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

Phillip L. Swagel, Director

August 11, 2025

Honorable Brendan F. Boyle
Ranking Member
Committee on the Budget
U.S. House of Representatives
Washington, DC 20515

Honorable Hakeem Jeffries
Democratic Leader
U.S. House of Representatives
Washington, DC 20515

Honorable Jeff Merkley
Ranking Member
Committee on the Budget
United States Senate
Washington, DC 20510

Honorable Chuck Schumer
Democratic Leader
United States Senate
Washington, DC 20510

Re: Distributional Effects of Public Law 119-21

Dear Ranking Member Boyle, Leader Jeffries, Ranking Member Merkley, and Leader Schumer:

This letter responds to your request for an analysis of the distributional effects of Public Law 119-21, an act to provide for reconciliation pursuant to title II of H. Con. Res. 14, relative to the Congressional Budget Office's January 2025 baseline projections. It builds on analysis provided in the agency's letter dated June 12, 2025.[1]

[1] Congressional Budget Office, letter to the Honorable Brendan F. Boyle and the Honorable Hakeem Jeffries regarding the distributional effects of H.R. 1, the One Big Beautiful Bill Act (June 12, 2025), www.cbo.gov/publication/61387.

CBO and the staff of the Joint Committee on Taxation (JCT) recently estimated the budgetary effects of P.L. 119-21.[2] On the basis of those estimates, CBO allocated the effects on revenues and spending to households. The agency also allocated to households the estimated effects of states' responses to changes to health programs—primarily Medicaid—and the Supplemental Nutrition Assistance Program (SNAP).[3]

In CBO's January 2025 baseline projections, households at the top of the income distribution receive significantly more income than households at the bottom. That pattern is consistent with recent history. Both means-tested transfers and federal taxes are progressive—that is, low-income households receive a larger share of their income as means-tested transfers than high-income households do, and high-income households pay a larger share of their income in federal taxes than low-income households do. (Means-tested transfers are cash payments or in-kind benefits from federal, state, or local governments that are typically designed to help individuals and families who meet a test of need on the basis of income and assets.) Because of that progressivity, income after transfers and taxes is less skewed toward households at the top of the distribution than income before transfers and taxes.

CBO estimates that as result of P.L. 119-21, U.S. households, on average, will see an increase in the resources available to them over the 2026–2034 period. The changes in resources will not be evenly distributed among households. The agency estimates that, in general, resources will decrease for households toward the bottom of the income distribution, whereas resources will increase for households in the middle and toward the top of the income distribution.

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[2] Congressional Budget Office, estimated budgetary effects of P.L. 119-21, to provide for reconciliation pursuant to title II of H. Con. Res. 14, relative to CBO's January 2025 baseline (July 21, 2025), www.cbo.gov/publication/61570; and Joint Committee on Taxation, *Estimated Revenue Effects Relative to the Present Law Baseline of the Tax Provisions in "Title VII – Finance" of the Substitute Legislation as Passed by the Senate to Provide for Reconciliation of the Fiscal Year 2025 Budget*, JCX-35-25 (July 1, 2025), www.jct.gov/publications/2025/jcx-35-25/. For more information about the budget reconciliation process and the cost estimates of the legislation, see Congressional Budget Office, "Reconciliation" (accessed August 1, 2025), www.cbo.gov/topics/budget/reconciliation.

[3] For more information about how CBO incorporates states' responses into its estimates of certain changes to Medicaid, see Congressional Budget Office, letter to the Honorable Ron Wyden and the Honorable Frank Pallone, Jr. providing estimates for Medicaid policy options and state responses (May 7, 2025), www.cbo.gov/publication/61377.

The distributional analysis of changes to taxes and tax-related outlays is based on analysis done by JCT. That analysis includes most, but not all, provisions of P.L. 119-21. Therefore, the analysis in this letter excludes any tax provisions not allocated in JCT's distributional analysis of the law.[4] Also, CBO's analysis does not reflect the effects of the additional debt-service costs or the macroeconomic effects of the law.

CBO estimates that the budgetary effects of the legislation will affect household resources through four channels over the 2026–2034 period:

- **Federal taxes and cash transfers** will increase household resources by $3.3 trillion, on net (in 2025 dollars). In particular, changes to federal tax provisions, especially extensions of provisions of the 2017 tax act and limitations on eligibility for subsidies for health insurance under the Affordable Care Act, will affect household resources. Changes to student loan programs will also affect those resources.

- **Federal and state in-kind transfers** will decrease household resources by $900 billion, on net, primarily because federal spending on benefits provided through Medicaid and SNAP will be lower. Changes to program benefits that states make in response to changes in federal policy will also reduce household resources.

- **States' fiscal responses** will increase household resources by $11 billion, on net. Those responses consist of the tax and spending changes implemented by states in response to changes to their fiscal position. In CBO's assessment, Medicaid eligibility changes under the legislation will reduce states' spending on Medicaid benefits.[5] Those decreases will be largely offset by the new matching requirements for SNAP, which will increase states' spending. In CBO's analysis, states, in the aggregate, will use the resulting overall

[4] Joint Committee on Taxation, *Distribution of the Estimated Revenue Effects Relative to the Present Law Baseline of the Tax Provisions in Public Law 119-21*, JCX-37-25 (July 29, 2025), www.jct.gov/publications/2025/jcx-37-25/. The largest provisions excluded from JCT's analysis are the permanent extension of increased estate and gift tax exemptions (representing a revenue decrease of about $210 billion over the 2026–2034 period); the termination of credits for commercial and consumer clean vehicles (representing a deficit decrease of about $190 billion); and the elimination of taxes on car loan interest (representing a revenue decrease of about $30 billion).

[5] Rather than modeling separate responses for each state, CBO estimated states' fiscal responses in the aggregate, accounting for a range of possible outcomes.

reduction in benefit spending to increase spending in other areas and to reduce taxes, both of which will increase household resources.

- **Other spending and revenues** will increase household resources by $308 billion, on net. The spending and revenues in this category were allocated as if they were public goods. This category includes federal spending on defense, border security, and infrastructure. Those outlays are partially offset by receipts and outlays associated with spectrum auctions and changes to emissions regulations.[6]

Estimated Effects

CBO estimates that, on average, household resources will increase over the 2026–2034 period, mainly because of reductions in how much households owe in federal taxes. The effects on household resources will vary by channel and across the income distribution.

Resources for households in the lowest decile (tenth) of the income distribution will decrease by about $1,200 per year (in 2025 dollars), on average, compared with their projected income in CBO's January baseline projections (see Figure 1).[7] That amounts to 3.1 percent of their income (see Figure 2). Those projected decreases are mainly attributable to reductions in in-kind transfers, such as Medicaid and SNAP. After those decreases, households in the lowest decile will receive about $6,000 in transfers, net of federal taxes paid, each year of the projection period.

Households in the fifth and sixth deciles (that is, in the middle of the income distribution) will see their resources increase by $800 (or 0.8 percent of projected income) and $1,200 (or 1.0 percent of projected income), respectively.

Resources will increase, on average, over the projection period by about $13,600 annually for households in the highest decile, amounting to 2.7 percent of their projected income. Those projected increases are mainly

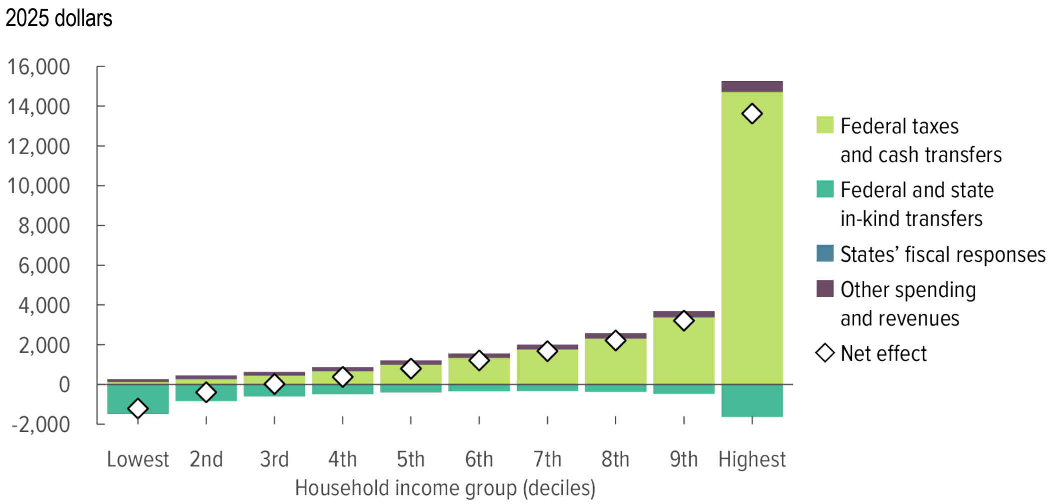
[6] Spectrum auctions are auctions, administered by the Federal Communications Commission, of licenses and permits for the commercial use of the electromagnetic spectrum.

[7] The deciles are constructed by ranking households on the basis of income after transfers and taxes, adjusted for household size. For details about how CBO produces those deciles, as well as the data the agency uses and how it produces an income distribution for future years, see Bilal Habib and Rebecca Heller, *Current Work on the Distributional Analysis of Household Income Resulting From Policy Changes*, Working Paper 2022-09 (Congressional Budget Office, December 2022), www.cbo.gov/publication/58508. Amounts are expressed in 2025 dollars, adjusted using the price index for personal consumption expenditures.

attributable to reductions in the taxes households in that decile owe. After the increases, the federal taxes paid by households in that group, net of transfers, will be about $190,000 per year.

Figure 1.

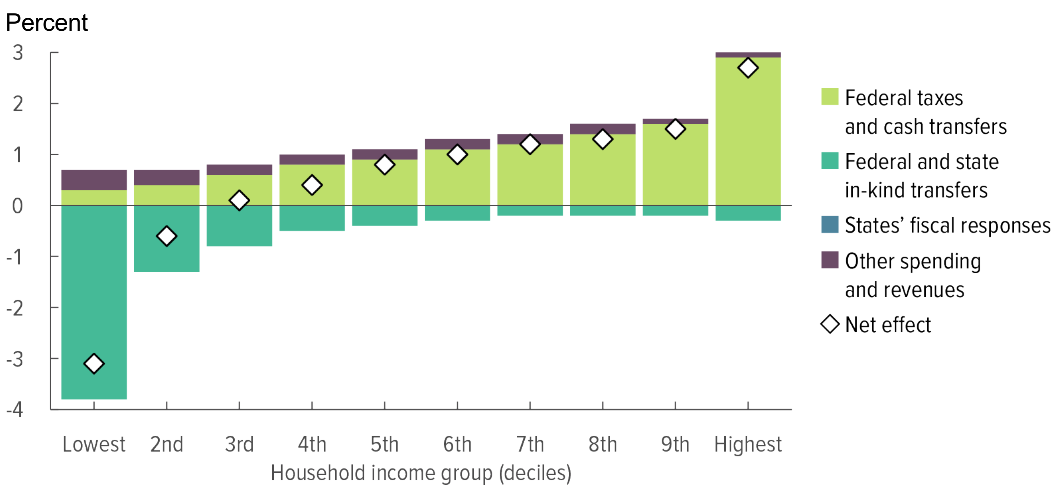
Average Annual Change in Resources per Household Relative to CBO's January 2025 Baseline, 2026 to 2034



Data sources: Congressional Budget Office; staff of the Joint Committee on Taxation. See www.cbo.gov/publication/61367#data.

Figure 2.

Average Annual Change in Household Resources as a Percentage of Income in CBO's January 2025 Baseline, After Transfers and Taxes, 2026 to 2034



Data sources: Congressional Budget Office; staff of the Joint Committee on Taxation. See www.cbo.gov/publication/61367#data.

Those estimates reflect the average distributional effects over the 2026–2034 period. The distributional effects will vary throughout that period as different components of the legislation are phased in and out.

CBO's analysis combined the four channels (described above) through which household resources will be affected. Each channel was allocated to households in different ways and will affect households differently. For example, both reductions in taxes and increases in border security spending will have a positive effect on household resources in this analysis, but the ways in which households will benefit from them differ.

Basis of the Estimates

For this analysis, changes in taxes were based on JCT's estimates. Changes to Medicaid were allocated in part to program participants because they will be affected by program changes, such as those to eligibility rules.[8] Changes were also partially allocated to healthcare providers and insurers, whose revenue will be reduced.[9] Changes to SNAP were allocated to program participants.[10] Changes to student loan programs were allocated to

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[8] Changes to Medicaid eligibility will affect low-income households in two main ways: through the changes' effects on able-bodied adults without dependents who would be required to work and through the changes' effects on certain groups of immigrants. For more information about the effects of the act on health insurance coverage, see Congressional Budget Office, CBO's estimate of annual changes in the number of people without health insurance under title VII, Public Law 119-21 (supplemental data, August 11, 2025), www.cbo.gov/publication/61367#data.

[9] CBO's allocation of changes in Medicaid spending corresponds to the effects of different provisions on quantities of care and reimbursements to providers, accounting for changes in uncompensated care. Reductions in beneficiaries' resources account for 47 percent of the changes, CBO estimates. The remaining 53 percent of the changes are accounted for by reductions in the resources of people owning and working for health care providers and insurers. (About 71 percent of those reductions were allocated to labor income and 29 percent to capital income on the basis of the income shares in those sectors.) For more information, see Pengju Zhang and Ling Zhu, "Does the ACA Medicaid Expansion Affect Hospitals' Financial Performance?" *Public Finance Review*, vol. 49, no. 6 (November 2021), pp. 779–814, https://doi.org/10.1177/10911421211064676; Amy Finkelstein, Nathaniel Hendren, and Erzo F. P. Luttmer, "The Value of Medicaid: Interpreting Results From the Oregon Health Insurance Experiment," *Journal of Political Economy*, vol. 127, no. 6 (December 2019), pp. 2836–2874, https://doi.org/10.1086/702238; and Craig Garthwaite, Tal Gross, and Matthew J. Notowidigdo, "Hospitals as Insurers of Last Resort," *American Economic Journal: Applied Economics,* vol. 10, no. 1 (January 2018), pp. 1–39, https://dx.doi.org/10.1257/app.20150581.

[10] For more information, see Congressional Budget Office, estimated effects of Public Law 119-21 on participation and benefits under the Supplemental Nutrition Assistance Program (supplemental information, August 11, 2025), www.cbo.gov/publication/61367#data.

borrowers on the basis of their current income, although student loan policy is typically made with a view toward students' income over their lifetime.[11]

The distributional estimates also reflect the effects of states' responses to federal policy. CBO accounted for state spending on Medicaid and SNAP stemming from P.L. 119-21 as well as for changes in taxes and other spending implemented by states in response to the effects of the law on their budgets.[12]

All other changes were allocated as if they were public goods—that is, they were allocated equally in proportion to each household's share of the population and its share of total income.[13]

The Congressional Budget Act of 1974, as amended, stipulates that revenue estimates provided by JCT are the official estimates for all tax legislation considered by the Congress. Therefore, CBO incorporates those estimates into its cost estimates of the effects of legislation. JCT has also evaluated the distributional effects of the estimated changes in taxes and tax-related outlays. CBO incorporated JCT's estimates in the results reported above.

Additional Information

A supplementary interactive tool is available on CBO's website at www.cbo.gov/publication/61452. It contains more detailed information for

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[11] As required by the Federal Credit Reform Act of 1990, the budgetary effects of the federal student loan program are estimated on a net-present-value basis. (A present value is a single number that expresses a flow of current and future payments or receipts in terms of an equivalent lump sum paid or received at a specific time.) By contrast, the distributional effects of changes to that program are computed on a cash-flow basis—that is, the resources available to households in a given year that are attributable to the policy change. Because of that discrepancy, the total resource cost allocated to households does not match the budgetary effect reported by CBO.

[12] For more details about CBO's estimates of the budgetary effects of changes to the Supplemental Nutrition Assistance Program, see Congressional Budget Office, letter to the Honorable Amy Klobuchar and the Honorable Angie Craig providing information on the potential effects on the Supplemental Nutrition Assistance Program of reconciliation recommendations pursuant to H. Con. Res. 14, as ordered reported by the House Committee on Agriculture on May 12, 2025 (May 22, 2025), www.cbo.gov/publication/61426.

[13] For a discussion about how CBO allocates public goods, see Congressional Budget Office, *The Distribution of Federal Spending and Taxes in 2006* (November 2013), www.cbo.gov/publication/44698. For more information about how CBO allocated the budgetary effects of the legislation to households—and the channels through which those effects are estimated to affect household resources, see Congressional Budget Office, "Allocation of Budgetary Effects of Public Law 119-21, to Provide for Reconciliation Pursuant to Title II of H. Con. Res. 14 as Enacted on July 4, 2025" (supplemental information for the interactive tool "How the 2025 Reconciliation Act (Public Law 119-21) Will Affect the Distribution of Resources Available to Households," August 2025), www.cbo.gov/publication/61452#data.

every year in the projection period and allows users to further explore the distributional effects of P.L. 119-21. Specifically, the tool allows users to select which years within the projection period and which of the four resource channels to include in the analysis. Results are then displayed in the tool's graphs and tables. Users can also set their own parameters for the allocation of other revenues and spending (that is, the extent to which those dollars are allocated according to household size rather than household income).

In addition, two supplemental files provide more information about the law's effects on health insurance coverage and participation in SNAP. They can be found on CBO's website at www.cbo.gov/publication/61367#data.

I hope this information is useful to you. Please contact me if you have further questions.

Sincerely,

Phillip L. Swagel
Director

cc: Honorable Jodey Arrington
Chairman
House Committee on the Budget

Honorable Mike Johnson
Speaker
U.S. House of Representatives

Honorable Lindsey Graham
Chairman
Senate Committee on the Budget

Honorable John Thune
Majority Leader
United States Senate