APPENDIX

A

Changes in CBO's Baseline Projections Since June 2017

Overview

The Congressional Budget Office anticipates that in the absence of further legislation affecting spending and revenues, the budget deficit for fiscal year 2018 will total $804 billion. That amount is $242 billion larger than the $563 billion deficit that CBO projected in June 2017, when the agency published its previous baseline (see Table A-1).[1] CBO now projects that the cumulative deficit for the 2018–2027 period would be about $1.6 trillion larger than shown in its June projections—$11.7 trillion rather than $10.1 trillion—if current laws generally remained the same. All told, in CBO's new projections, revenues over that period are about 2 percent less, and outlays are about 1 percent more, than the agency projected last June.

The differences between CBO's current projections and those it published in June consist of three types of changes:

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

The increase in the projected deficit for 2018 stems primarily from laws enacted since the June baseline; CBO estimates that the effects of those laws will boost this year's deficit by $271 billion. That increase is slightly offset by changes related to CBO's updated economic forecast and by technical revisions to projections, which together reduce the estimated deficit for 2018 by $29 billion.

Legislative changes—which are estimated to reduce revenues and increase outlays—led CBO to increase its projection of the cumulative deficit over the 2018–2027 period by $2.7 trillion. Those changes were offset in part by the effects of revisions to CBO's economic forecast, which led to $1.0 trillion in reductions to projected deficits, almost entirely because of increased projections of revenues. (About half of that revenue increase stems from macroeconomic feedback related to Public Law 115-97, referred to here as the 2017 tax act.) Technical updates to the agency's projections of revenues and outlays largely offset one another, decreasing the 10-year total deficit by $57 billion.

Legislative Changes

The largest changes since June 2017 in CBO's projections of the deficit—both for the current year and for the 2018–2027 period—stem from recently enacted legislation, most notably, the 2017 tax act. Other new laws with significant budgetary effects include the Bipartisan Budget Act of 2018 (P.L. 115-123) and the Consolidated Appropriations Act, 2018 (P.L. 115-141). (For a more detailed discussion of the effects of the 2017 tax act, see Appendix B.) In total, legislative changes reduce projected revenues over the 2018–2027 period by $1.7 trillion (or 4 percent) and increase projected outlays by $1.0 trillion (or 2 percent).

Legislative Changes in Revenues

As a result of legislative changes, CBO has reduced its projections of revenues by $163 billion for 2018 and by $1.7 trillion for the 2018–2027 period. Almost all of that decrease stems from the 2017 tax act. The revisions

1. See Congressional Budget Office, *An Update to the Budget and Economic Outlook: 2017 to 2027* (June 2017), www.cbo.gov/publication/52801.

Table A-1.

Changes in CBO's Baseline Projections of the Deficit Since June 2017

Billions of Dollars

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	Total 2018–2022	Total 2018–2027
Deficit in CBO's June 2017 Baseline	-563	-689	-775	-879	-1,027	-1,057	-1,083	-1,225	-1,352	-1,463	-3,933	-10,112
Legislative Changes												
Changes in Revenues												
Individual income taxes	-65	-162	-169	-166	-159	-148	-150	-151	-41	43	-722	-1,169
Corporate income taxes	-94	-96	-80	-57	-32	-7	10	14	-9	-58	-359	-409
Payroll taxes	*	*	*	1	3	6	8	7	6	6	3	36
Other	-3	-27	-16	-17	-15	-14	-15	-16	-16	-9	-78	-148
Total Change in Revenues	-163	-285	-265	-239	-203	-163	-148	-146	-60	-18	-1,156	-1,690
Changes in Outlays												
Mandatory outlays												
Medicaid	2	-4	-12	-21	-25	-27	-29	-31	-33	-34	-60	-213
Health insurance subsidies and related spending	-1	-5	-11	-21	-25	-26	-27	-29	-30	-32	-62	-206
Refundable tax credits	-11	13	13	12	12	13	12	11	25	-5	39	95
Children's Health Insurance Program	3	10	9	7	7	8	8	9	9	10	35	79
Other	17	9	6	6	6	5	9	10	-13	-28	43	27
Subtotal, mandatory	10	22	5	-17	-25	-28	-26	-30	-42	-89	-5	-219
Discretionary outlays												
Defense	40	56	13	-2	-8	-12	-15	-15	-16	-16	99	26
Nondefense	54	83	71	50	51	56	60	67	74	78	309	644
Subtotal, discretionary	94	139	84	47	44	44	46	52	58	62	408	669
Debt service	3	13	30	45	57	64	68	74	79	82	148	515
Total Change in Outlays	108	174	120	75	75	79	88	96	95	55	552	965
Increase in the Deficit From Legislative Changes	**-271**	**-459**	**-385**	**-315**	**-278**	**-243**	**-236**	**-241**	**-155**	**-74**	**-1,708**	**-2,656**
Economic Changes												
Changes in Revenues												
Individual income taxes	-16	28	69	71	61	48	45	49	55	58	213	468
Corporate income taxes	45	73	66	57	48	40	37	37	37	37	288	476
Payroll taxes	-22	-8	7	13	12	14	14	18	21	24	2	92
Other	-3	-4	-3	5	8	10	11	10	8	10	2	51
Total Change in Revenues	4	88	138	146	129	113	106	114	121	129	505	1,088
Changes in Outlays												
Mandatory outlays												
Social Security	-3	-5	-5	-5	-5	-5	-5	-5	-6	-5	-22	-47
Unemployment compensation	-2	-7	-10	-8	-3	-2	-1	-1	*	*	-30	-34
Medicare	-1	-2	-3	-2	-2	-3	-3	-4	-5	-5	-11	-30
Other	-2	-5	-6	-5	-4	-4	-3	-3	-3	-3	-23	-38
Subtotal, mandatory	-8	-19	-24	-20	-14	-13	-12	-13	-13	-13	-86	-150
Discretionary outlays	*	2	1	2	2	2	2	3	3	3	7	21
Net interest outlays												
Debt service	*	-1	-5	-9	-13	-15	-17	-20	-24	-29	-29	-134
Effect of rates and inflation	7	21	41	58	68	62	40	22	11	6	195	336
Subtotal, net interest	7	20	36	49	55	47	23	2	-13	-24	166	201
Total Change in Outlays	-1	2	13	31	44	36	13	-8	-23	-33	88	73
Decrease in the Deficit From Economic Changes	**5**	**86**	**125**	**116**	**85**	**77**	**92**	**121**	**144**	**163**	**417**	**1,015**

Continued

Table A-1. Continued

Changes in CBO's Baseline Projections of the Deficit Since June 2017

Billions of Dollars

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	Total 2018–2022	Total 2018–2027
						Technical Changes						
Changes in Revenues												
Individual income taxes	-3	45	*	-41	-48	-55	-49	-51	-29	-10	-46	-241
Corporate income taxes	-32	-45	-59	-56	-53	-40	-31	-20	-7	9	-244	-333
Payroll taxes	5	5	7	8	13	15	25	28	32	35	38	172
Other	-5	-6	2	-2	-4	-4	-3	-4	-4	-4	-15	-33
Total Change in Revenues	-35	*	-49	-91	-92	-83	-59	-48	-8	30	-267	-435
Changes in Outlays												
Mandatory outlays												
Medicare	-1	-6	-12	-16	-21	-21	-32	-30	-29	-19	-57	-186
Medicaid	-28	-25	-22	-18	-13	-10	-7	-4	-3	-2	-106	-132
Health insurance subsidies and related spending	-2	-5	-8	2	9	9	8	8	9	13	-3	44
Other	10	-6	-7	-4	*	*	*	-2	-13	-3	-7	-27
Subtotal, mandatory	-21	-43	-48	-35	-25	-23	-31	-28	-36	-11	-172	-301
Discretionary outlays	-36	-34	-23	-7	-5	-4	-4	-4	-4	-4	-105	-125
Net interest outlays												
Debt service	-2	-3	-4	-4	-3	-1	*	1	*	-1	-16	-17
Other	*	-1	*	-1	-4	-6	-6	-8	-10	-12	-6	-49
Subtotal, net interest	-1	-4	-5	-5	-6	-7	-6	-8	-10	-14	-21	-65
Total Change in Outlays	-59	-81	-76	-47	-36	-34	-41	-40	-50	-28	-299	-492
Increase (-) or Decrease in the Deficit From Technical Changes	**24**	**81**	**26**	**-44**	**-56**	**-49**	**-17**	**-8**	**42**	**58**	**32**	**57**
						All Changes						
Increase (-) or Decrease in the Deficit	**-242**	**-292**	**-233**	**-243**	**-249**	**-215**	**-161**	**-128**	**31**	**147**	**-1,259**	**-1,584**
Deficit in CBO's April 2018 Baseline	-804	-981	-1,008	-1,123	-1,276	-1,273	-1,244	-1,352	-1,320	-1,316	-5,191	-11,696
Memorandum:												
Changes in Revenues	-194	-197	-176	-185	-166	-134	-101	-80	54	141	-918	-1,037
Changes in Outlays	48	95	57	59	83	82	60	48	22	-6	341	547

Source: Congressional Budget Office.

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

to the baseline associated with that law—that is, the changes CBO categorizes as legislative—reflect the estimate of the revenue effects of the 2017 tax act that was produced by the staff of the Joint Committee on Taxation (JCT) on December 18, 2017.[2] That estimate indicates a revenue decrease of $1,647 billion over the 2018–2027 period.[3] The estimate does not include the law's estimated effects on the economy, nor does it reflect revisions that CBO has made to its baseline to incorporate more recent information about the budgetary effects of the tax law. Those two sets of changes relating to the 2017 tax act are included in the estimates described below in the sections titled "Economic Changes" and "Technical Changes."

CBO also revised its revenue baseline to incorporate the effects of P.L. 115-120 and the Bipartisan Budget Act of 2018, the two pieces of legislation with the next largest effects on revenues after the 2017 tax act.[4] P.L. 115-120 delayed or suspended several health-related taxes or fees, reducing revenues by $29 billion over the 2018–2022 period and raising revenues by $4 billion over the 2023–2027 period, for a net revenue reduction of $25 billion over the 2018–2027 period. The Bipartisan Budget Act retroactively extended 33 tax provisions (often called tax extenders) that had expired at the end of 2016, as well as a number of other tax-related provisions, through 2017. Those changes reduced revenues by $15 billion over the 2018–2020 period and increased revenues by $6 billion over the 2021–2027 period, for a net reduction of $9 billion over the 2018–2027 period.

Individual Income Taxes. Most of the legislative changes to CBO's projections of revenues come from changes to individual income taxes. CBO reduced its projection of revenues from those taxes by $65 billion for 2018 and by $1.2 trillion for the 2018–2027 period. Most of that reduction stems from provisions of the 2017 tax act that temporarily reduce individual income tax rates, nearly double the standard deduction, and increase the income levels at which the individual alternative minimum tax takes effect.[5] Those changes are offset in part by provisions that raise revenues from individual income taxes, including a repeal of personal exemptions and modifications to itemized deductions.

Corporate Income Taxes. CBO also reduced its projection of corporate tax revenues—by $94 billion in 2018 and by $409 billion over the 2018–2027 period—to reflect legislative changes. Most of that reduction is attributable to the 2017 tax act, which modified the corporate income tax system in many important ways. That act set the tax rate at 21 percent (a change from the previous rate structure, which had a top rate of 35 percent), temporarily allowed the immediate deduction of the cost of capital investments, limited or eliminated certain deductions, changed the way the United States taxes the foreign income of U.S. corporations, instituted a onetime tax on previously untaxed foreign profits, and reduced incentives to shift profits abroad, among other changes.

Other Revenues. In addition, the 2017 tax act modified laws affecting estate and gift taxes, temporarily doubling the amount of the estate and gift tax exemption and thereby reducing the projection of revenues from those sources by $1 billion in 2018 and by $75 billion over the 2018–2027 period. Legislative changes led CBO to reduce its projection of revenues from excise taxes by $4 billion in 2018 and by $24 billion over the 2018–2027 period. Those reductions stem primarily from provisions of P.L. 115-120 that extended a moratorium on the medical device excise tax, delayed the implementation of the excise tax on high-cost employment-based health insurance coverage, and suspended an annual fee imposed on health insurance providers.

Legislative Changes in Outlays

Since June, CBO has boosted its estimate of outlays in 2018 by $108 billion—primarily for discretionary spending—as a result of recently enacted legislation. The agency has also increased projected outlays for the 2018–2027 period by $1.0 trillion (or 2 percent), mainly as a

2. See Joint Committee on Taxation, *Estimated Budget Effects of the Conference Agreement for H.R.1, the "Tax Cuts and Jobs Act,"* JCX-67-17 (December 2017), https://go.usa.gov/xQcZu.

3. The revenue decrease was estimated to be partially offset by a $193 billion net reduction in outlays that stemmed mostly from the elimination, beginning in 2019, of the penalty for not having health insurance, also known as the individual mandate.

4. P.L. 115-120 is a law making further continuing appropriations for the fiscal year ending September 30, 2018, and for other purposes.

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

result of increased spending for nondefense discretionary programs and higher costs for debt service because of the increases in deficits that would stem from new laws.

Discretionary Outlays. Changes to discretionary programs from legislation enacted since June led CBO to raise its projection of outlays by $94 billion for 2018 and by a cumulative total of $669 billion for 2018 through 2027.[6] Over that 10-year period, CBO's projections of nondefense and defense outlays are $644 billion and $26 billion higher, respectively, for legislative reasons.

A significant portion of the increases in the near term stems from the Consolidated Appropriations Act, 2018, which provided appropriations for 2018 for activities constrained by caps on discretionary funding; those appropriations exceed, by $160 billion, the funding projected in CBO's June baseline.[7] In addition, the Bipartisan Budget Act specified new caps for 2019 that exceed the previous caps for that year by a total of $152 billion. As a result of those two changes, CBO's projections over the 2018–2027 period include an increase of $306 billion in defense and nondefense discretionary outlays from funding that is constrained by the caps. Those projections incorporate the assumptions that funding will be in line with the higher caps set for 2019, will then (consistent with CBO's June projections) return to the significantly lower limits previously set for 2020 and 2021 by the Budget Control Act (as amended), and will grow with inflation thereafter.

In addition, CBO's projections of discretionary outlays over the 2018–2027 period are $364 billion higher than they were in June 2017 because of net increases in funding, provided by multiple laws, for five types of activities that are not constrained by the caps. In total, funding not constrained by the caps in 2018 amounts to $197 billion—$76 billion more than projected in June. Most of that sum is extrapolated over the entire projection period because, as specified by law, funding for activities designated as emergency requirements or overseas contingency operations (OCO)—which totals $186 billion this year—is assumed to grow with inflation.[8] Funding for the other three activities—certain efforts to reduce overpayments in benefit programs, programs designated by the 21st Century Cures Act (P.L. 114-255), and disaster relief—is projected in CBO's baseline subject to certain statutory constraints.

The $76 billion increase since June in discretionary funding for 2018 not limited by the caps results from the following changes:

- An additional $98 billion in supplemental appropriations for nondefense activities designated as emergency requirements (related to the hurricanes and wildfires that occurred in 2017); that increased funding was provided by two laws—the Additional Supplemental Appropriations for Disaster Relief Requirements Act, 2017 (P.L. 115-72), and Subdivision 1 of Division B of the Bipartisan Budget Act of 2018.[9] That $98 billion is the difference between the enacted amount, for 2018, of nondefense funding designated as an emergency requirement ($102 billion) and the amount of such funding

6. Discretionary spending is controlled by annual appropriation acts that specify the amounts that are to be provided for a broad array of government activities, such as defense, law enforcement, and transportation.

7. Caps on discretionary appropriations were originally set by the Budget Control Act of 2011 (P.L. 112-25), as amended. The Bipartisan Budget Act of 2018 increased the caps on discretionary funding in 2018 by a total of $143 billion. The Consolidated Appropriations Act, 2018, provided even more funding because it included provisions that were estimated to reduce net funding for *mandatory* programs by $17 billion. Those savings were credited against the discretionary funding provided by that act in judging whether the total amount of new budget authority adhered to the caps specified for 2018, thus allowing discretionary funding in 2018 to exceed the statutory limit for that year by $17 billion.

8. Overseas contingency operations refer to certain military and diplomatic activities in Afghanistan and elsewhere, but historically, some funding designated by the Congress for OCO has not been directly related to those activities. Funding that is categorized as an emergency requirement is designated in statute pursuant to section 251(b)(2)(A)(i) of the Balanced Budget and Emergency Deficit Control Act of 1985 (P.L. 99-177).

9. The Additional Supplemental Appropriations for Disaster Relief Requirements Act, 2017, also included changes to *mandatory* programs that, by CBO's estimate, increase mandatory budget authority for 2018 by $18 billion. The largest of those changes was the cancellation of $16 billion of the debt owed to the Treasury by the National Flood Insurance Fund, which effectively increased the amount of funding available to the Federal Emergency Management Agency for the National Flood Insurance Program. CBO's estimates of legislative changes to mandatory outlays reflect the incremental effects of those provisions.

projected for 2018 in CBO's June 2017 baseline ($4 billion).[10]

- An additional $6 billion in defense funding that was designated as an emergency requirement; that sum was provided by two laws—the Department of Defense Missile Defeat and Defense Enhancements Appropriations Act, 2018 (Division B of P.L. 115-96), and Subdivision 1 of Division B of the Bipartisan Budget Act of 2018.

- A $28 billion reduction in funding for OCO ($19 billion less for defense and $9 billion less for nondefense) under the Consolidated Appropriations Act, 2018.

Mandatory Outlays. CBO reduced its estimates of mandatory outlays by $219 billion (0.6 percent) for the 2018–2027 period because of legislation enacted since June 2017.[11] The largest reduction for the 10-year period was attributable to a provision of the 2017 tax act that eliminated the penalty related to the individual health insurance mandate, beginning in 2019. CBO and JCT estimated that enacting that provision would reduce outlays by $297 billion over the 2018–2027 period because fewer people would enroll in health insurance subsidized by the federal government when there was no penalty for not having insurance.[12]

Medicaid. CBO estimated that recently enacted legislation would reduce projected outlays for Medicaid by $213 billion (4 percent) over the 2018–2027 period. The repeal of the individual mandate penalty established under the Affordable Care Act (ACA) was responsible for most of that reduction by lowering projected enrollment in Medicaid. In CBO's estimation, the penalty for not having insurance encouraged more people to enroll in Medicaid than would otherwise have been the case. For example, some people applied for coverage in the marketplaces as a result of the penalty and turned out to be eligible for Medicaid, and some Medicaid-eligible adults and children would have had to pay a penalty if they did not obtain insurance. As a result, CBO expects that fewer people will enroll in Medicaid when the penalty is eliminated, beginning in 2019.

In addition, the extension of funding for the Children's Health Insurance Program (CHIP) from 2018 through 2027 is estimated to generate savings to Medicaid because CBO had expected that, in the absence of extended funding for CHIP, states would switch some children who had been enrolled in CHIP to Medicaid.

Health Insurance Subsidies and Related Spending. CBO reduced projected outlays for health insurance subsidies and related spending by $206 billion (or 23 percent) for the 2018–2027 period as a result of recently enacted legislation. The elimination of the penalty related to the individual health insurance mandate accounts for most of the net reduction in outlays. As a consequence of that elimination, fewer people are expected to enroll in coverage through the marketplaces established under the ACA—which will reduce subsidies provided by the federal government for that coverage—because some people would have chosen to be covered by insurance to avoid paying the penalty and because some people are expected to forgo insurance in response to the resulting higher premiums.

The remaining decline in outlays attributable to legislative changes mostly results from the extension of CHIP funding from 2018 through 2027. Because some people who will gain coverage through CHIP would otherwise have received subsidies for coverage purchased through the marketplaces, the extension of CHIP reduces such outlays.

Refundable Tax Credits. The 2017 tax act had a number of effects on outlays for the refundable portion of certain tax credits, specifically the earned income tax credit, the child tax credit, and the American Opportunity Tax Credit. The largest of those effects stems from a temporary expansion of the child tax credit: On its own, that provision would increase outlays by $181 billion over the 2018–2027 period, according to estimates by JCT. In addition, the increased standard deduction and lower tax brackets enacted by the new law will increase refundable

10. The June 2017 projection did not reflect the $15 billion in supplemental nondefense funding designated as an emergency requirement that was provided late in 2017. As a result, CBO's current estimate of legislative increases to outlays is larger than it would be if that 2017 funding had been taken into account in projecting 2018 spending.

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

12. All told, the agencies estimated that repealing the penalty would reduce federal budget deficits by $314 billion between 2018 and 2027. That sum is composed of estimated reductions in outlays of $297 billion and increases in revenues of $17 billion over that period.

outlays for all three tax credits by tending to reduce individuals' tax liabilities.

However, those effects are offset by reductions in outlays stemming from other provisions of the new law, most notably the repeal of deductions for personal exemptions (which increases tax liabilities) and the use of an alternative inflation measure (which affects the phase-in and phaseout ranges and maximum credit amounts for the earned income tax credit and the child tax credit). All told, the 2017 tax act will increase outlays for refundable tax credits by $95 billion over the 2018–2027 period, according to estimates by JCT.[13]

Children's Health Insurance Program. The 2017 tax act and the Bipartisan Budget Act of 2018 extended funding for CHIP from 2018 through 2027. Before enactment of those laws, funding for CHIP was to have expired at the end of 2017. The reauthorization increased CBO's projection of outlays for CHIP by $79 billion over the 2018–2027 period.[14]

Other Mandatory Programs. Smaller legislative changes—both increases and decreases—in CBO's estimates for a number of other programs led CBO to increase its projections of mandatory outlays by $27 billion, on net, over the 2018–2027 period.

Debt Service. Excluding the cost of debt service, the changes that CBO made to its projections of revenues and outlays because of legislation enacted since June increased the agency's projection of the cumulative deficit for the 2018–2027 period by $2.1 trillion. The resulting growth in the estimate of federal borrowing led CBO to raise its cumulative projection of outlays for interest on federal debt by $515 billion for the 10-year period.

13. In addition, the Disaster Tax Relief and Airport and Airway Extension Act of 2017 (P.L. 115-63) and the Bipartisan Budget Act of 2018 provided relief for some taxpayers affected by Hurricanes Harvey, Irma, and Maria and by the California wildfires. According to estimates by JCT, enactment of those two laws will increase outlays for refundable tax credits by $0.2 billion over the 2018–2027 period.

14. Following the rules that underlie the construction of CBO's baseline, prior to the enactment of the two new laws, CHIP was assumed to continue in CBO's baseline through 2027 with funding of $5.7 billion a year.

Economic Changes

CBO's current budget projections reflect updates to economic measures since the June 2017 baseline was completed and incorporate the macroeconomic effects of recently enacted legislation. The current economic forecast updates the agency's projections of gross domestic product (GDP), income, the unemployment rate, interest rates, inflation, and other factors that affect federal spending and revenues. In total, compared with the June 2017 baseline projections, the updated economic forecast led the agency to decrease its estimate of the deficit by $5 billion for 2018 and by $1.0 trillion for the 2018–2027 period. The largest factor in the cumulative 10-year change is an increase in projected revenues, offset by a small increase in projected outlays. About half of the economic changes stem from the macroeconomic effects of the 2017 tax act (see Appendix B).

Economic Changes in Revenues

Revisions to CBO's economic forecast caused the agency to increase its projections of revenues by $4 billion for 2018 and by $1.1 trillion for the 2018–2027 period. More than half of those changes were driven by the macroeconomic effects of recently enacted legislation—specifically, the 2017 tax act, the Bipartisan Budget Act of 2018, and P.L. 115-120. Updated data for key measures from the national income and product accounts (NIPAs) also led to economic revisions. (The NIPAs, which are produced by the Bureau of Economic Analysis, track components of the nation's economic output and income that CBO uses in its economic analyses.)

Corporate Income Taxes. The largest differences in the revenue projections that arise from changes in the economic forecast concern corporate income tax receipts. Those changes boosted CBO's projections of corporate income tax receipts by $476 billion (or about 12 percent) over the 2018–2027 period. That increase is attributable to updated projections of domestic economic profits, which are now anticipated to be 13 percent higher over the coming decade than CBO forecast previously.

Individual Income Taxes. Changes in the economic forecast since CBO's June 2017 baseline led the agency to reduce its projection of revenues from individual income taxes by $16 billion for 2018 but to increase the projection for each subsequent year, for a net increase from economic factors of $468 billion (or 2 percent) over the 2018–2027 period. The decline for 2018 stems

from a downward revision to estimates of wages and salaries in that year. The increase for subsequent years primarily results from an increase in projections of wages and salaries and proprietors' income; that upward revision to income growth stems in part from the estimated macroeconomic effects of recent legislation. CBO also increased its projection of receipts from capital gains realizations over the 2018–2027 period because of an upward revision to projections of equity prices that resulted, in part, from stronger-than-expected gains in the stock market during the second half of 2017.

Other Revenues. Revisions to the forecast for wages and salaries—downward in 2018 and upward thereafter—led CBO to make similar changes to its projections of revenues from payroll taxes. For economic reasons, they were reduced by $22 billion for 2018 and by $8 billion for 2019 but were increased by $92 billion for the 2018–2027 period. In addition, the stronger-than-expected growth in stock market prices led CBO to increase its projections of revenues from estate and gift taxes over the 2018–2027 period (by $22 billion, or 8 percent).

Economic factors also led CBO to revise its 10-year projections of customs duties (by $14 billion, or 3 percent) and of receipts from other sources (by $15 billion). The increases in projected revenues from those sources reflect the effects of more imports and faster GDP growth, among other factors.

Economic Changes in Outlays

As a result of the updated economic forecast, CBO lowered its estimate of outlays for the current year by $1 billion. For the 2018–2027 period, economic updates led CBO to increase its projection of outlays by $73 billion (or 0.1 percent) because of changes that largely offset one another: Specifically, a decrease in mandatory outlays ($150 billion) was more than offset by increases in discretionary spending ($21 billion) and net interest costs ($201 billion).

Mandatory Outlays. CBO decreased its projections of mandatory spending by $8 billion for 2018 and by $150 billion for the 2018–2027 period for economic reasons. The largest economic changes to mandatory spending involved CBO's projections for Social Security, unemployment compensation, and Medicare.

Social Security. Primarily because of lower projections of average wages through 2020, CBO reduced projected outlays for Social Security over the 2018–2027 period by $47 billion (or 0.4 percent).

Unemployment Compensation. Economic factors, primarily changes to the unemployment rate, reduced projected outlays for unemployment compensation by $34 billion over the 2018–2027 period. CBO revised its forecast of the unemployment rate downward by an average of 1.0 percentage point per year for 2019 through 2021 and by an average of about 0.2 percentage points per year for 2022 through 2027.

Medicare. 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 tied to changes in the prices of the labor, goods, and services that health care providers purchase, coupled with an adjustment 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 smaller updates in the near term than it did in June—a change that decreases Medicare outlays in CBO's baseline projections for the 2018–2027 period by $30 billion (or 0.4 percent).

Other Mandatory Programs. As a result of CBO's revised economic forecast, the agency updated its projections for a number of other mandatory programs; in total, those changes reduced projected outlays by $38 billion over the 2018–2027 period, the net result of both upward and downward adjustments to estimates. The largest reductions include those for the Supplemental Nutrition Assistance Program ($16 billion, mostly because of lower projections of food prices), the refundable portion of certain tax credits ($14 billion, largely because of higher projections of wages, since higher wages tend to decrease outlays for those credits), and Medicaid ($6 billion, mainly because of lower projections of unemployment). In the other direction, higher projections for interest rates in the near term increased the projected subsidy costs for student loans by $7 billion. Smaller adjustments for other mandatory programs further reduced projected outlays by $10 billion, on net, over the 10-year period.

Discretionary Outlays. Changes to projections for the measures of inflation that CBO is required to use in developing its baseline drive the economic changes for discretionary spending. In CBO's baseline, discretionary

funding related to federal personnel is inflated using the employment cost index for wages and salaries; most other discretionary funding is adjusted using the GDP price index. Changes to CBO's economic forecast increased discretionary outlays in the baseline by $21 billion over the 2018–2027 period.

Net Interest. Since June, CBO has revised its projections of net interest costs because of changes in the agency's forecasts for interest rates and inflation.[15] It also has made new projections of government borrowing (debt service) as a result of economic changes to projected deficits. Together, those revisions led CBO to increase its baseline projection of net interest spending by $201 billion for the 2018–2027 period for economic reasons.

CBO has increased its projections of rates on Treasury securities relative to those underlying the June 2017 baseline. Both short- and long-term interest rates are projected to be higher through 2023—by roughly 0.7 percentage points and 0.4 percentage points, on average, respectively—than CBO projected in June. Primarily as a result of the higher rates, CBO increased its projection of net interest outlays by $336 billion over the 2018–2027 period.

In the opposite direction, CBO reduced its projection of net interest outlays by $134 billion over that period to account for debt-service effects. That reduction reflects the net effect of updates to projections of revenues and outlays that are attributable to CBO's economic forecast, which led the agency to lower its projection of the total deficit for the 2018–2027 period by $880 billion (not including the effects of debt service).

Technical Changes

Technical changes—that is, revisions other than the legislative and economic changes discussed above—also affect CBO's baseline projections for revenues and outlays. Such changes caused CBO to reduce its estimate of the 2018 deficit by $24 billion and its estimate of the deficit over the 2018–2027 period by $57 billion. That 10-year change results from partially offsetting changes in revenues and outlays.

15. To account for inflation, the Treasury Department adjusts the principal of its inflation-protected securities each month using the consumer price index for all urban consumers; those adjustments are recorded as interest outlays.

Technical Changes in Revenues

Overall, CBO reduced its revenue projections by $435 billion (or 1 percent) for the 2018–2027 period to incorporate various technical adjustments. Many of those adjustments reflect information that has become available in recent months about the 2017 tax act. For example, CBO reduced its projections of 2018 individual income tax receipts in light of new withholding tables that the Internal Revenue Service issued in January. CBO has also made technical changes that adjusted its projections of the timing of tax liabilities and payments in light of the 2017 tax act.

Corporate Income Taxes. The biggest technical revisions to projected revenues affect corporate income taxes. On net, CBO's technical revisions reduce projections of those revenues by $333 billion over the 2018–2027 period.

The largest of those technical changes include updates to the way changes made by the 2017 tax act are projected to affect tax liabilities. In particular, CBO made adjustments to account for the interactions among several provisions to better reflect how they relate in an environment of stronger economic growth. Those provisions include modifications of the deductions from income for the costs of capital investments, interest costs, and net operating losses. CBO also updated its projection for the portion of net income that is received by corporations with taxable income (versus those with net losses). On net, those adjustments result in lower projected receipts over the next decade, in part because CBO expects businesses to claim more deductions from income during that period. (Some of those larger deductions would be offset by correspondingly lower deductions in future years.)

CBO made another technical change to corporate tax receipts to account for the fact that collections from that source were lower in 2017 than CBO had projected, even though corporate profits were larger than expected. Consequently, in 2017, the average tax rate on corporate income—taxes as a percentage of income—was lower than previously projected, leading CBO to reduce its projections of the average corporate tax rate and revenues over the 2018–2022 period.

Altogether, technical revisions resulted in reductions to projected corporate tax receipts in each year through 2026. By 2027, upward technical adjustments—in

particular, the update to estimates of the portion of net income received by corporations with taxable income—outweigh the other factors to produce an upward technical adjustment of $9 billion for that year.

Individual Income Taxes. CBO also revised its projection for individual income taxes for technical reasons, reducing receipts from that source by $3 billion in 2018, increasing receipts by $46 billion over the 2019–2020 period, and reducing receipts by $284 billion over the 2021–2027 period, for a net reduction of $241 billion over the 2018–2027 period. That pattern is the result of a number of offsetting technical changes, with upward revisions dominating in the near term and downward revisions dominating in later years.

One factor boosting receipts over the next several years is that CBO no longer expects the previously unexplained weakness in individual income tax receipts to persist for several years before dissipating. Recent revisions to historical economic data, primarily for wages and salaries, have led CBO to revise projections to be more in line with a longer-term historical relationship.

In its projections, CBO also adjusted the speed at which taxes withheld from workers' paychecks are expected to be reduced as a result of the 2017 tax act. The Internal Revenue Service issued new withholding tables in January, sooner than was anticipated when the law was enacted. As a result, CBO now expects tax withholding to be lower during fiscal year 2018; that effect will be offset by higher tax payments (or smaller refunds) when taxpayers file their tax returns next spring, in fiscal year 2019.

Other technical changes decreased CBO's projection of individual income tax receipts over the 2018–2027 period. CBO updated its modeling to adjust the share of total wages and salaries received by high earners. Data for recent years show smaller-than-expected increases in the share of wages and salaries received by high earners. In response, CBO made a downward revision to projected increases in that share over the next decade. That change reduced CBO's projections of individual income tax revenues because people with lower income are subject to lower income tax rates.

Another technical change decreasing individual income tax receipts over the 2018–2027 period comes from CBO's altered expectation about withdrawal rates from individual retirement accounts and defined contribution pension plans. Those rates have declined since 2012, and CBO now expects them to remain low throughout the projection period instead of reverting to 2012 levels. In combination, those two sources of downward technical adjustments dominate the other technical changes, beginning in 2021.

Payroll Taxes. As a result of technical revisions, CBO has raised its projections of payroll tax revenues by $172 billion over the 2018–2027 period. With a smaller share of wages and salaries being received by high earners, a larger share will be received by people whose annual earnings are below the maximum amount subject to Social Security payroll taxes (currently $128,400). The positive effect on payroll tax receipts is about 75 percent as large as the resulting negative effect on individual income tax receipts.

Other Revenues. In addition, technical revisions led CBO to reduce its projection of revenues from other sources by $33 billion, on net, over the 2018–2027 period. Most of that change reflects a smaller expected amount of penalties that would be collected from employers that do not offer health insurance to their employees. Partially offsetting that reduction are technical changes that CBO made to increase its projection for excise taxes over the 2018–2027 period as a result of larger-than-projected receipts in 2017 from gasoline and diesel taxes, as well as from certain aviation taxes. The strength in those sources of excise tax receipts is expected to continue.

Technical Changes in Outlays

Largely because of technical updates to spending estimates for various discretionary programs, CBO lowered its estimate of outlays in 2018 by $59 billion. For the 2018–2027 period, projected outlays are lower by $492 billion for technical reasons, mostly because of reductions in estimates of mandatory spending.

Discretionary Outlays. CBO's estimates of discretionary outlays in 2018 are $36 billion lower because of technical updates. The delayed enactment of 2018 appropriations, more than five months after the beginning of the fiscal year, accounts for much of that near-term reduction. Projected outlays over the 2018–2027 period are also lower, by $125 billion (or 1 percent), reflecting a general expectation that agencies are likely to obligate and spend increased funding for 2018 and 2019 at

slower rates than those reflected in CBO's June 2017 baseline.

Mandatory Outlays. Technical changes have reduced the amount of mandatory spending estimated for the current year by $21 billion. For the 2018–2027 period, such revisions have decreased the total projection of mandatory outlays by $301 billion (or 1 percent).

Medicare. Technical revisions caused CBO to decrease its projection of Medicare outlays by $186 billion (or 2 percent) over the 2018–2027 period, mostly because spending for the fastest-growing components of Medicare was lower last year than CBO anticipated in its June baseline. The main factors responsible for the reduction are lower projections of spending for Part D (prescription drugs) and higher projections of offsetting receipts (premiums paid by beneficiaries). Actual spending in 2017 for Part D was lower than CBO projected in June; in response, CBO revised downward its projections of spending for the next decade. In addition, CBO increased its estimates of premium income so that reserve balances in the Medicare trust funds are projected to match the historical target of about two months' worth of spending.

Medicaid. CBO reduced its 10-year projection of spending for Medicaid by $132 billion (or 3 percent) because of technical revisions since June 2017. That reduction stems largely from lower-than-anticipated per capita costs in 2017 for people made eligible for Medicaid under the ACA and lower projections of cost growth for those enrollees.

Health Insurance Subsidies and Related Spending. Technical revisions caused estimates of spending for subsidies for coverage purchased through the marketplaces established under the ACA and related spending to be $44 billion higher, on net, over the 2018–2027 period than in CBO's June baseline. A significant factor contributing to the increase is that the current baseline projections reflect that the entitlement for subsidies for cost-sharing reductions (CSRs) is being funded through higher premiums and larger premium tax credit subsidies rather than through a direct appropriation.[16] Those estimates are preliminary, and CBO will provide further details about them and their implications for future cost estimates in an upcoming report.

Other Mandatory Programs. Technical updates led CBO to increase its projections of outlays for other mandatory programs by $10 billion for 2018 but to reduce those projections by $27 billion for the 10-year period.

The largest changes for 2018 include increases in projected outlays for the refundable portion of the earned income and child tax credits ($11 billion) and for the National Flood Insurance Program ($5 billion). Projected outlays for the refundable tax credits were revised upward to reflect changed expectations about when those refunds will be paid; that increase is offset by reductions in later years of the projection period. The increase in projected outlays for flood insurance stems from a larger number of claims, as a result of the three major hurricanes that affected the United States in August 2017. Because those storms occurred near the end of the fiscal year, much of the related spending will be recorded in 2018. Smaller adjustments to projections for other mandatory programs, on net, decreased estimated outlays in 2018 by about $6 billion.

The largest of the changes for the 2018–2027 period was a $32 billion increase in projections of offsetting receipts (negative outlays) for certain payments related to military retirement. (Such receipts are intragovernmental and have no net effect on the deficit.) In the other direction, CBO boosted its projections of outlays for Social Security by $19 billion (or 0.1 percent) because of updated data on benefit amounts and caseloads. CBO also increased projected outlays for student loans by $10 billion (or 23 percent), mainly because of a larger number of projected defaults and decreased collections on those defaulted loans, in addition to higher costs for loans made to borrowers who enroll in an income-driven repayment plan. On net, smaller adjustments that encompass a number of other mandatory programs further reduced projected outlays by $25 billion.

16. The ACA requires insurers to offer CSRs to eligible people who purchase silver plans through the marketplaces and requires the federal government to reimburse insurers for those costs. CSRs take the form of reduced deductibles, copayments, and other means of cost sharing. Section 257 of the Balanced Budget and Emergency Deficit Control Act of 1985, which specifies rules for constructing the baseline, requires CBO to assume full funding of such entitlement authority. In its June 2017 baseline, CBO assumed that CSRs would continue to be funded via a direct appropriation. The Administration subsequently stopped making the reimbursement payments in October 2017.

Net Interest. Technical changes led CBO to decrease its projections of net interest outlays by $1 billion for 2018 and by $65 billion for the 2018–2027 period.

Most of that reduction, $49 billion over the 2018–2027 period, arises from changes in CBO's approach to estimating net interest outlays—mainly changes in the mix of securities that the Treasury is expected to issue to finance future deficits. Consistent with recent announcements by the Treasury about its plans for funding, CBO has increased estimates of the share of those securities that will be Treasury bills (which have maturities of less than 1 year) and decreased estimates of the share that will be Treasury notes (which have maturities of 2 to 10 years). Those changes reduce outlays in the baseline because interest rates on short-term securities are projected to be lower than those on longer-term securities.

In all, technical changes to CBO's baseline for revenues and outlays have slightly reduced projected deficits. That decrease, combined with reductions in estimates of borrowing to finance the government's credit programs, results in projected debt-service costs that subtract another $17 billion from net interest outlays in CBO's baseline over the 2018–2027 period.