CONGRESSIONAL BUDGET OFFICE
U.S. Congress
Washington, DC 20515

Douglas W. Elmendorf, Director

January 29, 2015

Honorable Thad Cochran
Chairman
Committee on Appropriations
United States Senate
Washington, DC 20510

Re: Budgetary Effects of Immigration-Related Provisions of the House-Passed Version of H.R. 240, An Act Making Appropriations for the Department of Homeland Security

Dear Mr. Chairman:

CBO and the staff of the Joint Committee on Taxation (JCT) have analyzed sections 579 through 583 of H.R. 240, the Department of Homeland Security Appropriations Act, 2015, as passed by the House of Representatives on January 14, 2015.

Sections 579 and 580 would permanently prohibit the executive branch from exempting or deferring from removal certain categories of aliens considered to be unlawfully present in the United States. Those two sections of the legislation also would prohibit the executive branch from treating the affected people as if they were lawfully present or had lawful immigration status, or providing them with the authorization to work legally.

CBO and JCT expect that enacting those sections of the House-passed legislation would reduce both revenues and outlays for direct spending programs.[1] Specifically, JCT estimates that, under those sections, revenues would be lower by $22.3 billion over the 2015-2025 period. In addition, CBO and JCT estimate that direct spending would be lower by $14.9 billion over the same period. On net, deficits would be higher by $7.5 billion over the 2015-2025 period (see enclosed table).

1. CBO has not estimated the budgetary effects that enacting sections 579 and 580 might have on future spending subject to appropriation.

We estimate that enacting sections 581, 582, and 583 of that act would have no significant budgetary effects.

People Affected by Sections 579 and 580 of the Legislation
From 2011 through 2014, the President announced a series of policy initiatives related to immigration that the Administration is carrying out or intends to carry out under current law. Sections 579 and 580 of H.R 240 would end or reverse many of those initiatives and would eliminate all of the programs discussed below that involve deferred action, a process where the Department of Homeland Security (DHS) delays removal proceedings for unauthorized residents who meet criteria specified in the Presidential memoranda. Deferred action grants lawful presence and potential work authorization but does not provide any other legal status, such as lawful permanent residence or the right to naturalize. Most of the budgetary effects of those sections stem from reversing the deferred action initiatives.

Childhood Arrivals. Under the Deferred Action for Childhood Arrivals (DACA) program, which began in August 2012, people are eligible to apply if they:

- Were under 31 years of age as of June 15, 2012,
- Were younger than 16 when they came to the United States,
- Have continuously resided in the United States since June 15, 2007, and
- Have been registered in and attending school, or graduated from high school or earned a GED certificate, or been honorably discharged from the military.

Deferred action is for an initial two-year period, but can be renewed. Based on information from DHS and research from organizations that study immigration, CBO estimates that about 2 million unauthorized residents are eligible for DACA. As of September 30, 2014, DHS had received about 700,000 initial applications and approved about 600,000 of them, and approved about 20,000 renewal applications. CBO estimates that, under current law, in 2017, about 600,000 people will be covered under this deferred action program.

Expansion of Childhood Arrivals. On November 20, 2014, the President made three changes to the original DACA program that allow more people to qualify and extend the term of deferred action:

- Individuals who meet all of the other requirements but were 31 years or older as of June 15, 2012, are now eligible.

- Individuals who meet all of the other requirements but who arrived between June 15, 2007, and January 1, 2010, are now eligible.

- The duration of the deferred action is increased to three years instead of two years.

For this estimate, CBO assumes that under current law, DHS will begin accepting and approving applications for the expanded eligible population in the second half of fiscal year 2015. CBO expects that the newly eligible people will apply for and be approved for deferred action at a rate similar to that of the original applicants. Based on those considerations and information about the number of people who are eligible for deferred action under the expanded eligibility criteria, CBO estimates that in 2017 about 150,000 people will have been approved for such action.

Parents of U.S. Citizens or Lawful Permanent Residents. On November 20, 2014, the President also announced that parents of U.S. citizens or lawful permanent residents could apply for deferred action if they:

- Have been continuously present in the country since January 1, 2010,

- Were physically present in the country on November 20, 2014, and are physically present at the time they apply for deferred action,

- Had no legal status on November 20, 2014, and

- Are not considered a priority for enforcement for DHS.

Based on information from DHS and research from organizations that study immigration, CBO estimates that about 4 million parents are eligible for deferred action through this new initiative. For this estimate, CBO assumes that DHS will begin accepting and approving applications for the eligible population in the second half of fiscal year 2015. Although DHS has not yet promulgated regulations specifying how people will prove their eligibility for the program, CBO expects that the process will be similar to that for the DACA program. However, CBO expects that the parents who are eligible for this program will be less likely than the people who are eligible for the original program to declare their unlawful presence to the government for a three-year deferral; in addition, they may have a harder time proving eligibility. Therefore, CBO expects that the total participation rate will be somewhat lower than for DACA. CBO estimates that in 2017 about 1.5 million parents of U.S. citizens or lawful permanent residents will have been approved for deferred action.

Citizen Children. Although U.S. citizen children living with parents who are unauthorized residents are fully eligible for all federal benefit programs, their parents' immigration status can affect the likelihood that their parents choose to enroll them in such programs. CBO expects that granting deferred action to the parents of citizen children will increase those children's participation in benefit programs. Based on information from DHS and research from organizations that study immigration, CBO estimates that about 4.5 million U.S. citizens under the age of 18 have at least one parent who is an unauthorized resident. CBO also estimates that about 400,000 additional children will be born to parents who will receive deferred action over the next 10 years.

Probability of Deferred Action Under a Different Administration

Because the deferred action programs were created by administrative action and not by a new law, there is substantial uncertainty as to whether future Presidents will continue the programs. To account for that uncertainty, CBO's baseline incorporates a 50 percent chance that the programs will be continued after 2017 and a 50 percent chance that they will be discontinued after that date. As a result, CBO's estimate of the effects of eliminating those programs under H.R. 240 is also probabilistic, placing 50 percent weight on the possibility that the programs will be continued after 2017 under current law—and thus, that H.R. 240 would reverse their budgetary effects after that date—and 50 percent weight on the possibility that the programs will already have been stopped after 2017 by administrative action.

Effects of Sections 579 and 580 of the Legislation on Revenues

Sections 579 and 580 of H.R. 240 would affect tax revenues in a number of ways, some of which would decrease receipts and some of which would increase them. After accounting for both sets of effects, JCT estimates that enacting the legislation would reduce tax revenues by $22.3 billion over the

2015-2025 period. Over that period, JCT estimates that off-budget receipts (Social Security payroll taxes) would decrease by $17.1 billion, and that on-budget receipts would decrease by $5.2 billion.

JCT expects that the largest effect of sections 579 and 580 would be decreased reporting of employment income by people who would be legally allowed to work because of the deferred action programs under current law but would not be legally allowed to work under the act. Moreover, JCT expects that wages for affected workers would decrease relative to their wages under current law as a result of their losing legal status under the act. That decrease in reported wages would cause decreases in receipts, most of which would be from Social Security taxes, which are categorized as off-budget.

Decreased reporting of employment income also would result in decreases in tax deductions by businesses for their labor compensation, including employers' contributions for payroll taxes. As a result, corporations would report higher taxable profits and pay more in income taxes. Non-corporate businesses, such as partnerships and sole proprietorships, also would report higher taxable income, which would increase individual income taxes paid by the partners and owners.

Effects of Sections 579 and 580 of the Legislation on Direct Spending
Under H.R. 240, participation in several federal programs and tax provisions would decline because some people would no longer be eligible to participate or because they would choose not to participate (or choose not to have their children participate) for fear of revealing their unlawful presence. Taking into account the effect on a number of programs, CBO and JCT expect that direct spending would be reduced under the legislation by $14.9 billion over the 2015-2025 period.

Earned Income and Child Tax Credits. JCT estimates that H.R. 240 would decrease outlays for the earned income and child tax credits by $10.2 billion over the 2015–2025 period. The earned income tax credit and the child tax credit are refundable tax credits. Refundable tax credits reduce a taxpayer's overall income tax liability; if the credits exceed the other liability, the excess may be refunded to the taxpayer. Those refunds are classified as outlays in the federal budget.

JCT estimates that the bulk of the decrease in outlays for refundable credits projected for the 2015–2025 period would be attributable to decreases in earned income tax credits. H.R. 240 would decrease the amount of earned income tax credits by decreasing the number of people with Social Security numbers, which are required for taxpayers and dependents to qualify for earned income tax credits.

Social Security and Medicare. To collect Social Security and Medicare benefits while in the United States, an individual must be lawfully present. Individuals approved for deferred action are considered lawfully present in the United States. Under the bill those individuals would no longer be lawfully present and would be ineligible to receive such benefits. Over the 2015-2025 period relatively few of the people affected by the act would have reached the eligibility ages for Social Security old-age benefits or for Medicare benefits associated with age. However, some of the affected people would have become eligible for Social Security disability benefits and for Medicare based on that disability status. CBO estimates that enacting sections 579 and 580 would reduce spending for Social Security by $0.8 billion and for Medicare by $0.3 billion over the 2015-2025 period. Spending for Social Security is off-budget.

Other Federal Benefits. The Administration has issued regulations that make individuals granted deferred action under the initial DACA program ineligible for subsidies for health insurance offered through exchanges under the Affordable Care Act, and it has announced that it will also exclude individuals granted deferred action under the new programs. Although the Administration has not yet published an updated regulation to that effect, CBO and JCT assume for this estimate that all of the people in the deferred action programs will be ineligible for those subsidies. Moreover, individuals approved for deferred action are generally ineligible for other federal benefit programs and the legislation would not affect their eligibility for those other programs.

However, many of the people who would be affected by the legislation have children who are natural-born U.S. citizens. Those children, like other citizens, are eligible for federal benefits if they meet the relevant eligibility criteria for particular programs. CBO expects that once their parents have been granted lawful presence under current law, they will apply for benefits on their children's behalf, so their children's participation in various programs will gradually increase for about five years before stabilizing at a higher rate. If sections 579 and 580 of H.R. 240 were enacted, CBO expects that many of those parents would opt not to apply for such benefits because they would fear revealing their own unlawful presence. Therefore, federal spending for certain benefits would be lower:

- **Health Care Benefits.** CBO estimates that under the bill the parents of about 60,000 children per year, on average, would choose not to enroll them in Medicaid or receive subsidies for health insurance purchased through an exchange, at an average savings of about $1,600 per person in 2015 and rising to about $2,600 in 2025. Thus, CBO and JCT estimate that federal spending for Medicaid and the subsidies for insurance obtained through an exchange would be about $1.5 billion lower over the 2015-2025 period.

- **Supplemental Security Income (SSI).** CBO estimates that under the bill the parents of about 15,000 children with disabilities would choose not to enroll them in SSI, which provides monthly cash payments to individuals with disabilities and low family income. The average benefit for SSI over the period will rise from about $8,000 to about $10,000 in 2025. Thus, CBO estimates that federal spending for SSI would be about $1.1 billion lower over the 2015-2025 period.

- **Supplemental Nutrition Assistance Program (SNAP).** CBO estimates that the parents of about 40,000 children, on average, would choose not to enroll those children in SNAP, which provides monthly food assistance benefits to low-income households. CBO estimates that the average per-person benefit for those children under SNAP will rise from about $1,600 per year in 2015 to about $2,100 per year in 2025. Thus, CBO estimates that spending for SNAP would be about $0.8 billion lower over the 2015-2025 period.

- **Higher Education Benefits.** CBO estimates that under the bill, by 2025, about 15,000 students per academic year would choose not to receive Pell grants. The average award level they would forego would be about $3,800. (The bulk of that grant amount, about $3,100, will be supported with discretionary funds, and that effect is not included in this estimate.) Additionally, about 5,000 students per academic year would no longer receive federal student loans by 2025, CBO projects. Thus, CBO estimates that federal direct spending for assistance for higher education would be about $0.1 billion lower over the 2015-2025 period, with most of that difference resulting from a reduction in newly awarded Pell grants.

Fees for Deferred Action Applications. DHS collects fees to process new applications and renewals for the deferred action programs. Collections from those fees are classified as offsetting receipts (that is, offsets to outlays) and are available for spending by DHS without further appropriation action. Enacting sections 579 and 580 would prohibit new applications and renewals for those programs. Thus, CBO estimates that fee collections and associated spending would decrease by about $2.5 billion over the 2015–2025 period. Because of the lag between collecting and spending fees, CBO estimates that the decrease in collections would exceed the decrease in spending over that period by $26 million.

Net Effect on the Deficit

Under H.R. 240, as passed by the House, both revenues and direct spending would be lower than under current law. However, the drop in revenues would be greater than the drop in direct spending. Deficits for the unified budget would increase by $7.5 billion over the 2015-2025 period, as compared to projected deficits under current law. As the majority of the forgone revenue would be for Social Security payroll taxes, enacting sections 579 and 580 would increase the off-budget deficit by about $16.3 billion over that same period. In contrast, the on-budget deficit would improve by $8.8 billion over the 2015-2025 period.

If you wish further details about this analysis, we will be pleased to provide them. The CBO staff contacts are Sam Papenfuss and Melissa Merrell.

Sincerely,

Douglas W. Elmendorf

Douglas W. Elmendorf
Director

Enclosure

cc: Honorable Barbara A. Mikulski
Ranking Member

Identical letter sent to the Honorable Hal Rogers, Chairman, House Committee on Appropriations.

January 29, 2015

Estimated Budgetary Effects of Sections 579 and 580 of H.R. 240, the Department of Homeland Security Appropriations Act, 2015, as passed by the House of Representatives on January 14, 2015 [1]

(by fiscal year, in millions of dollars)

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2015 - 2020	2015 - 2025
CHANGES IN REVENUES													
Social Security Taxes (off-budget)	-256	-1,205	-2,264	-2,244	-1,811	-1,632	-1,600	-1,569	-1,509	-1,483	-1,516	-9,412	-17,091
Other Taxes	-116	-475	-733	-657	-517	-478	-472	-461	-441	-438	-451	-2,976	-5,242
Total Revenues	**-372**	**-1,680**	**-2,997**	**-2,901**	**-2,328**	**-2,110**	**-2,072**	**-2,030**	**-1,950**	**-1,921**	**-1,967**	**-12,388**	**-22,333**
On-budget	*-116*	*-475*	*-733*	*-657*	*-517*	*-478*	*-472*	*-461*	*-441*	*-438*	*-451*	*-2,976*	*-5,242*
Off-budget	*-256*	*-1,205*	*-2,264*	*-2,244*	*-1,811*	*-1,632*	*-1,600*	*-1,569*	*-1,509*	*-1,483*	*-1,516*	*-9,412*	*-17,091*
CHANGES IN DIRECT SPENDING													
Earned Income and Child Tax Credits													
Estimated Budget Authority	0	-459	-1,582	-1,719	-1,206	-948	-902	-894	-873	-836	-829	-5,914	-10,249
Estimated Outlays	0	-459	-1,582	-1,719	-1,206	-948	-902	-894	-873	-836	-829	-5,914	-10,249
Social Security (off-budget) [2]													
Estimated Budget Authority	*	-15	-15	-20	-35	-50	-70	-95	-130	-165	-220	-135	-815
Estimated Outlays	*	-15	-15	-20	-35	-50	-70	-95	-130	-165	-220	-135	-815
Medicare													
Estimated Budget Authority	*	*	*	*	-5	-15	-30	-40	-55	-80	-105	-20	-330
Estimated Outlays	*	*	*	*	-5	-15	-30	-40	-55	-80	-105	-20	-330
Health Care [3]													
Estimated Budget Authority	-5	-55	-90	-130	-175	-175	-175	-175	-175	-175	-170	-630	-1,500
Estimated Outlays	-5	-55	-90	-130	-175	-175	-175	-175	-175	-175	-170	-630	-1,500
Supplemental Security Income													
Estimated Budget Authority	-5	-45	-70	-90	-125	-125	-125	-135	-125	-115	-120	-460	-1,080
Estimated Outlays	-5	-45	-70	-90	-125	-125	-125	-135	-125	-115	-120	-460	-1,080
Supplemental Nutrition Assistance Program													
Estimated Budget Authority	-1	-30	-55	-80	-100	-95	-95	-95	-90	-85	-85	-361	-811
Estimated Outlays	-1	-30	-55	-80	-100	-95	-95	-95	-90	-85	-85	-361	-811
Education [4]													
Estimated Budget Authority	0	-2	-4	-6	-7	-8	-9	-10	-11	-12	-12	-27	-81
Estimated Outlays	0	-1	-2	-4	-6	-8	-9	-9	-10	-11	-12	-21	-72
Deferred Action Fees [5]													
Estimated Budget Authority	0	0	0	0	0	0	0	0	0	0	0	0	0
Estimated Outlays	62	70	-113	20	-4	11	-8	-8	8	-4	-8	46	26
Total Changes in Direct Spending													
Estimated Budget Authority	**-11**	**-606**	**-1,816**	**-2,045**	**-1,653**	**-1,416**	**-1,406**	**-1,444**	**-1,459**	**-1,468**	**-1,541**	**-7,547**	**-14,866**
Estimated Outlays	**51**	**-535**	**-1,927**	**-2,023**	**-1,656**	**-1,405**	**-1,414**	**-1,451**	**-1,450**	**-1,471**	**-1,549**	**-7,541**	**-14,857**
On-budget budget authority	*-11*	*-591*	*-1,801*	*-2,025*	*-1,618*	*-1,366*	*-1,336*	*-1,349*	*-1,329*	*-1,303*	*-1,321*	*-7,412*	*-14,051*
On-budget outlays	*51*	*-520*	*-1,912*	*-2,003*	*-1,621*	*-1,355*	*-1,344*	*-1,356*	*-1,320*	*-1,306*	*-1,329*	*-7,406*	*-14,042*
Off-budget budget authority	*	*-15*	*-15*	*-20*	*-35*	*-50*	*-70*	*-95*	*-130*	*-165*	*-220*	*-135*	*-815*
Off-budget outlays	*	*-15*	*-15*	*-20*	*-35*	*-50*	*-70*	*-95*	*-130*	*-165*	*-220*	*-135*	*-815*
NET INCREASE OR DECREASE (-) IN DEFICITS													
Increase or Decrease (-) in the Deficit	**423**	**1,145**	**1,070**	**878**	**672**	**705**	**658**	**579**	**500**	**450**	**418**	**4,847**	**7,476**
On-budget	*167*	*-45*	*-1,179*	*-1,346*	*-1,104*	*-877*	*-872*	*-895*	*-879*	*-868*	*-878*	*-4,430*	*-8,800*
Off-budget	*256*	*1,190*	*2,249*	*2,224*	*1,776*	*1,582*	*1,530*	*1,474*	*1,379*	*1,318*	*1,296*	*9,277*	*16,276*

Sources: Congressional Budget Office and the staff of the Joint Committee on Taxation.

Notes: Components may not sum to totals because of rounding; Estimates relative to CBO's January baseline; * = between -$500,000 and $0.

1. CBO has not estimated the budgetary effects that enacting sections 579 and 580 might have on future spending subject to appropriation.
2. Includes both Old Age and Survivors Insurance Program and the Disability Insurance Program.
3. Includes outlays for Medicaid and for subsidies for health insurance purchased through an exchange.
4. Includes student loans and mandatory outlays for Pell grants. Does not include the discretionary component for Pell grants.
5. Fees collected and spent by the Department of Homeland Security for processing deferred action applications and renewals.