



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

Keith Hall, Director

November 27, 2017

Honorable Orrin Hatch
Chairman
Committee on Finance
United States Senate
Washington, DC 20510

Re: Distributional Analysis of the Tax Cuts and Jobs Act, as Ordered Reported by the Senate Committee on Finance on November 16, 2017, Excluding the Effects of Eliminating the Individual Mandate Penalty

Dear Mr. Chairman:

This letter responds to the request from your staff to provide a distributional analysis of the Tax Cuts and Jobs Act that excludes the effects of eliminating the individual mandate penalty associated with the requirement that most people obtain health insurance coverage.

On the basis of estimates prepared by the staff of the Joint Committee on Taxation (JCT) for that analysis, the Congressional Budget Office reports that the combined effect of the change in net federal revenues and spending would be to increase deficits allocated to all income groups of tax-filing units in 2019, 2021, 2023, and 2025 (see the enclosed table). In 2027, that combined effect would decrease deficits allocated to lower-income tax-filing units and increase deficits allocated to higher-income tax-filing units. In reporting those estimates, CBO has not attempted to estimate the value that people place on changes in revenues and spending, which may be different from the actual cost to the government.

Compared with the analysis that CBO provided yesterday, excluding the effects of the individual mandate penalty removes from this distributional analysis the effects on revenues and outlays related to premium tax credits as well as changes in spending for Medicaid, cost-sharing reduction payments, the Basic Health Program, and Medicare.¹

¹ For yesterday's analysis, see Congressional Budget Office, cost estimate for Reconciliation Recommendations of the Senate Committee on Finance, as ordered reported by the Senate Committee on Finance on November 16, 2017 (November 26, 2017), www.cbo.gov/publication/53348.

JCT has estimated that federal budget deficits would be reduced by about \$318 billion by eliminating the penalty associated with the individual mandate. Those effects would occur mainly because fewer people would be enrolled in Medicaid and nongroup health insurance: Healthier people would be less likely to obtain insurance; especially in the nongroup market, the resulting increases in premiums would cause more people to not purchase insurance. Lower enrollment would reduce federal costs for premium tax credits, Medicaid, cost-sharing reduction payments, and the Basic Health Program and would increase Medicare spending. Without the effects of the individual mandate penalty, none of those changes would occur.

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

Sincerely,

A handwritten signature in black ink, appearing to read "Keith Hall". The signature is fluid and cursive, with the first name "Keith" being more prominent than the last name "Hall".

Keith Hall
Director

Enclosure

cc: Honorable Ron Wyden
Ranking Member
Committee on Finance

Allocation of Changes in Net Federal Revenues and Spending Under the Tax Cuts and Jobs Act, Excluding the Effects of Eliminating the Individual Mandate Penalty

Millions of Dollars

Income Category	2019	2021	2023	2025	2027
Less than \$10,000	-\$418	-\$301	-\$94	-\$116	\$44
\$10,000 to \$20,000	-\$1,584	-\$1,222	-\$774	-\$920	\$1,136
\$20,000 to \$30,000	-\$2,577	-\$2,493	-\$2,340	-\$2,528	\$1,148
\$30,000 to \$40,000	-\$4,264	-\$4,161	-\$3,769	-\$3,896	\$583
\$40,000 to \$50,000	-\$6,055	-\$6,291	-\$5,815	-\$6,168	\$287
\$50,000 to \$75,000	-\$21,804	-\$21,973	-\$19,770	-\$20,547	\$233
\$75,000 to \$100,000	-\$20,898	-\$21,017	-\$18,197	-\$19,025	-\$867
\$100,000 to \$200,000	-\$63,030	-\$63,016	-\$51,538	-\$54,165	-\$3,854
\$200,000 to \$500,000	-\$59,172	-\$59,557	-\$49,357	-\$53,794	-\$4,336
\$500,000 to \$1,000,000	-\$24,809	-\$23,961	-\$18,532	-\$19,832	-\$1,743
\$1,000,000 and over	-\$33,974	-\$28,413	-\$12,777	-\$15,432	-\$5,356
Total, All Taxpayers	-\$238,585	-\$232,406	-\$182,928	-\$196,426	-\$12,699

Source: Staff of the Joint Committee on Taxation.

The Tax Cuts and Jobs Act analyzed here is the reconciliation recommendations as ordered reported by the Senate Committee on Finance on November 16, 2017.

Amounts are for calendar years and exclude effects of several provisions in addition to the elimination of the individual mandate penalty, such as doubling the exemption allowed under estate and gift taxes.

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

Components may not add up to totals because of rounding.

Increases in federal deficits stemming from decreases in taxes are shown as negative values.