CHAPTER

1

The Budget Outlook

The Congressional Budget Office estimates that the federal budget deficit in fiscal year 2016 will total $590 billion, or 3.2 percent of gross domestic product (GDP), up from 2.5 percent in 2015. This year's deficit will mark the first increase in the budget shortfall, measured as a share of the nation's output, since 2009 (see Figure 1-1). As a result, debt held by the public is expected to increase to almost 77 percent of GDP at the end of 2016—about 3 percentage points higher than last year's amount and the highest ratio since 1950.

The deficit projected for this year is $56 billion above the estimate that CBO published in March, primarily because receipts from individual and corporate income taxes have been lower than anticipated.[1] The agency also has reduced its baseline projection of the cumulative deficit for the 2017–2026 period by $712 billion—from $9.3 trillion to $8.6 trillion. The projected deficit for 2017 is larger, but those projected for every year between 2018 and 2026 are smaller.

Revenues in CBO's baseline over the 10-year period are $431 billion (or 1 percent) below the amount that CBO previously reported, in large part because of lower projected nominal GDP. However, projected outlays decline by a larger amount—$1.1 trillion (or 2 percent)—mainly because CBO anticipates lower interest rates and thus smaller interest payments than it did in March. Despite the reduction in projected deficits, debt held by the public at the end of 2026 remains at about the same percentage of GDP, largely because CBO has reduced its estimate of economic output in that year.

As specified in law, CBO constructs its baseline projections of federal revenues and spending under the assumption that current laws will generally remain unchanged. Under that assumption, annual budget shortfalls in CBO's baseline rise substantially over the 2017–2026 period—from a low of $520 billion in 2018 to $1.2 trillion in 2026.[2] That increase is projected to occur mainly because growth in revenues would be outpaced by a combination of significant growth in spending on health care and retirement programs—caused by the aging of the population and rising health care costs per person—and growing interest payments on federal debt.

Deficits are projected to dip from 3.1 percent of GDP in 2017 to 2.6 percent in 2018 and then to begin rising again, reaching 4.6 percent at the end of the 10-year period—significantly above the average deficit as a percentage of GDP between 1966 and 2015. Over the next 10 years, revenues and outlays alike are projected to be above their 50-year averages as measured relative to GDP (see Figure 1-2).

In CBO's current baseline projections, federal debt held by the public as a percentage of GDP grows in nearly every year, reaching 86 percent by 2026. By comparison, federal debt has averaged 39 percent of GDP over the past five decades. Beyond 2026, if current laws remained in place, the pressures that contribute to rising deficits during the coming decade would accelerate and push debt up sharply relative to GDP.[3]

Such high and rising debt would have serious consequences, both for the economy and for the federal budget. Federal spending on interest payments would increase substantially as a result of increases in interest rates, such as those projected to occur over the next few years. Moreover, because federal borrowing reduces national saving over time, the nation's capital stock ultimately would be smaller, and productivity and income would be lower than would be the case if the debt was smaller. In addition,

1. See Congressional Budget Office, *Updated Budget Projections: 2016 to 2026* (March 2016), www.cbo.gov/publication/51384.

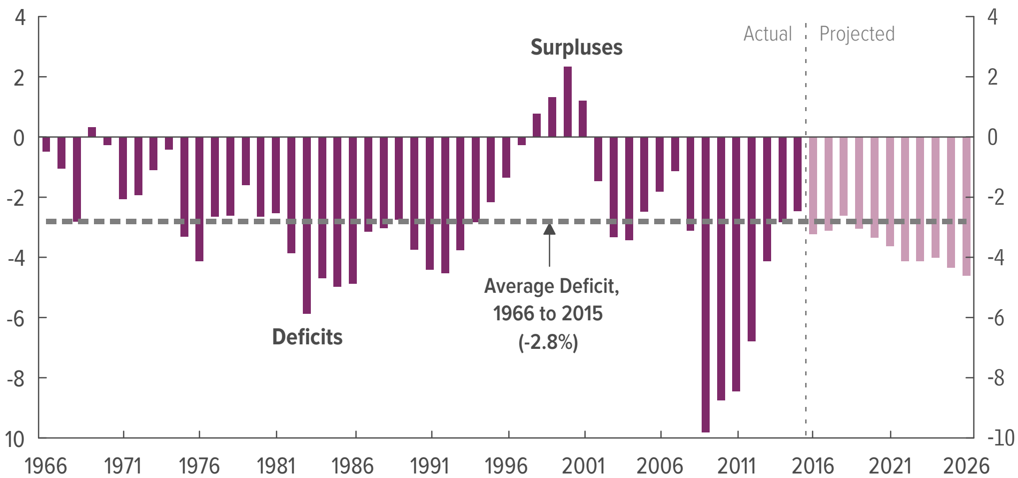
2. CBO's updated baseline projections incorporate the effects of legislation and administrative actions through July 15, 2016.

3. For a more detailed discussion, see Congressional Budget Office, *The 2016 Long-Term Budget Outlook* (July 2016), www.cbo.gov/publication/51580.

Figure 1-1.

Total Deficits and Surpluses

Percentage of Gross Domestic Product



As a percentage of gross domestic product, deficits exceed the 50-year average for most of the 2016–2026 projection period as mandatory spending and interest payments rise faster than revenues.

Source: Congressional Budget Office.

lawmakers would have less flexibility than otherwise to respond to unexpected challenges, such as significant economic downturns or financial crises. Finally, the likelihood of a fiscal crisis in the United States would increase. Specifically, the risk would rise of investors' becoming unwilling to finance the government's borrowing unless they were compensated with very high interest rates. If that occurred, interest rates on federal debt would rise suddenly and sharply relative to rates of return on other assets.

The Budget Outlook for 2016

In the absence of additional legislation that would affect spending or revenues, the deficit in fiscal year 2016 will be $590 billion, $152 billion more than the shortfall recorded in 2015, CBO estimates (see Table 1-1). Part of that increase is attributable to a shift of certain payments from fiscal year 2017 into fiscal year 2016 (because October 1, 2016, falls on a weekend). Without that shift, CBO estimates, the deficit would amount to $549 billion in 2016. (For more details about timing shifts in the baseline, see Box 1-1 on page 13.)

Even after adjusting for the shift in payments, CBO anticipates an increase in the budget shortfall for 2016. Revenues, which rose by almost 8 percent last year, are expected to increase by about 1 percent in 2016—significantly less than the increase in outlays, which are anticipated to grow by nearly 4 percent this year (after adjusting for the timing shifts). As a percentage of GDP, the deficit will increase in 2016 to 3.2 percent, CBO estimates, exceeding last year's deficit of 2.5 percent as well as the 2.8 percent average recorded over the past 50 years; if not for the timing shifts, the deficit would be 3.0 percent of GDP.

Outlays in 2016

Outlays are expected to increase by $178 billion this year to a total of $3.9 trillion. CBO projects that federal spending will equal 21.1 percent of GDP, which is above both last year's 20.7 percent and the 20.2 percent average over the past 50 years. If not for the shift of some payments, outlays in 2016 would increase by $137 billion and would equal 20.8 percent of GDP, CBO estimates, slightly above last year's percentage.

Growth in outlays for 2016 is driven by an increase in mandatory spending (above the rate of growth of the economy) and higher interest payments; discretionary outlays are projected to rise only slightly from last year's total. Specifically, adjusted for the shift in timing:

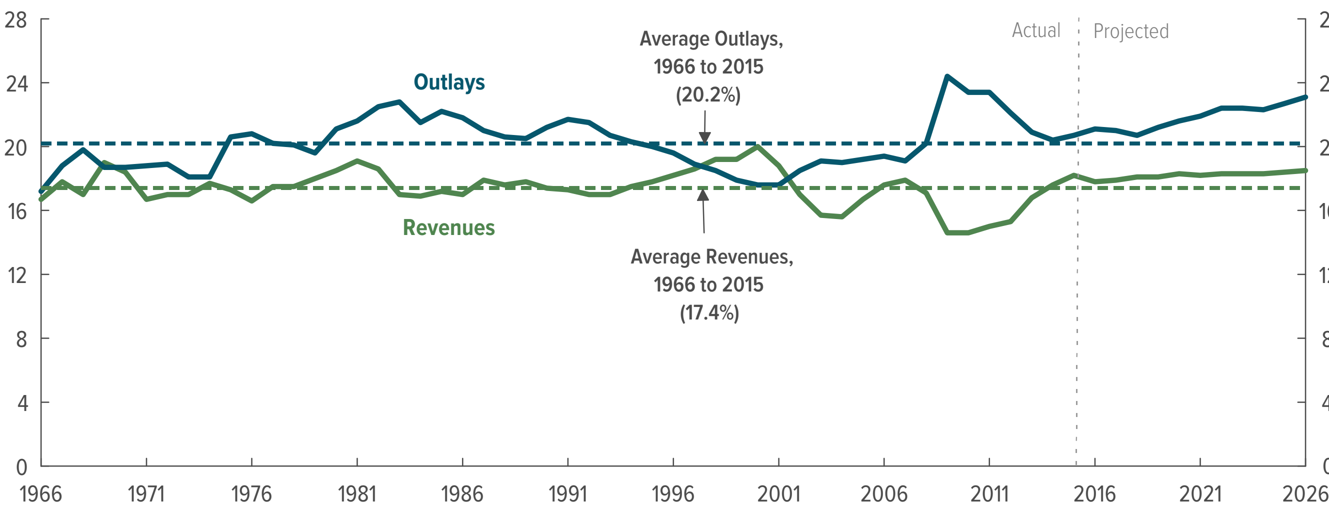
- Mandatory spending is estimated to rise by about 4 percent in nominal terms in 2016, increasing to 13.1 percent of GDP (compared with 12.9 percent in 2015).[4]

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

Figure 1-2.

Total Revenues and Outlays

Percentage of Gross Domestic Product



Source: Congressional Budget Office.

- Discretionary spending is projected to increase by 1 percent this year but fall to 6.4 percent of GDP (compared with 6.6 percent last year).[5]

- Net interest spending is expected to rise by about 11 percent, increasing to 1.4 percent of GDP (compared with 1.3 percent in 2015).

Mandatory Spending. Outlays for mandatory programs will rise to $2.4 trillion this year, CBO estimates, an increase of $139 billion from 2015 (see Table 1-2 on page 16). Without the shift in the timing of some payments, mandatory spending would grow by $102 billion. Most mandatory spending is for the federal government's major health care programs and Social Security. Those health care programs consist of Medicare, Medicaid, and the Children's Health Insurance Program, along with federal subsidies for health insurance purchased through the marketplaces established by the Affordable Care Act (ACA) and related spending.[6] The largest increases in net outlays, compared with spending in 2015, are attributable to growth in the major health care programs and Social Security, as well as a decrease in receipts from the auction of licenses to use the electromagnetic spectrum (the proceeds of those auctions are recorded as reductions in mandatory outlays). Those increases in outlays will be partially offset by lower spending for higher education.

Major Health Care Programs. Federal spending for the major health care programs will jump by $77 billion (or about 8 percent) in 2016, CBO estimates. That amount overstates underlying growth in those programs, however, because it reflects a $22 billion shift in the timing of certain Medicare payments from 2017 into 2016. After adjusting for the payment shift, CBO anticipates that spending for the major health care programs will rise by $55 billion (or about 6 percent) in 2016. Medicare accounts for more than half of that increase: Outlays for the program (net of premiums and other offsetting receipts) are expected to grow by $30 billion (or 6 percent) this year, largely because of increased spending per person, particularly for prescription drugs. Spending for such drugs is projected to increase by roughly 15 percent this year, after adjustments for timing shifts and reconciliation payments.[7] Much of that increase stems from spending for people whose out-of-pocket costs for prescription drugs exceed the catastrophic limit on out-of-pocket spending.

5. 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, for example, defense, law enforcement, and transportation.

6. For a more detailed discussion of federal health care subsidies, see Congressional Budget Office, *Federal Subsidies for Health Insurance Coverage for People Under Age 65: 2016 to 2026* (March 2016), www.cbo.gov/publication/51385.

7. Reconciliation payments are adjustments typically made two years after initial disbursements were made for certain elements of the prescription drug program.

Table 1-1.

CBO's Baseline Budget Projections, by Category

	Actual, 2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	Total 2017-2021	Total 2017-2026
							In Billions of Dollars							
Revenues														
Individual income taxes	1,541	1,553	1,667	1,780	1,877	1,968	2,069	2,172	2,277	2,390	2,511	2,637	9,362	21,348
Payroll taxes	1,065	1,114	1,149	1,188	1,228	1,267	1,315	1,364	1,414	1,465	1,521	1,579	6,147	13,490
Corporate income taxes	344	300	321	337	352	381	374	378	385	396	410	427	1,765	3,761
Other	300	309	284	295	289	284	289	299	310	323	336	350	1,442	3,059
Total	**3,250**	**3,276**	**3,421**	**3,600**	**3,745**	**3,900**	**4,048**	**4,212**	**4,385**	**4,574**	**4,779**	**4,993**	**18,714**	**41,658**
On-budget	2,480	2,466	2,587	2,735	2,854	2,982	3,099	3,230	3,368	3,521	3,689	3,863	14,257	31,928
Off-budget[a]	770	810	835	864	891	918	949	983	1,017	1,053	1,090	1,129	4,457	9,730
Outlays														
Mandatory	2,297	2,437	2,538	2,614	2,798	2,961	3,123	3,353	3,479	3,604	3,851	4,095	14,033	32,415
Discretionary	1,168	1,181	1,207	1,205	1,223	1,248	1,275	1,306	1,332	1,358	1,396	1,428	6,157	12,977
Net interest	223	248	270	301	350	405	456	507	562	612	661	712	1,783	4,838
Total	**3,688**	**3,866**	**4,015**	**4,120**	**4,370**	**4,614**	**4,853**	**5,166**	**5,373**	**5,574**	**5,908**	**6,235**	**21,973**	**50,229**
On-budget	2,945	3,087	3,203	3,253	3,442	3,620	3,789	4,027	4,155	4,274	4,520	4,755	17,306	39,038
Off-budget[a]	743	779	813	866	928	994	1,065	1,139	1,218	1,301	1,387	1,480	4,666	11,192
Deficit (-) or Surplus	-438	-590	-594	-520	-625	-714	-806	-954	-988	-1,000	-1,128	-1,243	-3,258	-8,571
On-budget	-466	-621	-616	-518	-588	-637	-690	-797	-787	-753	-831	-892	-3,049	-7,109
Off-budget[a]	27	31	22	-2	-37	-77	-116	-156	-201	-247	-297	-351	-209	-1,462
Debt Held by the Public	13,117	14,073	14,743	15,325	16,001	16,758	17,597	18,584	19,608	20,649	21,824	23,118	n.a.	n.a.
Memorandum:														
Gross Domestic Product	17,810	18,367	19,102	19,895	20,637	21,372	22,193	23,075	24,001	24,967	25,977	27,027	103,198	228,245
							As a Percentage of Gross Domestic Product							
Revenues														
Individual income taxes	8.7	8.5	8.7	8.9	9.1	9.2	9.3	9.4	9.5	9.6	9.7	9.8	9.1	9.4
Payroll taxes	6.0	6.1	6.0	6.0	5.9	5.9	5.9	5.9	5.9	5.9	5.9	5.8	6.0	5.9
Corporate income taxes	1.9	1.6	1.7	1.7	1.7	1.8	1.7	1.6	1.6	1.6	1.6	1.6	1.7	1.6
Other	1.7	1.7	1.5	1.5	1.4	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.4	1.3
Total	**18.2**	**17.8**	**17.9**	**18.1**	**18.1**	**18.2**	**18.2**	**18.3**	**18.3**	**18.3**	**18.4**	**18.5**	**18.1**	**18.3**
On-budget	13.9	13.4	13.5	13.7	13.8	14.0	14.0	14.0	14.0	14.1	14.2	14.3	13.8	14.0
Off-budget[a]	4.3	4.4	4.4	4.3	4.3	4.3	4.3	4.3	4.2	4.2	4.2	4.2	4.3	4.3
Outlays														
Mandatory	12.9	13.3	13.3	13.1	13.6	13.9	14.1	14.5	14.5	14.4	14.8	15.2	13.6	14.2
Discretionary	6.6	6.4	6.3	6.1	5.9	5.8	5.7	5.7	5.5	5.4	5.4	5.3	6.0	5.7
Net interest	1.3	1.4	1.4	1.5	1.7	1.9	2.1	2.2	2.3	2.5	2.5	2.6	1.7	2.1
Total	**20.7**	**21.1**	**21.0**	**20.7**	**21.2**	**21.6**	**21.9**	**22.4**	**22.4**	**22.3**	**22.7**	**23.1**	**21.3**	**22.0**
On-budget	16.5	16.8	16.8	16.4	16.7	16.9	17.1	17.5	17.3	17.1	17.4	17.6	16.8	17.1
Off-budget[a]	4.2	4.2	4.3	4.4	4.5	4.7	4.8	4.9	5.1	5.2	5.3	5.5	4.5	4.9
Deficit (-) or Surplus	**-2.5**	**-3.2**	**-3.1**	**-2.6**	**-3.0**	**-3.3**	**-3.6**	**-4.1**	**-4.1**	**-4.0**	**-4.3**	**-4.6**	**-3.2**	**-3.8**
On-budget	-2.6	-3.4	-3.2	-2.6	-2.8	-3.0	-3.1	-3.5	-3.3	-3.0	-3.2	-3.3	-3.0	-3.1
Off-budget[a]	0.2	0.2	0.1	*	-0.2	-0.4	-0.5	-0.7	-0.8	-1.0	-1.1	-1.3	-0.2	-0.6
Debt Held by the Public	73.6	76.6	77.2	77.0	77.5	78.4	79.3	80.5	81.7	82.7	84.0	85.5	n.a.	n.a.

Source: Congressional Budget Office.

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

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.

Box 1-1.

Shifts in the Timing of Certain Payments in CBO's Baseline

The pattern of deficits projected in the Congressional Budget Office's baseline is significantly affected by shifts in the timing of certain payments. When October 1 (the first day of the fiscal year) falls on a weekend, a number of payments that are due on that day are instead made at the end of September, thus shifting into the previous fiscal year. Because October 1 falls on a weekend in calendar years 2016, 2017, 2022, and 2023, those shifts noticeably boost projected outlays—and thus the deficit—in fiscal years 2016 and 2022 but reduce them in fiscal years 2018 and 2024 (see the table). If not for those timing shifts—as well as two other shifts unrelated to those October 1 payments—the deficit would be smaller by $41 billion this year, smaller by $4 billion in 2017, and larger by $45 billion in 2018.[1] The magnitude of the shifts is greater over the 2022–2024 period as projected spending for the affected programs rises.

Mandatory Spending

All told, shifts in the timing of payments will boost mandatory outlays by $37 billion in 2016 and reduce them by $41 billion in 2018. The largest shift involves payments to private insurance plans that deliver medical benefits and outpatient prescription drugs for beneficiaries enrolled in the Medicare Advantage and Part D programs. The shift in those payments will increase Medicare outlays by $22 billion in 2016 and decrease them by $24 billion in 2018.

Payments That Are Shifted in CBO's Baseline

Billions of Dollars

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Revenues	**0**	*	*	**0**	**6**	**-6**	**0**	**0**	**0**	**0**	**0**
Outlays											
Mandatory											
Medicare	22	3	-24	0	0	0	41	3	-44	0	0
Veterans' benefits	7	1	-8	0	0	0	9	1	-9	0	0
Military retirement	4	*	-4	0	0	0	5	*	-5	0	0
Supplemental Security Income	4	*	-5	0	0	0	5	*	-5	0	0
Outer Continental Shelf	0	*	*	0	0	0	0	*	*	0	0
Subtotal	37	4	-41	0	0	0	60	5	-65	0	0
Discretionary	4	*	-4	0	0	0	5	*	-5	0	0
Total	**41**	**4**	**-45**	**0**	**0**	**0**	**64**	**5**	**-70**	**0**	**0**
Increase (-) or Decrease in the Deficit	-41	-4	45	0	6	-6	-64	-5	70	0	0
Memorandum:											
Deficit											
In billions of dollars											
Baseline	-590	-594	-520	-625	-714	-806	-954	-988	-1,000	-1,128	-1,243
Baseline adjusted for timing shifts	-549	-590	-565	-625	-720	-800	-889	-983	-1,070	-1,128	-1,243
As a percentage of GDP											
Baseline	-3.2	-3.1	-2.6	-3.0	-3.3	-3.6	-4.1	-4.1	-4.0	-4.3	-4.6
Baseline adjusted for timing shifts	-3.0	-3.1	-2.8	-3.0	-3.4	-3.6	-3.9	-4.1	-4.3	-4.3	-4.6

Source: Congressional Budget Office.

GDP = gross domestic product; * = between -$500 million and $500 million.

1. Although 12 benefit checks will be issued in fiscal year 2017, total outlays in that year will still be affected by shifts in the timing of those payments. The payments due on October 1, 2016, will be shifted from fiscal year 2017 into 2016, and the payments due on October 1, 2017, will be shifted from fiscal year 2018 into 2017. Because the payments shifted into 2017 will be larger than the payments shifted out of that year, outlays in 2017 will be boosted, on net, by $4 billion.

Continued

Box 1-1. Continued

Shifts in the Timing of Certain Payments in CBO's Baseline

Similar shifts in the timing of payments for certain veterans' benefits, military retirement, and Supplemental Security Income will increase mandatory outlays by an additional $15 billion this year and reduce them by $16 billion in 2018.

Lastly, royalty payments owed to the federal government stemming from the extraction of minerals from federally owned lands are due on the last day of each month. (Such payments are recorded as offsetting receipts in the budget.) When September 30 falls on a weekend—as it will in 2017 and 2023—those payments are instead made at the beginning of October, thus shifting into the following fiscal year. As a result, outlays will be boosted by $0.3 billion in 2017 and reduced by the same amount in 2018.

Discretionary Spending

As with the mandatory benefit programs described above, pay for active-duty and reserve military personnel is shifted into the prior fiscal year when October 1 falls on a weekend. As a result, defense outlays will be boosted by $4 billion in 2016 and reduced by a similar amount in 2018.

Revenues

CBO's projections of corporate income taxes are also affected by shifts in the timing of payments. Corporate payments of estimated taxes are due four times per year. However, for corporations with assets exceeding $1 billion, two laws enacted in recent years related to trade preference programs (Public Laws 112-163 and 114-27) required a small portion of their estimated payments that would otherwise have been due in the fourth quarter of calendar years 2017 and 2020 to instead be made one quarter early, thereby shifting them into the previous fiscal year. As a result of those shifts, revenues under current law will be higher in 2017 (by an estimated $0.2 billion) and 2020 (by an estimated $6 billion), and lower by those amounts in 2018 and 2021.

Medicaid outlays are expected to climb by $15 billion (or 4 percent) this year; that rate of growth is roughly one-quarter of the increase recorded in 2015, in part because the optional expansion of coverage authorized by the ACA has been in place for two years and the rapid growth in enrollment that occurred during the initial stage of the expansion has begun to moderate. In total, CBO anticipates that Medicaid enrollment will be roughly flat in 2016 (compared with an estimated 5.5 percent increase in 2015).

Outlays for the Children's Health Insurance Program will increase by $5 billion in 2016, to $14 billion, CBO estimates. That growth stems almost entirely from an increase in the rate at which the federal government matches states' payments; that increase went into effect at the beginning of the fiscal year.

Outlays for subsidies that help eligible people purchase health insurance through marketplaces, as well as related spending, will total $43 billion in 2016, CBO estimates—an increase of $5 billion. That growth largely reflects an increase in the number of people who are estimated to have purchased subsidized coverage through the marketplaces (on average, 9 million in calendar year 2016, compared with 8 million in calendar year 2015) and an increase in premiums for such coverage.

Social Security. CBO estimates that outlays for Social Security benefits will climb by $28 billion, or 3 percent, this year. That percentage increase is about a percentage point below the rate of growth in 2015, primarily because there was no cost-of-living adjustment for beneficiaries in January 2016.

Spectrum Auctions. Net receipts from the 2015 auction of licenses to use a portion of the electromagnetic spectrum will total $9 billion in 2016; that auction brought in $30 billion in 2015. Those lower receipts have the effect of boosting outlays in 2016 by $21 billion relative to the total in the previous year.

Higher Education. Although mandatory outlays for higher education totaled $22 billion in 2015, they are expected to be just $5 billion this year. Those outlays include subsidy costs for federal student loans issued in the current year, revisions to the subsidy costs for loans made in previous years, and mandatory spending for the Federal Pell Grant Program. This year, the Department of Education has recorded a revision to the subsidy costs for past loans that resulted in a $7 billion increase in outlays; the 2015 revision was larger, increasing outlays by $18 billion.

That difference accounted for most of the drop in mandatory outlays for higher education this year.[8] In addition, CBO estimates that mandatory outlays for Pell grants will fall by $4 billion in 2016.[9]

Discretionary Spending. CBO anticipates that outlays from annual appropriations will total nearly $1.2 trillion in 2016—$13 billion more than last year (see Table 1-3 on page 18). Although defense outlays will fall slightly (their fifth consecutive year of decline), nondefense discretionary outlays will increase for the third consecutive year, more than offsetting the decline in defense spending.

Defense outlays, which amounted to $583 billion in 2015, will fall by $4 billion, to $579 billion, according to CBO's calculations. If not for the shift in the payment date for military pay, outlays would total $575 billion, a decline of about 1 percent. Most of that change will result from a reduction in spending designated for overseas contingency operations (war-related activities, primarily in Afghanistan). Such spending will decrease by roughly $5 billion this year, CBO estimates. All told, defense outlays in 2016 are expected to be 18 percent less (in nominal dollars) than they were at their peak in 2011; roughly 70 percent of that decline will stem from lower spending for military operations in Afghanistan and Iraq.

CBO expects that nondefense discretionary outlays will increase by $18 billion (or 3 percent) in 2016, to $602 billion. A lower negative subsidy rate for mortgage guarantees by the Federal Housing Administration accounts for $5 billion of that increase in outlays.[10] Because such receipts are recorded as reductions in discretionary outlays, the decline in receipts will cause overall spending for nondefense programs to rise. In addition, discretionary outlays for Pell grants will climb by $3 billion this year, CBO estimates.[11] The remaining growth in nondefense discretionary outlays is the result of a number of relatively small increases in spending for various programs. In total, nondefense outlays in 2016 will be about 9 percent less than their peak in 2010.

Net Interest. Outlays in this category consist of the government's interest payments on debt held by the public minus interest income the government receives. In 2016, such outlays will rise to $248 billion, from $223 billion last year, CBO estimates. The increase stems primarily from adjustments to the principal of inflation-protected securities.[12] (Those adjustments are made monthly to account for inflation and recorded as outlays for interest; they are based on the consumer price index for all urban consumers.) The continued accumulation of debt also contributes to the increase in outlays for net interest.

Revenues in 2016

On the basis of tax collections through July 2016, CBO expects federal revenues to total $3.3 trillion this fiscal year, $26 billion (or about 1 percent) more than in 2015. CBO anticipates that revenues will decline from 18.2 percent of GDP in 2015 to 17.8 percent in 2016, closer to the 17.4 percent average over the past 50 years.

Individual Income Taxes. CBO estimates that collections of individual income taxes will increase by $13 billion (or about 1 percent) in 2016. Specifically, CBO expects that taxes withheld from paychecks will rise by $30 billion (or 2 percent), most likely because of growth in wages and salaries. Offsetting that rise are higher refunds of $14 billion and lower nonwithheld payments of $3 billion. The sources of that $18 billion decrease in revenues will become clearer as tax return data become available over the next two years.

8. Under the Federal Credit Reform Act, a program's subsidy costs are calculated by subtracting the present value of the government's projected receipts from the present value of its projected payments. The estimated subsidy costs can be increased or decreased in subsequent years to reflect updated assessments of the payments and receipts associated with the program. Present value is a single number that expresses a flow of current and future income (or payments) in terms of an equivalent lump sum received (or paid) today. The present value depends on the rate of interest (the discount rate) that is used to translate future cash flows into current dollars.

9. Most of the Pell grant program is funded through discretionary appropriations; such outlays are anticipated to rise by $3 billion this year. All told, spending for Pell grants—including both mandatory and discretionary outlays—will dip by $1 billion in 2016, CBO estimates, primarily because of a drop in the number of students receiving such grants.

10. A negative subsidy indicates that, for budgetary purposes, the transactions are recorded as generating net income for the government.

11. However, mandatory spending for Pell grants will fall by $4 billion in 2016.

12. At the end of July, there were $1.2 trillion of Treasury inflation-protected securities outstanding.

Table 1-2.

Mandatory Outlays Projected in CBO's Baseline

Billions of Dollars

	Actual, 2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	Total 2017-2021	Total 2017-2026
Social Security														
Old-Age and Survivors Insurance	738	766	799	849	906	967	1,030	1,097	1,167	1,240	1,317	1,397	4,552	10,769
Disability Insurance	144	144	145	150	155	161	169	177	185	194	202	212	781	1,752
Subtotal	882	910	944	999	1,061	1,128	1,199	1,274	1,352	1,434	1,520	1,609	5,333	12,521
Major Health Care Programs														
Medicare[a]	634	696	708	716	790	848	910	1,017	1,048	1,076	1,194	1,289	3,972	9,596
Medicaid	350	365	393	415	437	459	483	508	534	562	591	621	2,186	5,001
Health insurance subsidies and related spending[b]	38	43	54	67	76	81	86	89	93	97	100	103	365	847
Children's Health Insurance Program	9	14	14	12	6	6	6	6	6	6	6	6	43	71
Subtotal[a]	1,031	1,118	1,169	1,210	1,309	1,394	1,484	1,619	1,681	1,740	1,890	2,019	6,565	15,515
Income Security Programs														
Earned income, child, and other tax credits[c]	85	84	86	87	89	89	89	91	93	96	98	100	440	918
Supplemental Nutrition Assistance Program	76	74	71	70	70	69	69	69	69	69	70	71	349	697
Supplemental Security Income	55	59	56	53	59	61	62	69	66	63	70	72	290	629
Unemployment compensation	32	34	32	34	38	43	45	47	49	51	53	56	193	448
Family support and foster care[d]	31	31	32	32	33	33	33	34	34	35	35	35	164	337
Child nutrition	22	23	24	25	26	27	28	29	30	32	33	34	129	287
Subtotal	300	304	300	301	314	321	327	339	342	345	359	368	1,564	3,317
Federal Civilian and Military Retirement														
Civilian[e]	97	98	100	104	107	110	114	118	122	126	130	134	535	1,165
Military	57	62	58	55	61	63	64	71	68	64	72	73	301	650
Other	7	4	5	5	5	5	6	7	8	9	5	11	27	66
Subtotal	161	164	164	164	173	179	185	196	197	199	206	219	864	1,881
Veterans' Programs														
Income security[f]	76	89	87	84	95	98	102	114	110	104	117	121	466	1,032
Other[g]	16	20	21	18	17	18	18	20	21	21	23	24	92	201
Subtotal	92	109	108	102	112	116	120	134	130	125	140	145	558	1,233
Other Programs														
Agriculture	13	14	19	19	16	15	15	15	15	15	15	15	84	160
Deposit Insurance	-13	-12	-11	-13	-10	-11	-11	-11	-12	-13	-14	-15	-56	-121
MERHCF	10	10	10	11	11	12	13	13	14	14	15	16	57	130
Fannie Mae and Freddie Mac[h]	0	0	3	2	1	1	*	1	1	1	1	2	7	12
Higher education	22	5	-7	-4	-2	*	1	1	1	1	1	*	-13	-9
Other	56	51	73	75	73	72	69	67	67	66	65	69	362	695
Subtotal	88	67	86	90	89	89	87	86	85	84	84	87	441	867

Continued

Payroll Taxes. CBO expects that receipts from payroll taxes—which primarily fund Social Security and Medicare's Hospital Insurance program—will increase by $49 billion (or about 5 percent) this year, largely from increases in withheld taxes for Social Security and Medicare that stem from rising wages and salaries. The expected increase in withheld payroll taxes exceeds that for withheld individual income taxes; however, the amounts currently recorded for those two sources are allocations of total withholding made on the basis of estimates by the Department of the Treasury. When actual tax return data for 2016 become available, the department may reallocate the 2016 receipts from those two sources by adjusting the amounts recorded for 2017 (or some subsequent year). Taken together, receipts from withheld individual income and payroll taxes are expected to rise by 4 percent in 2016.

Table 1-2. Continued

Mandatory Outlays Projected in CBO's Baseline

Billions of Dollars

	Actual, 2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	Total 2017-2021	Total 2017-2026
Offsetting Receipts														
Medicare[i]	-94	-104	-115	-124	-131	-142	-151	-164	-173	-182	-198	-215	-662	-1,595
Federal share of federal employees' retirement														
Social Security	-16	-16	-17	-17	-18	-19	-19	-20	-20	-21	-22	-22	-90	-195
Military retirement	-20	-19	-18	-18	-18	-18	-19	-19	-20	-20	-20	-21	-91	-191
Civil service retirement and other	-32	-34	-34	-35	-36	-37	-38	-39	-41	-42	-43	-44	-181	-390
Subtotal	-68	-69	-69	-70	-72	-74	-76	-78	-80	-83	-85	-87	-362	-775
Fannie Mae and Freddie Mac[h]	-23	-14	0	0	0	0	0	0	0	0	0	0	0	0
Receipts related to natural resources	-11	-8	-9	-12	-12	-12	-12	-12	-13	-14	-14	-15	-57	-125
MERHCF	-7	-7	-7	-8	-8	-9	-9	-10	-10	-11	-11	-12	-41	-94
Other	-55	-33	-34	-38	-38	-30	-30	-31	-32	-33	-40	-25	-169	-330
Subtotal	-258	-235	-234	-251	-261	-266	-279	-296	-308	-323	-347	-353	-1,292	-2,918
Total Mandatory Outlays	**2,297**	**2,437**	**2,538**	**2,614**	**2,798**	**2,961**	**3,123**	**3,353**	**3,479**	**3,604**	**3,851**	**4,095**	**14,033**	**32,415**
Memorandum:														
Mandatory Spending Excluding the Effects of Offsetting Receipts	2,555	2,672	2,772	2,865	3,059	3,227	3,402	3,648	3,787	3,927	4,198	4,448	15,325	35,333
Spending for Medicare Net of Offsetting Receipts	540	592	593	592	659	707	759	852	875	894	996	1,074	3,310	8,001
Spending for Major Health Care Programs Net of Offsetting Receipts[j]	937	1,013	1,054	1,086	1,178	1,252	1,332	1,455	1,508	1,558	1,692	1,805	5,903	13,921

Source: Congressional Budget Office.

Data on spending for benefit programs in this table generally exclude administrative costs, which are discretionary.

MERHCF = The Department of Defense's Medicare-Eligible Retiree Health Care Fund (including TRICARE for Life); * = between -$500 million and $500 million.

a. Gross spending, excluding the effects of Medicare premiums and other offsetting receipts. (Net Medicare spending is included in the memorandum section of the table.)

b. Spending to subsidize health insurance purchased in the marketplaces established by the Affordable Care Act and provided through the Basic Health Program and spending to stabilize premiums for health insurance purchased by individuals and small employers.

c. Includes outlays for the American Opportunity Tax Credit and other credits.

d. Includes the Temporary Assistance for Needy Families program, the Child Support Enforcement program, the Child Care Entitlement program, and other programs that benefit children.

e. Includes benefits for retirement programs in the civil service, foreign service, and Coast Guard; benefits for smaller retirement programs; and annuitants' health care benefits.

f. Includes veterans' compensation, pensions, and life insurance programs.

g. Primarily education subsidies; the costs of veterans' health care are classified as discretionary spending and thus are not shown in this table.

h. The cash payments from Fannie Mae and Freddie Mac to the U.S. Treasury are recorded as offsetting receipts in 2015 and 2016. Beginning in 2017, CBO's estimates reflect the net lifetime costs—that is, the subsidy costs adjusted for market risk—of the guarantees that those entities will issue and of the loans that they will hold. CBO counts those costs as federal outlays in the year of issuance.

i. Includes premium payments, recoveries of overpayments made to providers, and amounts paid by states from savings on Medicaid's prescription drug costs.

j. Consists of spending on Medicare (net of premiums and other offsetting receipts), Medicaid, and the Children's Health Insurance Program, as well as outlays to subsidize health insurance purchased through the marketplaces established under the Affordable Care Act and related spending.

Table 1-3.

Discretionary Spending Projected in CBO's Baseline

Billions of Dollars

	Actual, 2015[a]	2016[a]	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	Total 2017-2021	Total 2017-2026
Budget Authority														
Defense	586	607	611	610	624	639	655	671	687	704	721	739	3,139	6,661
Nondefense	530	560	543	540	554	568	581	595	610	625	641	657	2,787	5,916
Total	**1,116**	**1,167**	**1,154**	**1,150**	**1,178**	**1,208**	**1,236**	**1,266**	**1,297**	**1,329**	**1,362**	**1,396**	**5,926**	**12,577**
Outlays														
Defense	583	579	592	593	609	623	637	657	668	680	701	719	3,055	6,480
Nondefense	585	602	615	612	614	625	637	649	663	678	694	710	3,102	6,497
Total	**1,168**	**1,181**	**1,207**	**1,205**	**1,223**	**1,248**	**1,275**	**1,306**	**1,332**	**1,358**	**1,396**	**1,428**	**6,157**	**12,977**
Memorandum:														
Caps in the Budget Control Act (As Amended), Including Automatic Reductions to the Caps														
Defense	521	548	551	549	562	576	590	n.a.	n.a.	n.a.	n.a.	n.a.	2,828	n.a.
Nondefense	492	518	519	515	529	542	555	n.a.	n.a.	n.a.	n.a.	n.a.	2,660	n.a.
Total	1,014	1,067	1,070	1,064	1,091	1,118	1,145	n.a.	n.a.	n.a.	n.a.	n.a.	5,489	n.a.
Adjustments to the Caps[b]														
Defense	65	59	60	61	62	63	65	n.a.	n.a.	n.a.	n.a.	n.a.	311	n.a.
Nondefense	23	24	25	25	25	26	26	n.a.	n.a.	n.a.	n.a.	n.a.	127	n.a.
Total	87	83	85	86	87	89	91	n.a.	n.a.	n.a.	n.a.	n.a.	437	n.a.

Source: Congressional Budget Office.

CBO's baseline projections incorporate the assumption that the caps on discretionary budget authority and the automatic enforcement procedures specified in the Budget Control Act of 2011 (as amended) remain in effect through 2021.

Nondefense discretionary outlays are usually higher than budget authority because of spending from the Highway Trust Fund and the Airport and Airway Trust Fund that is subject to obligation limitations set in appropriation acts. The budget authority for such programs is provided in authorizing legislation and is not considered discretionary.

n.a. = not applicable.

a. The amount of budget authority for 2015 and 2016 in CBO's baseline does not match the sum of the spending caps plus adjustments to the caps mostly because changes to mandatory programs included in the appropriation acts for those years were credited against the caps. In CBO's baseline, those changes (which reduced mandatory budget authority) appear in their normal mandatory accounts.

b. Funding for overseas contingency operations, emergencies, disaster relief, and certain program integrity initiatives (which identify and reduce overpayments in some benefit programs) is generally not constrained by the statutory caps established by the Budget Control Act.

Corporate Income Taxes. Income tax payments by corporations, net of refunds, are expected to decrease by $44 billion (or 13 percent) in 2016. Such payments declined in most of the first 10 months of the fiscal year, compared with the same period a year ago, and that trend is expected to continue in September, when a significant amount of estimated payments are due. At least some of the decline in receipts probably stems from the enactment in December 2015 of the Consolidated Appropriations Act, 2016 (Public Law 114-113), which extended—retroactively and prospectively—tax rules that allow businesses with large amounts of investment to accelerate their deductions for those investments. Since that law's enactment, businesses know that those tax rules will be in effect for all of 2016; as a result, many are making smaller payments of estimated taxes in 2016 than they made in 2015, when the rules had temporarily expired.

However, the drop in 2016 is greater than can be explained by currently available data on business activity.

The specific reasons will become clearer as detailed information from corporate income tax returns about taxable profits becomes available over the next two years. The decrease may in part reflect taxable profits in 2015 and 2016 that are smaller than would be expected given other economic indicators.

Other Revenues. CBO expects that other revenues will increase, on net, by $9 billion (or 3 percent) in 2016. Most of that increase stems from remittances by the Federal Reserve, which are expected to increase by $19 billion (or 19 percent), largely because the Fixing America's Surface Transportation Act (P.L. 114-94) required the Federal Reserve to remit most of its surplus account to the Treasury. The central bank remitted that additional amount ($19 billion) in late December.[13] All other receipts, which had been boosted in 2015 by unusually large civil monetary penalties paid by financial institutions, are expected to decrease by $10 billion, on net.

CBO's Baseline Budget Projections for 2017 Through 2026

CBO's baseline projections are not a forecast of future outcomes. They are constructed in accordance with provisions of the Congressional Budget and Impoundment Control Act of 1974 and the Balanced Budget and Emergency Deficit Control Act of 1985. As those laws specify, CBO constructs its baseline projections under the assumption that current laws governing taxes and spending will generally remain unchanged; the projections can therefore serve as a benchmark for measuring potential changes in law.

Under that assumption, CBO projects, the budget deficit would fall over the next two years—from 3.2 percent of GDP in 2016 to 3.1 percent in 2017 and to 2.6 percent in 2018. That pattern of declining deficits over the next two years is mostly attributable to shifts in the timing of certain payments; without those shifts, the deficit would total 3.0 percent of GDP in 2016 and 3.1 percent in 2017, before dipping to 2.8 percent in 2018.[14] Beginning in 2019, deficits would be on an upward trend, reaching 4.6 percent of GDP by the end of the projection period. That deficit in 2026 would be 1.4 percentage points larger (or 1.6 percentage points larger, adjusted for the shift in timing) than the shortfall in 2016. Specifically:

- Outlays for Social Security and the major health care programs would be higher by 2.2 percent of GDP (or 2.3 percent, adjusted for the shift in timing).
- Net interest costs would be greater by 1.3 percent of GDP.
- Other spending would be lower by 1.4 percent of GDP (or 1.3 percent, adjusted for the shift in timing).
- Revenues would be higher by 0.6 percent of GDP.

As a result of the growing deficits, debt held by the public increases in CBO's baseline, climbing from 77 percent of GDP in 2016 to 86 percent in 2026.

Even if federal laws did not change over the next decade, however, actual budgetary outcomes almost certainly would differ from CBO's baseline projections, perhaps significantly, because of unanticipated changes in economic conditions and other factors that affect federal spending and revenues. CBO's projections of outlays and revenues depend on the agency's economic projections for the coming decade—including forecasts for such variables as interest rates, inflation, and GDP—as well as myriad technical factors. Discrepancies between those economic and technical projections and actual outcomes can result in significant deviations from baseline projections of revenues and outlays. For example, if interest rates were 1 percentage point higher each year from 2017 through 2026 and if all other economic variables were unchanged, cumulative deficits projected for the 10-year period would be about $1.6 trillion higher, mostly as a result of larger interest payments on Treasury debt.[15]

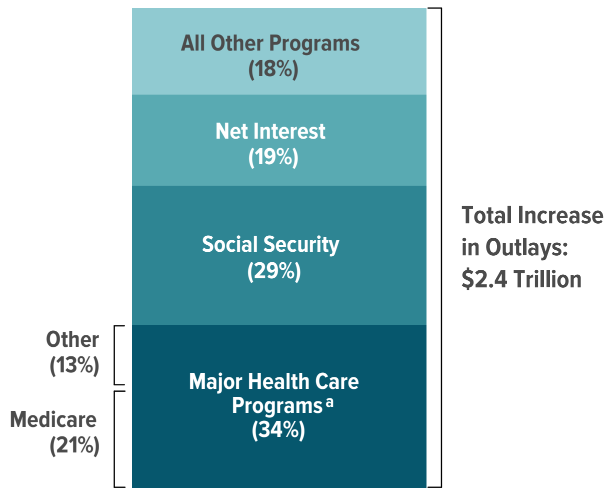
13. Such transfers have no practical effect on the government's fiscal condition because the Federal Reserve would have remitted its earnings on such funds to the Treasury anyway; whether those amounts are held by the Treasury or by the Federal Reserve has no economic significance. See Congressional Budget Office, letter to the Honorable Tom Price concerning a revision to the CBO cost estimate for the Surface Transportation Reauthorization and Reform Act of 2015 transmitted on November 17, 2015 (November 19, 2015), pp. 3–4, www.cbo.gov/publication/51015.

14. The drop in 2018 results from several factors, including the following: Receipts from individual income taxes rise faster than GDP; a tax on health insurers is scheduled to be reinstated; and caps on budget authority for discretionary programs are scheduled to be lower in that year than in 2017.

15. For further discussion, see Congressional Budget Office, *The Budget and Economic Outlook: 2016 to 2026* (January 2016), Appendix B, www.cbo.gov/publication/51129.

Figure 1-3.

Components of the Total Increase in Outlays in CBO's Baseline Between 2016 and 2026



Source: Congressional Budget Office.

Because October 1, 2016, falls on a weekend, certain payments that are due on that day will instead be made at the end of September, thus shifting into fiscal year 2016. The data shown here are adjusted for the effects of those shifts.

a. Consists of spending on Medicare (net of premiums and other offsetting receipts), Medicaid, and the Children's Health Insurance Program, as well as outlays to subsidize health insurance purchased through the marketplaces established under the Affordable Care Act and related spending.

Outlays From 2017 Through 2026

Under current law, total outlays are projected to hover around 21 percent of GDP through 2019, rise to 22 percent the following year, and then remain at that level for several years before reaching 23 percent at the end of the projection period. In nominal terms, outlays would grow, on net, by $2.4 trillion between 2016 and 2026, CBO estimates—an average annual increase of 5 percent. Three major components of the budget—the major health care programs, Social Security, and net interest—account for 82 percent of the total increase in outlays (see Figure 1-3). That percentage reflects adjustments to eliminate the effects of shifts in the timing of certain payments.

Mandatory Spending. CBO's projections for mandatory programs reflect the estimated effects of economic factors, caseload growth, and other influences that affect the cost of those programs. The projections also incorporate a set of across-the-board reductions (known as sequestration) that are required under current law for spending on certain mandatory programs.

Mandatory spending (net of offsetting receipts, which are recorded as reductions in outlays) is projected to increase from $2.4 trillion in 2016 to $4.1 trillion in 2026, an average yearly increase of 5.5 percent. That spending is projected to equal 13.3 percent of GDP in 2017 and 2018 (adjusted for timing shifts) and then to rise each year through the end of the projection period, reaching 15.2 percent of GDP in 2026. By comparison, the highest percentage for mandatory spending in any year since 1962 (the earliest year for which such data have been reported) was 14.5 percent in 2009, the only year such outlays have exceeded 14.0 percent of GDP.

Social Security and the Major Health Care Programs. Outlays for Social Security and the major health care programs—particularly Medicare—drive much of the growth in mandatory spending. CBO estimates that spending for those programs, net of offsetting receipts, will grow at an average annual rate of 6.0 percent over the next 10 years and will increase from 10.4 percent of GDP in 2016 to 12.6 percent in 2026. (That percentage in 2016 and the following discussion reflect adjustments to eliminate the effects of shifts in the timing of certain payments.) Specifically, in CBO's current baseline:

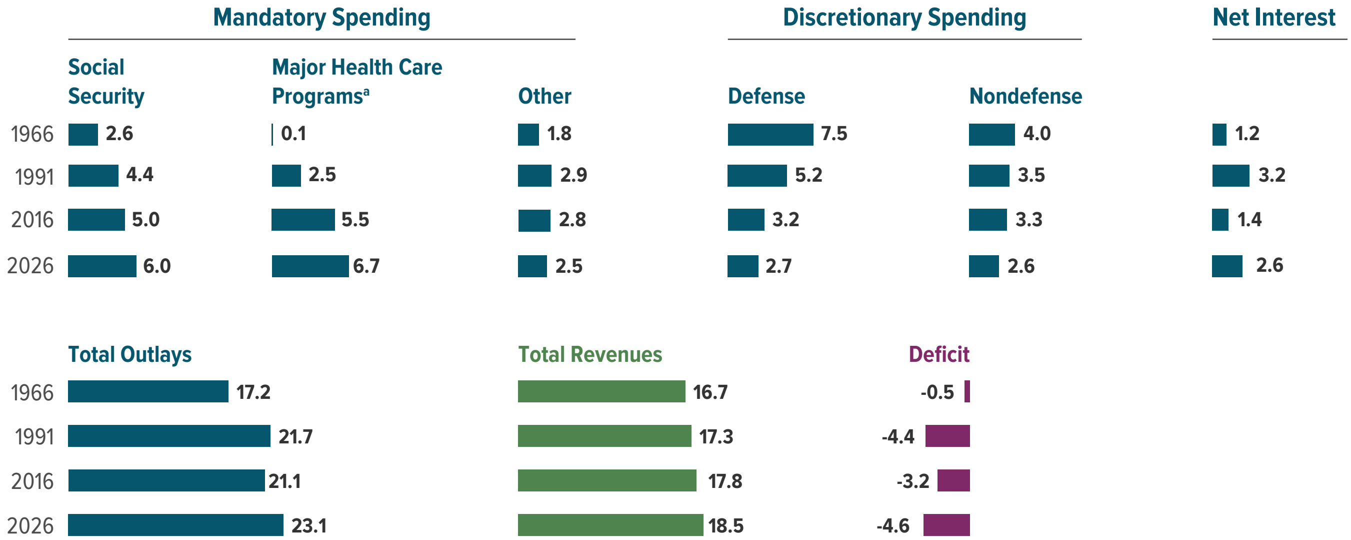
- Outlays for Social Security total 4.9 percent of GDP in 2017 and then rise steadily thereafter, reaching 6.0 percent of GDP in 2026 (see Figure 1-4).
- Outlays for Medicare remain at 3.1 percent of GDP through 2018 and then increase each year through 2026, when they total 4.0 percent.
- Federal outlays for Medicaid are stable relative to GDP for the next 10 years, totaling about 2 percent in each year.
- Spending on subsidies for health insurance purchased through marketplaces, along with related spending, is also stable relative to GDP over the projection period, totaling 0.4 percent in most years through 2026.

Most of the growth in spending for those programs (particularly Social Security and Medicare) results from the aging of the population. The number of people age 65 or older is now more than twice what it was 50 years ago. Over the next decade, as members of the baby-boom generation age and as life expectancy continues to increase, that number is expected to rise by more than one-third, boosting the number of beneficiaries of those

Figure 1-4.

Spending and Revenues Projected in CBO's Baseline, Compared With Actual Values in 1966 and 1991

Percentage of Gross Domestic Product



Source: Congressional Budget Office.

a. Consists of spending on Medicare (net of premiums and other offsetting receipts), Medicaid, and the Children's Health Insurance Program, as well as outlays to subsidize health insurance purchased through the marketplaces established under the Affordable Care Act and related spending.

programs (see Figure 1-5). As a result, projected spending for people age 65 or older in three large programs—Social Security, Medicare, and Medicaid—increases from roughly one-third of all federal noninterest spending in 2016 to about 40 percent in 2026.

Growth in health care spending per enrollee also contributes to the increase in mandatory spending (and in federal spending as a whole). Although health care spending grew more slowly in the past several years than it has historically, CBO projects that spending per enrollee in federal health care programs will grow more rapidly over the coming decade than it has in recent years.

The government also collects taxes dedicated to Social Security and Medicare; however, outlays (net of premiums and other offsetting receipts) for those two programs exceed those revenues. On net, the contribution of those two programs to the federal deficit would rise from 2.0 percent of GDP in 2017 to an average of 3.5 percent over the 2022–2026 period (see Table 1-4).

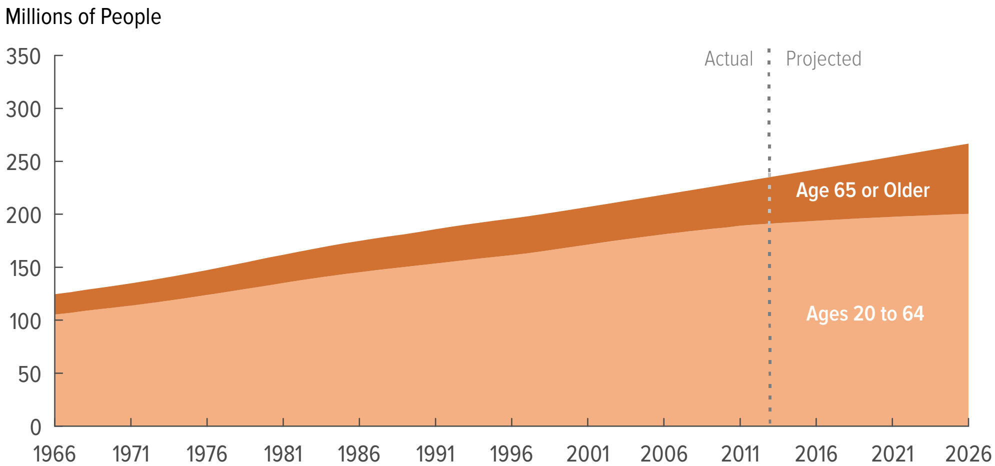
Other Mandatory Programs. Aside from spending on Social Security and the major health care programs, all other mandatory spending is projected to decline as a share of GDP, falling from 2.8 percent in 2017 to 2.5 percent in 2026. That category includes spending on income support programs (such as unemployment compensation and the Supplemental Nutrition Assistance Program), military and civilian retirement programs, most veterans' benefits, and major agriculture programs. That projected decline occurs in part because benefit levels for many of those programs are adjusted for inflation each year, and inflation in CBO's economic forecast is estimated to be well below the rate of growth in nominal GDP.

Discretionary Spending. An array of federal activities is funded or controlled through annual appropriations. Such discretionary spending includes most defense spending as well as outlays for highway programs, elementary and secondary education, housing assistance, international affairs, and the administration of justice, for example. In total, discretionary spending is projected to increase from $1.2 trillion in 2016 to $1.4 trillion in 2026, which would be an average yearly increase of 2 percent. Measured as a share of GDP, however, discretionary outlays are projected to drop from 6.4 percent in 2016 to 5.3 percent in 2026, which would be the smallest percentage in any year since 1962 (the earliest year for which such data have been reported); by comparison, over the past 50 years, discretionary outlays have averaged 8.7 percent of GDP.

Through 2021, CBO's baseline incorporates the caps on budget authority for discretionary programs established

Figure 1-5.

Population, by Age Group



The number of people age 65 or older in the United States—now more than twice what it was 50 years ago—is expected to grow by more than a third over the next 10 years. Thus, enrollment in Social Security's Old-Age and Survivors Insurance program and Medicare will continue to rise in the future.

Source: Congressional Budget Office.

This figure shows actual data through calendar year 2013, the most recent year for which such data are available.

by the Budget Control Act of 2011; in later years, the baseline reflects the assumption that such funding keeps pace with inflation.[16] Some elements of discretionary funding are not constrained by the caps—the appropriations designated for overseas contingency operations, activities designated as emergency requirements, disaster relief (up to certain limits), and certain efforts to reduce overpayments in benefit programs. For those elements, funding is assumed to grow with inflation from the amounts provided in 2016.[17]

For 2017, the cap on discretionary budget authority for defense programs is $3 billion higher than for 2016, and the cap for nondefense programs is largely unchanged. However, the year-to-year changes projected in the baseline are different:

- Discretionary budget authority for nondefense programs declines by $17 billion in 2017 primarily because, for 2016, some reductions in mandatory budget authority were included in appropriation legislation to help keep funding within limits set by the caps. (When such reductions in mandatory programs are included in appropriation acts, the savings are credited against the discretionary funding provided in those acts.) CBO's baseline for discretionary programs for 2017 does not include such changes to mandatory programs (because no such changes have been enacted for 2017), so adhering to the caps would require providing less discretionary budget authority in that year than in 2016 (unless similar changes to mandatory programs are legislated again in the appropriation process).

- Budget authority for defense programs is $4 billion greater in 2017 than in 2016 because the cap is slightly higher and because funding for overseas contingency operations is assumed to grow from this year's amount at the rate of inflation.

In 2018, CBO estimates, the caps will decline by a total of $5 billion (or about 0.5 percent) relative to 2017 amounts.[18] (That estimate incorporates the automatic reductions required by law and excludes adjustments for overseas contingency operations and other activities not constrained by the caps.)

16. Budget authority is the authority provided by law to incur financial obligations that will result in immediate or future outlays of federal government funds.

17. Spending for certain transportation programs is controlled by obligation limitations, which also are not constrained by the caps on discretionary spending.

18. The Bipartisan Budget Act of 2015 canceled the automatic reductions in discretionary spending for 2017 imposed by the Budget Control Act and set new caps for that year that are, in total, $30 billion above what the limits would have been if the automatic spending reductions had occurred. (That law also made changes to the caps for 2016.) No adjustments have been made to the caps and automatic reductions in place for 2018 through 2021.

Table 1-4.

Key Projections in CBO's Baseline

Percentage of Gross Domestic Product

	2016	2017	Projected Annual Average 2018–2021	Projected Annual Average 2022–2026
Revenues				
Individual income taxes	8.5	8.7	9.1	9.6
Payroll taxes	6.1	6.0	5.9	5.9
Corporate income taxes	1.6	1.7	1.7	1.6
Other	1.7	1.5	1.4	1.3
Total Revenues	17.8	17.9	18.2	18.3
Outlays				
Mandatory				
Social Security	5.0	4.9	5.2	5.7
Major health care programs[a]	5.5	5.5	5.8	6.4
Other	2.8	2.8	2.7	2.5
Subtotal	13.3	13.3	13.7	14.7
Discretionary	6.4	6.3	5.9	5.5
Net interest	1.4	1.4	1.8	2.4
Total Outlays	21.1	21.0	21.4	22.6
Deficit	-3.2	-3.1	-3.2	-4.2
Debt Held by the Public at the End of the Period	76.6	77.2	79.3	85.5
Memorandum:				
Social Security				
Revenues[b]	4.6	4.6	4.5	4.5
Outlays[c]	5.0	4.9	5.2	5.7
Contribution to the Federal Deficit[d]	-0.4	-0.4	-0.7	-1.3
Medicare				
Revenues[b]	1.5	1.5	1.5	1.5
Outlays[c]	3.8	3.7	3.9	4.5
Offsetting receipts	-0.6	-0.6	-0.7	-0.7
Contribution to the Federal Deficit[d]	-1.8	-1.6	-1.7	-2.2

Source: Congressional Budget Office.

This table satisfies a requirement specified in section 3111 of S. Con. Res. 11, the Concurrent Resolution on the Budget for Fiscal Year 2016.

a. Consists of spending on Medicare (net of premiums and other offsetting receipts), Medicaid, and the Children's Health Insurance Program, as well as outlays to subsidize health insurance purchased through the marketplaces established under the Affordable Care Act and related spending.

b. Includes payroll taxes other than those paid by the federal government (which are intergovernmental transactions). Also includes income taxes paid on Social Security benefits, which are credited to the trust funds.

c. Does not include outlays related to administration of the program, which are discretionary. For Social Security, outlays do not include intergovernmental offsetting receipts stemming from payroll taxes paid by federal government employers to the Social Security trust funds.

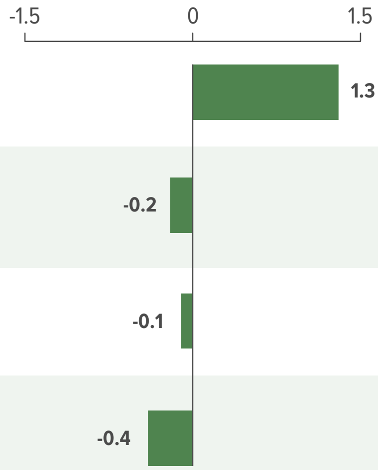
d. The net increase in the deficit shown in this table differs from the changes in the trust fund balance for the associated programs. It does not include intergovernmental transactions, interest earned on balances, and outlays related to administration of the programs.

Discretionary budget authority after 2018 would rise by about 2 percent a year, on average, reflecting the rate of increase in the caps prescribed in the Budget Control Act and under the assumption that such budget authority grows with inflation after the caps expire in 2021. Under those assumptions, total discretionary outlays in CBO's baseline (adjusted for the shifts in the timing of certain payments) grow by 2.5 percent in 2017 and by 0.2 percent in 2018 and then keep pace with the projected 2 percent annual increase in budget authority.

Figure 1-6.

Major Changes in Projected Revenues From 2016 to 2026

	Revenues as a Percentage of GDP 2016	Revenues as a Percentage of GDP 2026	Percentage-Point Change	Major Reasons for Change
Individual Income Taxes	8.5	9.8	1.3	• Real bracket creep[a] • Increased distributions from retirement accounts, relative to GDP • Rising income inequality
Payroll Taxes	6.1	5.8	-0.2	Rising income inequality
Corporate Income Taxes	1.6	1.6	-0.1	Net effect of four different changes
Federal Reserve Remittances	0.6	0.3	-0.4	Return to historical averages



Source: Congressional Budget Office.

GDP = gross domestic product.

a. Real bracket creep occurs when more income is pushed into higher tax brackets because people's income is rising faster than inflation.

Net Interest. Rising interest rates and growing federal debt are projected to boost outlays for net interest significantly. In the baseline, they nearly triple, rising from $248 billion (or 1.4 percent of GDP) in 2016 to $712 billion (or 2.6 percent of GDP) in 2026—which would be the largest ratio since 1998.

Nearly all of the projected increase in the government's borrowing costs is attributable to rising interest rates. During the coming decade, economic conditions are expected to improve, and the Federal Reserve is expected to gradually reduce support for economic growth. As a result, CBO anticipates that interest rates on Treasury securities will rise noticeably over the next several years from their current, unusually low, levels. CBO estimates that the interest rate on 3-month Treasury bills will rise from 0.4 percent in the last quarter of 2016 to 2.8 percent by the end of 2020 and will remain there through 2026. The rate on 10-year Treasury notes is projected to rise from 1.9 percent at the end of 2016 to 3.6 percent at the end of 2021 and to remain there through 2026. (For further discussion, see Chapter 2.) The remainder of the increase in net interest costs occurs mainly because of interest payments on the greater amount of debt held by the public that would accrue over the next decade as a result of the projected deficits.

Revenues From 2017 Through 2026

In CBO's baseline, total revenues rise from 17.8 percent of GDP this year to 18.5 percent in 2026. That growth mainly reflects an increase in revenues relative to GDP from individual income taxes that is partially offset by decreases in remittances from the Federal Reserve and, to a lesser extent, by decreases in payroll tax receipts relative to GDP (see Figure 1-6). The largest movements over the next decade in sources of revenues are the following:

- Individual income tax receipts are projected to increase relative to GDP in each year from 2017 to 2026 because of real bracket creep (the process in which, as real income rises, an ever-larger proportion becomes subject to higher tax rates), rising distributions from tax-deferred retirement accounts, an expected increase in the share of wages and salaries earned by higher-income taxpayers, and other factors.

- Remittances to the Treasury from the Federal Reserve—which have been very large since 2010 because of changes in the size and composition of the central bank's portfolio—decline to more typical levels.

- Payroll tax receipts are projected to decrease slightly relative to GDP over the next decade, primarily as a result of an expected continued increase in the share of wages earned by higher-income taxpayers; that increase will cause a greater share of wages to be above the maximum amount subject to Social Security payroll taxes. (That amount, which is indexed to growth in average earnings for all workers, is $118,500 in calendar year 2016.) The resulting reduction in payroll taxes offsets about three-fifths of the expected increase in individual income tax receipts that is projected to occur for the same reason.

- Corporate income tax receipts are estimated to remain relatively stable relative to GDP over the next decade—rising slightly through 2020 and then declining slightly through 2026.

All told, CBO estimates, under current law revenues would grow over the projection period by $1.7 trillion—an average annual increase of 4.3 percent. That rate is slower than the 5.0 percent rate of increase CBO projects for outlays (after adjusting for the timing of certain payments).

Individual Income Taxes. If current laws remain generally unchanged, receipts from individual income taxes are expected to rise markedly relative to GDP over the next 10 years—from 8.5 percent in 2016 to 9.8 percent by 2026, which would be a greater share of GDP than has been recorded in all but one of the past 50 years. That increase relative to the size of the economy would result mainly from the aforementioned factors.

Real Bracket Creep. The most significant factor pushing up taxes relative to income is real bracket creep. That phenomenon occurs because the income tax brackets and exemptions under both the regular income tax and the alternative minimum tax are indexed only to inflation.[19] If income grows faster than inflation, as generally occurs when the economy is growing, more income is pushed into higher tax brackets. That factor causes projected revenues measured as a percentage of GDP to rise in CBO's baseline by 0.4 percentage points from 2016 to 2026.

19. The alternative minimum tax is similar to the regular income tax but its calculation 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.

Retirement Income. As the population ages, taxable distributions from tax-deferred retirement accounts (including individual retirement accounts, 401(k) plans, and traditional defined benefit pension plans) will tend to grow more rapidly than GDP. CBO expects the retirement of members of the baby-boom generation to cause a gradual increase in distributions from tax-deferred retirement accounts. Under current law, CBO projects, those growing taxable distributions would boost revenues relative to GDP by 0.3 percentage points over the next decade.

Relatively Faster Growth in Earnings of Higher-Income Taxpayers. In CBO's baseline projections, earnings from wages and salaries are expected to increase faster for higher-income people than for others during the next decade—as has been the case for the past several decades—causing a larger share of income to be subject to higher income tax rates. Over the next 10 years, CBO projects, faster growth in earnings for higher-income people would boost estimated individual income tax revenues relative to GDP by about 0.3 percentage points; that increase would be partially offset by a projected decrease in payroll tax receipts, as explained in the next section.

Other Factors. CBO anticipates that over the next decade, other factors would further boost individual income tax revenues by 0.3 percentage points, on net. The most significant of those remaining factors is the expectation that the unexplained weakness in recent receipts, which is beyond what can be accounted for in current economic data, would gradually dissipate over the next several years: Taxable income as a share of GDP and effective tax rates (total taxes as a percentage of total income) fluctuate from year to year but are expected to return to more historically typical levels, adjusted for the structure of tax law and longer-term trends in income and demographics.

Two other, smaller factors largely offset one another. The first factor is recently enacted legislation that extended a number of expiring tax provisions. That legislation reduced revenues by more in 2016 than in future years, boosting revenues in the 10-year projection period relative to the amount in 2016. The second factor is a projected decline in realizations of capital gains relative to the size of the economy to levels consistent with their historical average share of GDP (after accounting for differences in applicable tax rates).

Payroll Taxes. In CBO's baseline projections, receipts from payroll taxes gradually decline from 6.1 percent of GDP this year to 5.8 percent by 2026. The main reason for that decline is the expectation that wages and salaries will continue to grow faster for higher-earning taxpayers than for other taxpayers, which will push an increasing share of such earnings above the maximum amount per taxpayer that is subject to Social Security taxes.

Corporate Income Taxes. Under current law, CBO projects, corporate income tax receipts would rise from 1.6 percent of GDP in 2016 to 1.8 percent of GDP in 2020 and then gradually decline to 1.6 percent of GDP by 2026. That pattern over the next decade is the net effect of four main factors:

- A temporary increase in receipts between 2016 and 2020 resulting from a phaseout between 2018 and 2020 of provisions that allow firms with large amounts of investment in equipment (and certain other property) to immediately deduct from their taxable income 50 percent of the costs of those investments in 2016 and 2017.

- An increase in receipts over the next few years because the weakness in tax collections in 2016, beyond that which can be explained by currently available data on business activity, is not expected to persist permanently. CBO expects that the factors that are responsible, which will not become apparent until information from tax returns becomes available over the next two years, will gradually dissipate.

- A projected decline in domestic economic profits relative to GDP. That decline is expected to occur mainly because of an increase in the growth of labor compensation and rising interest payments on businesses' debt, and because CBO projects that nonlabor income will grow less rapidly than output (reversing a trend seen since 2000).

- An expected increase in the use of certain strategies that many corporations employ to reduce their tax liabilities. One such strategy is to shift business activity from entities subject to the corporate income tax into those subject to the individual income tax.[20] Another strategy is to increase the amount of corporate income that is shifted out of the United States through a combination of methods such as setting more aggressive transfer prices, increasing the use of intercompany loans, undertaking corporate inversions, and using other techniques.[21]

Receipts From Other Sources. The federal government also collects revenue in the form of excise taxes, estate and gift taxes, customs duties, remittances from the Federal Reserve, and miscellaneous fees and fines. CBO projects that, under current law, revenues from all of those sources would decline from 1.7 percent of GDP this year to 1.3 percent in 2026.

Most of that decline reflects projected remittances from the Federal Reserve, which will rise in 2016 as a result of recently enacted legislation and then fall as the central bank's interest expenses increase and the size and composition of its portfolio return to more typical conditions.[22] By 2026, CBO projects, remittances from the Federal Reserve will have fallen from 0.6 percent of GDP this year (the sixth consecutive year at roughly that percentage) to 0.3 percent of GDP, just above the average over the 2001–2009 period. In recent years, the central bank has significantly expanded and changed the composition of its asset holdings, boosting its earnings and subsequent remittances to the Treasury to far above typical amounts. CBO anticipates that the size and composition of the Federal Reserve's portfolio, along with its remittances to the Treasury, will gradually decline to amounts that are more typical.

Tax Expenditures. The tax rules that form the basis of CBO's projections include an array of exclusions, deductions, preferential rates, and credits that reduce

20. For a detailed analysis of the taxation of business income through the individual income tax, see Congressional Budget Office, *Taxing Businesses Through the Individual Income Tax* (December 2012), www.cbo.gov/publication/43750.

21. To allocate profits among U.S. and foreign affiliates, transactions between those affiliates must be assigned a price. The price that is set is known as the transfer price. By strategically setting transfer prices, a corporation can reduce the share of total profits that it reports on U.S. tax returns. A corporate inversion refers to a process through which a U.S. corporation changes its country of tax residence, often by merging with a foreign company. Inversions reduce U.S. corporate tax revenue both because the inverted U.S. corporation no longer must pay U.S. taxes on earnings in other countries and because a corporation can shift additional income out of the United States through the use of intercompany loans and the resulting interest expenses.

22. 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 in the federal budget.

Table 1-5.

Federal Debt Projected in CBO's Baseline

Billions of Dollars

	Actual, 2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Debt Held by the Public at the Beginning of the Year	12,780	13,117	14,073	14,743	15,325	16,001	16,758	17,597	18,584	19,608	20,649	21,824
Changes in Debt Held by the Public												
Deficit	438	590	594	520	625	714	806	954	988	1,000	1,128	1,243
Other means of financing	-102	366	76	63	51	43	34	33	36	41	46	52
Total	337	956	670	582	676	757	840	987	1,024	1,041	1,174	1,294
Debt Held by the Public at the End of the Year	**13,117**	**14,073**	**14,743**	**15,325**	**16,001**	**16,758**	**17,597**	**18,584**	**19,608**	**20,649**	**21,824**	**23,118**
Debt Held by the Public at the End of the Year (As a percentage of GDP)	**73.6**	**76.6**	**77.2**	**77.0**	**77.5**	**78.4**	**79.3**	**80.5**	**81.7**	**82.7**	**84.0**	**85.5**
Memorandum:												
Debt Held by the Public Minus Financial Assets[a]												
In billions of dollars	11,755	12,543	13,123	13,627	14,234	14,929	15,714	16,646	17,610	18,587	19,692	20,911
As a percentage of GDP	66.0	68.3	68.7	68.5	69.0	69.9	70.8	72.1	73.4	74.4	75.8	77.4
Gross Federal Debt[b]	18,120	19,383	20,162	20,868	21,601	22,368	23,191	24,134	25,095	26,053	27,075	28,207
Debt Subject to Limit[c]	18,113	19,376	20,154	20,860	21,592	22,360	23,183	24,126	25,085	26,043	27,064	28,197
Average Interest Rate on Debt Held by the Public (Percent)	1.9	2.0	2.1	2.2	2.4	2.7	2.8	3.0	3.1	3.2	3.3	3.3

Source: Congressional Budget Office.

GDP = gross domestic product.

a. Debt held by the public minus the value of outstanding student loans and other credit transactions, cash balances, and other financial instruments.

b. Federal debt held by the public plus Treasury securities held by federal trust funds and other government accounts.

c. The amount of federal debt that is subject to the overall limit set in law. Debt subject to limit differs from gross federal debt mainly because most debt issued by agencies other than the Treasury and the Federal Financing Bank is excluded from the debt limit. That limit was most recently set at $18.4 trillion but has been suspended through March 15, 2017. On March 16, 2017, the debt limit will be raised to its previous level plus the amount of federal borrowing that occurred while the limit was suspended.

revenues for any given level of tax rates in both the individual and corporate income tax systems. Some of those provisions are called tax expenditures because, like government spending programs, they provide financial assistance for particular activities as well as to certain entities or groups of people. The tax expenditures with the largest effects on revenues are the following:

- The exclusion from workers' taxable income of employers' contributions for health care, health insurance premiums, and premiums for long-term-care insurance;
- The exclusion of contributions to and the earnings of pension funds (minus pension benefits that are included in taxable income);
- Preferential tax rates on dividends and long-term capital gains;
- The deductions for state and local taxes (on non-business income, sales, real estate, and personal property); and
- The deferral for profits earned abroad, which certain corporations may exclude from their taxable income until those profits are returned to the United States.

Tax expenditures have a substantial effect on federal revenues. On the basis of estimates prepared by the staff of the Joint Committee on Taxation (JCT), which were published before the enactment of the Consolidated Appropriations Act, 2016, and do not include numerous changes made by that law that affect tax expenditures, CBO expects that those and other tax expenditures will total almost $1.5 trillion in 2016. That amount equals about 8 percent of GDP—more than 40 percent of the revenues projected for the year. CBO estimates that if the effects of the recently enacted legislation were incorporated into the estimates, the total magnitude of tax

Table 1-6.

Budgetary Effects of Selected Policy Alternatives Not Included in CBO's Baseline

Billions of Dollars

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	Total 2017-2021	Total 2017-2026
Policy Alternatives That Affect Discretionary Outlays													
Increase Discretionary Appropriations at the Rate of Inflation After 2016[a]													
Increase (-) in the deficit[b]	0	-23	-53	-66	-72	-77	-81	-83	-85	-88	-89	-292	-717
Debt service	0	*	-1	-2	-5	-7	-10	-13	-16	-20	-23	-15	-98
Freeze Discretionary Appropriations at the 2016 Amount[c]													
Increase (-) or decrease in the deficit[b]	0	-8	-16	-2	22	47	76	106	137	170	205	43	738
Debt service	0	*	*	*	*	1	3	6	10	15	21	*	54
Policy Alternative That Affects Both Discretionary and Mandatory Outlays													
Prevent the Automatic Spending Reductions Specified in the Budget Control Act[d]													
Increase (-) in the deficit[b]	n.a.	-3	-67	-88	-97	-100	-104	-107	-110	-121	-100	-355	-897
Debt service	n.a.	*	-1	-3	-5	-9	-13	-17	-21	-25	-30	-18	-122
Policy Alternatives That Affect the Tax Code[e]													
Extend Partial Expensing of Equipment and Property[f]													
At 50 percent rate													
Increase (-) in the deficit[b]	n.a.	n.a.	-9	-22	-50	-56	-38	-26	-19	-15	-10	-137	-245
Debt service	n.a.	n.a.	*	*	-2	-3	-5	-6	-7	-8	-9	-5	-40
At 30 percent rate													
Increase (-) in the deficit[b]	n.a.	n.a.	n.a.	n.a.	-29	-42	-27	-18	-13	-10	-7	-71	-145
Debt service	n.a.	n.a.	n.a.	n.a.	*	-2	-3	-3	-4	-5	-5	-2	-22
Extend Other Expiring Tax Provisions[g]													
Increase (-) in the deficit[b]	n.a.	-5	-12	-12	-14	-16	-17	-20	-23	-26	-29	-59	-173
Debt service	n.a.	*	*	*	-1	-1	-2	-3	-4	-4	-6	-3	-21

Continued

expenditures in 2016 would be significantly larger, but by no more than 1 percentage point of GDP. Most of that amount arises from the 10 largest tax expenditures, which CBO estimates would total about 6 percent of GDP both in 2016 and over the 2017–2026 period.[23]

Federal Debt From 2017 Through 2026

Taking into consideration deficits that are projected to total $8.6 trillion under current law and accounting for the government's other borrowing needs, CBO estimates that federal debt held by the public would rise from $14.1 trillion at the end of 2016 to $23.1 trillion at the end of 2026 (see Table 1-5). Federal debt would remain near 77 percent of GDP through the end of 2018, but it would rise steadily thereafter, reaching about 86 percent of GDP at the end of 2026, CBO estimates. That amount of debt relative to the size of the economy would be the greatest since 1947.

Debt held by the public consists mostly of securities issued by the Treasury to raise the cash that funds the federal government's activities and that it uses to pay off maturing liabilities. The net amount that the Treasury borrows by selling those securities (the amounts that are sold minus the amounts that have matured) is determined primarily by the size of the annual budget deficit. In addition, the Treasury borrows to finance student loans and other federal credit programs. CBO projects that such additional borrowing, often called other means of financing, would range from $33 billion to $76 billion annually between 2017 and 2026.

23. For more information on how that total was determined, see Congressional Budget Office, *The Budget and Economic Outlook: 2016 to 2026* (January 2016), pp. 101–105, www.cbo.gov/publication/51129.

Table 1-6. Continued

Budgetary Effects of Selected Policy Alternatives Not Included in CBO's Baseline

Billions of Dollars

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	Total 2017-2021	Total 2017-2026
Policy Alternatives That Affect the Tax Code[e] (Continued)													
Repeal Certain Postponed or Suspended Health Taxes[h]													
Increase (-) in the deficit[b]	n.a.	n.a.	-14	-16	-20	-24	-27	-30	-34	-38	-43	-74	-246
Debt service	n.a.	n.a.	*	*	-1	-2	-3	-4	-5	-6	-8	-3	-29
Memorandum:													
Deficit in CBO's Baseline	-590	-594	-520	-625	-714	-806	-954	-988	-1,000	-1,128	-1,243	-3,258	-8,571

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

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

a. These estimates reflect the assumption that appropriations will not be constrained by caps set by the Budget Control Act of 2011 as amended and will instead grow at the rate of inflation from their 2016 level. Discretionary funding related to federal personnel is inflated using the employment cost index for wages and salaries; other discretionary funding is inflated using the gross domestic product price index.

b. Excludes debt service.

c. This option reflects the assumption that appropriations would generally be frozen at the 2016 level through 2026.

d. The Budget Control Act of 2011 specified that if lawmakers did not enact legislation originating from the Joint Select Committee on Deficit Reduction that would reduce projected deficits by at least $1.2 trillion, automatic procedures would go into effect to reduce both discretionary and mandatory spending during the 2013–2021 period. Those procedures are now in effect and take the form of equal cuts (in dollar terms) in funding for defense and nondefense programs. For the 2018–2021 period, the automatic procedures lower the caps on discretionary budget authority specified in the Budget Control Act (caps for 2016 and 2017 were revised by the Bipartisan Budget Act of 2015); for the 2022–2026 period, CBO has extrapolated the reductions estimated for 2021. Nonexempt mandatory programs will be reduced through sequestration; those provisions have been extended through 2025. The budgetary effects of this option cannot be combined with those of either of the other alternatives that affect discretionary spending.

e. The estimates are from CBO and the staff of the Joint Committee on Taxation and are preliminary.

f. This alternative would extend the provisions that allow businesses with large amounts of investment to expense (immediately deduct from their taxable income) a portion of the cost of their investment in equipment and certain other property. Under current law, the portion that can be expensed is 50 percent through 2017, 40 percent in 2018, and 30 percent in 2019, after which the provisions expire. One option would extend the 50 percent allowance permanently beyond 2017, and the other option would extend the 30 percent allowance permanently beyond 2019. In both cases, the alternative would include provisions that allow businesses to accelerate alternative minimum tax credits in lieu of the partial-expensing provisions. Policymakers could choose to extend the partial-expensing provisions at a percentage of either 30 percent or 50 percent, but not both; that is, the options could not be applied together and the separate budgetary estimates added together.

g. This option would extend about 50 tax provisions that are scheduled under current law to expire before 2027. It does not include an extension of the partial-expensing provisions or a repeal of certain health provisions; those effects are shown separately.

h. This option would repeal the health insurance provider tax, the medical device excise tax, and the excise tax on certain health insurance plans with high premiums. All were postponed or suspended for either one or two years in the Consolidated Appropriations Act, 2016. The component of the estimate from repealing the high-premium excise tax does not include largely offsetting effects that would result because some people who would otherwise have been enrolled in insurance through Medicaid and the exchanges would instead enroll in employment-based coverage.

Another measure of federal debt is the amount that is subject to the statutory limit on federal borrowing. In addition to debt held by the public, that amount includes debt issued to accounts of various federal agencies, such as the Social Security trust funds. (Debt issued by agencies other than the Treasury and the Federal Financing Bank is excluded from the debt limit.) Currently, there is no statutory limit on the issuance of new federal debt because the Bipartisan Budget Act of 2015 (P.L. 114-74) suspended the debt ceiling from November 2, 2015, through March 15, 2017. In the absence of any legislative action on the debt limit before the suspension ends, the amount of borrowing accumulated during that period will be added to the previous debt limit of $18.1 trillion on March 16, 2017. In CBO's baseline projections, the amount of outstanding debt subject to limit increases from $19.4 trillion at the end of 2016 to $28.2 trillion at the end of 2026. (For those projections, CBO assumes that increases in the statutory ceiling would occur as necessary.)

Alternative Assumptions About Fiscal Policy

To illustrate the ways in which future deficits would be affected by various decisions of policymakers about federal spending programs and the federal tax system, CBO estimated the budgetary effects of several alternative policies (see Table 1-6). The discussion here focuses on the policies' direct effects on revenues and outlays, but the changes also would affect the amount of interest paid on federal debt (those costs are shown separately in the table).

Discretionary Spending

Policymakers could vary discretionary funding from CBO's baseline amounts. For example, if appropriations grew each year at the same rate as inflation after 2016, discretionary spending would be $717 billion above the baseline amount for the 2017–2026 period. If, by contrast, lawmakers kept appropriations at the nominal 2016 amount, total discretionary outlays would be $738 billion lower over that 10-year period. Under that scenario (sometimes called a freeze in regular appropriations), total discretionary spending would fall from 6.4 percent of GDP in fiscal year 2016 to 4.5 percent in 2026.

Automatic Spending Reductions

The Budget Control Act put in place automatic procedures to reduce discretionary and mandatory spending through 2021.Those procedures require equal reductions (in dollar terms) in defense and nondefense spending. The Bipartisan Budget Act of 2015 canceled discretionary reductions for 2016 and 2017 and instead set new caps for those years. That law also extended the required reductions to mandatory spending (by means of sequestration) through 2025. If lawmakers chose to prevent those automatic cuts each year—starting in 2017—without making other changes that reduced spending, total outlays over the 2017–2026 period would be $897 billion (or about 2 percent) higher than the amounts in CBO's baseline. Total discretionary outlays would be $768 billion (or 6 percent) higher, and outlays for mandatory programs—most of which are not subject to sequestration—would be $129 billion (or 0.4 percent) higher.[24]

Revenues

A number of tax provisions are scheduled to expire over the next decade. Most have been extended several times. Most recently, the Consolidated Appropriations Act, 2016 (enacted in December 2015), made permanent some provisions that had expired or were scheduled to expire and temporarily extended others. That law also phases out the ability of businesses with large amounts of investment to expense (immediately deduct from their taxable income) qualifying equipment investment, allowing those companies to expense 50 percent of such investment through 2017, 40 percent in 2018, and 30 percent in 2019, after which the partial-expensing provisions are scheduled to expire. That law also postpones or suspends for one or two years certain taxes related to health care.

If the provision allowing for 50 percent expensing became permanent after 2017, it would reduce revenues (and increase outlays for refundable tax credits) by a total of $245 billion over the 2018–2026 period, JCT estimates. If, instead, the provision allowing for 30 percent expensing became permanent after 2019, it would reduce revenues (and increase outlays) by a total of about $145 billion from 2020 through 2026. If all other tax provisions scheduled to expire before 2027 were permanently extended, CBO and JCT estimate, revenues would be lower by $173 billion over the 2017–2026 period.

Deficits also would increase if delays in the implementation of certain taxes established by the Affordable Care Act were extended or made permanent. The Consolidated Appropriations Act, 2016, suspended for 2016 and 2017 the medical device tax that took effect in 2013, placed a moratorium for 2017 on the health insurance provider tax that took effect in 2014, and postponed for two years (to 2020) the start of the tax on high-premium health insurance plans. Permanently repealing those taxes would reduce revenues by a total of about $246 billion between 2018 and 2026, according to JCT's estimates.

Changes in CBO's Baseline Projections Since March 2016

CBO completed its previous set of baseline projections in March 2016. Since then, the agency has increased its estimate of the deficit in 2016 by $56 billion and reduced its estimate of the cumulative deficit from 2017 through 2026 by $712 billion (see Table 1-7 and Appendix A).

24. Under that scenario, the caps for 2018 through 2021 would revert to the original limits set in the Budget Control Act. Because of interactions between the effects of different policy options, the estimated budgetary effects of this option cannot be added to the estimated budgetary effects of either of the other alternatives that affect discretionary spending.

Table 1-7.

Changes in CBO's Baseline Projections of the Deficit Since March 2016

Billions of Dollars

	2016	2017–2026
Deficit in CBO's March 2016 Baseline	-534	-9,283
Changes		
Economic		
Revenues	-24	-428
Outlays	-4	-1,164
Increase (-) or Decrease in the Deficit From Economic Changes	-20	736
Technical		
Revenues	-63	-4
Outlays	-27	21
Increase (-) or Decrease in the Deficit From Technical Changes	-36	-25
Total Increase (-) or Decrease in the Deficit	**-56**	**712** [a]
Deficit in CBO's August 2016 Baseline	-590	-8,571
Memorandum:		
Changes in Revenues	-87	-431
Changes in Outlays	-31	-1,143

Source: Congressional Budget Office.

a. Includes the budgetary effects of legislation that has been enacted since March. Those changes are very small in each year and total less than $1 billion over the 2017–2026 period.

Changes for 2016

CBO now estimates that both revenues and outlays in 2016 will be lower than it projected in March, by $87 billion (or 3 percent) and $31 billion (or 1 percent), respectively. Technical updates to CBO's estimates of revenues and outlays—that is, revisions that do not stem from legislation or changes in economic projections—account for most of those changes. Revenues in 2016 will be $63 billion lower than previously estimated for technical reasons, primarily as a result of weaker-than-expected collections from individual and corporate income taxes in recent months. (The reasons for that weakness will not be clear until additional data from tax returns and other sources become available.) Partially offsetting that adjustment, CBO has reduced its estimate of outlays in 2016 by $27 billion—about half of which stems from lower estimates of discretionary spending. CBO's revised economic forecast further reduced revenues and outlays this year, by $24 billion and $4 billion, respectively.

Changes for 2017 Through 2026

CBO has also reduced its projections of both revenues and outlays over the 10-year projection period—by $431 billion (or 1 percent) and $1,143 billion (or 2 percent), respectively—almost entirely because of updates to CBO's economic forecast.

The 10-year change in outlays is dominated by a $998 billion reduction in estimated net interest costs, primarily as a result of lower projected interest rates throughout the period. The reduction in interest rates mainly reflects CBO's reassessment of the future demand for Treasury securities in light of lower-than-anticipated interest rates in financial markets and recent global economic developments that point to less demand for foreign assets and greater demand for U.S. Treasury securities. It also reflects slower projected GDP growth in the United States and abroad. (For more details, see "Revisions to Projected Interest Rates" on page 61 in Chapter 2.)

The $428 billion reduction in projected revenues for 2017 through 2026 attributable to economic factors stems mostly from CBO's expectation that GDP and its associated taxable income—primarily wages and salaries as well as corporate profits—will grow more slowly than previously projected, largely as a result of newly released data and changes in the method CBO uses to project productivity growth.

Technical changes to outlays offset a small portion of the economic changes, increasing outlays in CBO's baseline by $21 billion over the projection period. Projected revenues decline by $4 billion for technical reasons.

Although CBO has reduced its estimate of the cumulative deficit by $712 billion since March, its estimate of debt held by the public in 2026—relative to the size of the economy—has not changed materially, remaining at 86 percent of GDP. Projected deficits over the 10-year period are noticeably lower, but CBO's forecast of nominal GDP is also lower (by $630 billion, or 2 percent, in 2026), leaving the ratio of debt to GDP largely unchanged.