



The Across-the-Board Sequestration/Cuts

Below is an explanation of the automatic across-the-board cuts that will be imposed on certain “mandatory” programs (programs that do not require annual appropriations like the Social Services Block Grant) if Congress passes a tax cut measure that increases the deficit without fixing the current mandatory spending cuts)

- Under federal budget law, Congress must follow a “PAYGO” law (pay-as-you-go) spending limits
- PAYGO provides for an across-the-board sequester (cuts) of non-exempt mandatory spending programs if lawmakers enact deficit-increasing legislation
- If the deficit is over several years, Office of Management and Budget (OMB) divides the ten-year effect, calculates the amount for each of the ten years. If Congress adjourns without fixing the deficit increases, OMB issues sequester/cuts of non-exempt mandatory programs

PROGRAM THAT GET CUT

- (Except for Medicare) Social Security and some means-tested entitlements (including foster care and adoption assistance) are **exempt** from these PAYGO cuts.
 - Medicare is subject to the sequester/cut but the cut **is capped** at 4 percent
 - **Other mandatory programs** are **subject to a full sequester /cut** including agriculture subsidies, student loans, **the Social Services Block Grant**, mandatory spending in the Affordable Care Act (with a few exemptions) and certain programs like **home visiting** and the child welfare program **Promoting Safe and Stable Families**.
- If lawmakers enacted a \$1.5 trillion tax cut this year and Congress doesn’t address the deficit, OMB issues sequester/cut of \$150 billion in mandatory spending for 2018 and each of the next nine years.

- After calculations, OMB determines a sequester/cut of \$114 billion in 2018 (of the total \$150 billion)
 - This calculation of \$1.14 trillion or more would require the full 4 percent reduction in Medicare plus the elimination of all non-exempt programs
 - In this case, a \$1.5 trillion deficit increase would still leave a \$36 billion increase in the deficit for 2018.
 - It would require elimination of all these ***other mandatory programs*** for the ten year period until 2027

Congress could fix the PAYGO law or fix it for just this year. It could turn into an annual fight or an annual cut or permanent cut.

For a more detailed explanation you can go to [Committee for a Responsible Federal Budget](#) and their explanation at <http://www.crfb.org/blogs/how-paygo-rules-could-affect-tax-reform> or the more formal [CBO explanation](#).