CONGRESSIONAL BUDGET OFFICE
U.S. Congress
Washington, DC 20515

Keith Hall, Director

November 28, 2017

Honorable Mike Enzi
Chairman
Committee on the Budget
United States Senate
Washington, DC 20510

Re: Cost Estimate for Legislation to Provide for Reconciliation Pursuant to Title II of the Concurrent Resolution on the Budget for Fiscal Year 2018, As Ordered Reported by the Senate Committee on the Budget on November 28, 2017

Dear Mr. Chairman:

The Congressional Budget Office has prepared the attached cost estimate for legislation to provide for reconciliation pursuant to title II of the concurrent resolution on the budget for fiscal year 2018, as ordered reported by the Senate Committee on the Budget on November 28, 2017. Title I of the legislation contains the Reconciliation Recommendations of the Senate Committee on Finance, which CBO and the staff of the Joint Committee on Taxation have estimated would increase federal deficits by $1,414.2 billion over the period from 2018 to 2027.[1] Title II of the legislation contains the Reconciliation Recommendations of the Senate Committee on Energy and Natural Resources, which CBO has estimated would reduce federal deficits by $1.1 billion over the period from 2018 to 2027.[2]

Summary of the Legislation

Title I would amend numerous provisions of U.S. tax law. Among other changes, the bill would reduce most income tax rates for individuals and modify the tax brackets for those taxpayers; increase the standard deduction

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[1] See Congressional Budget Office, cost estimate for the Reconciliation Recommendations of the Senate Committee on Finance (November 26, 2017), https://www.cbo.gov/publication/53348.

[2] See Congressional Budget Office, cost estimate for the Reconciliation Recommendations of the Senate Committee on Energy and Natural Resources (November 21, 2017), https://www.cbo.gov/publication/53346.

and the child tax credit; and repeal deductions for personal exemptions, certain itemized deductions, and the alternative minimum tax. Those changes would take effect on January 1, 2018, and would be scheduled to expire after December 31, 2025. The bill also would permanently repeal the penalties associated with the requirement that most people obtain health insurance coverage (also known as the individual mandate).

Title I would also permanently modify business taxation. Among other provisions, beginning in 2019, it would replace the structure of corporate income tax rates, which has a top rate of 35 percent under current law, with a single 20 percent rate. The legislation also would substantially alter the current system under which the worldwide income of U.S. corporations is subject to taxation.

Title II would direct the Secretary of the Interior to implement an oil and gas leasing program for the coastal plain of the Arctic National Wildlife Refuge (ANWR) and would affect oil and gas leases and the Strategic Petroleum Reserve.

Effects on the Federal Budget

CBO and JCT estimate that enacting the legislation would reduce revenues by about $1,633 billion and decrease outlays by $220 billion over the 2018-2027 period, leading to an increase in the deficit of $1,413 billion over the next 10 years (see Table 1). A portion of the changes in revenues would be from Social Security payroll taxes, which are off-budget. Excluding the estimated $27 billion increase in off-budget revenues over the next 10 years, the legislation would increase on-budget deficits by about $1,440 billion over the period from 2018 to 2027 (see Tables 1 and 2). Pay-as-you-go procedures apply because enacting the legislation would affect direct spending and revenues.

JCT provided virtually all estimates for the provisions of the bill. However, JCT and CBO collaborated on the estimate of the provision that would eliminate the penalties associated with the individual mandate, and CBO estimated the effects of the oil and gas provisions.

Long-Term Effects on the Budget

CBO and JCT estimate that enacting the legislation would not increase on-budget deficits by more than $5 billion in any of the four consecutive 10-year periods beginning in 2028, and would not increase net direct spending by more than $2.5 billion in any of those same 10-year periods.

Macroeconomic and Distributional Effects

Because of the magnitude of its estimated budgetary effects, the bill is considered major legislation as defined in section 4107 of H. Con. Res. 71, the Concurrent Resolution on the Budget for Fiscal Year 2018. It therefore triggers the requirement that the cost estimate, to the greatest extent practicable, include the budgetary impact of the bill's macroeconomic effects, and also include, to the extent practicable, the distributional effects across income categories. It is not practicable to provide an estimate of the budgetary impact of the bill's macroeconomic effects at this time. In addition, the distributional effects are not appreciably different from the effects estimated for the Reconciliation Recommendations of the Senate Committee on Finance, which were ordered reported on November 16, 2017.

Mandates

CBO and JCT have determined that the provisions of the legislation contain no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA).

If you wish further details on this estimate, we will be pleased to provide them. The CBO staff contacts are Cecilia Pastrone (for title I) and Jeff LaFave (for title II).

Sincerely,

Keith Hall
Director

Enclosure

cc: Honorable Bernie Sanders
Ranking Member

Table 1 – SUMMARY OF THE REVENUE AND DIRECT SPENDING EFFECTS OF A BILL TO PROVIDE FOR RECONCILIATION PURSUANT TO TITLE II OF THE CONCURRENT RESOLUTION ON THE BUDGET FOR FISCAL YEAR 2018, AS ORDERED REPORTED BY THE SENATE COMMITTEE ON THE BUDGET ON NOVEMBER 28, 2017

	By Fiscal Year, in Billions of Dollars											
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2018-2022	2018-2027
CHANGES IN REVENUES												
Tax Changes for Individuals	-60.3	-154.9	-146.4	-145.0	-144.8	-143.3	-142.4	-140.8	-63.6	22.9	-651.5	-1,119.1
Business-Related Tax Changes	-24.8	-90.0	-111.8	-95.3	-82.6	-59.4	-48.8	-65.0	-42.2	-48.3	-404.5	-668.5
International Tax Changes	46.7	26.5	6.9	2.8	1.7	6.7	18.6	25.7	16.7	3.6	84.1	154.6
Total Estimated Changes in Revenues	**-38.4**	**-218.4**	**-251.3**	**-237.5**	**-225.7**	**-196.0**	**-172.6**	**-180.1**	**-89.1**	**-21.8**	**-971.9**	**-1,633.0**
On-Budget	-38.1	-217.9	-251.7	-239.2	-228.2	-200.7	-178.4	-185.4	-93.1	-25.3	-975.5	-1,659.9
Off-Budget[a]	-0.3	-0.5	0.4	1.7	2.5	4.7	5.8	5.3	4.0	3.5	3.6	26.9
CHANGES IN DIRECT SPENDING												
Tax Changes for Individuals												
Estimated Budget Authority	-10.8	2.3	-4.0	-19.7	-27.1	-29.0	-31.9	-35.0	-24.9	-52.4	-59.5	-232.7
Estimated Outlays	-10.8	2.3	-4.0	-19.7	-27.1	-29.0	-31.9	-35.0	-24.9	-52.4	-59.5	-232.7
Business-Related Tax Changes												
Estimated Budget Authority	10.8	3.8	-0.4	-0.3	0	0	0	0	0	0	13.9	13.9
Estimated Outlays	10.8	3.8	-0.4	-0.3	0	0	0	0	0	0	13.9	13.9
Oil and Gas Provisions												
Estimated Budget Authority	0	0	0	0.2	-0.6	0	0	-0.4	-0.2	-0.2	-0.4	-1.1
Estimated Outlays	0	0	0	0.2	-0.6	0	0	-0.4	-0.2	-0.2	-0.4	-1.1
Total Changes in Direct Spending												
Estimated Budget Authority	*	6.1	-4.4	-19.9	-27.7	-29.0	-31.9	-35.4	-25.1	-52.6	-46.0	-219.9
Estimated Outlays	*	6.1	-4.4	-19.9	-27.7	-29.0	-31.9	-35.4	-25.1	-52.6	-46.0	-219.9
NET INCREASE OR DECREASE (-) IN THE DEFICIT FROM CHANGES IN DIRECT SPENDING AND REVENUES												
Impact on Deficit	**38.4**	**224.5**	**246.9**	**217.7**	**198.0**	**167.0**	**140.7**	**144.7**	**64.0**	**-30.8**	**925.9**	**1,413.1**
On-Budget Deficit	38.1	224.0	247.3	219.4	200.5	171.7	146.5	150.0	68.0	-27.3	929.5	1,440.0
Off-Budget Deficit	0.3	0.5	-0.4	-1.7	-2.5	-4.7	-5.8	-5.3	-4.0	-3.5	-3.6	-26.9

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

Components may not add to totals due to rounding; * = between -$50 million and $50 million.

a. Off-budget revenues result from changes in Social Security payroll tax receipts.

Table 2 - Estimate of Pay-As-You-Go Effects of a Bill to Provide for Reconciliation Pursuant to Title II of the Concurrent Resolution on the Budget for Fiscal Year 2018, As Ordered Reported by the Senate Committee on the Budget on November 28, 2017

	By Fiscal Year, in Billions of Dollars											
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2018-2022	2018-2027
NET INCREASE OR DECREASE (-) IN THE ON-BUDGET DEFICIT												
Statutory Pay-As-You-Go Effects	38.1	224.0	247.3	219.4	200.5	171.7	146.5	150.0	68.0	-27.3	929.5	1,440.0
Memorandum:[a]												
Change in Outlays	0	6.1	-4.4	-19.9	-27.7	-29.0	-31.9	-35.4	-25.1	-52.6	-46.0	-219.9
Change in On-Budget Revenues	-38.1	-217.9	-251.7	-239.2	-228.2	-200.7	-178.4	-185.4	-93.1	-25.3	-975.5	-1,659.9

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

Components do not add to totals due to rounding.

a. A positive sign for outlays indicates an increase in outlays. A negative sign for revenues indicates a reduction in revenues.