FEDERAL RECEIPTS

11. GOVERNMENTAL RECEIPTS

A simpler, fairer, and more efficient tax system is critical to growing the economy and creating jobs. Our outdated, overly complex, and burdensome tax system must be reformed to unleash America's economy, and create millions of new, better-paying jobs that enable American workers to meet their families' needs.

The Budget assumes deficit neutral tax reform, which the Administration will work closely with the Congress to enact.

The Administration has articulated several core principles that will guide its discussions with taxpayers, businesses, Members of Congress, and other stakeholders. Overall, the Administration believes that tax reform, both for individuals and businesses, should grow the economy and make America a more attractive business environment.

Tax relief for American families, especially middle-income families, should:

- Lower individual income tax rates;
- Expand the standard deduction, and help families struggling with child and dependent care expenses;
- Protect homeownership, charitable giving, and retirement saving;
- End the burdensome alternative minimum tax, which requires many taxpayers to calculate their taxes twice;
- Repeal the 3.8 percent Obamacare surcharge on capital gains and dividends, which further hinders capital formation; and
- Abolish the death tax, which penalizes farmers and small business owners who want to pass their family enterprises on to their children.

The Administration believes that business tax reform should:

- Reduce the tax rate on American businesses in order to fuel job creation and economic growth;
- Eliminate most special interest tax breaks to make the tax code more equitable, more efficient, and to help pay for lower business tax rates; and
- End the penalty on American businesses by transitioning to a territorial system of taxation, enabling these businesses to repatriate their newly earned overseas profits without incurring additional taxes. This transition would include a one-time repatriation tax on already accumulated overseas income.

Going forward, the President is committed to continue working with the Congress and other stakeholders to carefully and deliberatively build on these principles to create a tax system that is fair, simple, and efficient—one that puts Americans back to work and puts America first.

ESTIMATES OF GOVERNMENTAL RECEIPTS

Governmental receipts are taxes and other collections from the public that result from the exercise of the Federal Government's sovereign or governmental powers. The difference between governmental receipts and outlays is the surplus or deficit.

The Federal Government also collects income from the public from market-oriented activities. Collections from these activities, which are subtracted from gross outlays, rather than added to taxes and other governmental receipts, are discussed in Chapter 12, "Offsetting Collections and Offsetting Receipts," in this volume.

Total governmental receipts (hereafter referred to as "receipts") are estimated to be $3,459.7 billion in 2017, an increase of $191.7 billion or 5.9 percent from 2016. The estimated increase in 2017 is largely due to increases in payroll taxes, individual income taxes, and taxes on corporate income. Receipts in 2017 are estimated to be 18.1 percent of Gross Domestic Product (GDP), which is higher than in 2016, when receipts were 17.8 percent of GDP.

Receipts are estimated to rise to $3,654.3 billion in 2018, an increase of $194.6 billion or 5.6 percent relative to 2017. Receipts are projected to grow at an average annual rate of 4.7 percent between 2018 and 2022, rising to $4,390.1 billion. Receipts are projected to rise to $5,724.2 billion in 2027, growing at an average annual rate of 5.5 percent between 2022 and 2027. This growth is largely due to assumed increases in incomes resulting from both real economic growth and inflation.

As a share of GDP, receipts are projected to increase from 18.1 percent in 2017 to 18.3 percent in 2018, and to remain between 18.0 percent and 18.4 percent of GDP through 2027.

Table 11–1. RECEIPTS BY SOURCE—SUMMARY
(In billions of dollars)

	2016 Actual	Estimate										
		2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Individual income taxes	1,546.1	1,659.9	1,836.1	1,935.3	2,044.2	2,166.7	2,292.9	2,428.5	2,571.7	2,723.3	2,884.0	3,062.0
Corporation income taxes	299.6	323.6	354.9	374.8	401.2	400.5	414.4	425.0	438.9	454.8	475.1	496.6
Social insurance and retirement receipts	1,115.1	1,174.7	1,224.3	1,277.0	1,334.6	1,412.6	1,488.3	1,557.2	1,637.4	1,716.9	1,805.9	1,892.9
(On-budget)	*304.9*	*317.3*	*332.1*	*345.7*	*362.8*	*385.8*	*407.1*	*424.4*	*445.9*	*466.3*	*490.1*	*514.4*
(Off-budget)	*810.2*	*857.4*	*892.2*	*931.3*	*971.8*	*1,026.8*	*1,081.3*	*1,132.9*	*1,191.4*	*1,250.6*	*1,315.8*	*1,378.5*
Excise taxes	95.0	87.0	106.2	107.3	109.8	99.3	101.3	103.6	106.1	109.2	112.7	116.9
Estate and gift taxes	21.4	23.1	24.3	26.1	27.8	29.3	31.2	33.0	35.6	38.0	40.4	42.7
Customs duties	34.8	33.9	39.7	41.6	43.0	43.5	46.0	50.4	52.8	56.4	60.3	65.5
Miscellaneous receipts	156.0	157.4	123.8	111.6	106.6	109.0	120.9	131.8	141.5	151.5	158.5	167.6
Allowance to repeal and replace Obamacare	....	....	–55.0	–60.0	–85.0	–100.0	–105.0	–115.0	–120.0	–120.0	–120.0	–120.0
Total, receipts	**3,268.0**	**3,459.7**	**3,654.3**	**3,813.7**	**3,982.1**	**4,160.9**	**4,390.1**	**4,614.6**	**4,864.1**	**5,130.1**	**5,416.9**	**5,724.2**
(On-budget)	*2,457.8*	*2,602.3*	*2,762.1*	*2,882.4*	*3,010.3*	*3,134.1*	*3,308.8*	*3,481.7*	*3,672.7*	*3,879.5*	*4,101.1*	*4,345.7*
(Off-budget)	*810.2*	*857.4*	*892.2*	*931.3*	*971.8*	*1,026.8*	*1,081.3*	*1,132.9*	*1,191.4*	*1,250.6*	*1,315.8*	*1,378.5*
Total receipts as a percentage of GDP	17.8	18.1	18.3	18.2	18.1	18.0	18.1	18.1	18.2	18.2	18.3	18.4

LEGISLATION ENACTED IN 2016 THAT AFFECTS GOVERNMENTAL RECEIPTS

Several laws were enacted during 2016 that affect receipts. The major provisions of those laws that have a significant impact on receipts are described below.[1]

COAST GUARD AUTHORIZATION ACT OF 2015 (PUBLIC LAW 114-120)

This Act, which was signed into law on February 8, 2016, reauthorized the Coast Guard through September 30, 2017, and enacted various reforms. One of these reforms altered the criteria when the Secretary of Homeland Security may remit or cancel any part of a person's indebtedness to the United States or any U.S instrumentality. Cancellation of debt is typically a taxable event affecting governmental receipts.

TRADE FACILITATION AND TRADE ENFORCEMENT ACT OF 2015 (PUBLIC LAW 114-125)

This Act, which was signed into law on February 24, 2016, modified various requirements under the Tariff Act of 1930 and the Harmonized Tariff Schedule of the United States, provided certain trade preferences for Nepal, and increased the maximum penalty for failure to file a tax return within 60 days of the deadline, except for reasonable cause.

AIRPORT AND AIRWAY EXTENSION ACT OF 2016 (PUBLIC LAW 114-141)

This Act, which was signed into law on March 30, 2016, extended the authority to collect taxes that fund the Airport and Airway Trust Fund through July 15, 2016. The prior law exemption from domestic and international air passenger ticket taxes provided for aircraft in fractional ownership aircraft programs was also extended through that date. These taxes had been scheduled to expire after March 31, 2016, under prior law.

DEFEND TRADE SECRETS ACT OF 2016 (PUBLIC LAW 114-153)

This Act, which was signed into law on May 11, 2016, increased the maximum penalty for trade secret theft from $5,000,000 to the greater of $5,000,000 or three times the value of the stolen trade secret. These penalties are classified as governmental receipts.

PUERTO RICO OVERSIGHT, MANAGEMENT, AND ECONOMIC STABILITY ACT (PUBLIC LAW 114-187)

This Act, also known as PROMESA, which was signed into law on June 30, 2016, addressed Puerto Rico's debt by establishing an oversight board, and a process for restructuring debt including an automatic stay upon enactment. PROMESA creates an oversight board that is not a department, agency, establishment, or instrumentality of the Federal Government but is an entity within the territorial government, which is not subject to the supervision or control of any Federal agency. Although the Board's financing is derived entirely from the territorial government, the flow of funds from the territory to the Board is mandated by Federal law. Because Federal law prescribes the flow of funds to the Board, the budget reflects the allocation of resources by the territorial government to the new territorial entity as governmental receipts and a simultaneous payment to the oversight board in the same

[1] In the discussions of enacted legislation, years referred to are calendar years, unless otherwise noted.

amount, with a net zero Federal deficit impact, consistent with long-standing budgetary concepts.

FAA EXTENSION, SAFETY, AND SECURITY ACT OF 2016 (PUBLIC LAW 114-190)

This Act, which was signed into law on July 15, 2016, enacted aviation safety and security reforms, and extended the authority to collect taxes that fund the Airport and Airway Trust Fund through September 30, 2017. The prior law exemption from domestic and international air passenger ticket taxes provided for aircraft in fractional ownership aircraft programs was also extended through that date. These taxes had been scheduled to expire after July 15, 2016, under prior law.

UNITED STATES APPRECIATION FOR OLYMPIANS AND PARALYMPIANS ACT OF 2016 (PUBLIC LAW 114-239)

This Act, which was signed into law on October 7, 2016, excluded the value of any medal awarded or prize money received from the U.S. Olympic Committee on account of competition in the Olympic Games or Paralympic Games unless the taxpayer's adjusted gross income exceeded $1,000,000 or $500,000 if married but filing separately.

21ST CENTURY CURES ACT (PUBLIC LAW 114-255)

This Act, which was signed into law on December 13, 2016, created an exception to the group health plan requirements for qualified small employer health reimbursement arrangements. The amount of such arrangements was limited to $4,950 ($10,000 for arrangements which also covered employee's family members) and indexed to inflation.

NATIONAL DEFENSE AUTHORIZATION ACT FOR FISCAL YEAR 2017 (PUBLIC LAW 114-328)

This Act, which was signed into law on December 23, 2016, reauthorized the Department of Defense, and enacted various reforms. One of these reforms expanded when the Secretaries of the Army, the Navy, the Air Force, and Homeland Security may remit or cancel any part of a person's indebtedness to the United States or any U.S instrumentality. Cancellation of debt is typically a taxable event affecting governmental receipts.

BUDGET PROPOSALS

While the details of the Administration's reforms to individual and business taxes will be released at a later date, the budget does include several proposals which affect governmental receipts:

Extend CHIP funding through 2019.—The Authorization for the Children's Health Insurance Program (CHIP) currently expires at the end of 2017. The Administration proposes to extend CHIP funding for two years, through fiscal year 2019. As a result, on net, more children will be enrolled in CHIP and fewer children will be enrolled in Marketplace qualified health plans and employment-based health insurance. This will increase tax revenues and reduce outlays associated with the premium tax credit.

Establish Electronic Visa Update System (EVUS) user fee.—The Administration proposes to establish a user fee for EVUS, a new U.S. Customs and Border Protection (CBP) program to collect biographic and travel-related information from certain non-immigrant visa holders prior to traveling to the United States. This process will complement existing visa application processes and enhance CBP's ability to make pre-travel admissibility and risk determinations. CBP proposes to establish a user fee to fund the costs of establishing, providing, and administering the system.

Eliminate Corporation for Travel Promotion.—The Administration proposes to eliminate funding for the Corporation for Travel Promotion (also known as Brand USA) as part of the Administration's plans to move the nation towards fiscal responsibility and to redefine the proper role of the Federal Government. The Budget redirects the Electronic System for Travel Authorization (ESTA) surcharge currently deposited in the Travel Promotion Fund to the ESTA account at Customs and Border Protection with a portion to be transferred to the International Trade Administration.

Provide paid parental leave benefits.—The Administration proposes establishing a new benefit within the Unemployment Insurance (UI) program to provide up to six weeks paid leave to mothers, fathers, and adoptive parents. States are expected to adjust their UI tax structures to maintain sufficient balances in their Unemployment Trust Fund accounts.

Establish Unemployment Insurance (UI) solvency standard.—The Administration proposes to set a minimum solvency standard to encourage States to maintain sufficient balances in their UI trust funds. States that are currently below this minimum standard are expected to increase their State UI taxes to build up their trust fund balances. States that do not build up sufficient reserves will be subject to Federal Unemployment Tax Act credit reductions, increasing Federal UI receipts.

Improve Unemployment Insurance program integrity.—The Administration proposes a package of reforms to the UI program aimed at improving program integrity. These reforms are expected to reduce outlays in the UI program by reducing improper payments. In general, reduced outlays allow States to keep UI taxes lower, reducing overall receipts to the UI trust funds.

Provide mandatory Reemployment Services and Eligibility Assessments.—The Administration proposes mandatory funding to provide Reemployment Services and Eligibility Assessments (RESEAs) to the one-half of

UI claimants identified as most likely to exhaust benefits. RESEAs have been shown to reduce improper payments and to get claimants back to work more quickly, thereby reducing UI benefit outlays. In general, reduced outlays allow States to keep UI taxes lower, reducing overall receipts to the UI trust funds.

Offset overlapping unemployment and disability payments.—The Administration proposes to close a loophole that allows individuals to receive both UI and Disability Insurance (DI) benefits for the same period of joblessness. The proposal would offset the DI benefit to account for concurrent receipt of UI benefits. Under current law, concurrent receipt of DI benefits and unemployment compensation is allowable. Offsetting the overlapping benefits would discourage some individuals from applying for UI, reducing benefit outlays. The reduction in benefit outlays is accompanied by a reduction in States' UI tax receipts, which are held in the Unemployment Trust Fund.

Enact Federal Aviation Administration (FAA) air traffic control reform.—The Administration proposes to shift the FAA's air traffic control function into a non-governmental entity beginning in 2021. This proposal would reduce the collection of aviation excise taxes. The estimates in the Budget are illustrative of the aviation taxes that would be in place to fund the FAA's Airport Improvement Program. The reform proposal in the Budget assumes the ticket tax will end, but has not yet developed the precise tax rates for the remaining aviation excise taxes.

Reform the Essential Air Service.—The Administration proposes to reform the Essential Air Service (EAS) by eliminating discretionary funding and focusing on the remote airports that are most in need of subsidized commercial air service. The proposal will include a mix of reforms, including limits on per-passenger subsidies and higher average daily enplanements. These reforms would affect governmental receipts by reducing aviation overflight fees.

Require a social security number that is valid for work in order to claim child tax credit and earned income tax credit.—The Administration proposes requiring a social security number that is valid for work to claim the earned income tax credit or the child tax credit for the taxable year. For both credits, this requirement would apply to taxpayers (including the primary and secondary filer on a joint return) and all qualifying children.

Increase oversight of paid tax return preparers.—Paid tax return preparers have an important role in tax administration because they assist taxpayers in complying with their obligations under the tax laws. Incompetent and dishonest tax return preparers increase collection costs, reduce revenues, disadvantage taxpayers by potentially subjecting them to penalties and interest as a result of incorrect returns, and undermine confidence in the tax system. To promote high quality services from paid tax return preparers, the proposal would explicitly provide that the Secretary of the Treasury has the authority to regulate all paid tax return preparers. This proposal would be effective as of the date of enactment.

Provide the Internal Revenue Service (IRS) with greater flexibility to address correctable errors.—The Administration proposes to expand IRS authority to correct errors on taxpayer returns. Current statute only allows the IRS to correct errors on returns in certain limited instances, such as basic math errors or the failure to include the appropriate social security number or taxpayer identification number. This proposal would expand the instances in which the IRS could correct a taxpayer's return including cases where: (1) the information provided by the taxpayer does not match the information contained in government databases; (2) the taxpayer has exceeded the lifetime limit for claiming a deduction or credit; or (3) the taxpayer has failed to include with his or her return, certain documentation that is required by statute. The proposal would be effective on the date of enactment.

Provide authority to purchase and construct a new Bureau of Engraving and Printing (BEP) facility.—The Administration proposes to provide authority to the Bureau of Engraving and Printing to construct a more efficient production facility. This will reduce the cost incurred by the Federal Reserve for printing currency and therefore increase governmental receipts via increased deposits from the Federal Reserve to Treasury.

Reform inland waterways financing.—The Administration proposes to reform the laws governing the Inland Waterways Trust Fund, including establishing a fee to increase the amount paid by commercial navigation users of the inland waterways. In 1986, the Congress provided that commercial traffic on the inland waterways would be responsible for 50 percent of the capital costs of the locks, dams, and other features that make barge transportation possible on the inland waterways. The additional revenue would help finance future capital investments in these waterways to support economic growth. The current excise tax on diesel fuel used in inland waterways commerce will not produce sufficient revenue to cover these costs.

Increase employee contributions to Federal Employee Retirement System (FERS).—The Administration proposes to increase Federal employee contributions to FERS, equalizing employee and employer contributions to FERS so that half of the normal cost would be paid by each. For some specific occupations, such as law enforcement officers and firefighters, the cost of their retirement package necessitates a higher normal cost percentage. For those specific occupations, this proposal would increase, but not equalize employee contributions. This proposal is consistent with the goal of reining in Federal Government spending in many areas, and bringing Federal retirement benefits more in line with the private sector. This adjustment will reduce the long term cost to the Federal Government, by reducing the Government's contribution rate. To lessen the impact on employees, this proposal will be phased in over an estimated 6-year period. This reform would affect governmental receipts because Federal employee retirement contributions are classified as governmental receipts.

Repeal and replace Obamacare.—The Administration is committed to rescuing Americans from the failures of Obamacare and to expand choice, increase access, and lower premiums. Repealing and replacing Obamacare would affect governmental receipts.

Reform medical liability system.—The Administration proposes to reform medical liability beginning in 2018. This proposal has the potential to lower health insurance premiums, increasing taxable income and payroll tax receipts and reducing outlays associated with the premium tax credit.

Eliminate allocations to the Housing Trust Fund and Capital Magnet Fund.—The Administration proposes to eliminate an assessment on Fannie Mae and Freddie Mac that is used to fund the Housing Trust Fund and Capital Magnet Fund, two Federal programs that support affordable low-income housing. The resulting increase in taxable income at Fannie Mae and Freddie Mac would impact governmental receipts.

Table 11–2. EFFECT OF BUDGET PROPOSALS

(In millions of dollars)

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2018-2022	2017-2027
Extend CHIP funding through 2019	....	–49	219	367	67	....	....	....	....	....	....	604	604
Establish Electronic Visa Update System user fee	....	27	27	31	28	29	28	31	28	29	28	142	286
Eliminate Brand USA; make revenue available to CBP	....	–162	–170	–178	....	....	....	....	....	....	....	–510	–510
Transfer Electronic System for Travel Authorization receipts to International Trade Administration	....	162	171	178	185	193	200	208	215	223	230	889	1,965
Provide paid parental leave benefits	....	....	....	....	916	962	971	1,158	1,264	1,365	1,459	1,878	8,095
Establish an Unemployment Insurance (UI) solvency standard	....	....	....	758	1,894	2,568	1,045	1,833	1,072	1,488	2,254	5,220	12,912
Improve UI program integrity	....	....	–4	–8	–23	–42	–86	–57	–81	–102	–132	–77	–535
Provide for Reemployment Services and Eligibility Assessments	....	....	1	....	–18	–89	–238	–269	–229	–264	–284	–106	–1,390
Offset overlapping unemployment and disability payments	....	....	....	–1	–3	–7	–13	–18	–23	–46	–36	–11	–147
Reform Air Traffic Control	....	....	....	....	–14,391	–14,976	–15,627	–16,382	–17,302	–18,073	–18,881	–29,367	–115,632
Reform Essential Air Service	....	....	....	....	–129	–130	–132	–133	–134	–136	–137	–259	–931
Require social security number for Child Tax Credit & Earned Income Tax Credit	....	298	1,176	1,194	1,228	1,261	1,313	1,381	1,455	1,526	1,618	5,157	12,450
Increase oversight of paid tax return preparers	....	12	18	20	22	24	27	29	32	36	39	96	259
Provide more flexible authority for the IRS to address correctable errors	....	5	10	11	11	12	13	13	14	15	15	49	119
Provide authority for Bureau of Engraving and printing to construct new facility	....	15	74	3	–5	314	–5	–14	–3	–165	494	401	708
Reform inland waterways financing	....	108	107	106	105	104	103	103	101	100	100	530	1,037
Increase employee contributions to 50% of cost with 6-year phase-in (1% per year)	....	1,719	3,227	4,810	6,372	7,959	9,537	9,568	9,599	9,624	9,640	24,087	72,055
Repeal and replace Obamacare	....	–55,000	–60,000	–85,000	–100,000	–105,000	–115,000	–120,000	–120,000	–120,000	–120,000	–405,000	–1,000,000
Reform the medical liability system	....	24	222	545	982	1,468	2,054	2,666	3,053	3,261	3,444	3,241	17,719
Eliminate allocations to the Housing Trust Fund and Capital Magnet Fund	....	75	79	96	110	117	122	126	129	131	134	477	1,120
Total receipt effects of mandatory proposals	....	–52,766	–54,843	–77,068	–102,649	–105,233	–115,688	–119,757	–120,810	–120,987	–120,015	–392,559	–989,815