THE CONGRESSIONAL BUDGET OFFICE'S POOR RECORD OF FISCAL ESTIMATES

"IRS Return on Investment and the Need for Modernization"

U.S. House Ways and Means Committee
Subcommittee on Oversight

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Chairman Schweikert, Ranking Member Sewell, and members of the Committee, thank you for hosting this important hearing. My name is Hayden Dublois, the Data & Analytics Director at the Foundation for Government Accountability (FGA). FGA has worked for many years on a wide variety of policy areas, including welfare, workforce, health care, and more. In my role at FGA, I have worked in depth on several key federal policy issues that have been subject to fiscal estimates by the Congressional Budget Office (CBO). The CBO routinely produces fiscal scores for Congress to guide them in decision-making on bills that either raise revenue or reduce costs for Americans. **Unfortunately, CBO's track record in producing these scores has been questionable, at best, in several key areas**—including as it relates to the Inflation Reduction Act (IRA), which, as you know, is directly related to additional funding to the Internal Revenue Service (IRS).

CBO's Scoring Blunders Have Produced Inaccurate Fiscal Estimates

While CBO scores major pieces of federal legislation that are supported by both sides of the political aisle, it **tends to underestimate costs associated with measures that would increase the size of government and overstate the cost of tax relief for Americans**.

By way of example, CBO's score of various provisions of the IRA turned out to be incorrect.

Following the enactment of the IRA, the CBO predicted the legislation would "result in a net decrease in the deficit of $58.1 billion" over the 10-year budget window.[1]

However, CBO got it wrong. A 2024 update by the CBO reflected a new analysis that the law would in fact **increase the total deficit by $300 billion** over the next decade.[2]

This glaring mistake was due to multiple factors. First, CBO substantially underestimated the costs of the green energy tax credits and subsidies contained in the legislation. CBO's revision reflected a $224 billion upward-adjustment in net outlays as it relates to clean vehicle tax credits and lower-than-expected excise taxes on gasoline contained in the IRA. [3]

Second, the CBO projected that an additional nearly $80 billion dedicated to the IRS for enforcement measures would reduce the deficit by $180 billion over the budget window.[4] The IRS's increased funding was subsequently reduced by Congress to $57.8 billion—still a sizable investment.[5]

But by the end of FY2024, the IRS announced just $1.3 billion had been collected through increased enforcement measures, but a slightly larger amount had been spent to hire 4,000 additional IRS agents, actually creating an increase in the deficit.[6] For every $1.00 of new revenue collected by the IRS, these enhanced enforcement efforts cost $1.04.[7]

The CBO predicted that, by the end of FY2024, the IRS would have collected nearly $7.2 billion in additional revenue—but **actual collections of only $1.3 billion were shockingly 82 percent below projections**.[8]

According to the Economic Policy Innovation Center, the CBO's faulty estimates are directly attributable to a far higher return on investment (ROI) for IRS enforcement efforts than what actually occurred.[9] **The CBO's benchmark ROI of $6.40 in new revenue gained for every $1.00 spent on enforcement was off by more than sixfold**.[10]

This is not the first time that CBO has failed to accurately score key pieces of legislation. In general, CBO tends to overestimate the costs of provisions that would reduce the size of government, underestimate the cost of provision that would increase the size of government, and overstate the deficit impact of tax relief for Americans.

For example, in 2010, CBO predicted that Medicaid expansion under ObamaCare would enroll 13 million able-bodied adults across all 50 states.[11] However, by 2019—just before the onset of the COVID-19 pandemic—actual expansion enrollment reached 19.5 million in the 34 states that had adopted Medicaid expansion by that time.[12]

CBO itself recognized this error, noting in a 2017 report that, "In its May 2013 projection, CBO underestimated such [expansion] spending mainly because it underpredicted the number of people who would enroll in Medicaid. Fewer states expanded eligibility for Medicaid under the ACA than CBO anticipated, but many more people enrolled in Medicaid in expansion states than CBO expected."[13]

During the pandemic, CBO's March 2020 baseline dramatically underestimated Medicaid expenditures from FY2020 through FY2023, leading to a 20 percent overage in spending above CBO projections during that period.[14-15]

In the food stamp program, CBO estimated that various food stamp changes contained in the 2009 stimulus package would cost approximately $20 billion over the ten-year budget window.[16] A decade later, CBO noted that stimulus-driven food stamp spending had reached $43 billion over the period, or, as CBO stated, "the ARRA-related increase in spending on SNAP was more than double the amount CBO estimated in 2009."[17]

Likewise, another provision of the 2009 stimulus package was a temporary $25 weekly unemployment insurance (UI) bonus, which CBO predicted in 2009 would cost $39.2 billion over the next 10 years.[18-19] Six years later, CBO revised their score to reflect a $64 billion cost estimate, a roughly 63 percent overage above original estimates.[20]

Finally, on the revenue side, CBO's most notable blunder relates to the Tax Cuts and Jobs Act of 2017 (TCJA). For example, as Ways and Means Chairman Smith correctly noted just this last year, CBO's own numbers on FY2024 corporate receipt collections reached $529 billion, well ahead of the $421 billion predicted by CBO following the passage of TCJA.[21] **Cumulatively, combined revenues are $502 billion above CBO estimated they would be following the passage of TCJA**.[22]

Why Has the CBO Produced Inaccurate Estimates

There are a variety of reasons why CBO has inaccurately estimated the costs and savings associated with major pieces of federal legislation.

As it relates to the IRA, CBO admittedly failed to account for market developments in the green energy sector while dramatically overestimating the IRS's efficiency in collections.

Regarding their Medicaid errors, CBO has admitted their underestimates of increased Medicaid spending are directly attributable to their inaccurate assumptions surrounding Medicaid enrollment.

For food stamps and unemployment, CBO failed to predict the extremely slow economic recovery of the Obama years, leading to unemployment remaining elevated for a longer period of time and skewing their estimates.

And for TCJA, CBO failed to account for the tremendous economic growth caused by tax relief for the middle class.

Unfortunately, the cumulative effect of these errors demonstrate CBO's bias for more government spending and higher taxes.

Congress Should Consider CBO's Inaccuracies in Light of Reconciliation

CBO will undoubtably have a role to play in scoring key pieces of legislation as part of the reconciliation process. But already, CBO has enabled artificial manipulation their baseline estimates that bias the results of their projections in four key ways:

1. CBO assumes discretionary appropriations will continue even without statutory budget authority;
2. CBO assumes all discretionary appropriations will grow with inflation—even emergency or one-time appropriations;
3. CBO assumes mandatory spending program will continue beyond their statutory expiration dates; and
4. CBO assumes that Social Security and Medicare payments will continue at their scheduled levels, even after their trust funds are depleted and there is no statutory authority to make payments at those levels.[23]

In addition, CBO has previously produced inaccurate estimates of options for reducing the deficit that may be employed considered. For example, CBO dramatically underestimates the costs of applying the federal asset test for food stamps because it relies on administrative data about participants' incomes—rather than available data on participants' assets—leading to what CBO characterizes as "a large source of uncertainty" in its estimates on this issue.[24]

Last but not least, by using a current law baseline rather than a current policy baseline, the likely effect of various programs on revenues and expenditures is distorted.

Congress should not only evaluate CBO's fiscal scores with scrutiny, but also consider amending requirements to have CBO's baseline more closely resemble reality.

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