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

Keith Hall, Director

April 18, 2018

Honorable Chris Van Hollen
United States Senate
Washington, DC 20510

Re: Effects of the 2017 Tax Act on Income Accruing to Foreign Investors

Dear Senator:

This letter responds to the request from your staff to provide supplemental information about effects of Public Law 115-97, referred to here as the 2017 tax act. Your staff asked questions about how that act will affect gross domestic product (GDP) and gross national product (GNP) differently in real terms (that is, after adjustments to remove the effects of inflation).

GNP differs from GDP by including the income that U.S. residents earn from abroad and excluding the income that nonresidents earn from domestic sources; it is therefore a better measure of the income available to U.S. residents. Because, according to CBO's projections, the act reduces the amount of net foreign income earned by U.S. residents, it increases real GNP less than it increases real GDP. The ratio of those two effects can be used to split the effect on real GDP into the share accruing to U.S residents and the share accruing to foreign investors.

Last week, CBO reported that the tax act is estimated to raise real GDP by 0.5 percent and real GNP by 0.1 percent in 2028.[1] Thus, roughly 80 percent, or (1–0.1/0.5)*100, of the additional real income that year resulting from the increased economic activity engendered by the tax act will accrue to foreign investors, as CBO confirmed to your staff last week.

There are two caveats to that estimate:

- The calculation used the ratio of two numbers that were rounded to a single decimal. Using more precise estimates of the real effects on GDP and GNP, which CBO had not previously published, yields 71 percent for the share of the increase in real GDP accruing to foreign investors in 2028 (see Table 1).

[1] See Congressional Budget Office, *The Budget and Economic Outlook: 2018 to 2028* (April 2018), Table B-2, www.cbo.gov/publication/53651.

Table 1.

The 2017 Tax Act's Effects on Output

												Average		
	2018	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**	**2018-2022**	**2023-2028**	**2018-2028**
Increase in Output (Percent)														
Real GDP	0.28	0.60	0.76	0.87	0.95	0.94	0.94	0.85	0.64	0.56	0.49	0.69	0.74	0.72
Real GNP	0.15	0.42	0.49	0.53	0.59	0.58	0.63	0.55	0.33	0.23	0.14	0.43	0.41	0.42
Share to Foreign Investors (Percent)	49	31	36	39	38	38	33	35	48	60	71	39	48	43

Source: Congressional Budget Office.

Real values are percentage changes in 2009 dollars. Shares are calculated using unrounded numbers.

GDP = gross domestic product; GNP = gross national product.

- The share of the additional real income accruing to foreigners fluctuates substantially from year to year in CBO's estimates, and 2028 is not representative of the entire period; that share averages 43 percent from 2018 to 2028.

In CBO's estimates, the share is higher after 2025 in part because the lower tax rates on individual income expire and the subsequent effects on the supply of labor—and therefore on real GDP—are smaller, but the difference between the effects on GDP and on GNP changes little. CBO has not analyzed the effects of the tax act after 2028.

If you would like further information about these issues, please let us know. The CBO staff contact is Jeff Werling.

Sincerely,

Keith Hall
Director

cc: Honorable Mike Enzi
Chairman
Committee on the Budget

Honorable Bernie Sanders
Ranking Member
Committee on the Budget