

Fact Sheet
The Impact on Families of the House Budget Reconciliation Package
Joint Economic Committee Democrats
Senator Jack Reed (D-RI)—Ranking Democrat
Representative Carolyn Maloney (D-NY)—Senior House Democrat
November 22, 2005 (updated)

Summary

- The FY 2006 House budget reconciliation plan will increase the federal budget deficit and is unfair in its impact on families.
- The deficit will increase because reconciled spending cuts of \$50 billion are not sufficient to offset reconciled tax cuts of \$56 billion, which could rise to \$70 billion in a future conference agreement.
- The plan is unfair because the spending cuts affect programs that benefit middle- and lower-income families, while the tax cuts go mainly to very high-income people.

Spending Cuts

- Of the \$50 billion in reconciled spending cuts, about \$22 billion are in payments for individuals that can be allocated by family income group (Table 1).
- That \$22 billion is spread relatively evenly across families in all income groups. But because income is so unevenly distributed, the share of spending cuts borne by low-income families is substantially larger than their share of total income (Table 2). For example, families in the bottom fifth of the income distribution receive only about 3 percent of total income, but they bear 22 percent of the total cuts in spending on payments for individuals.
- The remaining reconciled cuts and offsetting receipts do not directly reduce payments for individuals, such as the proceeds from auctioning electromagnetic spectrum licenses. Nevertheless, some of the additional cuts will hurt vulnerable families. For example, the roughly \$5 billion in cuts to child support enforcement efforts will reduce payments to single parents and their children by over \$7 billion.

Tax Cuts

- Of the \$56 billion in tax cuts, \$47 billion are in taxes on individuals and businesses that are allocable by family income group (Table 3).

- By far the largest amount (nearly \$40 billion) of the tax cuts for individuals and businesses that can be allocated by family income group accrue to the richest 20 percent of families (Chart 1).
- Most of the taxes that are not directly allocated in this analysis are other business tax cuts that would also end up benefiting high-income taxpayers.

Net Impact

- The top 20 percent of the income distribution receives benefits from the tax cuts that far offset losses from the spending cuts (Chart 1).
- Middle and lower income families (the bottom 60 percent of all families) lose more from program cuts than they gain from tax cuts.

**Table 1. House Spending Reconciliation Bill
Major Provisions**
(in billions)

Provision	Change in Outlays 2006-2010
Payments for individuals, allocable by income group	
<i>Program cuts</i>	
Student loan programs ^a	-13.8
Medicaid	-8.4
Farm programs	-2.9
Food stamps	-0.7
Supplemental Security Income	-0.7
Child welfare services	<u>-0.6</u>
<i>Program cuts, subtotal</i>	-27.1
<i>Program expansions</i>	
Katrina health care relief	2.6
Other provisions ^b	<u>2.4</u>
<i>Program expansions, subtotal</i>	4.9
<i>Net impact, payments for individuals</i>	-22.2
Other provisions	
Spectrum auction proceeds ^c	-8.7
PBGC premium increases	-6.2
Child support enforcement cuts	-4.9
Medicaid ^d	-3.0
Import duties	-3.2
Other ^e	<u>-1.8</u>
<i>Total, other provisions</i>	-27.9
Total	<u>-50.0</u>

Source: CBO, *Estimated Budgetary Impact of House Reconciliation Recommendations (H.R. 4241)*, and JEC Democratic Staff calculations.

^aExcludes student loan provision reducing guaranty agencies' share of collections.

^bIncludes funding for LIHEAP, TANF, and child care.

^cIncludes offsetting spending for digital transition and public safety.

^dIncludes limits on pharmacy reimbursement and other unallocable provisions.

^eIncludes proceeds from selling federal land, increasing visa fees, and other provisions.

**Table 2. Distributional Impact of House Spending Cuts
in Payments for Individuals**

Share of Spending Cuts and Share of Family Income
by Family Income Group

Income Group (quintile)	Share of Spending Cuts[*] (percent)	Share of Family Income (percent)
Bottom 20 percent	22	3
Second 20 percent	16	8
Middle 20 percent	15	14
Fourth 20 percent	17	23
Top 20 percent	30	52

Source: JEC Democratic Staff calculations using data from CBO and Census Bureau public use files.

*\$22.2 billion of cuts in payments for individuals allocable by income group from Table 1.

Table 3. House Tax Reconciliation Bill
Major Provisions
(in billions)

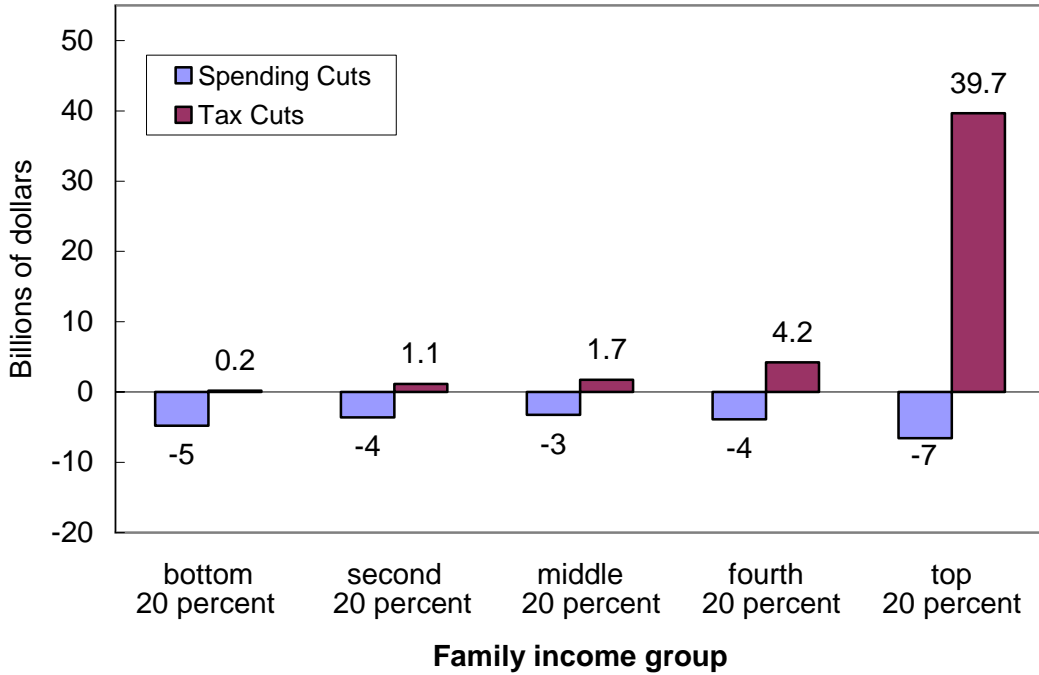
Provision	Change in Revenues 2006-2010
Extension of Certain Expiring Tax Provisions	
<i>Taxes on Individuals Allocated to Family Incomes</i>	
Extend lower tax rates on dividends	-13.3
Extend lower tax rates on capital gains	-7.3
Extend AMT nonrefundable personal credits	-2.8
Extend above-the-line tuition deduction	-1.7
Extend retirement savers credit	-2.8
Extend deduction for state and local sales taxes	<u>-2.1</u>
Total	-30.0
 <i>Taxes on Businesses Allocated to Family Incomes</i>	
Extend increase in small business expensing	-7.3
Extend and modify the research credit	<u>-9.9</u>
Total	-17.1
 <i>Other Extensions and Modifications</i>	 -9.0
 Total	 <hr/> -56.1

Source: JCT, *Estimated Revenue Effects of H.R. 4297, the "Tax Relief Extension Reconciliation Act of 2005,"* JCX-81-05, November 18, 2005.

Chart 1. Impact of House Budget Reconciliation on Families

2006-2010 Spending and Tax Cuts Affecting Families in the FY 2006

House Budget Reconciliation Bills, by Family Income Group



Source: JEC Democratic staff calculations using data from JCT, the Tax Policy Center, CBO, and Census Bureau public use files.