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

***Keith Hall, Director***

December 15, 2017

Honorable Kevin Brady
Chairman
Committee on Ways and Means
U.S. House of Representatives
Washington, DC 20515

*Re: Cost Estimate for the Conference Agreement on H.R. 1, a Bill to Provide for Reconciliation Pursuant to Titles II and V of the Concurrent Resolution on the Budget for Fiscal Year 2018*

Dear Mr. Chairman:

The Congressional Budget Office and the staff of the Joint Committee on Taxation (JCT) have reviewed the conference agreement for H.R. 1, a bill to provide for reconciliation pursuant to Titles II and V of the Concurrent Resolution on the Budget for Fiscal Year 2018, as posted on the website of the House Committee on Rules on December 15, 2017.

According to CBO's and JCT's estimates, enacting H.R. 1 would reduce revenues by about $1,649 billion and decrease outlays by about $194 billion over the period from 2018 to 2027, leading to an increase in the deficit of $1,455 billion over the next 10 years. Those estimates do not incorporate the effects of macroeconomic feedback.

## 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 and the child tax credit; repeal deductions for personal exemptions; repeal or limit certain itemized deductions; and increase the exemption amounts for the individual 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 2018, it would replace the structure of corporate income tax rates, which has a top rate of 35 percent under current law, with a single 21 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 $1,649 billion and decrease outlays by $194 billion over the 2018-2027 period. As a result, the bill is estimated to increase the deficit by $1,455 billion over the next 10 years, excluding effects from macroeconomic feedback (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 $1,482 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 Effects**

Because of the magnitude of its estimated budgetary effects, the bill is considered major legislation as defined in sections 4107 and 5107 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 extent practicable, include the budgetary impact of the bill's macroeconomic effects. It is not practicable to provide an estimate of the budgetary impact of the bill's macroeconomic effects at this time.

**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

Identical letters sent to the Honorable Diane Black and the Honorable Mike Enzi.

**Table 1 - SUMMARY OF THE REVENUE AND DIRECT SPENDING EFFECTS OF THE CONFERENCE AGREEMENT ON H.R. 1, A BILL TO PROVIDE FOR RECONCILIATION PURSUANT TO TITLES II AND V OF THE CONCURRENT RESOLUTION ON THE BUDGET FOR FISCAL YEAR 2018, AS FILED BY THE CONFEREES TO H.R. 1 ON DECEMBER 15, 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 | -86.1 | -182.0 | -171.8 | -172.2 | -174.0 | -169.9 | -169.6 | -170.9 | -62.2 | 30.4 | -787.1 | -1,329.3 |
| Business-Related Tax Changes | -127.1 | -131.5 | -111.2 | -90.6 | -48.5 | -16.5 | -16.0 | -24.2 | -28.5 | -49.5 | -508.1 | -644.1 |
| International Tax Changes | 68.9 | 42.6 | 26.0 | 28.0 | 22.9 | 22.5 | 36.7 | 48.7 | 29.1 | -0.8 | 188.2 | 324.4 |
| **Total Estimated Changes in Revenues** | **-144.3** | **-270.9** | **-257.0** | **-234.8** | **-199.6** | **-163.9** | **-148.9** | **-146.4** | **-61.5** | **-19.8** | **-1,107.0** | **-1,649.0** |
| On-Budget | -143.8 | -270.3 | -257.2 | -236.3 | -201.9 | -168.4 | -154.5 | -151.5 | -66.1 | -23.9 | -1,109.8 | -1,675.9 |
| Off-Budget[a] | -0.5 | -0.6 | 0.2 | 1.5 | 2.3 | 4.5 | 5.6 | 5.1 | 4.6 | 4.1 | 2.8 | 26.9 |
| **CHANGES IN DIRECT SPENDING** | | | | | | | | | | | | |
| Tax Changes for Individuals | | | | | | | | | | | | |
| Estimated Budget Authority | -10.8 | 6.8 | 0.1 | -15.9 | -23.2 | -25.9 | -28.7 | -31.7 | -20.8 | -52.6 | -43.1 | -202.7 |
| Estimated Outlays | -10.8 | 6.8 | 0.1 | -15.9 | -23.2 | -25.9 | -28.7 | -31.7 | -20.8 | -52.6 | -43.1 | -202.7 |
| Business-Related Tax Changes | | | | | | | | | | | | |
| Estimated Budget Authority | 2.2 | 2.3 | 1.7 | 1.9 | 1.9 | -0.1 | -0.1 | -0.1 | -0.1 | -0.1 | 10.1 | 9.7 |
| Estimated Outlays | 2.2 | 2.3 | 1.7 | 1.9 | 1.9 | -0.1 | -0.1 | -0.1 | -0.1 | -0.1 | 10.1 | 9.7 |
| Oil and Gas Provisions | | | | | | | | | | | | |
| Estimated Budget Authority | 0 | 0 | 0 | 0.2 | -0.5 | * | * | -0.3 | -0.2 | -0.2 | -0.3 | -1.1 |
| Estimated Outlays | 0 | 0 | 0 | 0.2 | -0.5 | * | * | -0.3 | -0.2 | -0.2 | -0.3 | -1.1 |
| **Total Changes in Direct Spending** | | | | | | | | | | | | |
| Estimated Budget Authority | -8.6 | 9.1 | 1.8 | -13.9 | -21.8 | -26.0 | -28.8 | -32.1 | -21.1 | -52.9 | -33.3 | -194.1 |
| Estimated Outlays | -8.6 | 9.1 | 1.8 | -13.9 | -21.8 | -26.0 | -28.8 | -32.1 | -21.1 | -52.9 | -33.3 | -194.1 |
| **NET INCREASE OR DECREASE (-) IN THE DEFICIT FROM CHANGES IN REVENUES AND DIRECT SPENDING** | | | | | | | | | | | | |
| **Impact on Deficit** | **135.7** | **280.0** | **258.8** | **221.0** | **177.8** | **137.9** | **120.1** | **114.3** | **40.4** | **-33.1** | **1,073.7** | **1,454.9** |
| On-Budget Deficit | 135.2 | 279.4 | 259.0 | 222.5 | 180.1 | 142.4 | 125.7 | 119.4 | 45.0 | -29.0 | 1,076.5 | 1,481.8 |
| Off-Budget Deficit | 0.5 | 0.6 | -0.2 | -1.5 | -2.3 | -4.5 | -5.6 | -5.1 | -4.6 | -4.1 | -2.8 | -26.9 |

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

Components may not add to totals due to rounding; * = reduction of less than $500,000.

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

**Table 2 - Estimate of Pay-As-You-Go Effects of the Conference Agreement on H.R. 1, a Bill to Provide for Reconciliation Pursuant to Titles II and V of the Concurrent Resolution on the Budget for Fiscal Year 2018, As Filed by the Conferees to H.R. 1 on December 15, 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 | 135.2 | 279.4 | 259.0 | 222.5 | 180.1 | 142.4 | 125.7 | 119.4 | 45.0 | -29.0 | 1,076.5 | 1,481.8 |
| **Memorandum:**[a] | | | | | | | | | | | | |
| Change in Outlays | -8.6 | 9.1 | 1.8 | -13.9 | -21.8 | -26.0 | -28.8 | -32.1 | -21.1 | -52.9 | -33.3 | -194.1 |
| Change in On-Budget Revenues | -143.8 | -270.3 | -257.2 | -236.3 | -201.9 | -168.4 | -154.5 | -151.5 | -66.1 | -23.9 | -1,109.8 | -1,675.9 |

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.