

CBO's Projections of Tax Revenues

December 8, 2021

Presentation to the
National Association of Legislative Fiscal Offices

Kathleen Burke, John McClelland, and Jennifer Shand
Tax Analysis Division

The Congressional Budget Office

CBO's Role

CBO provides the Congress with objective, nonpartisan, and timely analyses of legislative proposals and of budgetary and economic issues to support the Congressional budget process.

Some Key Characteristics of CBO

CBO is:

- Advisory,
- Objective,
- Nonpartisan,
- Responsive, and
- Transparent.

CBO's Process for Developing the Budget Baseline

The Budget Baseline

The baseline is a detailed projection for the current year and the ensuing 10 years of federal spending, revenues, net spending for interest, and resulting deficits or surpluses.

The baseline:

- Is based on CBO's economic forecast;
- Reflects the assumption that current laws governing federal taxes and spending generally remain in place;
- Is not a forecast of future budgetary outcomes, which depend on future Congressional action and other factors;
- Is generally provided two or three times a year; and
- Is reported in CBO's *Budget and Economic Outlook*.

How CBO and the Congress Use the Baseline

The baseline is a benchmark for measuring the budgetary effects of proposed changes in federal revenues and mandatory spending.

It serves as the basis for:

- Cost estimates for proposed legislation,
- CBO's analyses of the President's annual budget,
- CBO's report describing policy options that would reduce the deficit,
- Other reports (including those describing CBO's long-term budget projections), and
- Assessments of multiyear budget trends.

The baseline is often a starting point for budget resolutions.

How CBO Makes Its Baseline Projections as Accurate as Possible

Updates to the baseline begin with a thorough analysis of prior-year revenue collections for each revenue source.

When it is appropriate to do so, CBO uses historical patterns and experience to develop projections.

The internal review process includes an assessment of the quality of past projections to identify opportunities to refine methods and improve the accuracy of projections.

CBO solicits input from program experts at federal agencies and compares its projections with those prepared by others.

How CBO Addresses the Uncertainty of Its Baseline Projections

All projections are subject to some degree of uncertainty about how closely they will correspond to actual outcomes.

Projections for years further in the future are more uncertain.

The amount of uncertainty can vary depending on many factors, including data quality, possible administrative actions, behavioral responses to changes in policies, and the variability of underlying factors.

CBO's analysts often test the sensitivity of their projections to identify the range of possible outcomes for those projections.

CBO's goal is to develop estimates that are near the middle of the range of possible outcomes.

CBO's Process for Developing the Baseline Projections of Revenues

The Baseline Projections of Revenues

The baseline includes projections for each source of revenues.

- The largest share (50 percent) of total revenues is from individual income taxes, which amounted to \$2 trillion in 2021.
- Corporate income taxes constituted 9 percent of total revenues in 2021.

The baseline reflects the assumption that current laws governing federal taxes generally remain in place.

- For example, reductions in the individual income tax are assumed to expire as scheduled at the end of 2025.
- There is an exception: Excise taxes dedicated to trust funds are extended at current rates.

The baseline is sensitive to economic projections.

The baseline tends to increase as a percentage of gross domestic product over time.

How CBO Updates the Baseline to Account for Enacted Legislation

CBO uses estimates of tax legislation produced by the staff of the Joint Committee on Taxation (JCT).

- The estimates are microdynamic (that is, they do not reflect changes in broad economic variables) and are sometimes called “conventional estimates.”
- The estimates hold gross national product as a fixed amount.

Once the associated legislation has been enacted, JCT’s estimates are reflected in CBO’s baseline.

CBO then updates its economic projections to reflect any effects of legislation on the economy and the subsequent feedback effects on the budget.



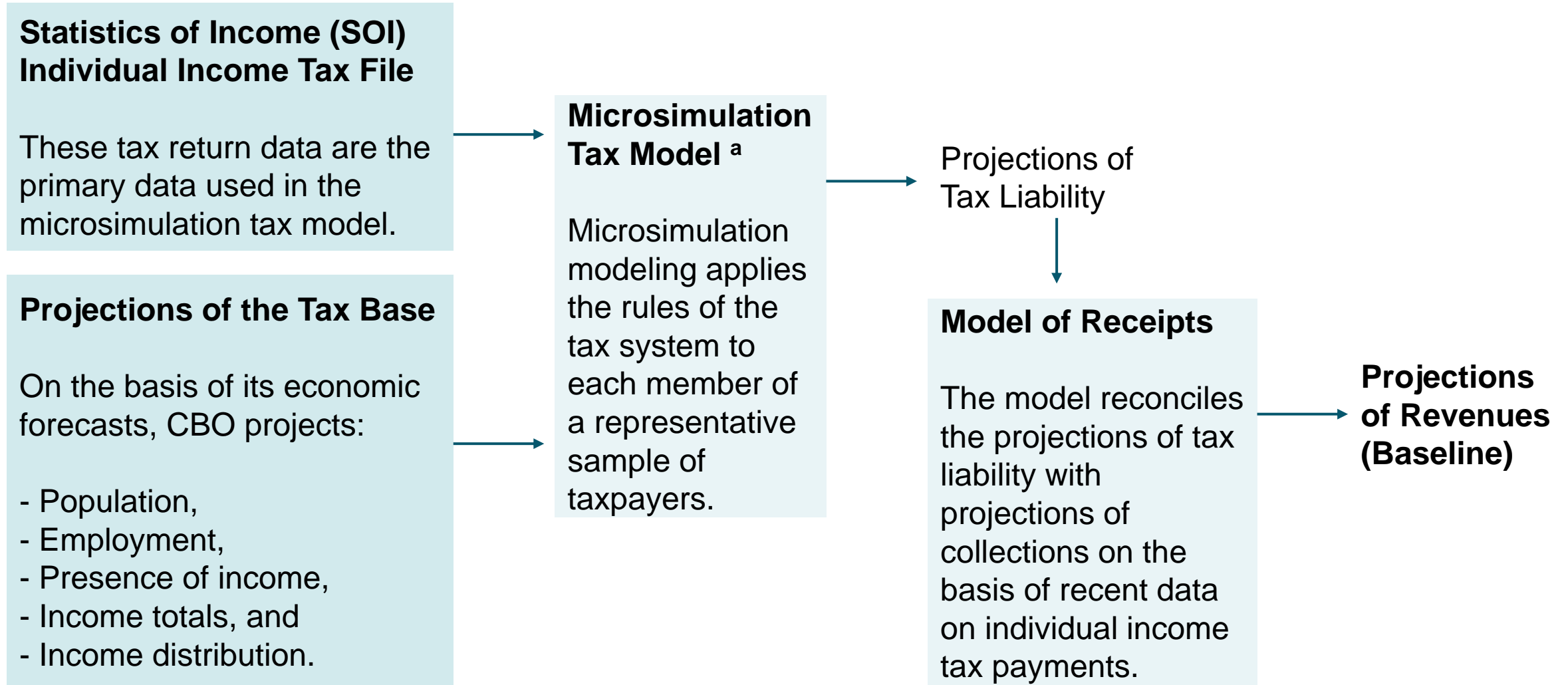
An Example of CBO's Projections of Revenues, From July 2021

Table 1.

CBO's Baseline Budget Projection, by Category

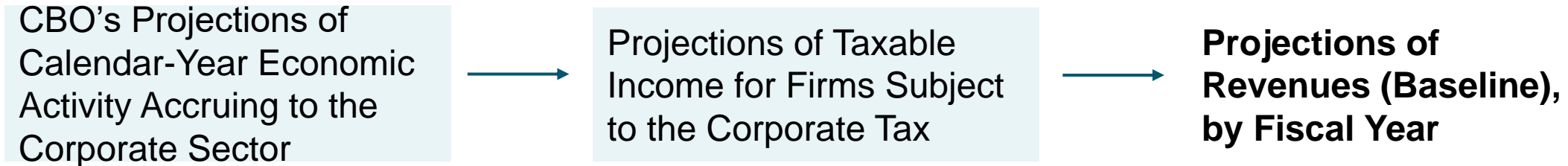
	Actual, 2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	Total 2022– 2022– 2026 2031	
In Billions of Dollars														
Revenues														
Individual income taxes	1,609	1,952	2,328	2,334	2,353	2,383	2,586	2,792	2,871	2,979	3,091	3,209	11,984	26,926
Payroll taxes	1,310	1,346	1,391	1,504	1,550	1,588	1,644	1,703	1,768	1,834	1,900	1,968	7,677	16,849
Corporate income taxes	212	238	317	379	390	402	401	391	393	393	393	397	1,889	3,857
Other	<u>291</u>	<u>306</u>	<u>355</u>	<u>381</u>	<u>378</u>	<u>359</u>	<u>354</u>	<u>367</u>	<u>364</u>	<u>366</u>	<u>371</u>	<u>382</u>	<u>1,827</u>	<u>3,676</u>
Total	3,421	3,842	4,390	4,597	4,671	4,734	4,984	5,253	5,396	5,572	5,754	5,957	23,376	51,308
On-budget	2,456	2,863	3,401	3,513	3,542	3,566	3,773	3,995	4,091	4,218	4,352	4,506	17,796	38,957
Off-budget	965	979	989	1,085	1,128	1,168	1,211	1,258	1,306	1,354	1,402	1,451	5,581	12,351

How CBO Develops the Baseline Projections of Revenues From Individual Income Taxes



a. For a more detailed description of the microsimulation tax model, see Congressional Budget Office, “An Overview of CBO’s Microsimulation Tax Model” (June 2018), www.cbo.gov/publication/54096.

How CBO Develops the Baseline Projections of Revenues From Corporate Income Taxes



The baseline relates CBO's economic projections to federal corporate income tax receipts, assuming no changes to current laws governing taxes and spending.

Data sources include the national income and product accounts produced by the Department of Commerce's Bureau of Economic Analysis; the Internal Revenue Service's Statistics of Income; and monthly statements from the Treasury.

Related Publications

- Congressional Budget Office, *How CBO Prepares Baseline Budget Projections* (February 2018), www.cbo.gov/publication/53532.
- Congressional Budget Office, *An Evaluation of CBO's Past Revenue Projections* (August 2020), www.cbo.gov/publication/56499.
- Congressional Budget Office, *The Accuracy of CBO's Budget Projections for Fiscal Year 2020* (December 2020), www.cbo.gov/publication/56885.
- Congressional Budget Office, *Improving CBO's Methodology for Projecting Individual Income Tax Revenues* (February 2011), www.cbo.gov/publication/22007.