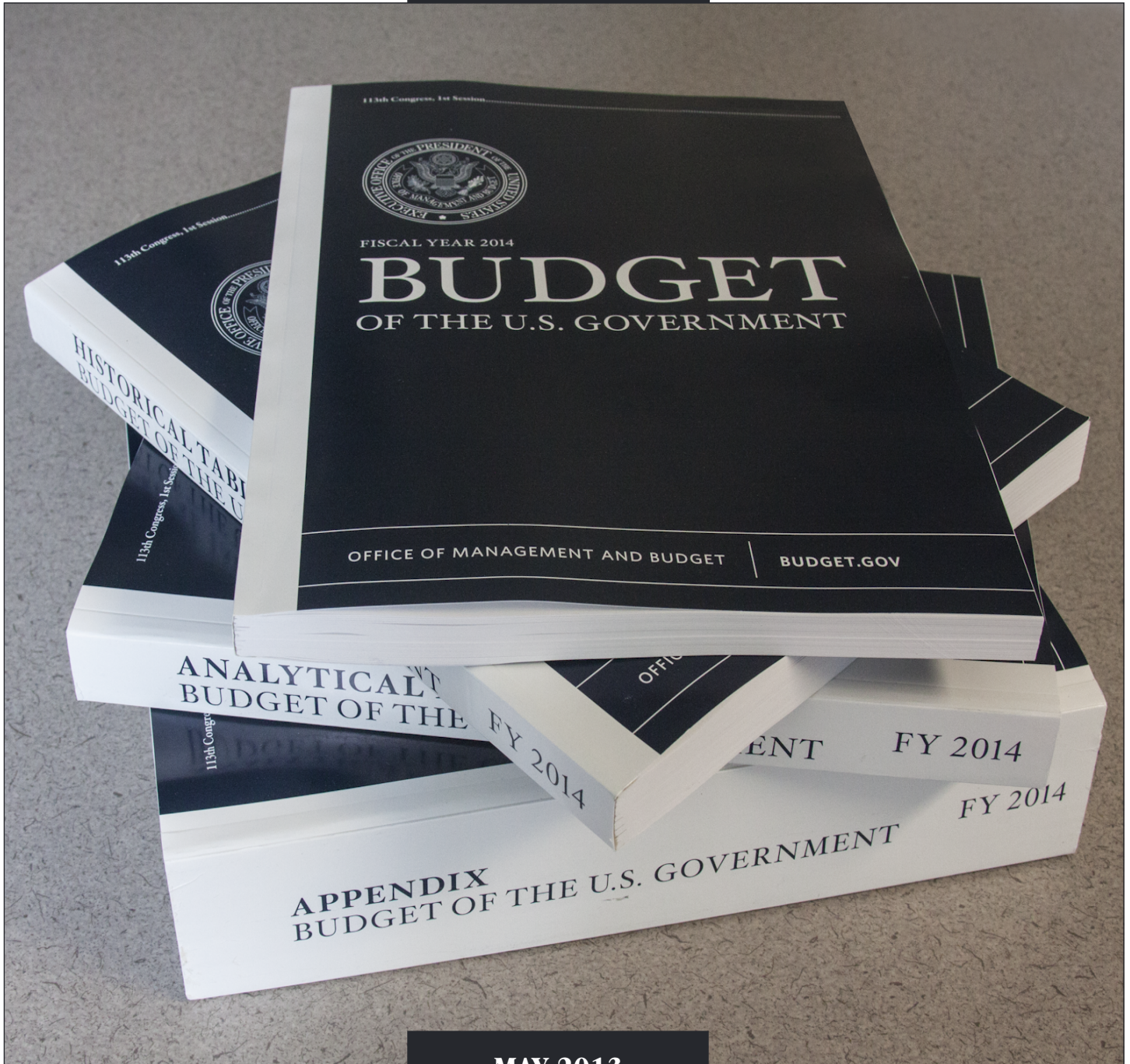


# CBO

## An Analysis of the President's 2014 Budget



MAY 2013

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## Notes

Unless otherwise indicated, the years referred to in this report are federal fiscal years (which run from October 1 to September 30).

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

Supplemental information about this analysis is available on CBO's website ([www.cbo.gov](http://www.cbo.gov)).

Cover photograph by Maureen Costantino.

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# An Analysis of the President's 2014 Budget

## Summary

This report by the Congressional Budget Office (CBO) presents an analysis of the proposals contained in the President's budget request for fiscal year 2014. The analysis is based on CBO's economic projections and estimating assumptions and models, rather than the Administration's, and incorporates estimates by the staff of the Joint Committee on Taxation (JCT) for the President's tax proposals.<sup>1</sup>

In conjunction with analyzing the President's budget, CBO has updated its baseline budget projections, which were previously issued in February 2013. Unlike its estimates of the President's budget, CBO's baseline projections largely reflect the assumption that current tax and spending laws will remain unchanged, so as to provide a benchmark against which potential legislation can be measured. Under that assumption, CBO estimates that the deficit would total \$642 billion in 2013 and that the cumulative deficit over the 2014–2023 period would amount to \$6.3 trillion.<sup>2</sup>

The President's budget request specifies spending and revenue policies for the 2014–2023 period and includes initiatives that would have budgetary effects in fiscal year 2013 as well. According to CBO's and JCT's estimates, enactment of the President's proposals would, relative to CBO's baseline, boost deficits between 2013 and 2015 but reduce them by increasing amounts from 2016 through 2023.<sup>3</sup> In particular, the President's policies would have the following consequences for the budget:

- The deficit in 2013 would equal \$669 billion (or 4.2 percent of gross domestic product [GDP]), \$27 billion more than the amount projected in CBO's baseline (see Table 1).
- In 2014, the deficit would increase slightly in nominal terms, to \$675 billion (or 4.1 percent of GDP). That deficit would be \$115 billion more than the shortfall projected for next year in CBO's baseline. In 2015, the deficit would fall to \$437 billion (or 2.5 percent of GDP) but remain \$59 billion above the amount projected for that year in CBO's baseline.
- In subsequent years, the deficit would decline further relative to GDP, reaching 2.2 percent in 2016 and 2.0 percent in 2017 and 2018, but then would increase again, remaining above 2 percent of GDP through 2023. Deficits in the 2016–2023 period would be smaller than the amounts in CBO's baseline by between 0.1 percent and 1.4 percent of GDP each year (see Figure 1).
- In all, deficits would total \$5.2 trillion between 2014 and 2023 (or 2.4 percent of total GDP projected for that period), \$1.1 trillion less than the cumulative deficit in CBO's baseline.
- Federal debt held by the public would increase from 73 percent of GDP (\$11.3 trillion) at the end of 2012 to 77 percent (\$12.8 trillion) at the end of 2014. In each subsequent year, debt would decline as a percentage of GDP, reaching to about 70 percent (\$18.1 trillion) in 2023 (see Table 2 on page 4). In contrast, under the assumptions of CBO's current-law baseline, debt held by the public would be rising

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1. For more details about the President's tax proposals, see Joint Committee on Taxation, *Estimated Budget Effects of the Revenue Provisions Contained in the President's Fiscal Year 2014 Budget Proposal*, JCX-11-13 (May 10, 2013), <http://go.usa/TJzC>.

2. For information about CBO's latest baseline, see Congressional Budget Office, *Updated Budget Projections: Fiscal Years 2013 to 2023* (May 2013), [www.cbo.gov/publication/44172](http://www.cbo.gov/publication/44172).

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3. This analysis does not include an assessment of the macroeconomic effects of the President's proposals or the feedback from those effects on the federal budget.

**Table 1.**

## Comparison of Projected Revenues, Outlays, and Deficits in CBO's May 2013 Baseline and in CBO's Estimate of the President's Budget

(Billions of dollars)

|   | Actual,<br>2012 | 2013        | 2014        | 2015        | 2016        | 2017        | 2018        | 2019        | 2020        | 2021        | 2022        | 2023        | Total<br>2014- 2014- |               |
|---|-----------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|----------------------|---------------|
|   |                 |             |             |             |             |             |             |             |             |             |             |             | 2018                 | 2023          |
| <b>CBO's May 2013 Baseline</b>  |                 |             |             |             |             |             |             |             |             |             |             |             |                      |               |
| Revenues  | 2,450           | 2,813       | 3,042       | 3,399       | 3,606       | 3,779       | 3,943       | 4,103       | 4,280       | 4,494       | 4,732       | 4,959       | 17,769               | 40,336        |
| Outlays   | 3,537           | 3,455       | 3,602       | 3,777       | 4,038       | 4,261       | 4,485       | 4,752       | 5,012       | 5,275       | 5,620       | 5,855       | 20,163               | 46,677        |
| <b>Total Deficit</b>  | <b>-1,087</b>   | <b>-642</b> | <b>-560</b> | <b>-378</b> | <b>-432</b> | <b>-482</b> | <b>-542</b> | <b>-648</b> | <b>-733</b> | <b>-782</b> | <b>-889</b> | <b>-895</b> | <b>-2,394</b>        | <b>-6,340</b> |
| <b>CBO's Estimate of the President's Budget</b>                                       |                 |             |             |             |             |             |             |             |             |             |             |             |                      |               |
| Revenues  | 2,450           | 2,812       | 3,069       | 3,439       | 3,682       | 3,872       | 4,041       | 4,205       | 4,392       | 4,622       | 4,874       | 5,115       | 18,103               | 41,310        |
| Outlays   | 3,537           | 3,481       | 3,744       | 3,876       | 4,095       | 4,271       | 4,468       | 4,734       | 4,975       | 5,206       | 5,480       | 5,656       | 20,455               | 46,505        |
| <b>Total Deficit</b>  | <b>-1,087</b>   | <b>-669</b> | <b>-675</b> | <b>-437</b> | <b>-413</b> | <b>-399</b> | <b>-427</b> | <b>-529</b> | <b>-583</b> | <b>-584</b> | <b>-606</b> | <b>-542</b> | <b>-2,351</b>        | <b>-5,195</b> |
| <b>Difference Between CBO's Estimate of the President's Budget and CBO's Baseline</b> |                 |             |             |             |             |             |             |             |             |             |             |             |                      |               |
| Revenues  | n.a.            | -1          | 27          | 41          | 76          | 94          | 97          | 102         | 113         | 128         | 142         | 155         | 334                  | 974           |
| Outlays   | n.a.            | 26          | 142         | 100         | 57          | 10          | -17         | -18         | -38         | -69         | -141        | -198        | 292                  | -172          |
| <b>Total Deficit<sup>a</sup></b>  | <b>n.a.</b>     | <b>-27</b>  | <b>-115</b> | <b>-59</b>  | <b>19</b>   | <b>83</b>   | <b>114</b>  | <b>119</b>  | <b>150</b>  | <b>198</b>  | <b>283</b>  | <b>353</b>  | <b>42</b>            | <b>1,146</b>  |
| <b>Memorandum:</b>  |                 |             |             |             |             |             |             |             |             |             |             |             |                      |               |
| Deficit as a Percentage of GDP  |                 |             |             |             |             |             |             |             |             |             |             |             |                      |               |
| CBO's baseline  | -7.0            | -4.0        | -3.4        | -2.1        | -2.3        | -2.4        | -2.6        | -3.0        | -3.2        | -3.3        | -3.6        | -3.5        | -2.5                 | -3.0          |
| CBO's estimate of the President's budget  | -7.0            | -4.2        | -4.1        | -2.5        | -2.2        | -2.0        | -2.0        | -2.4        | -2.5        | -2.4        | -2.4        | -2.1        | -2.5                 | -2.4          |
| Debt Held by the Public as a Percentage of GDP  |                 |             |             |             |             |             |             |             |             |             |             |             |                      |               |
| CBO's baseline  | 72.6            | 75.1        | 76.2        | 74.6        | 72.7        | 71.3        | 70.8        | 71.0        | 71.5        | 72.0        | 72.9        | 73.6        | n.a.                 | n.a.          |
| CBO's estimate of the President's budget  | 72.6            | 75.2        | 77.0        | 75.7        | 73.6        | 71.8        | 70.8        | 70.5        | 70.5        | 70.4        | 70.3        | 69.8        | n.a.                 | n.a.          |

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

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

a. Negative numbers indicate an increase in the deficit relative to CBO's baseline, and positive numbers indicate a decrease in the deficit.

relative to GDP after 2018 and would stand at about 74 percent of GDP (\$19.1 trillion) in 2023 (see Figure 2 on page 5).

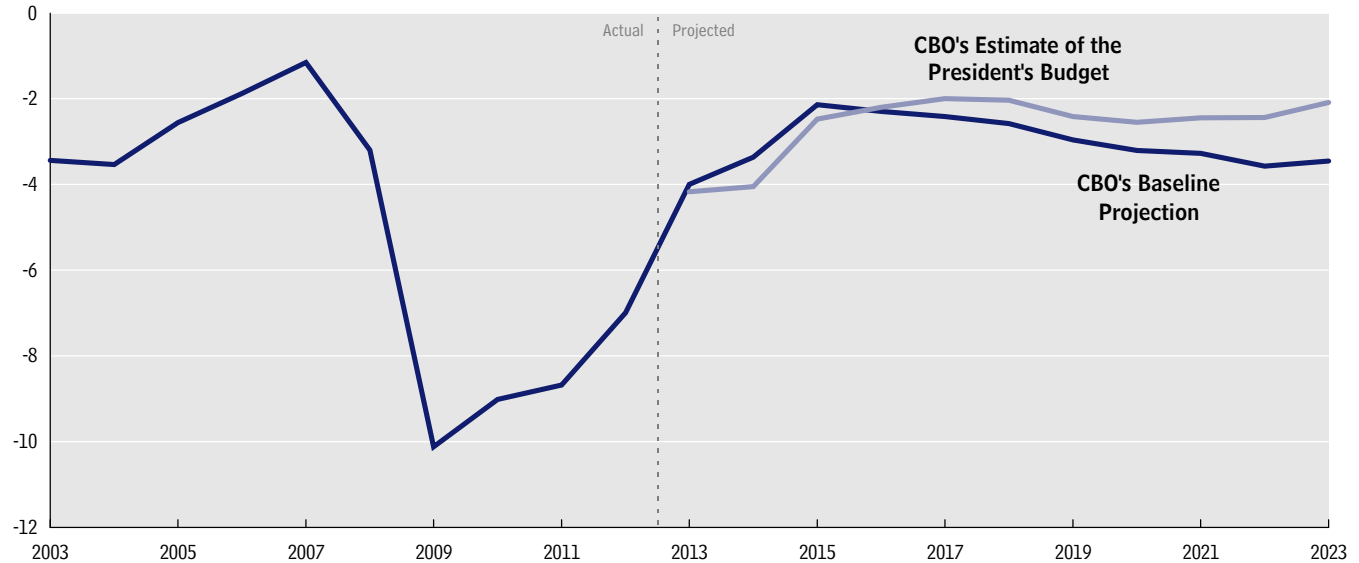
The President's budget contains a host of proposed changes to spending and revenue policies. By CBO's estimate, those policy changes would boost revenues by \$974 billion and reduce outlays (including interest), on net, by \$172 billion, yielding a total of \$1.1 trillion in deficit reduction over the 2014–2023 period relative to CBO's current-law baseline. One major proposal involves

the automatic procedures originally specified by the Budget Control Act of 2011 (Public Law 112-25). Those procedures took effect in March 2013 and are scheduled to reduce spending in subsequent years. The President proposes to cancel those scheduled reductions, which would boost outlays relative to the amount in the baseline by nearly \$1 trillion over the next 10 years. That proposed change would be more than offset by other proposals that would reduce projected deficits. Among those other proposals, the ones with the largest budgetary impact are these:



**Figure 1.****Deficits Projected in CBO's Baseline and Under the President's Budget**

(Percentage of gross domestic product)



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

- Less funding (relative to the amount in CBO's baseline) for military operations in Afghanistan and for related activities (also known as overseas contingency operations). As specified in law, the baseline incorporates the assumption that funding for such operations and activities will total the amount provided in 2013—\$93 billion (with the effects of sequestration included)—each year through 2023 with increases to keep pace with inflation; the President's budget, by comparison, includes a request for \$92 billion for those operations and activities in 2014 and \$37 billion in each year thereafter through 2021. Consequently, projected outlays for overseas contingency operations under the President's proposal are \$601 billion less over the 2014–2023 period than those in CBO's baseline.
- A cap on the extent to which certain deductions and exclusions can reduce a taxpayer's income tax liability, limiting the amount to no more than 28 percent of those deductions and exclusions. That change would increase revenues by a total of \$493 billion over the next decade, JCT estimates.
- No additional funding designated as an emergency requirement after 2013. By contrast, as specified in law, CBO's baseline incorporates the assumption that the \$39 billion of such funding provided in the

current year will continue in each year of the projection period, with adjustments for inflation. As a result, projected outlays from funding designated as an emergency requirement under the President's proposal are \$290 billion less through 2023 than those in CBO's baseline.

- A proposed change to the way tax provisions and certain major benefit programs are indexed for inflation. That change would reduce deficits by an estimated \$233 billion through 2023.

Other proposals in the President's budget include some initiatives that would widen the deficit and some that would narrow it. Those other proposals would change revenues and noninterest outlays by amounts that sum to a net reduction in deficits of \$407 billion over the 2014–2023 period (\$382 billion in revenues and \$26 billion in outlay reductions).

Because the President's budget would decrease deficits relative to CBO's baseline projections over the 10-year period, the amount of interest paid on the government's debt would decline as well. In total, net interest outlays under the President's budget would be \$92 billion below the amounts projected in CBO's current-law baseline over the 2014–2023 period.

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

|   | Actual,       |              |              |              |              |              |              |              |              |              |              |              | Total         |               |
|---|---------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|---------------|---------------|
|   | 2012          | 2013         | 2014         | 2015         | 2016         | 2017         | 2018         | 2019         | 2020         | 2021         | 2022         | 2023         | 2014-2018     | 2014-2023     |
| In Billions of Dollars                    |               |              |              |              |              |              |              |              |              |              |              |              |               |               |
| <b>Revenues</b>                           |               |              |              |              |              |              |              |              |              |              |              |              |               |               |
| On-budget                                 | 1,881         | 2,142        | 2,338        | 2,674        | 2,870        | 3,012        | 3,134        | 3,256        | 3,400        | 3,586        | 3,793        | 3,988        | 14,028        | 32,052        |
| Off-budget <sup>a</sup>                   | 570           | 670          | 731          | 766          | 811          | 861          | 906          | 949          | 992          | 1,036        | 1,080        | 1,127        | 4,075         | 9,258         |
| <b>Total</b>                              | <b>2,450</b>  | <b>2,812</b> | <b>3,069</b> | <b>3,439</b> | <b>3,682</b> | <b>3,872</b> | <b>4,041</b> | <b>4,205</b> | <b>4,392</b> | <b>4,622</b> | <b>4,874</b> | <b>5,115</b> | <b>18,103</b> | <b>41,310</b> |
| <b>Outlays</b>                            |               |              |              |              |              |              |              |              |              |              |              |              |               |               |
| Mandatory                                 | 2,031         | 2,031        | 2,265        | 2,384        | 2,565        | 2,657        | 2,747        | 2,919        | 3,075        | 3,238        | 3,457        | 3,584        | 12,619        | 28,892        |
| Discretionary                             | 1,285         | 1,227        | 1,241        | 1,226        | 1,214        | 1,214        | 1,224        | 1,246        | 1,266        | 1,282        | 1,286        | 1,291        | 6,118         | 12,489        |
| Net interest                              | 220           | 223          | 238          | 266          | 316          | 401          | 497          | 568          | 633          | 685          | 737          | 782          | 1,718         | 5,124         |
| <b>Total</b>                              | <b>3,537</b>  | <b>3,481</b> | <b>3,744</b> | <b>3,876</b> | <b>4,095</b> | <b>4,271</b> | <b>4,468</b> | <b>4,734</b> | <b>4,975</b> | <b>5,206</b> | <b>5,480</b> | <b>5,656</b> | <b>20,455</b> | <b>46,505</b> |
| On-budget                                 | 3,030         | 2,841        | 3,031        | 3,123        | 3,297        | 3,425        | 3,574        | 3,788        | 3,969        | 4,137        | 4,343        | 4,447        | 16,450        | 37,134        |
| Off-budget <sup>a</sup>                   | 508           | 640          | 713          | 753          | 798          | 846          | 894          | 946          | 1,005        | 1,069        | 1,137        | 1,210        | 4,004         | 9,371         |
| <b>Deficit (-) or Surplus</b>             | <b>-1,087</b> | <b>-669</b>  | <b>-675</b>  | <b>-437</b>  | <b>-413</b>  | <b>-399</b>  | <b>-427</b>  | <b>-529</b>  | <b>-583</b>  | <b>-584</b>  | <b>-606</b>  | <b>-542</b>  | <b>-2,351</b> | <b>-5,195</b> |
| On-budget                                 | -1,149        | -699         | -694         | -450         | -426         | -414         | -439         | -532         | -569         | -550         | -550         | -459         | -2,422        | -5,082        |
| Off-budget <sup>a</sup>                   | 62            | 30           | 18           | 12           | 13           | 15           | 12           | 3            | -14          | -33          | -56          | -83          | 71            | -113          |
| Debt Held by the Public                   | 11,281        | 12,058       | 12,812       | 13,342       | 13,839       | 14,323       | 14,830       | 15,441       | 16,108       | 16,775       | 17,470       | 18,094       | n.a.          | n.a.          |
| <b>Memorandum:</b>                        |               |              |              |              |              |              |              |              |              |              |              |              |               |               |
| Gross Domestic Product                    | 15,549        | 16,034       | 16,646       | 17,632       | 18,792       | 19,959       | 20,943       | 21,890       | 22,854       | 23,842       | 24,858       | 25,910       | 93,972        | 213,326       |
| As a Percentage of Gross Domestic Product |               |              |              |              |              |              |              |              |              |              |              |              |               |               |
| <b>Revenues</b>                           |               |              |              |              |              |              |              |              |              |              |              |              |               |               |
| On-budget                                 | 12.1          | 13.4         | 14.0         | 15.2         | 15.3         | 15.1         | 15.0         | 14.9         | 14.9         | 15.0         | 15.3         | 15.4         | 14.9          | 15.0          |
| Off-budget <sup>a</sup>                   | 3.7           | 4.2          | 4.4          | 4.3          | 4.3          | 4.3          | 4.3          | 4.3          | 4.3          | 4.3          | 4.3          | 4.3          | 4.3           | 4.3           |
| <b>Total</b>                              | <b>15.8</b>   | <b>17.5</b>  | <b>18.4</b>  | <b>19.5</b>  | <b>19.6</b>  | <b>19.4</b>  | <b>19.3</b>  | <b>19.2</b>  | <b>19.2</b>  | <b>19.4</b>  | <b>19.6</b>  | <b>19.7</b>  | <b>19.3</b>   | <b>19.4</b>   |
| <b>Outlays</b>                            |               |              |              |              |              |              |              |              |              |              |              |              |               |               |
| Mandatory                                 | 13.1          | 12.7         | 13.6         | 13.5         | 13.7         | 13.3         | 13.1         | 13.3         | 13.5         | 13.6         | 13.9         | 13.8         | 13.4          | 13.5          |
| Discretionary                             | 8.3           | 7.6          | 7.5          | 7.0          | 6.5          | 6.1          | 5.8          | 5.7          | 5.5          | 5.4          | 5.2          | 5.0          | 6.5           | 5.9           |
| Net interest                              | 1.4           | 1.4          | 1.4          | 1.5          | 1.7          | 2.0          | 2.4          | 2.6          | 2.8          | 2.9          | 3.0          | 3.0          | 1.8           | 2.4           |
| <b>Total</b>                              | <b>22.7</b>   | <b>21.7</b>  | <b>22.5</b>  | <b>22.0</b>  | <b>21.8</b>  | <b>21.4</b>  | <b>21.3</b>  | <b>21.6</b>  | <b>21.8</b>  | <b>21.8</b>  | <b>22.0</b>  | <b>21.8</b>  | <b>21.8</b>   | <b>21.8</b>   |
| On-budget                                 | 19.5          | 17.7         | 18.2         | 17.7         | 17.5         | 17.2         | 17.1         | 17.3         | 17.4         | 17.4         | 17.5         | 17.2         | 17.5          | 17.4          |
| Off-budget <sup>a</sup>                   | 3.3           | 4.0          | 4.3          | 4.3          | 4.2          | 4.2          | 4.3          | 4.3          | 4.4          | 4.5          | 4.6          | 4.7          | 4.3           | 4.4           |
| <b>Deficit (-) or Surplus</b>             | <b>-7.0</b>   | <b>-4.2</b>  | <b>-4.1</b>  | <b>-2.5</b>  | <b>-2.2</b>  | <b>-2.0</b>  | <b>-2.0</b>  | <b>-2.4</b>  | <b>-2.5</b>  | <b>-2.4</b>  | <b>-2.4</b>  | <b>-2.1</b>  | <b>-2.5</b>   | <b>-2.4</b>   |
| On-budget                                 | -7.4          | -4.4         | -4.2         | -2.5         | -2.3         | -2.1         | -2.1         | -2.4         | -2.5         | -2.3         | -2.2         | -1.8         | -2.6          | -2.4          |
| Off-budget <sup>a</sup>                   | 0.4           | 0.2          | 0.1          | 0.1          | 0.1          | 0.1          | 0.1          | *            | -0.1         | -0.1         | -0.2         | -0.3         | 0.1           | -0.1          |
| Debt Held by the Public                   | 72.6          | 75.2         | 77.0         | 75.7         | 73.6         | 71.8         | 70.8         | 70.5         | 70.5         | 70.4         | 70.3         | 69.8         | n.a.          | n.a.          |

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

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

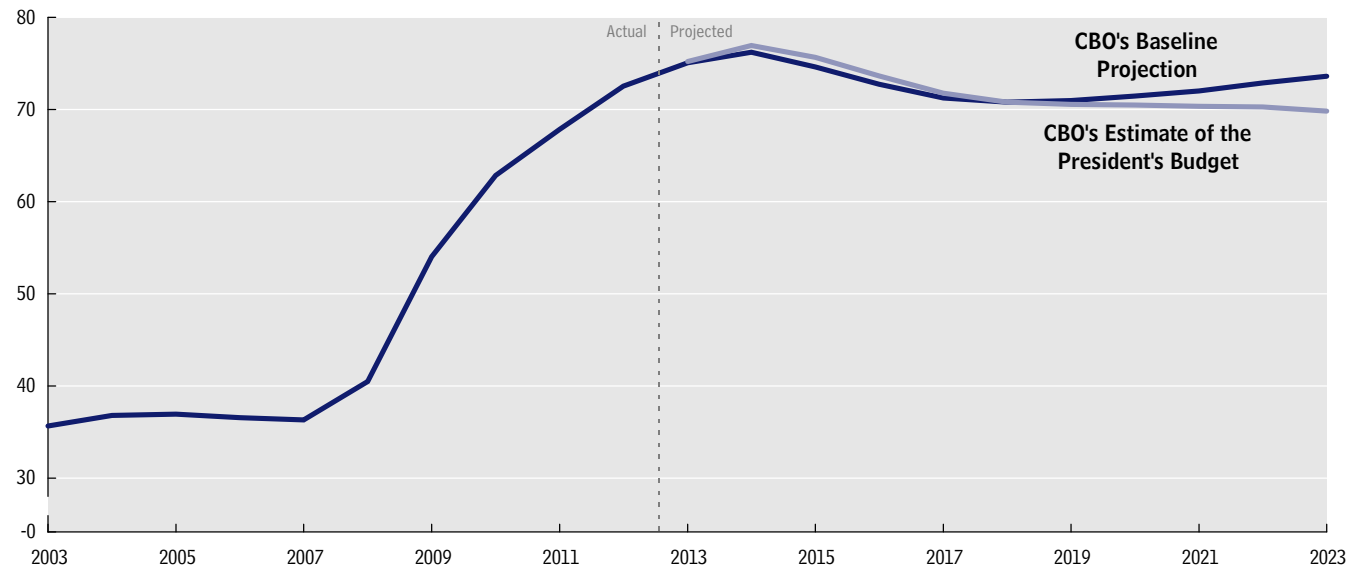
a. The revenues and outlays of the Social Security trust funds and the net cash flow of the Postal Service are classified as off-budget.



**Figure 2.**

## Federal Debt Held by the Public Projected in CBO's Baseline and Under the President's Budget

(Percentage of gross domestic product)



Source: Congressional Budget Office.

Overall, CBO's and the Administration's deficit estimates under the President's budget are significantly different for this year but similar for the following 10 years. For 2013, CBO's estimate of the deficit is roughly \$300 billion lower than the Administration's estimate. Most of that difference stems from higher-than-expected tax payments over the past few weeks and recent announcements from Fannie Mae and Freddie Mac about payments that they expect to make to the Treasury. Between 2014 and 2023, the cumulative deficit, if the President's proposals were enacted, would total \$5.2 trillion, according to CBO's projections, \$76 billion (or 1.4 percent) less than what the Administration estimates. CBO's and the Administration's estimates of spending under the President's budget are nearly identical in total: CBO projects just \$3 billion more in outlays than the Administration does. However, CBO's 10-year projections of revenues under the President's budget are slightly higher than the Administration's—by \$79 billion (or 0.2 percent).

### Impact of the President's Proposals on the Budget Outlook

CBO estimates that enacting the President's policy proposals would boost the 2013 deficit, relative to the

amount in CBO's current-law baseline, by \$27 billion—to a total of \$669 billion (see Table 3). That increase would result from an additional \$26 billion in outlays and almost no difference in revenues.

In 2014, the deficit under the President's budget would be \$115 billion greater than the deficit that CBO projects in its latest baseline. That year, outlays would be \$142 billion, or about 4 percent, higher; slightly offsetting that increased spending, revenues would be \$27 billion, or about 1 percent, higher.

Over the 2014–2023 period, the cumulative deficit that would result from enacting the President's budget—\$5.2 trillion (or 2.4 percent of GDP)—would be \$1.1 trillion lower than the cumulative deficit projected under current law, according to CBO's estimates.

### Effects on Revenues

The President is proposing to make a number of changes to tax law. If enacted, those changes would reduce revenues by \$1 billion in 2013 and boost them by \$974 billion, or about 2 percent, during the 2014–2023 period, CBO and JCT estimate. (Those revenue proposals would also boost outlays by \$183 billion between

**Table 3.****CBO's Estimate of the Effect of the President's Budget on Baseline Deficits**

(Billions of dollars)

|   | 2013      | 2014      | 2015      | 2016      | 2017      | 2018      | 2019       | 2020       | 2021       | 2022       | 2023       | Total      |            |
|---|-----------|-----------|-----------|-----------|-----------|-----------|------------|------------|------------|------------|------------|------------|------------|
|   |           |           |           |           |           |           |            |            |            |            |            | 2014-      | 2014-      |
|   |           |           |           |           |           |           |            |            |            |            |            | 2018       | 2023       |
| Deficit in CBO's May 2013 Baseline                                  | -642      | -560      | -378      | -432      | -482      | -542      | -648       | -733       | -782       | -889       | -895       | -2,394     | -6,340     |
| Effect of the President's Proposals                                 |           |           |           |           |           |           |            |            |            |            |            |            |            |
| Revenues  |           |           |           |           |           |           |            |            |            |            |            |            |            |
| Limit the extent to which deductions and exclusions                 |           |           |           |           |           |           |            |            |            |            |            |            |            |
| reduce tax liability  | -3        | 14        | 42        | 42        | 46        | 50        | 53         | 56         | 60         | 63         | 67         | 193        | 493        |
| Adjust indexing by using the chained CPI                            | 0         | 0         | 1         | 3         | 6         | 8         | 10         | 14         | 17         | 20         | 23         | 17         | 99         |
| Increase tobacco taxes  | 0         | 7         | 8         | 8         | 8         | 8         | 8          | 9          | 9          | 9          | 9          | 39         | 83         |
| Modify estate and gift taxes  | 0         | *         | *         | *         | *         | 4         | 9          | 11         | 14         | 18         | 20         | 5          | 77         |
| Modify the subsidies for certain state and local bonds <sup>a</sup> | 0         | *         | 1         | 3         | 4         | 6         | 8          | 9          | 11         | 13         | 15         | 14         | 70         |
| Implement a fair-share tax  | 1         | 13        | -1        | 7         | 6         | 6         | 7          | 7          | 7          | 8          | 8          | 32         | 69         |
| Impose a Financial Crisis Responsibility Fee                        | 0         | 0         | 2         | 5         | 5         | 5         | 6          | 6          | 6          | 6          | 7          | 18         | 49         |
| Other proposals   | *         | -7        | -13       | 9         | 18        | 10        | 1          | *          | 4          | 5          | 7          | 17         | 33         |
| <b>Total Effect on Revenues</b>                                     | <b>-1</b> | <b>27</b> | <b>41</b> | <b>76</b> | <b>94</b> | <b>97</b> | <b>102</b> | <b>113</b> | <b>128</b> | <b>142</b> | <b>155</b> | <b>334</b> | <b>974</b> |
| Outlays   |           |           |           |           |           |           |            |            |            |            |            |            |            |
| Mandatory   |           |           |           |           |           |           |            |            |            |            |            |            |            |
| Freeze Medicare's physician payment rates                           | 0         | 9         | 13        | 13        | 13        | 13        | 14         | 15         | 16         | 17         | 17         | 61         | 139        |
| Other Medicare proposals  | *         | 1         | -10       | -22       | -30       | -34       | -38        | -47        | -54        | -61        | -68        | -97        | -364       |
| Increase transportation funding                                     | 0         | 6         | 13        | 16        | 17        | 18        | 19         | 22         | 18         | 9          | 5          | 69         | 141        |
| Adjust indexing by using the chained CPI                            | 0         | 0         | -2        | -5        | -9        | -13       | -16        | -19        | -21        | -24        | -25        | -28        | -133       |
| Cancel automatic spending reductions <sup>b</sup>                   | 1         | 16        | 15        | 15        | 14        | 14        | 15         | 16         | 16         | 5          | 0          | 74         | 125        |
| Modify refundable tax credits                                       | 0         | *         | 1         | 1         | 1         | 1         | 22         | 22         | 22         | 23         | 23         | 3          | 115        |
| Alter education and job training programs                           | 11        | 31        | 23        | 13        | 10        | 6         | 5          | 5          | 5          | 5          | 4          | 82         | 106        |
| Modify the subsidies for certain state and local bonds <sup>a</sup> | 0         | *         | 2         | 4         | 6         | 8         | 10         | 11         | 13         | 15         | 17         | 20         | 86         |
| Other proposals   | *         | 6         | 5         | 12        | 2         | -2        | -3         | -3         | -3         | -2         | -6         | 24         | 6          |
| Subtotal, Mandatory Outlays   | 11        | 68        | 59        | 46        | 24        | 10        | 27         | 22         | 13         | -13        | -33        | 207        | 222        |

Continued

2014 and 2023, mostly from increases in refundable tax credits.) Measured relative to the size of the economy, revenues under the President's budget would rise from 18.4 percent of GDP in 2014 to 19.7 percent in 2023. On average over the next 10 years, revenues would amount to 19.4 percent of GDP—about 1.5 percentage points above the 17.9 percent average over the past 40 years.

**Limit Deductions and Exclusions.** The President proposes to limit the extent to which higher-income taxpayers can reduce their tax liability through certain deductions and exclusions to 28 percent of those deductions and exclusions. That cap would apply to itemized deductions as well as to deductions or exclusions for tax-exempt inter-

est, employment-based health insurance, and employees' retirement contributions, among other things. That change would boost revenues by \$493 billion over the 2014–2023 period, according to JCT.

**Replace the CPI with the Chained CPI for Indexing Tax Provisions for Inflation.** The President proposes to index tax provisions (as well as payments for certain spending programs) for inflation by using the chained consumer price index (CPI), rather than the traditional CPI, as under current law. To more accurately reflect increases in the cost of living, the chained CPI attempts to account for consumers' ability to substitute one good or service for another in what they buy. On the basis of historical data, CBO expects the chained CPI to grow

**Table 3.** **Continued**  
**CBO's Estimate of the Effect of the President's Budget on Baseline Deficits**

(Billions of dollars)

|   | 2013       | 2014        | 2015       | 2016      | 2017      | 2018       | 2019       | 2020       | 2021       | 2022        | 2023        | Total      |              |      |
|---|------------|-------------|------------|-----------|-----------|------------|------------|------------|------------|-------------|-------------|------------|--------------|------|
|   |            |             |            |           |           |            |            |            |            |             |             | 2014-      | 2014-        |      |
|   | 2018       | 2023        | 2018       | 2023      | 2018      | 2023       | 2018       | 2023       | 2018       | 2023        | 2018        | 2023       | 2018         | 2023 |
| Outlays (Continued)   |            |             |            |           |           |            |            |            |            |             |             |            |              |      |
| Discretionary   |            |             |            |           |           |            |            |            |            |             |             |            |              |      |
| Cancel automatic spending reductions <sup>b</sup>                               | 13         | 64          | 80         | 85        | 88        | 89         | 88         | 87         | 87         | 88          | 90          | 405        | 845          |      |
| Reduce spending on overseas contingency operations                              | 1          | 2           | -28        | -49       | -58       | -62        | -66        | -69        | -71        | -94         | -107        | -194       | -601         |      |
| Provide no funding after 2013 for emergency requirements                        | *          | -2          | -10        | -18       | -25       | -31        | -36        | -39        | -41        | -43         | -45         | -87        | -290         |      |
| Other proposals   | *          | 8           | -4         | -10       | -20       | -22        | -27        | -30        | -39        | -50         | -61         | -48        | -255         |      |
| Subtotal, Discretionary Outlays   | 14         | 73          | 39         | 8         | -16       | -27        | -39        | -50        | -65        | -100        | -124        | 77         | -301         |      |
| Net interest  | *          | 1           | 2          | 3         | 3         | *          | -5         | -10        | -17        | -27         | -41         | 8          | -92          |      |
| <b>Total Effect on Outlays</b>  | <b>26</b>  | <b>142</b>  | <b>100</b> | <b>57</b> | <b>10</b> | <b>-17</b> | <b>-18</b> | <b>-38</b> | <b>-69</b> | <b>-141</b> | <b>-198</b> | <b>292</b> | <b>-172</b>  |      |
| <b>Total Effect on the Deficit<sup>c</sup></b>                                  | <b>-27</b> | <b>-115</b> | <b>-59</b> | <b>19</b> | <b>83</b> | <b>114</b> | <b>119</b> | <b>150</b> | <b>198</b> | <b>283</b>  | <b>353</b>  | <b>42</b>  | <b>1,146</b> |      |
| Deficit Under the President's Budget as Estimated by CBO                        | -669       | -675        | -437       | -413      | -399      | -427       | -529       | -583       | -584       | -606        | -542        | -2,351     | -5,195       |      |
| <b>Memorandum:</b>  |            |             |            |           |           |            |            |            |            |             |             |            |              |      |
| Effect on the Deficit of Proposals Included in                                  |            |             |            |           |           |            |            |            |            |             |             |            |              |      |
| Revenue-Neutral Business Tax Reform   |            |             |            |           |           |            |            |            |            |             |             |            |              |      |
| Modify the U.S. international tax system  | 0          | 6           | 13         | 15        | 17        | 17         | 16         | 16         | 16         | 16          | 17          | 69         | 150          |      |
| Permanently extend and increase the R&E tax credit                              | *          | -5          | -8         | -9        | -10       | -11        | -13        | -14        | -15        | -16         | -17         | -43        | -118         |      |
| Permanently extend increased expensing for small businesses                     | 0          | -7          | -13        | -11       | -9        | -8         | -6         | -4         | -4         | -4          | -4          | -48        | -69          |      |
| Repeal the LIFO method of inventory accounting                                  | 0          | 4           | 8          | 8         | 8         | 8          | 8          | 8          | 8          | 8           | 8           | 37         | 78           |      |
| Other <sup>d</sup>  | *          | 4           | 9          | 8         | 8         | 6          | 2          | *          | -2         | -4          | -5          | 35         | 26           |      |
| Total <sup>c,e</sup>  | *          | 2           | 9          | 12        | 14        | 12         | 8          | 6          | 3          | 1           | -1          | 49         | 66           |      |
| Total Effect on Outlays of Canceling Automatic Spending Reductions <sup>b</sup> | 13         | 80          | 95         | 99        | 102       | 103        | 103        | 103        | 103        | 93          | 90          | 479        | 971          |      |

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

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

- This proposal, which would create what the President calls America Fast Forward Bonds, would increase outlays by more than it would increase revenues. The Joint Committee on Taxation estimates that the net effect of the proposal would be to increase the deficit by \$16 billion.
- Refers to the spending reductions established by the Budget Control Act of 2011. The cancellation of budgetary resources (known as sequestration) for 2013 went into effect on March 1, 2013; for the 2014–2021 period, the automatic reductions are scheduled to decrease the caps on discretionary budget authority and sequester certain mandatory accounts.
- Negative numbers indicate an increase in the deficit relative to CBO's baseline, and positive numbers indicate a decrease in the deficit.
- Includes proposals that, on net, would raise revenues by \$31 billion and increase outlays by \$5 billion, for a net budgetary effect that would reduce deficits by \$26 billion.
- This total reflects policies that the Administration has specified as part of a proposed revenue-neutral reform of business taxes. Those policies would largely produce changes in revenues, but they would also cause some relatively small changes in outlays (included in the "other" line). No estimates are included for the additional, unspecified policies that would make that set of proposals revenue neutral. The amounts shown for this total are not included in CBO's estimate of the total effect of the President's proposals on the deficit.

0.25 percentage points more slowly per year than the traditional CPI. The proposed change would affect various tax provisions, including the thresholds for individual income tax brackets, the size of the personal exemption and the standard deduction, and phaseout ranges and other parameters for a number of tax credits, deductions, and exclusions. According to JCT, the proposal would increase revenues by \$99 billion between 2014 and 2023. With the effects on spending programs included, it would also lower outlays by an estimated \$133 billion over that time period.<sup>4</sup> Thus, the overall effect would be to reduce deficits by \$233 billion over the span.<sup>5</sup>

#### **Increase Tobacco Taxes and Index Them for Inflation.**

The President proposes to approximately double the excise taxes on tobacco products, including a 94-cent increase in the tax on a pack of cigarettes, and to index those taxes for inflation after 2014. By JCT's estimates, this proposal would increase revenues by \$83 billion over the 2014–2023 period. In addition, according to CBO's estimates, the proposal would decrease outlays by about \$2 billion over that period, mainly because improvements in people's health would reduce expenditures by Medicaid and Medicare.<sup>6</sup> On net, this proposal would lower deficits by \$85 billion over the 10-year period.

**Modify Estate and Gift Taxes.** Starting in 2018, the President proposes to restore the parameters of the estate, gift, and generation-skipping transfer taxes to their 2009 levels and maintain them at those levels, without indexing them for inflation. Under this proposal, estates and gifts would be taxed at a maximum rate of 45 percent. The first \$3.5 million of an estate would be exempt from taxation, and lifetime gifts would be taxed only after they exceeded \$1 million. The proposal, along with some other changes to those taxes, would increase revenues by \$77 billion over the 2014–2023 period, JCT estimates.

4. For a discussion of the effects of this proposal on spending, see page 10.

5. For more information on using the chained CPI as a measure of inflation for federal policy, see the testimony of Jeffrey Kling, Associate Director for Economic Analysis, Congressional Budget Office, before the Subcommittee on Social Security of the House Committee on Ways and Means, *Using the Chained CPI to Index Social Security, Other Federal Programs, and the Tax Code for Inflation* (April 18, 2013), [www.cbo.gov/publication/44083](http://www.cbo.gov/publication/44083).

6. For more information on CBO's analysis of the effect of changes in tobacco taxes on federal outlays, see Congressional Budget Office, *Raising the Excise Tax on Cigarettes: Effects on Health and the Federal Budget* (June 2012), [www.cbo.gov/publication/43319](http://www.cbo.gov/publication/43319).

#### **Modify the Subsidies for Certain State and Local Bonds.**

The President proposes an alternative borrowing option for state and local governments to use instead of tax-exempt bonds. The federal government would provide subsidy payments to state and local governments that equal 28 percent of their interest costs on certain taxable bonds—known as America Fast Forward Bonds—issued after 2013.<sup>7</sup> The President also proposes to provide a higher subsidy rate—50 percent—for certain America Fast Forward Bonds issued in 2014 and 2015 to finance the building of schools. By substituting taxable bonds for tax-exempt bonds, the proposals would increase taxable interest income. According to JCT, the President's proposals would raise revenues by \$70 billion between 2014 and 2023. They would also boost subsidy payments to state and local governments, which are recorded in the federal budget as outlays, by an estimated \$86 billion over the 10 years. Thus, the net effect of those changes would be to increase the cumulative 10-year deficit by \$16 billion.

**Implement a New “Fair Share Tax.”** The President proposes a new minimum tax on individual income, which would phase in between \$1 million and \$2 million of adjusted gross income (AGI) in 2014; those thresholds would be indexed for inflation. Affected taxpayers would calculate whether the sum of their regular tax, their alternative minimum tax, the 3.8 percent surtax on their investment income, and the employee's portion of the payroll tax paid on their own behalf was less than 30 percent of their AGI (after a credit for charitable contributions); if so, they would pay an additional amount of income tax to bring their total taxes up to that level. According to JCT's estimates, this proposal would boost revenues by \$69 billion over 10 years.

#### **Impose a Financial Crisis Responsibility Fee.**

The President proposes to impose a fee on certain large U.S.-based financial institutions that would apply to their liabilities (measured as their assets adjusted for risk minus their capital, their insured deposits, and certain of their loans to small businesses). The fee would be equal to 0.17 percent of the covered liabilities. This proposal

7. For more discussion of using taxable bonds with explicit subsidies as a substitute for tax-exempt bonds, see the testimony of Frank Sammartino, Assistant Director for Tax Analysis, Congressional Budget Office, before the Senate Committee on Finance, *Federal Support for State and Local Governments Through the Tax Code* (April 25, 2012), [www.cbo.gov/publication/43047](http://www.cbo.gov/publication/43047).

would increase revenues by about \$49 billion over the 2014–2023 period, JCT estimates.

**Pursue Revenue-Neutral Business Tax Reform.** The President proposes a set of changes to business taxes that would be enacted as part of business tax reform intended to be revenue neutral overall. The specific proposals identified in the budget would have a total net effect of reducing deficits by \$66 billion over the 2014–2023 period, according to JCT. (Those estimates are shown in the memorandum to Table 3.) But the Administration has not identified the other components of the reform package that, in combination with the specified proposals, would result in no net change in revenues. Because the Administration has enunciated a goal of revenue neutrality for such a set of changes, CBO has not included the effects of the specified proposals in estimating the overall budget totals.

The specified proposals for modifying business taxes are the following:

- The President proposes changes to the U.S. system of taxing international income that would raise revenues by \$150 billion over 10 years, JCT estimates. The changes include targeting specific sources of tax avoidance associated with intangible assets (such as patents and trademarks) and modifying tax rules for calculating foreign tax credits and expenses related to foreign operations.
- The President proposes to permanently extend the tax credits for research and experimentation that are scheduled to expire at the end of 2013. He also proposes to raise the rate of the alternative simplified credit, one of two primary methods of calculating the research tax credit, from 14 percent to 17 percent. According to JCT, those proposals would reduce revenues by \$118 billion over 10 years.
- The President also proposes to permanently extend a provision (currently slated to expire at the end of 2013) that allows small businesses that invest in equipment to immediately deduct the full costs of that equipment, up to \$500,000, from their taxable income instead of spreading the costs out over time. He also proposes to index for inflation the amount that could be immediately deducted. Under current law, that amount would revert after 2013 to \$25,000 and not be indexed for inflation. Those changes in law

would decrease revenues by \$69 billion over 10 years, JCT estimates.

- The President proposes to repeal a provision of law that allows what is termed last-in, first-out accounting for inventory. That method of accounting enables firms to assume that the last, generally costlier goods added to an inventory were the first ones sold, which allows firms to deduct those higher costs more quickly than otherwise and thus defer taxes. This proposal would increase revenues by \$78 billion over the 2014–2023 period, according to JCT.
- Other proposals for business tax reform would raise revenues by \$31 billion over the 10-year period, according to JCT, and increase outlays by \$5 billion, for a net effect that would lower the cumulative deficit by \$26 billion.

### Effects on Outlays

On the spending side of the budget, the President's policies would have a modest effect on noninterest outlays, increasing them by \$25 billion (0.7 percent) in 2013 and reducing them by \$80 billion (about 0.3 percent) between 2014 and 2023, relative to projections under current law, CBO estimates. Because the President's revenue and spending proposals together would decrease deficits and thus require less federal borrowing, they would also lower interest costs—by an estimated \$92 billion over the 2014–2023 period. Thus, under the President's budget, total outlays for that 10-year period would be \$172 billion (about 0.4 percent) smaller than the amount in CBO's baseline. Measured relative to the size of the economy, total outlays would equal 22.5 percent of GDP in 2014, decline as a share of GDP through 2018, and then rise. In 2023, they would equal 21.8 percent of GDP—about 0.8 percentage points less than CBO's baseline projection for that year, though still above the 21.0 percent average seen over the past 40 years.

**Proposals That Would Affect Mandatory Spending.** On net, outlays for mandatory programs would be \$222 billion (0.8 percent) higher through 2023 under the President's budget than the amount projected under current law, according to CBO's estimates. Relative to GDP, mandatory outlays under the President's budget would equal 13.6 percent in 2014 and would dip slightly during the middle of the projection period, before rising slightly; by 2023, mandatory outlays would equal 13.8 percent of GDP, 0.1 percentage point lower than the estimate in CBO's baseline.

*Medicare.* Under current law, Medicare's payment rates for physicians' services are slated to drop by 24 percent in January 2014 and to increase by small amounts in most subsequent years. The President proposes to avoid those reductions and to develop new payment models to replace the formula in current law. But because the new models are not identified, CBO's estimate cannot encompass the details of any specific new approach to setting payment rates. According to CBO's estimates, freezing payment rates at their 2013 level for the next 10 years would increase net outlays by \$139 billion over the 2014–2023 period; that amount is included in CBO's estimate of the President's budget.

The President's budget includes numerous other proposals involving Medicare, most of which are designed to reduce the program's spending. Several provisions would modify payments to health care providers, such as hospitals and skilled nursing facilities. In addition, the President proposes to modify cost-sharing responsibilities for some Medicare beneficiaries. Additional savings would result from proposals to require manufacturers to pay rebates on drugs dispensed to low-income beneficiaries enrolled in Part D of Medicare and to reduce payment rates for certain biological drugs (products derived from living material) covered under Part B of the program. Finally, the budget includes several provisions designed to reduce waste, fraud, and abuse in Medicare. In all, those policies (other than the freeze on payment rates for physicians' services) would reduce Medicare outlays by \$364 billion over 10 years, CBO estimates.<sup>8</sup>

*Transportation Programs.* The President proposes to reclassify funding for the National Railroad Passenger Corporation (Amtrak) from discretionary to mandatory spending and to provide specified subsidies to Amtrak, states, and private rail companies only through 2018. On net, over the 2014–2023 period, this proposal would reduce discretionary outlays by \$16 billion and boost

mandatory outlays by \$8 billion. (If such subsidies were extended through 2023, there would be additional mandatory spending of roughly \$8 billion for those years.) In addition to reclassifying funding for rail subsidies as mandatory, the President would increase such funding. Mandatory funding for other surface transportation and aviation programs also would rise under the President's proposal. Higher fees for aviation security would offset some of that additional spending. Altogether, changes to transportation programs proposed by the President would increase mandatory outlays by \$141 billion over the next 10 years.

*Replace the CPI with the Chained CPI for Indexing Benefits and Tax Provisions for Inflation.* The President proposes to replace the CPI with the chained CPI for indexing certain major benefit programs as well as tax provisions. The proposal would not apply to some means-tested benefit programs (such as Medicaid, Supplemental Security Income, and the Supplemental Nutrition Assistance Program) and would include enhanced benefits for people who have been eligible for Social Security for at least 15 years. According to CBO's estimates, outlays would be \$133 billion lower over the 2014–2023 period under this proposal than the amount in CBO's baseline. Most of the savings would be in Social Security; in addition, the change would reduce outlays for refundable tax credits (such as the earned income and child tax credits), Medicare, and other programs.<sup>9</sup>

*Automatic Spending Reductions.* The President proposes to remove the automatic spending reductions specified by the Budget Control Act, which are scheduled to reduce spending for many mandatory programs through 2021.<sup>10</sup> With those automatic reductions eliminated, CBO estimates, mandatory spending under the President's budget would be \$125 billion higher over the coming decade than the amount under current law. A small portion of that change would result from canceling the mandatory spending cuts, also referred to as sequestration, in fiscal year 2013. (For this analysis, CBO incorporated an assumption that the cancellation of sequestration in 2013 that is embodied in the President's budget would occur near the

8. That figure does not include the effects on Medicare spending of two of the President's other proposals: First, it does not include the effects of the proposal to eliminate automatic spending reductions, which are discussed separately. (CBO's May 2013 baseline projections for Medicare incorporate \$81 billion in net savings from automatic procedures that would reduce payment rates for most Medicare services by 2 percent between April 2013 and March 2022.) Second, it does not include the effect on Medicare of the proposal to replace the CPI with the chained CPI. The resulting savings, which would be about \$8 billion over 10 years, are included in the estimates for that proposal.

9. As discussed on page 8, the proposed change also would affect revenues, increasing them by an estimated \$99 billion over the 2014–2023 period.

10. The same proposal would also increase funding for discretionary programs.



middle of this summer. Later enactment of the change would reduce its cost.)

*Refundable Tax Credits.* The President proposes to modify various refundable tax credits, including the earned income tax credit, the child tax credit, and the American Opportunity Tax Credit. Most notably, the American Opportunity Tax Credit and certain provisions of the earned income and child tax credits are currently scheduled to expire at the end of 2017; the President's proposal would extend them permanently. Those policy changes would increase outlays for refundable credits by an estimated \$115 billion over the 2014–2023 period, according to JCT.<sup>11</sup>

*Education and Job Training Programs.* The President's proposals for education and job training would increase mandatory spending over the next 10 years by \$106 billion. Those proposals include increasing grants to states to expand preschool programs, at an estimated cost of \$66 billion over 10 years.

Some of the President's proposals for education and job training would increase mandatory spending in 2013. In particular, a proposal to change the way interest rates for student loans are calculated would increase outlays in 2013 by \$9 billion and reduce outlays over the 2014–2023 period by \$15 billion, CBO estimates. In the near term, that proposal would avoid an increase in interest rates for certain new student loans that is scheduled to occur on July 1 and reduce interest rates on other new loans to students and parents; in later years, however, interest rates for those loans would be higher under the President's proposal than the rates under current law. A proposed expansion of a program that would set repayments of student loans on the basis of a person's earnings would increase outlays in 2013 by \$4 billion, CBO estimates. Some of those costs would be offset by a proposal to change certain payments made by guarantee agencies to the federal government. That proposal would reduce mandatory spending by \$3 billion in 2013, according to CBO's estimates.

11. The proposal to extend the American Opportunity Tax Credit would also reduce revenues by \$32 billion over the 10-year period. Other proposals affecting outlays for refundable tax credits would also reduce revenues, but by smaller amounts. In addition, outlays for refundable credits would be affected by the proposed switch to the chained CPI, which would reduce outlays for the refundable earned income and child credits by \$15 billion over 10 years. Those savings are included in the estimates for that proposal.

*Subsidies for Certain State and Local Bonds.* The proposal to provide subsidies for certain types of taxable bonds issued by state and local governments (the so-called America Fast Forward Bonds) would boost outlays by \$86 billion through 2023, JCT estimates. Combined with the corresponding revenue increase of \$70 billion, the proposal would result in a net increase of \$16 billion in the cumulative 10-year deficit.<sup>12</sup>

*Other Proposals.* All of the President's other proposals affecting mandatory spending would have the net effect of increasing spending, according to CBO's estimates, by \$6 billion over the 2014–2023 period. That figure includes the effects of higher spending for neighborhood stabilization projects and lower spending resulting from changes to the Postal Service's operations.

**Proposals That Would Affect Discretionary Spending.** For discretionary programs, CBO estimates that the President's budget would result in outlays over the next 10 years that are \$301 billion below the amount in CBO's baseline. The budget would provide less funding for overseas contingency operations and for disaster relief and recovery than the sums projected in the baseline. In addition, the President would lower the caps for 2017 through 2021 on discretionary spending that were originally set by the Budget Control Act and extend those caps through 2023. However, much of that lower spending would be offset by eliminating the automatic spending reductions that have occurred or are scheduled to occur under current law from 2013 through 2021. In total, those changes would lead to discretionary outlays that are 6 percent lower in 2016 than they were in 2012 but that would grow later in the decade; as a percentage of GDP, such outlays would fall from 8.3 percent in 2012 to 5.0 percent in 2023, 0.5 percentage points lower than the amount in CBO's baseline and the lowest level in at least the past 50 years.

*Appropriations for 2013.* For 2013, discretionary budget authority would be higher under the President's budget than the amount that has been enacted into law and is included in CBO's baseline.<sup>13</sup> In particular, the President's budget does not include the impact of the

12. For the discussion of the proposal's effects on revenues, see page 8.

13. Discretionary budget authority is the authority provided in appropriation acts to incur financial obligations that will result in immediate or future outlays.

**Table 4.****Discretionary Budget Authority Proposed by the President for 2013 and 2014, Compared with 2012 Appropriations**

(Billions of dollars)

|  | Actual,<br>2012 | President's Budget |                   | Percentage Change |             |
|--|-----------------|--------------------|-------------------|-------------------|-------------|
|  |                 | 2013 <sup>a</sup>  | 2014 <sup>b</sup> | 2012-2013         | 2013-2014   |
| <b>Defense</b>                               |                 |                    |                   |                   |             |
| Overseas contingency operations <sup>c</sup> | 115             | 87                 | 88                | -24.2             | 1.1         |
| Emergency requirements                       | 0               | *                  | 0                 | n.a.              | n.a.        |
| Other  | 554             | 552                | 553               | -0.4              | 0.1         |
| Subtotal                                     | 670             | 640                | 641               | -4.5              | 0.2         |
| <b>Nondefense</b>                            |                 |                    |                   |                   |             |
| Overseas contingency operations <sup>c</sup> | 11              | 11                 | 11                | 0                 | 0           |
| Emergency requirements                       | 0               | 41                 | 0                 | n.a.              | n.a.        |
| Other  | 517             | 517                | 506               | 0.1               | -2.2        |
| Subtotal                                     | 528             | 569                | 517               | 7.8               | -9.2        |
| <b>Total</b>                                 | <b>1,198</b>    | <b>1,209</b>       | <b>1,158</b>      | <b>0.9</b>        | <b>-4.2</b> |

Source: Congressional Budget Office.

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

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

- The only proposal in the President's budget that would affect discretionary funding in 2013 is the proposal to cancel the automatic spending reductions ordered for that year. Canceling those reductions would add \$64 billion to discretionary budget authority for 2013: \$39 billion for defense activities and \$24 billion for nondefense activities.
- The President proposes to make changes to some mandatory programs through the appropriation process. In keeping with long-standing procedures, those changes are credited against discretionary spending and are therefore included in this table. (For 2012 and 2013, any effects from such changes appear in their normal mandatory accounts and are not shown here.)
- This category consists of funding for military operations in Iraq (for 2012) and Afghanistan and for related activities. The Administration's request for 2014 is a placeholder based on the amount appropriated for 2013 before sequestration.

sequestration for 2013; canceling sequestration would increase total budget authority for the current year by \$64 billion—\$39 billion for defense activities and \$24 billion for other activities.

*Appropriations for 2014.* For 2014, the President has requested a total of \$1.16 trillion in discretionary budget authority. That figure is \$51 billion (or 4.2 percent) less than the amount that was appropriated for 2013, before the effects of sequestration, but \$13 billion (or 1.1 percent) more than the current funding for 2013 (see Table 4).

For defense discretionary programs, the President proposes to increase budget authority from 2013 to 2014 by \$2 billion (or 0.2 percent). Funding for defense activities classified as overseas contingency operations would grow by about \$1 billion, to \$88 billion in 2014.<sup>14</sup> Appropria-

tions for other defense activities would rise by less than \$1 billion, to \$553 billion under the President's request. (Total appropriations for defense programs would be \$41 billion, or 7 percent, higher than the amount provided for 2013 with the effects of sequestration incorporated.)

For nondefense discretionary programs, budget authority under the President's budget would decrease by \$52 billion (or 9.2 percent) between 2013 and 2014. (Appropriations for nondefense programs and activities would be \$28 billion [or 5 percent] less than the amounts currently provided for 2013.) That \$52 billion drop stems mainly from two sources:

- The President also requests \$4 billion in nondefense funding for overseas contingency operations.

- No new appropriations are proposed for emergency requirements; \$39 billion was provided for such purposes in 2013 (with the effects of sequestration included) in the aftermath of Hurricane Sandy, and
- Appropriations of \$11 billion from the Department of Justice's Crime Victims Fund are shifted from 2014 into 2015.

Under the President's budget, most other nondefense discretionary programs would receive funding for 2014 similar to what was appropriated for 2013 without the effects of sequestration incorporated and, thus, more than the funding currently in effect for 2013.

*Appropriations for 2015 Through 2023.* Beginning in 2015, total discretionary budget authority proposed by the President would rise by an average of about 1 percent per year—from \$1.13 trillion in 2015 to \$1.24 trillion in 2023. Among the broad proposals for that time period are these:

- Eliminating the automatic spending reductions that are currently scheduled to occur in each year through 2021,
- Retaining the caps on funding as described in the Budget Control Act—lowering those set for 2017 through 2021 and extending them through 2023,
- Reclassifying rail transportation programs as mandatory, and
- Reducing funding for overseas contingency operations. (The proposed funding includes a placeholder of \$37 billion a year through 2021 for such spending, but the Administration does not specify how much of that amount would be classified as funding for defense and does not request any such funding for 2022 or 2023.)

*Effects on Discretionary Outlays.* By CBO's estimates, outlays for discretionary programs in the President's budget would rise in 2014 but then decline slightly, from \$1.24 trillion in 2014 to \$1.21 trillion in 2017, before beginning to grow again. Such outlays would reach \$1.29 trillion in 2023, about 4 percent higher than the amount anticipated for 2014. As a percentage of GDP, discretionary outlays would fall to 5.0 percent in 2023. Cumulative outlays over the 2014–2023 period would be

\$301 billion (or 2.4 percent) less than the projected total in CBO's baseline.

#### **Effect of the President's Proposals on Net Interest.**

Under the President's budget, total government debt would be about \$1 trillion lower in 2023 than the amount in CBO's baseline. (That figure includes the effect on nonbudgetary cash flows for credit programs.) However, deficits would be higher in the first three years of the period and lower in the later years. As a result, net interest costs would be \$8 billion higher than the amount in the baseline between 2014 and 2018 but \$100 billion lower from 2019 through 2023—for a total reduction in such payments (relative to the total in the baseline) of \$92 billion. Measured in comparison with the size of the economy, net interest payments under the President's budget would amount to 3.0 percent of GDP in 2023, about 0.2 percentage points lower than the figure in the baseline and double the percentage estimated for 2014.

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

For 2013, CBO's estimate of the deficit under the President's budget is \$304 billion smaller than the shortfall estimated by the Administration; for outlays, CBO's estimate is \$204 billion lower, and for revenues, \$100 billion higher (see Table 5). Nearly all of that difference is attributable to differences in estimates for spending and revenues under current law, as opposed to different assessments of the effects that the policy proposals would have this year.

For 2014 to 2023, CBO's estimate of the cumulative deficit under the President's budget is just \$76 billion smaller than the Administration's estimate—a difference of about 1 percent. In general, CBO estimates that revenues under the President's proposals would be higher than the Administration anticipates, particularly within the next five years. CBO also estimates that noninterest outlays would be lower throughout the 10-year period. But CBO's estimate of net interest payments is much higher than the Administration's, chiefly because CBO anticipates higher interest rates in the future.

#### **Differences in Estimates of Revenues**

For 2013, CBO's estimate of revenues under the President's budget is \$100 billion, or 3.7 percent, more than the Administration's figure. The difference is largely

**Table 5.**

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

(Billions of dollars)

|   | 2013        | 2014       | 2015       | 2016       | 2017       | 2018       | 2019       | 2020        | 2021        | 2022        | 2023        | Total<br>2014-<br>2018-<br>2023 |             |
|---|-------------|------------|------------|------------|------------|------------|------------|-------------|-------------|-------------|-------------|---------------------------------|-------------|
| <b>Administration's Estimate</b>                                    |             |            |            |            |            |            |            |             |             |             |             |                                 |             |
| Deficit Under the President's Budget                                | -973        | -744       | -576       | -528       | -487       | -475       | -498       | -503        | -501        | -519        | -439        | -2,811                          | -5,271      |
| <b>Differences Between CBO's and the Administration's Estimates</b> |             |            |            |            |            |            |            |             |             |             |             |                                 |             |
| <b>Differences in Revenues<sup>a</sup></b>                          |             |            |            |            |            |            |            |             |             |             |             |                                 |             |
| Economic  | -48         | -79        | -54        | -16        | 2          | 20         | 36         | 49          | 76          | 105         | 126         | -128                            | 263         |
| Technical   | <u>147</u>  | <u>115</u> | <u>162</u> | <u>136</u> | <u>110</u> | <u>47</u>  | <u>-57</u> | <u>-121</u> | <u>-162</u> | <u>-183</u> | <u>-231</u> | <u>570</u>                      | <u>-184</u> |
| Total, Revenues   | 100         | 35         | 108        | 120        | 112        | 67         | -21        | -72         | -87         | -77         | -106        | 442                             | 79          |
| <b>Differences in Outlays<sup>b</sup></b>                           |             |            |            |            |            |            |            |             |             |             |             |                                 |             |
| <b>Mandatory</b>  |             |            |            |            |            |            |            |             |             |             |             |                                 |             |
| Economic  | 1           | 4          | *          | -2         | -6         | -7         | -10        | -13         | -16         | -17         | -18         | -10                             | -84         |
| Technical   | <u>-175</u> | <u>-52</u> | <u>-39</u> | <u>-5</u>  | <u>8</u>   | <u>-9</u>  | <u>-15</u> | <u>-12</u>  | <u>-19</u>  | <u>-10</u>  | <u>-18</u>  | <u>-98</u>                      | <u>-171</u> |
| Subtotal, Mandatory   | -173        | -48        | -38        | -7         | 2          | -16        | -25        | -25         | -34         | -28         | -35         | -107                            | -255        |
| Discretionary (Technical)   | -31         | -1         | -6         | -4         | -5         | -1         | 10         | 9           | 8           | 16          | 13          | -17                             | 38          |
| <b>Net interest</b>   |             |            |            |            |            |            |            |             |             |             |             |                                 |             |
| Economic  | *           | 4          | 7          | 9          | 30         | 54         | 56         | 57          | 55          | 51          | 45          | 104                             | 369         |
| Technical   | <u>*</u>    | <u>12</u>  | <u>6</u>   | <u>7</u>   | <u>-3</u>  | <u>-18</u> | <u>-31</u> | <u>-33</u>  | <u>-33</u>  | <u>-30</u>  | <u>-25</u>  | <u>2</u>                        | <u>-149</u> |
| Subtotal, Net Interest  | 1           | 15         | 13         | 16         | 27         | 36         | 25         | 24          | 22          | 21          | 20          | 107                             | 219         |
| Total, Outlays  | -204        | -34        | -32        | 5          | 24         | 19         | 10         | 8           | -4          | 10          | -3          | -18                             | 3           |
| <b>Total Differences<sup>a</sup></b>                                | <b>304</b>  | <b>69</b>  | <b>139</b> | <b>115</b> | <b>88</b>  | <b>48</b>  | <b>-31</b> | <b>-79</b>  | <b>-83</b>  | <b>-87</b>  | <b>-103</b> | <b>460</b>                      | <b>76</b>   |
| <b>CBO's Estimate</b>   |             |            |            |            |            |            |            |             |             |             |             |                                 |             |
| Deficit Under the President's Budget                                | -669        | -675       | -437       | -413       | -399       | -427       | -529       | -583        | -584        | -606        | -542        | -2,351                          | -5,195      |
| <b>Memorandum:</b>  |             |            |            |            |            |            |            |             |             |             |             |                                 |             |
| Total Economic Differences <sup>a</sup>                             | -49         | -88        | -62        | -23        | -23        | -27        | -10        | 5           | 36          | 72          | 99          | -223                            | -21         |
| Total Technical Differences <sup>a</sup>                            | 353         | 157        | 201        | 139        | 111        | 75         | -21        | -85         | -119        | -159        | -201        | 683                             | 98          |

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

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

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

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

attributable to the timing of the estimates. CBO's new baseline projections, which were released on May 14, 2013, reflect an unexpectedly large increase in tax payments this year accompanying individuals' income tax returns for 2012; the Administration's estimates, released

prior to the April tax-filing deadline, could not make use of that information.

For 2014 to 2018, CBO projects that revenues under the President's budget will total \$442 billion (or 2.5 percent) more than the amount that the Administration projects.

That disparity arises mostly because CBO projects more receipts from corporate income taxes, stemming from a higher average tax rate on domestic economic profits (essentially, corporations' domestic profits, with some adjustments to link them to current production).

For 2019 to 2023, CBO estimates that revenues will total about \$363 billion (or 1.6 percent) less than the amount that the Administration estimates. The divergence occurs principally because CBO anticipates slightly lower amounts of revenues from most sources. A notable exception is corporate taxes, from which CBO expects slightly higher receipts (as the net result of projections of higher domestic economic profits that more than offset the effects of a lower average tax rate on those profits during those years).

### Differences in Estimates of Outlays

For 2013, CBO's estimate of outlays under the President's budget is \$204 billion lower than the Administration's, mostly because CBO anticipates lower mandatory spending this year. CBO estimates \$173 billion less in mandatory outlays than the Administration does. The bulk of that difference—\$96 billion—stems from the amount of payments expected from Fannie Mae and Freddie Mac (such payments are reflected in the federal budget as negative outlays). CBO has incorporated recent information about the magnitude of those payments for this year, whereas the Administration compiled its estimates before that information was announced.

CBO also expects that outlays this year for the Home Affordable Modification Program and for unemployment compensation will be significantly lower than the Administration anticipates—by \$10 billion and \$9 billion, respectively. Different estimates of how the President's proposals would affect mandatory spending this year account for another \$18 billion of the difference.

CBO estimates that discretionary outlays for 2013 under the President's budget will be \$31 billion below the total estimated by the Administration. More than half of that difference—\$17 billion—stems from a difference in the estimated impact of the Administration's proposal to cancel the sequestration for 2013. The remainder stems from different projections of how quickly appropriations will be spent.

For the 2014–2023 period, differences in estimates of total outlays are quite small: CBO's estimates are lower

than the Administration's by just \$3 billion—the net result of estimates by CBO that are lower for mandatory spending, by \$255 billion; higher for discretionary spending, by \$38 billion; and higher for outlays for net interest, by \$219 billion.

About a third of the \$255 billion difference between the projections of mandatory spending over the 2014–2023 period stems from different economic assumptions, with the most significant effects on projected outlays for Social Security. Compared with the Administration, CBO projects lower cost-of-living adjustments through 2016. In addition, CBO projects lower average wages for future Social Security beneficiaries (which lead to lower initial benefits).

Two-thirds of the difference between the projections of mandatory spending derives from technical estimating differences (that is, reasons that are not attributable to different economic projections). CBO's estimates are lower than the Administration's for a number of programs:

- For veterans' benefits, the Administration projects that caseloads and benefit amounts will be higher than CBO does, so the Administration's estimates for those benefits are \$185 billion higher over the 10-year period.
- The Administration's estimates for Medicare spending are higher than CBO's by \$97 billion for technical reasons, chiefly because the Administration projects more rapid growth in spending per beneficiary.
- For civil service retirement, the Administration's estimates are higher than CBO's by \$79 billion for technical reasons.
- The Administration anticipates that more people will be collecting certain benefits than CBO does; that factor accounts for most of the Administration's higher estimates of spending for Social Security (\$71 billion) and for Supplemental Security Income (\$35 billion).

For some other programs, technical estimating differences go in the other direction, and CBO's estimates are higher:

- CBO's projections of Medicaid spending are higher than the Administration's for the 2014–2023 period;

different estimates of per-person costs account for most of the \$201 billion technical difference for that program.

- CBO's projections of outlays for commerce and housing credit are nearly \$134 billion higher than those of the Administration. That gap arises primarily because CBO's projections for 2014 through 2023 for Fannie Mae and Freddie Mac are estimates of the anticipated subsidy costs for new mortgage guarantees issued by those entities (following the budgetary practices used for federal credit programs, with an adjustment for market risk). In contrast, the Administration's estimates reflect the net cash payments to and cash receipts from those two entities.<sup>15</sup> (For 2013, CBO's estimates related to Fannie Mae and Freddie Mac reflect that cash treatment, recognizing that that approach is how the Administration has been recording such transactions thus far this year.)

By CBO's estimates, net interest outlays under the President's policies would be \$219 billion (or 4 percent)

higher for the 2014–2023 period than the Administration's figure. CBO projects higher interest rates than the Administration does for most years in the coming decade. On average for that period, CBO anticipates rates that are nearly 0.3 percentage points higher for 3-month Treasury bills and 0.4 percentage points higher for 10-year Treasury notes. Differing assumptions about the mix of securities that the Treasury will issue over the next 10 years partially offset the effects of higher interest rates.

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15. The Administration treats Fannie Mae and Freddie Mac as non-governmental organizations and records payments between the Treasury and the two entities on a cash basis. In contrast, CBO projects the budgetary impact of the two entities' operations as if they were being conducted by a federal agency, because of the degree of management and financial control that the government exercises over them. Therefore, CBO estimates the net lifetime costs—that is, the subsidy costs—of new loans and guarantees to be issued by the entities and counts those costs as federal outlays in the year of issuance. See Congressional Budget Office, *CBO's Budgetary Treatment of Fannie Mae and Freddie Mac* (January 2010), [www.cbo.gov/publication/41887](http://www.cbo.gov/publication/41887), and *Fannie Mae, Freddie Mac, and the Federal Role in the Secondary Mortgage Market* (December 2010), [www.cbo.gov/publication/21992](http://www.cbo.gov/publication/21992).

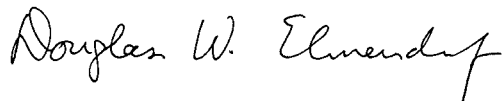


## About This Document

**T**his Congressional Budget Office (CBO) analysis of the President's budgetary proposals for fiscal year 2014 (which were released on April 10, 2013) was prepared at the request of the Senate Committee on Appropriations. In keeping with CBO's mandate to provide objective, impartial analysis, the report makes no recommendations.

Barry Blom and Christina Hawley Anthony of CBO's Budget Analysis Division prepared the report, with assistance from Pamela Greene and Santiago Vallinas and guidance from Mark Booth, Peter Fontaine, Theresa Gullo, Holly Harvey, Jeffrey Holland, Frank Sammartino, and David Weiner. The estimates described here were the work of more than 100 people at CBO and many people on the staff of the Joint Committee on Taxation.

This report and other CBO publications are available on the agency's website ([www.cbo.gov](http://www.cbo.gov)).



Douglas W. Elmendorf  
Director

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