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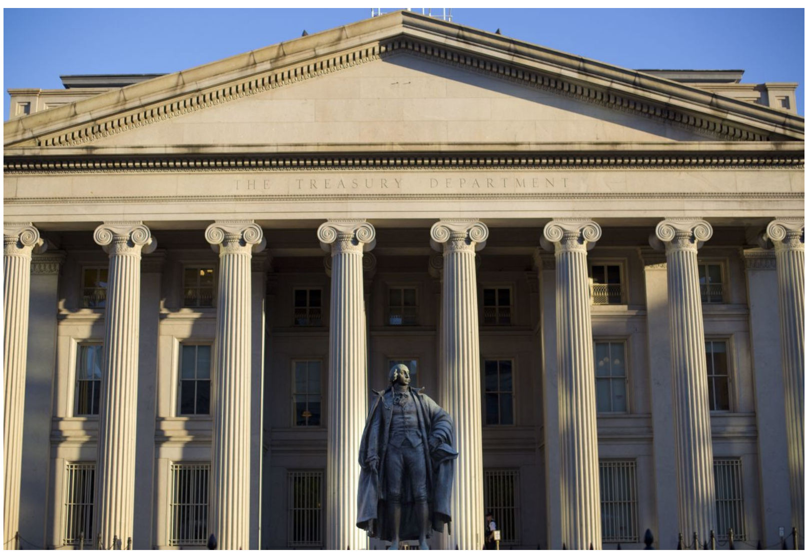
U.S. ECONOMY

U.S. Tax Revenues Fall, Deficit Widens in Wake of New Tax Law

Treasury has attributed the weaker revenue—including lower corporate and individual income-tax rates—to the tax law that took effect in January 2018



The U.S. budget gap rose to $873 billion for the 12 months that ended in December, compared with $680.8 billion during the same period a year earlier—a 28.2% increase. PHOTO: PABLO MARTINEZ MONSIVAIS/ASSOCIATED PRESS

By Kate Davidson

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WASHINGTON—Federal tax revenue declined 0.4% in 2018, the first full calendar year under the new tax law, despite robust economic growth and the lowest unemployment rate in nearly five decades.

The Treasury Department said Wednesday federal revenue totaled $3.33 trillion last year, while federal spending totaled $4.2 trillion, a 4.4% increase from the previous year.

That pushed the U.S. budget gap up to $873 billion for the 12 months that ended in December, compared with $680.8 billion during the same period a year earlier—a 28.2% increase. Last year was the highest deficit for a calendar year since 2012.

A senior Treasury official attributed the weaker revenue collection in 2018 to the sweeping changes to U.S. tax code that took effect last year, including lower corporate and individual income-tax rates.

A Treasury spokeswoman said the administration has been clear the tax law would reduce revenues in the near-term "due to the front-loading of certain provisions, such as the immediate expensing of capital expenditures to encourage investment in U.S. businesses."

"The tax cut is spurring increased economic growth which will ultimately generate trillions of dollars of economic activity and greatly contribute to higher government revenue over time," she said.

Estimates from nonpartisan government scorekeepers do not project the tax cut will pay for itself.

A strong economy typically leads to narrower deficits, as rising household income and corporate profits help boost tax collections, while spending on safety-net programs tends to decline.

In 2018, however, rising interest rates and a bigger debt load pushed up the government's interest costs, and a bipartisan budget deal led to a sharp increase in military spending. At the same time, the lower tax rates kicked in, constraining receipts for much of the year.

Trump administration officials argued the tax law would generate enough economic growth to help offset revenue lost over 10 years from the $1.5 trillion tax cut.

Economic growth has picked up, thanks to strong consumer spending and business investment, but it has not been enough to make up for a significant drop in corporate income tax collection.

The Congressional Budget Office has estimated the gross domestic product grew at a 3.1% annual rate in 2018, the strongest pace since 2010. Employers added 2.6 million jobs last year, half a million more than the year before, and the jobless rate hovered below 4% for much of the year.

But the effects of last year's fiscal stimulus are also expected to fade in 2019. The CBO estimates the gross domestic product will grow at a 2.3% annual rate this year.

The U.S. is on track to record a $900 billion deficit this year, CBO said, and annual deficits are expected to top $1 trillion starting in 2022.

Tax receipts are flat so far this fiscal year, due in part to a decline in corporate income tax collection, while federal outlays have increased 10%, Treasury said. The government ran a $319 billion deficit in the first three months of the fiscal year, which began Oct. 1, compared to a $225 billion deficit in the same period a year earlier.

Declining corporate tax receipts have been partially offset by a surge in tariff revenue, after the White House began imposing levies last year on imported goods, such as steel, solar panels, cars, washing machines and lumber. Treasury said Wednesday that customs duties nearly doubled in the first three months of the fiscal year, totaling $17.8 billion, compared with $9.4 billion in the same period a year earlier.

As a share of gross domestic product, the deficit totaled 4.2% in December, Treasury said.

By comparison, the last time the jobless rate was below 4%, in 2000, the U.S. ran a budget surplus of 2.3% of GDP for the year. Revenue that year rose 11% from a year earlier. And in 1969, when the jobless rate last touched 3.7%, the U.S. ran a budget surplus equal to 0.3% of GDP. Revenue was up 22% that year.

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Corrections & Amplifications
U.S. federal spending totaled $4.2 trillion in 2018. An earlier version of this article incorrectly stated the total was $4.6 trillion. (Feb. 13)

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