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CBO releases first ‘post-OBBBA’ budget and economic outlook

On February 11, the nonpartisan Congressional Budget Office (CBO) released The Budget and Economic Outlook: 2026 to 2036 – the first such report issued by the agency since enactment of the law commonly known as the One Big Beautiful Bill Act (OBBBA, P.L. 119-21).

The report anticipates that the budget deficit for current fiscal year 2026 – which runs through September 30 – will clock in at about $1.85 trillion, or 5.8 percent of gross domestic product (GDP) – accounting for more than the $77 billion shortfall recorded last year. The CBO projects deficits will continue to rise over the 10-year budget window, until they reach more than $3.1 trillion – or 6.7 percent of GDP – in fiscal year 2036. On a cumulative basis, deficits are now projected to amount to about $24.4 trillion over the next decade. These projected fiscal imbalances – both in nominal terms and as a share of GDP – are very high on a historical basis. For example, the average budget deficit registered over the past five decades is about 3.9 percent of GDP, well below the 5.8 percent level expected for this year.

Digging into the details

The CBO sees federal revenues coming in at 17.5 percent of GDP in the current fiscal year (FY2026), a slight increase over the 17.2 percent of GDP level they registered last year, as increased receipts from customs duties outstrip slight declines in individual and corporate income taxes.

Over the ten-year budget window, CBO projects revenues will remain relatively level, increasing by about 0.2 percent of GDP, as elements of the OBBBA are scheduled to expire (more on that below). Over the full budget window, the agency expects receipts will hover within a relatively narrow band and average about 17.7 percent of GDP, a bit north of the 17.3 percent of GDP average over the past five decades.

Meanwhile, on the spending side of the ledger, outlays – which have fallen sharply from their pandemic-era highs – are expected to resume their steady climb due to pre-existing demographic trends that are projected to increase the ranks of Social Security and Medicare beneficiaries and thus push up spending within those programs. Healthcare cost growth is also expected to continue to outstrip economic growth, thus pushing up that budgetary component as a share of GDP. By 2036, federal outlays are expected to equate to 24.4 percent of the economy. By comparison, over the past 50 years, spending has averaged 21.2 percent of GDP.

Inflation, interest rates, GDP: On the economic front, CBO's latest forecast suggests that inflation will continue to moderate, falling from 3.2 (actual) in 2023 to 2.8 percent – as measured by growth in the Consumer Price Index – in 2026, and will fall further after that before leveling out at about 2.3 percent after 2028. Annual economic growth (adjusted for inflation) is projected to rise slightly this year to 2.2 percent (from 1.9 percent as estimated for 2025) on account of, among other things, fiscal stimulus from the OBBBA. After 2026, however, the CBO sees real economic growth averaging about 1.8 percent for the remainder of the 10-year budget window.

Debt service costs: In line with most market observers, the CBO projects that the Federal Reserve will continue to moderate its short-term, inter-bank lending rate in the coming years. However, the CBO also believes that longer-term rates will remain elevated, at least in comparison to their pandemic-era lows. For example, according to the CBO, the average rate of 10-year Treasury bonds will remain around 4.3 percent (its average in 2025) over the course of the next decade. As a result, interest payments on the national debt are projected to average 4.1 percent of GDP over the next decade, up from 3.7 percent of GDP in CBO's penultimate budget projection released last year. In nominal terms, the agency expects the government will incur almost $2.1 trillion in debt service costs in 2036 alone (rising from about $1 trillion in 2026) – almost 19 percent of total spending that year.

Publicly held debt: In its January 2020 long-term outlook, published just before the coronavirus pandemic began affecting the US economy, CBO had projected that debt held by the public – that is, federal debt not held in intragovernmental accounts such as Social Security and Medicare Trust funds – would not reach 100 percent of GDP until the early 2030s. This week's analysis, however, shows that level will be reached this year, and that publicly held debt will climb to over 120 percent of the economy by the end of the 10-year budget window. (Actually, debt briefly crossed 100 percent of the economy by the end of fiscal year 2020, but then fell again as pandemic-related pressures began to wane).

'Current law' caveat

It is important to note that, by law, the CBO is generally required to make its projections on the basis of "current law," or laws as they are currently in effect. (One exception is excise taxes dedicated to trust funds – for example, highway- and aviation-related taxes – which are assumed to be continued beyond any scheduled expiration). That means this week's analysis does not account for the budget impact of any potential future supplemental spending packages (such as for disaster relief), or actions by a future Congress to relax certain spending reductions called for under current law (for example, the OBBBA's changes to the Medicaid and food stamp programs). On the flip side, also inherent in CBO's projections is an assumption that temporary tax provisions scheduled to expire over the budget window – such as the OBBBA's tax relief on tip and overtime income, its deduction for certain auto loan interest, and its temporary relaxation of the cap on state and local tax deductibility – will not be renewed, and revenues will be higher as a result.

DHS funding lapse looms as Congress departs for recess

In other budget news, the Department of Homeland Security's (DHS) stopgap funding is set to expire at midnight tonight, as lawmakers left Washington for a recess expected to last until the week of February 23 without passing legislation to extend DHS funding. Before the recess, the Senate voted down a procedural motion on the House-passed appropriations bill (H.R. 7147) which would fund DHS through September 30, falling short of the 60-vote threshold by a vote of 52-47. Meanwhile, the operational impact of a shutdown may be uneven across the department due to availability of some alternative funding sources, creating uncertainty around how a DHS shutdown would unfold in practice. (For prior coverage of the House-passed appropriations bill, H.R. 7147, see *Tax News & Views*, Vol. 27, No. 4, Jan. 23, 2026.)

A key obstacle to resolving the DHS funding impasse has been ongoing disagreement over immigration enforcement policies, with little progress in negotiations to date. Democratic leaders have made clear that their support is contingent on substantive changes to DHS immigration enforcement policies, with House Minority Leader Hakeem Jeffries (D-N.Y.) characterizing the changes needed as "dramatic." (For prior coverage of the Democratic leadership outline proposing new guardrails for Immigration and Customs Enforcement (ICE), see *Tax News & Views*, Vol. 27, No. 5, Jan. 30, 2026.)

Healthcare priorities and the extension of enhanced PTC

Separately, the unresolved DHS funding disagreement has also complicated efforts to use the FY2026 appropriations process as a vehicle for advancing certain healthcare priorities. Several healthcare issues that some lawmakers had hoped to advance through the current fiscal year's funding process appear to have stalled, as negotiations over a broader healthcare package have failed to gain traction. Talks had focused on potentially pairing an extension of the enhanced premium tax credit (PTC) with other provisions, such as Health Savings Accounts, but progress has not moved beyond a House vote several weeks ago approving a three-year enhanced PTC extension (advanced via a discharge petition). Disagreements over the substance of the package – including certain politically sensitive issues – have complicated negotiations and dampened momentum. With only the DHS appropriations bill still to complete and funding for the department lapsing at midnight, there appears to be little appetite to advance a broader healthcare deal through the appropriations process in the near term. (For prior coverage of the House passage of the Democratic-led healthcare bill, see *Tax News & Views*, Vol. 27, No. 2, Jan. 9, 2026)

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Senate passes resolution preventing D.C.'s decoupling from OBBBA; CAMT guidance survives

The Senate passed – by a vote of 49-47 – a resolution (H.J. Res. 142) to overturn a District of Columbia law that declined to adopt more than a dozen provisions of the law commonly known as the One Big Beautiful Bill Act (OBBBA, P.L. 119-21), including new deductions for tipped income and overtime pay. The resolution disapproves the District of Columbia's Income and Franchise Tax Conformity and Revision Temporary Amendment Act of 2025, which the D.C. Council enacted late last year. The Senate action followed a narrow, party-line vote in the House last week approving the resolution. The next step is for the resolution to be presented to President Trump for his signature. (For prior coverage, see *Tax News & Views*, Vol. 27, No. 6, Feb. 6, 2026.)

Sen. Rick Scott (R-Fla.) introduced the resolution last month after the D.C. law was enacted on December 20, 2025, and subsequently transmitted to Congress for a period of congressional review. Under the Home Rule Act, Congress has 30 legislative days to enact a joint resolution of disapproval to overturn a District of Columbia law. D.C. operates with limited self-government, and Congress expressly retains authority to review and overturn D.C. legislation before it takes effect – unlike in the case of state laws. The effort to overturn the D.C. law followed a statement by Treasury Secretary and Acting IRS Commissioner Scott Bessent criticizing what he described as Democratic-led states that have declined to conform to certain OBBBA provisions. Bessent urged those states to conform, arguing that nonconformity unfairly affects taxpayers and could hinder broader economic recovery.

For additional analysis of the OBBBA, see: *A closer look: Inside the new tax law* prepared by Deloitte Tax LLP's professionals.

D.C. Mayor Muriel Bowser and D.C. Council Chairman Phil Mendelson opposed the resolution, warning on social media that disapproval of the Council's decoupling legislation would "wreak havoc on the District and its residents." In an accompanying letter, they argued that the timing is "especially problematic," noting that the District is already a month into the 2026 tax year and has begun accepting and processing returns. According to Bowser and Mendelson, overturning the law at this stage would create significant "administrative challenges," requiring taxpayers to re-file returns, render existing guidance and forms "obsolete," and require "rapid mid-year changes to tax administration systems."

On Thursday night, D.C. Council Chairman Mendelson wrote that the 30-day review period had expired, nullifying the impact of the House- and Senate-passed resolution, so this may find its way into the courts for further adjudication.

CAMT guidance survives

In contrast to the successful use of a disapproval resolution to overturn a D.C. law under the Home Rule Act, the Senate this week voted down a motion to proceed by a vote of 47-51 on a separate resolution (S.J. Res. 95) targeting IRS guidance, with Sen. Susan Collins (R-Maine) as the only Republican to vote with Democrats in support of the measure. This resolution would have overturned IRS Notice 2025-28, issued last year to provide guidance on the corporate alternative minimum tax (CAMT).

Senate Finance Committee Ranking Member Ron Wyden (D-Ore.) and Sen. Angus King (I-Maine) introduced the resolution under the Congressional Review Act (CRA), which allows Congress to review and disapprove certain rules issued by federal agencies. The process also provides that a disapproval resolution requires only a simple majority to advance in the Senate rather than the three-fifths majority – or 60 votes – typically needed to overcome procedural hurdles in that chamber. If enacted, a CRA disapproval resolution treats the targeted rule as if it never took effect and cannot be reissued in a substantially similar form unless specifically authorized in a subsequent law.

Notice 2025-28 provides interim guidance to reduce the compliance burdens and costs associated with applying CAMT to partnerships and CAMT entity partners. The Inflation Reduction Act (P.L. 117-169), signed into law by President Biden on August 16, 2022, established a 15 percent CAMT on "adjusted financial statement income" of an "Applicable Corporation," effective for taxable years beginning after December 31, 2022.

Ahead of Senate consideration, Sen. Wyden released a fact sheet outlining his concerns with the impact on CAMT of Notice 2025-28. He argued that the notice alters how large corporations and private equity firms account for partnership income, essentially giving those corporations a "'choose-your-own-tax-rate'" approach. Wyden also issued a companion statement as to whether highly profitable corporations should be subject to the 15 percent CAMT, which he argued is roughly equivalent to the effective tax rate paid by many middle-income households. He also cited a Joint Committee on Taxation estimate projecting that disapproval of the notice would increase federal revenue by $10.3 billion over the 2026-2035 period.

Proposed rules for Trump accounts under White House review

While the Senate declined to overturn CAMT guidance, regulatory work to implement provisions of the OBBBA continues, with proposed rules for the newly created Trump Accounts moving one step closer to release as they undergo review by the White House Office of Information and Regulatory Affairs. One set would establish rules for Trump Accounts under section 530A (RIN 1545-BR91), while a second would implement an election for a Trump Account contribution pilot program (RIN 1545-BS00). Trump Accounts are a new type of tax-preferred savings vehicle that have some features similar to traditional individual retirement accounts (IRAs), but are available only to eligible individuals under the age of 18 and subject to special rules during a defined "growth period." New section 530A, which establishes these accounts, was added under section 70204 of the OBBBA. The statute also created a pilot program that provides a one-time government-funded contribution of $1,000 to beneficiaries born after December 31, 2024, and before January 1, 2029. (For prior coverage of the Trump Account summit, see *Tax News & Views*, Vol. 27, No. 5, Jan. 30, 2026.)

Trump Accounts are one of several OBBBA provisions for which Treasury and the IRS have issued implementation guidance. More broadly, Treasury officials have recently briefed Ways and Means Republicans on the administration's approach to implementing the law and status of that work.

Treasury, IRS release guidance on prohibited foreign entities

The Treasury Department and the IRS released Notice 2026-15 addressing restrictions on certain energy tax credits related to a taxpayer's status as, and sourcing from, a prohibited foreign entity (PFE) – restrictions enacted by the OBBBA. Treasury and the IRS intend to propose regulations with respect to the definition of a PFE and the calculation of the material assistance cost ratio that taxpayers must use to determine whether there was material assistance from a PFE. A detailed summary of the proposed rules from Deloitte Tax LLP will be forthcoming in a future edition of Tax News & Views. (IRS press release IR-2026-23)

Second OBBBA?

Against that backdrop of continued implementation and oversight of the OBBBA, President Trump indicated in a ***Fox Business*** interview earlier this week that he has little interest in reopening the reconciliation process, suggesting that the administration has already "gotten everything passed that we need" and is now focused on managing and implementing these policies.

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Digitizing paper returns; expanded business tax tools

As the IRS continues efforts to modernize return processing for the 2026 filing season, the Treasury Inspector General for Tax Administration released a report assessing the agency's progress toward digitizing the processing of paper-filed individual tax returns.

The report found that the agency did not meet its goal of scanning and digitally extracting data from all paper-filed returns by the 2025 filing season. As of May 2025, contractors had scanned nearly 5 percent (517,000) of the 9.8 million paper-filed Forms 940, Employer's Annual Federal Unemployment (FUTA) Tax Return, 941, Employer's Quarterly Federal Tax Return, and 1040, US Individual Income Tax Return (including attachments) received during the 2025 filing season. (For prior coverage of the opening of the 2026 filing season, see *Tax News & Views*, Vol. 27, No. 5, Jan. 30, 2026.)

The findings come amid the IRS' new Zero-Paper Initiative (ZPI), launched last spring, which adopted a phased-approach to eliminating paper submissions of tax returns, correspondence, and information returns. While the agency aims to digitally process 26 of the highest volume paper-filed tax forms for the 2026 filing season and expand electronic filing options, TIGTA found that the interim ZPI contractor had scanned only about 7 percent of the 5.7 million forms received from May 2025 through early August 2025. The report noted that the IRS must overcome challenges ahead of the 2026 filing season, including the contractor's ability to hire sufficient staff and the agency's ability to timely provide required clearances to contract staff once brought on board.

TIGTA recommended that the agency evaluate options to prioritize scanning historical documents to achieve cost savings and comply with a federal mandate to convert all paper documents to digital format by December 2030. The IRS agreed with the recommendation.

IRS expands Tax Pro Account for businesses

Against this backdrop, the IRS announced an expansion of the Tax Pro Account that adds new digital tools for tax professionals working with business clients. The update gives firms greater visibility into, and control over, their Centralized Authorization File (CAF) relationships, making it easier for organizations that represent large numbers of taxpayers to manage authorizations and reduce reliance on paper processes. The changes also lay the groundwork for future enhancements supporting tax professionals. Sole proprietorships and other businesses that do not use CAF systems are not affected.

"This taxpayer favorable change will improve the way tax-professional businesses serve their clients," said IRS CEO Frank J. Bisignano. "The improvement demonstrates that the IRS continues investing in technology improvements that reduce paper submissions, streamline taxpayer interactions, and expand self-service digital options."

The Tax Pro Account is a secure, online tool launched in July 2021 that enables tax professionals to instantly manage authorization relationships, view client tax data, and submit Power of Attorney (POA) or Tax Information Authorization (TIA) requests. It allows professionals to view balances, payment history, and manage CAF numbers directly on www.irs.gov.

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A note on our publication schedule

As we go to press, the Department of Homeland Security's short-term funding is set to expire at midnight on February 13. (See separate coverage in this issue for details.) Although DHS funding remains in flux, the FY2026 IRS funding bill is completed and we do not expect further action on the soon-to-be lapsed funding package until the House and Senate return to Washington following a recess week that kicks off with Presidents' Day. Barring any significant developments on the tax policy front, the next edition of ***Tax News & Views*** will be published the week of February 23.

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