



June 5, 2020

Honorable Rick Scott  
United States Senate  
Washington, DC 20510

*Re: Budgetary Effects of the 2020 Coronavirus Pandemic*

Dear Senator:

As you requested, this letter provides information about certain budgetary effects of the 2020 coronavirus pandemic and the federal government's response to it.

### **Effects of Tax Deferrals on Revenues**

First, you asked about federal revenues that will be lost because of tax deferrals. As you noted, revenues collected since late March have been much weaker than those collected during the same period last year and also much weaker than the Congressional Budget Office projected earlier this year. The lower revenues result in part from the economic disruption caused by the pandemic, which has reduced wages and other taxable income, and in part from the government's actions to address that disruption.

The federal government's response included a variety of changes to tax rules. Some of them reduce the amount of taxes that businesses and individuals owe; others just allow taxpayers to defer paying taxes. CBO anticipates that most of the revenues affected by those deferrals will be collected in July, some will be collected in later years, and some will be permanently lost. CBO does not have an estimate of the amounts that fall in each of those categories.

**Payroll Taxes.** The Coronavirus Aid, Relief, and Economic Security (CARES) Act allows employers to delay their payments of payroll taxes—until 2021 and 2022—on wages paid from March 27, 2020, through December 31, 2020. That delay provides additional liquidity to businesses that may be facing reduced revenues or increased costs as a result of the

pandemic. In effect, those firms have been provided an interest-free loan that equals a fraction of their payroll. The firms are obligated to pay half of the deferred payroll taxes on December 31, 2021, and the remainder on December 31, 2022.

The staff of the Joint Committee on Taxation (JCT) has estimated that the delay will reduce tax revenues in 2020 by over \$200 billion. But by JCT's estimate, most of the payroll taxes deferred under the CARES Act will be paid in future fiscal years, so the net loss from the delay will be \$12 billion.<sup>1</sup> The reason for that loss is that some of the affected firms will cease operations before they can make their payments, so some of the deferred taxes will not be paid.

**Effect of Business Losses on Tax Liability.** The CARES Act also temporarily modified the rules governing the use of business losses in determining tax liability. One change allows losses to result in the refund of income taxes paid for earlier years, not just for the following year, and another allows losses to reduce tax liability more than would have otherwise been the case. By allowing losses to be applied now rather than against future taxes, the changes give businesses liquidity now and increase the income taxes that they will pay in the future. As with other types of deferral of tax liability, if a business ceases to exist, its deferred taxes may not be paid.

**Other Taxes.** Deadlines for filing returns and paying taxes have been delayed for many other taxes. The Administration delayed the tax filing and payment deadlines for individual and corporate income taxes from April 15 to July 15, and it also delayed the due dates for estimated payments during that period. For excise taxes on wine, beer, distilled spirits, tobacco products, firearms, and ammunition that were originally due during the period from March 1, 2020, through July 1, 2020, the Administration delayed due dates by 90 days. And the Administration is allowing customs duties on some imports to be deferred for 90 days for businesses facing significant financial hardship.

CBO expects that most of the revenues that would have otherwise been paid when taxes were originally due will be paid by the new deadlines. In

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<sup>1</sup> See Joint Committee on Taxation, *Estimated Revenue Effects of the Revenue Provisions Contained in an Amendment in the Nature of a Substitute to H.R. 748, the "Coronavirus Aid, Relief, and Economic Security ('CARES') Act," as Passed by the Senate on March 25, 2020, and Scheduled for Consideration by the House of Representatives on March 27, 2020*, JCX-11R-20 (April 23, 2020), <https://go.usa.gov/xvQuv>.

particular, CBO expects that most of the income tax revenues that would otherwise have been collected in the period from April through June, when taxpayers would ordinarily have filed their 2019 returns and made estimated payments of taxes for 2020, will be paid in July of this year. However, because some individuals or businesses may become insolvent and fail to make those payments, the government may not collect all of the deferred taxes.

### **Projected Federal Deficits for 2020 and 2021**

You also asked how large CBO anticipates the federal deficit will be in fiscal year 2020. In late April, CBO provided preliminary projections of federal deficits in fiscal years 2020 and 2021, which took into account recent events and the enactment of pandemic-related legislation.<sup>2</sup> According to those projections, if laws currently in place governing spending and revenues generally remained unchanged and no significant additional emergency funding was provided, the federal deficit would be roughly \$3.7 trillion in fiscal year 2020 and \$2.1 trillion next year. (In CBO's March baseline projections, deficits were just over \$1 trillion in each of those years.)

Those projected deficits are significantly larger than the budget shortfall in 2019 because of sharply lower revenues and substantially higher noninterest spending. Even though federal borrowing grows in those projections, declines in interest rates mean that net interest outlays are lower in both years than in 2019.

CBO will scrutinize its projections of federal revenues and spending over the next several months, and the budget outlook in the updated baseline projections that the agency plans to release in early September of this year may be significantly different from the estimates described here.

### **Budgetary Effects of Pandemic-Related Legislation**

Finally, you asked what provisions enacted into law to respond to the pandemic were having the largest effects on the federal deficit. CBO has provided cost estimates for each of the four pandemic-related bills that were

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<sup>2</sup> See Congressional Budget Office, "CBO's Current Projections of Output, Employment, and Interest Rates and a Preliminary Look at Federal Deficits for 2020 and 2021," *CBO Blog* (April 24, 2020), [www.cbo.gov/publication/56335](http://www.cbo.gov/publication/56335).

enacted through the end of May. The budgetary effects of those bills over the 2020–2030 period are as follows.

- The Coronavirus Preparedness and Response Supplemental Appropriations Act (Public Law 116-123, enacted March 6, 2020) is estimated to increase deficits by \$8 billion.<sup>3</sup>
- The Families First Coronavirus Response Act (P.L. 116-127, enacted March 18, 2020) is estimated to increase deficits by \$192 billion.<sup>4</sup>
- The CARES Act (P.L. 116-136, enacted March 27, 2020) is estimated to increase deficits by \$1.721 trillion.<sup>5</sup>
- The Paycheck Protection Program and Health Care Enhancement Act (P.L. 116-139, enacted April 24, 2020) is estimated to increase deficits by \$483 billion.<sup>6</sup>

Those laws would have the biggest impact on the budget in fiscal year 2020. The policies in those laws with the largest projected effects on deficits over the 2020–2030 period are as follows.

- **The Paycheck Protection Program (PPP)** provides funding to guarantee loans, which may be forgiven, to small businesses and other eligible entities to cover payroll and other eligible costs over eight weeks. The CARES Act provided a direct appropriation of \$349 billion for the subsidy cost of guaranteeing and delivering PPP loans in 2020, and the Paycheck Protection Program and Health Care Enhancement Act increased the subsidy appropriation

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<sup>3</sup> See Congressional Budget Office, cost estimate for H.R. 6074, the Coronavirus Preparedness and Response Supplemental Appropriations Act, 2020 (March 4, 2020), [www.cbo.gov/publication/56227](http://www.cbo.gov/publication/56227).

<sup>4</sup> See Congressional Budget Office, cost estimate for H.R. 6201, the Families First Coronavirus Response Act (April 2, 2020), [www.cbo.gov/publication/56316](http://www.cbo.gov/publication/56316).

<sup>5</sup> See Congressional Budget Office, cost estimate for H.R. 748, the CARES Act, Public Law 116-136 (April 16, 2020), [www.cbo.gov/publication/56334](http://www.cbo.gov/publication/56334).

<sup>6</sup> See Congressional Budget Office, cost estimate for H.R. 266, the Paycheck Protection Program and Health Care Enhancement Act (April 22, 2020), [www.cbo.gov/publication/56338](http://www.cbo.gov/publication/56338).

for PPP by \$321 billion in 2020, increasing deficits in that year by a total of \$670 billion.

- **Recovery Rebates for Individuals**, which were provided by the CARES Act, consist of a refundable tax credit of \$1,200 per person (or \$2,400 for joint filers) plus \$500 per dependent child under the age of 17. The credit phases out for taxpayers whose adjusted gross income is over \$75,000 (or \$150,000 for joint filers, or \$112,000 for taxpayers filing as heads of households). JCT estimates that the credits will increase deficits by \$292 billion over the 2020–2021 period.<sup>7</sup>
- **Changes to unemployment insurance**, which were included in the CARES Act, expand eligibility for unemployment compensation benefits and increase the weekly benefit amount and the number of weeks when beneficiaries can claim benefits. Major changes include creating the Pandemic Unemployment Assistance program to provide weekly benefits to unemployed people affected by the pandemic who would otherwise be ineligible for unemployment compensation benefits; temporarily adding \$600 to the weekly benefit amount in unemployment programs; providing an additional 13 weeks of unemployment compensation benefits through the Pandemic Emergency Unemployment Compensation program to people who have exhausted regular benefits; and federally funding various other unemployment compensation benefits, as well as states' administrative expenses. Overall, CBO estimates that the changes to unemployment insurance will increase deficits by a total of \$267 billion in 2020 and 2021.

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<sup>7</sup> See Joint Committee on Taxation, *Estimated Revenue Effects of the Revenue Provisions Contained in an Amendment in the Nature of a Substitute to H.R. 748, the "Coronavirus Aid, Relief, and Economic Security ('CARES') Act," as Passed by the Senate on March 25, 2020, and Scheduled for Consideration by the House of Representatives on March 27, 2020*, JCX-11R-20 (April 23, 2020), <https://go.usa.gov/xvQuv>.

Honorable Rick Scott

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I hope this information is useful. Please contact me if you would like further assistance.

Sincerely,

A handwritten signature in black ink, appearing to read "Phillip L. Swagel", with a long, sweeping flourish extending to the right.

Phillip L. Swagel  
Director

cc: Honorable Mike Enzi  
Chairman  
Senate Committee on the Budget

Honorable Bernie Sanders  
Ranking Member  
Senate Committee on the Budget