

# **Post-Election Outlook Federal Budget & Tax Landscape**

NCSL SALT Task Force Seminar  
Dana Point, California

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# Federal Budget: Current Landscape



# Economic Environment:

## Economic Forecasts

### Calendar Years 2015 - 2017

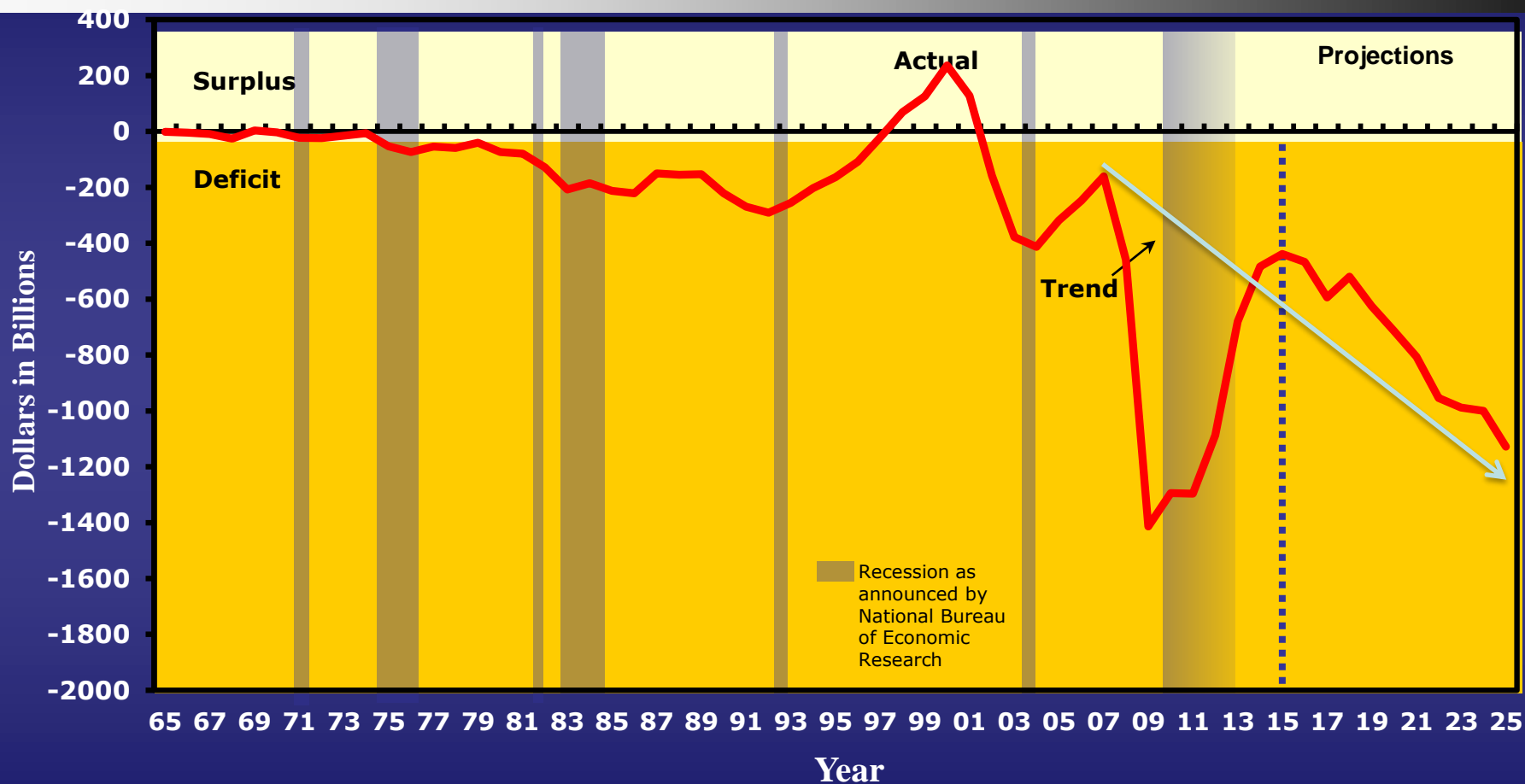
	<b>Actual 2015</b>	<b>Estimated 2016</b>	<b>Forecast 2017</b>
<b>Real GDP Growth</b>			
– CBO	+2.4	+1.9%	+2.4%
– Blue Chip		+1.5%	+2.2%
– Administration		+2.2%	+2.4%
<b>Inflation (CPI)</b>			
– CBO	+0.1	+ 1.4%	+2.4%
– Blue Chip		+ 1.3%	+ 2.3%
– Administration		+1.2%	+2.2%
<b>Unemployment Rate</b>			
–CBO	5.3%	4.8%	4.5%
– Blue Chip		4.9%	4.7%
– Administration		4.7%	4.6%
<b>10 Year Note</b>			
–CBO	2.1%	1.8%	2.3%
–Blue Chip		1.7%	2.1%
– Administration		2.0%	2.8%

Sources: Congressional Budget Office, August 2016; [Blue Chip Economics Forecasts, November 10, 2016](#); President's FY 2016, Mid-Season Review, Budget July 15, 2016.



# Total Budget Surplus/Deficit FY 1971-2025

— Total Budget Surplus/Deficit



Source: An Update of The Budget and Economic Outlook: Fiscal Years 2014 to 2026. Congressional Budget Office; August 2016.

# Budget Outlook

## FY 2012 – 2026

(In Billions of Dollars – % of GDP)

	2012 Actual	2013 Actual	2014 Actual	2015 Actual	2016 Proj.	2017	2018	...2026	% Δ annual 2016- 2026
<b>Receipts</b>	2,450	2,774	3,021	3,250	3,276	3,421	3,600	4,993	+ 4.3%
<b>Spending</b>	3,537	3,455	3,506	3,688	3,866	4,015	4,120	6,235	+ 4.9%
<b>Deficits</b>	<b>1,087</b>	<b>680</b>	<b>485</b>	<b>438</b>	<b>590</b>	<b>594</b>	<b>520</b>	<b>1,243</b>	<b>+7.7%</b>
<b>% of GDP</b>	6.8%	4.1%	2.8%	2.5%	3.2%	3.1%	2.6%	4.6%	NA
<b>Public Debt</b>	<b>11,281</b>	<b>11,983</b>	<b>12,780</b>	<b>13,117</b>	<b>14,073</b>	<b>14,743</b>	<b>15,325</b>	<b>23,118</b>	<b>+ 5.1%</b>
<b>% GDP</b>	73%	72%	74%	74%	77%	77%	77%	85.5%	
<b>Debt Subject Limit</b>	<b>16,027</b>	<b>16,699</b>	<b>17,781</b>	<b>18,113</b>	<b>19,376</b>	<b>20,154</b>	<b>20,860</b>	<b>28,197</b>	<b>+3.8%</b>
<b>% GDP</b>	100%	101%	103%	102%	105%	106%	105%	104%	

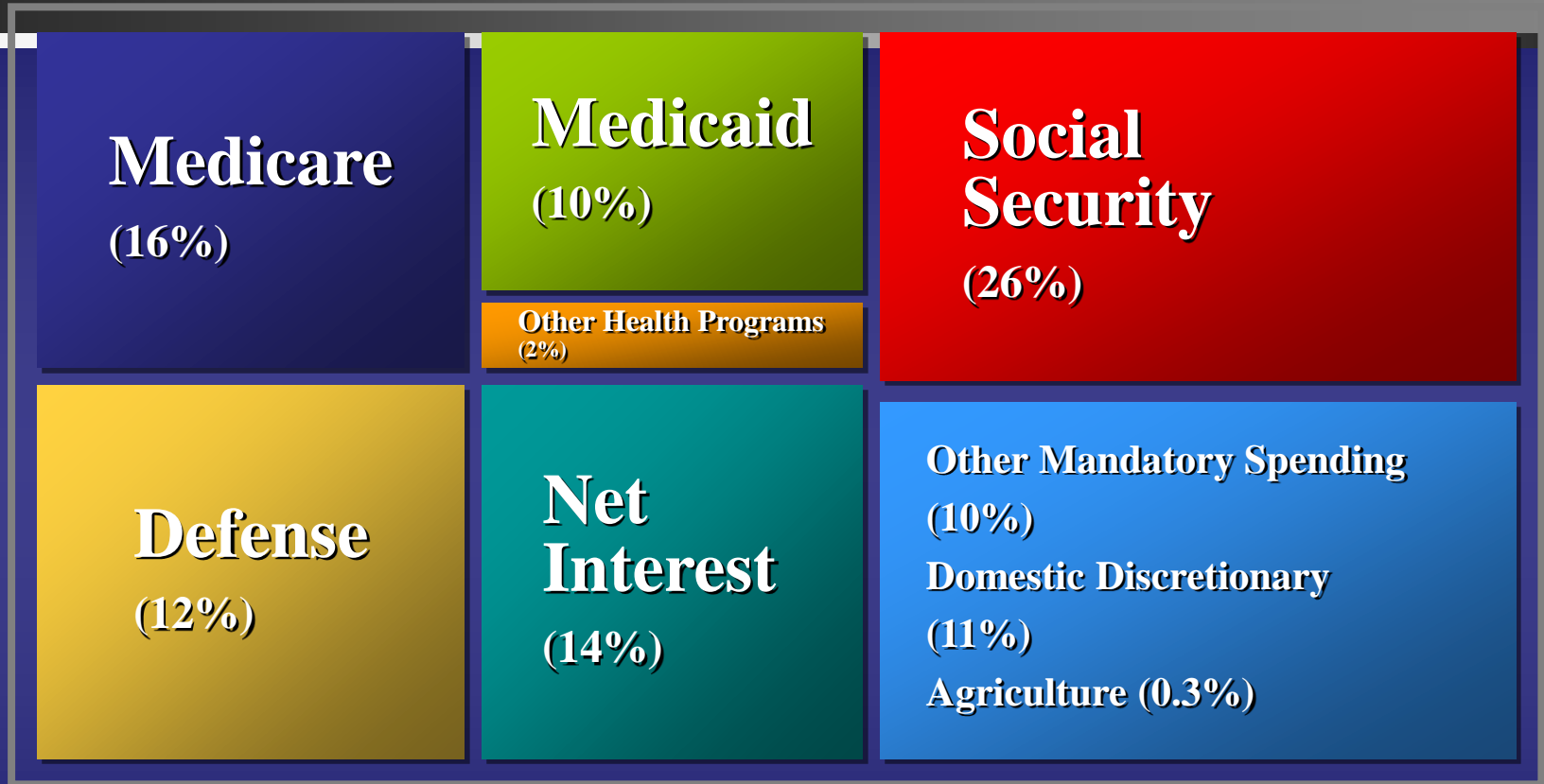
**CBO estimate of nominal GDP growth increase 3.9% annually 2016-2026.**

Source: Congressional Budget Office, The Budget and Economic Outlook 2016-2026.

Updated Projections. August 2016.

Debt subject to limit currently set at \$18.4 but suspended thru March 15, 2017 on March 16 limit will be raised to its previous level plus amount of borrowing that has occurred while limit was suspended.

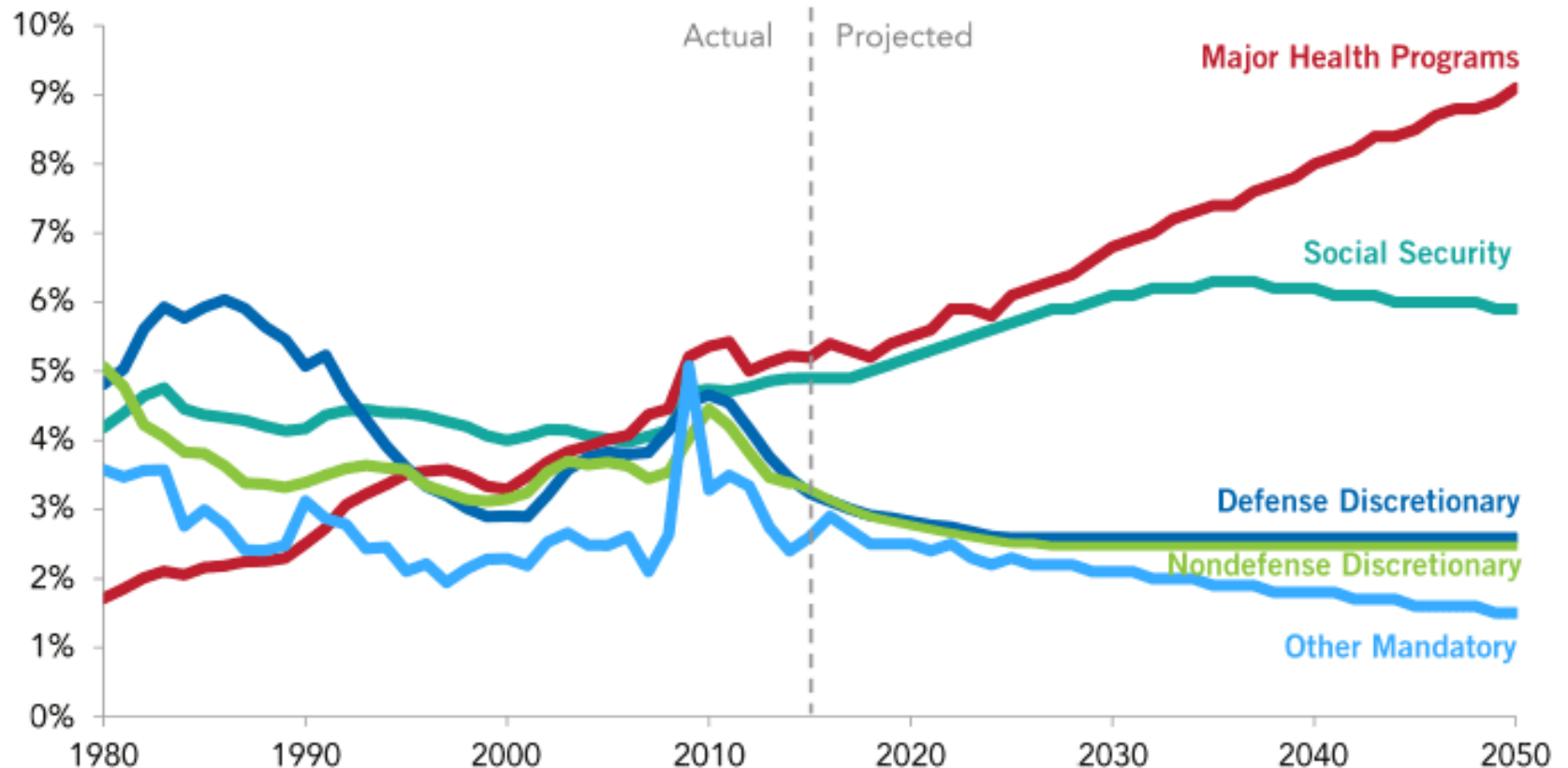
# Federal Spending Projected for 2025



“Other Health Programs” includes: Health insurance subsidies, exchanges, and related spending; Department of Defense Medicare-Eligible Retiree Health Care Fund (including TRICARE for Life); Children’s Health Insurance Program, and other programs.

Source: The Congressional Budget Office. The Budget and Economic Outlook: Fiscal Years 2014 to 2025, August Update 2015.

# Federal Spending as a Share of the Economy 1980 – 2050

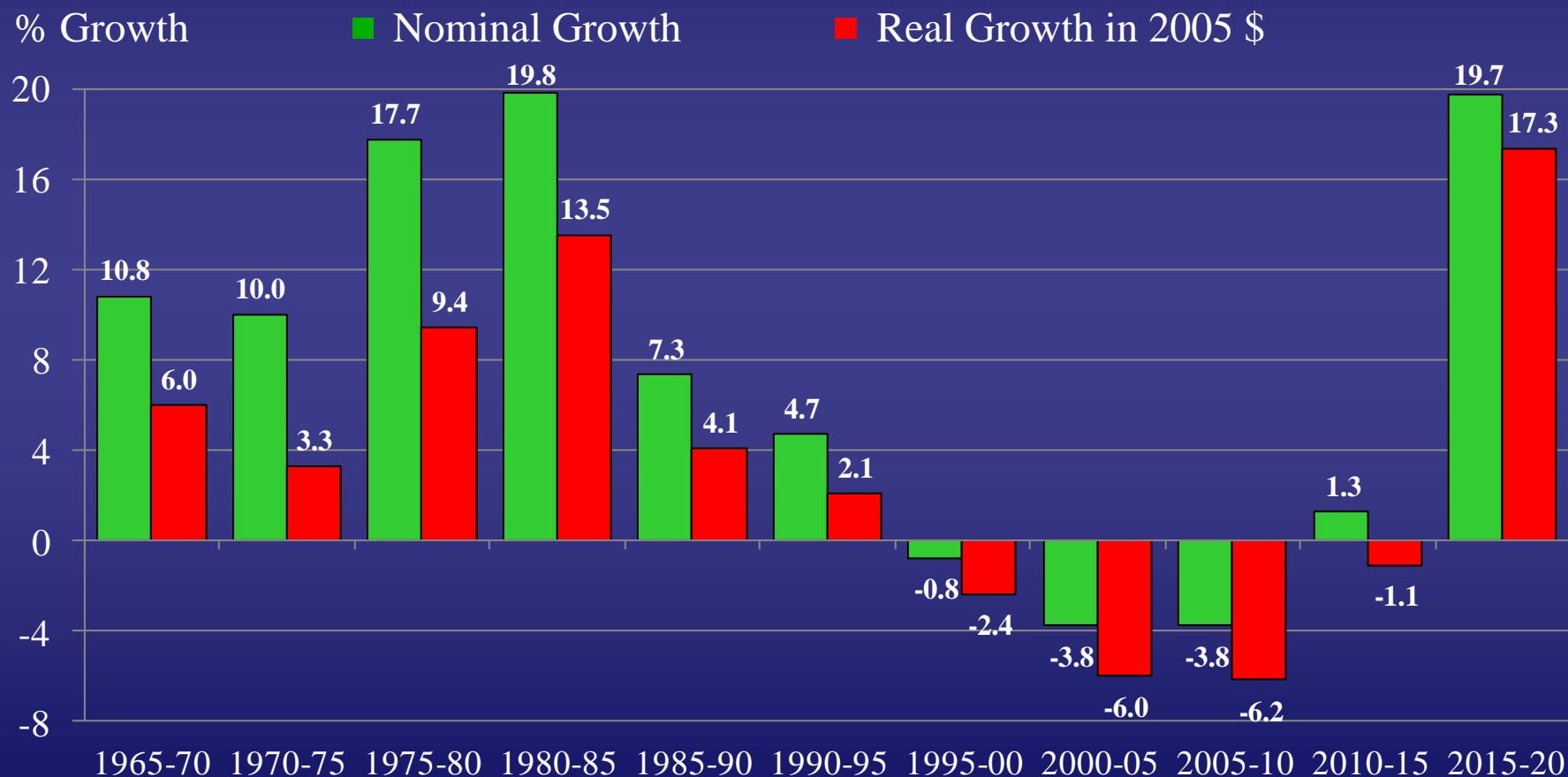


SOURCE: Congressional Budget Office, *Historical Budget Data*, January 2015, and *The 2015 Long-Term Budget Outlook*, June 2015; and PGPF projections based on CBO data. Calculated by PGPF.

NOTE: Projections are from the extended baseline scenario. Major health programs include Medicare, Medicaid, Children's Health Insurance Program (CHIP), and the health exchanges.

# Growth in Net Interest

Average Annual Growth, 5-year periods (1965 – 2020)



Source: "The Budget and Economic Outlook Fiscal Years 2013 to 2023: Congressional Budget Office, February 2013" plus historical data.



# **Immediate & Longer-Term Challenge**

## **Post Election**

# Limits on Discretionary Budget Authority FY 2014 to 2021 (Billions of dollars)

Caps	2014	2015	2016	2017	2021	Annual Rate of Increase 2014-2021
Defense	\$ 520.5	521.3	548.0	551.0	590.1	1.8%
Nondefense	\$ 491.8	492.4	519.0	519.0	555.9	1.8%
Total	\$ 1,012.2	1,013.6	1,126.0	1,129.0	1,146.0	1.8%
Adjusted for Inflation 2014 = 100	\$1,012.2	994.7	976.0	...	980.3	-0.5%

Source: Fiscal Sequestration Report for FY 2014; Congressional Budget Office, January 2015.

# Limits on Discretionary Budget Authority

## FY 2015 to 2021

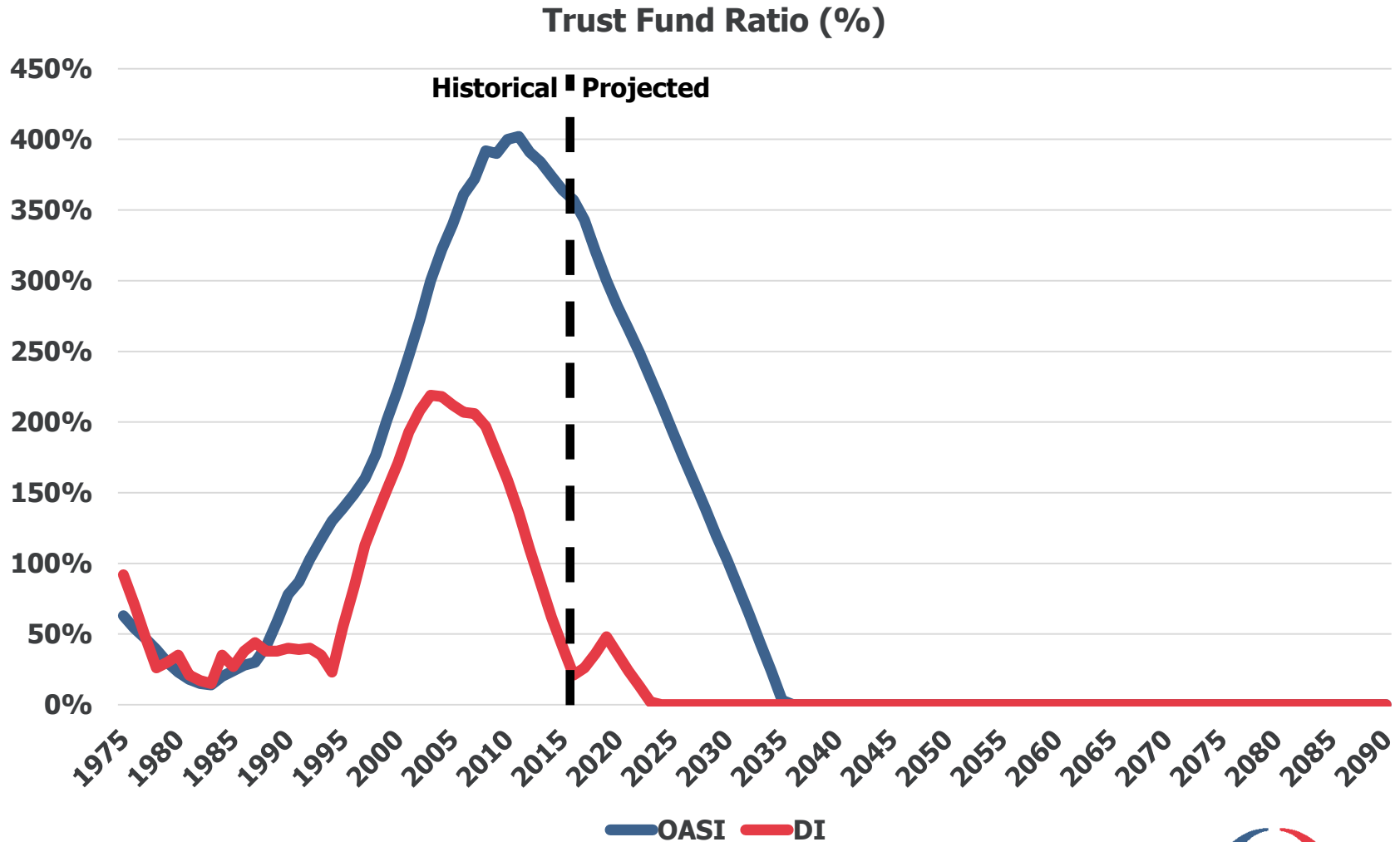
(Billions of dollars)

**Including Adjustments made by the Bipartisan Budget Act of 2015**

Category		2015 est.	2016	2016 Revised	2017	2017 Revised	2018	2019	2020	2021	Annual Rate of Increase 2015-2021
Defense	Cap	521	523	<b>548</b>	536	<b>551</b>	549	562	576	590	2.1%
	S.Con.Res. 11	521	523		536		549	562	576	590	2.1%
	POTUS	521	561		573		584	592	598	610	2.6%
Global War on Terrorism -- OCO	S.Con.Res.11	64	96	<b>59</b>	65	<b>59</b>	63	58	50	48	-4.6%
	POTUS	64	58		27		27	27	27	27	-13.4%
Total Defense	S.Con.Res. 11	585	619	<b>607</b>	601	<b>610</b>	612	620	626	638	1.5%
	POTUS	585	619		600		611	619	625	637	1.5%
Nondefense	Cap	534	493	<b>519</b>	504	<b>519</b>	516	530	543	555	0.6%
	S.Con.Res.	534	493		477		478	487	495	503	-1.0%
	11 POTUS	534	530		541		551	560	565	575	1.2%
Total w/OCO	Cap	1,119	1,112	<b>1,126</b>	1,040	<b>1,129</b>	1,065	1,092	1,119	1,146	0.4%
	S.Con.Res.11	1,119	1,016		1,013		1,027	1,049	1,071	1,093	-0.4%
	POTUS	1,119	1,091		1,114		1,135	1,152	1,163	1,185	1.0%

Source: Fiscal Sequestration Report for FY 2014; Congressional Budget Office, January 2015. Adjusted for H.R. 1314, Bipartisan Budget Act of 2015. October 2015.

# TRUST FUNDS CANNOT FULLY FUND SCHEDULED BENEFITS

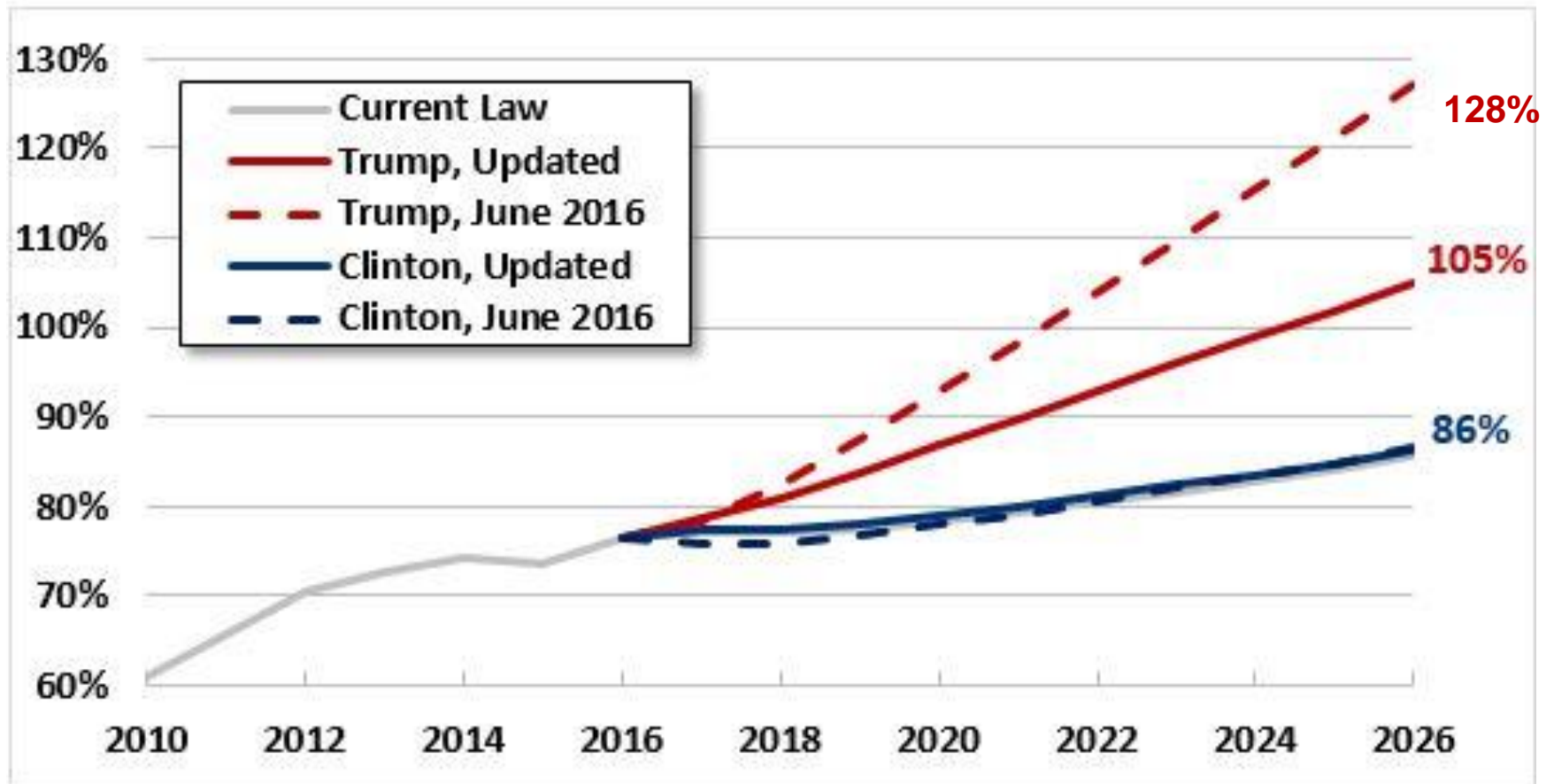


Source: Social Security Trustees Report, 2016  
[WWW.BIPARTISANPOLICY.ORG](http://WWW.BIPARTISANPOLICY.ORG)

# **Policies Post-Election**

# DEBT UNDER CENTRAL ESTIMATE PROPOSALS

(PERCENT OF GDP)



**Source:** "Promises and Price Tags: A Preliminary Update". Committee for a Responsible Federal Budget. September 22, 2016.

# President-Elect Tax Proposals



Trump presentation to New York Economic Club, September 15, 2016

## Individual

- Collapse current 7 tax brackets into 3 brackets: 12; 25, 33.
- Increase standard deduction to \$15,000 single, \$30,000 joint.
- Leave personal exemptions unchanged at \$4,000.
- Tax dividends and capital gains at max 20%.
- Limit value of itemized to \$100k single, \$200k married, other than mortgage and charitable.
- Repeal AMT.
- Tax carried interest at ordinary business income.
- Repeal federal estate and gift taxes.

## Business

- Reduce corporate rate to 15%.
- Limit top individual income tax rate on pass-through to 15%.
- Repeal corporate AMT.
- Repeal most tax breaks for businesses.
- Impose 10% deemed repatriation tax on accumulated foreign profits.
- Tax future profits foreign subsidiaries each year as earned.

# A Better Way: House Republican Tax Reform Proposals

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## Individual

- Simplification – flatten and lower tax rates:
  - Consolidate 7 tax brackets into 3 brackets – 0/12%; 25%; 33%
- Repeal the individual AMT.
- Deduct 50% of net capital gains, dividends, and interest income.
- Consolidate the basic standard deduction, the additional standard deduction, and the personal exemptions for families and individuals:
  - New standard deduction \$24,000 married, \$18,000 individual with child and \$12,000 for other individuals.
  - Increased child credit of \$1,500 – first \$1,000 refundable.
- Continue EITC.
- Consolidate and streamline tax benefits related to education.
- Eliminate all itemized deductions except: mortgage interest and charitable.
- Repeal the estate and generation-skipping transfer of taxes.



# A Better Way: House Republican Tax Reform Proposals

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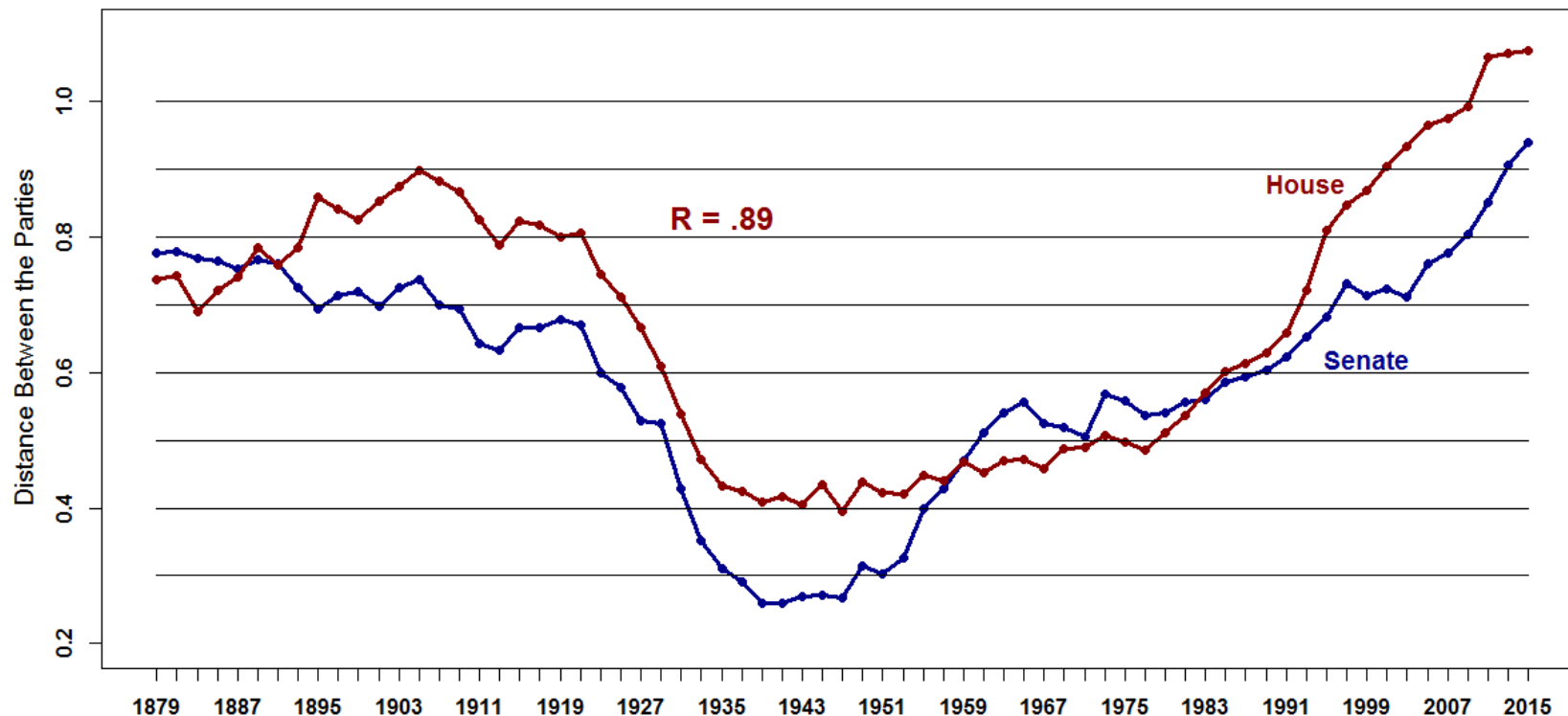
## Corporate/Business

- Lower the corporate tax rate to a flat 20%.
- Repeal the corporate alternative minimum tax (AMT).
- Allow businesses to fully and immediately expense the cost of investments.
- Net operating losses (NOLs) carried forward indefinitely.
- Inventory, preserve the last-in-first-out (LIFO) accounting.
- Preserve R&D tax credit.
- Limit tax rate on small businesses and pass-through income to 25%.

## International

- Move to a destination-basis tax system (territorial system).
  - Sales to U.S. customers are taxed and sales to foreign customers are exempt.
- Border adjustment – exempt exports, tax imports.
- 100% exemption for dividends from foreign subsidiaries – eliminate “lock out effect”.

# PARTY POLARIZATION 1829-2015



**Source:** *Polarized America, The Dance of Ideology and Unequal Riches.* McCarty, Poole, and Rosenthal.  
**MISource:** *Polarized America, The Dance of Ideology and Unequal Riches.* McCarty, Poole, and Rosenthal.  
MIT Press, June 2006 (updated).  
T Press, June 2006 (updated).

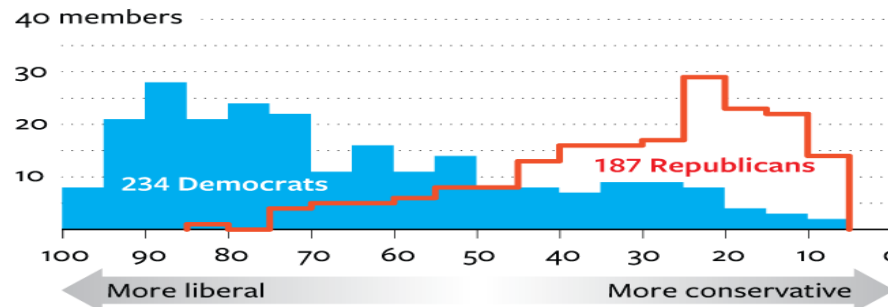
# “A House Divided”

Getting to Yes: National Journal

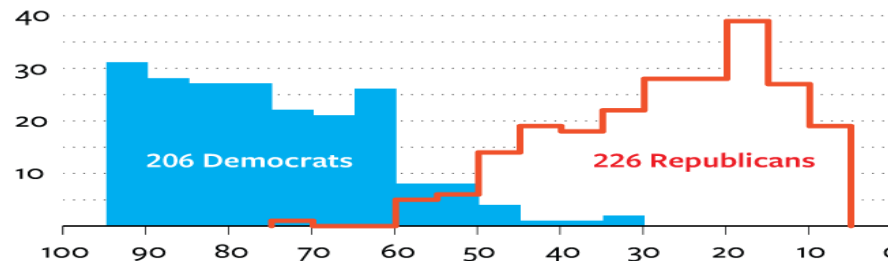
Alex Roarty, February 23, 2013

1982

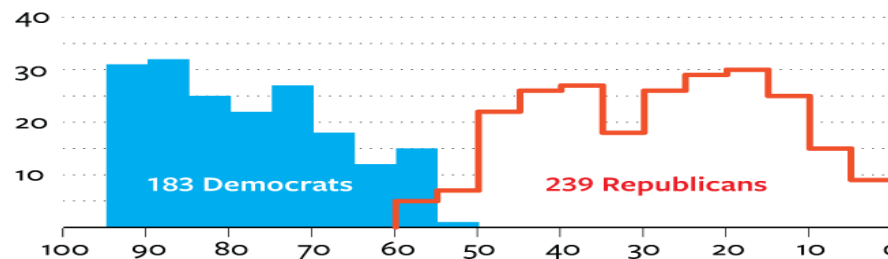
**Distribution of liberal composite scores, by party**



1997



2012



Source: National Journal analysis of House roll call votes

# 114TH CONGRESS & RACES 2014, 2016, 2018

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	<i>Party Affiliation</i>	<i>113th Congress</i>	<i>Seats that were up in 2014</i>	<i>114th Congress</i>	<i>Seats Up in 2016</i>	<i>Seats Up in 2018</i>
<b>U.S. SENATE</b>	Democrats	54	21	46	10	24
	Republicans	45	15	54	24	8
<b>U.S. HOUSE</b>	Democrats	201	201	188	188	NA
	Republicans	234	234	246 (1 Vacant)	247	NA



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