U.S. House of Representatives
Committee on the Budget
134 Cannon House Office Building, Washington, DC 20515 (202) 226-7200 ★ democrats.budget.house.gov

Chris Van Hollen,
Ranking Democrat

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Highlights of the President's Fiscal Year 2017 Budget

> The President's Budget
>
> "makes smart investments to…give everyone a fair shot at opportunity and economic security; and advance our national security and global leadership."
>
> – OMB Director Shaun Donovan

President Obama's budget for fiscal year 2017 continues the goals of his prior seven budgets, building an economy that creates prosperity and opportunity for all, not just those already at the top. It focuses on growing the economy, investing in better schools for our children, and ensuring the United States remains competitive in the 21st century global economy. It makes investments in key areas that strengthen the economy and national security and makes continued fiscal progress through targeted savings in health care and implementing immigration and tax reform. The budget adheres to the 2017 discretionary spending caps set last fall in the Bipartisan Budget Act, making some additional one-time investments with mandatory funds. It then lifts the remaining four years of austerity-level sequester caps to continue needed investments and services. Over the next ten years the President's budget cuts the deficit by $2.9 trillion not counting savings associated with Overseas Contingency Operations (OCO) (key proposals are displayed on the final page of this report). The budget brings the total non-OCO deficit reduction since 2011 to $7.4 trillion, with roughly half the savings from spending and half from revenues.

President's 2017 Budget Totals in Billions of Dollars

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Receipts	3,336	3,644	3,899	4,095	4,346	4,572	4,756	4,949	5,177	5,411	5,669
Outlays	3,951	4,147	4,352	4,644	4,880	5,124	5,415	5,626	5,827	6,152	6,462
Deficit	616	503	454	549	534	552	660	677	650	741	793
as % of GDP:											
Deficit	*3.3%*	*2.6%*	*2.3%*	*2.6%*	*2.4%*	*2.4%*	*2.8%*	*2.7%*	*2.5%*	*2.7%*	*2.8%*
Debt held by the public	*76.5%*	*76.5%*	*76.1%*	*76.1%*	*75.8%*	*75.5%*	*75.5%*	*75.4%*	*75.2%*	*75.2%*	*75.3%*

Strengthening American Families and the Economy

Through a combination of discretionary funding at the 2017 cap levels, new mandatory spending offset elsewhere, and tax cuts for families, the budget targets investments and tax relief to areas where they are most needed and where they can have the biggest effect. As American families and the economy continue to recover from the Great Recession, the budget strengthens affordable health care coverage and access, boosts job growth and wages for middle class families and those striving to join the middle class, focuses on improving early childhood education and making college more affordable, provides more job training and opportunities, and protects public health and the environment. It also ensures continued strong national security, both at home and abroad.

Education — The budget increases support for education from pre-school through college, providing $1.3 billion more in appropriations for the Department of Education in 2017 than the comparable 2016 level, supporting the newly reauthorized Every Student Succeeds Act and creating several large multi-year mandatory education programs.

- **Increasing early childhood development** – The budget includes $75 billion over ten years to provide early childhood education to all low- and moderate-income 4-year-olds and to increase a successful home-visiting program for at-risk infants and their families, paid for by increasing tobacco taxes. It also increases funding for Head Start by $434 million, to a total of $9.6 billion for 2017.

- **Making college more affordable and attainable** – The budget has initiatives to lower the cost of college, encourage students to finish their degree, and help graduates manage their debt. It provides $61 billion over ten years to make community college free for low-income students and to provide grants to Historically Black Colleges and Universities, Hispanic-serving Institutions, and other Minority-Serving Institutions to support low-income students for up to two years. To encourage college completion, it includes $33 billion to continue annual inflationary increases in the maximum Pell grant, and it rewards students with more Pell grant funding if they take at least 15 credits per semester or attend year-round and make progress towards a degree. It also reforms student loan repayment programs to make income-based plans available to more borrowers and better target loan forgiveness. Finally, it improves college tax benefits, expanding the American Opportunity Tax Credit and making a larger portion refundable, exempting Pell Grants from taxation, eliminating the tax on student loan debt forgiveness, and creating a new $5,000 tax credit for businesses that support community colleges and hire their graduates.

Supporting Families — Although the economy has been adding jobs, many families are still struggling. The budget strengthens efforts that assist those in poverty or experiencing financial crises and makes tax reforms aimed at making the tax code fairer while investing in families and growing workers' paychecks.

- **Improving the Earned Income Tax Credit (EITC)** – The budget again includes improvements to the EITC provided to workers without children and non-custodial parents. The budget doubles the EITC for this group. It also expands the age range for eligibility to include workers aged 21 to 24 and workers aged 65 to 66. This would encourage young adults to seek employment and harmonize the EITC rules with Social Security's full retirement age.

- **Maintaining children's nutrition assistance during the summer** – During the school year, nearly 22 million low-income children rely on school meals to meet their nutritional needs, but during the summer, only a small fraction of these children continue to get nutritious meals. USDA has piloted a different approach to summer meals, providing food benefits on debit cards rather than subsidizing meals served at camps and other institutions, which has proven to significantly reduce food insecurity. The budget creates a permanent program modeled on the pilots that would provide benefits to all children eligible for free and reduced-price school meals.

- **Ending family homelessness** – The budget supports new mandatory funding to put the President's goal of ending homelessness of all families by 2020 in reach. Funds would be used for additional housing vouchers and rapid rehousing, a strategy that helps stabilize families and then assists them to become self-sufficient. The budget continues dedicated funding to end homelessness among veterans.

- **Supporting child care** – High-quality child care is a two-generation approach to helping families. Research shows that high-quality care is beneficial to a child's development, particularly for children from disadvantaged backgrounds. At the same time, access to child care helps parents increase their employment and earnings. The Budget calls for increasing federal investments in child care so that, by 2026, all low-income families with children ages 3 and under have access to high-quality child care so that parents can work, attend school, or participate in training. It also triples the maximum tax credit for families with young children and makes the full credit available to families with incomes of up to $120,000. These changes would benefit about five million families, helping cover costs for 6.7 million children beginning next year.

- **Tax relief for two-earner families** – The budget includes a credit of up to $500 for two-earner families to help address the additional costs faced by families in which both spouses work.

- **Modernizing unemployment insurance (UI)** – The budget includes a number of changes to the unemployment system to both improve its solvency and expand its coverage. A new permanent extended benefits program would assist states with increased and high unemployment, ensuring a quicker response to downturns by helping workers and providing economic stimulus. It also expands access to UI and allows for benefits under some circumstances for those using job-sharing to avoid layoffs and those who take a new job with lower wages than the job they lost through no fault of their own.

- **Revitalizing Temporary Assistance for Needy Families (TANF)** – The TANF program provides grants to States, territories, and eligible tribes to help struggling families. The program was created 20 years ago: its funding has not increased since that time so that purchasing power has been reduced by more than one-third. Over time, TANF grants have shifted away from their core purpose. A much smaller share of poor families are currently benefitting from TANF than when the program originated. The budget proposes to make TANF a more effective safety net and employment opportunity program. Among other reforms, the budget increases the basic grants by $8 billion over 5 years and requires states to spend more of the grant on core benefits. The budget also includes a new TANF Emergency Response Fund that would automatically trigger funding for states to assist families during economic downturns.

- **Encouraging retirement savings** – The budget includes tax provisions to help workers save for retirement in an era when many workers for small firms and part-time workers lack access to workplace retirement plans. It provides automatic IRA enrollment for workers whose employers do not already offer retirement plans (employees could opt out if they choose). The budget also strengthens tax incentives for small employers that set up auto-enrollment IRAs, 401(k)s, or other employer plans, or that start automatically enrolling workers in their existing retirement plans. It gives long-term, part-time employees the ability to participate in their employers' retirement plans and help states with efforts to create state-based 401(k) or automatic enrollment IRAs. Finally, it expands the ability of workers to access multiple employer plans, which will help provide retirement benefits to the self-employed and workers who frequently change employers.

Job Training —The budget targets new mandatory job training initiatives to those who need it the most. It provides $5.5 billion over ten years for youth training and job opportunities, $3 billion for competitive grants to develop and keep jobs in the United States, $2 billion to expand apprenticeships, and $2 billion targeted to those long out of work or who otherwise need help connecting to jobs, in addition to appropriations for 2017 for on-going job training services.

Research and Development (R&D) — The budget invests $152 billion for R&D across the federal government with discretionary and mandatory funding in 2017, which is a 4 percent ($6.2 billion) increase above the 2016 enacted level.

Veterans — The budget includes $75 billion for veterans' discretionary programs for 2017, a $3.6 billion (5 percent) increase above the enacted level for 2016. That amount includes a $1.7 billion increase above the $63 billion advance appropriation already provided for veterans' medical care to meet greater health care demand than originally projected.

Strengthening the Nation’s Infrastructure and Environment

21st Century Clean Transportation Plan — The budget includes a $385 billion transportation infrastructure initiative that calls for investments in clean transportation infrastructure, building on the highway bill Congress passed last year. It provides nearly $20 billion per year to reduce traffic and provide new ways for families to get to work and school. The funds provide additional resources for transit, high-speed rail, new rail technologies, freight system modernization, and expanding the Transportation Investment Generating Economic Recovery (TIGER) grant program that supports innovative local projects. The budget also restructures funding formulas and invests roughly $10 billion per year to transform regional transportation systems. The plan also provides about $2 billion per year for autonomous vehicles, low carbon technologies, and intelligent transportation systems. It also includes $65 billion for a Family Energy Assistance Fund that will help families with rising energy costs, including the costs of transitions to cleaner forms of energy.

These investments in clean transportation will help transition to a more efficient transportation system and reduce transportation’s impact on climate change. The initiative is financed by a $10 per barrel fee on imported and domestically produced oil and oil products (with an exception for exports) that will also aid our efforts to respond to climate change. The fee will be phased in over five years. Additional funding for the plan’s early years will come from one-time transition revenues generated by business tax reform.

Clean Energy — The budget supports Mission Innovation and the commitment to double federal funding for clean energy R&D in five years, starting with $7.7 billion in discretionary funding in 2017.

Land and Water Conservation – The budget fully funds the Land and Water Conservation Fund, reinvesting into conservation and recreation projects all the $900 million raised each year through royalties on offshore oil and gas activities.

Other Key Initiatives —

- **Immigration reform** – Like last year, the budget again includes savings from passing immigration reform similar to the 2013 bipartisan Senate-passed immigration bill, which will reduce the deficit by $170 billion over ten years and nearly $1 trillion over two decades.
- **Financial regulation** – The budget increases funding for the Securities and Exchange Commission by $176 million (11 percent) and the Commodity Futures Trading Commission by $80 million (32 percent). These agencies are critical to policing Wall Street and our financial markets but are often under-funded because, unlike other financial regulators, they are funded through appropriations rather than fees.

- **Puerto Rico** – The budget has several provisions addressing the ongoing fiscal crisis in Puerto Rico, which has lost population in the last decade and has high poverty rates and low work participation. The budget supports developing a comprehensive plan to address Puerto Rico's financial liabilities along with improving fiscal governance for the future. It also creates an EITC for Puerto Rico, which effectively increases wages for low-income workers, to create work incentives and increase work participation. Residents of the 50 States already benefit from an EITC, which has lifted millions out of poverty. Additionally, it provides $30 billion to boost federal assistance to the Medicaid programs in Puerto Rico and the other U.S. territories.

Health Care and Public Health

The budget includes net health care savings of $378 billion over ten years through numerous provisions primarily affecting Medicare and Medicaid.

Medicare — The budget extends Medicare Hospital Insurance Trust Fund solvency by an estimated 15 years and reduces program spending by $423 billion over ten years. The budget supports preventive care by providing $2.4 billion to improve coverage of colonoscopies. New savings provisions include $77 billion from Medicare Advantage changes, including setting payments to private plans through competitive bidding; $9.3 billion from hospice payment reform; and $3.8 billion from expanding competitive bidding for durable medical equipment.

Medicaid, Children's Health Insurance Program (CHIP), and Affordable Care Act — The budget builds on the gains made under the Affordable Care Act by creating a new incentive for states to adopt the Medicaid expansion (costs $3 billion over ten years), encouraging states to provide 12 months of continuous eligibility for adults (costs $11 billion), and expanding access to home and community-based services (costs $10 billion). It provides $2 billion to extend CHIP for two years. The budget supports several new policies to make Medicaid and CHIP more efficient, including establishing a Medical Loss Ratio for managed care plans (saves $24 billion) and forming a federal-state Medicaid negotiating pool for high-cost drugs (saves $6 billion). The budget also modifies the Affordable Care Act's excise tax on high-cost employer-provided health insurance plans to better reflect local market conditions.

Public health —The budget provides a total of $33 billion in discretionary and mandatory funding for the National Institutes of Health (NIH) for 2017, a program level increase of $825 million over 2016. As a part of the Vice President's Cancer Moonshot, the budget allocates $755 million to NIH and the Food and Drug Administration for cancer research activities. The budget also provides $1 billion in new mandatory funding over two years to address the nation's prescription drug abuse and heroin use epidemic, as well as $500 million in new mandatory spending over two years to expand access to mental health care.

Investments that Strengthen Security

Defense and International Affairs — The budget provides $551 billion for national defense, matching the funding levels set by last year's budget agreement, and $39 billion for international affairs activities. In addition, it provides $74 billion of Overseas Contingency Operations (OCO) funds, $59 billion for defense and $15 billion for international affairs, which also match the budget agreement. Of the OCO amount, over $11 billion is for the Department of Defense and the Department of State to support efforts to counter the Islamic State of Iraq and the Levant (ISIL), to provide assistance to those impacted by that conflict and to support a political solution to the Syrian civil war. Beyond 2017, the President's budget lifts the defense sequester caps by a total of $113 billion over 2018 through 2021, and includes $11 billion per year through 2021 as placeholder estimates for OCO.

Justice — The budget includes $5 billion in mandatory spending to implement a new 21st Century Justice Initiative that will reduce crime, reverse unnecessarily long prison sentences and eliminate unnecessary incarceration, and build community trust.

Cybersecurity — The budget includes more than $19 billion, or about a 35 percent increase above the 2016 level, to bolster cybersecurity across the federal government.

Additional Tax Reform

Reform capital gains taxation — The budget increases the top tax rate on capital gains and dividends for high-income households to 24.2 percent. When the Medicare tax on net investment income is included, the top rate would be 28 percent – the same as under President Reagan. The budget closes the "trust fund loophole" by providing for realization of capital gains upon gifts and bequests, with various exemptions to protect middle-class households.

Financial fee — The budget includes a fee on large, highly leveraged financial institutions to discourage excessive borrowing. The 7 basis point fee (0.07 percent) would apply to U.S. financial firms with assets over $50 billion.

Additional proposals to limit tax expenditures and loopholes for high-income households — As in past years, the President's budget includes a number of proposals to limit tax expenditures and tax loopholes for high-income households, including the following:

- Limit the tax benefit that households in the highest tax brackets receive from itemized deductions and certain other tax preferences to 28 cents on the dollar – the same benefit that a household in the 28 percent tax bracket receives.
- Adopt the "Buffett Rule," which requires that millionaires pay an effective tax rate of at least 30 percent of income (after charitable contributions).
- Eliminate the "carried interest loophole," which allows wealthy investment fund managers to pay lower capital gains tax rates on much of their income.

- Close the “Newt Gingrich” loophole that allows some high-income professionals to avoid payroll taxes.
- Prevent very wealthy individuals from accumulating more than about $3.4 million in tax-favored retirement plans by prohibiting contributions and accruals of additional benefits once an account reaches that size.
- A new proposal would expand the 3.8 percent net investment income tax so that it applies equally to all pass-through income, regardless of how the business is organized.

Business tax reform and investments in infrastructure — The President’s budget includes business tax reform. In past years, those proposals were included in a reserve fund for business tax reform that was revenue-neutral in the long-run. Because Congress extended a number of business tax cuts last year without paying for them, this year’s budget moves the tax reform provisions out of a reserve fund and into the budget numbers.

The tax reforms reduce the corporate tax rate, broaden the tax base, and are revenue-neutral over the long-run while effectively offsetting the business tax provisions that were made permanent last year without offsets. The plan includes detailed proposals for overhauling the international business tax system. The core of the proposal is a 19 percent minimum tax on the foreign earnings of U.S. companies. Companies would pay U.S. tax on their foreign earnings in the year they are earned (with a credit allowed for foreign taxes), but would pay no additional tax when returning the earnings to the United States. The proposal also prevents corporate “inversions” and puts in place additional safeguards to protect the U.S. tax base.

As part of the transition to a reformed international tax system, the budget includes a one-time transition toll charge of 14 percent on the $2 trillion of untaxed overseas earnings that U.S. companies have accumulated overseas. This transition revenue is dedicated in part to deficit reduction and in part to ensuring solvency of the transportation trust fund and to supporting new surface transportation investments under the President’s 21st Century Clean Transportation Plan.

Economic Assumptions

The budget relies on realistic economic assumptions that are similar to those made by the Congressional Budget Office and the “Blue Chip” consensus forecast. It projects that the economy will grow at a 2.6 percent rate this year and next, slightly above last year’s level. It assumes inflation will increase at 1.5 percent this year and 2.1 percent next year (Consumer Price Index) and that unemployment will continue to drop to an annual average of 4.7 percent this year and 4.5 percent in 2017. Interest rates will rise from their current low levels but will remain below historical norms, with short-term Treasury rates reaching 0.7 percent this year and 1.8 percent next year, and long-term rates climbing to 2.9 percent this year and 3.5 percent in 2017.

PROPOSALS IN THE PRESIDENT'S 2017 BUDGET
(In billions of dollars)

	2017	2017-26
Projected deficits in the adjusted baseline	**612**	**9,753**
Proposals in the 2017 Budget:		
Tax reforms and investments in innovation, opportunity, and economic growth:		
Mission Innovation	---	29
Investments in a 21st Century infrastructure	7	312
Impose an oil fee	-7	-319
Transition to a reformed business tax system	-36	-299
Elements of business tax reform	-33	-549
Middle-class and pro-work tax reforms	6	246
Fund America's College Promise	*	61
Child care for all low-and moderate-income families with young children	3	78
Capital gains tax reform	-15	-235
Focus retirement tax incentives on working and middle-class families	-2	-30
Financial fee	-6	-111
Investments in early education and children's health	*	76
Tobacco tax financing	-10	-115
Replacement of mandatory sequestration	10	202
Additional discretionary proposals, including investments in education, infrastructure, innovation, and security	18	-77
Additional mandatory and tax proposals	4	-292
Debt service and indirect interest effects	-1	-164
Total, tax reforms and investments in innovation, opportunity, and economic growth	-62	-1,189
Additional deficit reduction from health, tax, & immigration reform:		
Health savings	6	-378
Curbing inefficient tax breaks for the wealthy and closing loopholes	-56	-955
Immigration reform	4	-170
Debt service	-*	-216
Total, additional deficit reduction	-46	-1,719
Subtotal, tax reforms, investments, & additional deficit reduction	**-108**	**-2,908**
Other changes to deficits:		
Reductions in Overseas Contingency Operations	-*	-636
Debt service	-*	-96
Total, other changes to deficits	-*	-732
Total proposals in the 2017 Budget	-109	-3,640
Resulting deficits in 2017 Budget	**503**	**6,113**

* $500 million or less.