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

Keith Hall, Director

November 17, 2017

Honorable Ron Wyden
Ranking Member
Committee on Finance
United States Senate
Washington, DC 20510

Re: Distributional Effects of Changes in Spending Under the Tax Cuts and Jobs Act as of November 15, 2017

Dear Senator:

This week, the Joint Committee on Taxation (JCT) published an analysis of the distributional effects of the Tax Cuts and Jobs Act, which was under consideration by the Senate Finance Committee.[1] That analysis examined most of the effects of the proposal on revenues and on the portion of refundable tax credits recorded as outlays—including effects on premium tax credits stemming from eliminating the penalty associated with the requirement that most people obtain health insurance coverage. However, other spending related to eliminating that penalty was not included.

As you requested, the Congressional Budget Office and JCT's staff have analyzed the distributional effects of those changes in spending using income categories consistent with JCT's analysis. In calendar year 2021, for example, those excluded amounts would total about $19 billion:

- $18 billion less spending for Medicaid,
- $4 billion less spending for cost-sharing reduction (CSR) payments,
- $1 billion less spending for the Basic Health Program (BHP), and
- $4 billion more spending for Medicare because of changes in payments to hospitals that serve a disproportionate share of low-income patients.

[1] Joint Committee on Taxation, *Distribution Effects of the Chairman's Modification of the Chairman's Mark of the "Tax Cuts and Jobs Act," Scheduled for Markup by the Committee on Finance on November 15, 2017*, JCX-58R-17 (November 17, 2017), www.jct.gov/publications.html?func=startdown&id=5042. See also Joint Committee on Taxation, *Revenue Effects of the Chairman's Modification of the Chairman's Mark of the "Tax Cuts and Jobs Act," Scheduled for Markup by the Committee on Finance on November 15, 2017*, JCX-57-17 (November 14, 2017), www.jct.gov/publications.html?func=startdown&id=5038.

What Are the Distributional Effects of the Proposal?
On average, federal spending allocated to people in tax-filing units with income less than $50,000 per year would be lower under the proposal than under CBO's baseline projections throughout the next decade (see the attached table). That outcome would stem largely from the reduction in Medicaid spending allocated to them. The increase in spending allocated to higher-income people results from the allocation to them of part of the change in Medicare spending.

How Did CBO Allocate Spending to Income Groups?
CBO allocated federal spending for Medicaid, CSR payments, and BHP to tax-filing units on the basis of the number of people in a unit who were projected to be enrolled in a program and the average cost per enrollee.[2] Factors that affect the average cost per enrollee include age, income, disability status, and whether the enrollee is made eligible for Medicaid by the Affordable Care Act.

CBO allocated Medicare spending for hospitals serving low-income patients using the methods that the agency has previously used to allocate spending on goods and services that were not linked to specific beneficiaries.[3] Because no agreed-upon method exists for distributing such spending, CBO allocated it using a combination of two methods: Half was allocated in proportion to each tax-filing unit's share of the population (that is, with spending divided equally among everyone in the United States), and half was allocated in proportion to each tax-filing unit's share of total income.

The amounts allocated to tax-filing units represent the cost to the government of the spending. CBO did not attempt to estimate the value that people place on that spending, which may be different from the actual cost to the government of providing the benefits. For instance, people who would enroll in health insurance under current law to avoid paying a penalty for not having it and who would choose not to have insurance under the proposal would probably value the benefits less than their average cost. CBO also did not attempt to make any distributional allocations for people who would choose to obtain unsubsidized health insurance in the nongroup market and face higher premiums there compared with what would occur otherwise. (Under the proposal, premiums would be higher because some healthy people would choose not to have insurance.)

The average amounts that CBO allocated do not reflect the actual cost of providing health care to any particular person. Furthermore, CBO allocated all federal spending on health care transfers to enrollees in the programs even though

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[2] CBO has used that method of allocating the average cost since 2012. For a discussion of the method, see Congressional Budget Office, *The Distribution of Household Income and Federal Taxes, 2008 and 2009* (July 2012), www.cbo.gov/publication/43373.

[3] For a discussion of those methods, see Congressional Budget Office, *The Distribution of Federal Spending and Taxes in 2006* (November 2013), www.cbo.gov/publication/44698.

health care providers also benefit from that spending. That approach is analogous to the standard practice in analyzing tax expenditures. For example, most analysts allocate the revenue effects of repealing itemized deductions for medical expenses to the people projected to claim those deductions, rather than allocating some to the providers of their health care.

If you wish further details on this estimate, we will be pleased to provide them. The CBO staff contact is John McClelland.

Sincerely,

Keith Hall
Director

Enclosure

cc: Honorable Orrin Hatch
Chairman

Distribution of Changes in Federal Spending Under the Proposal, Excluding the Outlay Portion of Refundable Credits

Millions of dollars

Income Category	2019	2021	2023	2025	2027
Less than $10,000	-$1,930	-$5,960	-$7,260	-$8,460	-$9,720
$10,000 to $20,000	-$1,940	-$6,210	-$7,660	-$8,450	-$9,790
$20,000 to $30,000	-$1,890	-$5,970	-$7,020	-$8,430	-$8,720
$30,000 to $40,000	-$650	-$2,270	-$2,690	-$2,720	-$2,970
$40,000 to $50,000	-$280	-$940	-$890	-$1,090	-$1,180
$50,000 to $75,000	*	-$80	-$30	$70	$60
$75,000 to $100,000	$140	$430	$530	$620	$710
$100,000 to $200,000	$320	$1,010	$1,240	$1,420	$1,660
$200,000 to $500,000	$160	$510	$610	$710	$820
$500,000 to $1,000,000	$40	$130	$160	$180	$210
$1,000,000 and over	$90	$280	$330	$380	$440
Total, All Taxpayers	**-$5,950**	**-$19,080**	**-$22,670**	**-$25,780**	**-$28,490**

Source: Congressional Budget Office.

The proposal is the Chairman's modification of the Chairman's mark of the Tax Cuts and Jobs Act, before its consideration by the Senate Finance Committee on November 15, 2017.

Amounts are for calendar years and include outlay effects for Medicaid, cost-sharing reductions, the Basic Health Program, and payments to hospitals that treat a disproportionate share of uninsured or low-income patients. Estimates are relative to CBO's summer 2017 baseline.

Income categories are consistent with those used by the staff of the Joint Committee on Taxation in distributional analyses.

Components do not add up to totals because of rounding.

Positive numbers indicate a change in spending that would increase the deficit, and negative numbers indicate a change that would decrease the deficit.

* = between zero and -$0.5 million.