Policy Backgrounder

CBO View: Tax Bill, Debt Ceiling, and Long-Term Projections

The Congressional Budget Office (CBO) has recently released important and sobering projections on the effects on the deficit and national debt of permanently extending the expiring provisions of the Tax Cuts and Jobs Act (TCJA), the “X” date when the Federal government defaults on the US debt absent a change to the debt limit, and the long-term outlook for the Federal budget.

Key Insights

- If the expiring provisions of the TCJA are permanently extended (with no additional changes), CBO projects that the primary deficit (excluding net interest spending) as a percentage of GDP would be 1.5 percentage points higher in 2054 than under CBO’s current extended baseline projections. Debt held by the public would reach 214% of GDP in 2054, 47 percentage points higher than current CBO projections.
- Absent a change to the debt ceiling, CBO projects that the Federal government’s ability to borrow using extraordinary measures will probably be exhausted in August or September.
- In its long-term budget outlook, CBO continues to project rising Federal debt held by the public, historically high annual budget deficits, and increasing costs to service the national debt over the next 30 years. Outlays for Social Security, Medicare, and Medicaid also increase due to an aging population and rising health care costs.
- Lower labor force growth and slower growth in potential labor force productivity have decreased CBO’s projections of economic growth over the next three decades.

Estimate of TCJA Extension on Deficits and Debt

In March, Rep. David Schweikert (R-AZ) requested CBO perform an analysis of projected deficits and debt under two alternative scenarios from the CBO's long-term budget projections, which reflect current law. The first scenario asked what would happen to deficits and the national debt if the expiring provisions of the TCJA were all permanently extended (with no additional changes to the bill), including the expiring individual income tax provisions, changes to deductions, tax credits, and several business tax provisions. The second scenario asked for the ramifications of a one percent increase in projected interest rates across the extended baseline when permanently extending the TCJA's expiring provisions.

On March 21, CBO published its response to Rep. Schweikert's requests. Under the first scenario of permanently extending the expiring provisions of the TCJA, primary deficits (excluding net interest outlays) are about $4 trillion larger over the period between fiscal year (FY) 2025 and FY2034 than in CBO's current extended baseline projections. By the end of the CBO's thirty-year projections in FY2054, the primary deficit equals 3.7% of GDP, which is 1.5 percentage points higher than in CBO's extended baseline. That year, the total deficit (including the cost of servicing the national debt) equals 12.3% of GDP, 3.8 percentage points higher than in CBO's current baseline. Debt held by the public would also equal 214% of GDP in FY2054, 47 percentage points greater than in CBO's extended baseline. "Economic growth would be faster in the first several years after the extension of the tax provisions and slower over the longer term than in the extended baseline, and interest rates would be higher," CBO notes.

The outlook for deficits and the national debt is even worse under the second scenario of a one percentage point increase in projected interest rates coupled with permanently extending the expiring provisions of the TCJA. By definition, the primary deficit would be unchanged from the first scenario as it excludes net interest spending. However, the total deficit jumps to 16.6% of GDP in 2052, 8.1 percentage points higher than in CBO's current extended baseline. Total debt held by the public also increases to more than 250% of GDP in 2054 from 100% now. These dire predictions for our Nation's deficits and debt are important given the discussions on Capitol Hill surrounding the budget resolution that Republicans in Congress are planning to use to unlock the reconciliation process to pass the President's legislative agenda of tax cuts, increased border security and defense funding, and changes to energy policy.

Current Policy Baseline Idea

Republican leadership in Congress has floated the idea of using a "current policy baseline" when calculating the projected deficit impacts of extending the expiring provisions of the TCJA. The current policy baseline is a rarely used accounting tactic that assumes extending the expiring provisions of the TCJA would have no impact on the budget deficit. This would allow Republicans in Congress to pass a permanent extension of the TCJA without resorting to massive spending cuts to offset the revenue losses from extending the tax cuts. However, the Senate parliamentarian has yet to issue an opinion on whether this violates Senate rules, and Democrats would likely raise Byrd Rule challenges during the budget reconciliation process given the Byrd rule states that provisions that are not fully offset (either through spending cuts or revenue increases) beyond the ten-year budgetary window under consideration are not allowed.

Projection of Debt Ceiling "X" Date

Another important fiscal deadline that Congress faces is the "X" date when the Treasury Department exhausts all the extraordinary measures it has been using to avoid hitting the debt ceiling and defaulting on the US national debt. The "X" date is difficult to calculate given the timing and amount of expected revenue collections this tax season and potential outlays over the coming months. On March 26, CBO released its projections of the possible "X" date when the Federal government's ability to borrow using extraordinary measures will be exhausted.

In the report, CBO notes that the Treasury Department's cash on hand at the beginning of March and all of the extraordinary measures available between March 1 and July 31 would cover approximately $820 billion of the Treasury's financing needs. CBO also highlights large, recurring Federal government expenditures associated with monthly payments to troops, civil service and military retirees, veterans, and Supplementary Security Income recipients ($35 billion); monthly interest payments (between $22 billion and $35 billion per month); and quarterly interest payments ($65 billion). Finally, CBO notes the April 15 tax filing deadline for annual individual income taxes and quarterly corporate income taxes, which will significantly affect how much cash on hand the Treasury Department will have.

Using a three-year average of the Treasury's financing needs between March and July, CBO estimates that the Treasury Department will require about $600 billion in those five months. Thus, CBO states that the "if the debt limit remains unchanged, the government's ability to borrow using extraordinary measures will probably be exhausted in August or September 2025." However, it is important to note that the Federal government's borrowing needs could significantly differ from this three-year historical pattern due to the uncertainty of tax collections on April 15 and the timing of outlays. The Treasury reported that the US budget deficit exceeded the $1 trillion mark in February for this fiscal year, the earliest date on record, and the government had a $307 billion deficit in February alone, even as receipts also rose. Nearly $396 billion has been paid so far this year on net interest payments on the national debt. If this trend continues and if borrowing needs are significantly greater than CBO projects, the "X" date could move earlier to late May or sometime in June. If borrowing needs prove to be less than CBO projects, extraordinary measures could last until September or October at the latest.

Long-Term Budget and Economic Projections

At the end of March, CBO also released its long-term budget outlook for 2025 to 2055. Of note is that CBO's long-term budget projections assume current law, which reflects the expiration of various provisions of the TCJA. Federal debt held by the public as a percentage of GDP increases from 100% in 2025 to 156% in 2055. By 2029, the Federal debt held by the public will reach 107% of GDP, a record-breaking level that exceeds the previous high immediately after World War II. CBO notes that "such large and growing debt would slow economic growth, push up interest payments to foreign holders of U.S. debt, and pose significant risks to the fiscal and economic outlook; it could also cause lawmakers to feel constrained in their policy choices."

Annual budget deficits (including interest costs) remain high by historical standards. The total budget deficit over the next 30 years is projected to average 6.3% of GDP, 2.5 percentage points greater than the average of the past 50 years. Net interest outlays continue to be concerning in an environment of rising interest rates and mounting national debt: net interest outlays as a percentage of GDP increase from 3.2% in 2025 to 5.4% in 2055, higher than Medicare outlays that year. The broad trends of an aging population and rising health care costs also remain a fiscal pressure on Social Security, Medicare, and Medicaid. Social Security outlays rise from 5.2% of GDP in 2025 to 6.1% of GDP in 2055, and outlays for the major Federal health care programs (Medicare, Medicaid, the Children's Health Insurance Program, and premium tax credits for Affordable Care Act coverage) also jump from 5.8% of GDP to 8.1% of GDP over the next 30 years.

To accompany the long-term budget outlook, CBO released its long-term projections for the US economy. CBO projects lower population growth over the next 30 years due to an aging population, with CBO estimating that the US population will begin to shrink in 2033 without immigration. The slowing population growth affects the potential labor force, which is only projected to increase by an annual average of 0.3% over the next 30 years compared to the annual average growth rate of 0.8% over the previous 30 years. Combined with slower growth in potential labor force productivity due to increased Federal borrowing, CBO projects lower economic growth over the next three decades, with real GDP growing by an average rate of 1.6% per year. For comparison, The Conference Board projects real GDP growth for the US to decrease from 2.8% in 2024 to 2.0% in 2025, averaging between 1.6% and 1.7% between 2026 and 2036.

Conclusion

The deteriorating fiscal outlook for the Federal government and slower economic growth described in CBO's recent publications highlight the urgent need for Congress to address our Debt Crisis. Credit ratings agency Moody's recently said that the fiscal health of the US "is on track for a continued multi-year decline as budget deficits widen and debt becomes less affordable." As Republicans in the House and Senate work to agree on a concurrent budget resolution to unlock the reconciliation process, lawmakers must take note of the impact on the deficit and national debt of permanently extending the expiring provisions of the TCJA and the upcoming "X" date for raising or suspending the debt ceiling to avoid a US government default on the national debt.

About the Authors

David Young, President, CED

John Gardner, Vice President of Public Policy, CED

Luis Bourgeois, Researcher and Writer, Fiscal Policy, CED

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