

# Changes in CBO's Baseline Projections

## Overview

The Congressional Budget Office estimates that if no new legislation affecting spending and revenues is enacted, the budget deficit for fiscal year 2019 will total \$960 billion. That amount is \$63 billion larger than the \$896 billion deficit the agency estimated in May 2019, when it last updated its baseline budget projections.<sup>1</sup> CBO also now projects that if current laws generally remained in place, the cumulative deficit for the 2020–2029 period would be about \$12.2 trillion—\$0.8 trillion more than the \$11.4 trillion in the agency's May 2019 baseline projections. All told, outlays over that period are about 0.6 percent larger in CBO's current projections than they were in May, and revenues are about 1.0 percent smaller.

That increase in the cumulative deficit is primarily the net result of three changes in CBO's baseline projections. First, to account for the Bipartisan Budget Act of 2019 (Public Law 116-37), CBO added a total of \$1.7 trillion to its projection of the 10-year deficit (see Figure A-1). That law increased discretionary funding limits for 2020 and 2021, and CBO's baseline projections reflect the assumption that the increased funding in 2021 will continue and grow at the rate of inflation in future years. Second, supplemental appropriations for disaster relief and border security for this year, which are also projected to grow with inflation in future years, added \$255 billion to the cumulative deficit for 2020 to 2029. Partially offsetting those increases was a third change: Downward revisions to CBO's forecast of interest rates reduced the agency's projections of interest costs for the period (including the debt-service savings from the resulting reductions in deficits and debt), and thus its projections of deficits, by a total of \$1.4 trillion.

When CBO updates its baseline budget projections, it groups the revisions it makes into three categories:

- Legislative changes, which result from laws enacted since the agency published its previous baseline projections and which generally reflect the budgetary effects reported in CBO's cost estimates when the legislation was enacted;
- Economic changes, which arise from changes the agency has made to its economic forecast (including those made to incorporate the macroeconomic effects of recently enacted legislation); and
- Technical changes, which are revisions to projections that are neither legislative nor economic.

Of the \$63 billion increase in the projected deficit for 2019, \$6 billion is attributable to legislative changes, \$29 billion to economic changes, and \$29 billion to technical changes. The legislative and economic revisions that CBO has made to its projections for the 2020–2029 period were largely offsetting: Legislative changes increased projected deficits by a total of \$1.9 trillion, while economic changes reduced deficits by \$1.4 trillion. On net, technical updates to the agency's projections of revenues and outlays increased\* deficits over the period by a total of \$250 billion.

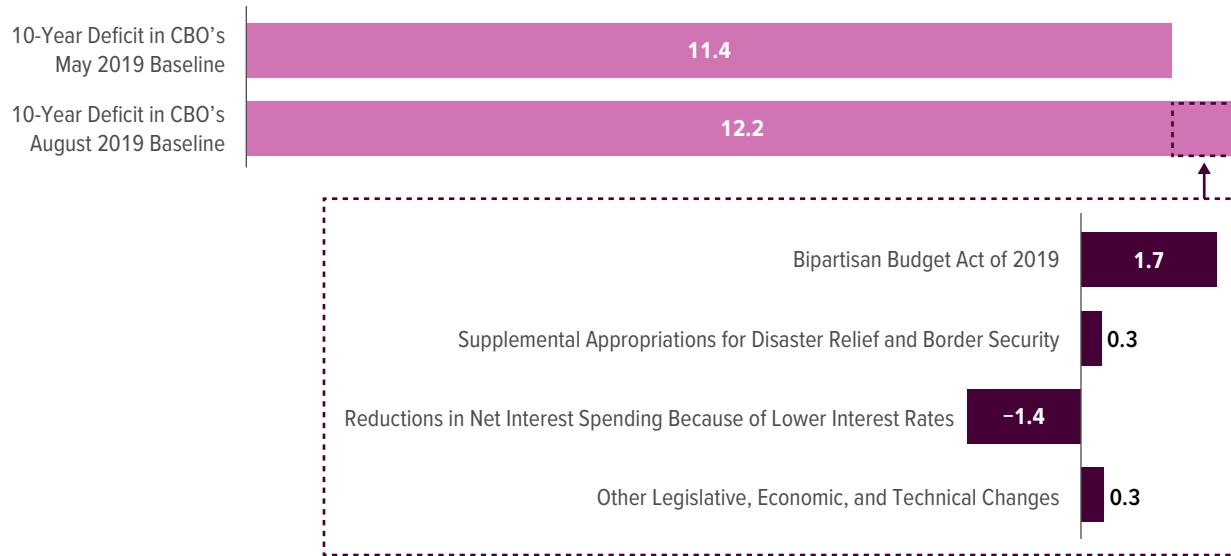
As a result of those changes, over the 2020–2029 period, *primary* deficits—that is, deficits excluding net outlays for interest—are now projected to be a total of \$1.9 trillion greater than they were in CBO's May 2019 baseline projections. That increase in projected primary deficits is offset by a reduction of \$1.1 trillion in the agency's projections of interest costs over that same period. Because projected interest rates are now lower than they were in May, debt held by the public in CBO's projections has not risen as much as it would have if the economic forecast had not changed. In May, the agency projected that debt held by the public would be \$28.5 trillion (or 92 percent of gross domestic product, or GDP) at the end of 2029; CBO now projects that the debt would reach \$29.3 trillion (or 95 percent of GDP) that year if current laws generally remained unchanged.

1. See Congressional Budget Office, *Updated Budget Projections: 2019 to 2029* (May 2019), [www.cbo.gov/publication/55151](http://www.cbo.gov/publication/55151).

Figure A-1.

**Changes in CBO's Baseline Projection of the 10-Year Deficit Since May 2019**

Trillions of Dollars



Source: Congressional Budget Office.

The amounts shown include the costs or savings in debt service resulting from the changes in deficits.

**Legislative Changes**

The largest changes CBO has made since May to its projections of deficits over the 2019–2029 period stem from recently enacted legislation. Almost all of those changes—\$6 billion this year and \$1.9 trillion over the 2020–2029 period—were to projected outlays (see Table A-1). The largest change was an increase in projections of discretionary outlays that stemmed from the higher limits on discretionary funding put in place by the Bipartisan Budget Act of 2019. Additional appropriations for disaster relief and border security also led CBO to increase its projections of outlays. Other legislation enacted since May has had a minor effect on CBO's projections.

**Bipartisan Budget Act of 2019**

Of the 10-year increase in projected outlays attributable to new legislation, \$1.7 trillion stems from the enactment of the Bipartisan Budget Act of 2019 (see Table A-2 on page 70). That law raised the caps on defense and nondefense discretionary appropriations for fiscal year 2020 by \$171 billion and for fiscal year

2021 by \$153 billion.<sup>2</sup> CBO's projections of discretionary outlays reflect the assumption that funding in 2020 and 2021 will be at or just below the new, higher caps set for those years and that it will grow with inflation thereafter.<sup>3</sup> (In accordance with section 257 of the Deficit Control Act, CBO projects funding for individual accounts in future years by applying the specified inflation rate to the most recent appropriations for those accounts.) As a result, CBO now projects higher discretionary funding through 2029. Accordingly, CBO raised its projections of outlays for the entire 2020–2029 period by \$1.5 trillion—\$0.3 trillion resulting directly from the additional appropriations projected under the new caps for 2020 and 2021, and \$1.2 trillion stemming from the higher projections for 2022 to 2029, which are based on the new 2021 funding limits.

2. The caps on discretionary appropriations were originally set by the Budget Control Act of 2011 (P.L. 112-25), as amended.
3. CBO projects that discretionary budget authority will be just below the caps in 2020. That authority is not projected to reach the new limits because inflation for defense funding from 2019 to 2020 is projected to be less than the rate of growth of the cap on such funding. For a detailed explanation, see "CBO's Baseline Budget Projections for 2020 Through 2029" on page 10.

CBO estimated that the Bipartisan Budget Act of 2019 would also reduce mandatory outlays for 2027 to 2029 by \$55 billion.<sup>4</sup> Most of that reduction—\$39 billion—is attributable to the extension of a set of across-the-board reductions (known as sequestration) on spending for certain mandatory programs (primarily Medicare) that are required under current law. The law extended that mandatory sequestration, which was set to expire in 2027, through fiscal year 2029. The rest of the reduction in projected mandatory outlays stems from a \$16 billion increase in estimated collections of customs user fees for the 2027–2029 period. Collections of those fees—which apply to vessels, vehicles, and passengers and include a merchandise processing fee—are recorded as reductions in direct spending. The fees were set to expire in 2026, but the law extended them through September 30, 2029.

All told, before debt service is taken into account, the changes that CBO made to its projections to account for the enactment of the Bipartisan Budget Act of 2019 increased the cumulative deficit for the 2020–2029 period by \$1.5 trillion. The additional federal borrowing stemming from the larger annual deficits added \$200 billion to CBO's projection of total outlays for interest on federal debt over that period.

### Supplemental Appropriations for Disaster Relief and Border Security

Two other laws enacted since May had a significant effect on CBO's projections of outlays. Those two laws provided funding for 2019 that was not constrained by the caps on discretionary funding because it was designated as an emergency requirement. Although those laws provided funding only for this year, in accordance with the statutory rules that govern CBO's projections of discretionary outlays, the agency projects that funding equal to the amount provided by those appropriations (adjusted for inflation) will continue to be provided each year from 2020 to 2029.

The first law, the Additional Supplemental Appropriations for Disaster Relief Act, 2019 (P.L. 116-20), provided \$19 billion in additional emergency funding in 2019 for several federal agencies to respond to natural disasters.<sup>5</sup> As a result of that funding increase, CBO

raised its estimate of discretionary outlays for 2019 by \$5 billion and its projections for the 2020–2029 period by a total of \$171 billion. That law also will result in \$1 billion in additional spending on mandatory programs between 2019 and 2029, primarily on the Supplemental Nutrition Assistance Program (SNAP, which helps people in low-income households to purchase food).

The second law, the Emergency Supplemental Appropriations for Humanitarian Assistance and Security at the Southern Border Act, 2019 (P.L. 116-26), provided \$5 billion in emergency funding this year to expand federal agencies' capacity to respond to foreign nationals who attempt to enter the United States through the southern border and to provide them humanitarian assistance—including food, shelter, and medical services.<sup>6</sup> To account for that increase in funding, CBO raised its estimate of discretionary outlays for 2019 by \$1 billion and its projections for the 2020–2029 period by a total of \$52 billion.

All told, as a result of those two laws, CBO increased its projection of outlays for the 2020–2029 period by a total of \$224 billion. The increase in federal borrowing stemming from those two laws would add a total of \$31 billion to outlays for interest on federal debt over the 10-year period, CBO estimates.

### Economic Changes

The economic forecast that underlies CBO's baseline budget projections includes the agency's projections of GDP, income, the unemployment rate, interest rates, inflation, and other factors that affect federal spending and revenues. The current projections are based on the latest economic forecast, which was completed in July 2019; the agency's May 2019 budget projections were based on the economic forecast published in January 2019. The current economic forecast includes the agency's estimates of the effects of the Bipartisan Budget Act of 2019 on the economy.

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

5. See Congressional Budget Office, cost estimate for Senate Amendment 250 to H.R. 2157, the Additional Supplemental

Appropriations for Disaster Relief Act, 2019 (May 23, 2019), [www.cbo.gov/publication/55289](http://www.cbo.gov/publication/55289).

6. See Congressional Budget Office, cost estimate for S. 1900, the Emergency Supplemental Appropriations for Humanitarian Assistance and Security at the Southern Border Act, 2019 (June 21, 2019), [www.cbo.gov/publication/55389](http://www.cbo.gov/publication/55389).

Table A-1.

**Changes in CBO's Baseline Projections of the Deficit Since May 2019**

Billions of Dollars

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	Total	
												2020–2024	2020–2029
Deficit in CBO's May 2019 Baseline	-896	-892	-962	-1,116	-1,122	-1,071	-1,189	-1,179	-1,162	-1,399	-1,310	-5,162	-11,399
<b>Legislative Changes</b>													
Changes in Revenues	0	*	*	*	*	*	*	*	*	*	*	*	*
Changes in Outlays													
Mandatory outlays	*	1	*	*	*	*	*	*	6	-24	-37	1	-54
Discretionary outlays													
Defense	1	52	69	77	83	86	89	91	93	96	98	367	834
Nondefense	5	56	77	86	91	94	97	99	102	105	107	404	914
Subtotal, discretionary	6	108	147	163	173	180	185	191	195	200	205	771	1,748
Debt service	*	1	4	8	13	18	24	30	37	44	50	45	232
Total Change in Outlays	6	110	151	171	186	198	210	221	239	220	218	817	1,926
<b>Increase (-) in the Deficit From Legislative Changes</b>	<b>-6</b>	<b>-110</b>	<b>-151</b>	<b>-171</b>	<b>-186</b>	<b>-198</b>	<b>-210</b>	<b>-221</b>	<b>-239</b>	<b>-220</b>	<b>-218</b>	<b>-817</b>	<b>-1,926</b>
<b>Economic Changes</b>													
Changes in Revenues													
Payroll taxes	-11	-11	-9	-8	-10	-11	-13	-14	-15	-15	-16	-50	-123
Individual income taxes	-20	-9	6	12	14	10	5	5	5	4	4	33	55
Corporate income taxes	-8	-8	-3	-1	-2	-4	-5	-3	-1	-1	*	-18	-28
Other	2	10	-1	-6	-9	-13	-14	-15	-14	-14	-14	-19	-90
Total Change in Revenues	-38	-19	-7	-3	-7	-18	-28	-27	-25	-25	-26	-54	-186
Changes in Outlays													
Mandatory outlays													
Social Security	0	-2	-6	-8	-9	-10	-10	-11	-12	-12	-13	-35	-93
Student loans	0	-5	-5	-4	-4	-4	-4	-4	-4	-5	-4	-22	-43
Medicare	*	*	*	*	1	2	3	3	4	5	6	3	24
Medicaid	-1	-1	-1	-2	-2	-2	-2	-2	-2	-3	-2	-8	-20
Unemployment compensation	1	*	-5	-8	-1	1	-1	-1	-1	-1	-1	-12	-17
Other	1	1	*	*	-1	-1	-1	-2	-2	-2	-2	*	-9
Subtotal, mandatory	1	-7	-16	-21	-15	-14	-16	-17	-18	-18	-17	-74	-158
Discretionary outlays	0	-1	-1	*	*	*	*	-1	-1	-1	-1	-2	-5
Net interest													
Effect of interest rates and inflation	-10	-69	-103	-127	-135	-136	-131	-130	-131	-133	-136	-570	-1,231
Debt service	*	*	-2	-5	-9	-13	-17	-21	-26	-30	-35	-30	-159
Subtotal, net interest	-10	-69	-105	-132	-145	-150	-148	-152	-156	-163	-171	-599	-1,389
Total Change in Outlays	-9	-76	-122	-153	-160	-164	-165	-169	-174	-182	-189	-675	-1,553
<b>Increase (-) or Decrease in the Deficit From Economic Changes</b>	<b>-29</b>	<b>57</b>	<b>115</b>	<b>150</b>	<b>153</b>	<b>145</b>	<b>137</b>	<b>142</b>	<b>149</b>	<b>156</b>	<b>162</b>	<b>621</b>	<b>1,367</b>

Continued

Table A-1.

Continued

**Changes in CBO's Baseline Projections of the Deficit Since May 2019**

Billions of Dollars

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	Total	
												2020–2024	2020–2029
<b>Technical Changes</b>													
<b>Changes in Revenues</b>													
Corporate income taxes	-9	-21	-22	-21	-21	-24	-23	-15	-10	-17	-13	-108	-186
Individual income taxes	-33	-23	-18	-17	-16	-14	-13	-16	-16	-18	-20	-88	-172
Payroll taxes	25	12	12	11	10	11	14	14	15	16	16	56	131
Other	-4	-10	-7	-4	-2	-2	-2	-2	-2	-2	-2	-26	-37
Total Change in Revenues	-22	-42	-35	-30	-29	-29	-24	-19	-14	-22	-18	-166	-263
<b>Changes in Outlays</b>													
<b>Mandatory outlays</b>													
Medicare	5	2	-5	-12	-7	-7	-8	-10	-12	-13	-13	-28	-84
Student loans	0	3	4	3	3	3	3	3	4	4	4	16	34
Other	5	13	*	-2	-1	-1	-2	-2	-3	-4	-4	8	-5
Subtotal, mandatory	10	19	-1	-12	-6	-5	-7	-8	-11	-13	-13	-4	-56
Discretionary outlays	-3	*	*	*	*	*	*	*	*	*	*	*	-1
<b>Net interest</b>													
Debt service	*	1	2	3	4	5	5	6	6	7	7	15	47
Other	*	1	*	-1	-1	-1	*	*	*	*	-1	-2	-4
Subtotal, net interest	*	2	2	2	3	4	5	6	6	7	7	13	44
Total Change in Outlays	7	21	1	-9	-3	-2	-2	-2	-5	-6	-6	9	-13
<b>Increase (-) in the Deficit From Technical Changes</b>	<b>-29</b>	<b>-63</b>	<b>-36</b>	<b>-21</b>	<b>-26</b>	<b>-28</b>	<b>-22</b>	<b>-17</b>	<b>-9</b>	<b>-16</b>	<b>-12</b>	<b>-174</b>	<b>-250</b>
<b>All Changes</b>													
<b>Increase (-) in the Deficit</b>	<b>-63</b>	<b>-116</b>	<b>-72</b>	<b>-42</b>	<b>-60</b>	<b>-81</b>	<b>-95</b>	<b>-96</b>	<b>-98</b>	<b>-80</b>	<b>-68</b>	<b>-371</b>	<b>-809</b>
Deficit in CBO's August 2019 Baseline	-960	-1,008	-1,034	-1,159	-1,181	-1,151	-1,284	-1,274	-1,260	-1,479	-1,378	-5,533	-12,208
<b>Memorandum:</b>													
<b>Changes in Revenues and Outlays</b>													
Revenues	-60	-61	-42	-33	-37	-48	-52	-46	-39	-48	-44	-220	-449
Outlays	4	55	31	9	23	33	43	50	60	32	24	151	360
<b>Changes in Primary Deficit and Net Interest</b>													
Primary deficit	-73	-181	-171	-164	-188	-208	-214	-211	-211	-192	-182	-912	-1,923
Net interest	10	65	98	121	128	127	119	115	113	113	114	541	1,114

Source: Congressional Budget Office.

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

The changes that CBO has made to its economic forecast since January have increased its estimate of the deficit for 2019 by \$29 billion and decreased its projections of deficits for the 2020–2029 period by a total of \$1.4 trillion.

A decrease in projected net interest outlays, slightly offset by a decrease in projected revenues, accounts for most of the latter change.

Table A-2.

**Effects of the Bipartisan Budget Act of 2019 on CBO's Baseline Projections of the Deficit**

Billions of Dollars

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	Total		
												2020–2029	2020–2029	
Increase in the Caps on Discretionary Funding														
Defense outlays	0	51	68	27	11	7	3	0	0	0	0	0	164	167
Nondefense outlays	0	45	60	27	10	6	3	0	0	0	0	0	148	151
Subtotal	0	95	128	54	22	13	6	0	0	0	0	0	312	318
Increase in Projected Funding After 2021														
Defense outlays	0	0	0	48	69	76	83	88	90	93	95	95	193	642
Nondefense outlays	0	0	0	39	60	68	73	78	80	82	84	84	167	565
Subtotal	0	0	0	87	129	144	156	166	171	175	179	179	360	1,207
Mandatory Outlays														
Extension of customs user fees	0	0	0	0	0	0	0	0	-1	-7	-8	0	0	-16
Extension of mandatory sequestration	0	0	0	0	0	0	0	0	7	-17	-29	0	0	-39
Subtotal	0	0	0	0	0	0	0	0	6	-24	-37	0	0	-55
Increase in Debt-Service Costs	0	1	4	7	11	16	21	26	32	38	44	39	39	200
<b>Increase in the Deficit</b>	<b>0</b>	<b>97</b>	<b>132</b>	<b>149</b>	<b>162</b>	<b>173</b>	<b>183</b>	<b>192</b>	<b>209</b>	<b>189</b>	<b>186</b>	<b>186</b>	<b>711</b>	<b>1,670</b>

Source: Congressional Budget Office.

**Changes in Outlays**

The revisions that CBO made to its economic forecast lowered its estimate of outlays for the current year by \$9 billion and decreased its projections of outlays for the 2020–2029 period by \$1.6 trillion (or 3 percent). Most of the reduction in outlays over that period stems from the downward revision in the agency's forecast of interest rates, which reduced its projections of net interest costs by \$1.2 trillion before the change in debt service associated with the smaller projected deficits is accounted for. When those debt-service savings are included, the revisions to the economic forecast lowered net interest costs by \$1.4 trillion.

**Mandatory Outlays.** Because of changes the agency made to its economic forecast, CBO increased its estimate of mandatory spending for 2019 by \$1 billion and decreased its projections for the 2020–2029 period by \$158 billion. The largest economic changes were in CBO's projections for Social Security.

*Social Security.* Projected outlays for Social Security over the 2020–2029 period declined by a total of \$93 billion

(or 1 percent), primarily because CBO reduced its estimates of the cost-of-living adjustments (COLAs) that will be made to beneficiaries' payments each January over that period. Social Security's COLAs are based on changes in the consumer price index for urban wage earners and clerical workers (CPI-W). Because of changes CBO made to its inflation forecast, it reduced its projections of the COLAs for 2020 and 2021 by 0.3 percentage points (or roughly 14 percent and 12 percent, respectively) and its projection for 2022 by 0.1 percentage point (or 4 percent). CBO also reduced its projection of wages, which led to lower projected Social Security benefits for new recipients.

*Student Loans.* CBO reduced its projection of the costs of student loans for the 2020–2029 period by a total of \$43 billion because it now forecasts lower interest rates on federal borrowing than it did in January. As prescribed by the Federal Credit Reform Act of 1990 (FCRA), CBO estimates the net cost of student loans to the federal government by discounting the value of expected future loan payments to express the value of those payments in today's dollars and then subtracting

that present-value amount from the loan disbursement.<sup>7</sup> Those values are computed using interest rates on federal borrowing as the discount rates.<sup>8</sup> When those interest rates go down, the value of future payments to the federal government increases, thus reducing the net cost of the loans. (That reduction was largely offset by a \$34 billion increase in costs for student loans that stems from technical changes; that increase is discussed below.)

*Medicare.* CBO increased its projections of Medicare spending for the 2020–2029 period by \$24 billion (or 0.3 percent) because of revisions it made to its economic forecast. Under current law, payment rates for much of Medicare's fee-for-service sector (such as hospital care and services provided by home health agencies and skilled nursing facilities) are updated automatically. Those updates are based on changes in the prices of the labor, goods, and services that health care providers purchase and include an adjustment to account for economywide gains in productivity (the ability to produce the same output using fewer inputs, such as hours of labor) over a 10-year period. CBO now anticipates slightly larger updates between 2020 and 2029 than it did previously—a change that increases Medicare outlays in CBO's baseline projections.

*Medicaid.* The agency lowered its projections of federal Medicaid spending for the 2020–2029 period by \$20 billion because it reduced its forecasts of unemployment and of inflation. The unemployment rate in CBO's current forecast is lower than it was in the agency's January forecast in every year of the 2020–2029 period, and especially in 2022 and 2023. In those years, the unemployment rate is now projected to be 4.1 percent and 4.4 percent instead of 4.5 percent and 4.8 percent, respectively. CBO also revised downward its projections of growth in the consumer price index for urban

households (CPI-U) and in the employment cost index (ECI) over the first few years of the projection period because new data indicate that inflation will be weaker than previously anticipated. Fewer people are expected to enroll in Medicaid when unemployment is lower, and average benefit costs are projected to be smaller as a result of lower inflation.

*Unemployment Compensation.* CBO lowered its projection of spending on unemployment benefits for the 2020–2029 period by \$17 billion primarily because it reduced its projections of the unemployment rate.

*Other Mandatory Programs.* The agency updated its projections of outlays for a number of other mandatory programs to reflect changes it made to its economic forecast that resulted in both upward and downward adjustments to such outlays. On net, those changes decreased projected outlays for the 2020–2029 period by a total of \$9 billion.

**Discretionary Outlays.** CBO's baseline projections generally reflect the assumption that funding for discretionary programs keeps pace with inflation. Changes to the measures of inflation that CBO is required to use to develop its baseline projections of discretionary funding drove the economic changes in discretionary outlays. For discretionary funding related to federal personnel, the agency uses the employment cost index for wages and salaries to prepare its projections; for other types of discretionary funding, the agency uses the GDP price index. As a result of reductions in the agency's forecasts of those measures, discretionary funding over the 2020–2029 period is now projected to be slightly lower than previously projected, and outlays for that period are \$5 billion less in the agency's current baseline projections than they were in the May 2019 projections.

**Net Interest.** Economic changes have reduced CBO's baseline projections of net interest costs for the 2020–2029 period by \$1.4 trillion. The main reason for that reduction is that CBO has lowered its forecasts of both short- and long-term interest rates on Treasury securities since January. CBO decreased projected interest rates for 2020 to 2024 in its economic forecast by an average of nearly 100 basis points (or nearly 30 percent) each year. The agency also lowered projected interest rates for the 2025–2029 period, though by smaller amounts; on average, rates projected for those years decreased by about 50 basis points (or roughly 15 percent). (For further

7. See Justin Humphrey, analyst, Congressional Budget Office, "How the Government Budgets for Student Loans" (presentation at the Postsecondary National Policy Institute, January 25, 2018), [www.cbo.gov/publication/53511](http://www.cbo.gov/publication/53511).

8. An alternative method would be to use market-based discount rates; such an approach is referred to as a fair-value method. The discount rate is higher under the fair-value method, so the value of future payments is lower and the estimated costs of student loans higher than under the FCRA method. In CBO's view, the fair-value approach provides a more comprehensive measure than FCRA estimates of the costs of student loans. See Congressional Budget Office, *Fair-Value Estimates of the Cost of Federal Credit Programs in 2020* (May 2019), [www.cbo.gov/publication/55278](http://www.cbo.gov/publication/55278).

explanation of those revisions, see “Comparison With CBO’s January 2019 Projections” on page 58.) As a result, CBO lowered the projected average interest rate on debt held by the public over the 2020–2029 period by roughly 70 basis points. Primarily because of the lower projected interest rates, CBO decreased its projection of net interest outlays (and thus of deficits) for the 2020–2029 period by \$1.2 trillion before accounting for the resulting change in the amount of federal debt. Those debt-service savings associated with the smaller projected deficits are estimated to amount to \$159 billion, bringing the total reduction in net interest outlays for the 2020–2029 period from economic changes to \$1.4 trillion.

### Changes in Revenues

As a result of revisions the agency made to its economic forecast, CBO reduced its estimate of revenues for 2019 by \$38 billion (or 1 percent) and its projections for 2020 through 2029 by a total of \$186 billion (or less than 1 percent). The reduction in revenues for 2019 stems primarily from lower estimates of wages and salaries and of proprietors’ income, which brought down projections of individual income and payroll taxes. In addition, CBO reduced its estimate of corporate tax receipts for the year because it lowered its projection of domestic economic profits in 2019.

The \$186 billion reduction in projected revenues for 2020 through 2029 stems mostly from lower projections of the growth of GDP and of associated taxable incomes—primarily wages and salaries and proprietors’ income. In addition, CBO lowered its projections of interest rates and of imports and increased its projections of domestic and foreign profits; those updates to the agency’s economic forecast also affected the baseline revenue projections. Over the next decade, the total percentage reduction in CBO’s projections of revenues that is attributable to economic factors (0.4 percent) is about the same as the downward revision in the agency’s GDP forecast (0.4 percent).

**Payroll Taxes.** Incorporating the latest economic forecast in its budget projections, CBO lowered its projection of payroll tax revenues for the 2020–2029 period by \$123 billion (or less than 1 percent). Nearly all of that reduction stems from the agency’s lowering its projections of wages and salaries and of proprietors’ income for the next 10 years by \$1.7 trillion.

**Individual Income Taxes.** Economic changes raised CBO’s projection of total individual income tax revenues

over the next decade by \$55 billion (or less than 1 percent). The largest sources of the revisions to individual income taxes were the reductions in projections of wages and salaries and of proprietors’ income, but taken together, other smaller changes that the agency has made to its economic forecast since January more than offset those reductions over the next decade. CBO lowered its projection of interest paid on owner-occupied housing by about \$700 billion, which in turn reduced its projections of deductions for mortgage interest and raised income tax receipts. The agency increased its estimates of the expected returns on assets in retirement plans, boosting projections of taxable withdrawals over the next decade by almost \$400 billion. Moreover, CBO lowered its forecast of inflation; because the tax brackets and other parameters of the individual income tax system are indexed to inflation, lower inflation would push a larger portion of any given amount of taxable income into higher tax brackets and thus raise income tax receipts.

**Corporate Income Taxes.** CBO lowered its projection of corporate income tax revenues for 2020 to 2029 by \$28 billion (or 1 percent). Corporate profits, both domestic and foreign, for most of the next decade are larger in CBO’s current economic forecast than they were in the previous forecast. The increase in projections of domestic corporate profits boosted projected revenues, but those increases in revenues were more than offset by the combined effects of other changes in CBO’s current economic forecast, particularly higher foreign profits and lower interest rates. The increase in projected foreign profits would result in corporations’ claiming larger credits for their foreign earnings, and the lower interest rates would mean that a larger portion of corporations’ net interest expenses would fall below the new limitation on such expenses and thus be deductible from their current income tax liability.

**Other Revenues.** In response to announcements made by the Federal Open Market Committee (FOMC) since January 2019, CBO increased its projection of the amount of Treasury securities that the Federal Reserve will purchase early in the forecast period.<sup>9</sup> Those additional purchases would, all else being equal, increase

9. The analysis does not incorporate changes that would result from the FOMC’s announcement on July 31, 2019, that provided additional detail regarding the composition of assets that the Federal Reserve would purchase. That announcement was made after the analysis for this publication was completed. CBO expects that incorporating that detail into its baseline would lower its projection of the Federal Reserve’s remittances for the 2020–2029 period.



interest earned by the central bank on its assets over the forecast period and the amount of interest that it pays to financial firms on the reserves they hold at the Federal Reserve. The lower interest rates in CBO's current economic forecast would partially offset those increases. On net, the additional expenses exceed the increase in interest income in CBO's projections. That change, along with other factors, lowered remittances from the Federal Reserve to the Treasury by \$69 billion (or 10 percent) over the 10-year period.

The agency also lowered its projections of imports over the 10-year period by a total of \$1 trillion (or 3 percent). That change in the economic forecast reduced CBO's projections of revenues from customs duties for 2020 through 2029 by \$38 billion (or 4 percent). (That reduction was largely offset by the technical changes to customs duties discussed below.)

### Technical Changes

Technical changes—that is, changes that are neither legislative nor economic—increased CBO's estimate of the deficit in 2019 by \$29 billion and its projections of deficits over the 2020–2029 period by a total of \$250 billion. A downward revision in the agency's projections of revenues accounts for most of that change.

### Changes in Revenues

For various technical reasons, CBO lowered its projections of revenues in 2019 by \$22 billion (or less than 1 percent). Tax collections from individual and corporate income taxes have been smaller in recent months than CBO estimated in January—and by more than the currently available economic data can explain. The main factors responsible for the shortfall will become clearer as additional data from tax returns and other sources become available. In addition, CBO has reduced the projection of other receipts in 2019 to reflect the fact that collections from the penalty on some employers that have at least 50 full-time equivalent employees and that do not offer health insurance coverage that meets certain standards have been less than anticipated.

All told, the technical changes that CBO has made have lowered its revenue projections for 2020 through 2029 by a total of \$263 billion. Again, reductions in projected income taxes and collections of penalties were two of the main factors contributing to that downward revision, but those changes were partially offset by increases in projected payroll taxes and customs duties.

**Corporate Income Taxes.** CBO has lowered its projections of corporate income tax receipts for the next decade by a total of \$186 billion because of modeling changes and new data from corporate tax returns on deductions and income for 2017. The most significant modeling changes are intended to better reflect the historical relationships between the corporate income and expenses accounted for in the national income and product accounts (NIPAs) and the income and expenses reported by businesses on their tax returns. Previously, most differences between the NIPA measure of profit and the tax measure were estimated by projecting those items to grow with broad measures of economic activity; now CBO models those differences in greater detail.

Collections of corporate income taxes in 2019 have been less than they were projected to be in January. The extent to which those smaller collections (as well as the recent weakness in individual income tax collections) are related to underlying economic activity, the effects of the 2017 tax act, or other factors is not yet known. (For a discussion of what CBO has learned from recent data about the effects of the 2017 tax act, see Box 1-1 on page 12.) Alternative causes of the weakness would have differing implications for future receipts. For example, if the weakness results from an underlying change in the relationship between aggregate economic income and reported taxable income, it may be expected to persist permanently.<sup>10</sup> By contrast, if provisions of the 2017 tax act caused businesses to take more deductions in the current year than CBO anticipated rather than delay them for future use, the present weakness in collections would not be expected to persist; indeed, if businesses were accelerating deductions, it would suggest that receipts of corporate income taxes would be stronger in future years. Until the underlying causes are known, CBO anticipates that the unexplained weakness will persist and gradually dissipate over the next several years; the agency has reduced its projections of corporate income taxes during the first half of the decade accordingly.

**Individual Income Taxes.** The agency has lowered its projections of individual income tax receipts over the 2020–2029 period by \$172 billion. Part of that

10. After CBO completed this analysis, the Bureau of Economic Analysis released its annual revision of historical economic data. That revision included significant reductions in estimated corporate profits for 2017 and 2018, which probably explain part of the weakness in corporate income tax collections. For a discussion of the revisions, see Box 2-1 on page 30.

revision results from new data from the Social Security Administration that indicate that the share of taxes withheld from workers' paychecks in 2018 that went to payroll taxes (instead of income taxes) was larger than anticipated. As a result, CBO lowered its estimate of the amount of income taxes that were collected in 2018 and its projections of such collections in future years. Those changes were mostly offset by the upward revision to payroll taxes described below.

Further reducing CBO's projections of individual income tax receipts over the next several years are weaker-than-anticipated estimated payments for 2019 taxes. The recent payment data are difficult to interpret because taxpayers have discretion to adjust their estimated payments for various reasons. For example, some may have adjusted those payments to reflect recent changes in income, and some may have adjusted their withholding or estimated payment amounts after being surprised by the size of their final tax payment or refund when filing their 2018 return. Furthermore, taxpayers with higher income often take advantage of automatic six-month filing extensions and thus will not file their 2018 tax returns until October 2019.

The most significant factor leading CBO to lower its projections of individual income tax receipts in the latter half of the decade was that the agency reduced its projections of taxable withdrawals from retirement accounts, in response to recent data indicating that assets in retirement accounts are worth less than previously anticipated.

**Payroll Taxes.** The agency has increased its projections of payroll taxes throughout the next decade by a total of \$131 billion. That revision was made primarily because new data from the Social Security Administration indicate that the payroll tax base in 2018 was larger than CBO had projected.

**Other Revenues.** CBO lowered its projection of revenues from other sources for the 2020–2029 period by \$37 billion. The most significant change among those revenue sources was a reduction in the projected collections of penalties from some employers that have at least 50 full-time-equivalent employees and that do not offer health insurance coverage that meets certain standards. Although that penalty went into effect for coverage in 2015, the first penalties were not collected until 2019, and thus far, those collections have been lower than CBO anticipated. Consequently, CBO has reduced its

projections of the collections of those penalties for the 2020–2029 period by \$48 billion.

The agency has also increased its projections of customs duties for the next decade by a total of \$33 billion for technical reasons. That change reflects actions by the Administration that increased tariffs on a large share of imports from China from 10 percent to 25 percent in May 2019. In addition, the Administration has made certain types of products and products from certain countries exempt from tariffs; most notably, the Administration has exempted Canada and Mexico from tariffs on steel and aluminum that were imposed in 2018. CBO's projections of customs duties incorporate the assumption that the tariffs in place as of July 25, 2019, will continue permanently, without any changes.<sup>11</sup>

### Changes in Outlays

Because of technical updates—largely for mandatory spending programs—CBO increased its estimate of outlays in 2019 by \$7 billion and decreased its projections of outlays over the 2020–2029 period by a total of \$13 billion.

**Mandatory Outlays.** Technical changes made by CBO increased its estimate of mandatory outlays in the current year by \$10 billion and decreased its projections of such outlays for the 2020–2029 period by \$56 billion (or less than 1 percent).

**Medicare.** On the basis of actual outlays through June, CBO now estimates that net Medicare spending in fiscal year 2019 will exceed its previous projections by about \$5 billion (or 1 percent). Two factors account for that difference: higher-than-expected spending for Medicare Advantage stemming from annual payment adjustments to account for unanticipated spending increases in the current and previous calendar years, and less-than-projected receipts of premiums paid by Medicare beneficiaries. Additionally, CBO lowered its projection of outlays for Medicare Part D (prescription drug coverage) over the 2020–2029 period by \$85 billion because the Administration withdrew its proposed rule that would

11. On August 1, 2019, the President announced that tariffs would be imposed on an additional \$300 billion of Chinese imports beginning on September 1, 2019; on August 13, the U.S. Trade Representative announced that those tariffs would be delayed on certain products. Those scheduled changes to tariffs are not included in CBO's current baseline projections.

have eliminated the existing safe-harbor provision for pharmaceutical rebates.<sup>12</sup>

*Student Loans.* For technical reasons, CBO increased its projections of the costs of student loans over the 2020–2029 period by \$34 billion. That increase, which stems largely from changes to projections of the characteristics and income of borrowers in income-driven repayment plans, mostly offsets the \$43 billion decrease in projected student loan costs attributable to economic changes (discussed above).

*Other Mandatory Programs.* Technical changes increased CBO's estimate of outlays for other mandatory programs in 2019 by \$5 billion but decreased projections of such outlays for the 10-year period by \$5 billion. The largest of those changes was a \$15 billion increase in projected spending by the Commodity Credit Corporation in 2020 resulting from the Administration's announcement

that it would take actions to assist farmers in response to retaliatory tariffs imposed on their goods by U.S. trading partners and other trade disruptions.<sup>13</sup> Technical changes reduced the agency's projections of spending for most other mandatory programs by small amounts, resulting in the net decrease in projections of other mandatory outlays for the 2020–2029 period.

**Discretionary Outlays.** Technical updates reduced CBO's estimate of discretionary outlays in 2019 by \$3 billion and its projections of such outlays over the 2020–2029 period by \$1 billion. Those changes stem from adjustments made to better reflect the recent rates at which funding for various discretionary programs has been spent.

**Net Interest.** Technical changes increased CBO's projections of net interest outlays for the 2020–2029 period by \$44 billion. That increase results from two partly offsetting effects. Technical changes to revenues and other outlays boosted projected deficits by \$203 billion, and the resulting higher debt-service costs added a total of \$47 billion to projected deficits over the 2020–2029 period. But interest costs for that period are now projected to be \$4 billion less than they were in CBO's May 2019 baseline projections because the agency has made slight changes to its projections of the mix of securities that the Treasury will use in its borrowing on the basis of actual debt issuance since that baseline was published.

12. The existing safe harbor is for rebates paid by pharmaceutical manufacturers to health plans and pharmacy benefit managers (PBMs) in Medicare Part D and Medicaid managed care. It protects those parties from liability or penalty in specific situations defined in regulations implementing the anti-kickback statute, which prohibits offering or accepting payments to induce use of services reimbursable under federal health care programs. Eliminating the safe harbor would have effectively made it illegal for drug manufacturers to pay rebates to health plans or PBMs in those programs in return for coverage or preferred treatment of their drug. After the Administration withdrew the rule, CBO also lowered its projections of Medicaid spending over the 2020–2029 period by \$4 billion. For more information, see Congressional Budget Office, "Incorporating the Effects of the Proposed Rule on Safe Harbors for Pharmaceutical Rebates in CBO's Budget Projections—Supplemental Material for *Updated Budget Projections: 2019 to 2029*" (May 2019), [www.cbo.gov/publication/55151](https://www.cbo.gov/publication/55151).

13. See Department of Agriculture, "USDA Announces Support for Farmers Impacted by Unjustified Retaliation and Trade Disruption" (press release, May 23, 2019), <https://go.usa.gov/xyuw2>.

