as the debt-service costs associated with each revenue alternative.) Although estimates for each of the individual provisions would depend on the order in which they were estimated (because of interactions), the total effect of extending all alternative policies discussed in this chapter would be approximately equal to the sum of the estimates for each alternative.[5]

4. The Balanced Budget and Emergency Deficit Control Act of 1985 requires that CBO's baseline projections incorporate the assumption that expiring excise taxes dedicated to trust funds will be extended.

5. Additional detailed estimates of the budgetary effects of the alternative revenue policies are included in the supplemental data for CBO's revenue projections, by category, that accompany this report at www.cbo.gov/publication/57950#data.

Table 5-2.

Budgetary Effects of Selected Alternative Assumptions About Future Revenue Policies Related to the 2017 Tax Act

Billions of Dollars

												Total	
	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2023–2027	2023–2032
Extend the 2017 Tax Act's Changes to Individual Income Tax Provisions[a]													
Increase (-) in the deficit, excluding debt service	0	*	*	-6	-167	-301	-295	-307	-317	-328	-342	-474	-2,064
Debt-service costs	0	*	*	*	-3	-9	-18	-27	-37	-48	-59	-12	-201
Extend Higher Estate and Gift Tax Exemptions[b]													
Increase (-) in the deficit, excluding debt service	0	0	*	-1	-2	-13	-15	-16	-17	-18	-20	-16	-102
Debt-service costs	0	0	*	*	*	*	-1	-1	-2	-2	-3	*	-9
Extend the 2017 Tax Act's Changes to the Tax Treatment of Investment Costs[c]													
Increase (-) in the deficit, excluding debt service	0	-61	-46	-48	-48	-49	-44	-34	-28	-24	-21	-253	-404
Debt-service costs	0	-1	-2	-3	-5	-6	-8	-9	-11	-12	-13	-18	-70
Maintain Certain Business Tax Provisions Altered by the 2017 Tax Act[d]													
Increase (-) in the deficit, excluding debt service	0	0	0	0	-10	-18	-19	-19	-19	-20	-20	-28	-125
Debt-service costs	0	0	0	0	*	-1	-1	-2	-2	-3	-4	-1	-12

Data sources: Congressional Budget Office; staff of the Joint Committee on Taxation. See www.cbo.gov/publication/57950#data.

The estimates of the effects on the deficit are from the staff of the Joint Committee on Taxation and are preliminary. The estimates of debt-service costs are from CBO. The effects under the alternative assumptions are estimated relative to current law and incorporate the economic projections that underlie CBO's May 2022 baseline. The estimates do not account for how the alternatives could affect the economy or for how those potential changes could, in turn, affect the budget. The estimates include the effects on outlays of changes in refundable tax credits.

Debt service is the change in interest payments resulting from an increase or decrease in estimates of the deficit.

* = between -$500 million and zero.

a. Permanently extend many provisions of the 2017 tax act (Public Law 115-97)—most significantly, the provisions that lower individual income tax rates, expand the income tax base, expand the child tax credit, maintain the 20 percent deduction for certain business income, and reduce the amount of income subject to the alternative minimum tax. For detailed estimates, see the supplemental data that accompany this report.

b. Extend the 2017 tax act's expansion of the exemption amount for estate and gift taxes.

c. Extend the changes made by the 2017 tax act that allow businesses with large amounts of investments to expense (immediately deduct from their taxable income) the cost of their investment in equipment and certain other property. Under current law, the portion of those expenses that may be deducted (for equipment and certain other property) is 100 percent in 2022, 80 percent in 2023, 60 percent in 2024, 40 percent in 2025, and 20 percent in 2026. (After that year, the provisions expire.) The 100 percent allowance would be extended permanently beyond 2022 in this alternative. Additionally, the 2017 tax act included a scheduled change starting in 2022 that requires research and development costs to be deducted over a period of five years rather than immediately. Those costs could continue to be deducted immediately under this alternative, retroactive to the beginning of 2022. For detailed estimates, see the supplemental data that accompany this report.

d. Maintain certain tax policies that affect businesses rather than allowing them to change as scheduled under current law. Some of those policies are currently scheduled to expire and other changes have delayed effective dates. For detailed estimates, see the supplemental data that accompany this report.

Extend the 2017 Tax Act's Changes to Individual Income Tax Provisions

Most of the individual income tax provisions of the 2017 tax act are slated to expire at the end of calendar year 2025. The expiring provisions affect major elements of the individual income tax code, including statutory tax rates and brackets, allowable deductions, the size and refundability of the child tax credit, the 20 percent deduction for certain business income, and the income levels at which the alternative minimum tax takes effect.[6]

6. The alternative minimum tax is similar to the regular income tax but includes fewer exemptions, deductions, and rates. People who file individual income tax returns must calculate the tax owed under each system and pay the larger of the two amounts.

Table 5-3.

Budgetary Effects of Selected Alternative Assumptions About Other Future Revenue Policies

Billions of Dollars

	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	Total 2023–2027	Total 2023–2032
Extend Expiring Tax Provisions Other Than Those From the 2017 Tax Act[a]													
Increase (-) in the deficit, excluding debt service	0	-3	-4	-5	-11	-14	-16	-16	-17	-18	-20	-37	-123
Debt-service costs	0	*	*	*	-1	-1	-1	-2	-2	-3	-4	-2	-14
Retroactively Extend Certain Expired Tax Provisions[b]													
Increase (-) in the deficit, excluding debt service	0	-2	-2	-2	-2	-3	-4	-5	-5	-6	-7	-11	-37
Debt-service costs	0	*	*	*	*	*	*	-1	-1	-1	-1	-1	-4
Extend Trade Promotion Programs[c]													
Increase (-) in the deficit, excluding debt service	0	-2	-1	-1	-1	-1	-1	-1	-1	-1	-1	-5	-11
Debt-service costs	0	*	*	*	*	*	*	*	*	*	*	*	-2

Data sources: Congressional Budget Office; staff of the Joint Committee on Taxation. See www.cbo.gov/publication/57950#data.

The estimates of the effects on the deficit of extending expired or expiring tax provisions are from the staff of the Joint Committee on Taxation and are preliminary. The estimates of the effects on the deficit of extending trade promotion programs and all the estimates of debt-service costs are from CBO. The effects under the alternative assumptions are estimated relative to current law and incorporate the economic projections that underlie CBO's May 2022 baseline. The estimates do not account for how the alternatives could affect the economy or for how those potential changes could, in turn, affect the budget. The estimates include the effects on outlays of changes in refundable tax credits.

Debt service is the change in interest payments resulting from an increase or decrease in estimates of the deficit.

* = between -$500 million and zero.

a. Extend tax provisions that have been extended in the past and are scheduled to expire. For detailed estimates, see the supplemental data that accompany this report.

b. Extend tax provisions (none of which are related to legislation enacted in response to the coronavirus pandemic) that expired at the end of 2021. For detailed estimates, see the supplemental data that accompany this report.

c. Extend several trade promotion programs that are scheduled to expire over the 2023–2032 period and reinstate the General Schedule of Preferences, which expired at the end of 2020.

According to JCT's estimates, if the expiring individual income tax provisions of the 2017 tax act were extended, deficits would be larger than those in CBO's baseline, on net, by $2.1 trillion over the 2023–2032 period, excluding debt-service costs (see Table 5-2 on page 105). Most of the effects would occur after 2026. Debt-service costs would add $201 billion to those deficits.

Extend Higher Estate and Gift Tax Exemptions

The 2017 tax act also temporarily doubled the exemption amount for estate and gift taxes. That change expires at the end of calendar year 2025. If that expansion was extended, deficits would increase by $102 billion over the 2023–2032 period (excluding debt-service costs), JCT estimates. Again, most of those effects would occur after 2026. Debt-service costs would add $9 billion to those deficits.

Extend the 2017 Tax Act's Changes to the Tax Treatment of Investment Costs

The 2017 tax act made two major changes to the way that businesses' investment costs are treated for tax purposes. First, it temporarily expanded a provision known as bonus depreciation, which allows businesses to immediately deduct a portion of the cost of certain investments. Bonus depreciation was increased to 100 percent of the cost of such investments through 2022; it is then scheduled to phase down between 2023 and 2026. Additionally, starting in 2022, companies must deduct research and development expenses over five

years rather than immediately deducting those expenses. Together, extending the expansion of bonus depreciation (and thus averting the phasedown) and retroactively allowing for the continued immediate deduction of research and development expenses would increase deficits by $404 billion (excluding debt-service costs) over the 2023–2032 period, JCT estimates. Debt-service costs would add $70 billion to those deficits.

Maintain Certain Business Tax Provisions Altered by the 2017 Tax Act

Some provisions of the 2017 tax act that affect business taxes have scheduled expiration dates or include changes that do not take effect for several years. Such policies include reductions in the size of the deduction for certain types of foreign income and an increase in the tax rate applied for the purposes of the base erosion minimum tax (a provision put in place to keep corporations from avoiding tax liability by shifting profits out of the United States). If those scheduled expirations and changes did not occur, deficits would increase by $125 billion over the 2023–2032 period (excluding debt-service costs), JCT estimates. Debt-service costs would add $12 billion to those deficits.

Extend Expiring Tax Provisions Other Than Those From the 2017 Tax Act

In addition to the revenue provisions described above, 16 provisions that were in place before the start of the pandemic and that have been extended in the past are set to expire before the end of the 10-year projection period. Those provisions include tax credits for energy investment and for businesses that hire people from certain designated groups (qualified veterans, summer youth employees, and people who have been unemployed for at least 27 consecutive weeks, for example). If those temporary tax provisions were permanently extended, the deficit would be larger than amounts projected in the baseline by a total of $123 billion (excluding debt-service costs) over the 2023–2032 period, in JCT's estimation (see Table 5-3 on page 106). Debt-service costs would add $14 billion to those deficits.

Retroactively Extend Certain Expired Tax Provisions

An additional 18 revenue provisions that were in place before the start of the pandemic and that have been extended in the past expired at the end of 2021. Among those expired provisions are ones that provided tax credits for certain producers of clean energy and that allowed certain homeowners to deduct mortgage insurance premiums. According to JCT, if those provisions were retroactively made permanent, the deficit would be $37 billion larger over the 2023–2032 period. Debt-service costs would add $4 billion to those deficits.

Extend Trade Promotion Programs

Trade promotion programs are programs that reduce or eliminate customs duties on certain products from participating countries. Three of those programs—administered pursuant to the African Growth and Opportunity Act, the Caribbean Basin Trade Partnership Act, and acts granting trade preferences to Haiti—are set to expire at various points between 2023 and 2032. Furthermore, the Generalized System of Preferences (the largest and oldest U.S. trade preference program) expired in December 2020. If each of those programs was extended until 2032 and the Generalized System of Preferences was reinstated retroactive to 2021, deficits would increase by $11 billion over the 10-year period, in CBO's estimation. Additional interest payments on the debt from those larger deficits would amount to $2 billion over the same period.