AUGUST 23, 2023

FISCAL CHALLENGES FACING THE NEXT ADMINISTRATION

WITH MARC GOLDWEIN

US BUDGET WATCH 2024
A project of the Committee for a Responsible Federal Budget

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What is US Budget Watch 2024

US BUDGET WATCH 2024

A project of the Committee for a Responsible Federal Budget

US Budget Watch 2024 is a project of the nonpartisan Committee for a Responsible Federal Budget designed to educate the public on the fiscal impact of presidential candidates' proposals and platforms. Through the election, we will issue policy explainers, fact checks, budget scores, and other analyses.

By injecting an impartial, fact-based approach into the national conversation, US Budget Watch 2024 will help the public better understand the nuances of candidates' policy proposals and what they would mean for the country's economic and fiscal future.

Who's In the Race?

Who's In the Race: Republican Candidates

Donald Trump

Mike Pence

Ron DeSantis

Chris Christie

Nikki Haley

Tim Scott

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Who's In the Race: Republican Candidates

Asa Hutchinson

Will Hurd

Francis Suarez

Larry Elder

Doug Burgum

Vivek Ramaswamy

Who's In the Race: Democrat Candidates

Marianne Williamson

Joe Biden

Robert Kennedy Jr.

Who’s In the Race: Independent Candidates

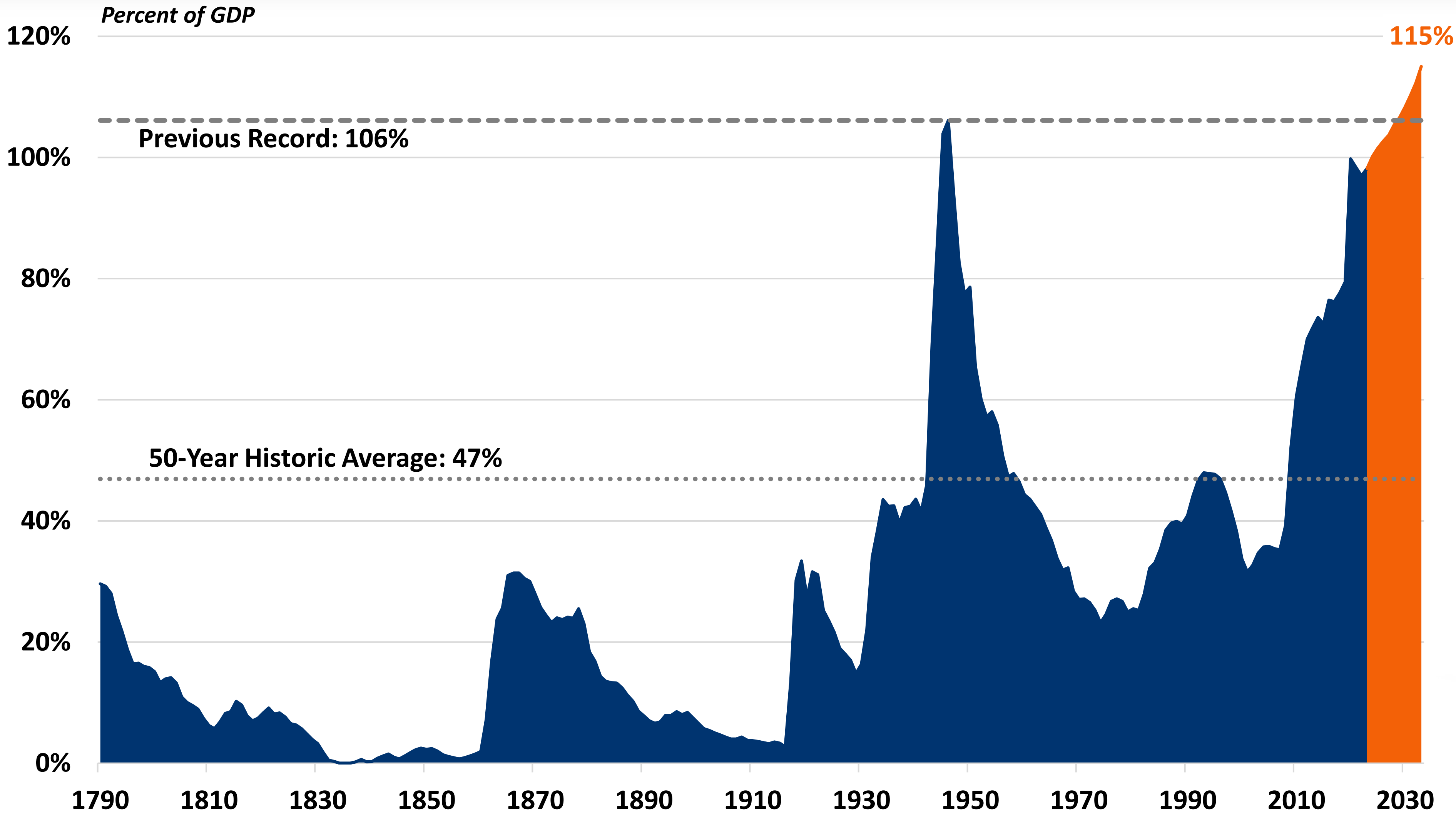
Cornell West

Major Challenges Await the Next Administration

Major Challenges Await the Next Administration

- **Record Debt Levels**
- **Growing Interest Costs**
- **Looming Trust Fund Insolvency**
- **Major Expirations and the Risk of Costly Extensions**

Debt Is Rising to Record Levels



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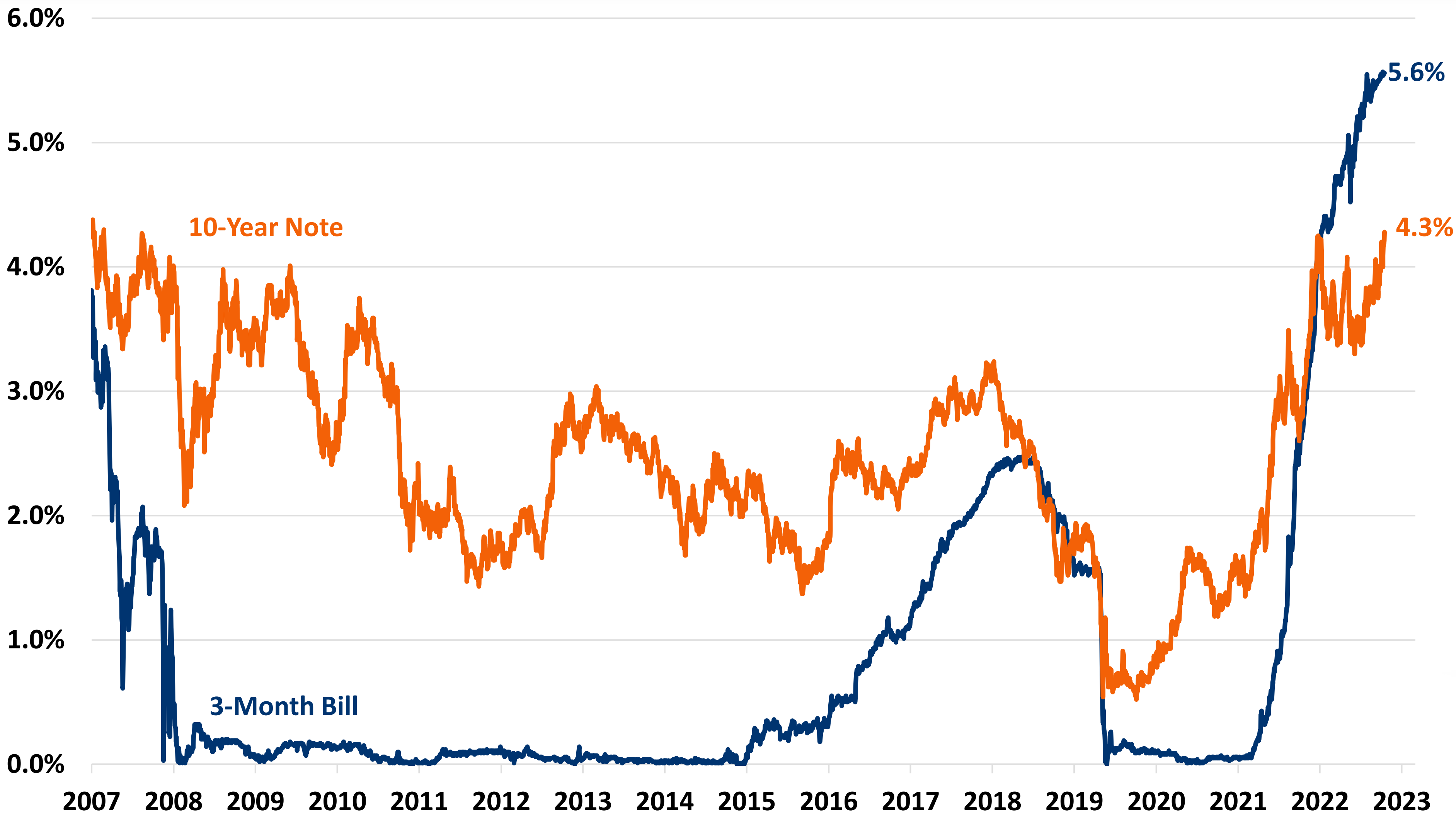
Sources: Committee for a Responsible Federal Budget, Congressional Budget Office

Interest Rates are At a 16-Year High…



Source: Department of the Treasury

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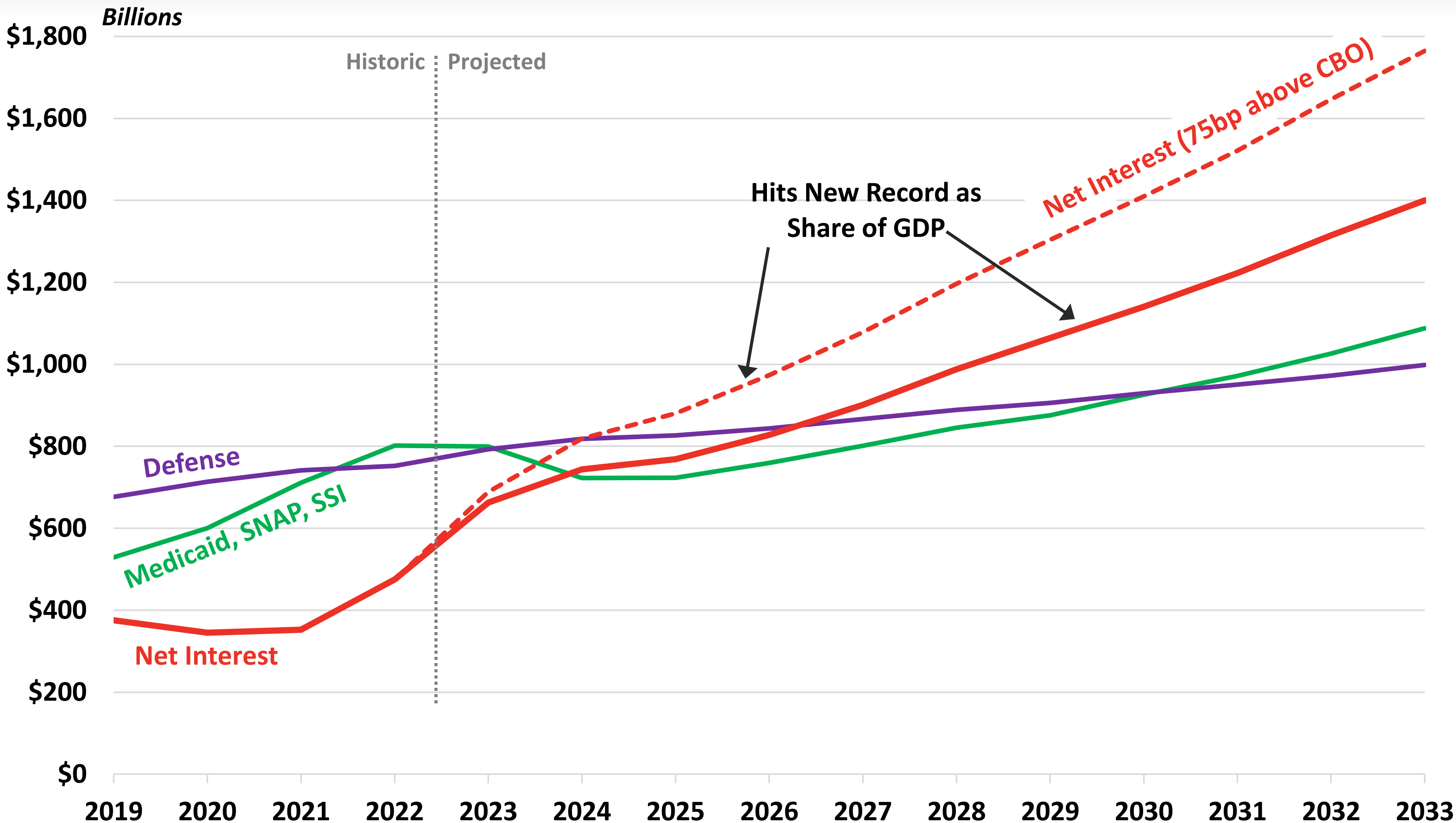
…And Interest Costs Are Exploding



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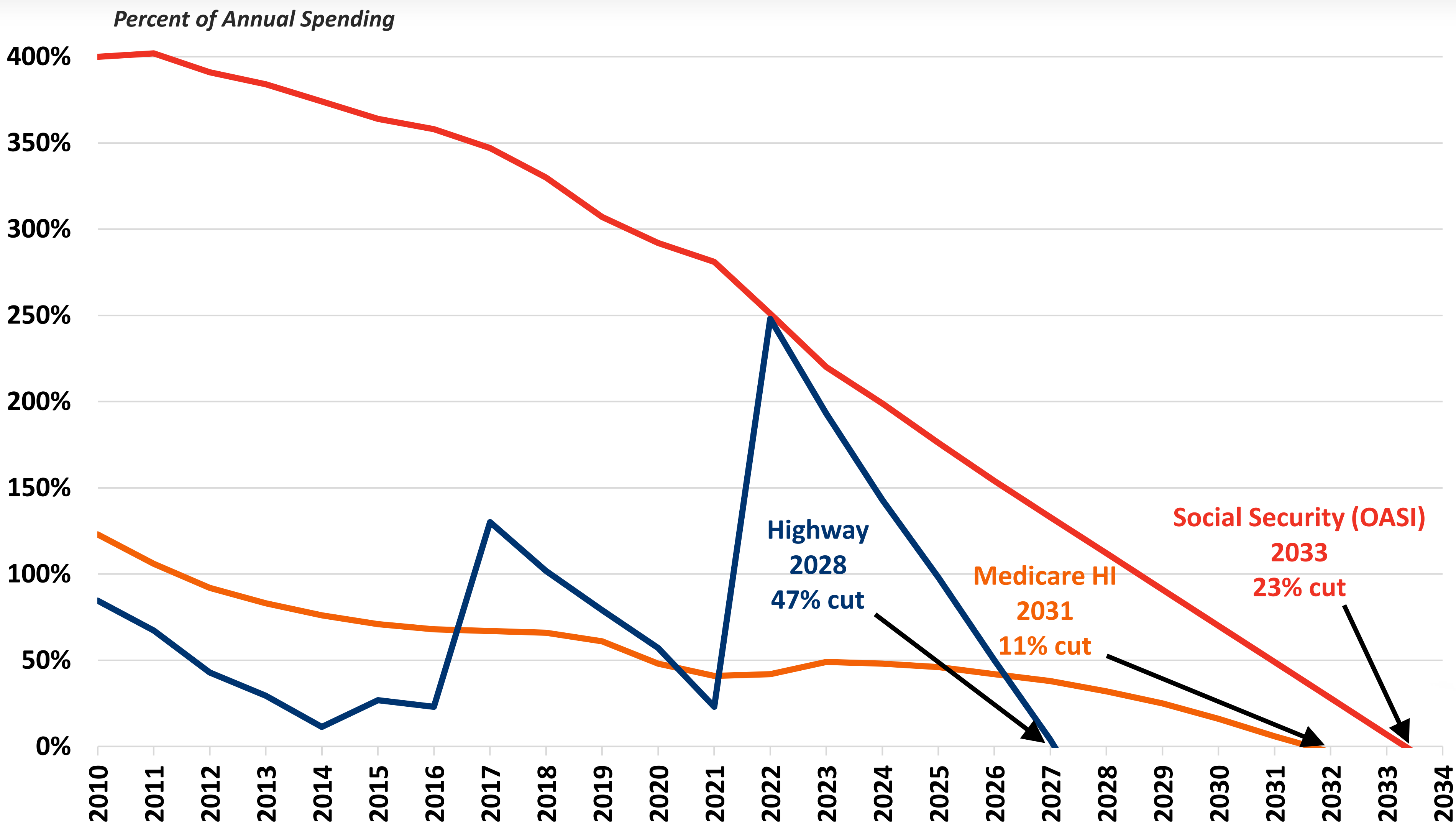
Sources: Committee for a Responsible Federal Budget, Congressional Budget Office

Major Trust Funds Face Insolvency…



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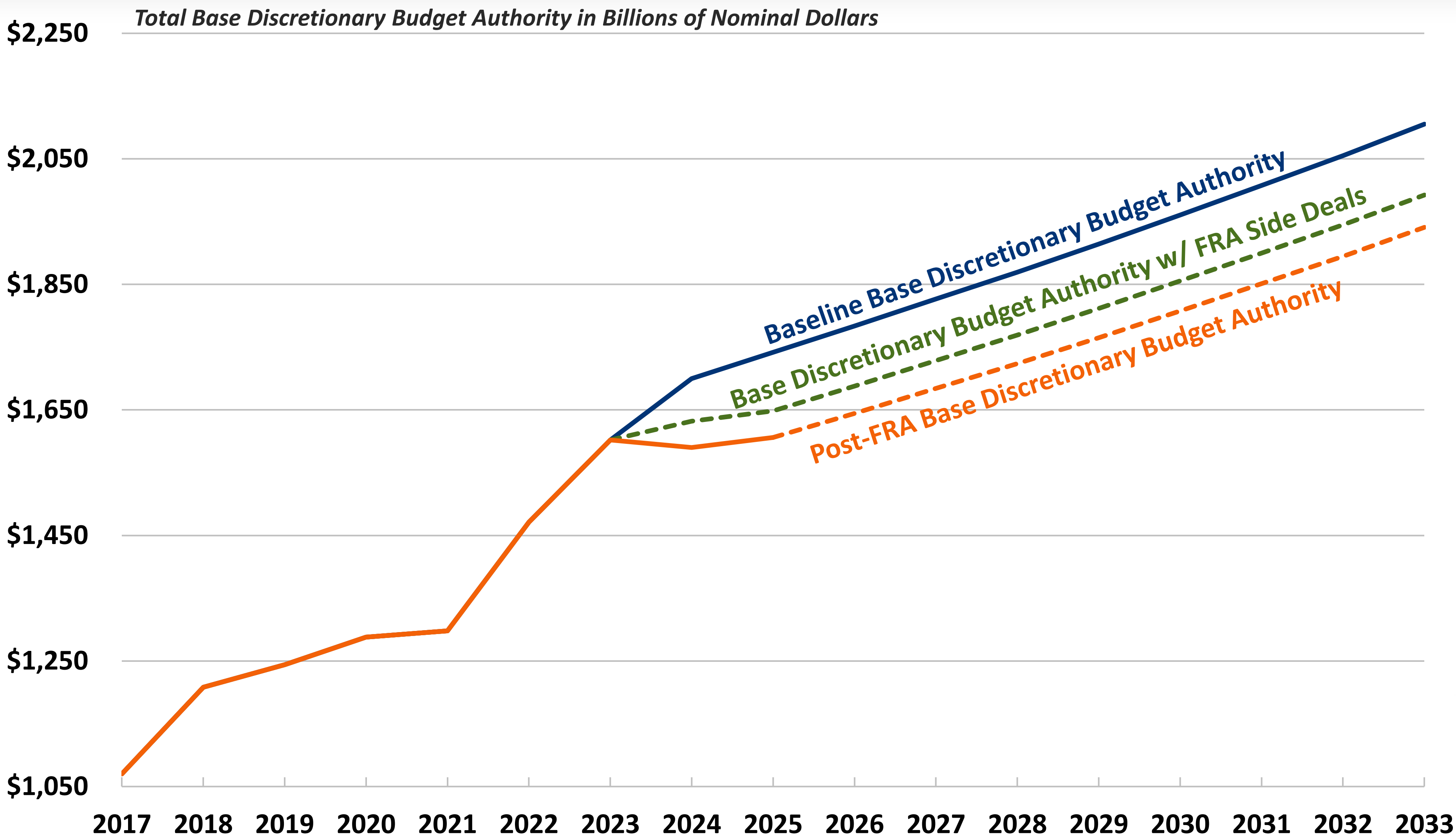
Sources: Social Security Trustees, Medicare Trustees, and Congressional Budget Office.

…And Dozens of Policies Will Expire in 2025

Expiring Provision	Cost of Extension (2026-2035)
Reduce individual income tax rates to 10|12|22|24|32|35|37	$3.2 trillion
Repeal 'Pease' deduction limit and Alternative Minimum Tax for most taxpayers	$800 billion
Replace personal and dependent exemption with doubled Child Tax Credit ($1,000 to $2,000) and larger standard deduction	$40 billion
Establish 20% deduction for certain pass-through business income	$720 billion
Expand Opportunity Zones	$80 billion
Limit state and local tax (SALT) deduction to $10,000 per taxpayer	-$960 billion
Limit or repeal other tax deductions	-$280 billion
Limit deductibility of business losses against ordinary income.	-$200 billion
Subtotal, TCJA Extensions	**$3.4 trillion**
Expanded Affordable Care Act premium credits	$370 billion
Total	**$3.8 trillion**

Sources: Committee for a Responsible Federal Budget Build Your Own Tax Extensions Model, Joint Committee on Taxation, and Congressional Budget Office.

Discretionary Caps Disappear on October 1



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Sources: Bill Text, Congressional Budget Office, and Committee for a Responsible Federal Budget.

Many 2017 Tax Cuts Expire December 31

Committee for a Responsible Federal Budget

Build Your Own Tax Extensions

Large parts of the 2017 *Tax Cuts & Jobs Act (TCJA)* are set to expire at the end of 2025.
This tool allows users to learn the cost of addressing those expirations.

Choose Your Extensions

FAMILY BENEFITS

End personal exemption, expand standard deduction:	Extend
End dependent exemption, double child tax credit:	Extend

ALTERNATIVE TAXES

Repeal AMT for most taxpayers*:	Extend
Repeal "Pease" surtax on deductions:	Extend

TAX DEDUCTIONS

Limit SALT deduction to $10,000:	Extend
Introduce limit for SALT cap workarounds:	No
Cap mortgage interest deduction at $750k:	Extend
Repeal other deductions:	Extend

BUSINESS, ESTATE, AND OTHER PROVISIONS

Establish pass-through deduction (199a):	Extend
Limit deduction of business losses:	Extend
Expand opportunity zones:	Extend
Increase estate tax exemption from $5.5m to $11m:	Extend
Savings from other changes (view options) :	$0 billion

TAX RATES

Reduce rates to 2017 Tax Act levels: Set custom tax rates

Bracket 1:	10.0%	Bracket 4:	24.0%	Bracket 7:	37.0%
Bracket 2:	12.0%	Bracket 5:	32.0%	Estate tax:	40.0%
Bracket 3:	22.0%	Bracket 6:	35.0%	199a deduction:	20.0%

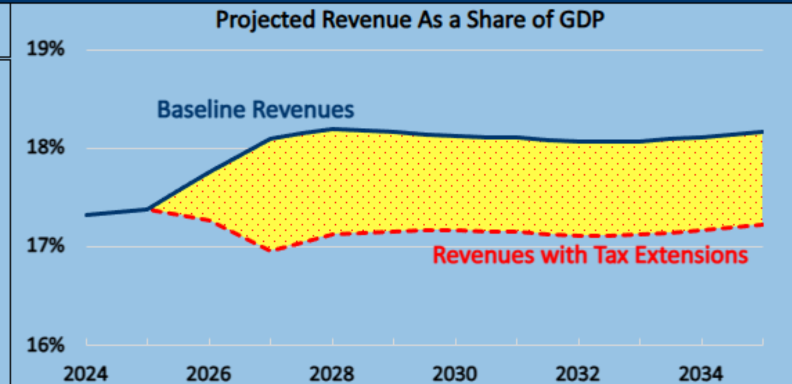
(Billions of dollars)	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
Revenue Impact:	-$147	-$359	-$349	-$340	-$335	-$348	-$361	-$373	-$386	-$399

10-Year Revenue Loss: $3.4 trillion

Ave. Revenue, % of GDP (vs. Baseline): 17.1% (-0.9%)

2035 Debt-to-GDP Ratio (vs. Baseline): 129.2% (+9.2%)

Tax Rates By Income *(Married Filing Jointly)*	
Up to $24k:	10.0%
$24k - $100k:	12.0%
$100k - $211k:	22.0%
$211k - $403k:	24.0%
$403k - $511k:	32.0%
$511k - $767k:	35.0%
Over $767k:	37.0%



Contact us with questions or concerns: *https://www.crfb.org/contact*

Click Here to Tweet Your Results

Sources and Methods: Numbers in this model were developed by the Committee for a Responsible Federal Budget based largely on data from the Congressional Budget Office (CBO) and Joint Committee on Taxation (JCT), incorporating some data from the Tax Foundation, Tax Policy Center, Penn Wharton Budget Model, Office of Management and Budget, and Committee for a Responsible Federal Budget. The model does not directly incorporate most interactions, though estimates of most provisions are generated assuming other parts of TCJA are extended, and in a few cases the model does roughly capture interaction effects.

*Assumes AMT rate is adjusted w/ ordinary rates and other provisions to hold AMT revenue constant

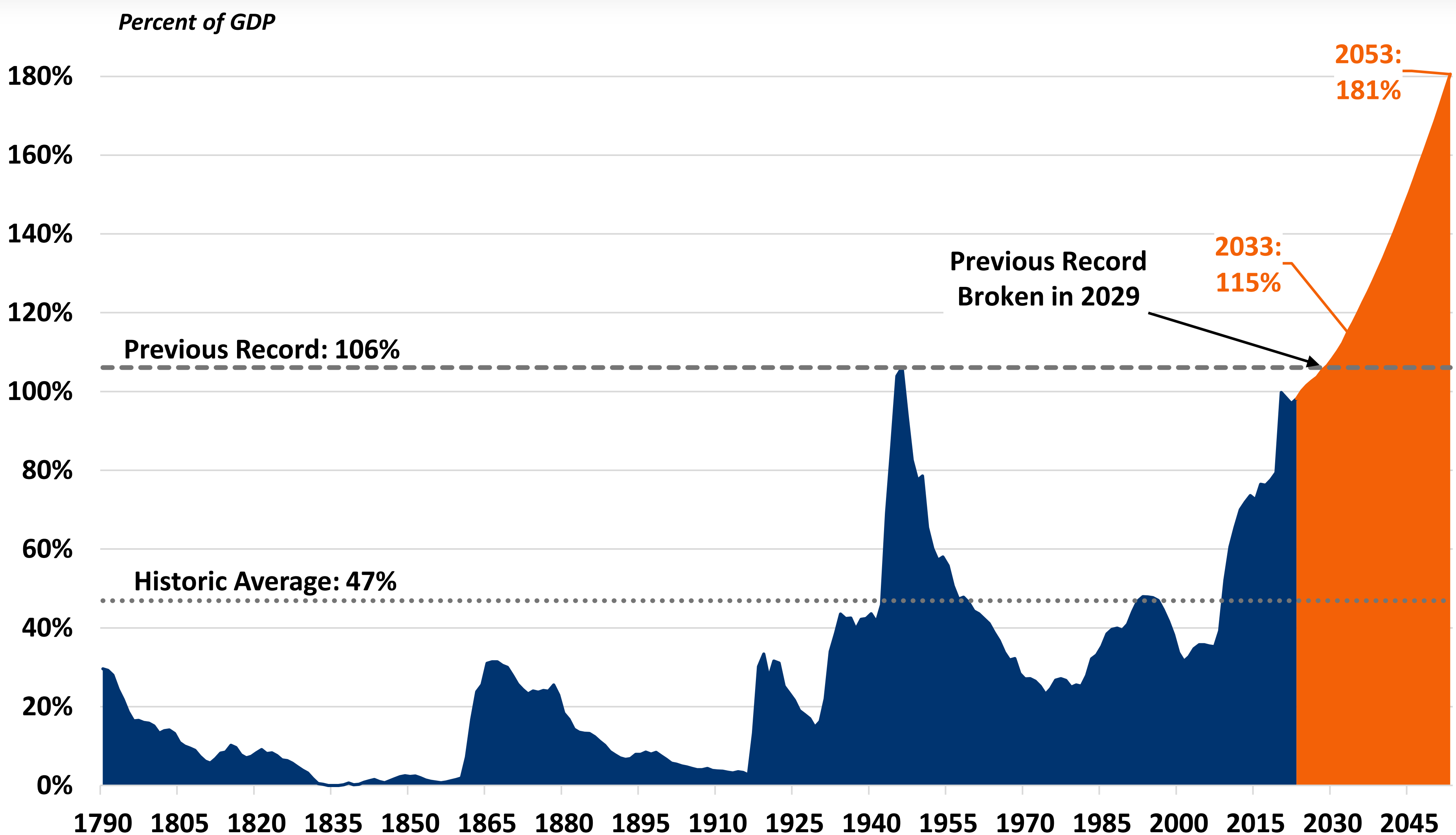
https://www.crfb.org/blogs/tax-cut-extensions-cost-over-33-trillion

Principles of a Fiscally Responsible Campaign

Principles of a Fiscally Responsible Campaign

1. Be Honest about the Fiscal Problems Facing the Country
2. Make Deficit Reduction a Top Priority
3. Put Forward Proposals to Reduce Debt and Pay for New Initiatives
4. Refrain from Taking Solutions Off the Table
5. Have a Plan to Deal with the Looming Insolvency of Major Trust Funds
6. Propose Solutions to Address Major Expiring Provisions
7. Use Honest Numbers and Refrain from Perpetuating Budget Myths

#1: Be Honest About Fiscal Challenges



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Sources: Committee for a Responsible Federal Budget, Congressional Budget Office

#2: Make Deficit Reduction a Top Priority

Deficit Reduction Needed to Achieve Certain Fiscal Targets

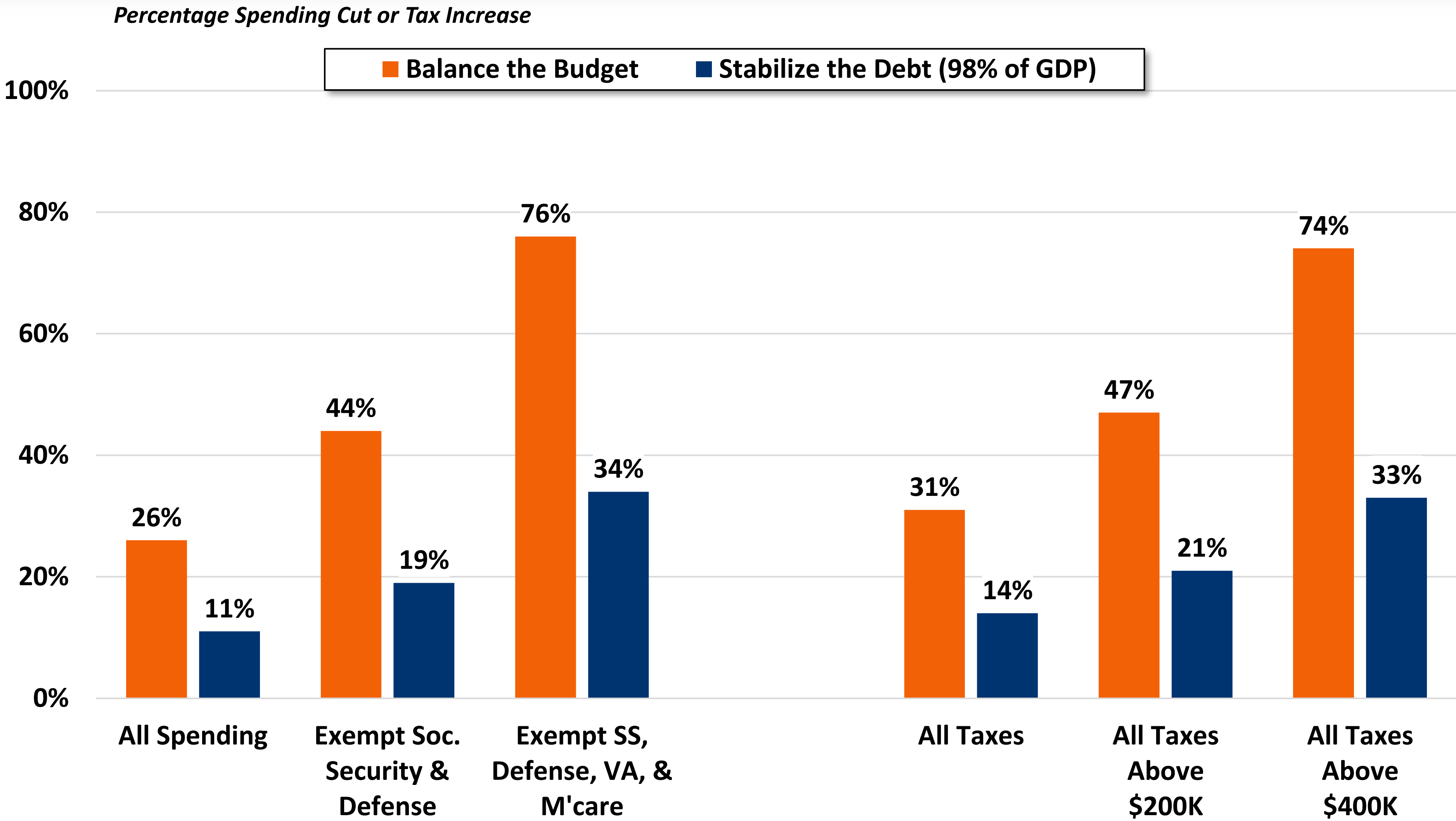
	Through 2028 (5 years)	Through 2033 (10 years)
Debt Targets		
110 percent of GDP	n/a	$2.0 trillion
100 percent of GDP	$1.8 trillion	$5.9 trillion
90 percent of GDP	$5.0 trillion	$9.8 trillion
80 percent of GDP	$8.3 trillion	$13.8 trillion
Deficit Targets*		
4 percent of GDP	$2.0 trillion	$6.4 trillion
3 percent of GDP	$3.3 trillion	$8.7 trillion
On-Budget Balance	$6.2 trillion	$12.7 trillion
Primary Balance	$3.6 trillion	$8.8 trillion
Balance	$7.3 trillion	$15.7 trillion

**Assumes policies begin immediately and the modified savings path of Blueprint for Reducing Debt and Inflation.*
Note: balance figures are adjusted to exclude the effect of timing shifts.
Source: Committee for a Responsible Federal Budget. Figures include interest.

#3: Put Forward Actual Proposals

- **Pay for any new spending or tax breaks**
- Put forward proposals to **lower deficits and put the debt on a downward path** as a share of the economy
- **Specificity matters**: Offsets should be **at least as specific** as the policies they are meant to pay for
- Proposals must be specific enough that voters can understand the **tradeoffs** involved

#4: Don't Take Solutions Off the Table



Note: Taxes above $200k and $400k includes all corporate and estate taxes as well as income and payroll taxes above those thresholds. Estimates are rough.
Sources: Committee for a Responsible Federal Budget and Congressional Budget Office.

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#5: Have a Plan for the Trust Funds

Ten Options to Secure the Medicare Trust Fund

	Unified Budget (billions)	HI Trust Fund (billions)	HI Trust Fund (% of deficit)
Spending Options			
Improve Medicare Advantage Coding Intensity Adjustments	$370	$180	63%
Establish Graduate Medical Education Fund Outside Medicare	$105	$190	66%
Modernize Medicare and Medigap Cost-Sharing Rules	$140	$165	58%
Eliminate Medicare Payments for Bad Debts	$80	$60	21%
Reduce and Reform Post-Acute Care Payments	$90	$75	26%
Revenue Options			
Increase the HI Payroll Tax Rate by 0.5 Percentage Points	$455	$530	185%
Broaden the HI Payroll Tax Base to Cover Employer Health Benefits	$310	$365	128%
Expand the Base of the Net Investment Income Tax, Dedicate Half of all NIIT Revenue to the HI Trust Fund	$225	$350	122%
Apply the Payroll Tax to Business Income for Self-Employed Workers to Reduce Tax Avoidance	$200	$150	52%
Impose an Excise Tax on Sugar-Sweetened Beverages, Dedicate the Revenue to the HI Trust Fund	$80	$105	37%

10-year savings are rounded to the nearest $5 billion. The HI Trust Fund faces a ten-year cumulative shortfall of $128 billion and a ten-year deficit of $286 billion.
Source: Committee for a Responsible Federal Budget, Congressional Budget Office

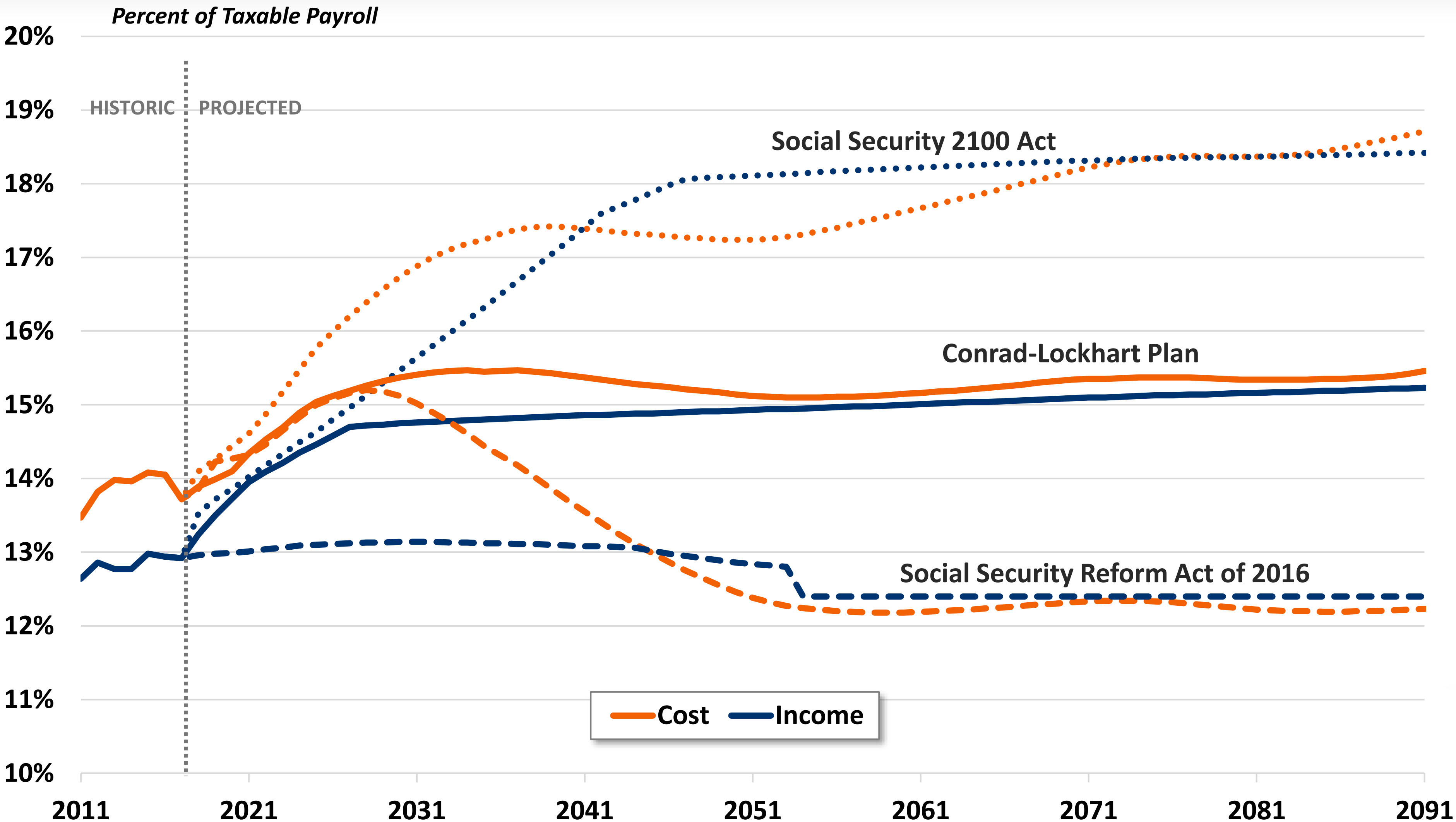
#5: Have a Plan for the Trust Funds

Ten Options to Secure the Social Security Trust Fund

Policy	Ten-Year Savings	75-Year Shortfall Reduction	75th Year Deficit Reduction
Revenue Options			
Increase payroll tax rate by 1%	$1.0 trillion	28%	23%
Increase taxable maximum to 90% of earnings ($350k)	$830 billion*	22%	14%
Eliminate the $160,000 taxable maximum	$1.8 trillion*	68%	60%
Subject cafeteria plans to the payroll tax	$470 billion	10%	6%
Cover newly-hired state & local government employees	$150 billion	3%	-4%
Spending Options			
Grow initial benefits with prices instead of wages	$90 billion	97%	184%
Reduce initial benefits for high earners	$45 billion	34%	39%
Increase years included for benefits from 35 to 40	$35 billion	13%	14%
Calculate Cost of Living Adjustments using chained CPI	$245 billion	18%	18%
Raise retirement age to 69 and index for life expectancy	$90 billion	36%	56%

**Both options would gradually phase in the policy through 2028 and provide limited benefits on the newly-taxed income.*
Note: Ten-year savings estimates only include effects on Social Security. Several options may have effects on other parts of the federal budget as well.
Source: Social Security Administration

#5: Have a Plan for the Trust Funds



Note: Chart shows projections of OASDI cost and income under different reform proposals, based on the intermediate assumptions in the 2016 Social Security Trustees Report
Source: Social Security Administration

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#6: Propose Solutions to Expiring Provisions

Committee for a Responsible Federal Budget

Build Your Own Tax Extensions

Large parts of the 2017 *Tax Cuts & Jobs Act (TCJA)* are set to expire at the end of 2025.
This tool allows users to learn the cost of addressing those expirations.

Choose Your Extensions

FAMILY BENEFITS

End personal exemption, expand standard deduction:	Extend
End dependent exemption, double child tax credit:	Extend and make fully refundable

ALTERNATIVE TAXES

Repeal AMT for most taxpayers*:	Full repeal
Repeal "Pease" surtax on deductions:	Extend

TAX DEDUCTIONS

Limit SALT deduction to $10,000:	Repeal full SALT deduction
Introduce limit for SALT cap workarounds:	Yes
Cap mortgage interest deduction at $750k:	Repeal full mortgage deduction
Repeal other deductions:	Extend

BUSINESS, ESTATE, AND OTHER PROVISIONS

Establish pass-through deduction (199a):	Let expire
Limit deduction of business losses:	Extend and strengthen
Expand opportunity zones:	Let expire
Increase estate tax exemption from $5.5m to $11m:	Revert exemption to 2009 level ($3.5m)
Savings from other changes (view options) :	$0 billion

TAX RATES

Reduce rates to 2017 Tax Act levels:	Extend half of rate cuts
Estate tax:	45.0%

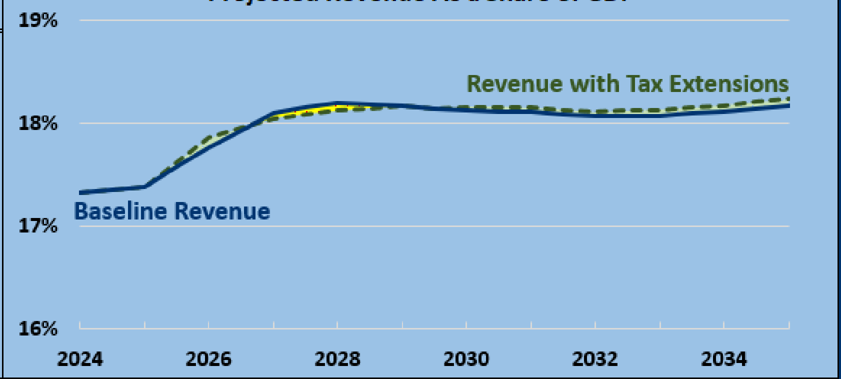
(Billions of dollars)	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
Revenue Impact:	$28	-$18	-$24	-$1	$12	$16	$18	$21	$25	$28

10-Year Revenue Gain: $106 billion

Ave. Revenue, % of GDP (vs. Baseline):	18.1% (+0.0%)
2035 Debt-to-GDP Ratio (vs. Baseline):	119.8% (-0.3%)

Tax Rates By Income *(Married Filing Jointly)*	
Up to $24k:	10.0%
$24k - $100k:	13.5%
$100k - $211k:	23.5%
$211k - $403k:	26.0%
$403k - $511k:	32.5%
$511k - $767k:	35.0%
Over $767k:	38.3%

Projected Revenue As a Share of GDP



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*Assumes AMT rate is adjusted w/ ordinary rates and other provisions to hold AMT revenue constant

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#7: Be Honest and Don't Use Budget Myths

10 Budget Myths to Watch Out For in the 2024 Campaign

1. The United States can borrow without consequence
2. Deficits are falling and debt is under control
3. Revenue is at a record high, so taxes should not be raised
4. Tax cuts or public investments pay for themselves
5. We can fix the debt by cutting waste, fraud, abuse, and tax cheating
6. We can fix the debt with faster economic growth alone
7. We can fix the debt solely by taxing the top 1% of earners or cutting welfare
8. Workers paid for Social Security and Medicare so benefits can't be changed
9. Deficit reduction will harm economic growth
10. Tax cuts or spending increases are too important to pay for

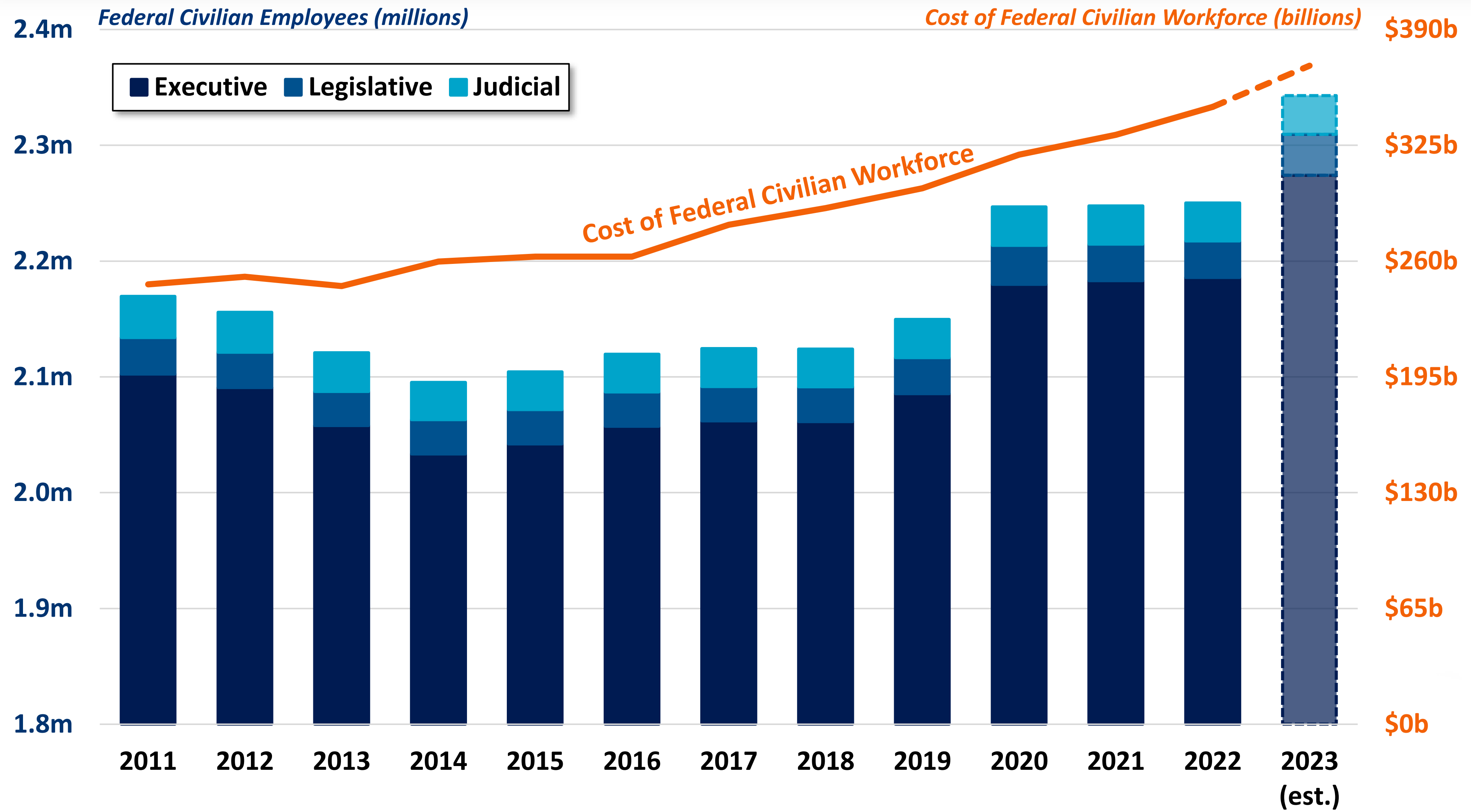
A Few Candidate Proposals

Asa Hutchinson: Shrink the Federal Workforce

During his campaign announcement speech on April 26, 2023, former Arkansas Governor and current Republican presidential candidate **Asa Hutchinson** said that, if elected president, he would pursue a 10 percent reduction in the federal civilian workforce:

> **"Too often, our businesses and families are held back by a federal bureaucracy that is out of control, heavy-handed, and wasteful. As President, I will reduce the federal civilian workforce by 10%!"**

Asa Hutchinson: Shrink the Federal Workforce



Note: figures for 2023 are estimates, not actual figures

Sources: Committee for a Responsible Federal Budget, Office of Management and Budget, Congressional Budget Office

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Asa Hutchinson: Shrink the Federal Workforce

We estimate this proposal could save the federal government as much as:

- **$350 billion over ten years** if workers were laid off immediately
- **$150 billion** if the policy was implemented through attrition of workers
- **About $50 billion** if exemptions were added to the policy. Realization of these savings would be contingent on reduced appropriations levels to account for the lower costs.

Proposal	Ten-Year Savings
Immediately Reduce the Federal Civilian Workforce by 10%	$350 billion
Reduce the Federal Civilian Workforce through Attrition, No Exemptions	$150 billion
Reduce the Federal Civilian Workforce through Attrition, With Exemptions	$50 billion

Mike Pence: Freeze NDD Spending

In June, former Vice President and current Republican presidential candidate **Mike Pence** declared he would seek to freeze nondefense discretionary (NDD) spending once in office:

> **"we need to freeze nondefense domestic spending at current levels."**

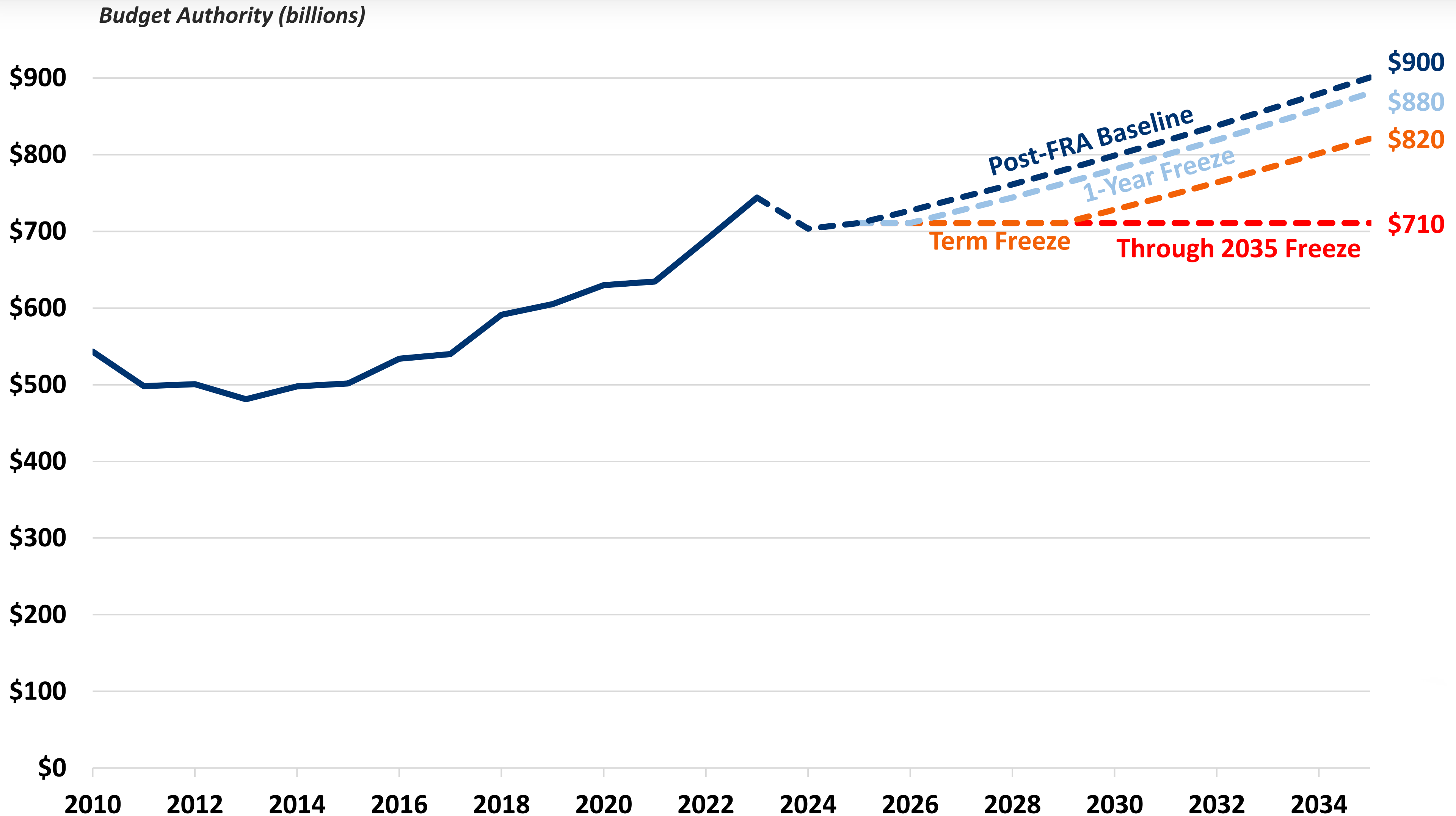
Mike Pence: Freeze NDD Spending

We estimate such a freeze would save:

- **$160 billion** through FY 2035 if implemented for one year
- **$550 billion** if implemented over a full four-year term
- **$840 billion** if enacted for ten years

Proposal	Direct Savings	Total Savings
Freeze for One Year (FY 2026)	$15 billion	$160 billion
Freeze for the Presidential Term (FY 2026 – FY 2029)	$170 billion	$550 billion
Freeze for Ten Years (FY 2026 – FY 2035)	$840 billion	$840 billion

Mike Pence: Freeze NDD Spending



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Source: Committee for a Responsible Federal Budget, Congressional Budget Office, Congressional Research Service

Mike Pence: Plan to End Inflation

In July, former Vice President **Mike Pence** released a multi-part plan meant to combat inflation by cutting government spending and wasteful programs.

Vice President Pence's plan would:

- Freeze nondefense discretionary spending for a year
- Repeal President Biden's student loan forgiveness plan
- Reduce improper payments
- Eliminate the EPA and the CFPB
- Rescind funding for the IRS from the Inflation Reduction Act
- Rescind Amtrak funding from the Bipartisan Infrastructure Law
- End Inflation Reduction Act tax credits for advanced manufacturing, electric vehicles and green retrofitting of existing homes

Mike Pence: Plan to End Inflation

Proposal	Ten-Year Savings Estimate (FY '26-'35)
Repeal President Biden's Student Loan Forgiveness Plan	$0 / $320 billion^
Reduce Improper Payments	$100 billion*
Eliminate the Environmental Protection Agency	$290 billion
Freeze Nondefense Discretionary Spending for One Year	$160 billion
Rescind IRS Funding from IRA	-$100 billion'
Rescind Amtrak Funding from Bipartisan Infrastructure Law	$50 billion
Repeal Advanced Manufacturing Production Credit	$100 billion
Cut the Residential Clean Energy Credit	$20 billion
Eliminate Tax Credits for Purchase of Electric Vehicles	$100 billion
Eliminate the Consumer Financial Protection Bureau	$10 billion
Total	**$730 billion / $1.05 trillion**

Sources: Committee for a Responsible Federal Budget, Congressional Budget Office, Joint Committee on Taxation, Office of Management and Budget. Numbers are rounded.

^ On June 30th, 2023, the United States Supreme Court issued a ruling in Biden v. Nebraska that effectively ended President Biden's student loan cancellation plan, therefore repealing the plan would save no money relative to current law. However, the White House has indicated a desire to re-introduce its plan through an alternative legal authority. If this occurs, repealing the plan would save roughly $320 billion.

** The Pence Campaign does not provide details as to how they would reduce improper payments, nor do they give an estimate for potential savings. Instead, they cite a Government Accountability Office study from March of 2023, which estimated the total amount of improper payments across the federal government in 2022 to be $247 billion. We believe an aggressive effort to reduce improper payments could result in as much as $100 billion in savings over ten years, though even this estimate is on the higher end. For example, President Trump's FY 2020 budget proposed an aggressive effort at reducing improper payments that fell well short of this target. Without additional details, we cannot provide a more accurate estimate.*

'Although this policy would reduce spending by roughly $70 billion, it would also weaken tax enforcement and thus reduce revenue collection. On net, we estimate it would add about $100 billion to the deficit.

Donald Trump: Impoundment Authority

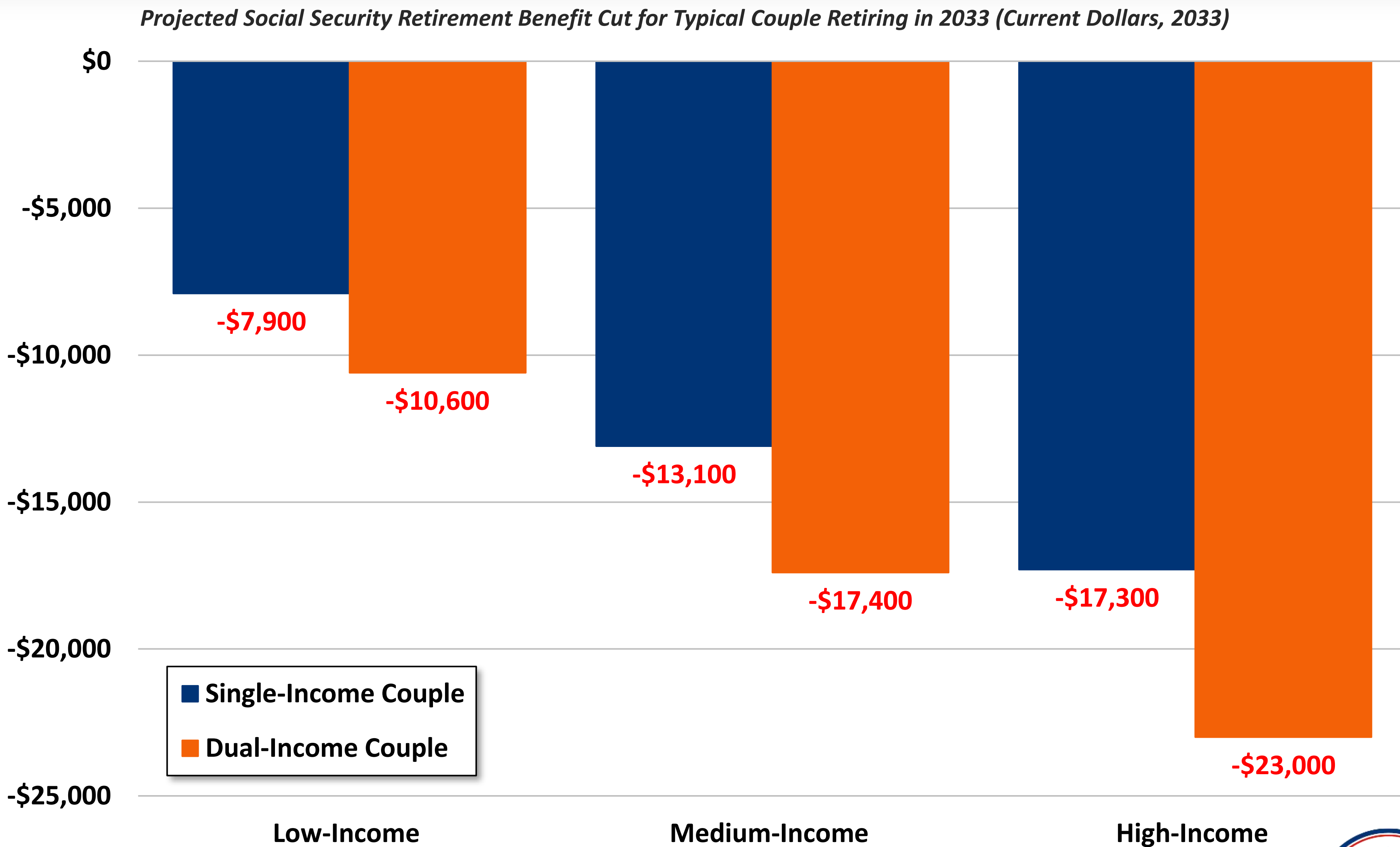
In a video published to his campaign website on June 20, 2023, former President **Donald Trump** declared he would use "impoundment" authority to reduce federal spending. Specifically, he stated:

> **"I will then use the president's long-recognized Impoundment Power to squeeze the bloated federal bureaucracy for massive savings. This will be in the form of tax reductions for you. This will help quickly to stop inflation and slash the deficit."**

Donald Trump: Impoundment Authority

- “Impoundment Power” refers to the ability of the President or the Executive Branch to **withhold congressionally appropriated funds** from their intended use.
- President Trump argues this ability is **“long-recognized”** and **“undisputed“.**
- Congress has taken definitive steps to **limit presidential impoundment authority** in the past (which President Trump has vowed to challenge in court).
- Since President Trump has not provided details regarding which funds he would impound, **we cannot provide an estimate** of the effect of his proposed use of impoundment authority on the federal budget.

Several Candidates: "Don't Touch Social Security"



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Sources: Social Security Administration and Committee for a Responsible Federal Budget.

Where to Learn More

US BUDGET WATCH 2024

A project of the Committee for a Responsible Federal Budget

Throughout the 2024 presidential election cycle, US Budget Watch 2024 will bring information and accountability to the campaign by analyzing candidates' proposals, fact-checking their claims, and scoring the fiscal cost of their agendas.

By injecting an impartial, fact-based approach into the national conversation, US Budget Watch 2024 will help voters better understand the nuances of the candidates' policy proposals and what they would mean for the country's economic and fiscal future.

You can find more US Budget Watch 2024 content at

www.crfb.org/usbw2024

What Should I Ask the Candidates?

- The national debt is headed to record levels – will you make it a priority to address the rising debt?
- Do you promise to pay for any new spending or tax cuts?
- What deficit-reducing policies would you support as President?
- What is your plan to save Social Security from insolvency and prevent a 23% cut in benefits eight years after you take office?
- Do you have a plan to lower health care costs?
- What is your plan for the expiring tax cuts and health insurance subsidies? Will you ensure extensions don't add to the debt?
- Will you work with the other party on deficit reduction? What ideas of theirs would you be open to?