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

Douglas W. Elmendorf, Director

February 24, 2010

Honorable Paul Ryan
Ranking Member
Committee on the Budget
U.S. House of Representatives
Washington, DC 20515

Dear Congressman:

As you requested, the Congressional Budget Office (CBO) has calculated the budgetary effects of an alternative policy scenario that would modify CBO's most recent baseline projections (released on January 26, 2010). As you also requested, we have computed the amount of additional revenues necessary, starting in 2019, to balance the budget in 2020 under that scenario.[1]

CBO's Baseline Projections

CBO's baseline is constructed under the assumption that current laws and policies remain the same. As a result, that baseline assumes that the major provisions of the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) and the Jobs and Growth Tax Relief Reconciliation Act of 2003 (JGTRRA) will expire as currently scheduled at the end of this calendar year, and other expiring tax provisions will do so as scheduled. The baseline also assumes that the alternative minimum tax (AMT) will not be modified for tax years beyond 2009. Furthermore, CBO's projections of discretionary spending start with the funding provided to date for fiscal year 2010, including amounts provided for war-related operations; that amount is projected to increase at specified rates of inflation.

Under those and other baseline assumptions, CBO projects a federal budget deficit of $1.3 trillion in 2010, and total deficits of $6.0 trillion from 2011 through 2020, including $687 billion in 2020 (see Table 1).

1. The staff of the Joint Committee on Taxation has provided preliminary, rough estimates of the impact of the proposals that would modify the tax code.

Alternative Policy Scenario
You asked CBO to assume the following changes to the assumptions underlying the baseline projections:

- Extend the expiring tax provisions of EGTRRA and JGTRRA, except for those related to estate and gift taxes;
- Make 2009 estate and gift tax law permanent;
- Index the 2009 AMT exemption and income bracket amounts for inflation after 2009;
- Assume war funding as specified in the President's proposed budget for fiscal year 2011.

The three changes to the tax policy assumptions are estimated to increase deficits relative to the baseline projections by $9 billion in 2010 and $3.4 trillion over the 2011-2020 period, mostly from lower revenues but also from increased outlays for refundable tax credits. Relative to baseline projections, CBO estimates that the alternative path for war funding would increase deficits by $24 billion in 2010 and $48 billion in 2011, but would reduce deficits each year thereafter through 2020, generating net reductions in deficits of about $700 billion over the 2011-2020 period.[2] As a result of those alternative tax and spending assumptions, federal debt would be higher than in the baseline projection, adding an estimated $644 billion for debt service to outlays from 2011 through 2020. All of the changes together would increase projected deficits by $33 billion in 2010 and $3.4 trillion over the 2011-2020 period, relative to baseline estimates.

CBO estimates that, under the alternative scenario you specified, the deficit would amount to $1.2 trillion in 2020, about $500 billion more than the shortfall projected under baseline assumptions. To erase the 2020 deficit under that scenario solely by generating more revenues starting in 2019, revenues would have to be higher than those in the alternative scenario by about $1.1 trillion in both 2019 and 2020, an increase of 27 percent in both years (see Table 2). That calculation assumes that revenues would be higher by the same percentage in both 2019 and 2020.

2. CBO has not yet completed its analysis of the President's budget, so the Administration's estimates of outlays for the wars was used in this scenario.

If you would like further details on the information provided in this letter, we would be happy to provide them. The CBO staff contact is Mark Booth.

Sincerely,

Douglas W. Elmendorf

Douglas W. Elmendorf
Director

cc: Honorable John M. Spratt Jr.
Chairman

Table 1. Alternative Scenario Requested by Congressman Ryan

	By Fiscal Year, in Billions of Dollars											
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2011-2020
January 2010 Baseline Deficit	**-1,349**	**-980**	**-650**	**-539**	**-475**	**-480**	**-521**	**-525**	**-542**	**-649**	**-687**	**-6,047**
Adjustments to Tax Provisions[1]	-9	-175	-265	-299	-320	-340	-359	-379	-400	-425	-451	-3,413
Adjustments to War Funding[2]	-24	-48	37	73	81	85	89	91	93	96	99	696
Effect on Net Interest (debt service)	*	-2	-8	-18	-33	-47	-65	-83	-105	-128	-154	-644
Total Effect on the Deficit	-33	-225	-236	-244	-272	-302	-334	-372	-412	-458	-506	-3,361
Projected Deficit Under Alternative Scenario	**-1,382**	**-1,205**	**-885**	**-782**	**-747**	**-782**	**-856**	**-897**	**-954**	**-1,106**	**-1,193**	**-9,408**

Sources: Congressional Budget Office; Joint Committee on Taxation.

Notes: Negative amounts indicate an increase in the deficit. “Debt service” refers to changes in interest payments on federal debt resulting from changes in the government’s borrowing needs. * = less than $500 million.

1. The adjustments to tax provisions include the following: extending the expiring tax provisions (except those related to estate and gift taxes) of the Economic Growth and Tax Relief Reconciliation Act of 2001 and the Jobs and Growth Tax Relief Reconciliation Act of 2003; making 2009 estate and gift tax law permanent; and indexing to inflation the 2009 exemption and bracket amounts for the alternative minimum tax.

2. The adjustments to war funding incorporate amounts specified in the President's proposed budget for fiscal year 2011.

Table 2. Changes in Revenues Alone, Starting in 2019, That Under the Alternative Scenario Would Balance the Budget in 2020

	By Fiscal Year, in Billions of Dollars											
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2011-2020
Projected Deficit Under Alternative Scenario	**-1,382**	**-1,205**	**-885**	**-782**	**-747**	**-782**	**-856**	**-897**	**-954**	**-1,106**	**-1,193**	**-9,408**
Additional Revenues	0	0	0	0	0	0	0	0	0	1,061	1,111	2,172
Effect on Net Interest (debt service)	0	0	0	0	0	0	0	0	0	24	81	105
Projected Deficit After Additional Revenues	**-1,382**	**1,205**	**-885**	**-782**	**-747**	**-782**	**-856**	**-897**	**-954**	**-21**	**0**	**-7,131**
Memorandum:												
Revenues Under Alternative Scenario	2,166	2,495	2,722	2,943	3,170	3,309	3,480	3,642	3,795	3,952	4,137	33,645

Sources: Congressional Budget Office; Joint Committee on Taxation.

Notes: Positive amounts indicate a decrease in the deficit. “Debt service” refers to changes in interest payments on federal debt resulting from changes in the government’s borrowing needs.

The alternative scenario specified by Congressman Ryan includes the following adjustments to CBO’s January 2010 baseline projections: extending the expiring tax provisions (except those related to estate and gift taxes) of the Economic Growth and Tax Relief Reconciliation Act of 2001 and the Jobs and Growth Tax Relief Reconciliation Act of 2003; making 2009 estate and gift tax law permanent; indexing to inflation the 2009 exemption and bracket amounts for the alternative minimum tax; and incorporating amounts specified for war funding in the President’s proposed budget for fiscal year 2011.