The Daily Dish

Leveling the Budgetary Playing Field

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The looming sunset of the 2017 Tax Cuts and Jobs Act (TCJA) highlights a fundamental asymmetry in congressional budgeting. As dictated by Section 257 of the Balanced Budget and Emergency Deficit Control Act (BBEDCA) of 1985, the Congressional Budget Office (CBO) constructs the baseline projection by following current law – sort of. Thus, for example, because current law is for TCJA to largely sunset at the end of 2025, the baseline shows a large tax increase beginning in 2026. Any law to extend TCJA would reduce taxes compared to this baseline, increasing the deficit.

In contrast, spending is governed by the "$50 million rule," which states that any program with more than $50 million in outlays – virtually every program – is extended in the baseline automatically even if the program is no longer authorized. Notice that if a law subsequently reauthorizes the program, the comparison with the baseline would show no increase in spending or the deficit. Similarly, annual appropriations last one year. Under true current law, they should be reset to zero in the baseline each year and the annual appropriations would show the increase in spending and the deficit. Not so! The BBEDCA dictates that current appropriations be extended in the baseline and raised by the rate of inflation. (There are even more nuances. See here for a discussion.)

One way to think of this is that taxes follow current law in the baseline, while spending follows current policy. However you label it, the two sides of the budget are treated differently, with the result that Congress must pay for extending tax laws but faces no deficit consequences for extending spending programs.

This should be changed. One way would be to treat taxes like spending and extend current policy. This would provide even-handed treatment of taxes and spending and would relieve Congress of the pressure to pay for extending TCJA. Yet if (somehow) the TCJA were allowed to sunset, there would be a large tax increase and deficit reduction for no apparent reason. Having budgeting that far removed from reality seems unwise.

Alternatively, both sides could be put on a genuinely current-law basis in the baseline. This would mean every dime of annual appropriations would raise the deficit – because it does. And every reauthorized mandatory spending program would raise the deficit – because it does. And extending tax cuts would raise the deficit – because it does.

Spending and taxes should be on a level playing field in budgeting. And doing so is one way to highlight the magnitude of deficits that Congress has built into the budget.