Health Reform WK-EDGE Wrap Up, TAX TOP STORY: Significant deficit reduction would come from elimination of individual mandate penalty, (Nov. 29, 2017)

Health Reform WK-EDGE Wrap Up
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The reconciliation recommendations of the Senate Committee on Finance, on the Tax Cuts and Jobs Act, which would amend numerous provisions of U.S. tax law, would also permanently repeal, beginning in 2019, the penalties associated with the requirement that most people obtain health insurance coverage (also known as the individual mandate). The Congressional Budget Office (CBO) estimates that the legislation would reduce revenues by about $1,633 billion and decrease outlays by $219 billion over the 2018-2027 period, leading to an increase in the deficit of $1.414 trillion over the next 10 years. The CBO notes that the bill’s most significant effects on outlays would occur as a result of the elimination of the penalties associated with the individual mandate (CBO Reports, November 26, 2017).

Repeal of the individual mandate penalties. The CBO incorporates Joint Committee on Taxation (JCT) estimates into its cost estimates of the effects of legislation. The JCT provided virtually all estimates for the provisions of the bill, but JCT and CBO collaborated on the estimate of the provision that would eliminate the penalties contained in section 1501 of the Patient Protection and Affordable Care Act (ACA) (P.L. 111-148) (26 U.S.C. §50000A) associated with the requirement that most people obtain health insurance coverage.

The CBO and the Joint Committee on Taxation (JCT) estimate that the elimination of the individual mandate would have the following effects:

- federal budget deficits would be reduced by about $318 billion between 2018 and 2027, consisting of estimated reductions in outlays of $298 billion and increases in revenues of $21 billion over the period;
- the number of people with health insurance would decrease by four million in 2019 and 13 million in 2027;
- nongroup insurance markets would continue to be stable in almost all areas of the country throughout the coming decade; and
- average premiums in the nongroup market would increase by about 10 percent in most years of the decade (with no changes in the ages of people purchasing insurance accounted for) relative to CBO’s baseline projections.

According to the CBO, these effects would occur mainly because healthier people would be less likely to obtain insurance and because, especially in the nongroup market, the resulting increases in premiums would cause more people to not purchase insurance. The CBO notes that in this current estimate for the Tax Cuts and Jobs Act, the estimated reduction in the deficit is different from a CBO and JCT estimate published on November 8, 2017, on the repeal of the individual health insurance mandate. The differences exist because this legislation eliminates the penalties associated with the mandate but not the mandate itself and because of interactions with other provisions of the bill.

On November 24, 2017, the JCT published a distributional analysis of the Tax Cuts and Jobs Act (as ordered reported by the Senate Committee on Finance on November 16, 2017) that includes the effects of the bill on revenues and on the portion of refundable tax credits recorded as outlays. That analysis included effects on outlays for premium tax credits (ACA, section 1401 (25 U.S.C. §36B)) 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 in the analysis, specifically changes in spending for Medicaid,
cost-sharing reduction payments, the Basic Health Program, and Medicare (see Senate tax bill cuts Medicaid, CSR, BHP spending; increases it for Medicare, November 20, 2017).

Other bill changes. Effective January 1, 2018, and expiring December 31, 2025, the bill would reduce most income tax rates for individuals and modify the tax brackets for those taxpayers; increase the standard deduction and the child tax credit; and repeal deductions for personal exemptions, certain itemized deductions, and the alternative minimum tax. Also, beginning in 2019, the bill would permanently replace the current top corporate income tax rate of 35 percent, with a single 20 percent rate.