



# Budgetary Outcomes Under Alternative Assumptions About Spending and Revenues

MAY | 2023

The Congressional Budget Office regularly publishes baseline budget projections that show how federal spending, revenues, and deficits would look under the assumption that the laws governing spending and taxes generally remain unchanged.<sup>1</sup> This report shows how different assumptions about future legislated policies would affect those budget projections.

CBO's projections are not intended to be a forecast of budgetary outcomes; rather, they are meant to provide a benchmark that policymakers can use to assess the potential effects of policy decisions. The projections follow procedures set in law as well as long-standing guidelines. For example, laws require the agency to incorporate the assumption that future discretionary funding will match amounts most recently provided, with adjustments for inflation. Those provisions also require CBO to incorporate the assumption that laws governing mandatory spending will generally continue beyond their statutory expiration.<sup>2</sup> CBO must also incorporate the assumption that payments from trust funds would be made even after a fund's balance was exhausted and annual dedicated revenues were inadequate to fund them. By contrast, projections of revenues generally

reflect scheduled changes to provisions affecting the tax code, including changes in statutory tax rates.<sup>3</sup>

This report analyzes the budgetary implications of alternative assumptions about future funding for discretionary programs and the continuation of certain revenue provisions currently scheduled to change. The estimated effects of the alternative assumptions do not account for any resulting changes to the economy or for how those changes could affect the budget. Some of the alternatives could result in significant changes to the economy that, in turn, would affect the budget. Such effects would depend on the combination of alternative assumptions that were considered because some assumptions would interact in ways that would change their economic and budgetary impact.

This report includes 10 alternative assumptions, 3 about discretionary spending and 7 about revenue policies.<sup>4</sup> The effects on the deficit of any single alternative range from a decrease of \$2.4 trillion to an increase of \$2.5 trillion over the 2024–2033 period. Most of the alternatives examined in this report would increase projected deficits and debt.<sup>5</sup>

1. For CBO's most recent baseline projections, see Congressional Budget Office, *An Update to the Budget Outlook: 2023 to 2033* (May 2023), [www.cbo.gov/publication/59096](http://www.cbo.gov/publication/59096). For details about how CBO constructs the baseline, see Congressional Budget Office, *CBO Explains How It Develops the Budget Baseline* (April 2023), [www.cbo.gov/publication/58916](http://www.cbo.gov/publication/58916).
2. For a list of the expiring programs assumed to continue in CBO's baseline, see Congressional Budget Office, "10-Year Budget Projections" (May 2023), [www.cbo.gov/publication/59096#data](http://www.cbo.gov/publication/59096#data).

3. The Joint Committee on Taxation publishes a list of scheduled changes to tax provisions. See Joint Committee on Taxation, *List of Expiring Federal Tax Provisions 2022–2034*, JCX-1-23 (January 18, 2023), [www.jct.gov/publications/2023/jcx-1-23/](http://www.jct.gov/publications/2023/jcx-1-23/).
4. A complete list of the provisions included in each of the alternatives is available in the supplemental data that accompany this report at [www.cbo.gov/publication/59154#data](http://www.cbo.gov/publication/59154#data).
5. For a discussion of the consequences of higher deficits and debt, see Congressional Budget Office, *The Economic Effects of Waiting to Stabilize Federal Debt* (April 2022), [www.cbo.gov/publication/57867](http://www.cbo.gov/publication/57867).

## Alternative Assumptions About Discretionary Funding

For the most part, current law does not specify discretionary appropriations for years after 2023. However, section 257 of the Balanced Budget and Emergency Deficit Control Act of 1985 (Public Law 99-177) requires projections of funding for discretionary programs to grow each year with inflation.<sup>6</sup> CBO's projections translate that funding into outlays by estimating how quickly agencies would spend the money provided. However, lawmakers can, and do, set funding at amounts that differ from what is projected in the baseline, which could lead to outlays that were more or less than amounts in CBO's baseline projections.

To illustrate how discretionary spending could differ from amounts in CBO's baseline projections, the agency estimated budgetary outcomes under three alternative assumptions about future funding (see Table 1). The alternative projections would increase future discretionary funding using a different growth rate, freeze discretionary funding at current amounts, or exclude projected additional funding for the Infrastructure Investment and Jobs Act (IIJA, P.L. 117-58) and for the Bipartisan Safer Communities Act (BSCA, P.L. 117-159).

### Increase Discretionary Funding at the Growth Rate of Nominal Gross Domestic Product After 2023

Projecting discretionary funding using a measure that generally grows faster than the measures CBO currently uses would provide an alternative benchmark to CBO's baseline projections of discretionary spending. If discretionary appropriations and obligation limitations for certain transportation programs grew at the rate of nominal gross domestic product (GDP), outlays would be \$1.7 trillion higher—and thus the deficit would be \$1.7 trillion larger—than they are in CBO's baseline and would amount to 6.9 percent of GDP by 2033 rather

than the 6.0 percent projected in the baseline.<sup>7</sup> The debt-service costs associated with those additional outlays would amount to \$155 billion. (Debt service is the change in interest payments resulting from an increase or a decrease in the deficit.)

### Freeze Discretionary Funding at the 2023 Amount

Projecting spending under the assumption that discretionary funding was frozen at the 2023 amount provides another alternative benchmark to CBO's baseline projections of discretionary spending. (In the case of appropriations that have already been provided for years beyond the current year, discretionary funding would be frozen at the latest amount provided in advance.) If lawmakers generally froze appropriations and obligation limitations for certain transportation programs at the nominal 2023 amount from 2024 through 2033, outlays would be \$2.4 trillion less over that period than the amount projected in the baseline, excluding associated debt-service savings (which would amount to \$239 billion). In 2033, discretionary outlays under such a freeze would total 4.8 percent of GDP rather than the 6.0 percent projected in the baseline.

### Exclude Projected Additional Funding for the IIJA and BSCA

The Infrastructure Investment and Jobs Act—signed into law in November 2021—appropriated funds for investment in transportation programs, environmental programs, and other programs for each year from 2022 through 2026. The Bipartisan Safer Communities Act, signed into law in June 2022, provided funds through 2026 for states to implement laws controlling access to guns and other safety measures. The total funding provided by both acts decreases each year over that period as funding for different programs ends in different years.

In CBO's baseline, however, funding related to those acts increases in most years. That is because, in consultation with the budget committees, CBO applied its typical baseline construction to that funding. As a result, for future years in which the IIJA and the BSCA have not

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

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

Table 1.

## Budgetary Effects of Selected Alternative Assumptions About Future Funding

Billions of Dollars

	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	Total	
											2024–2028	2024–2033
Increase Discretionary Funding at the Growth Rate of Nominal GDP After 2023												
Increase (-) in the deficit [CBO's estimate] <sup>a</sup>	-4	-30	-65	-105	-144	-185	-226	-268	-311	-355	-348	-1,693
Debt-service costs	*	-1	-2	-4	-8	-13	-19	-27	-36	-46	-15	-155
Freeze Discretionary Funding at the 2023 Amount												
Decrease in the deficit [CBO's estimate] <sup>a</sup>	28	69	115	162	211	258	309	361	413	470	586	2,396
Debt-service savings	*	2	5	9	14	21	30	40	52	67	30	239
Exclude Projected Additional Funding for the IIJA and BSCA <sup>b</sup>												
Decrease in the deficit [CBO's estimate] <sup>a</sup>	*	*	1	3	10	20	33	44	54	62	14	228
Debt-service savings	*	*	*	*	*	1	1	3	4	6	*	15

Data source: Congressional Budget Office. See [www.cbo.gov/publication/59154#data](http://www.cbo.gov/publication/59154#data).

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

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

Debt service is the change in interest payments resulting from an increase or decrease in estimates of the deficit. The effects of changes to the deficit on debt-service costs are estimated by CBO.

BSCA = Bipartisan Safer Communities Act; GDP = gross domestic product; IIJA = Infrastructure Investment and Jobs Act; \* = between -\$500 million and \$500 million.

a. Excludes the effects of debt service.

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

provided funding, CBO projected funding by adjusting for inflation the latest amounts provided by those acts.<sup>8</sup>

If, instead, CBO had excluded the additional projected funding for the IIJA and the BSCA (counting just the funding specifically provided by those laws), discretionary outlays would be \$228 billion lower through 2033 than they are in CBO's baseline, excluding debt-service savings. Those debt-service savings would reduce interest payments by \$15 billion, in CBO's estimation. Under that scenario, discretionary outlays would amount to 5.9 percent of GDP in 2032 rather than the 6.0 percent projected in CBO's baseline.

## Alternative Assumptions About Revenue Policies

CBO's baseline projections generally reflect the effects of scheduled changes in revenue provisions, including the assumption that temporary provisions will expire as scheduled under current law.<sup>9</sup> If certain temporary revenue provisions were instead made permanent, revenues would differ from amounts in CBO's baseline projections. To illustrate how revenues could differ, CBO and the staff of the Joint Committee on Taxation (JCT) estimated budgetary outcomes under seven alternative

8. For more information about how the IIJA's funding affects CBO's discretionary baseline, see Congressional Budget Office, *The Budget and Economic Outlook: 2022 to 2032* (May 2022), Box 3-4, [www.cbo.gov/publication/57950](http://www.cbo.gov/publication/57950).

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

assumptions.<sup>10</sup> The first four assumptions relate to provisions of the 2017 tax act (P.L. 115-97), and the last three address other revenue provisions.<sup>11</sup>

Estimates for each of the individual provisions would depend on the order in which they were estimated (because of interactions), but the total effect of extending all alternative policies discussed in this report would be approximately equal to the sum of the estimates for each alternative.<sup>12</sup>

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

Most of the individual income tax provisions of the 2017 tax act are slated to expire at the end of calendar year 2025. The expiring provisions affect major elements of the individual income tax code, including statutory tax rates and brackets, allowable deductions, the size and refundability of the child tax credit, the 20 percent deduction for certain business income, and the income levels at which the alternative minimum tax takes effect.<sup>13</sup>

According to JCT's estimates, if the expiring individual income tax provisions of the 2017 tax act were extended,

10. The Congressional Budget Act of 1974, as amended, stipulates that revenue estimates provided by JCT will be the official estimates for all tax legislation considered by the Congress. As such, CBO incorporates those estimates into its estimates of the budgetary effects of legislation. At the time of this analysis, estimates were not available for the extension of some of the expiring revenue provisions included in the 2022 reconciliation act (P.L. 117-169), so provisions related to that act generally were not considered for inclusion in this report.
11. The estimated effects of those alternative assumptions do not account for any resulting changes to the economy or for how those changes could, in turn, affect the budget. After the 2017 tax act was enacted, CBO analyzed the effects that act had on the agency's economic projections. That analysis determined that the 2017 tax act boosted the agency's projections of investment, employment, and gross domestic product. See Congressional Budget Office, *The Budget and Economic Outlook: 2018 to 2028* (April 2018), [www.cbo.gov/publication/53651](http://www.cbo.gov/publication/53651).
12. Additional detailed estimates of the budgetary effects of the alternative revenue policies are included in the supplemental data that accompany this report at [www.cbo.gov/publication/59154#data](http://www.cbo.gov/publication/59154#data).
13. The alternative minimum tax is similar to the regular income tax but includes fewer exemptions, deductions, and rates. People who file individual income tax returns must calculate the tax owed under each system and pay the larger of the two amounts.

deficits would be larger than those in CBO's baseline, on net, by \$2.5 trillion over the 2024–2033 period, excluding debt-service costs (see Table 2). Most of the effects would occur after 2026. Debt-service costs would add \$278 billion to those deficits.

### **Extend Higher Estate and Gift Tax Exemptions**

The 2017 tax act also temporarily doubled the exemption amount for estate and gift taxes. That change expires at the end of calendar year 2025. If that expansion was extended, deficits would increase by \$126 billion over the 2024–2033 period (excluding debt-service costs), JCT estimates. Most of those effects would occur after 2026. Debt-service costs would add \$13 billion to those deficits.

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

The 2017 tax act temporarily expanded a provision known as bonus depreciation, which allows businesses to immediately deduct a portion of the cost of certain investments. Bonus depreciation was increased to 100 percent of the cost of such investments through calendar year 2022; it is then scheduled to phase down between calendar year 2023 and calendar year 2026. Extending the expansion of bonus depreciation (and thus averting the phasedown) would increase deficits by \$325 billion (excluding debt-service costs) over the 2024–2033 period, JCT estimates. Debt-service costs would add \$59 billion to those deficits.

### **Maintain Certain Business Tax Provisions Altered by the 2017 Tax Act**

Some provisions of the 2017 tax act that affect business taxes have scheduled expiration dates or include changes that do not take effect for several years. Such policies include reductions in the size of the deduction for certain types of foreign income and an increase in the tax rate applied for the purposes of the base erosion minimum tax (a provision put in place to keep corporations from avoiding tax liability by shifting profits out of the United States). If those scheduled expirations and changes did not occur, deficits would increase by \$150 billion over the 2024–2033 period (excluding debt-service costs), JCT estimates. Debt-service costs would add \$16 billion to those deficits.

### **Extend Expansion of Premium Tax Credits**

The Affordable Care Act provides tax credits to individuals who purchase health insurance through marketplaces

Table 2.

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

Billions of Dollars

	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	Total		
											2024–2028	2024–2033	
Extend the 2017 Tax Act's Changes to Individual Income Tax Provisions <sup>a</sup>													
Increase (-) in the deficit [JCT's estimate] <sup>b</sup>	*	-6	-134	-346	-334	-324	-318	-330	-342	-353	-820	-2,488	
Debt-service costs	*	*	-2	-9	-18	-28	-39	-49	-60	-72	-29	-278	
Extend Higher Estate and Gift Tax Exemptions <sup>c</sup>													
Increase (-) in the deficit [JCT's estimate] <sup>b</sup>	*	-1	-3	-14	-16	-16	-17	-19	-20	-21	-32	-126	
Debt-service costs	*	*	*	*	-1	-1	-2	-2	-3	-4	-1	-13	
Extend the 2017 Tax Act's Changes to the Tax Treatment of Investment Costs <sup>d</sup>													
Increase (-) in the deficit [JCT's estimate] <sup>b</sup>	-33	-35	-45	-53	-48	-35	-26	-20	-16	-15	-213	-325	
Debt-service costs	-1	-2	-3	-4	-6	-7	-8	-9	-10	-11	-15	-59	
Maintain Certain Business Tax Provisions in Effect in 2023 <sup>e</sup>													
Increase (-) in the deficit [JCT's estimate] <sup>b</sup>	0	0	-10	-18	-19	-20	-20	-20	-21	-22	-47	-150	
Debt-service costs	0	0	*	-1	-1	-2	-2	-3	-4	-4	-2	-16	

Data sources: Congressional Budget Office; staff of the Joint Committee on Taxation (JCT). See [www.cbo.gov/publication/59154#data](http://www.cbo.gov/publication/59154#data).

The effects under the alternative assumptions are estimated relative to current law and incorporate the economic projections that underlie CBO's May 2023 baseline. The estimates do not account for how the alternatives could affect the economy or for how those potential changes could, in turn, affect the budget. The estimates include the effects on outlays of changes in refundable tax credits.

Debt service is the change in interest payments resulting from an increase or decrease in estimates of the deficit. The effects of changes to the deficit on debt-service costs are estimated by CBO.

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

- Permanently extend many provisions of the 2017 tax act (Public Law 115-97)—most significantly, the provisions that lower individual income tax rates, expand the income tax base, expand the child tax credit, maintain the 20 percent deduction for certain business income, and reduce the amount of income subject to the alternative minimum tax. For detailed estimates, see the supplemental data that accompany this report.
- Excludes the effects of debt service.
- Extend the 2017 tax act's expansion of the exemption amount for estate and gift taxes.
- Extend the changes made by the 2017 tax act that allow businesses with large amounts of investments to expense (immediately deduct from their taxable income) the cost of their investment in equipment and certain other property. Under current law, the portion of those expenses that may be deducted (for equipment and certain other property) is 100 percent in calendar year 2022, 80 percent in calendar year 2023, 60 percent in calendar year 2024, 40 percent in calendar year 2025, and 20 percent in calendar year 2026. (After that year, the provisions expire.) The 100 percent allowance would be extended permanently beyond 2022 in this alternative.
- Maintain certain tax policies that affect businesses rather than allow them to change as scheduled under current law. Some of those policies are currently scheduled to expire and other changes have delayed effective dates. For detailed estimates, see the supplemental data that accompany this report.

established under that act. Before 2021, eligibility for those tax credits was limited to individuals whose income was less than 400 percent of federal poverty guidelines. The American Rescue Plan Act of 2021 (P.L. 117-2) temporarily waived that limit, boosting the number of people who received premium tax credits, and increased the

amount eligible individuals would receive. Those benefit expansions were most recently extended through calendar year 2025 by the 2022 reconciliation act (P.L. 117-169). If those changes were permanently enacted, deficits would increase by \$271 billion over the

Table 3.

### Budgetary Effects of Selected Alternative Assumptions About Other Future Revenue Policies

Billions of Dollars

	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	Total	
											2024–2028	2024–2033
<b>Extend Expansion of Premium Tax Credits<sup>a</sup></b>												
Increase (-) in the deficit [estimate by CBO and JCT] <sup>b</sup>	*	*	-21	-30	-32	-34	-35	-37	-40	-43	-82	-271
Debt-service costs	*	*	*	-1	-2	-3	-4	-5	-6	-8	-3	-29
<b>Extend Certain Other Expiring Tax Provisions<sup>c</sup></b>												
Increase (-) in the deficit [JCT’s estimate] <sup>b</sup>	*	*	-4	-6	-7	-7	-7	-8	-8	-9	-17	-56
Debt-service costs	*	*	*	*	*	-1	-1	-1	-1	-2	-1	-6
<b>Extend Trade Promotion Programs<sup>d</sup></b>												
Increase (-) in the deficit [CBO’s estimate] <sup>b</sup>	-3	-1	-1	-1	-1	-1	-1	-2	-2	-2	-7	-15
Debt-service costs	*	*	*	*	*	*	*	*	*	*	-1	-2

Data sources: Congressional Budget Office; staff of the Joint Committee on Taxation (JCT). See [www.cbo.gov/publication/59154#data](http://www.cbo.gov/publication/59154#data).

Debt service is the change in interest payments resulting from an increase or decrease in estimates of the deficit. The effects of changes to the deficit on debt-service costs are estimated by CBO.

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

- a. Extend expansion of benefits and eligibility for Premium Tax Credits to individuals who purchase health insurance through marketplaces established under the Affordable Care Act.
- b. Excludes the effects of debt service.
- c. Extend expiring tax provisions that have been extended in the past. For detailed estimates, see the supplemental data that accompany this report.
- d. Extend several trade promotion programs that are scheduled to expire over the 2024–2033 period and reinstate the Generalized System of Preferences, which expired at the end of calendar year 2020.

2024–2033 period (see Table 3).<sup>14</sup> Associated debt-service costs would add another \$29 billion to those deficits.

#### Extend Certain Other Expiring Tax Provisions

In addition to the revenue provisions described above, 11 additional expiring provisions have been extended at

14. CBO and JCT estimate that permanently extending the enhanced premium tax credits would decrease the number of uninsured individuals by 2.8 million on average in each year over the 2026–2033 period. That decrease consists of an increase in nongroup coverage of 5.4 million (the net effect of a 6.6 million increase in subsidized nongroup coverage and a decline in unsubsidized nongroup coverage of 1.2 million), an increase in Medicaid and Children’s Health Insurance Program of 300,000 and a decrease in employment-based coverage of 2.9 million. In 2024 and 2025, the agencies estimate smaller effects on coverage because the enhanced subsidies are already available.

least once in the past. The largest of those provisions is a tax credit for businesses that hire people from certain designated groups (qualified veterans, summer youth employees, and people who have been unemployed for at least 27 consecutive weeks, for example). If those temporary tax provisions were permanently extended, the deficit would be larger than amounts projected in the baseline by a total of \$56 billion (excluding debt-service costs) over the 2024–2033 period, the staff of JCT estimates. Debt-service costs would add \$6 billion to those deficits.

#### Extend Trade Promotion Programs

Trade promotion programs are programs that reduce or eliminate customs duties on certain products from participating countries. Three of those



programs—administered pursuant to the African Growth and Opportunity Act, the Caribbean Basin Trade Partnership Act, and acts granting trade preferences to Haiti—are set to expire at various points between 2024 and 2033. Furthermore, the Generalized System of Preferences (the largest and oldest U.S. trade preference program) expired in December 2020. If each

of those programs was extended until 2033 and the Generalized System of Preferences was reinstated retroactive to 2021, deficits would increase by \$15 billion over the 10-year period, in CBO’s estimation. Additional interest payments on the debt from those larger deficits would amount to \$2 billion over the same period.

This report supplements *An Update to the Budget Outlook: 2023 to 2033*, which is available on the Congressional Budget Office’s website at [www.cbo.gov/publication/59096](http://www.cbo.gov/publication/59096). In keeping with CBO’s mandate to provide objective, impartial analysis, the report makes no recommendations.

Dan Ready and Molly Saunders-Scott wrote the report with assistance from Madeleine Fox, Ben Hopkins, Omar Morales, and Emily Vreeland; with guidance from Christina Hawley Anthony, Theresa Gullo, Sarah Masi, John McClelland, Joseph Rosenberg, and Julie Topoleski; and with contributions from the staff of the Joint Committee on Taxation.

Mark Doms, Mark Hadley, Jeffrey Kling, and Robert Sunshine reviewed the report. Caitlin Verboon edited it, and Jorge Salazar prepared it for publication. The report and supplemental data are available on the agency’s website at [www.cbo.gov/publication/59154](http://www.cbo.gov/publication/59154).

CBO seeks feedback to make its work as useful as possible. Please send any comments to [communications@cbo.gov](mailto:communications@cbo.gov).



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**Update:** On Tuesday, May 30, 2023, CBO updated this report to include additional information about the effects of extended expansion of premium tax credits on health insurance coverage.