



Statutory PAYGO and Budget Reconciliation Legislation

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This Insight provides a brief overview of statutory PAYGO, its application to reconciliation legislation, and the ways in which it has been addressed in relation to previously enacted budget reconciliation legislation.

Overview of PAYGO

In February 2010, the Statutory Pay-As-You-Go Act of 2010 (P.L. 111-139) was enacted establishing a budget enforcement mechanism commonly referred to as “Statutory PAYGO.” According to Section 2 of the act, it is generally intended to “enforce a rule of budget neutrality on new revenue and direct spending legislation” based on the net effect of all such legislation on cumulative deficits over five- and 10-year periods. To enforce Statutory PAYGO, the Office of Management and Budget (OMB) is required to record the budgetary effects of newly enacted revenue and direct spending legislation on two separate scorecards: one that covers a five-year period and one that covers a 10-year period. The budgetary effect of PAYGO measures is determined by statements inserted into the *Congressional Record* by the chairmen of the House and Senate Budget Committees and referenced in the text of the measures. If this procedure is not followed, the budgetary effect of the measure is determined by OMB.

Each year, OMB is required to issue an annual PAYGO report not later than 14 days (excluding weekends and holidays) after Congress adjourns to end a session. If the net effect of all PAYGO legislation is an increase in the deficit, the President must issue a sequestration order that automatically implements across-the-board cuts to non-exempt direct spending programs to compensate for the amount of the debit. Section 11 of the act exempts some direct spending programs and activities from sequestration, such as Social Security and Medicaid. Medicare is limited to a 4% cut. (To see a list of non-exempt direct spending programs that might be affected by sequestration under Statutory PAYGO, see the this [OMB report to Congress for FY2026](#).)

When legislation is enacted that is projected to increase the deficit, the text of the legislation will often include a provision exempting the legislation’s budgetary effects from OMB’s PAYGO scorecard. For example, Section 3106 of P.L. 119-4, the FY2025 full-year continuing resolution, stated, “The budgetary effects of divisions B and C shall not be entered on either PAYGO scorecard maintained pursuant to

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section 4(d) of the Statutory Pay-As-You Go Act of 2010.” Such a provision could be considered extraneous if it was to be included in a reconciliation bill, however.

PAYGO and Reconciliation

When Congress considers legislation pursuant to the [reconciliation process](#), Section 313(b) of the Congressional Budget Act (known as the Byrd rule) prohibits language that does not produce a change in outlays or revenues. Therefore, the inclusion of such a provision could potentially be subject to a point of order that would require the support of 60 Senators for a waiver.

A provision concerning the application of PAYGO to a reconciliation measure could, however, be included in a separate non-reconciliation legislative vehicle. This was the case for the [2017 reconciliation bill](#), often referred to as the Tax Cuts and Jobs Act, which, when enacted, was projected to [increase the deficit by \\$1.46 trillion](#) over the 2018-2027 period. The legislation did not include a PAYGO waiver within its text, but such a provision was included in [separate legislation](#), considered under the regular rules of the House and Senate and enacted into law on the same day.

In March 2021, a reconciliation bill, the [American Rescue Plan Act of 2021](#), was enacted that was projected to [increase the deficit by approximately \\$1.856 trillion](#) over the period FY2021-FY2030. In December 2021, [legislation was enacted](#) that removed any debits on either 2022 PAYGO scorecards and added them to the scorecards for 2023.

In August 2022, a reconciliation bill, commonly referred to as [the Inflation Reduction Act of 2022](#), was enacted that was projected to [increase the deficit by approximately \\$65 billion](#) over the period of FY2022-FY2026. In December 2022, P.L. 117-71 was enacted with a provision that removed any debits on either scorecard for 2023 and 2024 and added them to the scorecard for 2025. In December 2024, P.L. 118-158 was enacted with a provision that set the scorecards to zero.

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