2016 Revenue Baseline Overview

The Congressional Budget Office (CBO) annually produces a baseline estimate of federal spending and receipts for the next 10 years under existing law. Existing law is not necessarily the same as existing policy, as the CBO baseline assumes tax and spending provisions set to expire will not be extended, even if the policies are likely to continue.

In January 2016, CBO published *The Budget and Economic Outlook: 2016 to 2026* with updated projections based on recently enacted legislation. The Consolidated Appropriations Act, 2016 (which included the Protecting Americans from Tax Hikes Act of 2015), the Fixing America’s Surface Transportation (FAST) Act, and the Bipartisan Budget Act of 2015 all had significant impacts on future revenue projections. Integrating those changes, along with changes to CBO’s economic assumptions and other technical assumptions, guides the Senate Budget Committee’s analysis of legislation in 2016.

In its August 2015 baseline update, CBO predicted $41.6 trillion in revenues over the 2016-2025 period. After passage of the Consolidated Appropriations Act, 2016, CBO lowered projected revenues by $523 billion, partially offset by increases from the FAST Act ($66 billion) and the Bipartisan Budget Act ($32 billion), representing a total reduction of $425 billion from legislative changes. In addition, CBO further reduced its projections over the 2016-2025 period by $771 billion due to economic changes and by $30 billion for technical reasons. Combined,
lost revenue totals $1.2 trillion (about 3 percent); three-fifths of that change stems from the economic forecast. Over the 10-year budget window, CBO projects $40.4 trillion in revenues for 2016 through 2025 and $42.0 trillion for 2017 through 2026.

Economic growth resulting from legislation passed in 2015 will partially offset the large effect from economic forecast changes. In its January 2016 report, CBO noted that its updated economic forecast includes enactment of 2015 legislation, but that updated forecast is not built into its budget projections due to the timing of passage. Based on CBO’s preliminary analysis (Table 1), its upcoming March budget projections could show between a $100 billion and $200 billion increase in revenues above the baseline. This revenue growth would total 0.2 to 0.4 percent. While CBO projects the direct budgetary effects of the enacted provisions will decrease revenue, accelerated economic growth will partially offset the revenue loss.

### Table 1
Preliminary Economic Changes to the March Baseline
Fiscal Years 2016-2026
Congressional Budget Office

<table>
<thead>
<tr>
<th>Preliminary Economic Changes to March Baseline (Billions of dollars)</th>
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<tbody>
<tr>
<td>Revenues</td>
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<tr>
<td>Outlays</td>
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<td>Mandatory Outlays</td>
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<td>Net Interest (reflecting revisions to interest rates and primary deficits)</td>
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<td>Total Outlays</td>
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<td>Preliminary Net Decrease in the Deficit</td>
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**New Baseline’s Effect on Tax Reform**

CBO’s updated March baseline will include additional economic and technical changes. This baseline is the benchmark for scorekeeping, or the process for estimating the budgetary effects of pending legislation. The House Ways and Means Committee and Senate Finance Committee compare the yearly revenue projection with tax reform proposals. At the same time, the House and Senate Budget Committees score, or estimate the cost of, that legislation as a loss or gain of revenue based on a comparison with the baseline.

The provisions Congress made permanent in the Consolidated Appropriations Act, 2016, are now built into the baseline. So under revenue-neutral tax reform, the tax-writing committees have a lower revenue target to meet.
CBO sees the permanent extension of tax expenditures in the Consolidated Appropriations Act, 2016, as the new current law, and integrates that into its deficit assessment. The Consolidated Appropriations Act, 2016, also increased outlays, or spending, by $157 billion, mainly due to the extension of refundable tax credits. For this measure, there is a total of $680 billion in deficit impacts for 2016 through 2025, not accounting for economic growth.

The legislation’s permanent extension of some deductions and credits also included a temporary extension of others. Congress must decide whether to extend (or make permanent) the other provisions. As such, the cost of these temporarily extended provisions is not included in the CBO current-law baseline past their expiration dates (see the Joint Committee on Taxation’s List of Expiring Federal Tax Provisions 2016-2025).

**Long-Term Budgetary Impacts**

During past tax reform debates, the usefulness of CBO’s current-law baseline has been questioned. Some argue that since Congress consistently extends these provisions, CBO should include them in its baseline to provide Congress with the most accurate revenue projections for budgeting purposes. If these provisions are included, on the other hand, it masks the “cost” of extending them, as the benchmark already would incorporate the revenue loss.

Each year, CBO publishes an alternative current-policy baseline in its long-term budget outlook that assumes historically extended provisions are carried on in perpetuity. This alternative baseline assumes out-year revenues remain level as a percentage of gross domestic product (GDP) for a 25-year analysis. In The 2015 Long-Term Budget Outlook, CBO’s alternative analysis assumes a post-2025 collection in revenues of 18 percent of GDP, under current policy; this compares with hitting 19.4 percent by 2040, as projected by extending current law. CBO’s January 2016 Budget and Economic Outlook extends the current-law baseline after passage of the Consolidated Appropriations Act, 2016, and shows revenue growth to 19.2 percent of GDP by 2040.

The continued growth in revenues under current law includes additional assumptions beyond expiring tax provisions. Real bracket creep increases revenue when income grows faster than the inflation adjustments in the tax code, and certain tax increases in the Affordable Care Act will generate a growing percentage of revenue over the long term. CBO does not assume automatic growth in its alternative current-policy baseline, however, as historically revenues as a percentage of GDP have not trended upwards.

The alternative current-policy baseline assumes revenues and certain categories of spending remain close to historic averages over the long run. Under this scenario, deficits (or
overspending), excluding interest payments, increase from 2016 to 2025 by about $2 trillion. Long term, deficits rise rapidly, doubling as a percentage of GDP in the second decade, with the federal debt reaching 175 percent of GDP by 2040 (as compared with 107 percent under 2015 current law).

After passage of the Consolidated Appropriations Act, 2016, the gap between long-term current-law revenue projections and the lower current-policy projections narrowed. This raises debt projections under the 2016 extended current-law baseline to 131 percent by 2040. As previously mentioned, spending, economic, and technical changes also affect debt projections.

Figure 1 below provides a comparison of the 2015 extended current-law baseline, the 2016 extended current-law baseline, and the 2015 alternative current-policy baseline. Publication of CBO’s 2016 Long-Term Budget Outlook, expected this summer, will provide Congress with a better perspective on how further extending tax and spending provisions will raise debt held by the public in the long term. This long-term projection should fully incorporate the economic forecast changes missing in CBO’s January 2016 budget projections.
**BudgetSpeak**

**Point of Order**
A procedural tool for enforcing congressional spending and revenue limits. Points of order are found in titles III and IV of the Congressional Budget Act of 1974, as amended; in section 4 of the Statutory Pay-As-You-Go Act of 2010; and in the enforcement titles of current and prior budget resolutions. A budget point of order prohibits consideration of, or “lies against,” a bill, amendment, or conference report if it violates budget rules, such as totals in the budget resolutions or committee allocations. Senate points of order are not self-enforcing, however. The Senate can consider and pass legislation that violates budget rules when no member raises a point of order. As well, if a point of order is raised and a member responds with a successful motion to waive the point of order, the legislating can proceed through the legislative process.