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ONE BIG BEAUTIFUL BILL? A PRELIMINARY ASSESSMENT

William Gale

Benjamin Page

Elena Patel

Joseph Rosenberg

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EXECUTIVE SUMMARY

The “One Big Beautiful Bill Act of 2025” (OBBBA), signed into law July 4, 2025, is a sweeping tax-and-spending package that could reshape federal fiscal policy for decades to come. The Act permanently extends the temporary individual income and estate tax provisions enacted in the Tax Cut and Jobs Act (TCJA) of 2017 and expands several of those provisions. It introduces new targeted temporary deductions for tip income, overtime pay, and senior taxpayers; enacts large business tax cuts, most notably by providing permanent full expensing of many forms of investment; and increases spending on border security and defense. These changes are partially financed by cuts in clean energy incentives and Medicaid, the Affordable Care Act, the Supplemental Nutrition Assistance Program (SNAP), and other programs that serve low-income households.

Despite these cuts, the Act as written will raise federal deficits by between \$3.7 and \$5.1 trillion over the next decade under conventional scoring, with larger costs if temporary provisions are extended. By 2054, the Act will raise the debt-to-gross domestic product (GDP) ratio by 28 percentage points as written, by 45 percentage points if temporary provisions are made permanent, and by higher amounts if higher deficits raise interest rates. For comparison, the fiscal resources spent in the OBBBA would have been sufficient to resolve Social Security’s long-term financing problem.

OBBBA will boost the economy in the short-term, through higher after-tax income, and in the medium term, largely through lower taxes on capital and labor. However, major models project that, over longer periods, the higher deficits that OBBBA creates will reduce national saving and hence reduce future national income, either by pushing up interest rates and crowding out private investment or by increasing indebtedness to foreigners. The result will be a smaller long-run economy than otherwise. Due to weak growth effects, dynamic scores of the Act tend to show higher deficits than conventional scores.

The distributional consequences are stark. Permanent rate cuts and business tax provisions direct the largest benefits to high-income households, while many of the spending cuts fall on low-income and immigrant families. When plausible assumptions about deficit financing are incorporated, a majority of households—and nearly all low-income households—end up worse off. Recent tariff policies, though not part of the OBBBA, amplify the regressive tilt of the overall tax system.

The Act’s scope is unusually broad, with generally negative effects on health coverage, higher education financing, charitable giving, clean energy, and immigration. The temporary, targeted provisions introduce new horizontal equity concerns and add complexity to tax compliance and administration.

Finally, the OBBBA is notable not only for its substance but also for the procedures used to enact it. Senate Republicans relied on a “current policy” baseline that treated extending TCJA provisions scheduled to expire as having zero fiscal cost. This departure from long-standing budget conventions marks a significant change in federal policymaking, and weakens procedural guardrails intended to constrain deficit expansion.

ONE BIG BEAUTIFUL BILL? A PRELIMINARY ASSESSMENT

I. INTRODUCTION

On July 4, 2025, President Donald Trump signed Public Law 119-21, commonly referred to as the “One Big Beautiful Bill Act of 2025” (OBBBA), a sweeping tax-and-spending package that could reshape federal fiscal policy for decades to come. This paper summarizes its major provisions and provides preliminary analysis of its budgetary, economic, and distributional effects.

The largest component of the OBBBA makes permanent the temporary individual income and estate tax provisions enacted in the Tax Cut and Jobs Act (TCJA) of 2017 and expands several of those provisions. The OBBBA also introduces a series of new temporary deductions targeted at specific groups and enacts large business tax cuts, including permanent full expensing of many types of investment. Other key deficit-increasing provisions include increased spending on border security and defense. Deficit-reducing measures include scaling back clean energy incentives and reducing federal support for Medicaid, the Affordable Care Act, Supplemental Nutrition Assistance Program (SNAP), and other programs that serve low-income households.

Despite these spending cuts, the Act increases deficits and debts by unprecedented amounts. Independent estimates show a cost of between \$3.7 and \$5.1 trillion over the next decade under conventional scoring—and significantly more if temporary provisions are assumed to be permanent. The OBBBA as written is projected to raise the debt-to-gross domestic product (GDP) ratio by about 28 percentage points over the next 30 years. If the temporary provisions are extended, the effect rises to 45 percentage points of GDP. If interest rates are allowed to adjust in a manner consistent with recent literature and the temporary provisions are made permanent, the Act will raise the debt-to-GDP ratio by 79 percentage points by 2054. Due to weak long-term growth effects, dynamic scores of the Act tend to show higher deficits than conventional scores. An alternative way to measure the fiscal cost is to note that the resources spent in the OBBBA would have been sufficient to resolve Social Security’s long-term financing problem.

Macroeconomic analyses suggest the OBBBA will boost the economy in the short-term, through higher after-tax income, and in the medium term, largely through lower taxes on capital and labor. However, major models project that, over longer periods, the higher deficits that OBBBA creates will reduce national saving and hence reduce future national income, either by pushing up interest rates and crowding out private investment or by increasing indebtedness to foreigners. The result will be a smaller long-run economy.

The distributional consequences are stark. The permanent rate cuts and business tax provisions direct the largest benefits to the high-income households, while many of the spending reductions fall on low-income and immigrant families. When plausible deficit financing methods are incorporated, a majority of households—and nearly all low-income households—end up worse off. Recent tariff policies, though not part of the OBBBA, amplify the regressive tilt of the overall tax system.

The Act's scope is unusually broad, affecting health coverage, higher education financing, charitable giving, energy, immigration, and business investment incentives. Although some temporary provisions provide targeted tax relief, they introduce new horizontal equity concerns and add complexity to tax administration.

The OBBBA represents a major shift in federal policymaking not only because of its substance but because of the procedures used to enact it, including changes to budget scoring practices used for the past 50 years. It was drafted and passed in the shadow of the 2025 "fiscal cliff," created by the scheduled expiration of nearly all of the individual tax cuts implemented by the TCJA. Rather than treating those expirations as a budgetary event requiring offsets, Senate Republicans adopted a "current policy" baseline that assigned zero fiscal cost to extending the provisions. This approach allowed them not only to extend the tax cuts for 10 years at no official cost, but also to make the cuts permanent under reconciliation, again with no recorded fiscal impact. This unprecedented maneuver marks a fundamental break with 50 years of budget rules governing temporary provisions and their deficit effects.

The OBBBA is broadly unpopular. Polls taken by Pew Research Center, the Wall Street Journal, and CNN/SSRS in July and August 2025 all show considerable disapproval (Kiley et al. 2025; Rubin and Stech Ferek 2025; Edwards-Levy 2025). They report disapproval (approval) among respondents at 46 percent (32 percent), 52 percent (42 percent), and 61 percent (39 percent), respectively. Sullivan and Hacker (2026) report an across-poll average net support rate (the percentage of respondents in favor less the percentage of respondents opposing) of about -25 percent.

The paper proceeds as follows: Section II explains how the TCJA expirations and the 2025 fiscal cliff set the stage for the OBBBA and describes the procedural choices that enabled its passage. Section III details the Act's major tax and spending provisions. Section IV examines the fiscal consequences of the OBBBA, while Section V analyzes short- and long-run economic effects. Section VI evaluates the Act's distributional outcomes, both with and without consideration of financing and growth. Section VII addresses some of the Act's novel provisions—such as deductions for tips, overtime, and seniors. It also addresses effects on key policy areas, including energy, higher education, immigrants and immigration, health care, charitable giving, and children, and its impact on the states. Section VIII discusses related issues, including the administration's concurrent policies toward tariffs—which are substantial enough to have noticeable effects on revenue, growth,

and distribution—and toward the IRS, which will have to implement and enforce the OBBBA even as it faces funding cuts and historically low staffing levels. Section IX offers concluding observations.

II. HOW WE GOT HERE: FROM TCJA TO OBBBA

The path to the OBBBA began with the TCJA, the largest federal tax overhaul since 1986.¹ Understanding the OBBBA requires understanding how the TCJA’s temporary design interacted with the reconciliation process to create unusually powerful incentives for lawmakers. This section provides background on the TCJA and the political and budgetary dynamics that led to the OBBBA. The goal is not to recount every procedural step but to explain how the temporary structure of the TCJA, combined with the 2024 election outcome, created the conditions for the enactment of the OBBBA. This trajectory provides important context for interpreting the policy choices embedded in the OBBBA.

A. TCJA’s structure and its temporary provisions

The TCJA made substantial changes to the personal income tax. It reduced marginal tax rates, abolished personal exemptions, expanded the standard deduction and the child credit, limited itemized deductions for state and local taxes (SALT) and mortgage interest, repealed the “Pease limitation” on itemized deductions, created a new deduction for pass-through business income, eliminated the Affordable Care Act’s “individual mandate” to have health insurance, and indexed certain tax parameters to the chained Consumer Price Index (CPI). The Act also doubled the estate tax exemption. Many of these individual provisions were scheduled to expire after 2025, creating significant uncertainty about the future tax landscape and political pressure to extend the provisions.

The TCJA also made significant changes to the business tax system. On the domestic side, it reduced the top corporate tax rate to 21 percent from 35 percent, provided “bonus” depreciation for certain investments, capped net interest deductions, modified net operating loss rules, repealed the Domestic Production Activities Deduction, and phased in amortization of research and experimentation costs. Unlike the individual provisions, most of the major corporate changes were not scheduled to expire.

On the international side, the TCJA shifted the US from a worldwide tax system to a modified territorial system. To limit profit shifting, the law introduced several new provisions: a “global intangible low-taxed income” (GILTI) minimum tax, a “foreign-derived intangible income” (FDII) export subsidy, and the “base erosion and anti-abuse tax” (BEAT). The TCJA also imposed a one-time tax on previously accumulated but unrepatriated—and therefore untaxed—foreign profits.

B. Why many TCJA provisions were temporary

The temporary nature of many TCJA provisions was a deliberate design choice, though it did not necessarily reflect an intention for them to expire. Congress enacted the TCJA through budget reconciliation, which

allowed the bill to pass the Senate with a simple majority. That choice, however, came with a constraint: Under the “Byrd rule,” reconciliation bills may not increase deficits beyond the 10-year budget window. Making the individual tax cuts permanent, therefore, would have required offsets that lawmakers were likely unwilling to adopt. The congressional Republican majority instead scheduled most of these provisions to expire after 2025, enabling a larger tax cut in the short run while deferring its long-term budgetary cost. The scale of these coordinated expirations created the 2025 fiscal cliff—a concentration of sunsets that ensured the next Congress would confront the fate of the TCJA and provided the foundation for the OBBBA.

In contrast to the temporary design of the individual provisions, the reduction in the corporate income tax rate from 35 percent to 21 percent and other major corporate changes were enacted on a permanent basis. Certain key provisions, however, were scheduled to become less generous over time, which reduced the official budgetary cost of enacting the TCJA. For example, “bonus” depreciation for equipment began phasing down after 2022 and was set to disappear entirely by 2027; the limitation on net interest deductions was further tightened beginning in 2022; and research and experimentation costs were required to be amortized beginning in 2022 rather than immediately expensed. In addition, the effective tax rates under the GILTI and FDII provisions were slated to rise beginning in 2026.

C. The 2024 elections and the fiscal choices that shaped the OBBBA

The 2024 elections played a decisive role in determining how the TCJA expirations would be addressed. The scheduled expiration of the TCJA’s individual provisions in 2025 had long been expected to force a major tax debate in 2025 (Clausing and Sarin 2023). While Democrats largely viewed the TCJA expirations as an opportunity to renegotiate or partially unwind the TCJA, Republicans broadly favored extending the provisions in full and, in many cases, making them permanent. Unified Republican control of the House, the Senate, and the White House after the 2024 elections positioned the party to dictate the terms of that debate. Nevertheless, even with unified control, internal disagreements emerged over several issues that would ultimately shape the development of the OBBBA.²

Republicans ultimately chose to pursue their agenda through a single reconciliation bill following President Trump’s call for “one big, beautiful bill”—the phrase that later gave the legislation its colloquial name. A central question for lawmakers was how large a deficit increase they were willing to accept in order to extend the TCJA tax cuts. Although some members, liberal and conservative, favored a deficit-neutral approach, that was widely viewed as unlikely. Making the TCJA’s temporary provisions permanent alone would have reduced revenue by almost \$4 trillion over 10 years and increased deficits by more than \$4.5 trillion once added interest costs were included (Congressional Budget Office 2024).³ Given the scale of the expirations and the political dynamics following the 2024 elections, the debate quickly shifted from whether to increase deficits to how much to increase them.

The Senate’s budget resolution, adopted in April 2025, authorized up to \$1.5 trillion in deficit-financed tax cuts over 10 years. Crucially, however, it treated the extension of the expiring TCJA provisions as having no budgetary cost by using a “current policy” baseline for those provisions while applying a “current law” baseline elsewhere. This approach allowed not just the 10-year extension but also the permanent extension of the TCJA provisions to proceed through reconciliation without recording their cost, effectively sidestepping the Byrd rule’s long-standing restriction on long-term deficit increases. The maneuver also raised concerns about precedent, as it implies that new temporary policies—such as the ones in the OBBBA—could be made permanent in future reconciliation bills without recording their true fiscal cost. See Driessen (2025) for historical context.

The House budget resolution took a different approach.⁴ It followed convention and precedent in adopting a current law baseline for all provisions in the bill and therefore recorded the full cost of extending them. The resolution authorized up to \$4.5 trillion in net tax cuts but required a minimum of \$1.5 trillion in net spending cuts, with a larger tax cut allowance contingent on achieving at least \$2 trillion in such cuts. If Congress cut spending by less than that, the tax cut instruction would be reduced proportionally. It also allowed additional spending on defense and immigration.

Even after adopting their budget resolutions, lawmakers still faced several unresolved policy questions that would shape the final contours of the OBBBA, including the treatment of Medicaid spending, the SALT deduction, and the clean-energy tax credits enacted in the Inflation Reduction Act of 2022. Negotiations over these issues continued into the summer of 2025. The final bill passed the Senate by a tie-breaking vote from Vice President J.D. Vance and passed the House. President Trump signed the bill on July 4, 2025.⁵

III. WHAT THE OBBBA DOES: MAJOR TAX AND SPENDING CHANGES

The OBBBA contains hundreds of provisions. This section summarizes the most significant of these provisions and the ways in which they alter the post-TCJA landscape, establishing the long-term structure that will govern federal tax and spending policy in the years ahead. For clarity, we focus on three broad sets of changes: (1) extensions and modifications of TCJA provisions, (2) other new tax provisions, and (3) spending increases and cuts. To accommodate the entire reconciliation package, the Act also raises the federal debt limit by \$5 trillion. Table 1 and Appendix Table 1 provide numerical details.⁶

TABLE 1

Fiscal Effects of OBBBA, 2025–2034

Billions of dollars



	Cost as passed	Cost if permanent
Extend and expand TCJA individual provisions	3,886	4,051
Revive TCJA business provisions	772	772
New individual tax cuts	418	826
New business tax cuts	285	502
Immigration and border spending	176	293
Defense spending	173	457
Other spending	173	277
All Deficit Increasing Provisions	5,883	7,176
Health care provisions	-1,102	-1,102
Repeal and modify IRA credits	-540	-540
Other revenue increases and tax credit reductions	-197	-197
Education provisions	-295	-295
Other offsetting receipts	-149	-149
SNAP, agriculture, and other savings	-206	-206
All Deficit Reducing Provisions	-2,489	-2,489
Primary Deficit Effect	3,394	4,687
Interest	718	836
Total Deficit Effect	4,113	5,523

Source: Congressional Budget Office (2025e, 2025h) and Committee for a Responsible Federal Budget (2025b)

A. Extensions and expansions of TCJA provisions

Individual Income Tax Parameters. The OBBBA makes permanent the expiring TCJA individual income tax provisions, and it expands their benefits in several respects, while also adding some restrictions. It permanently extends the TCJA structure that eliminated personal exemptions while substantially increasing the standard deduction. Beginning in 2026, it increases tax bracket thresholds for all tax brackets, with proportionally larger increases in the 10 percent and 12 percent brackets.⁷ The maximum non-refundable Child Tax Credit (CTC) rises from \$2,000 per child to \$2,200 in 2026 and is indexed for inflation thereafter; eligibility now requires Social Security numbers for both the child and the taxpayer. The OBBBA also modifies the Alternative Minimum Tax (AMT) by increasing the phaseout threshold and the rate at which the AMT exemption phases out.⁸

State and Local Tax (SALT) Deduction. The OBBBA temporarily expands the SALT deduction. The Act increases the maximum deduction to \$40,000 for single and joint filers earning less than \$500,000 in 2025. The deduction phases down to \$10,000 for filers with incomes between \$500,000 and \$600,000. The cap and the phaseout thresholds then rise by 1 percent annually through 2029 after which the cap reverts to \$10,000. The provision is not indexed for inflation.

Estate Tax Exemption. The Act raises the effective estate tax exemption from \$13.99 million in 2025 to \$15 million in 2026 (\$30 million for couples) and indexes it for inflation on a permanent basis.

Opportunity Zones. The OBBBA sunsets the current set of Opportunity Zones at the end of 2026 (two years earlier than under the TCJA) and establishes a new set beginning in 2027. Eligibility is tightened to communities with income at or below 70 percent of the area- or state-wide median income (reduced from 80 percent under the TCJA). The Act also adds reporting requirements and new incentives for rural investments (Wessel 2025).

Pass-Through Deduction (Section 199A). The OBBBA makes the 20 percent pass-through deduction for qualified business income permanent and expands its scope. Among other changes, the Act establishes an inflation-adjusted minimum deduction of \$400 for taxpayers with at least \$1,000 of qualified business income.

Full Expensing. The OBBBA makes permanent the full expensing of qualified property by reinstating 100 percent bonus depreciation.⁹ Under the TCJA, bonus depreciation began phasing down from 100 percent after 2022 and was scheduled to be fully eliminated by 2027.

Research and Experimentation (R&E) Expensing. The Act permanently restores immediate deductibility of domestic research and experimental expenditures, reversing the TCJA requirement that such costs instead be amortized over five years beginning in 2022. Foreign R&E expenditures, however, must still be amortized over 15 years.

Interest Deduction Limitation. Beginning in 2025, the OBBBA relaxes the limitation on interest deductions by allowing the use of Earnings Before Interest, Taxes, Depreciation, and Amortization (EBITDA) rather than Earnings Before Interest and Taxes (EBIT) as the base for calculating interest-deduction limitations.¹⁰

International Tax Provisions. The OBBBA makes several changes to the international tax system established under the TCJA. The OBBBA replaces GILTI with a 12.6 percent tax on “net controlled foreign corporation (CFC) tested income” (NCTI). It eliminates the Qualified Business Asset Investment (QBAI) deduction that was present in GILTI and taxes foreign income on a country-by-country basis.

The OBBBA also replaces the deduction for foreign-derived intangible income (FDII) with a new foreign-derived export income (FDDEI) deduction. Under prior law, the FDII rate was scheduled to increase to 16.4 percent beginning in 2026. FDDEI features a 14 percent rate and eliminates the QBAI deduction that was present in FDII.

The Act also raises the BEAT rate from 10 percent to 10.5 percent in 2026, a smaller increase than the rise to 12.5 percent that had been scheduled to take place. For further discussion of the international tax effects, see Brody (2026).

B. New tax provisions

1. TEMPORARY PROVISIONS

The OBBBA introduces several temporary tax reductions for individuals and businesses that apply from 2025 through 2028 (unless otherwise stated). These provisions generally reduce taxable income for targeted groups—workers receiving tips or overtime pay, seniors, auto purchasers, and certain businesses investing in new manufacturing facilities. Many are related to campaign pledges made by President Trump.

Deduction for Tip Income. The OBBBA creates a deduction for voluntary tips received by workers in occupations that customarily receive them who have adjusted gross income below \$150,000 (\$300,000 joint), with a 10 percent phaseout rate above this level. The deduction is capped at \$25,000. Mandatory gratuities, such as service charges added automatically to restaurant bills, are not eligible. To claim the deduction, workers must have a work-eligible Social Security number (SSN), and all tip income remains subject to payroll taxes.

Deduction for Overtime Pay. The OBBBA establishes a deduction for the premium portion of overtime wages, with the same income thresholds and phaseouts as the tip deduction. The deductible amount equals the number of overtime hours times the difference between the overtime hourly wage rate and the regular hourly wage rate, up to a maximum of \$12,500 (\$25,000 for joint filers). Eligibility, reporting rules, and payroll tax treatment mirror those for the tip deduction.

Deduction for Seniors. The OBBBA creates a \$6,000 deduction for taxpayers with an SSN who are aged 65 or older. The deduction phases out at a 6 percent rate for modified adjusted gross income above \$75,000 (\$150,000 for joint filers). This provision was the congressional response to a Trump campaign pledge to eliminate taxes on Social Security benefits, which would have been prohibitively expensive.

Auto Loan Interest Deduction. The OBBBA provides a deduction of up to \$10,000 for interest paid on new auto loans, phasing out over a modified adjusted gross income (AGI) range of \$100,000 to \$150,000 (\$200,000 to \$250,000 for joint filers). Qualifying vehicles must be newly purchased, used for personal (not business) purposes, and have their final assembly in the United States.

Expensing of New Factories. The OBBBA allows businesses to fully expense the cost of constructing new factories in the United States for projects that begin construction before 2029. This provision accelerates the cost recovery for large manufacturing investments that would otherwise be depreciated over several decades.

Advanced Manufacturing Investment Credit. The OBBBA temporarily increases the Advanced Manufacturing Investment Credit for semiconductor-related manufacturing facilities from 25 percent to 35 percent. The higher credit applies only through 2026, at which point the credit expires.

Child Savings Accounts. The Act establishes tax-advantaged savings accounts (sometimes called Trump Accounts) for US-citizen children and authorizes a one-time federal contribution of \$1,000 for children born in 2025 to 2028.

2. PERMANENT PROVISIONS

The OBBBA also includes a set of permanent tax changes affecting charitable contributions, the child and dependent care credit, remittances, and several business incentives. These provisions take effect beginning in 2026.

Nonitemizer Charitable Deduction. The OBBBA creates an above-the-line deduction for non-itemizing taxpayers for charitable contributions of up to \$1,000 (\$2,000 for joint filers). The deduction is not indexed for inflation.

Charitable Deduction Floors. For itemizers, the OBBBA allows charitable contributions to be deducted only to the extent that they exceed 0.5 percent of AGI for individuals and 1 percent of taxable income for corporations.

Cap on the Value of Itemized Deductions. The OBBBA limits the marginal tax benefit of any itemized deduction to 35 percent for taxpayers in the top marginal tax bracket, reducing the value of deductions that would otherwise be taken at the 37 percent rate.

Scholarship Tax Credit. Beginning in 2027, the OBBBA creates a federal income tax credit of up to \$1,700 for individual contributions to qualified scholarship-granting organizations in participating states. The credit is available only where states establish or recognize eligible scholarship programs. Although each state can impose additional restrictions or requirements for the use of funds, it is expected that the provision will generally benefit private-school education.

Remittance Excise Tax. The OBBBA imposes a 1 percent excise tax on remittance transfers sent abroad via cash, a money order, a cashier's check, or similar tool (IRS 2025).

Child and Dependent Care Tax Credit. The OBBBA increases the maximum Child and Dependent Care Tax Credit rate from 35 percent to 50 percent of qualifying expenses for taxpayers with adjusted gross income below \$15,000. It also raises the income thresholds at which the credit rate begins to phase down, allowing more middle- and some higher-income families to qualify for a larger credit. The credit remains non-refundable.

Qualified Small Business Stock. The OBBBA expands the exclusion on qualified small business stock, increasing the amount of the gain that can be excluded from taxable income.

Section 179 Expensing. The OBBBA increases the Section 179 expensing limit to \$2.5 million for certain depreciable business assets.

Electric Vehicle Credits. The OBBBA repeals the electric vehicle credits enacted in the Inflation Reduction Act. Those credits provided tax incentives for the purchase of qualifying electric vehicles.

Energy Investment Tax Credits. The Act phases out and restricts clean energy investment credits enacted in the Inflation Reduction Act. These credits allowed taxpayers to claim a percentage of the cost of constructing or installing qualifying clean energy property, such as electricity generation or storage facilities.

Energy Production Tax Credits. The OBBBA phases out and restricts clean energy production credits enacted in the Inflation Reduction Act. Unlike investment credits, these credits provided per-unit subsidies based on the amount of electricity generated from qualifying clean energy facilities.

Advanced Manufacturing Production Credit. The Act phases out and restricts the Advanced Manufacturing Production Credit enacted in the Inflation Reduction Act. This credit provided per-unit incentives for the domestic production of specified clean energy components, such as batteries, solar modules, and related equipment, rather than for electricity generation itself.

C. Spending changes

The OBBBA makes several notable changes to federal spending, including increases for border and defense activities and reductions in major health and social programs. This section highlights the most consequential of these spending provisions.

Security and Defense Spending. The OBBBA increases funding for border security, immigration enforcement, and national defense. The Act funds additional surveillance technology, expands detention capacity, and supports hiring for Immigration and Customs Enforcement (ICE) and Customs and Border Protection. It also raises spending across several defense programs including procurement and readiness.

Health and Social Program Spending. The OBBBA reduces federal spending on several major social programs. The Act implements Medicaid work requirements, introduces additional eligibility verification and enrollment processes, and restricts coverage for certain non-citizen populations. The Act also reduces Medicaid overpayments and imposes limits on Marketplace enrollment procedures. The OBBBA also makes several significant changes to SNAP. It expands SNAP work requirement and shifts more administrative and benefit costs to the states, which could result in further cuts to benefits if states are unable to maintain current program levels from their own resources (Rosenbaum et al. 2025).

IV. WHAT THE OBBBA COSTS: REVENUE AND FISCAL EFFECTS

In the lead up to the OBBBA's passage, some Republican lawmakers and officials argued that the bill would reduce—rather than increase—budget deficits, citing anticipated growth effects. For example, House Speaker Mike Johnson (R-LA) stated on NBC's "Meet the Press" that the OBBBA "is going to reduce the deficit," while

the White House press secretary told reporters in a briefing that the bill would generate “the largest deficit reduction in nearly 30 years” (Welker 2025; Rev 2025). In contrast to these claims, however, every independent analysis of the OBBBA finds that it will substantially increase deficits in both the short and long term.

A. Conventional 10-year estimates

Under conventional scoring rules—which hold macroeconomic aggregates fixed—all major estimators concluded that the OBBBA will substantially increase deficits over the 10-year budget window (2025–2034). As shown in the first panel of Table 2, the Congressional Budget Office (CBO) (2025e, f) projects that the OBBBA will increase primary deficits by \$3.4 trillion, with an additional \$718 billion in added debt service, for a total deficit increase of \$4.1 trillion. Other independent analyses yield similar results. Watson et al. (2026) estimate a unified deficit effect of \$5.1 trillion. The Budget Lab (2025d) estimates a unified deficit effect of \$3.7 trillion. The Penn Wharton Budget Model (2025b) estimates a primary deficit increase of \$3.2 trillion, very similar to CBO’s estimate, but does not report a unified deficit figure.¹¹

These estimates follow “current law” conventions, meaning that they assume that temporary provisions in the OBBBA expire as scheduled. They also assume that, absent the OBBBA, the temporary provisions of the TCJA would expire as scheduled, another standard current-law convention. By comparison, the Senate’s decision to extend the expiring TCJA provisions under a baseline that assigned them no fiscal cost departs from these conventions and effectively masks more than \$4 trillion in additional revenue loss.

Given these issues, many analysts also produce “current policy” estimates that account for the likely extension of temporary provisions. The second panel of Table 2 reports the current-policy estimates. CBO (2025e) finds that extending all temporary tax provisions would reduce revenues by an additional \$787 billion, increasing the 10-year primary deficit effect to \$4.2 trillion. Higher debt-service costs raise the unified deficit effect to \$5 trillion. The Budget Lab (2025d) reports similar results, with primary and unified deficit increases of \$3.8 trillion and \$4.5 trillion compared to pre-OBBBA estimates, respectively. Auerbach and Gale (2025), who incorporate both the extension of the temporary tax provisions and the temporary changes to discretionary spending, estimate a \$4.7 trillion increase in the primary deficit and a \$5.5 trillion in the unified deficit.

B. Dynamic 10-year estimates

Dynamic budget analyses incorporate potential macroeconomic effects of policy changes—for example, changes in labor supply, investment, inflation, and interest rates (Elmendorf, Hubbard, and Williams, 2024). At the same time, estimates that incorporate macroeconomic feedback are inherently more uncertain, and different modeling choices can produce a wider range of results. The dynamic estimates reported in the third panel of Table 2 illustrate this dispersion, but they still show sizable deficit increases under the OBBBA.

CBO (2026) estimates that the dynamic effects *raise* the impact of the OBBBA on the deficit. Relative to their conventional score, CBO finds that primary deficits would fall by \$280 billion, but that interest costs

would rise by \$405 billion, raising unified deficits by \$125 billion. Page (2025b), building off CBO’s conventional score, estimates similar effects—namely, that macroeconomic effects will reduce primary deficits by \$267 billion relative to the conventional score over the next 10 years but also that the overall deficit effect, including higher interest payments, is slightly larger (\$4.2 trillion) than the conventional score (\$4.133 trillion).

TABLE 2

Alternative Estimates of Budgetary Effects of OBBBA, 2025–2034



Billions of dollars

	Revenue	Primary spending	Primary deficit	Net interest	Unified deficit
Panel 1: Conventional estimates, current law					
Congressional Budget Office	4,486	-1,091	3,394	718	4,133
Penn-Wharton Budget Model	4,321	-1,110	3,211	*	*
Tax Foundation	5,168	-1,068	4,100	1,026	5,126
The Budget Lab			3,062	631	3,693
Panel 2: Conventional estimates, current policy					
Congressional Budget Office ^a	5,273	-1,091	4,182	789	4,971
The Budget Lab ^b	*	*	3,787	689	4,476
Auerbach-Gale (2025) ^c	5,398	-707	4,690	832	5,522
Panel 3: Dynamic estimates					
Congressional Budget Office	*	*	3,115	1,123	4,238
Penn-Wharton Budget Model	*	*	3,631	*	*
Tax Foundation ^d	4,331	-1,068	3,263	851	4,114
Tax Policy Center	4,218	-1,091	3,127	1,080	4,207
Panel 4: Estimates of the House bill					
CBO (conventional)	3,670	-1,254	2,416	551	2,967
CBO (dynamic)	3,546	-1,215	2,332	1,067	3,399
Tax Policy Center	3,456	-1,091	2,202	815	3,017

Source: Auerbach and Gale (2025), CBO (2026, 2025e, g, h, l), Page (2025a, b), Penn Wharton Budget Model (2025b), The Budget Lab (2025d), Watson et al. (2026)

Notes: * = values not available; (a) estimate includes the effect of permanently extending 10 temporary tax provisions (CBO 2025d); (b) assumes that all expiring tax provisions from Section VII are made permanent (The Budget Lab 2025d); (c) Auerbach and Gale incorporate the estimates of extending temporary tax provisions from CBO (2025d) and also include the effect of extending temporary increase in discretionary spending, largely for immigration enforcement and military spending; (d) dynamic effects calculated only from “major tax provisions.”

In both studies, lower marginal tax rates increase incentives to work and invest, but higher federal interest costs arise due to increases in federal debt and borrowing, likely Federal Reserve monetary tightening, and other macroeconomic effects. The Penn Wharton Budget Model (2025b) finds that macroeconomic feedback will increase primary deficits by \$420 billion—and thus increase unified deficits as well—compared to its conventional score.¹²

In contrast, Watson et al. (2026) estimate much larger macroeconomic feedback effects, projecting that dynamic factors will reduce primary deficits by \$837 billion and the unified deficit by \$1.012 trillion. This occurs in a model where deficits do not crowd out other investment (Pomerleau 2026).

A dynamic score of legislation that reduces marginal tax rates tends to show smaller deficits than the conventional estimate (excluding the interest cost of higher debt). However, including both dynamic effects and interest costs (both the conventional impact of higher debt and the dynamic impact of higher interest rates) often results in higher deficits than the conventional score.

It is noteworthy that the same pattern showed up in earlier estimates of the initial version of the House bill (H.R.1), which was similar to the OBBBA in many respects. The fourth panel of Table 2 shows CBO and TPC estimates for the House bill. In those analyses, dynamic scoring—relative to conventional scoring—reduces primary deficits but increases unified deficits because the projected higher interest payments outweigh the modest projected increase in revenues due to greater economic activity.¹³

In summary, most dynamic estimates suggest that the OBBBA will produce positive short-run macroeconomic effects but also that the macro effects on the whole do not offset—and in fact appear to increase—the law’s substantial long-run fiscal costs.

C. Long-term budget effects

Looking only at the next 10 years gives an incomplete picture of the impact of the OBBBA, even with adjustments made in the 10-year window to characterize current policy or dynamic effects. This section draws primarily on Auerbach and Gale (2025), which analyzes the long-term budget outlook (through 2054) and estimates the effects of the OBBBA under alternative assumptions. For ease of comparison, we present three distinct baselines: 1) the “March 2025” baseline, which reflects the long-term budget outlook just prior to the enactment of the OBBBA; 2) the “OBBBA” baseline, which incorporates the effects of the law as enacted; and 3) the “OBBBA extended” baseline, which incorporates the estimated effects of making the temporary provisions permanent. Table 3 reports the effect of the OBBBA on fiscal aggregates under the three baselines for the specific years 2034 and 2054.

TABLE 3

Effects of OBBBA on Fiscal Aggregates

Percentage of GDP



	March 2025 Baseline	OBBBA as written	OBBBA extended
2034			
Unified deficit	6.1	7.1	7.8
Primary deficit	2.1	2.8	3.4
Revenues	18.2	17.0	16.6
Total spending	24.3	24.1	24.4
Non-interest spending	20.3	19.8	20.0
Interest spending	4.0	4.3	4.4
Debt	117.1	126.9	130.1
2054			
Unified deficit	7.2	9.1	10.3
Primary deficit	1.9	2.8	3.5
Revenues	19.3	18.0	17.6
Total spending	26.5	27.2	28.0
Non-interest spending	21.1	20.8	21.1
Interest spending	5.3	6.3	6.9
Debt	154.1	182.6	199.1

Source: Auerbach and Gale (2025)

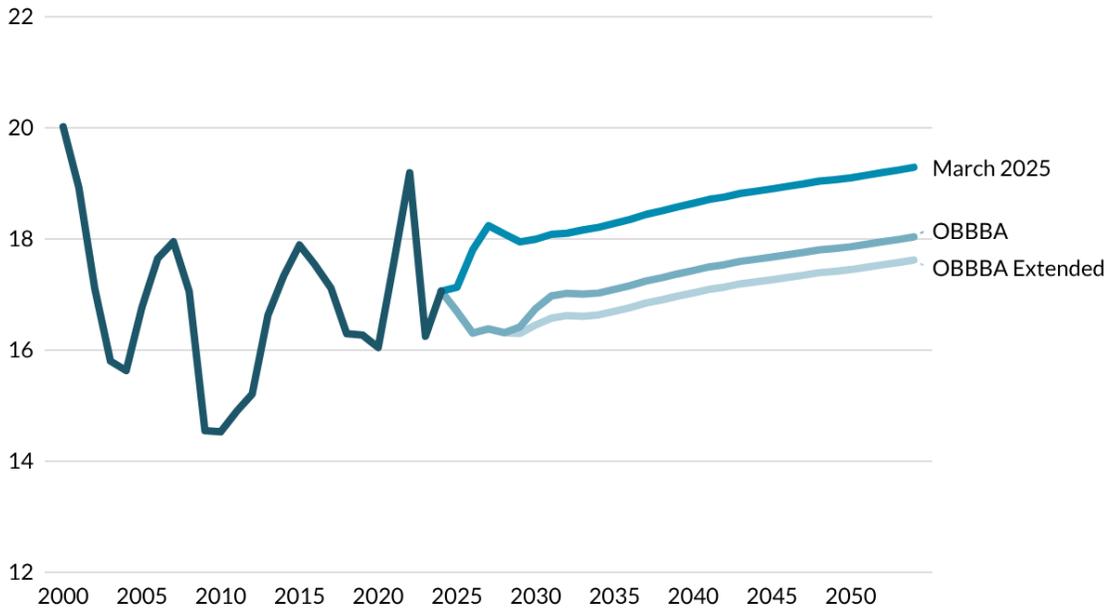
Revenues. The OBBBA represents a sizable and permanent reduction in federal revenues (Figure 1). From 2025 to 2054, revenues averaged 18.6 percent of GDP under the March baseline, compared with 17.3 percent under the OBBBA as written and 17.0 percent of GDP if the temporary provisions are extended. In 2054, revenues are projected to be 19.3 percent of GDP in 2054 under the March baseline, compared with 18.0 percent under the OBBBA as written and 17.6 percent of GDP if temporary provisions are extended.

Primary Deficits. These revenue losses create a persistent hole in the primary budget. Between 2025 and 2034, primary deficits averaged 2.2 percent of GDP under the March baseline, compared to 3.2 percent under the OBBBA and 3.5 percent under OBBBA extended. Through 2054, primary deficits averaged 2.0 percent of GDP under the March baseline and rise to an average of 2.9 percent of GDP under the OBBBA as written and 3.5 percent of GDP under the OBBBA extended baseline (Figure 2).

FIGURE 1
Federal Revenue, 2000–2054



Percent of GDP

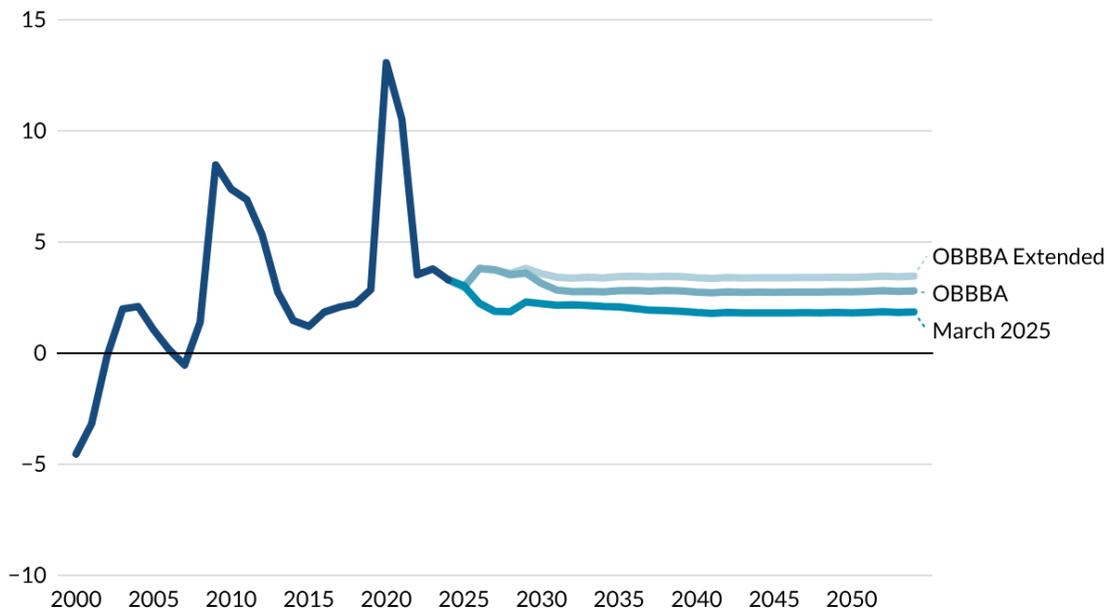


Source: CBO (2025e, 2025h, 2025i, 2025m)

FIGURE 2
Primary Federal Deficit, 2000–2054



Percent of GDP



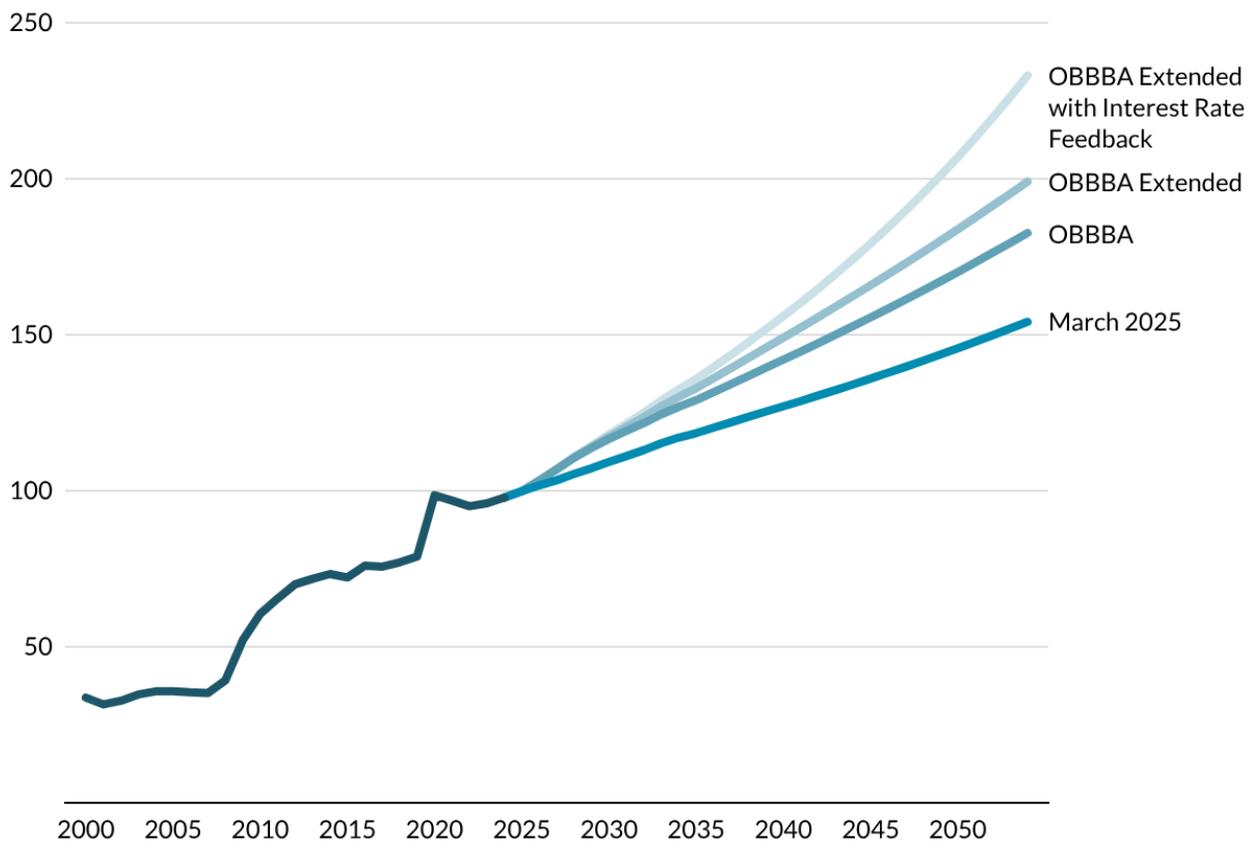
Source: CBO (2025e, 2025h, 2025i, 2025m)

Debt without Interest-Rate Feedback. The effect of the OBBBA on projected debt-to-GDP ratios is substantial. Under the March 2025 baseline, debt is projected to be 154 percent of GDP in 2054. The projected ratio rises to 183 percent under OBBBA as written and rises to 199 percent if temporary provisions are extended (Figure 3). These projections assume that the additional debt from the OBBBA does not feed back into interest rates.



FIGURE 3
Federal Public Debt, 2000–2054

Percent of GDP



Source: CBO (2025e, 2025h, 2025i, 2025m)

Debt with Interest-Rate Feedback. If the added debt does affect interest rates, debt will accumulate more rapidly. Recent empirical work confirms that increases in the federal debt place upward pressure on interest rates, though estimates vary across studies (Gust and Skaperdas 2024; Neveu and Schafer 2024; Plante, Richter and Zubairy 2025; Furceri, Gonclaves, and Li 2025). Consistent with central tendencies in this literature, we assume interest rates rise by 3 basis points for each 1 percentage point increase in debt-to-GDP relative to

the March 2025 baseline. Under this assumption, the debt-to-GDP ratio would reach 233 percent in 2054 under the “OBBBA extended” baseline (Figure 3).

D. The OBBBA and the long-term Social Security budget shortfall

The results in Figure 2 indicate that, relative to pre-OBBBA law, the Act will raise primary deficits through 2034 by an average of 1.0 percent of GDP under OBBBA as written and 1.3 percent of GDP if the temporary provisions are extended. Through 2054, the analogous figures are 0.9 percent of GDP under OBBBA as written and by 1.5 percent of GDP if the temporary provisions are extended.

In contrast, the Social Security program faces a long-term actuarial deficit of 1.3 percent of GDP (Social Security Administration 2025a). In short, the resources used to enact the OBBBA as written are of the same order of magnitude as the Social Security shortfall and the resources involved if the temporary provisions of the OBBBA are extended would have been more than enough to address the entire long-term Social Security shortfall. For further discussion, see Gale and Thorpe (2025).

V. HOW THE OBBBA AFFECTS THE ECONOMY: GROWTH IMPLICATIONS

A. How tax policy affects growth.

Tax policy affects economic growth through several channels, including aggregate demand, aggregate supply, and the effects of federal borrowing.

Tax cuts can boost aggregate demand by raising households’ after-tax income. As this additional after-tax income is spent, it can lead to temporary hiring, investment, and economic output. Several factors shape the size of demand responses. Output may rise more in a slump, when many unemployed workers are available to be hired, than in a boom, when supply constraints may lead to greater effects on prices. The stance of monetary policy (itself dependent on the state of the economy) also matters: If the Federal Reserve accommodates the additional spending, demand effects may be larger; if it offsets them, the effects may be smaller. Demand responses also depend on who receives the tax cut, as lower-income households tend to have higher propensities to consume than high-income households, although their consumption may derive more from foreign-produced goods. While demand effects can temporarily boost national income, they are unlikely to permanently raise the economy’s productive capacity.

Tax cuts can also influence an economy’s aggregate supply by changing incentives to work, save, and invest, and by reducing distortions across similar activities. These supply-side channels can increase the supply of labor and capital and improve the allocation of resources, raising economic growth in the short and medium run and potentially increasing the level of output in the long run.

A third channel operates through federal borrowing. Tax cuts that are not fully offset with new revenue or lower spending raise the federal budget deficit. Federal borrowing reduces national saving and therefore reduces future national income. In a simple closed economy, investment is financed by domestic saving, and so increased budget deficits tend to raise interest rates, crowd out private investment, and reduce future output and income. In a more realistic open economy, borrowing from abroad can mitigate these effects on domestic interest rate, investment, and output. But borrowing from abroad worsens the US net international investment position and reduces the share of future output accruing to US residents.

B. Growth channels in the OBBBA

This subsection applies the channels previously discussed to the specific provisions of the OBBBA.¹⁴ Several features of the OBBBA directly affect the economy's size and growth rate. For individuals, extending the lower income tax rates enacted in the TCJA raises the marginal after-tax return to working and saving relative to a scenario where the TCJA expires. The lower tax rates increase after-tax income, which might offset some of the labor supply effect of higher after-tax wages, but they also give households more funds to spend. These effects should raise aggregate demand and aggregate supply and thereby boost the economy. The Act could also stimulate investment by reducing the effective marginal tax rate on capital investments (Gravelle and Keightley 2025; CBO 2026).

Several conditions may temper these effects. First, as discussed in the next section, the largest tax cuts accrue to higher-income households, whose marginal propensity to consume is lower than that of lower-income households. Second, to counteract the stimulative and potentially inflationary effects of additional spending, the Federal Reserve Board may keep interest rates higher than they otherwise would, which would discourage some spending. Third, labor supply could fall due to the income effects of tax cuts or the various policies affecting immigrants, including increased border security funding and reduced benefits for non-citizens.

For businesses, the OBBBA introduces a number of provisions that will raise after-tax returns to investment relative to a baseline where the TCJA expires. The relevant provisions include the permanent extension of bonus depreciation, temporary expensing of factories, changes to international tax rules, more generous interest deduction limits, and expensing of domestic research and experimentation expenditures.

However, several issues could limit the impact of investment incentives on growth. First, the corporate alternative minimum tax (CAMT) can weaken some pro-investment incentives by limiting the extent to which firms can reduce total tax liability (Patel and Towery 2025). When firms substantially reduce their taxable income, they may become subject to CAMT. In those cases, liability is determined based on adjusted financial statement income (AFSI), which can limit the effective benefit of certain tax provisions. CAMT also adds complexity and compliance burdens, especially for the largest firms subject to its rules (Blouin and Born 2024). As a result, the overall effect of the OBBBA's business provisions depends on how firms' CAMT positions

evolve over time. Also, the OBBBA repealed many tax subsidies for wind, solar, and other clean energy related investment, likely shifting investment away from clean energy toward conventional energy.¹⁵

Second, the Act is likely to reduce immigration and thus reduce the size of the labor force. CBO (2025n) estimates that the Act will reduce the population by 300,000. Edelberg, Veuger, and Watson (2026) note that net immigration was negative in 2025 for the first time in fifty years.

Third, the OBBBA's substantial increases in the deficit reduce national saving and hence reduces future national income. This may occur via a rise in interest rates that crowds-out private investment. Or it could occur via an increase in borrowing from abroad, which increases foreign claims on future US output (Gale and Page 2018).

Fourth, some of the tax cuts went to subsidize investment and research and experimentation outlays that were made before the Act was passed, which of course cannot be influenced by the tax law (Lobosco 2025; Rubin 2026; Sword 2026).

C. Estimated economic effects

This subsection summarizes the simulation estimates of the OBBBA's growth effects. Studies summarized in Table 4 agree that the Act should have positive short-term stimulative effects. Importantly, all of these effects are estimated relative to the current law baseline, under which many of the income tax and estate tax provisions of the TCJA would have expired at the end of 2025. For comparison purposes, just extending the TCJA without any of the other provisions in the OBBBA would have raised GDP over the subsequent 10 years by an average of 0.1 percent according to CBO and 0.5 percent according to the staff of the Joint Committee on Taxation (JCT) (Ahmad and Sheiner 2025).

The aggregate demand effects of higher after-tax income should appear quickly, and the size of the economy is projected to be between 0.7 and 1.2 percentage points larger in the near term. Over the second half of the 10-year window, however, most of the studies find that the OBBBA's impact on economic growth diminishes, though the economy remains larger than it would have been otherwise. For example, CBO (2026), Tax Foundation (Watson et al. 2025), Tax Policy Center (Page 2025b), and The Budget Lab (2025c) all estimate smaller effects in 2034 than in the peak year.

By the end of the decade, the economy is projected to be smaller than it otherwise would be according to The Budget Lab (2025c) and the Penn Wharton Budget Model (2025b) and only slightly larger according to CBO (2025l) and TPC (Page 2025b). CBO (2026) and Watson et al. (2026) show larger positive effects.¹⁶

TABLE 4

Effects of OBBBA on the Size of the Economy



Organization	Peak short-term effect (year)	Average effect over second 5 years	Average 10-year effect	2034	2054
Congressional Budget Office	0.9% (2026)	0.7%	0.7%	0.7%	*
Penn-Wharton Budget Model	*	*	*	-0.3%	-4.6%
Tax Foundation	1.2% (2028)	*	*	*	0.7%
Tax Policy Center	0.7% (2026)	0.5%	0.4%	0.5%	*
The Budget Lab	0.7% (2027)	0.0%	0.1%	-0.2%	-3.3%
Addendum: Estimates of House Bill					
Congressional Budget Office ^a	0.9% (2026)	*	0.5%	0.4%	*
Penn-Wharton Budget Model	*	*	*	0.4%	-1.5%
American Enterprise Institute ^b	*	0.4%	0.5%	0.3%	*

Source: CBO (2026, 2025i), Page (2025b), Penn Wharton Budget Model (2025b, d), Pomerleau (2025), The Budget Lab (2025c), Watson et al. (2026)

Notes: * = values not available; (a) CBO estimates an increased growth rate of 0.09% over the first five years and 0.04% over the entire period; (b) estimate begins in 2026 and final year effect is for 2035, not 2034. Effect on GDP averages 0.6% over the first five years.

In the long term, the effects of higher deficits and debt dominate, at least in models that include crowding out. In The Budget Lab and Penn Wharton models, these forces reduce national saving, raise interest rates, and depress investment, yielding GDP reductions of 3.3 percent and 4.6 percent, respectively, by 2054. Watson et al. (2025), in contrast, estimate a long-run GDP increase of 0.7 percent in a model where deficits do not raise interest rates or crowd out investment (Pomerleau 2026). However, as the authors note, because “the increased borrowing from higher deficits will reduce long-run American incomes,” gross national product (GNP) will rise by only 0.2 percent.

VI. WHO GAINS AND WHO LOSES? DISTRIBUTIONAL EFFECTS OF THE OBBBA

Determining who bears the burden of taxes is one of the oldest and most contested questions in economics. In this section, we provide several distributional analyses of the OBBBA based on the TPC microsimulation model. We begin with conventional analysis of the Act’s tax provisions using standard incidence assumptions, excluding the effects of spending provisions, and ignoring both the need to finance the Act and the impact of any resulting growth. We then present estimates that incorporate spending provisions and illustrative methods of financing the increase in the deficit, as well as estimates that include potential growth effects.

The bottom line is that, under standard assumptions, the tax provisions of the OBBBA are regressive relative to the law that would have prevailed in its absence. Accounting for spending changes and plausible financing options makes the Act substantially more regressive, more so than any other budget bill in at least

the last 40 years (Hacker and Sullivan 2025). Allowing for growth effects that are generous relative to the estimates reported earlier does not alter these results very much. As reported in section VIII, combining the OBBBA with recent tariffs is particularly regressive.

A. Distributional methodology and incidence assumptions

The TPC microsimulation model makes fairly standard assumptions about tax incidence (TPC n.d.). Income taxes are borne by those who pay the tax. Payroll taxes—both the employer and employee share—are borne by workers. For the corporate tax, 20 percent of the burden falls on workers, 20 percent on all capital owners, and 60 percent on shareholders.¹⁷ In the TPC model, macro aggregates do not change, but individuals may change their behavior to reduce their tax liability in response to changes in tax law.

Distributional analysis allocates the cash value of tax burdens to households. It focuses on income effects and does not attempt to measure welfare changes that would incorporate substitution effects. This analysis also abstracts from short-run and dynamic impacts of taxes, instead emphasizing long-run, comparative static outcomes. This approach is particularly relevant for taxes like the corporate income tax, for which the entity that remits the tax is not the one that ultimately bears its economic burden.

B. Conventional distributional estimates

Tables 5 and 6 (summarized in Figure 4) report TPC’s distributional estimates of the tax provisions of the OBBBA in 2026 and 2030, respectively, based on the standard assumptions previously described.¹⁸ These two years are chosen to illustrate the distributional effects while temporary provisions are in effect (2026) and after the provisions are scheduled to expire (2030).¹⁹

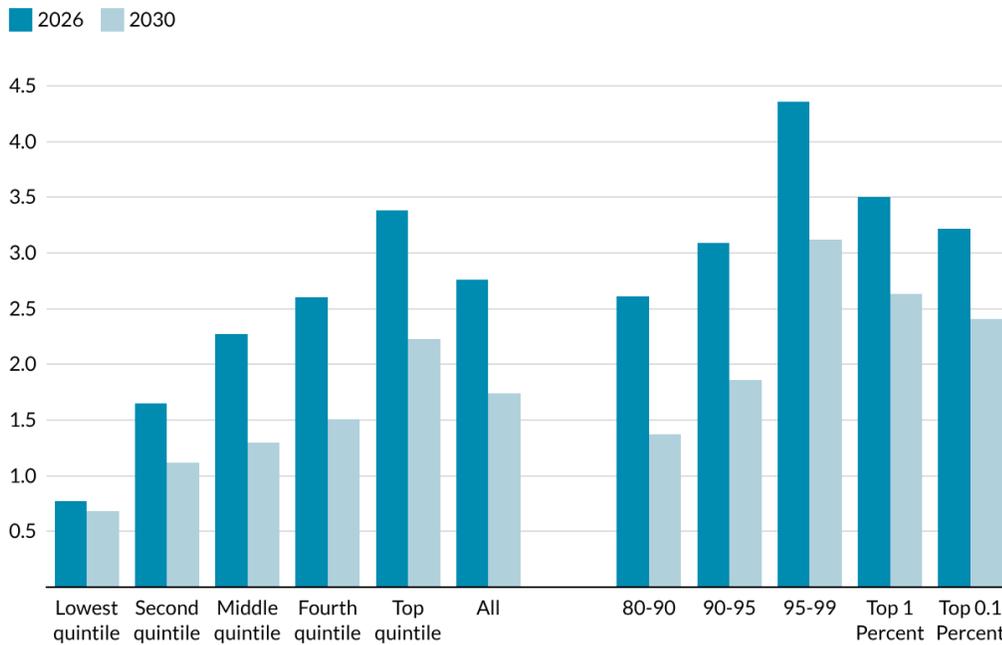
In 2026, the OBBBA reduces tax liability of most households, with larger percentage increases in after-tax income at higher-income levels (Table 5). About 85 percent of tax filing units receive a tax cut. The average tax cut is \$2,860, raising after-tax income by 2.8 percent. The percentage increase in after-tax income varies substantially by income. After-tax income rises by just 0.8 percent for households in the lowest quintile, compared with 2.3 percent for those in the middle quintile and 3.4 percent for those in the top quintile. Households in the 95th to 99th percentiles see their after-tax income rise by 4.4 percent and the top 1 percent see an increase of 3.5 percent. Dollar changes show an even larger spread: \$150 for the bottom quintile, \$1,780 for the middle quintile, \$75,410 for the top 1 percent, and \$286,000 for the top 0.1 percent.

FIGURE 4

Distributional Effects of the Tax Provisions of OBBBA, 2026 and 2030



Percent change in after-tax income



Source: Urban-Brookings Tax Policy Center, Tables T25-0231 and T25-0233

In 2030, if various temporary provisions expire as scheduled, tax reductions are smaller (Table 6). About 70 percent of tax filing units will receive a tax cut. The average tax cut is \$2,060, raising after-tax income by 1.7 percent. The pattern remains tilted toward higher income households: After-tax incomes rise by 0.7 percent in the lowest quintile, by 1.5 percent in the middle quintile, 2.2 percent in the top quintile, and 2.6 percent for the top 1 percent. The tax changes in dollars remain highly skewed: \$160 for households in the bottom quintile, \$1,160 for those in the middle quintile, \$62,700 for those in the top 1 percent, and \$233,000 for the top 0.1 percent.²⁰

These patterns align with results from other analyses, including studies by JCT (2025), CBO (2025k, 2026), Watson et al. (2025), Penn Wharton Budget Model (2025b), The Budget Lab (2025b).

Taxes fall for most high-income households for three primary reasons. First, broad rate reductions benefit those in higher brackets. Second, the deduction for pass-through firms (Section 199A) disproportionately benefits high-income taxpayers—about half of its benefits accrue to those with income above \$1 million (JCT 2018). Third, corporate tax cuts primarily benefit higher-income households, who own a disproportionate share of corporate equity.

TABLE 5

Distributional Effects of the Tax Provisions of OBBBA in 2026



Expanded cash income percentile	Thousands of tax units	Percent of total tax units	Percent of tax units with tax cut	Percent of tax units with tax increase	Percent change in after-tax income	Share of total federal tax change	Average federal tax change (\$)	Percentage point change in average federal tax rate	Average federal tax rate under OBBBA
Lowest quintile	50,060	25.9	63.3	0.8	0.8	1.4	-150	-0.7	4.1
Second quintile	42,960	22.2	90.9	3.6	1.7	5.8	-750	-1.5	8.5
Middle quintile	39,960	20.7	93.1	5.9	2.3	12.9	-1,780	-1.9	13.3
Fourth quintile	32,000	16.5	93.0	6.9	2.6	20.0	-3,460	-2.1	16.9
Top quintile	26,420	13.7	94.4	5.6	3.4	59.8	-12,540	-2.5	24.8
All	193,480	100.0	84.8	4.2	2.8	100.0	-2,860	-2.2	19.4
Addendum									
80-90	13,530	7.0	93.8	6.1	2.6	13.3	-5,440	-2.0	20.1
90-95	6,610	3.4	96.7	3.3	3.1	10.7	-8,950	-2.3	22.1
95-99	5,060	2.6	95.7	4.3	4.4	19.3	-21,130	-3.1	24.9
Top 1 percent	1,210	0.6	82.4	17.6	3.5	16.5	-75,410	-2.3	30.7
Top 0.1 percent	130	0.1	79.3	20.7	3.2	6.5	-286,440	-2.1	31.4

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0325-1), tables T25-0231 and T25-0235

Notes: Calendar year. Baseline is the law in place as of January 1, 2025. Analysis includes all tax provisions that exceed \$100 million of revenue in the year of analysis but excludes provisions related to the premium tax credit (PTC) and certain provisions related to Social Security Number (SSN) requirements for taxpayers with no dependents. After-tax income is expanded cash income less: individual income tax net of refundable credits; corporate income tax; payroll taxes (Social Security and Medicare); estate taxes; customs duties; and excise taxes. Average federal tax (includes individual and corporate income tax, payroll taxes for Social Security and Medicare, the estate tax, and excise taxes) as a percentage of average expanded cash income. Income groups include both filing and nonfiling units but exclude those that are dependents of other tax units. Tax units with negative adjusted gross income are excluded from their respective income class but are included in the totals. The income percentile classes used in this table are based on the income distribution for the entire population and contain an equal number of people, not tax units. The breaks are (in 2025 dollars): 20% \$34,600; 40% \$66,800; 60% \$119,200; 80% \$217,100; 90% \$317,700; 95% \$460,800; 99% \$1,141,900; 99.9% \$5,184,900.

TABLE 6

Distributional Effects of the Tax Provisions of OBBBA in 2030



Expanded cash income percentile	Thousands of tax units	Percent of total tax units	Percent of tax units with tax cut	Percent of tax units with tax increase	Percent change in after-tax income	Share of total federal tax change	Average federal tax change (\$)	Percentage point change in average federal tax rate	Average federal tax rate under OBBBA
Lowest quintile	51,210	25.7	35.4	1.7	0.7	2.0	-160	-0.6	4.2
Second quintile	44,410	22.3	76.4	6.9	1.1	6.3	-590	-1.0	9.0
Middle quintile	41,290	20.7	84.6	12.5	1.3	11.7	-1,160	-1.1	14.1
Fourth quintile	33,190	16.7	83.9	15.9	1.5	18.8	-2,280	-1.2	17.8
Top quintile	27,020	13.6	82.8	17.1	2.2	61.8	-9,390	-1.6	25.0
All	199,270	100.0	69.1	9.8	1.7	100.0	-2,060	-1.4	19.7
Addendum									
80-90	13,910	7.0	81.4	18.5	1.4	11.0	-3,260	-1.1	20.9
90-95	6,750	3.4	83.2	16.8	1.9	10.2	-6,210	-1.4	23.1
95-99	5,110	2.6	88.3	11.7	3.1	21.4	-17,170	-2.3	25.5
Top 1 percent	1,260	0.6	73.6	26.4	2.6	19.2	-62,700	-1.8	29.7
Top 0.1 percent	130	0.1	65.9	34.1	2.4	7.2	-233,920	-1.7	30.0

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0325-1), tables T25-0233 and T25-0237

Notes: Calendar year. Baseline is the law in place as of January 1, 2025. Analysis includes all tax provisions that exceed \$100 million of revenue in the year of analysis but excludes provisions related to the premium tax credit (PTC) and certain provisions related to Social Security Number (SSN) requirements for taxpayers with no dependents. After-tax income is expanded cash income less: individual income tax net of refundable credits; corporate income tax; payroll taxes (Social Security and Medicare); estate taxes; customs duties; and excise taxes. Average federal tax (includes individual and corporate income tax, payroll taxes for Social Security and Medicare, the estate tax, and excise taxes) as a percentage of average expanded cash income. Income groups include both filing and nonfiling units but exclude those that are dependents of other tax units. Tax units with negative adjusted gross income are excluded from their respective income class but are included in the totals. The income percentile classes used in this table are based on the income distribution for the entire population and contain an equal number of people, not tax units. The breaks are (in 2025 dollars): 20% \$36,400; 40% \$70,000; 60% \$124,100; 80% \$226,100; 90% \$332,900; 95% \$484,800; 99% \$1,160,000; 99.9% \$5,516,900.

At the same time, the OBBBA raises taxes on some taxpayers, particularly those at the top of the income distribution. In 2026, 4.2 percent of all households will see their taxes rise, including 17.6 percent of those in the top 1 percent (Table 5, Column 4). By 2030, once temporary provisions expire, 9.8 percent of households face a tax increase relative to pre-OBBBA law, including 12.5 percent of those in the middle quintile and 26.4 percent of those in the top 1 percent (Table 6, Column 4). The primary reason some higher-income taxpayers experience a tax increase in 2030 (relative to pre-OBBBA law) is that, under the OBBBA, the SALT deduction remains capped—including a return to the \$10,000 limit in 2030 originally imposed by the TJCA—rather than expiring as it would under prior law.

C. Distributional effects with spending and financing

The standard distributional analyses previously discussed exclude the impact of spending changes and ignore the fact that tax cuts must eventually be financed.²¹ In this section, we explore the distributional effects of the OBBBA in 2026, incorporating changes in spending and assuming that the increased federal budget deficit is financed.²² In addition to the tax provisions analyzed above, this analysis includes the reductions in Affordable Care Act premium tax credits (PTCs), changes to Medicaid and SNAP, adjustments to student loan repayment, and other provisions (including for defense and border security) that, on net, increase federal spending.²³

The analysis assumes one of three methods to finance the tax cut: equal-dollar burden on each tax unit (per capita financing or lump sum taxes), equal-share-of-income burden on each tax unit (proportional-to-income financing), and equal share of pre-credit income tax liability burden on each tax unit (proportional-to-income-tax financing). Per-capita financing—the most regressive of the three options—is actually less regressive than the spending cuts imposed by the OBBBA, which largely hit Medicaid and SNAP.

Table 7 and Figure 5 show that under per-capita financing, the combined effect of financing and the major tax and spending provisions of the OBBBA would raise taxes or decrease resources for about 70 percent of households, including 100 percent of households in the bottom two income quintiles. About three-quarters of households in the middle quintile would face increased federal burdens.

If the OBBBA were financed by tax increases or spending cuts that are proportional to income, the combined effect would reduce resources for about 60 percent of households, including 80 percent of households in the bottom quintile and 45 percent of those in the middle quintile.

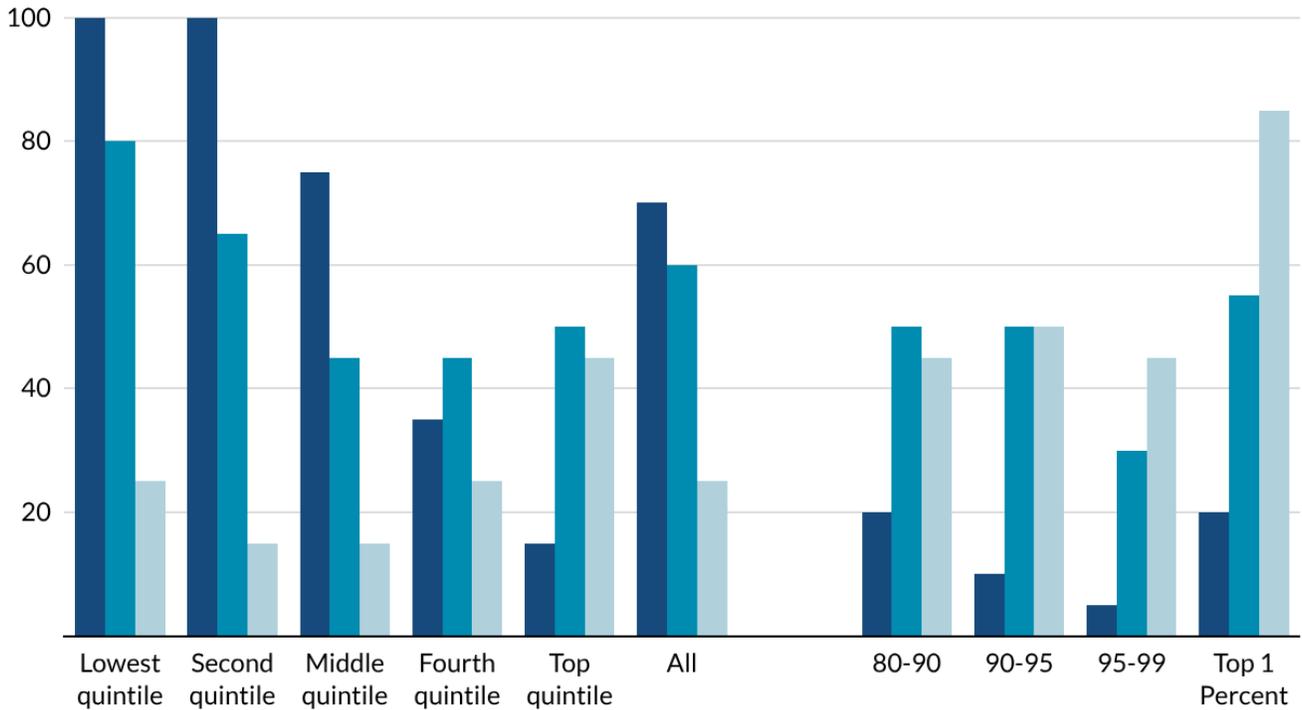
FIGURE 5

Share of Households Made Worse Off Under OBBBA with Financing, 2026



Percent

■ Per-capita financing ■ Proportional to income financing ■ Proportional to income tax liability financing



Source: Urban-Brookings Tax Policy Center

Notes: Figure shows the share of tax units with an increase in taxes or a decrease in resources from the combination of OBBBA and different financing methods. The income percentile classes are based on the income distribution for the entire population and contain an equal number of people, not tax units. The breaks are (in 2025 dollars): 20% \$34,600; 40% \$66,800; 60% \$119,200; 80% \$217,100; 90% \$317,700; 95% \$460,800; 99% \$1,141,900; 99.9% \$5,184,900.

If the OBBBA were financed by tax increases or spending cuts that are proportional to income tax liability, the results would be much more progressive because this approach builds on the already progressive individual income tax. The combined effect would raise burdens for 25 percent of households, with larger increases on average for higher-income households. About one-quarter of households in the bottom quintile would be worse off under this mechanism, compared to 85 percent of those in the top 1 percent of the income distribution.

TABLE 7

Distributional Effects of Major Tax and Spending Provisions of OBBBA with and without Financing in 2026

Expanded cash income percentile	Without financing			Equal per capita financing			Proportional to income financing			Proportional to income tax liability financing		
	Percent change in after-burden income	Percent of tax units with increase in burden	Percent of tax units with increase in burden > 1%	Percent change in after-burden income	Percent of tax units with increase in burden	Percent of tax units with increase in burden > 1%	Percent change in after-burden income	Percent of tax units with increase in burden	Percent of tax units with increase in burden > 1%	Percent change in after-burden income	Percent of tax units with increase in burden	Percent of tax units with increase in burden > 1%
Lowest quintile	-0.8	25	20	-15.5	100	100	-3.1	80	55	-0.9	25	20
Second quintile	1.6	10	10	-4.8	100	95	-0.9	65	45	0.9	15	10
Middle quintile	2.5	10	5	-1.3	75	55	-0.1	45	30	1.1	15	10
Fourth quintile	2.9	5	5	0.7	35	20	0.2	45	25	1.0	25	15
Top quintile	3.5	5	*	2.7	15	5	0.5	50	25	-0.9	45	25
All	2.8	10	10	0.0	70	65	0.0	60	40	0.0	25	15
Addendum												
80-90	2.8	5	5	1.4	20	10	0.0	50	25	0.4	45	20
90-95	3.3	5	*	2.3	10	5	0.4	50	25	0.3	50	25
95-99	4.5	5	*	3.9	5	5	1.4	30	15	*	45	30
Top 1 percent	3.4	15	10	3.3	20	10	0.1	55	45	-3.9	85	80

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0325-1)

Notes: * = non-zero value rounded to zero. Baseline is the law in place as of January 1, 2025. Analysis includes effects of major tax and spending provisions of the OBBBA. The percent change in after-burden income is equal to the change in resources due to tax and spending provisions divided by pre-OBBBA after-tax income. Changes in non-transfer federal spending are allocated to tax units half per capita and half in proportion to each taxpayer's share of total income. After-tax income is expanded cash income less: individual income tax net of refundable credits; corporate income tax; payroll taxes (Social Security and Medicare); estate taxes; customs duties; and excise taxes. Income groups include both filing and nonfiling units but exclude those that are dependents of other tax units. Tax units with negative adjusted gross income are excluded from their respective income class but are included in the totals. The income percentile classes used in this table are based on the income distribution for the entire population and contain an equal number of people, not tax units. The breaks are (in 2025 dollars): 20% \$34,600; 40% \$66,800; 60% \$119,200; 80% \$217,100; 90% \$317,700; 95% \$460,800; 99% \$1,141,900; 99.9% \$5,184,900.

D. Distributional effects with spending, financing and growth

Incorporating generous estimates for faster economic growth does not change the distributional results very much. To illustrate this, Table 7 reports the share of households whose net burden in 2026—after the OBBBA and the assumed financing—would rise by more than 1 percent of their pre-OBBBA-baseline after-tax income. This measure approximates the share of tax units that would have lower after-tax resources even assuming a 1 percent increase in the size of the economy—an effect near the upper end of the available growth estimates.

The results vary depending on the assumed method of financing:

Equal per-capita financing: 65 percent of households would experience a net burden greater than 1 percent of pre-OBBBA-baseline after-tax income, including every household in the bottom quintile and 55 percent of households in the middle quintile.

Proportional-to-income financing: 40 percent of households would experience a net burden greater than 1 percent of pre-OBBBA-baseline after-tax income, including 55 percent of households in the bottom quintile and 30 percent of households in the middle quintile.

Proportional-to-income-tax financing: Only 15 percent of households would experience a net burden greater than 1 percent of pre-OBBBA-baseline after-tax income, with the largest impact falling on high-income households.

VII. IMPACTS ACROSS KEY POLICY AREAS

The OBBBA is an extraordinarily extensive piece of legislation and contains numerous changes that affect specific groups, sectors, and policy areas. These provisions vary widely in design and purpose, and their effects extend beyond what is captured in the broader fiscal, growth, and distributional results previously discussed. This section highlights several of these issues, beginning with the temporary tax incentives for targeted groups and then turning to impacts on higher education, immigration, health care, charitable giving, children, and state tax and fiscal systems.

A. Temporary tax incentives for targeted groups

The OBBBA introduces several temporary tax incentives directed at specific groups—workers who receive tips, workers who earn overtime pay, and seniors. Although these provisions differ in their details, they share a common structure: Each provides preferential treatment to one type of income or one group of taxpayers relative to others in similar economic circumstances. As a result, they all raise concerns about horizontal equity (the concept that people of equal well-being should have the same tax burden), targeting, cost, and administrative complexity. The following subsections summarize these implications for the tip, overtime, and senior deductions. The distributional effects of each provision are reported in Figure 6.

1. TIP INCOME DEDUCTION

Exempting tip income from taxation while taxing wages earned by otherwise comparable workers violates horizontal equity and may encourage income reclassification (Berlin and Gale 2024). The deduction applies to a very small group of people. In 2023, about 4 million workers—roughly 2.5 percent of the labor force—were employed in tipped occupations. The deduction is poorly targeted. More than one-third of workers that earn tips had incomes low enough that they faced no federal income tax and so cannot benefit from the deduction (Tedeschi 2024). The deduction will benefit just 3 percent of tax units, with an average gain of \$1,370 among recipients (TPC 2025b). The largest percentage gains in after-tax income accrue to the middle 60 percent of the income distribution. These effects would be diminished to the extent that employers can capture part of the benefit by reducing base wages. The deduction increases administrative burdens. Employers must report cash tips and workers' occupations to enable verification, and the provision may encourage opportunities for misreporting or misclassifications. The provision reduces revenues by \$32 billion over the next 10 years as written and will reduce revenues by \$84 billion if made permanent (Appendix Table 1).

2. OVERTIME PAY DEDUCTION

The deduction for overtime pay raises analogous concerns. Like the tip deduction, it treats one category of labor income more favorably than others, creating horizontal equity issues for workers with similar total earnings. Although the deduction is presented as relief for working households, its benefits are concentrated among a relatively narrow group—about 9 percent of tax units.

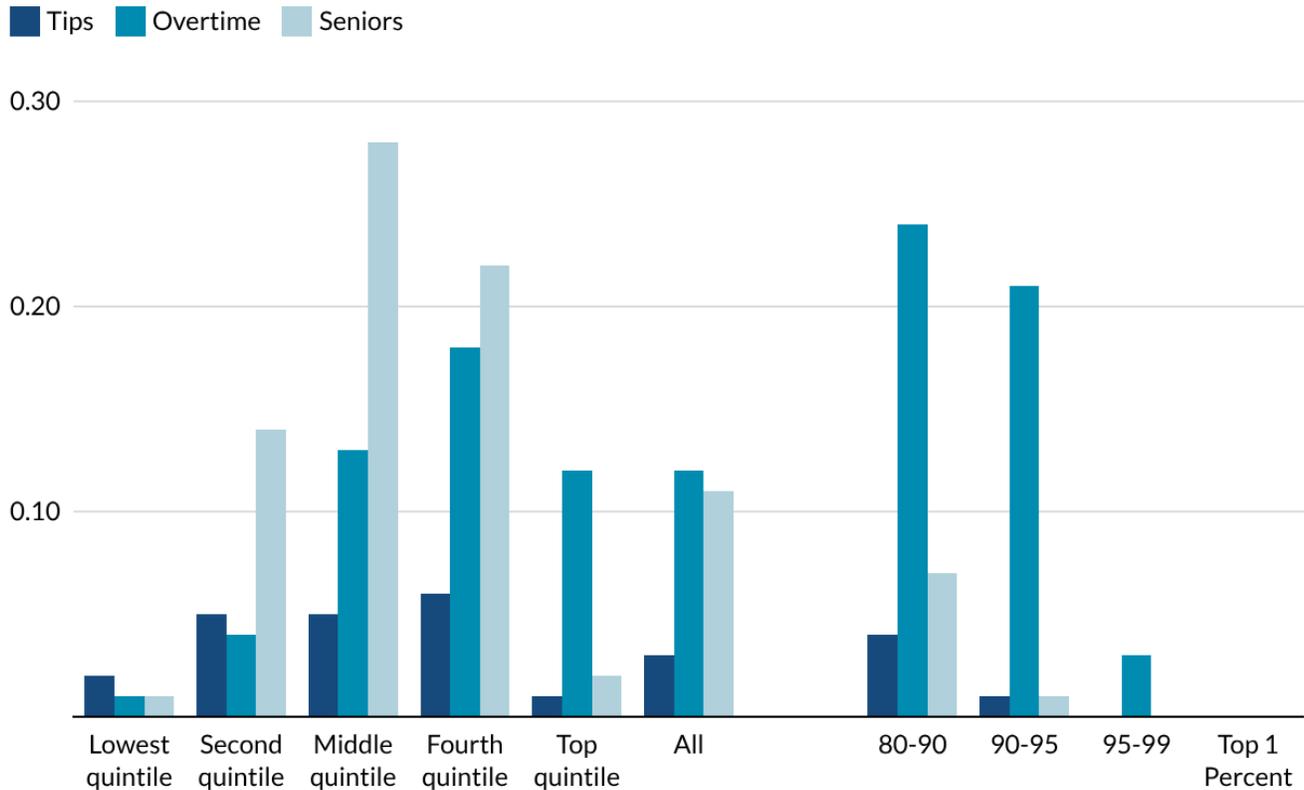
Recipients receive an average tax reduction of \$1,440 (TPC 2025b). The largest percentage increases in after-tax income occur among households with total income between \$100,000 and \$500,000 (TPC 2025b), reflecting both who works compensable overtime and the structure of the deduction.

The deduction adds administrative complexity, as employers must separately track and report overtime pay as defined under the federal Fair Labor Standards Act (FLSA). Because many states—and many private employment contracts—use broader or more generous definitions of overtime pay than FLSA, employers will need to maintain additional payroll distinctions solely to administer this federal tax provision. The deduction may also generate unintended effects: In France, a similar policy increased reported overtime work without increasing total hours worked (Cahuc and Carcillo 2014). Finally, as with the tip income deduction, employers may adjust base wages to offset the tax benefit, as occurred historically in the US following changes to overtime rules (Costa 2000). The provision reduces revenues by \$90 billion over the next 10 years as written and by \$227 billion if made permanent (Appendix Table 1).

FIGURE 6

Distributional Effects of Deductions for Tips, Overtime, and Seniors

Percent change in after-tax income



Source: Urban-Brookings Tax Policy Center, Tables T25-0245, T25-0247, and T25-0336

3. SENIOR DEDUCTION

The temporary deduction for seniors raises related issues. By providing a deduction solely based on age rather than economic circumstances, the provision creates horizontal equity issues for taxpayers with similar incomes. The deduction does not target low-income households very well. About half of Social Security recipients have incomes too low to owe federal income tax and thus cannot benefit at all from the deduction. Recipients earning less than \$63,300 owe an average of just 1 percent of their Social Security benefits in federal income tax (Van de Water 2025). As a result, most of the benefits flow to middle- and upper-middle-income seniors rather than those with the greatest financial need.

TPC (2025c) estimates that fewer than half of seniors will benefit, with the biggest beneficiaries being those making between approximately \$80,000 and \$130,000, who will save roughly \$1,100 per year. Overall, about 13 percent of households will benefit, saving an average of about \$120 in that year.

The provision also may influence labor supply for older workers. Because the deduction phases out at higher income levels, affected seniors face higher effective marginal tax rates within the phaseout range, which may discourage continued work or additional earnings. The boost in after-tax income from the deduction will also tend to reduce labor supply. The deduction contributes to the slight acceleration of the exhaustion date for the Social Security trust fund, since it reduces revenue from taxes on Social Security benefits that would otherwise flow into the trust fund (Social Security Administration 2025b). The deduction reduces federal revenues by \$93 billion over 10 years as written and by \$222 billion if made permanent (Appendix Table 1).²⁴

B. Clean energy and climate-related tax incentives

The OBBBA repeals or restricts several clean energy tax incentives enacted in the Inflation Reduction Act (IRA) of 2022, including credits for electric vehicles, residential and commercial energy investments, advanced manufacturing, and renewable energy production. These provisions accounted for a substantial share of recent federal support for domestic clean energy deployment and manufacturing. Their repeal reduces long-term federal deficits by an estimated \$540 billion over 10 years but also lowers incentives for private investment in low-carbon technologies, particularly in sectors such as electric vehicles, wind, solar, and battery manufacturing.

These changes—especially in conjunction with expanded subsidies for fossil fuels and biofuels (Plumer 2025)—will slow the pace of clean energy adoption in the US, increase the cost of meeting state and federal emissions targets, and weaken the competitive position of US firms in emerging energy industries relative to countries pursuing more aggressive industrial policies. They will also increase the negative externalities associated with pollution and climate change. In the near term, the repeal may create policy uncertainty for firms that made investment decisions under the IRA’s framework. More broadly, the shift represents a reorientation of federal energy policy away from subsidizing clean energy deployment, with corresponding implications for emissions trajectories, industrial competitiveness, and regional economic development (King et al. 2025).

C. Higher education

The OBBBA makes several significant changes to higher education policy affecting both institutions and students (Looney, Matsudaira, and McCann 2026). The Act alters a wide range of student aid policies and loans programs. It caps borrowing under several federal loan programs and eliminates the Grad PLUS program, while tightening Pell Grant eligibility rules, including for part-time students. These changes make college attendance more difficult and more expensive for many low-income students and disproportionately affect community colleges and students balancing work, family, and education responsibilities

The OBBBA reduces the number of available student loan repayment plans to two: a standard fixed-term plan and a new Repayment Assistance Plan that bases repayment on a low percentage of income and provides a long forgiveness period. The Act also expands allowable uses for Section 529 plans.

Finally, the Act raises institutional accountability. For example, colleges and universities may lose access to federal student loan programs for specific undergraduate and graduate programs if their graduates' median earnings fall below specified thresholds for two out of the three previous years.

The Act expands the tax on net investment income for private colleges and universities with large per-student endowments—a tax first introduced in the TCJA—raising the rate in steps up to a maximum of 8 percent for institutions with the highest per-student endowments, while continuing to exempt colleges enrolling fewer than 3,000 students. This approach extends the TCJA's departure from the long-standing treatment of charitable and educational institutions, which have historically been exempt from taxes on their endowment earnings (Baum 2025).

Overall, the wide range of higher education reforms will reduce deficits by almost \$300 billion over the next 10 years (Appendix Table 1; CBO 2025h).

D. Immigrants and immigration

The OBBBA contains numerous provisions related to immigrants and immigration policy. Most prominently, the Act significantly increases funding for border security, border infrastructure, detention capacity, deportation operations, and hiring—adding \$176 billion under the OBBBA as written and \$293 billion if the provisions are made permanent (Appendix Table 1).

As noted above, CBO (2025n) estimates that the law will reduce the US population by 300,000. Edelberg, Veuger, and Watson (2026) estimate that net migration in 2025 was between -10,000 and -295,000, the first time in decades that the figure was negative.

The Act restricts eligibility for various federal programs—including Medicaid, PTCs, the Children's Health Insurance Program (CHIP), SNAP, and the CTC—for many non-citizens by tightening documentation requirements (in particular, having a Social Security Number, or SSN) and through other changes (for example, eliminating PTC eligibility for some lawfully present noncitizens). These changes are likely to disproportionately affect pregnant women, many children (citizens and noncitizens), and other vulnerable populations, with downstream effects on child health and state budgets. See health care, children, and state fiscal and tax policy responses sections below for further discussion. The OBBBA further authorizes substantial increases in user fees for various immigration processes including a statutory parole fee, higher filing fees for asylum and employment authorization documents (EADs), and other application surcharges. In addition, the Act imposes a 1 percent tax on certain remittances sent abroad. Although the tax applies to all remittances sent from the US, including from citizens, the effects will be felt most deeply in the home countries of many immigrants. In fact, lost remittances are expected to exceed the reduction in US foreign aid in 16 countries (Dempster, Ward, and Huckstep 2025).

These changes will increase financial and administrative burdens on immigrant families and may shift some of their economic activity into the underground economy. At the same time, because the OBBBA raises fees, imposes new taxes, and reduces access to credits, one estimate finds that immigrants will pay \$64 billion more in taxes over the next 10 years due to the OBBBA (Hackman and Gillum 2025).

In parallel with these legislative changes, an administrative memorandum of understanding between the IRS and Immigration and Customs Enforcement (ICE) permits taxpayer information to be used in deportation efforts. Although litigation is ongoing, the policy may deter undocumented immigrants from filing taxes, potentially reducing federal revenue and shifting income into the informal sector. The chilling effect may extend to naturalized citizens, permanent residents, and visa holders who perceive increased risks from interacting with the tax system (Garriga and Boddupalli 2025).

E. Health care

The OBBBA introduces several substantial changes to federal health care programs, with total federal reduction of about \$1.1 trillion over the next decade (Appendix Table 1). The Act includes a package of Medicaid provisions that, in combination, reduce the federal matching rate for state health care spending, restrict eligibility, and increase the administrative burden of remaining enrolled. Key elements include mandatory work, job training, or community engagement requirements for nondisabled adults under age 65 and tighter eligibility verification and re-enrollment processes. Many Medicaid provisions begin in later 2026 and beyond (Andara et al. 2025; Coffey and Hahn 2025).

The Act also makes several changes to the Affordable Care Act Marketplaces. The OBBBA curtails practices such as auto-enrollment that have kept Marketplace coverage continuous for many people. These procedural changes increase paperwork burdens for both enrollees and states and raise the risk of loss of coverage.

Although the OBBBA does not alter most aspects of Medicare, it does modify which drugs are eligible for government negotiation, narrowing the set of drugs whose price the government may renegotiate.

The CBO (2025f) estimates that the OBBBA will increase the number of uninsured individuals by 10 million by 2034. Changes to eligibility for the PTC account for an estimated 1.8 million of these coverage losses (CBO 2025c). At the same time, the scheduled expiration of the enhanced PTC—which is not a direct effect of the OBBBA—is expected to double net premiums for Marketplace plans unless extended (Lo et al. 2025). Although unrelated to the legislation, this expiration will occur alongside the OBBBA’s changes and will further affect health care affordability and coverage. Reduced coverage is expected to lead to declines in preventive and reproductive care and to increases in uncompensated care, with the most severe effects on low-income and rural populations.

To blunt some of the expected disruptions, the Act establishes a \$50 billion Rural Health Transformation Program (RHTP) and other competitive grants aimed at stabilizing rural hospitals and supporting state transitions. These one-time funds may temporarily soften—but are unlikely to offset—the broader coverage and distributional effects.

The Act also restricts SNAP eligibility, including by expanding work requirements. These restrictions will increase food insecurity, a known social determinant of poor health. Projections suggest that these changes could result in as many as 3.2 million Americans losing SNAP benefits, possibly leading to as many as 93,000 excess deaths by 2039 (Khatana and Illenberger 2025).

There is also an important connection between immigration, discussed below, and health care and outcomes. Immigrants provide a disproportionate share of personalized long-term care for the elderly. Grabowski, Gruber, and McGarry (2026) find that reductions in immigration—such as those likely spurred by the OBBBA—raise the death rate among Americans.

F. Charitable giving

As previously described, the OBBBA makes several changes that reshape the federal tax incentives for charitable giving. The new above-the-line deduction for non-itemizers may modestly increase contributions, while the permanent credit for Scholarship-Granting Organizations (SGOs)—a one-for-one credit, which is much more generous than a deduction—may redirect giving rather than expand total giving.

Other changes are likely to reduce contributions. The 35 percent cap on itemized deductions for high-income taxpayers lowers the tax incentive for donors who would otherwise deduct at the 37 percent rate, likely reducing giving (Rooney, Osili, and Bergdoll 2025). The new deduction floors for individuals and corporations may discourage smaller gifts or encourage donors to bunch contributions across years to ensure that their contributions exceed the floor when they give. These provisions are projected to raise \$114 billion over the next 10 years compared with the costs of \$74 billion for the non-itemizer deduction and \$26 billion for the SGO credit (Appendix Table 1).

G. Children

The OBBBA makes several notable changes to tax and spending rules affecting families with children. The reductions in Medicaid are discussed earlier and will negatively impact health care for millions of children. The Act also modifies the CTC. Although the changes raise overall benefits to families with children, the new benefits are distributed mainly to middle- and higher-income families (Maag and Crandall-Hollick 2025). In 2025, 17 million children were in low-income families that received less than the full credit or no credit at all and thus would not benefit from the OBBBA change (Gotbaum and Calame 2025). The Act also imposes a new restriction on eligibility for non-citizen families. Specifically, both a claiming adult and the eligible child must now have an SSN. Under prior law, only the eligible child needed an SSN. Up to 2 million children who

previously received the credit will no longer be eligible because neither claiming adult has an SSN (Maag and Crandall-Hollick 2025).

The Act also expands the Child and Dependent Care Tax Credit (CDCTC). Nearly 80 percent of the enhanced credit goes to families already eligible under prior law, providing little new support to lower-income households. Moderate-income families can now offset a greater share of childcare expenses and higher-income families benefit from expanded flexible spending accounts, but the credit remains nonrefundable. This critically limits its utility for low-income families. Overall, only about 8.5 percent of families with children will receive a larger credit (Crandall-Hollick 2025).

H. State fiscal and tax policy responses

Many state tax systems conform with certain aspects of the individual and corporate tax.²⁵ Changes to the federal tax base can flow through to those state tax bases unless states take affirmative action to decouple. Some states stand to lose hundreds of millions of dollars a year in revenue over the next couple of years.²⁶

As a result, the overall fiscal impact of the OBBBA depends on whether and how states decouple from specific federal tax provisions. Decoupling occurs when a state elects not to adopt a federal provision for state purposes. States may consider decoupling from provisions of the OBBBA that significantly reduce revenue or complicate efforts to balance their budget. Because many states operate under constitutional or statutory balanced-budget requirements, deficit-financed federal tax reductions can be particularly difficult for states to absorb without offsetting tax increases or spending cuts. Several analysts have encouraged states to consider selective decoupling for this reason. However, Treasury Secretary Scott Bessent has criticized decoupling, calling it “political obstructionism” (Sowers 2025).

Some of the most consequential provisions for states are those affecting business taxation, particularly the permanent restoration of full expensing for machinery and equipment, the temporary expensing of factory construction through 2028, and the immediate deductibility of domestic research and experimentation expenses. Many states use a formulary apportionment system for corporate taxes and thus tax only a portion of a corporation’s nationwide income, while federal deductions apply to firms’ nationwide expenses before income is apportioned across states. As a result, these provisions can reduce the tax base for states even when the underlying investment did not occur within the state. On this basis, Johnson and Mazerov (2025) argue that states may wish to decouple from these provisions to avoid revenue losses that are not tied to in-state activity.

The same structural concerns extend to other provisions in the OBBBA. These include the R&E expansions, relaxed limitation on interest deductibility, the continued deduction of foreign derived intangible income, the expanded qualified small business stock exclusion, the higher cap on first-year expensing for small businesses, modifications to Opportunity Zones, and the transition from the GILTI to NCTI international regimes. These provisions can reduce state corporate tax bases through federal conformity without necessarily encouraging activity within a given state.

The OBBBA's individual income tax provisions may affect state revenues in offsetting ways. The permanent extension of the larger TCJA standard deduction, changes to itemized deductions, and the repeal of most personal exemptions may increase taxable income in some states relative to a baseline where the TCJA had expired. At the same time, the expansion of the CTC reduces revenues for states that link their own credit to the federal CTC. Other provisions—including the higher SALT deduction cap, the continued federal deductibility of pass-through entity taxes, and the expansion of 529 savings accounts—reduce state taxable income in conforming states. States that base their taxes on federal taxable income rather than adjusted gross income may also experience revenue declines due to exclusions for tips income, overtime pay, and auto loan interest, as well as from changes tied to federal minimum tax and estate tax exemptions.

In addition to these tax effects, the OBBBA's reductions in federal support for Medicaid, SNAP, and other social programs are likely to pressure state budgets. Stricter eligibility requirements, more frequent re-determinations, and expanded work requirements will increase administrative complexity and costs for states (Bleich 2025; Coffey and Hahn 2025). The OBBBA also shifts a greater share of SNAP administrative and benefit costs to states and restricts use of provider taxes to finance Medicaid, particularly in expansion states, reducing state revenues while increasing expenditures (Coffey and Hahn 2025; Enumah et al. 2025). As federal coverage contracts, millions of individuals are projected to lose Medicaid or SNAP benefits, leaving states the choice of absorbing additional costs or allowing coverage gaps to widen (Burns et al. 2025; Khatana and Illenberger 2025).

VIII. RELATED POLICIES AND ADMINISTRATIVE ACTIONS

While the OBBBA is a well-defined legislative act, it was enacted in an environment characterized by other important policies affecting tax laws and tax administration. In this section, we discuss administration policies toward tariffs and IRS cutbacks and their relation to the OBBBA.

A. Tariffs

Although tariffs are not included in the OBBBA, they are a central element of the Trump administration's broader economic policy and have implications for revenue, distribution, and growth. Since taking office in January 2025, President Trump has announced, administered, and changed tariff policies several times and has used tariffs as a bargaining chip in conjunction with agreements with other countries regarding trade, foreign policy, and military issues.²⁷

The administration's tariff policies represent a massive departure from long-standing historical norms (Clausing and Obstfeld 2025). From the end of World War II through 2018, tariff revenue had never exceeded more than 0.25 percent of GDP, and the highest effective tariff rate—the ratio of duties collected to the value of imports—had not exceeded 3 percent in more than 30 years. By early August 2025, however, the average tariff rate had risen to between 17 percent and 18 percent (CRFB 2025a; CBO 2025a).²⁸ For comparison, the Smoot-

Hawley tariffs of 1930, which are widely credited with deepening the Great Depression,²⁹ produced a peak effective tariff rate of 19.8 percent in 1933 (USITC 2024). At the same time, effective tariff rates remain below announced statutory rates, reflecting carve-outs and firms' increased use of existing exemptions (Krugman 2026).

The administration's tariffs have potentially significant effects on the budget, economic growth prospects, and the distribution of income. Tariff revenue rose from about \$7 billion per month in 2024 to about \$30 billion per month in the second half of 2025 (York and Durante 2026). If maintained, the administration's tariffs could raise between \$2 trillion and \$2.8 trillion (0.6 percent to 0.8 percent of GDP) between 2025 and 2034 on a conventional scoring basis—offsetting a substantial share of the revenue lost from the OBBBA, though less on a dynamic basis.³⁰ These revenues would reduce projected debt in 2054 by between 18 and 24 percentage points of GDP, before accounting for any additional dynamic feedback effects on GDP (Auerbach and Gale 2025).

At the same time, economic theory generally predicts that import tariffs function as a tax on domestic consumption and intermediate inputs, raising domestic prices, reducing real income, and creating distortions that tend to slow economic growth. Recent empirical work corroborates this framework in the context of US tariff policy, showing that Trump's 2018 tariffs ultimately reduced real income by \$1.4 billion per month (Amiti, Redding, and Weinstein 2019). Gopinath and Neiman (2026) find that about 95 percent of the tariffs imposed in 2025 were passed through domestically.

In contrast to President Trump's promises that tariffs would boost manufacturing, manufacturing employment has consistently fallen since Trump's April 2025 tariff "Liberation Day," and factory activity declined for 26 straight months through December 2025 (though there was an uptick in January 2026) (Uberti 2026). Given the tariffs in place near the end of 2025, Tax Foundation (York and Durante 2026) projects a long-run reduction in GDP of 0.5 percent to 0.7 percent due to tariffs. Likewise, Penn Wharton Budget Model (2025c), analyzing the effects of tariffs shortly after the April 2025 announcement, found that GDP would be 0.4 percent lower by 2030 and over 5 percent lower by 2054 without any changes to the tariff schedule.

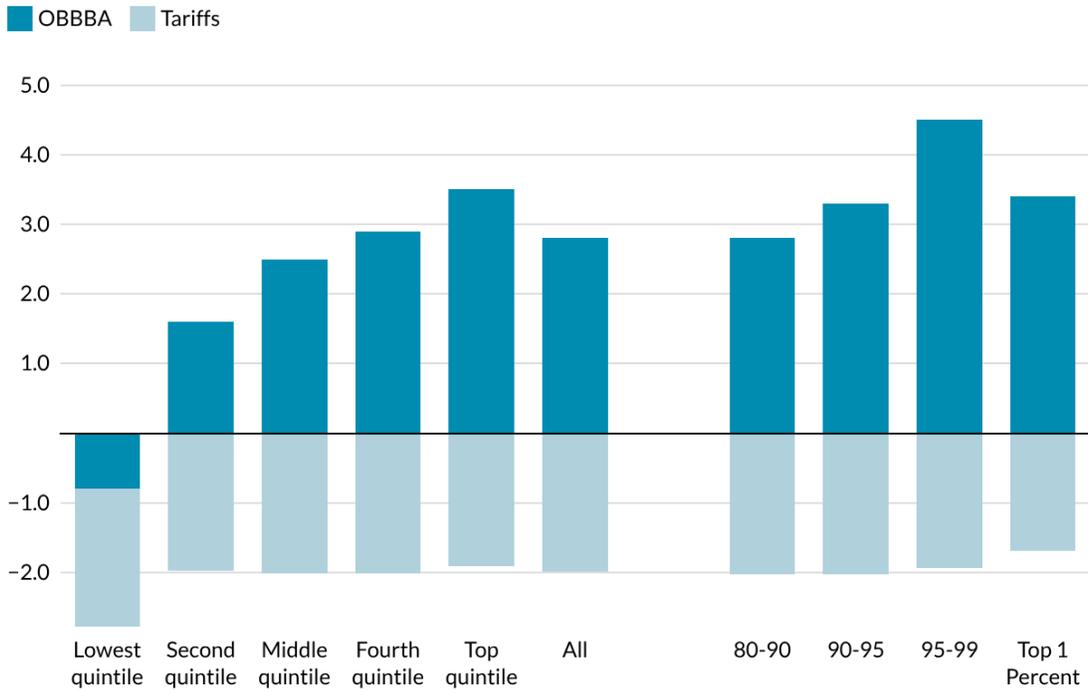
Moreover, the combination of tariffs and the OBBBA make the overall effect of the Trump administration's policies even more regressive. McClelland and Wong (2026) estimate that tariffs through December 2025 will increase average federal tax rates by 1.9 percent in the lowest quintile but only 1.2 percent for the top 1 percent of earners. The combined effects from the OBBBA and tariffs imposed in 2025 will reduce after-tax income, on average, by 2.8 percent for those in the bottom income quintile while increasing after-tax incomes for those in the top income quintile by 1.6 percent on average (Figure 7).

FIGURE 7

Panel A: Distributional Effects of OBBBA and Tariffs, 2026



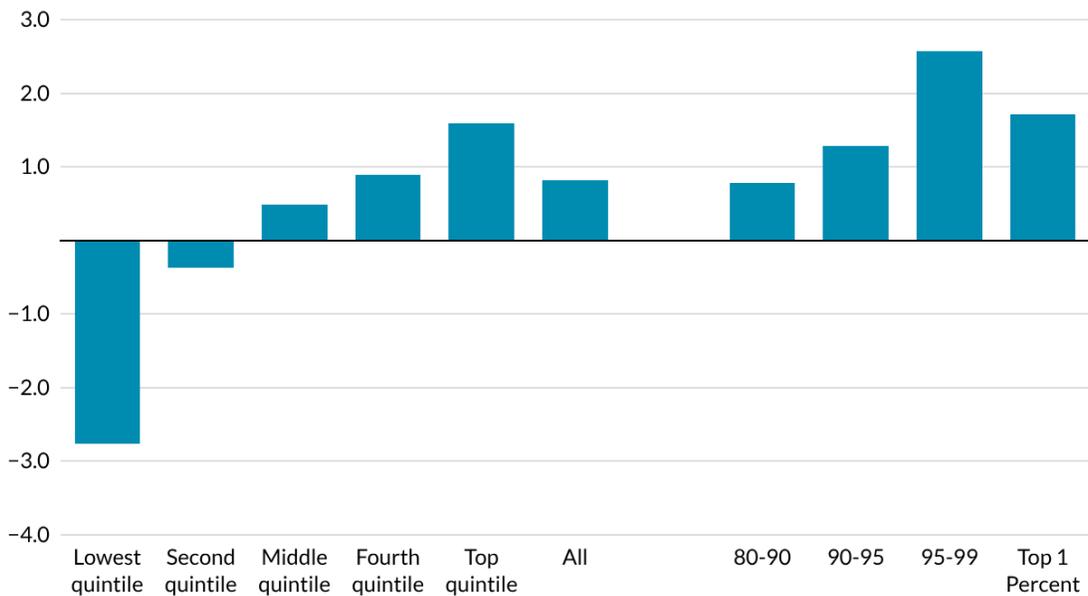
Percent change in after-tax income



Source: Urban-Brookings Tax Policy Center

Panel B: Combined Distributional Effects of OBBBA and Tariffs, 2026

Percent change in after-tax income



Source: Urban-Brookings Tax Policy Center

It would be an understatement to note that there are substantial uncertainties surrounding projections of future tariff revenue. It is unclear how long the US can sustain tariffs at Depression-era levels without significant economic damage. In addition, unlike most taxes, many tariffs can be imposed or withdrawn unilaterally by the executive branch, making them less stable and more sensitive to political pressures (Looney and Patel 2025). Policy uncertainty also complicates forecasting. The administration has frequently revised its tariff schedules, and it is unclear whether current tariffs are intended as a permanent revenue source or as a negotiating tool that may change once certain trade or non-trade objectives are achieved. Recent public statements from the Trump administration proposing to rebate tariff revenue directly back to households—such as one-time payments of \$2,000 per person—underscore this uncertainty. TPC estimates that such a rebate program would cost nearly \$5 trillion over the next decade, far exceeding even the most optimistic tariff revenue estimates and therefore increasing deficits and debt (Holtzblatt, McClelland, and Wong 2025).

Finally, and perhaps most importantly, on February 20, 2026, the Supreme Court ruled that the International Emergency Economic Powers Act (IEEPA) did not justify the 10 percent tariff that the president imposed on almost all countries in April 2025. Nor did the IEEPA justify some additional stronger tariffs that were imposed on major trading partners. The Court did not clarify whether and how previously paid tariffs should be refunded.

Various estimates find that the prohibited tariffs account for between 52 percent and 60 percent of the expected \$3.4 trillion in revenue that CBO projected that tariffs would have raised over the next 10 years (Cato Institute 2026; Penn Wharton Budget Model 2026; The Budget Lab 2026; CBO 2026). Auerbach and Gale (2026) estimate that if half of the projected tariff revenues disappeared, the primary deficit would be higher on average by 0.43 percentage points of GDP in 2036 and 0.46 percentage points of GDP in 2056. The debt-to-GDP ratio would increase by 5.9 percentage points in 2036 and 16.0 percentage points in 2056. The president immediately responded to the Supreme Court ruling by imposing 10 percent tariffs based on Section 122 of the Trade Act of 1974. These taxes, however, can only be enacted for 150 days. The next day, the president said he would raise the proposed rate to 15 percent, but the rate has remained at 10 percent as of publication. The outcome remains uncertain.³¹

B. IRS funding and administrative and enforcement challenges

In order to effectively administer the new rules in the OBBBA, the IRS will require a substantial increase in administrative capacity, as the Act introduces numerous changes to deductions, credits, reporting requirements, and eligibility criteria. In many cases, the statutory language establishes broad parameters of the policy while delegating significant discretion to the Treasury Department and the IRS to define key terms, eligibility standards, and implementation details through regulations and administrative guidance. Developing, issuing, and enforcing such guidance requires substantial technical expertise and administrative capacity.

However, these new responsibilities arrive at a time when the IRS has been chronically underfunded, has experienced significant recent workforce reductions, and has seen most of the IRA’s dedicated enforcement funding rescinded. The IRA originally provided \$45.6 billion for strengthening enforcement and compliance—especially for high-income and corporate taxpayers—but Republicans in Congress eliminated nearly all of this funding, leaving just a few hundred million dollars available for its intended purpose (Christopherson 2025).

These reductions coincide with broader staffing challenges. IRS employment has declined rapidly and substantially in response to the Trump administration’s efforts to reduce the size of the federal government, and the agency faces an indefinite hiring freeze and a budget proposal that would reduce its overall funding by nearly 40 percent in 2026 (Chen and Williamson 2025).

Reductions in enforcement resources pose a structural risk to federal revenue collection. Audits and compliance actions—particularly for high-income taxpayers—yield high returns and reduce the tax gap (Boning et al. 2023). Scaling back enforcement therefore increases the risk of weakened compliance and long-term revenue shortfalls relative to baseline projections. Cuts to taxpayer services and technology investments may also slow processing and complicate tax filing for individuals and businesses.

While the precise fiscal impact is uncertain, the combination of the OBBBA’s administrative demands, rescinded enforcement funding, and significant workforce constraints presents a meaningful risk to projected revenues under the OBBBA.

IX. CONCLUDING REMARKS

The OBBBA is one of the most consequential tax and spending packages of recent decades. It makes permanent and expands core elements of the TCJA, introduces new targeted preferences, reduces spending on major social programs, increases funding for border and defense activities, and alters long-standing budget procedures. Taken together, these changes significantly reshape federal fiscal policy and will influence the structure of tax and spending for years to come.

The central fiscal effect of the Act is clear: Despite substantial reductions in health, nutrition, and education spending, the Act substantially increases federal deficits and debt because of the magnitude of the tax cuts. Although most analyses find a short- or medium-term boost to economic activity, the resulting growth is not nearly large enough to offset the law’s substantial revenue losses. Indeed, the dynamic estimates often generate larger deficits than the conventional estimates. Over the longer term, higher deficits and debt place upward pressure on interest rates, reduce national saving, and diminish fiscal flexibility. Under plausible assumptions, debt rises to levels well above those projected prior to enactment, increasing the government’s exposure to economic shocks and limiting its capacity to address future priorities.

The Act's distributional consequences are similarly pronounced. The permanent extension of lower statutory rates, the expansion of business tax preferences, and the structure of the pass-through deduction deliver the largest gains to higher-income households. When plausible financing mechanisms are incorporated, a substantial share of households—particularly those in the lower half of the income distribution—are projected to be worse off. Emerging tariff policies, while outside the scope of the statute itself, reinforce this regressive tilt when considered alongside the OBBBA's tax changes. Taken together, these changes reduce the overall progressivity of federal fiscal policy by both shifting benefits towards higher-income households and scaling back support delivered through major safety-net programs.

The OBBBA also represents a shift in the design and administration of federal policy. For businesses, the permanent adoption of expensing alongside continued interest deductibility moves the corporate tax further from a traditional income tax without fully replacing it with a coherent alternative. On the individual side, layering temporary, targeted deductions on top of lower statutory rates increases complexity and horizontal inequities. Perhaps most significantly, the use of a current policy baseline to extend expiring provisions without recording their fiscal costs marks a departure from long-standing budget conventions and weakens procedural guardrails intended to constrain deficit expansion.

Finally, the scale of the fiscal resources devoted to the OBBBA underscores the tradeoff embedded in the legislation. The increase in primary deficits is of a similar magnitude to the long-term Social Security Trust Fund shortfall. Choosing to allocate these resources to permanent tax reductions rather than to entitlement reform or deficit reduction narrows the range of future policy options and will likely make eventual adjustments more difficult.

The OBBBA does not resolve the nation's underlying fiscal challenges. Instead, it establishes a new fiscal baseline—lower revenues, lower spending that is shifted toward military and border issues and away from social priorities, higher debt, and altered budget norms—from which future debates will proceed. The durability of its economic benefits and the sustainability of its fiscal costs will ultimately shape how this legislation is judged.

APPENDIX TABLE 1

APPENDIX TABLE 1

Detailed Fiscal Effects of OBBBA as Estimated by the Committee for Responsible Federal Budget, 2025–2034



Billions of dollars

	Cost as passed	Cost if permanent
Extend & Expand TCJA Individual Provisions	3,886	4,051
Extend & Expand Rate Cuts	2,193	2,193
Extend & Expand Standard Deduction	1,425	1,425
Repeal Personal & Dependent Exemption	-1,900	-1,900
Extend & Expand Child Tax Credit Increase	817	817
Extend & Expand 199A Pass-Through Deduction	737	737
Extend AMT & Itemized Deduction Reforms	289	289
Increase SALT Limit through 2029 & Other Deduction Changes	145	310
Revert Some AMT Parameters to 2018 Levels	-12	-12
Limit Deductibility of Business Losses	-18	-18
Extend & Expand Estate Tax Cut	212	212
Revive TCJA Business Provisions	772	772
Revive 100% Bonus Depreciation for Equipment	363	363
Revive Domestic R&E Expensing	141	141
Revive Looser Interest Limit	61	61
Extend & Modify International Tax Rates & Rules	167	167
Extend & Expand Opportunity Zones	41	41
New Individual Tax Cuts	418	826
Cut Taxes on Tips through 2028	32	84
Cut Taxes on Overtime through 2028	90	227
Increase Senior Standard Deduction through 2028	93	222
Establish Deduction for Car Loan Interest through 2028	31	97
Establish "Trump Accounts" and "Pilot" contributions through 2028	16	38
Offer Non-Itemizer Charitable Deduction	74	74
Create Scholarship Tax Credit	26	26
Expand Health Savings Accounts	11	11
Expand Credits for Adoption, Child Care, and Dependent Care	18	18
Create Exclusion for Employer Payments of Student Loans	11	11
Other Individual Tax Cuts	18	18
New Business Tax Cuts	285	502
Allow Expensing of Factories through 2028	141	304
Extend & Reform Clean Fuel Tax Credit	26	79
Restrict Carbon Dioxide Sequestration Credit	14	14
Enhance Low-Income Housing Credit & New Markets Tax Credit	21	21
Expand Qualified Small Business Stock Gain Exclusion	17	17
Enhance the Advanced Manufacturing Investment Credit	15	15
Other Business & Related Tax Cuts	51	52

	Cost as passed	Cost if permanent
Immigration & Border Spending	176	293
Build Border Wall & Enhance Border Security Facilities	51	*
Expand Immigration & Customs Enforcement (ICE) Detention Capacity	45	*
Increase ICE & Other Homeland Security Funding	32	*
Fund State & Local Border & Homeland Security Efforts	26	*
Increase Funding for Customs & Border Protection	12	*
Other Border, Immigration, & Homeland Security Spending	10	*
Defense Spending	173	457
Increase Air Superiority & Enhance Missile Defense	31	*
Expand Shipbuilding Capacity	28	*
Procure Munitions & Bolster Defense Supply Chain	24	*
Improve Coast Guard Mission Readiness	23	*
Scale Development & Production of Low-Cost Weapons Systems	15	*
Enhance Military Readiness	15	*
Enhance Nuclear Deterrence	14	*
Improve Deterrence & Readiness in the Pacific Theater	12	*
Increase Funding for Military Personnel, Border Security & Narcotics, Defense Production Act, & Other Defense Spending Programs	11	*
Other Spending	173	277
Increase Farm Subsidies & Other Agricultural Safety Net Programs	68	68
Establish Rural Hospital Fund	47	70
Increase Health Care Related Spending	13	31
Improve Air Traffic Control System	12	25
Increase Education Related Spending	11	11
Fund Space Exploration	10	24
Expand Radiation Exposure Compensation Act Payments through 2028	8	44
Other Spending Provisions	3	3
All Deficit Increasing Provisions	5,883	7,176
Health Care Provisions	-1,102	-1,102
Establish Medicaid Work Requirements	-317	-317
Restrict State Use of Provider Tax Gimmick	-217	-217
Limit State Directed Payment (SDR) Rates Based on Medicare	-149	-149
Restrict ACA Eligibility Based on Immigration Status	-124	-124
Tighten ACA Enrollment & Reduce Overpayments	-102	-102
Delay Medicare Savings Program Eligibility & Enrollment Rule	-66	-66
Delay Medicaid/CHIP Eligibility & Enrollment Rule	-54	-54
Increase Frequency of Medicaid Eligibility Redeterminations	-58	-58
Limit Medicare & Medicaid Coverage for Certain Immigrants	-39	-39
Delay Nursing Home Staffing Rule	-23	-23
Other Medicaid Savings	-52	-52
Interactions	99	99
Repeal & Reform IRA Credits	-540	-540
Repeal Electric Vehicle (EV) Tax Credits	-189	-189
Phase Out & Restrict Energy Investment Credits	-166	-166
Phase Out & Restrict Advanced Manufacturing Production Credit	-50	-50
Phase Out & Restrict Energy Production Credits	-31	-31
Repeal or Reform other IRA Credits	-105	-105

	Cost as passed	Cost if permanent
Other Revenue Increases & Tax Credit Reductions	-197	-197
Impose Floors on Individual & Corporate Charitable Deduction	-80	-80
Limit Value of Itemized Deductions to 35% Rate	-34	-34
Modify De Minimis Entry Privilege	-39	-39
Expand Executive Compensation Deduction Limit	-20	-20
Impose Remittance Excise Tax	-10	-10
Other Revenue Provisions	-15	-15
Education Reforms	-295	-295
Simplify & Reform Loan Repayment	-269	-269
Establish Loan Limits for Graduate Students	-44	-44
Repeal Loan Discharge Authority	-17	-17
Other Savings & Interactions	35	35
Other Offsetting Receipts	-149	-149
Auction Wireless Spectrum	-85	-85
Impose Visa Integrity Fee	-27	-27
Lease Federal Lands for Oil, Gas, & Coal Exploration & Extraction	-17	-17
Impose Form I-94 Fee & Other Immigration Fees	-17	-17
Other Fees, Auctions, & Leases Revenue	-3	-3
SNAP, Agriculture, & Other Savings	-206	-206
Strengthen SNAP Work Requirements	-60	-60
Require State SNAP Contribution Based on Overpayment Rates	-41	-41
Limit Executive Power to Increase SNAP Benefits	-37	-37
Reduce Federal Share of Administrative Costs for SNAP Program	-25	-25
Rescind IRA Funding	-13	-13
Exclude Internet Expenses from SNAP Benefit Calculations	-11	-11
Enact SNAP Eligibility Changes	-8	-8
Other Savings Provisions	-11	-11
All Deficit Reducing Provisions	-2,489	-2,489
Primary Deficit Effect	3,394	4,687
Interest	718	836
Total Deficit Effect	4,113	5,523

Source: Committee for a Responsible Federal Budget (2025b)

NOTES

- ¹ For early analyses of the TCJA, see Auerbach (2018), Barro and Furman (2018), Gale et al. (2018), and Slemrod (2018). The Summer 2024 issue of the *Journal of Economic Perspectives* features a symposium on TCJA, with articles by Bakija (2024), Clausing (2024), Chodorow-Reich, Zidar, and Zwick (2024), Corinth and Feldman (2024), and Gale, Hoopes, and Pomerleau (2024).
- ² The following discussion is based on Apple, Jr. (2001), CBO (2024), CBPP (2012), CRFB (2025b), Congress.gov (2025a, b), Correa et al. (2025), Duehren (2025), Duehren and Edmondson (2025), Edmondson (2025a, b), Kornfield and Svitek (2025), Lynch (2025), Morgan (2025), Schaeffer (2021); Sprunt (2025), Sprunt and Walsh (2025), Sprunt et al. (2025), and US Senate (2025).
- ³ In addition, the OBBBA was passed using a budget resolution for fiscal year 2025, meaning the official budgetary scores only went through fiscal year 2034, reducing the time period over which costs were measured by one year. This allows for the existence of a reconciliation bill in 2026.
- ⁴ The House did not have to follow the “Byrd Rule,” which only applies to the Senate.
- ⁵ Later, Congress waived the statutory pay-as-you-go (PAYGO) requirement for the OBBBA, which would otherwise have required a sequestration of mandatory spending (CRFB 2026).
- ⁶ This description of provisions derives from several sources. See, for example, Sullivan et al. (2025), CRFB (2025b), Senate Committee on Finance (2025), Parlapiano et al (2025), Watson et al. (2026).
- ⁷ For 2026, the OBBBA increases the upper threshold of the 10% and 12% bracket by 4% relative to current law. For all other brackets, the upper threshold increases by 2.3%. These adjustments apply uniformly to single and joint filers.
- ⁸ The OBBBA resets the Alternative Minimum Tax (AMT) phaseout threshold to its 2018 TCJA level (\$500,000 single; \$1,000,000 joint)—which was a dramatic increase from its pre-TCJA level (\$120,700 single; \$160,900 joint)—and accelerates the phaseout rate from TCJA’s 25% to 50% (BPC 2025b; Tax Policy Center 2024). The AMT exemption amounts and phaseout thresholds remain indexed for inflation after 2026.
- ⁹ Qualified property includes software, equipment, machinery, and newly constructed or acquired manufacturing, refining, and production facilities.
- ¹⁰ By adding back depreciation and amortization expenses, EBITDA allows more interest to be deducted from taxable income than EBIT. The TCJA applied the interest-deduction limit using EBITDA until 2022, after which it shifted to EBIT; the OBBBA restores the original EBITDA standard.
- ¹¹ PolicyEngine (2025) estimates that the individual income tax provisions will reduce federal revenues by \$3.4 trillion relative to current law over the 2026 – 2034 period and \$3.8 trillion through 2035 but do not estimate the effects of the other provisions.
- ¹² From PWBM (2025b), explaining the increase: “First, some households that would otherwise have lost Medicaid without dynamics re-acquire access with dynamics by reducing their hours worked. Second, despite increasing the number of hours worked in response to the legislation..., firm-level total wage bills are often flat or negative due to compositional effects. Specifically, lower-wage workers increase their hours worked, especially due to a reduction in the social safety net spending programs. However, higher-income households reduce their hours worked, as income effects slightly dominate substitution effects after reductions in marginal tax rates. While total *productivity-weighted* [emphasis in original] hours increase, lower-income households pay taxes at a lower marginal tax rate than higher-income households.”
- ¹³ AEI (Pomerleau 2025) estimates dynamic effects of the House bill but uses a different baseline than the estimates above. The relevant feature of the AEI estimate is that dynamic effects would reduce the primary deficit by \$332 billion, similar to the TPC estimate.
- ¹⁴ For further discussion, see Brosy (2025), CRFB (2025b), Congressional Budget Office (2025), Page (2025b), Penn Wharton Budget Model (2025b, d), Pomerleau (2025), Watson et al. (2026), The Budget Lab (2025c).
- ¹⁵ CBO (2026) finds that the OBBBA increases effective marginal tax rates on owner-occupied housing by between 5 and 7 percentage points over the 2026 – 2034 period, relative to the current-law baseline—under which many individual income tax rules would have converted to pre-TCJA law in 2026. In that scenario, many more people would be able to itemize deductions for mortgage interest and property taxes. Relative to a current-policy baseline, OBBBA slightly

reduced the effective marginal tax rate on owner-occupied housing. Specifically, by raising the state and local income tax deduction to \$40,000, the law will allow more people to itemize their deductions and thus to take advantage of deductions for mortgage interest and property taxes.

- 16 The Council of Economic Advisers (2025) also provided estimates, but the estimates omit or mischaracterize numerous provisions. See Gale and Pomerleau (2025) and Rampell (2025).
- 17 Models used by the Treasury Department provide similar corporate tax assumptions (Cronin 2022). CBO (2023) and Joint Committee on Taxation (2013) assume that 75% is allocated to capital owners and 25% to labor, which, in practice, does not generate dissimilar results. Toder (2023) and Gale and Thorpe (2024) provide a review of recent literature and provide alternative distributional estimates. See Viard (2014) for further discussion.
- 18 See Tax Policy Center (2025a). The estimates include all tax provisions in the legislation that exceed \$100 million of revenue, as estimated by the staff of the Joint Committee on Taxation, but do not include provisions that reduce premium tax credits (PTCs) for health insurance.
- 19 Figure 7 shows conventional distributional estimates of the tax and spending provisions of the OBBBA combined.
- 20 TPC (2026) addresses the distributional effects of the OBBBA by racial and ethnic groups. Gale, Hall, and Sabelhaus (2025-) provide additional background on distributional issues by race and ethnicity.
- 21 As Blanchard (2019) shows, if the debt-to-GDP ratio is declining over time, tax cuts do not need to be financed. While the policy discussion regarding this point centers on the difference between the interest rate (r) and the growth rate (g), $r < g$ is not sufficient to ensure a declining debt-to-GDP ratio because primary deficits can be positive. In the US, of course, the debt-to-GDP ratio is projected to rise continually over the next 30 years.
- 22 Some OBBBA changes are only partially included or not included at all because they do not take effect until late 2026 or beyond. For a full timeline of OBBBA implementation, see Andara et al. (2025).
- 23 In this analysis, we allocate changes in PTCs, Medicaid, SNAP, and student loan repayment directly to households. Changes in spending provisions, including Medicaid, are allocated to households at their full budgetary cost. CBO (2025k) also allocates spending changes based on budgetary cost, although they allocate a portion of Medicaid changes to health care providers and insurers. To distribute other changes in federal spending, including for defense and border security, we adopt the assumptions used by the Congressional Budget Office (2025k) and allocate half of such spending on a per capita basis and half in proportion to each taxpayer's share of total income. See also CBO (2025d).
- 24 The revenue loss occurs because the deduction will reduce both adjusted gross income and taxable income and because, when those measures decline, the taxable portion of Social Security benefits also declines for some seniors.
- 25 This section draws from Dadayan (2025), Hanauer et al. (2025), Johnson and Mazerov (2025), and Walczak (2025).
- 26 For example, in Arizona, tax conformity to new provisions (i.e., not including extensions of provisions that were previously scheduled to expire) would decrease General Fund revenue by \$381.4 million in FY26, compared to initial projected General Fund revenues of \$17.6 billion (Arizona Joint Legislative Budget Committee 2025a, b). Note that because of the delay in Medicaid changes, only 6% of the \$792 billion in Medicaid cuts over the next 10 years will affect states before 2028 (MultiState 2026).
- 27 For a full list of tariff policies, see Romm et al. (2026) and Meltzer and Ezi-Ashi (2025).
- 28 The estimated net increase in revenues is smaller than the increase in the ETR because the revenue estimates assume that imports will decline in the presence of higher tariffs and because higher tariffs offset some revenues from income taxes and other taxes (CBO 2022).
- 29 See Bond et al. (2013), Crucini and Kahn (1996, 2003), Irwin (1998), Madsen (2001), Mitchener, O'Rourke and Wandschneider (2022); though see Eichengreen (1986) for counterargument.
- 30 As of February 13, 2026, using conventional scoring techniques for 2025 – 2034: CRFB (2025a) estimates that tariffs enacted through August 7, 2025, will generate \$2.8 trillion (0.8% of GDP), and Tax Foundation (York and Durante 2026) estimates in February 2026 show tariffs raising revenues by \$2.0 trillion (0.6% of GDP). Other conventional scores use different budget windows. CBO (2025b) projects that tariffs enacted through November 15, 2025, will raise \$2.5 trillion (0.7% of GDP) using a window of 2025 to 2035. McClelland and Wong (2026) project that tariffs through December 4, 2025, will raise \$2.3 trillion (0.6% of GDP) using a budget window of 2026 to 2035. Dynamic scoring by the Tax Foundation (York and Durante 2026) shows revenue effects 30% smaller than the conventional scores.
- 31 For more discussion, see Anderson et al. (2026).

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