

## **CBO: Big spending cuts required for 10-year balanced budget, permanent TCJA**

The nonpartisan Congressional Budget Office (CBO) this week provided budgetary estimates suggesting that steep spending reductions would be required for Congress to produce a balanced budget by the close of the 10-year budget window, and that even more drastic cuts would be necessary if lawmakers also sought to permanently extend expiring provisions of the Tax Cuts and Jobs Act (TCJA, P.L. 115-97) without touching certain entitlement programs or defense spending.

**URL:** <https://www.congress.gov/115/plaws/publ97/PLAW-115publ97.pdf>

CBO's analysis, dated March 14, was prepared in response to a request from Senate Finance Committee Chairman Ron Wyden, D-Ore., and Senate Budget Committee Chairman (and Finance Committee member) Sheldon Whitehouse, D-R.I.

**URL:** <https://www.cbo.gov/system/files/2023-03/58984-spending.pdf>

Though President Biden and congressional Democrats have made clear they will not accede to such spending cuts, the CBO report is already proving to be fodder as Democrats and the GOP joust on budgetary issues after Biden's recent release of his fiscal year 2024 budget blueprint and as the parties face an upcoming clash over raising or suspending the statutory debt limit which, under the most recent projections of the CBO and Treasury Department, will need to be addressed sometime between June and September of this year. (Balancing the federal budget over 10 years and permanently extending TCJA tax relief provisions for individuals and passthrough entities have been put forward as policy goals by some House Republicans.)

**URL:** <https://www.cbo.gov/publication/58906>

### **Balancing the budget a tall order**

At a high level, CBO's analysis concludes that balancing the budget by the end of the 10-year budget window would require non-interest outlays (that is, all federal outlays other than those required to service the national debt) to come in for annually increasing cuts as a share of gross domestic product (GDP), until those reductions total 29 percent of non-interest outlays in 2033 alone.

The required cuts would escalate rapidly if certain parts of the federal spending ledger were held harmless. For example, if two of the major entitlement programs—Social Security and Medicare—were protected from cuts, and defense and veterans spending also were carved out, those reductions would rise to 86 percent of non-interest spending by 2033 to achieve balance, according to the CBO.

Importantly, under this scenario, the CBO assumes that federal revenues will follow the path projected in the agency's most recent "baseline" which, as is customary under federal budget scorekeeping rules, is formulated on the basis of "current law." With respect to revenues, that includes an assumption that revenues will rise in the coming years as various temporary TCJA provisions expire as scheduled after 2025. (For coverage of CBO's most recent baseline, see *Tax News & Views*, Vol. 24, No. 6, Feb. 17, 2023.)

**URL:** [https://dhub.blob.core.windows.net/dhub/Newsletters/Tax/2023/TNV/230217\\_1.html](https://dhub.blob.core.windows.net/dhub/Newsletters/Tax/2023/TNV/230217_1.html)

## **Permanent TCJA extensions present an even bigger challenge**

At the request of Wyden and Whitehouse, CBO also analyzed a scenario in which the budget is brought into balance within a decade, but provisions of the TCJA—including changes to individual income tax provisions, estate and gift tax rules, accelerated tax depreciation, and research expense deductibility, among other lapsed and lapsing policies—are extended permanently rather than being allowed to expire.

Under that assumption, non-interest outlays would have to be cut by 35 percent to achieve balance within the decade, or eliminated entirely if lawmakers chose to protect entitlement, defense, and veterans spending.

### **Wyden and Whitehouse: The math doesn't work**

In March 14 news release, Whitehouse argued that the CBO analysis undercuts House Republicans' stated fiscal policy goals.

“While they would permanently extend the Trump tax giveaways for their wealthy donors, Republicans have pledged to use draconian cuts to pro-growth investments for everyday Americans to balance the budget in 10 years. As this analysis shows, no amount of cuts can make their math add up,” he said.

Wyden, for his part, echoed those concerns in his opening statement at a March 16 Finance Committee hearing with Treasury Secretary Janet Yellen to examine the Biden administration's fiscal year 2024 budget proposal. (See separate coverage in this issue for details on the hearing.)

“What CBO found is that for Republicans to make the math work, they would have to cut every other federal program by 86 percent. Goodbye to Medicaid and the guarantee of nursing home coverage. The border would be unprotected. Roads and bridges would crumble back into the stone age. And if Republicans also want to extend the Trump tax law, then you'd have to cut everything else. Gone,” Wyden said.

— Alex Brosseau  
Tax Policy Group  
Deloitte Tax LLP

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