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

Phillip L. Swagel, Director

October 28, 2019

Honorable Mike Braun
United States Senate
Washington, DC 20510

RE: Additional Information About the Effects of Public Law 115-97 on Revenues

Dear Senator:

I am writing to respond to your question about the effects of the 2017 tax act on federal revenues. In short, revenues in fiscal years 2018 and 2019 were a bit lower than the Congressional Budget Office anticipated in early 2018, but whether that result is related to the effects of the tax act is unknown.

Although P.L. 115-97 (originally titled the Tax Cuts and Jobs Act) was enacted in December 2017, CBO first reported estimates of its full effects in April 2018 (see Appendix B in *The Budget and Economic Outlook: 2018 to 2028*, www.cbo.gov/publication/53651). At that time, CBO estimated that the tax act would increase the deficit by $1.9 trillion over the 2018–2028 period. That estimate considered all changes to revenues and outlays, including the effects of macroeconomic feedback and changes in debt-service costs.

CBO has not subsequently revised its estimate of the effects of the 2017 tax act on the economy or on federal tax receipts. Nevertheless, the agency continues to evaluate incoming data that provide evidence on the effects of the legislation. In August 2019, CBO described the recent data that have become available and the insights they provide into the effects of the tax changes on revenues (see Box 1-1 in *An Update to the Budget and Economic Outlook: 2019 to 2029*, www.cbo.gov/publication/55551).

Total receipts in 2018 were $8 billion (or 0.2 percent) lower than what CBO initially projected, and receipts in 2019 were $28 billion (or 0.8 percent) lower. In percentage terms, the differences between actual and projected receipts were larger for individual and corporate income tax receipts than for total receipts (see Table 1). Since April 2018, CBO has published four subsequent revisions to its revenue projections; together, those revisions reduced projected revenues over the 2018–2028 period by $700 billion (or 1.5 percent).

Revisions of that size are not unusual. Revenue projections are inherently uncertain, and actual outcomes would differ from CBO's projections even if no changes were made to current law. In analyzing its baseline projections of revenues since 1982, CBO found that the mean absolute error—that is, the average of all errors without regard to whether they are positive or negative—was 2.2 percent for forecasts for the current year, 5.0 percent for projections for the subsequent fiscal year, and 10.1 percent for projections for the sixth year of the projection period.

The extent to which the relatively small errors in projected receipts for 2018 and 2019 and the downward revisions to projected receipts over the following decade were influenced by the effects of the 2017 tax act's being larger or smaller than CBO projected or by other factors is not known. Those revisions to projected receipts reflect various factors, including revised economic projections, changes in tax modeling methodologies, and the incorporation of recent data on tax collections. The revisions do not reflect an explicit reassessment of the effects of the 2017 tax act, but they may be influenced by how those effects have unfolded over the past two years. For example, although CBO has revised downward projected receipts for 2020 by $58 billion (or 1.6 percent), largely to reflect weakness in recent tax collections, the extent to which those lower-than-expected receipts reflect the effects of the 2017 tax act or unrelated underlying factors is not known.

Although some preliminary information has become available from tax returns filed for the 2018 tax year—the first returns that reflect most of the changes made by the tax act—that information does not clearly indicate whether the tax act's effects differed from those CBO estimated in April 2018. Indeed, tax returns for 2018 for those who received extensions were filed only within the past two weeks. Detailed information from 2018 tax returns is expected to become available in late 2020. Assessing the tax act's effects on receipts will not be possible even then, however, because it is not possible to disentangle changes in revenues caused by the tax act from changes driven by other factors, such as the effects of trade barriers that might have reduced economic growth and thus held down tax receipts. CBO will continue to monitor data to assess the effects of the 2017 tax act and to update its projections of tax revenues under current law.

I hope this information is helpful to you. If you have any questions, please contact me or John McClelland.

Sincerely,

Phillip L. Swagel
Director

cc: Honorable Mike Enzi
Chairman
Senate Committee on the Budget

Honorable Bernie Sanders
Ranking Member
Senate Committee on the Budget

Honorable John Yarmuth
Chairman
House Committee on the Budget

Honorable Steve Womack
Ranking Member
House Committee on the Budget

Table 1.

CBO's Revenue Projections for 2018 and 2019, Compared With Actual Outcomes

Billions of Dollars

Revenue Source	April 2018 Projections, Adjusted for Subsequently Enacted Legislation	Actual	Difference	Percentage Difference[a]	Mean Absolute Error of Past Projections for Comparable Budget Year (Percent)[b]
		Fiscal Year 2018			
Individual Income Taxes	1,639	1,684	-44	-2.6	7.2
Payroll Taxes	1,178	1,171	7	0.6	2.5
Corporate Income Taxes	243	205	38	18.6	17.4
Other	278	271	7	2.6	5.6
Total	**3,338**	**3,330**	**8**	**0.2**	**5.0**
		Fiscal Year 2019			
Individual Income Taxes	1,744	1,718	26	1.5	9.9
Payroll Taxes	1,231	1,243	-12	-1.0	3.8
Corporate Income Taxes	276	230	46	20.0	23.9
Other	238	271	-33	-12.1	7.4
Total	**3,490**	**3,462**	**28**	**0.8**	**7.1**

a. The percentage difference is the projected amount minus the actual amount divided by the actual amount.

b. The mean absolute error is the arithmetic average of the projection errors without regard to whether they are positive or negative, so errors in different directions do not offset one another. CBO calculated projection errors by subtracting the actual revenue amount from the projection and dividing that difference by the actual revenue amount. For projections made in April 2018, the comparable budget years for 2018 and 2019 are the second and third years of the baseline projection period, respectively. Measures for revenue categories are based on projections for 1983 to 2017. The data necessary to calculate the projection errors in earlier years are not available. For more information, see Congressional Budget Office, *CBO's Revenue Forecasting Record* (November 2015), www.cbo.gov/publication/50831.