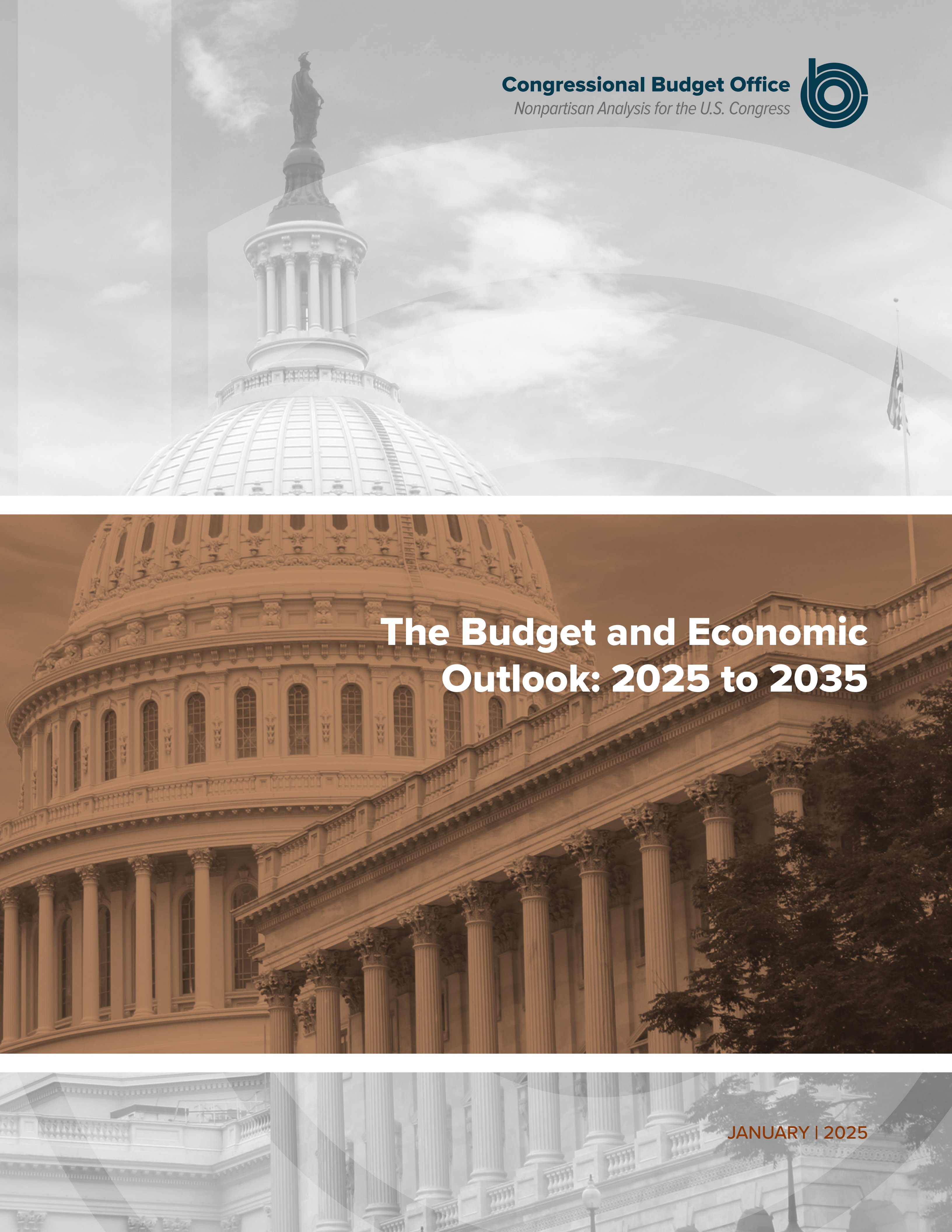

Congressional Budget Office
Nonpartisan Analysis for the U.S. Congress

The Budget and Economic Outlook: 2025 to 2035

JANUARY | 2025

By the Numbers

The Budget Outlook, by Fiscal Year

	Percentage of GDP					Billions of dollars			
	Average, 1975–2024	Actual, 2024	2025	2026	2035	Actual, 2024	2025	2026	2035
Revenues	**17.3**	**17.1**	**17.1**	**17.8**	**18.3**	**4,918**	**5,163**	**5,580**	**8,031**
Individual income taxes	8.0	8.4	8.7	9.5	10.0	2,426	2,621	2,968	4,413
Payroll taxes	6.0	5.9	5.8	5.9	5.9	1,709	1,759	1,840	2,605
Corporate income taxes	1.8	1.8	1.7	1.6	1.2	530	524	495	517
Other	1.5	0.9	0.9	0.9	1.1	253	259	277	496
Outlays	**21.1**	**23.7**	**23.3**	**23.3**	**24.4**	**6,826**	**7,028**	**7,294**	**10,730**
Mandatory	11.1	14.3	14.0	14.0	15.1	4,130	4,228	4,386	6,626
Social Security	4.4	5.0	5.2	5.3	6.0	1,454	1,572	1,664	2,624
Major health care programs	3.5	5.8	5.8	5.8	6.7	1,669	1,754	1,832	2,949
Medicare	2.1	3.2	3.1	3.2	4.0	910	942	1,000	1,753
Medicaid, CHIP, and marketplace subsidies	1.3	2.6	2.7	2.7	2.7	759	812	831	1,196
Other mandatory	3.2	3.5	3.0	2.8	2.4	1,006	902	891	1,053
Discretionary	7.9	6.3	6.1	6.1	5.3	1,815	1,848	1,897	2,322
Defense	4.2	3.0	2.9	2.8	2.4	855	859	866	1,053
Nondefense	3.7	3.3	3.3	3.3	2.9	960	989	1,031	1,268
Net interest	2.1	3.1	3.2	3.2	4.1	881	952	1,010	1,783
Total deficit (-)	**-3.8**	**-6.6**	**-6.2**	**-5.5**	**-6.1**	**-1,907**	**-1,865**	**-1,713**	**-2,699**
Primary deficit (-)	-1.7	-3.6	-3.0	-2.2	-2.1	-1,026	-913	-703	-916
Debt held by the public at the end of each period	49.7	97.8	99.9	101.7	118.5	28,199	30,103	31,883	52,056

See Appendix B. When October 1 (the first day of the fiscal year) falls on a weekend, certain payments that ordinarily would have been made on that day are instead made at the end of September and thus are shifted into the previous fiscal year. Outlays and deficits have been adjusted to remove the effects of those shifts. CHIP = Children's Health Insurance Program; GDP = gross domestic product.

The Economic Outlook, by Calendar Year

					Annual average	
	Estimated, 2024	2025	2026	2027	2028–2029	2030–2035
	Change from fourth quarter to fourth quarter (percent)					
Real (inflation-adjusted) GDP	2.3	1.9	1.8	1.8	1.8	1.8
Inflation						
PCE price index	2.5	2.2	2.1	2.0	2.0	2.0
Consumer price index	2.7	2.3	2.4	2.3	2.2	2.2
Payroll employment (net monthly change, in thousands)	187	90	58	46	52	57
	Annual average (percent)					
Unemployment rate	4.0	4.3	4.4	4.4	4.4	4.4
Interest rates						
Effective federal funds rate	5.1	4.0	3.5	3.3	3.3	3.2
3-month Treasury bills	5.0	3.8	3.3	3.2	3.2	3.1
10-year Treasury notes	4.2	4.1	3.9	3.9	3.9	3.8
Tax bases (percentage of GDP)						
Wages and salaries	42.6	42.8	43.1	43.2	43.5	43.6
Domestic corporate profits	11.4	11.1	10.7	10.3	9.6	9.5

See Appendix C. GDP = gross domestic product; PCE = personal consumption expenditures.

Contents

Notes About This Report

The budget projections in this report include the effects of legislation enacted through January 6, 2025, and are based on the Congressional Budget Office's economic projections. Those economic projections reflect economic developments and information as of December 4, 2024, and are available on CBO's website (www.cbo.gov/data/budget-economic-data#4).

Unless this report indicates otherwise, all years referred to in describing the budget outlook are federal fiscal years, which run from October 1 to September 30 and are designated by the calendar year in which they end. Years referred to in describing the economic outlook are calendar years.

When October 1 falls on a weekend, certain monthly payments that the government would ordinarily have made on that day are instead made at the end of September and thus are shifted into the previous fiscal year. Consequently, the number of payments in the fiscal year that begins on a weekend decreases, and the number in the previous year increases. Those shifts in the timing of payments affect outlays and deficits (or surpluses) and thus are reflected in the agency's baseline budget projections (see Table A-1 and Table B-1). But timing shifts can complicate comparisons of annual outlays and deficits and distort certain budgetary trends, so CBO also presents adjusted baseline projections that treat the payments as if they were not subject to the shifts. (For examples, see Table B-2 and Table B-4.)

Unless this report indicates otherwise, historical economic data shown in the text, tables, and figures reflect data available from the Bureau of Economic Analysis and other sources in mid-January 2025. Those data contain updated values for the last two months of 2024, which were not available when CBO developed its current projections.

Numbers in the text, tables, and figures may not add up to totals because of rounding.

Some of the figures in this report use shaded vertical bars to indicate periods of recession. (A recession begins just after a peak in economic activity and runs through the subsequent trough.)

Supplemental data for this analysis are available on CBO's website (www.cbo.gov/publication/60870#data), as are a glossary of budgetary and economic terms (www.cbo.gov/publication/42904), a guide that explains the differences between common budgetary terms (www.cbo.gov/publication/57420), a description of how CBO develops its baseline budget projections (www.cbo.gov/publication/58916), a description of how CBO prepares its economic forecast (www.cbo.gov/publication/53537), and previous editions of this report (https://tinyurl.com/4dt4hshv).

The Budget and Economic Outlook: 2025 to 2035

The Congressional Budget Office regularly publishes reports presenting its baseline projections of what the federal budget and the economy would look like in the current year and over the next 10 years if laws governing taxes and spending generally remained unchanged. This report is the latest in that series, presented in an abbreviated version to facilitate work on other Congressional priorities. The budget projections are based on CBO's economic forecast, which reflects developments in the economy as of December 4, 2024. They also incorporate legislation enacted through January 6, 2025.

The Budget Outlook

Deficits

In CBO's projections, the federal budget deficit in fiscal year 2025 is $1.9 trillion. Adjusted to exclude the effects of shifts in the timing of certain payments, the deficit grows to $2.7 trillion by 2035. It amounts to 6.2 percent of gross domestic product (GDP) in 2025 and drops to 5.2 percent by 2027 as revenues increase faster than outlays. In later years, outlays increase faster than revenues, on average. In 2035, the adjusted deficit equals 6.1 percent of GDP—significantly more than the 3.8 percent that deficits have averaged over the past 50 years.

Debt

From 2025 to 2035, debt swells as increases in mandatory spending and interest costs outpace growth in revenues. Federal debt held by the public rises from 100 percent of GDP this year to 118 percent in 2035, surpassing its previous high of 106 percent of GDP in 1946.

Outlays and Revenues

Federal outlays in 2025 total $7.0 trillion, or 23.3 percent of GDP. They remain close to that level through 2028 and then rise, reaching 24.4 percent of GDP in 2035 (if adjusted to exclude the effects of shifts in the timing of certain payments). The main reasons for that increase are growth in spending for Social Security and Medicare and rising net interest costs. Revenues total $5.2 trillion, or 17.1 percent of GDP, in 2025. They rise to 18.2 percent of GDP by 2027, in part because of the scheduled expiration of provisions of the 2017 tax act. Revenues decline as a share of GDP over the next two years, falling to 17.9 percent in 2029, but then generally increase, reaching 18.3 percent in 2035.

Changes in CBO's Budget Projections

The deficit for 2025 is $0.1 trillion (or 4 percent) less in CBO's current projections than it was in the agency's June 2024 projections, and the cumulative deficit over the 2025–2034 period is smaller by $1.0 trillion (or 4 percent). The largest contributor to the cumulative decrease was growth in projected collections of individual income taxes, driven by greater projections of taxable income in CBO's economic forecast.

Projections for **2025**

Budget deficit:
$1.9 trillion

Debt held by the public:
100% of GDP

Outlays:
$7.0 trillion

Revenues:
$5.2 trillion

When October 1 (the first day of the fiscal year) falls on a weekend, certain payments that ordinarily would have been made on that day are instead made at the end of September and thus are shifted into the previous fiscal year. Because those shifts can distort budgetary trends, CBO often presents adjusted projections of deficits and outlays that treat the payments as if they were not subject to the shifts.

The Budget Outlook, by Fiscal Year

		Percentage of GDP				Billions of dollars			
	Average, 1975–2024	Actual, 2024	2025	2026	2035	Actual, 2024	2025	2026	2035
Revenues	**17.3**	**17.1**	**17.1**	**17.8**	**18.3**	**4,918**	**5,163**	**5,580**	**8,031**
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Other	1.5	0.9	0.9	0.9	1.1	253	259	277	496
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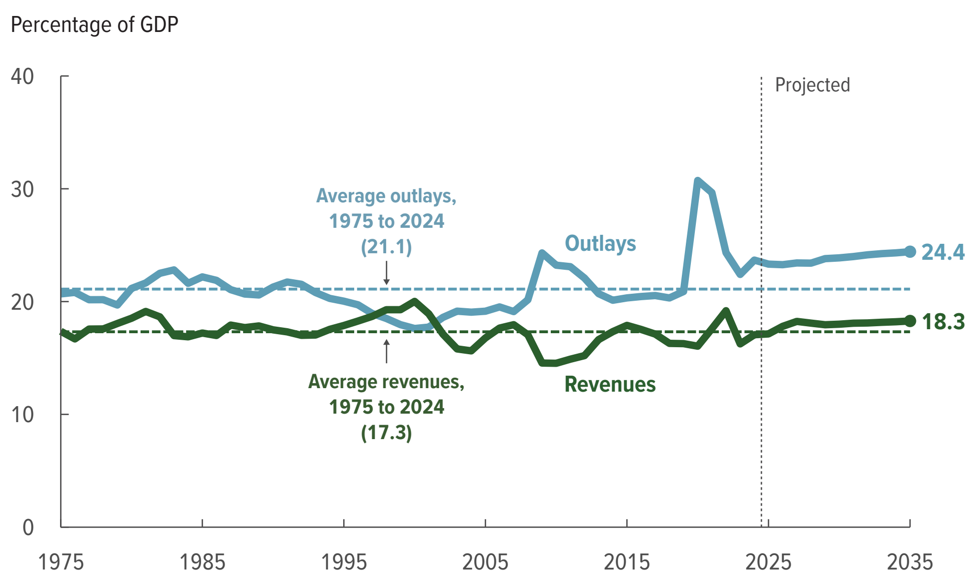
Total deficit (-)	**-3.8**	**-6.6**	**-6.2**	**-5.5**	**-6.1**	**-1,907**	**-1,865**	**-1,713**	**-2,699**
Primary deficit (-)	-1.7	-3.6	-3.0	-2.2	-2.1	-1,026	-913	-703	-916
Debt held by the public at the end of each period	49.7	97.8	99.9	101.7	118.5	28,199	30,103	31,883	52,056

See Appendix B.

The Budget Outlook in Six Figures

Total Outlays and Revenues

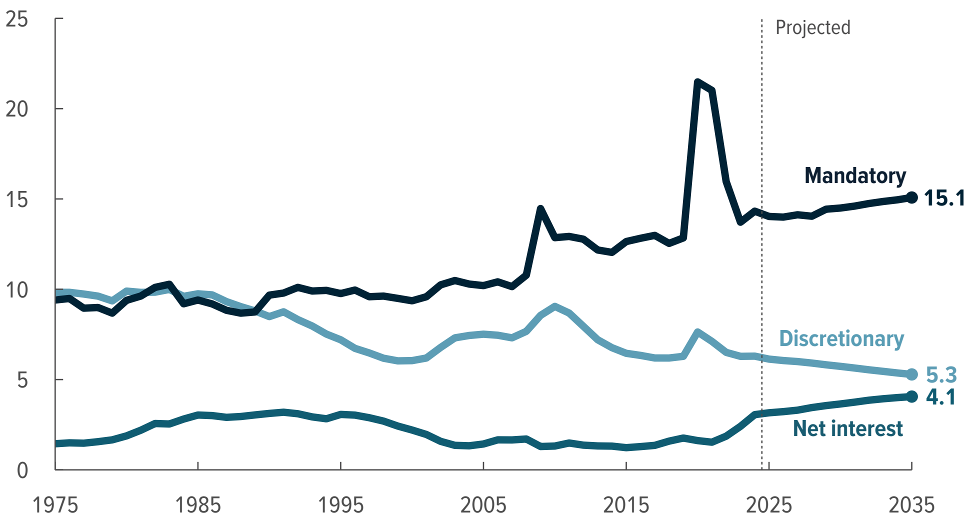
Measured as a percentage of GDP, federal outlays in CBO's projections exceed their 50-year average every year from 2025 to 2035. Revenues remain below their 50-year average in 2025 but rise above it thereafter.



Outlays, by Category

In CBO's projections, rising spending for Social Security and Medicare boosts mandatory outlays, and discretionary spending shrinks as a share of GDP. Net outlays for interest increase as debt mounts. Interest costs exceed outlays for defense from 2025 to 2035 and exceed outlays for nondefense discretionary programs from 2027 to 2035. From 2027 on, interest costs are greater in relation to GDP than at any point since at least 1940 (the first year for which the Office of Management and Budget reports such data).

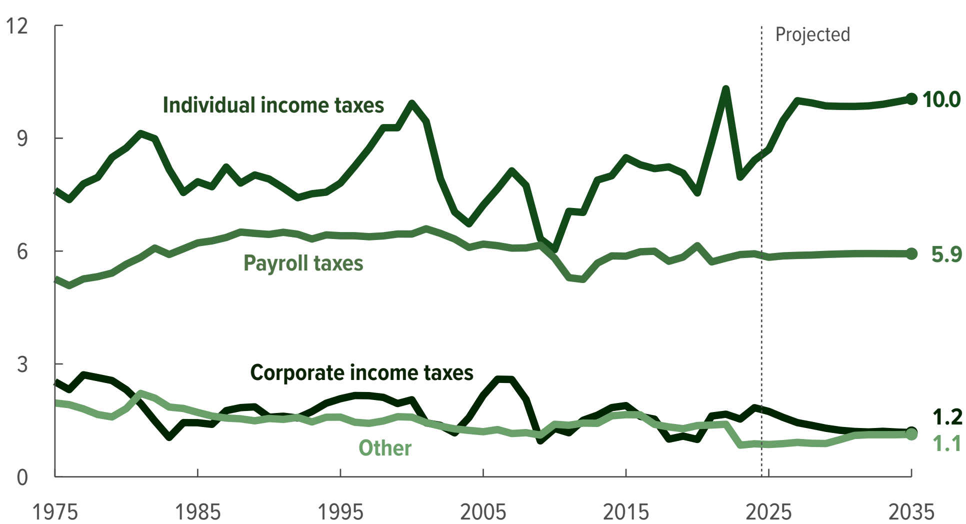
Percentage of GDP



Revenues, by Category

Receipts from individual income taxes rise over the next three years, primarily because of scheduled increases in most tax rates, and then roughly stabilize as a share of GDP. After 2025, corporate income tax receipts decrease in relation to GDP, largely because of other scheduled changes in tax rules, increased claims of tax credits, and slower growth of corporate profits relative to overall growth in the economy.

Percentage of GDP



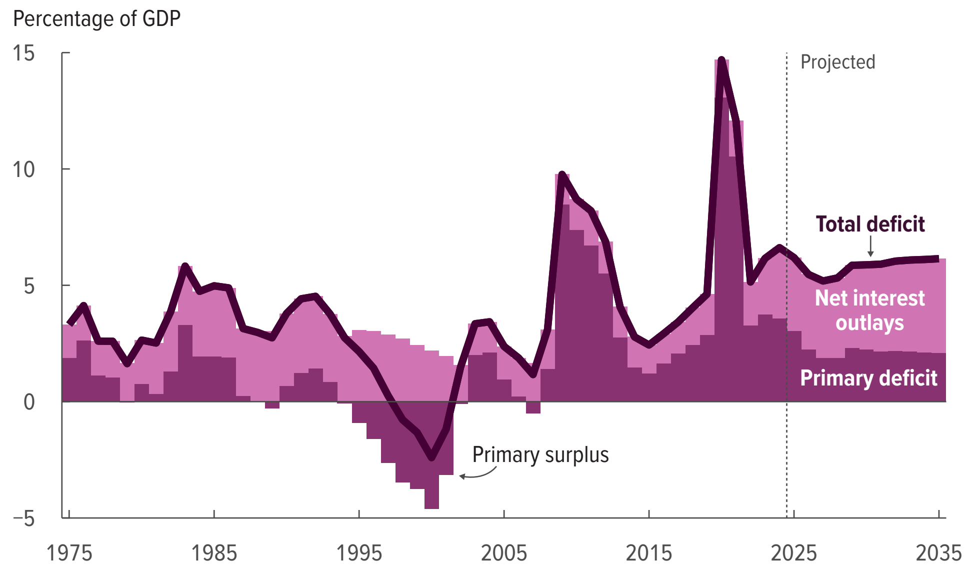
Outlook for **Outlays and Revenues**

Increases in spending for Social Security and Medicare and rising net interest costs push outlays to **$10.7** trillion, or **24.4%** of GDP, in 2035.

Revenues in 2035 total **$8.0** trillion, or **18.3%** of GDP.

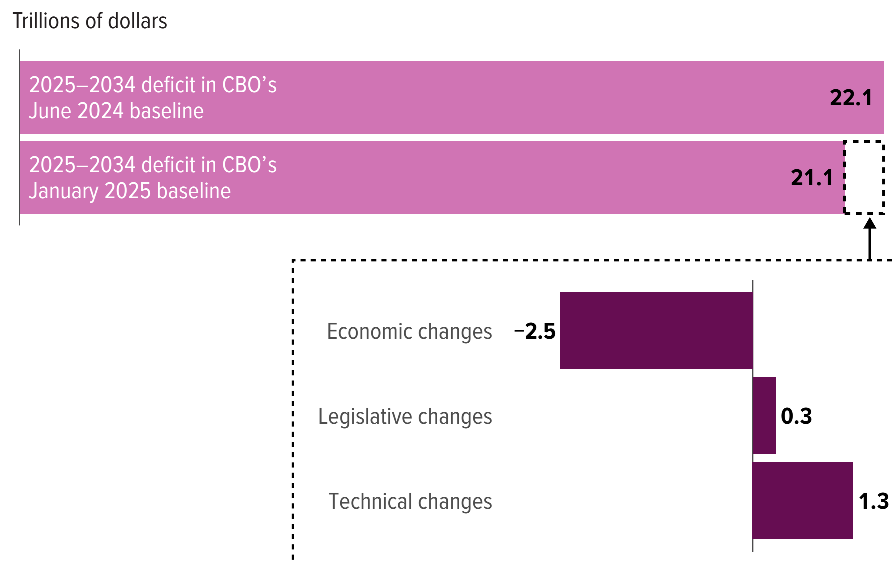
Total Deficit, Net Interest Outlays, and Primary Deficit

In CBO's projections, the total deficit—the amount by which outlays exceed revenues—equals 6.1 percent of GDP in 2035. By that year, net interest payments grow to 4.1 percent of GDP and account for about one-sixth of all federal spending. The primary deficit (which excludes those payments) equals 2.1 percent of GDP in 2035.



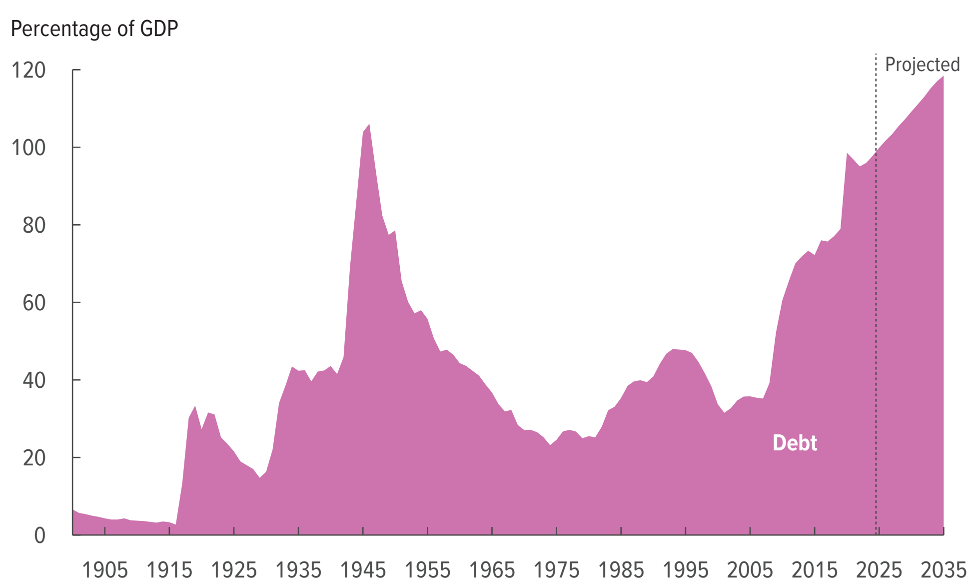
Changes in CBO's Projections of the 10-Year Deficit Since June 2024

Deficits from 2025 to 2034 are projected to total $21.1 trillion, $1.0 trillion less than CBO projected in June. Most of that decrease is due to economic changes to CBO's projections, particularly increases in projected revenues from individual income taxes. Legislative changes and technical (that is, neither economic nor legislative) changes boosted projected deficits. Those increases offset more than half of the decrease from economic changes. (For more details about changes to CBO's budget projections, see Appendix A.)



Federal Debt Held by the Public

Debt held by the public rises each year. From 2025 to 2035, it swells from 100 percent of GDP to 118 percent—an amount greater than at any point in the nation's history. (For more details about CBO's budget projections, see Appendix B.)



The Economic Outlook

Economic Growth

In CBO's projections, economic growth cools from an estimated 2.3 percent in calendar year 2024 to 1.9 percent in 2025 and 1.8 percent in 2026 amid higher unemployment and lower inflation. The Federal Reserve continues reducing interest rates through the end of 2026, which supports economic growth. Real GDP then grows by 1.8 percent per year, on average, through 2035. Roughly four-fifths of the growth over that period is due to increases in the productivity of the labor force. The rest is due to increases in the size of the labor force.

Inflation

The overall growth of prices slows slightly in 2025. Inflation as measured by the price index for personal consumption expenditures (PCE) falls from an estimated 2.5 percent in 2024 to a rate roughly in line with the Federal Reserve's long-run goal of 2 percent in 2027 and stabilizes thereafter.

Interest Rates

The Federal Reserve began reducing the federal funds rate (the rate financial institutions charge each other for overnight loans) in September 2024. In CBO's projections, those reductions continue through the end of 2026. Longer-term interest rates, such as the rate on 10-year Treasury notes, decline through the end of 2026 and then remain roughly flat.

Changes in CBO's Economic Projections

Since June 2024, when CBO published its previous full economic forecast, the agency's projections of the average growth rate of real GDP over the 2024–2026 period have changed little. CBO raised its forecast of the average unemployment rate for 2024 to 2026 and lowered its forecast of employment growth over that period. Inflation is expected to be slightly higher, on average, in 2025 and 2026 than the agency projected in June. The forecast of long-term interest rates for 2026 is also higher. After 2026, CBO's current and previous forecasts are generally similar.

Outlook for 2025–2035

Over the next two years, economic growth slows, and inflation continues to decline.

After 2026, economic growth and inflation remain moderate.

The Economic Outlook, by Calendar Year

					Annual average	
	Estimated, 2024	2025	2026	2027	2028–2029	2030–2035
	Change from fourth quarter to fourth quarter (percent)					
Real (inflation-adjusted) GDP	2.3	1.9	1.8	1.8	1.8	1.8
Inflation						
PCE price index	2.5	2.2	2.1	2.0	2.0	2.0
Consumer price index	2.7	2.3	2.4	2.3	2.2	2.2
Payroll employment (net monthly change, in thousands)	187	90	58	46	52	57
	Annual average (percent)					
Unemployment rate	4.0	4.3	4.4	4.4	4.4	4.4
Interest rates						
Effective federal funds rate	5.1	4.0	3.5	3.3	3.3	3.2
3-month Treasury bills	5.0	3.8	3.3	3.2	3.2	3.1
10-year Treasury notes	4.2	4.1	3.9	3.9	3.9	3.8
Tax bases (percentage of GDP)						
Wages and salaries	42.6	42.8	43.1	43.2	43.5	43.6
Domestic corporate profits	11.4	11.1	10.7	10.3	9.6	9.5

See Appendix C.

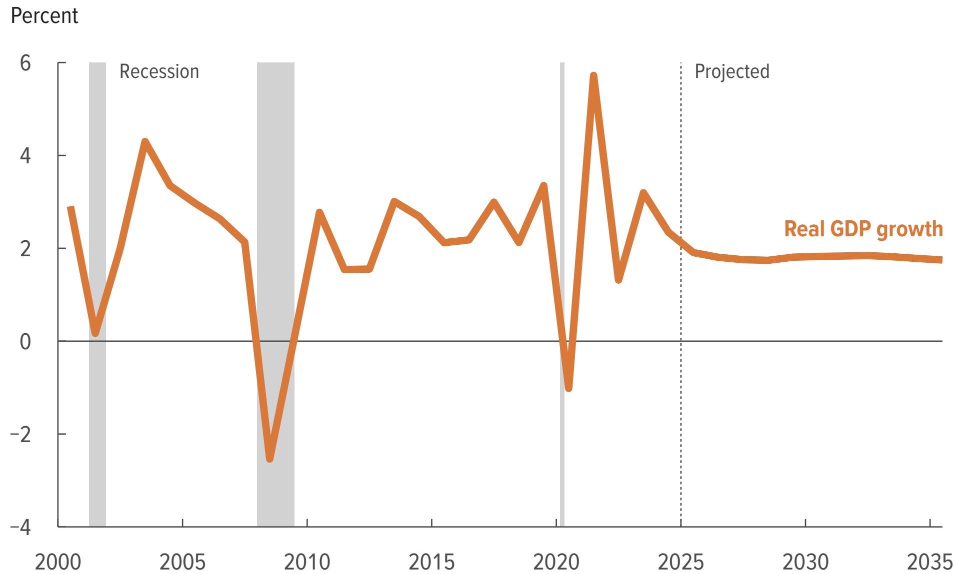
The Economic Outlook in Six Figures

Outlook for **Economic Growth**

Real GDP grows by **1.9%** in 2025 and **1.8%** in 2026.

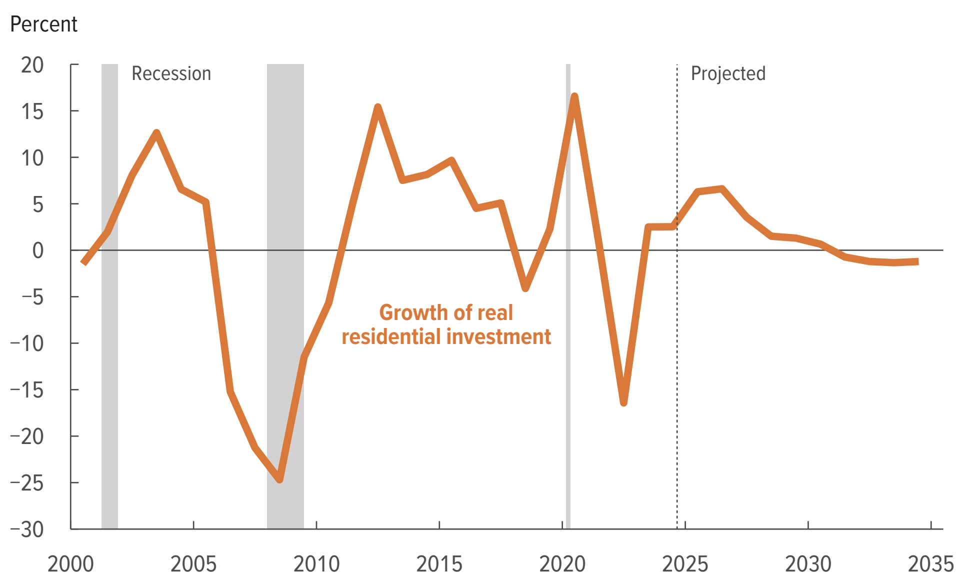
Growth of Real GDP

The growth of economic output, as measured by the nation's GDP, is expected to moderate in 2025, reflecting slower growth in consumer and government spending. CBO expects that more moderate economic growth to continue in 2026 as consumer spending slows further and investment in private nonresidential structures declines.



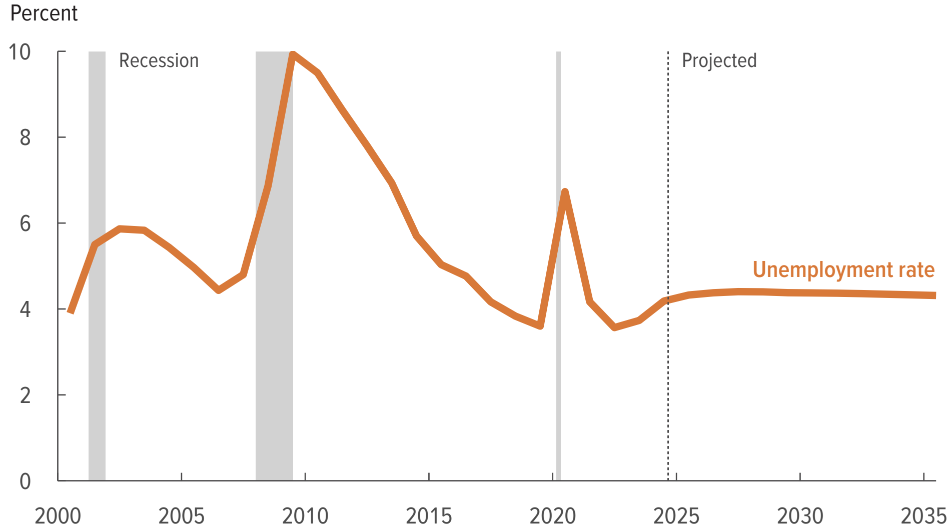
Residential Investment

Real residential investment, which includes home construction, renovations, and brokers' commissions, grew by an estimated 2.5 percent in 2024, contributing 0.1 percentage point to real GDP growth. In CBO's projections, that contribution rises to 0.3 percentage points in 2025 and 2026 before declining. Such investment grows by an average of 6.4 percent in those years as falling interest rates, pent-up demand, recent increases in the population, and a limited supply of existing homes for sale boost demand for new homes.



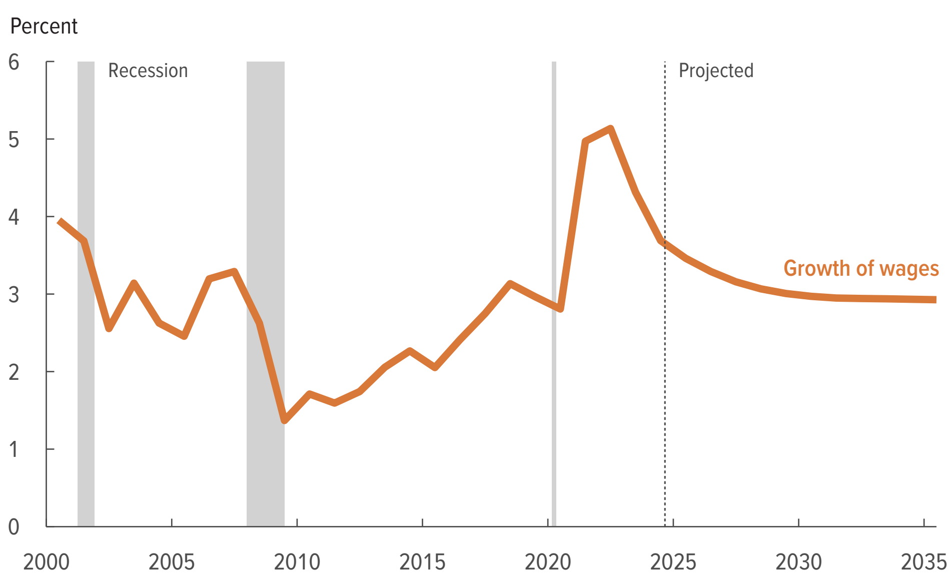
Unemployment

In CBO's projections, the slowdown in economic growth raises the unemployment rate to 4.3 percent at the end of 2025 and 4.4 percent at the end of 2026. In later years, the unemployment rate declines gradually, reaching 4.3 percent at the end of 2035.



Wages

Weaker demand for labor and falling inflation slow the growth of nominal wages over the next year. Wage growth declines gradually after 2025 but remains above the rate it averaged from 2015 to 2019—before the coronavirus pandemic—through 2035.



Outlook for **Unemployment and Wages**

The unemployment rate rises through the end of 2026 and then declines gradually after 2032.

Wage growth continues to slow, falling to **2.9%** at the end of 2035.

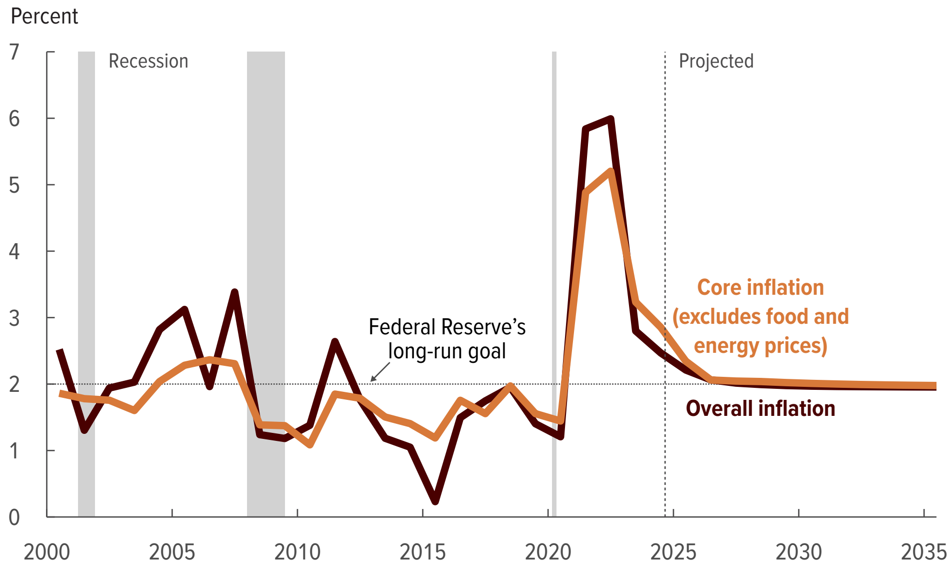
Outlook for **Inflation and Interest Rates**

Inflation slows in 2025 and settles at **2%** or less after 2026.

After 2025, short-term interest rates remain below 10-year rates, reflecting their typical relationship.

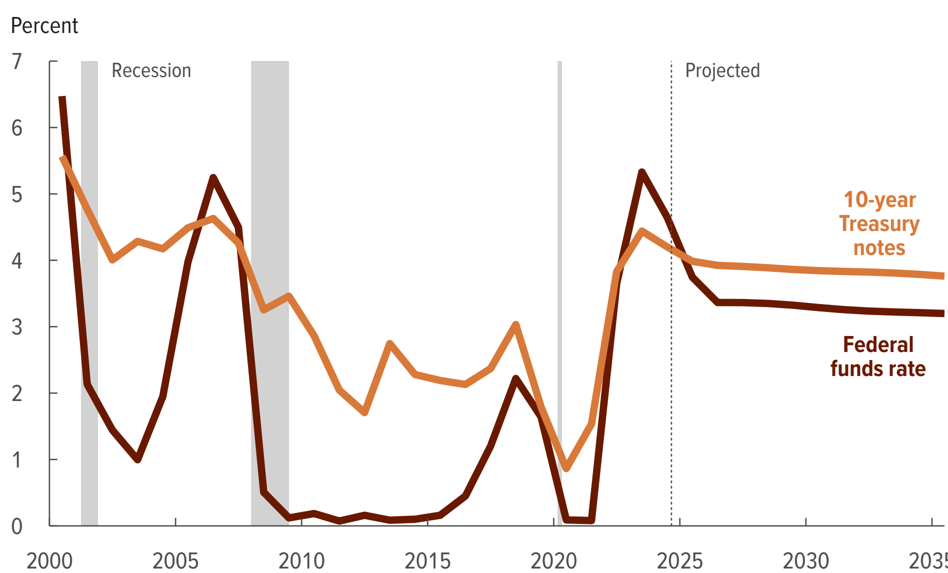
Overall Inflation and Core Inflation

CBO expects the growth of overall prices to slow further in 2025, to a rate close to the Federal Reserve's long-run goal of 2 percent. In CBO's projections, inflation as measured by the PCE price index (the Federal Reserve's preferred measure) falls from 2.5 percent in 2024 to 2.2 percent in 2025, reflecting moderating demand for labor and slower growth in housing costs. Inflation then declines more gradually, reaching 2.1 percent in 2026. From 2027 to 2035, it averages 2.0 percent per year.



Interest Rates

The Federal Reserve continues to lower the federal funds rate, which falls to 3.7 percent in the fourth quarter of 2025 and 3.4 percent in the fourth quarter of 2026. The 10-year rate declines less in those years. From 2027 to 2035, both short- and long-term interest rates decline slightly. (For details about the entire forecast and changes to it, see Appendix C.)



Appendix A: Changes in CBO's Baseline Projections Since June 2024

At least once a year, the Congressional Budget Office publishes reports providing the agency's projections of what the federal budget and the economy would look like in the current fiscal year and over the next 10 years if current laws governing taxes and spending generally remained unchanged. In this appendix, CBO describes key ways in which its current budget projections differ from the projections that the agency published in June 2024.[1] (For the current budget projections in tabular form, see Appendix B.)

Overview

CBO estimates that if no new legislation affecting spending and revenues was enacted after January 6, 2025, the budget deficit for fiscal year 2025 would total $1.87 trillion. That amount is $0.1 trillion (or 4 percent) less than the $1.94 trillion deficit the agency estimated in June 2024, when it last published its baseline budget projections.[2] Since then, CBO has increased its projection of revenues in 2025 by $125 billion (or 2 percent) and its estimate of outlays in that year by $53 billion (or 1 percent).

CBO now projects that if current laws governing revenues and spending generally remained unchanged, the cumulative deficit for the 2025–2034 period would be $21.1 trillion. That amount is $1.0 trillion (or 4 percent) less than the $22.1 trillion the agency projected in June 2024. That change is the net result of a $1.9 trillion (or 3 percent) increase in projected revenues and a $0.9 trillion (or 1 percent) increase in projected outlays over the 2025–2034 period. The main factor contributing to a smaller projected cumulative deficit over that period is an increase in projected individual income tax receipts, driven by greater projections of taxable income in CBO's economic forecast.

In CBO's current projections, debt held by the public reaches $49.6 trillion at the end of 2034—$1.1 trillion less than the $50.7 trillion projected in June 2024. Also, the economy is now projected to be 2.3 percent larger in 2034, mainly because of upward revisions to data about the size of the economy in 2024. Together, that reduction in projected debt and the larger projected economy cause federal debt at the end of 2034 to equal 117 percent of gross domestic product (GDP); last June, CBO projected that debt in 2034 would equal 122 percent of GDP.

When CBO updates its baseline budget projections, it groups the changes into three categories—legislative, economic, and technical. Those categories are defined as follows:

- Legislative changes result from laws enacted since the agency published its previous baseline projections.
- Economic changes arise from revisions that the agency has made to its economic forecast, including those made to incorporate the projected effects of enacted legislation on the economy.[3]
- Technical changes are revisions to projections that are neither legislative nor economic.

1. For those June 2024 projections, see Congressional Budget Office, *An Update to the Budget and Economic Outlook: 2024 to 2034* (June 2024), www.cbo.gov/publication/60039. CBO's current baseline projections incorporate the effects of legislation enacted through January 6, 2025, and include the effects of the American Relief Act, 2025 (Public Law 118-158), which provides federal agencies with funds to operate through March 14, 2025. The effects of legislation discussed here generally reflect the estimates provided for budget enforcement purposes around the time the legislation was enacted.

2. When October 1 (the first day of the fiscal year) falls on a weekend, certain payments that ordinarily would have been made on that day are instead made at the end of September and thus are shifted into the previous fiscal year. Because those shifts can distort budgetary trends, CBO often presents adjusted projections of deficits and outlays that treat the payments as if they were not subject to the shifts. The projections discussed in this appendix, however, have not been adjusted to remove the effects of those timing shifts.

3. CBO's current economic forecast reflects the laws enacted and the policy measures taken through December 4, 2024. The economic changes discussed in this report reflect differences between the current forecast and CBO's June 2024 forecast. For more details about that earlier forecast, see Congressional Budget Office, *An Update to the Budget and Economic Outlook: 2024 to 2034* (June 2024), www.cbo.gov/publication/60039.

The $1.0 trillion reduction in the projected cumulative deficit over the 2025–2034 period is the net result of the following changes:

- A $0.3 trillion net increase attributable to legislative changes (see Table A-1). CBO increased its projections of outlays for the Social Security program because of the Social Security Fairness Act of 2023 (Public Law 118-273), which increased benefits for certain workers who receive pensions for employment not covered by Social Security. Most of the people who will see increased benefits have employment experience at state and local governments or were first hired by the federal government before 1984.
- A $2.5 trillion net decrease resulting from economic changes. Most of that decrease is due to a $2.2 trillion increase in projected revenues, largely stemming from higher projections of taxable income that boosted projected individual income tax receipts. The reduction in deficits arising from that increase in projected revenues reduced net outlays for interest by $0.4 trillion.
- A $1.3 trillion net increase attributable to technical changes. The largest adjustments increasing the deficit are upward revisions to projections of outlays for Medicaid and a downward revision to projections of corporate income tax revenues.

As a result of those changes, primary deficits—that is, deficits excluding net outlays for interest—are now projected to total $8.1 trillion over the 2025–2034 period, which is $1.1 trillion (or 12 percent) less than CBO projected in June 2024. That reduction is partially offset by an increase of $0.1 trillion (or 1 percent) in projected net outlays for interest over the 2025–2034 period.

After reviewing administrative actions and judicial decisions that changed its baseline projections since June 2024, CBO identified one administrative action, regarding immigration, that changed those projections by $5 billion or more in at least one year of the projection period. In June 2024, the Administration issued an executive order that is projected to reduce immigration by suspending entry of most noncitizens at the southern border of the United States. The effects of that order are included in the economic and technical changes to revenues and to outlays for various programs discussed in this appendix; isolating those effects from other changes and reporting them separately was not practicable.

Legislative Changes

Revisions that CBO made to its projections of outlays and revenues to account for legislation enacted since the agency published its June 2024 baseline increased the estimated deficit for 2025 by $35 billion and projected deficits over the 2025–2034 period by $0.3 trillion.[4]

Changes in Outlays

Incorporating the effects of recently enacted legislation into CBO's baseline projections increased estimated outlays in 2025 by $29 billion (or less than 1 percent) and projected outlays over the 2025–2034 period by $0.2 trillion (or less than 1 percent). The largest change was a $1.0 trillion decrease in outlays for defense discretionary programs that was almost entirely offset by an increase in outlays for nondefense discretionary programs.[5]

Discretionary Outlays. To account for legislation enacted since CBO completed its June 2024 baseline projections, the agency decreased its projections of discretionary outlays over the 2025–2034 period by $17 billion. That downward revision is the net result of a $958 billion decrease in defense outlays that was almost entirely offset by a $941 billion increase in nondefense outlays.

Defense. Decreases in defense funding, and thus outlays, stemmed from two factors. First, the interaction of the continuing resolution that was in place on January 6, 2025 (when CBO's current baseline projections were finalized), and the caps established by the Fiscal Responsibility Act of 2023 (FRA, P.L. 118-5) reduced projected funding in 2025 and later years. Second, funding designated as an emergency requirement provided for defense purposes in 2025 was much less than the amount of such funding projected in June 2024.

Two separate sections of the FRA, sections 101 and 102, established caps on defense and nondefense funding. The limit on defense funding under section 102 is about $45 billion less than the limit established under section 101. Which section applies in 2025 depended on

4. The June 2024 baseline projections incorporated the effects of legislation enacted through May 13, 2024.

5. Funding that is provided in appropriation acts and the outlays that result from it are generally categorized as discretionary.

whether a continuing resolution funded any part of the government on January 1 of that year.[6]

On December 21, 2024, a continuing resolution was enacted to fund the government through March 14, 2025.[7] As a result, the caps established under section 102 of the FRA are currently in place. The current continuing resolution provides $888 billion in base defense funding for 2025. (Base funding refers to funding constrained by the caps established by the FRA.) That amount exceeds the $850 billion cap on such funding established under section 102 of the FRA. As a result, CBO's current baseline projections for 2025 include a reduction in funding to comply with that cap. In CBO's previous baseline projections, which incorporated the effects of the caps established under section 101 of the FRA, base defense funding totaled $895 billion.

In accordance with provisions of the Balanced Budget and Emergency Deficit Control Act of 1985 (P.L. 99-177), CBO's projections of funding for discretionary programs generally reflect the assumption that funding in future years is equal to the amount provided for the current year with increases for inflation.[8] As a result, the downward adjustment to base defense funding affects the agency's baseline projections of such funding after 2025. To account for the caps currently in place, CBO reduced its projections of defense outlays from funding constrained by the caps over the 2025–2034 period by $0.5 trillion.

In addition, as of January 6, 2025, $12 billion in defense funding designated as an emergency requirement, which is not constrained by the caps established by the FRA and is included in nonbase funding, has been provided for fiscal year 2025. That amount is $57 billion less than the amount of such funding in CBO's June 2024 baseline projections. Because CBO's current projections of such funding begin with that smaller amount and grow with inflation over the next 10 years, projected outlays stemming from funding designated as an emergency requirement are $0.5 trillion less than they were in CBO's previous baseline projections.

Nondefense. The increases in projected nondefense funding, and thus outlays, stemmed from base funding that is greater than previously projected and from increases in funding designated as an emergency requirement.

Base nondefense funding is $36 billion more in 2025 than CBO previously projected. That is mainly because funding for mandatory programs was reduced by $39 billion in the continuing resolution. For purposes of determining compliance with the caps established by the FRA, that reduction is credited against discretionary funding. In CBO's current baseline projections, however, that reduction is reflected as a change in mandatory spending, thereby boosting discretionary funding by $39 billion in relation to the agency's June 2024 projections. Projecting that the increase would continue in each year of the 2025–2034 period raised CBO's projections of nondefense outlays over that period by $0.5 trillion.

Similarly, nondefense funding designated as an emergency requirement for 2025 is $59 billion greater than CBO projected in June, almost entirely because of the supplemental appropriations for disaster relief provided in the American Relief Act, 2025 (P.L. 118-158). Because of that increase in funding, the agency raised its projections of nondefense outlays over the 2025–2034 period by an additional $0.5 trillion.

Mandatory Outlays. CBO increased its estimate of mandatory outlays in 2025 by $25 billion (or 1 percent) and its projections of such outlays over the 2025–2034 period by $0.2 trillion (or less than 1 percent), on net, to account for legislation enacted since the agency prepared its previous baseline projections. The repeal of the windfall elimination provision and the government pension offset for Social Security benefits accounted for nearly all of that change. Those two provisions reduced benefits for retired or disabled workers and their spouses who have fewer than 30 years of significant earnings from employment covered by Social Security if they also receive pensions based on employment not covered

6. For a more detailed explanation of the caps established by the FRA, see Congressional Budget Office, *The Budget and Economic Outlook: 2024 to 2034* (February 2024), Box 1-2, www.cbo.gov/publication/59710.

7. For CBO's estimate of discretionary appropriations provided by the current continuing resolution, see Congressional Budget Office, cost estimate for H.R. 10545, the American Relief Act, 2025 (December 20, 2024), www.cbo.gov/publication/61148.

8. To develop its projections of discretionary funding related to federal personnel, CBO is required to use the employment cost index for wages and salaries to adjust for inflation; to develop its projections of other types of discretionary funding, the agency is required to use the GDP price index.

Table A-1.

Changes in CBO's Baseline Projections of the Deficit Since June 2024

Billions of dollars

	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	Total 2025–2029	Total 2025–2034
Deficit in CBO's June 2024 baseline[a]	1,938	1,851	1,756	1,942	1,949	2,193	2,283	2,487	2,822	2,862	9,436	22,083
Legislative changes												
Changes in revenues	**-6**	**-6**	**-8**	**-11**	**-12**	**-10**	**-9**	**-4**	**-3**	**-3**	**-43**	**-70**
Changes in outlays												
Discretionary												
Defense												
Base	-27	-38	-43	-46	-47	-49	-50	-52	-53	-54	-201	-459
Nonbase	-8	-29	-42	-51	-57	-59	-61	-63	-64	-65	-187	-499
Subtotal, defense	-35	-68	-84	-97	-104	-108	-111	-114	-117	-119	-388	-958
Nondefense												
Base	24	34	52	47	48	50	51	52	54	55	205	466
Nonbase	15	29	36	44	50	55	58	61	63	64	174	474
Subtotal, nondefense	39	63	88	90	99	104	109	113	116	119	378	941
Subtotal, discretionary	4	-5	3	-7	-5	-4	-2	-1	*	*	-9	-17
Mandatory	25	14	13	16	12	17	19	19	19	20	80	173
Debt service[b]	*	2	2	3	4	5	6	7	8	9	11	44
Total change in outlays	**29**	**11**	**18**	**12**	**11**	**18**	**22**	**24**	**26**	**29**	**82**	**201**
Increase or decrease (-) in the deficit from legislative changes	**35**	**17**	**27**	**23**	**23**	**27**	**31**	**28**	**29**	**31**	**125**	**271**
Economic changes												
Changes in revenues												
Individual income taxes	114	140	136	134	137	142	152	166	179	193	661	1,492
Corporate income taxes	40	35	31	28	24	22	23	26	28	33	158	291
Payroll taxes	10	16	20	24	27	28	29	31	33	37	96	254
Federal Reserve remittances	2	1	*	*	*	77	7	6	3	-1	4	95
Other	2	2	2	2	1	1	2	2	3	4	8	20
Total change in revenues	**168**	**193**	**190**	**188**	**189**	**270**	**213**	**231**	**246**	**265**	**928**	**2,153**
Changes in outlays												
Mandatory												
Medicare	*	-2	-5	-8	-9	-13	-17	-21	-28	-29	-24	-131
Medicaid	-2	-3	-4	-5	-5	-7	-8	-10	-12	-14	-20	-69
SNAP	*	-1	-2	-2	-3	-3	-4	-5	-5	-6	-8	-30
Earned income tax credits and child tax credits	1	*	-1	-1	-2	-3	-3	-4	-4	-4	-3	-21
Other	-4	-7	-4	-1	*	1	1	4	4	5	-15	*
Subtotal, mandatory	-5	-12	-15	-17	-19	-25	-31	-35	-44	-48	-69	-252
Discretionary	0	2	3	5	7	9	10	10	10	10	17	65
Net interest												
Effect of interest rates and inflation	-64	-48	*	41	60	65	59	47	31	14	-12	205
Debt service[b]	-2	-14	-22	-29	-35	-42	-50	-58	-68	-79	-101	-398
Subtotal, net interest	-67	-62	-21	12	25	23	9	-11	-37	-65	-113	-193
Total change in outlays	**-72**	**-73**	**-33**	*****	**13**	**6**	**-12**	**-37**	**-72**	**-103**	**-165**	**-381**
Increase or decrease (-) in the deficit from economic changes	**-239**	**-266**	**-223**	**-187**	**-177**	**-264**	**-225**	**-267**	**-317**	**-368**	**-1,092**	**-2,534**

Continued

Table A-1. Continued

Changes in CBO's Baseline Projections of the Deficit Since June 2024

Billions of dollars

	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	Total 2025–2029	Total 2025–2034
						Technical changes						
Changes in revenues												
Individual income taxes	-38	-9	-1	3	-2	-8	-9	-4	1	9	-48	-59
Corporate income taxes	-6	-7	-18	-22	-27	-31	-30	-28	-29	-35	-79	-233
Payroll taxes	12	10	9	6	7	9	13	16	17	18	44	118
Other	-5	6	6	1	1	-36	-5	-4	-3	-5	9	-44
Total change in revenues	**-36**	**-1**	**-3**	**-12**	**-20**	**-65**	**-31**	**-20**	**-14**	**-13**	**-73**	**-217**
Changes in outlays												
Mandatory												
Medicaid	57	84	100	91	91	87	83	82	73	67	424	817
Medicare	6	5	-4	-9	-9	-18	-26	-31	-47	-60	-10	-194
Social Security	5	7	8	9	9	9	9	8	8	4	38	76
SNAP and child nutrition	7	6	7	8	8	9	9	9	9	8	35	80
Earned income tax credits and child tax credits	-2	-3	-4	-5	-4	-5	-5	-5	-6	-6	-18	-45
Veterans' benefits	7	-4	1	4	5	4	4	5	6	4	13	35
Other	1	5	6	-3	-4	3	2	-5	2	2	5	8
Subtotal, mandatory	81	99	114	95	97	89	77	63	44	18	487	777
Discretionary												
Defense	-11	-8	-5	1	5	6	4	3	2	1	-17	-1
Nondefense	22	10	5	10	1	2	3	2	3	1	48	58
Subtotal, discretionary	12	2	*	11	6	8	7	5	5	2	30	57
Net interest												
Debt service[b]	1	5	9	13	17	22	27	31	34	37	45	195
Other	2	5	2	1	2	*	2	4	5	3	11	26
Subtotal, net interest	3	10	10	14	19	22	29	35	39	39	56	222
Total change in outlays	**96**	**111**	**124**	**120**	**122**	**118**	**113**	**103**	**89**	**59**	**573**	**1,055**
Increase or decrease (-) in the deficit from technical changes	**132**	**112**	**127**	**133**	**143**	**184**	**144**	**123**	**103**	**72**	**646**	**1,272**
						All changes						
Total increase or decrease (-) in the deficit	**-73**	**-138**	**-69**	**-32**	**-11**	**-53**	**-50**	**-117**	**-185**	**-264**	**-322**	**-991**
Deficit in CBO's January 2025 baseline[a]	1,865	1,713	1,687	1,911	1,938	2,140	2,233	2,371	2,637	2,597	9,114	21,092
Addendum:												
Change in revenues	125	187	179	165	156	195	173	207	228	250	812	1,865
Change in outlays	53	49	110	133	146	142	123	90	44	-15	490	874
Increase or decrease (-) in the primary deficit[c]	-9	-87	-60	-61	-59	-103	-94	-147	-195	-248	-276	-1,064
Increase or decrease (-) in the deficit from the change in net interest outlays	-63	-50	-9	29	48	50	44	30	10	-17	-45	73

Data source: Congressional Budget Office. See www.cbo.gov/publication/60870#data.

SNAP = Supplemental Nutrition Assistance Program; * = between -$500 million and $500 million.

a. When outlays exceed revenues, the result is a deficit. Values in this row were calculated by subtracting revenues from outlays; thus, positive values indicate deficits. When outlays are subtracted from revenues, as recorded in the federal budget and in the tables in Appendix B, negative values indicate deficits.

b. Debt-service costs are the changes in interest payments resulting from an increase or decrease in projected deficits.

c. Primary deficits exclude net outlays for interest.

by Social Security. Eliminating those two provisions increased benefits for those beneficiaries, which, in turn, increased projected outlays for Social Security over the 2025–2034 period by about $0.2 trillion.

That increase was partly offset by a provision of the American Relief Act, 2025, that temporarily rescinded $20 billion of mandatory funding for the Internal Revenue Service (IRS).[9] In CBO's baseline, the provisions of temporary funding bills are annualized—that is, estimated as if appropriations were provided for the entire fiscal year. As a result, CBO's baseline reflects the full $20 billion reduction in spending. (That rescission reduced CBO's projections of receipts from individual and corporate income taxes, as discussed below.)

Net Outlays for Interest. Before accounting for the changes in interest payments that would result from changes in projected deficits (known as debt service), CBO increased its estimate of the deficit in 2025 by $34 billion and its projection of the cumulative deficit for the 2025–2034 period by $227 billion to account for legislation enacted since the June 2024 baseline was prepared. The increases in federal borrowing stemming from larger annual deficits would increase debt-service costs; that debt service increased CBO's projections of net outlays for interest over the 2025–2034 period by $44 billion.

Changes in Revenues

To account for legislation enacted since it prepared its previous baseline projections, CBO revised downward its estimate of revenues in 2025 by $6 billion and its projections of revenues over the 2025–2034 period by $70 billion.

Those reductions mainly stemmed from the provision of the American Relief Act, 2025, that temporarily rescinded $20 billion in funding provided to the IRS. CBO anticipates that the IRS would prioritize continuing enforcement activities that are expected to have the largest return in terms of collections, so as additional funds are rescinded, the amount of revenues reduced by each dollar of rescinded funds increases. If enacted for the full fiscal year, that rescission would reduce individual and corporate income tax receipts over the 2025–2034 period by $66 billion—resulting in a net increase in the projected cumulative deficit of $46 billion.

In addition, CBO lowered projections of individual income tax receipts over the 2025–2034 period by $5 billion to account for the enactment of the Federal Disaster Tax Relief Act of 2023 (P.L. 118-148).[10] That law included a provision that relaxed limitations on deducting certain losses from federally declared disasters over the past several years.

Economic Changes

The economic forecast that underlies CBO's baseline budget projections includes the agency's projections of GDP, interest rates, the labor force, wages and salaries, inflation, and other factors that affect federal spending and revenues. Taken together, the revisions made to account for changes in that forecast reduced CBO's estimate of the deficit in 2025 by $0.2 trillion and its projection of the cumulative deficit over the 2025–2034 period by $2.5 trillion. Upward revisions to revenues were the main reason for those reductions.

Changes in Revenues

To account for changes in its economic forecast, CBO increased its estimate of revenues in 2025 by $168 billion (or 3 percent) and its projections of revenues over the 2025–2034 period by $2.2 trillion (or 3 percent). Those changes are largely the result of higher projections of GDP and the associated components of taxable income, including wages, salaries, and corporate profits. CBO revised upward its projections of GDP over the 2025–2034 period by $7.2 trillion (or 2 percent). That upward revision boosted projected receipts from income and payroll taxes.

Other factors further boosted receipts. Higher asset values increased anticipated capital gains realizations, boosting projected revenues from individual and corporate income taxes. Those higher asset values also increased projected account balances and distributions from taxable retirement accounts. Downward revisions to CBO's forecast of short-term interest rates reduced projections of the Federal Reserve's interest expenses, thus boosting projected remittances from the Federal Reserve to the Treasury.

9. In keeping with the American Relief Act, 2025, which temporarily continues discretionary appropriations and authorities contained in 2024 appropriation legislation through March 14, 2025, that funding has been temporarily precluded from obligation; whether it remains unavailable to the IRS for the duration of fiscal year 2025 depends on future legislation. If future legislation permanently rescinded that funding, CBO would incorporate the changes in spending or revenues into its assessment of the budgetary effects of that legislation.

10. For more information, see Congressional Budget Office, cost estimate for H.R. 5863, the Federal Disaster Tax Relief Act of 2023 (January 9, 2024), www.cbo.gov/publication/59866.

Individual Income Taxes. Economic changes increased CBO's estimate of revenues from individual income taxes in 2025 by $114 billion (or 4 percent) and its projections of such revenues over the 2025–2034 period by $1.5 trillion (or 4 percent), on net.

The increases in 2025 and later years were partly driven by higher projections of components of taxable income, including wages, salaries, and business income taxed at the individual level. Projected receipts were also boosted by higher asset values, especially for equities, in the near term, which increased expected capital gains realizations and distributions from taxable retirement accounts.

Corporate Income Taxes. To account for changes in its economic forecast, CBO raised its estimate of revenues from corporate income taxes in 2025 by $40 billion (or 8 percent) and its projections of such revenues over the 2025–2034 period by $291 billion (or 6 percent). Those changes resulted from revisions to the agency's projections of domestic corporate profits, which increased by $2.8 trillion (or 9 percent) over that period. Those higher projected profits resulted from updated estimates by the Bureau of Economic Analysis of the total profits earned from 2021 to 2024. However, because corporate tax revenues are already known for those years, the larger estimates of historical profits imply a lower average tax rate on those profits. Incorporating that lower average rate resulted in a downward revision to projected revenues that is categorized as a technical change, as discussed below.

Payroll Taxes. Revisions to CBO's economic forecast increased the agency's estimate of revenues from payroll taxes in 2025 by $10 billion (or less than 1 percent) and its projections of such revenues over the 2025–2034 period by $254 billion (or 1 percent). Those upward revisions largely stemmed from higher projections of wages and salaries.

Federal Reserve Remittances. Because CBO now expects short-term interest rates to decline more quickly than previously anticipated, the interest that the Federal Reserve pays to banks for deposits is less than previously projected. That change boosted CBO's projections of remittances from the Federal Reserve over the 2025–2034 period by $95 billion (or 16 percent). In CBO's projections, most changes in the Federal Reserve's income or costs affect the Federal Reserve banks' deferred assets until 2030 and then begin to affect remittances.

Other Revenues. To account for changes in its economic forecast, CBO increased its estimates of revenues from estate and gift taxes, customs duties, and excise taxes in 2025 by $2 billion (or 1 percent) and its projections over the 2025–2034 period by $20 billion (or 1 percent), on net. Most of that increase resulted from growth in projected imports, which increased the expected tax base for customs duties.

Changes in Outlays

Revisions to CBO's economic forecast included revisions to projected interest rates and reductions in projected rates of inflation. To account for those and other changes to its economic forecast, CBO decreased its estimate of outlays in 2025 by $72 billion (or 1 percent) and its projections of outlays over the 2025–2034 period by $0.4 trillion (or less than 1 percent).

Mandatory Outlays. Economic changes decreased CBO's estimate of mandatory outlays in 2025 by $5 billion (or less than 1 percent), on net. Projected mandatory outlays over the 2025–2034 period fell by $0.3 trillion (or less than 1 percent). Downward revisions to projected outlays for Medicare and Medicaid account for most of that decrease.

Medicare. CBO reduced its projections of outlays for Medicare over the 2025–2034 period by $131 billion (or 1 percent). The agency's latest economic forecast includes downward revisions to the producer price index for prescription drugs, which reduced the expected growth in payments to providers such as hospitals and skilled nursing facilities.

Medicaid. CBO decreased its projections of outlays for Medicaid over the 2025–2034 period by $69 billion (or 1 percent). The agency's latest economic forecast includes downward revisions to projected increases in the prices of many medical goods and services, which reduced projected payment rates for Medicaid.

Supplemental Nutrition Assistance Program. Economic changes to CBO's projections for the 2025–2034 period decreased projected outlays for the Supplemental Nutrition Assistance Program (SNAP) by $30 billion (or 3 percent). That reduction stemmed mainly from downward revisions to CBO's projections of increases in food prices.

Earned Income and Child Tax Credits. To account for changes in its economic forecast, CBO decreased its estimate of total outlays for the earned income tax credit (EITC) and the child tax credit (CTC) over the 2025–2034 period by $21 billion (or 2 percent). That decrease was a result of reductions in the agency's projections of the U.S. population, including reductions in the projected number of children. To account for that decrease in the projected population, CBO revised downward its projections of the number of people who would claim those credits; as a result, projected outlays are smaller than they were in the agency's June 2024 baseline projections.

Other Mandatory Programs. Changes in CBO's economic forecast also affected projected outlays for other mandatory programs. Although those changes included upward and downward revisions, their net effect was to increase projected outlays for those programs over the 2025–2034 period by less than $1 billion.

Discretionary Outlays. Economic changes—stemming mainly from upward revisions to the agency's forecasts of certain measures of inflation—increased projected discretionary outlays over the 2025–2034 period by $65 billion (or less than 1 percent). CBO's baseline projections generally reflect the assumption that discretionary funding keeps pace with inflation.

Net Outlays for Interest. Economic changes reduced CBO's estimate of net outlays for interest in 2025 by $64 billion (or 6 percent) but increased its projections of such outlays over the 2025–2034 period by $205 billion (or 2 percent). Those changes were attributable to revisions to the agency's forecasts of interest rates on Treasury securities. CBO decreased its projections of short-term interest rates in 2025 and 2026 and increased them over the 2027–2034 period. The agency increased its projections of long-term rates over the 2026–2029 period and lowered them over the 2031–2034 period.

All told, changes stemming from revisions to CBO's economic forecast decreased the projected cumulative deficit for the 2025–2034 period by $2.1 trillion. To account for the reduction in debt-service costs stemming from the decrease in projected deficits, the agency lowered its projections of net outlays for interest over that period by $398 billion.

Technical Changes

Technical changes—those changes that are neither legislative nor economic—result from a variety of factors, such as revisions to average tax rates, new information or data from federal agencies (including actual outlays and revenues for the most recent fiscal year), and changes in the way programs are administered that affect federal spending and revenues. Technical changes increased CBO's estimate of the deficit in 2025 by $0.1 trillion and boosted projected deficits over the 2025–2034 period by $1.3 trillion.

Changes in Outlays

Taken together, technical changes increased CBO's estimate of outlays in 2025 by $0.1 trillion (or 1 percent) and its projections of outlays over the 2025–2034 period by $1.1 trillion (or 1 percent). Greater projected spending on Medicaid was the largest technical revision, boosting outlays over the 2025–2034 period by $0.8 trillion.

Mandatory Outlays. CBO increased its projections of outlays for several mandatory programs and decreased them for others to account for revisions to its demographic projections, updated projections of enrollment in benefit programs, and changes in other technical factors that underlie those spending projections. On net, technical changes to CBO's projections increased its estimate of mandatory outlays in 2025 by $81 billion (or 2 percent) and its projections of such outlays over the 2025–2034 period by $0.8 trillion (or 2 percent).

Medicaid. Technical changes increased CBO's estimate of outlays for Medicaid in 2025 by $57 billion (or 10 percent) and its projections over the 2025–2034 period by $817 billion (or 12 percent). Several factors contributed to those increases. The biggest factors were that in 2024, enrollment in Medicaid and actual outlays for the program were significantly greater than expected, causing CBO to increase its projections of spending on the program in future years.

In June 2024, CBO expected Medicaid enrollment to be 79 million people in 2025. The revised projections reflect an expected enrollment of 84 million people in that year. Costs per enrollee in 2024 were also significantly higher than expected because of a reported decrease in the average health status of Medicaid enrollees after the continuous eligibility policy put in place during the coronavirus pandemic ended on April 1, 2023. CBO expects that the higher costs per enrollee will lead to higher-than-previously-projected payment rates for health plans that manage care for Medicaid enrollees beginning in 2026, when payment rates start to reflect that decrease in average health status.

Four other factors caused CBO to increase its projections of outlays for Medicaid. First, the agency expects greater spending on the program over the 2025–2034 period because of an increase in the number of disabled people receiving Supplemental Security Income. (Such people automatically qualify for Medicaid.) Second, CBO increased projected spending to account for greater anticipated use of prescription drugs over that period, particularly the use of anti-obesity medications known as glucagon-like peptide-1 agonists, or GLP-1s. Third, CBO increased projected spending to account for a modest increase in expected coverage expansions under the optional eligibility category established by the Affordable Care Act. And finally, the agency increased its projections of outlays associated with state-directed payments in Medicaid managed care. Those increased projections reflect higher-than-expected spending through directed payment arrangements in 2024. They also incorporate the effects of a final rule that permits states to pay hospitals, skilled nursing facilities, and physicians affiliated with academic medical centers at the average commercial payment rate when using a directed payment.[11]

Medicare. CBO's estimate of outlays for Medicare over the 2025–2034 period is $194 billion (or 1 percent) less than it was in June 2024 because of technical revisions. Two factors explain most of that decrease. First, CBO reduced its projections of Medicare enrollment over that period by 1 percent compared with its June 2024 projection. The reduction stemmed from modeling improvements that included removing foreign-born people who are not eligible for benefits from the agency's enrollment projections. Second, CBO reduced its projections of growth in the amounts that Medicare pays to clinical laboratories to better reflect the amounts that Medicare has paid in recent years.

11. When an agency publishes a proposed regulation in the Federal Register, CBO generally does not incorporate an estimate of the total effects of the rule as proposed into its baseline projections. Rather, CBO typically incorporates a portion of the effects based on the assigned probability (often 50 percent) that the rule will be implemented to reflect the uncertainty about whether and how the rule will ultimately be carried out. After the final version of a rule is published, CBO incorporates the total estimated effects of the final rule into its subsequent cost estimates and baseline projections. For more information, see Congressional Budget Office, *CBO Explains How It Develops the Budget Baseline* (April 2023), www.cbo.gov/publication/58916.

Social Security. CBO increased its projections of outlays for Social Security over the 2025–2034 period by $76 billion (or less than 1 percent) for technical reasons. Most of that increase stems from an upward revision to the agency's projections of growth in the number of people age 65 or older in the population, which slightly increased the projected number of beneficiaries of Old-Age and Survivors Insurance and Disability Insurance.

Supplemental Nutrition Assistance Program and Child Nutrition. For technical reasons, CBO increased its projections of outlays for SNAP over the 2025–2034 period by $52 billion (or 5 percent) and of outlays for child nutrition programs over that same period by $28 billion (or 7 percent). Enrollment in SNAP in 2024 was higher than anticipated, which led CBO to increase projected enrollment in the program by 2 to 3 million people in each year of the projection period. The upward revision to outlays for child nutrition programs reflects the fact that more free lunches and breakfasts were provided in 2024 than CBO projected.

Earned Income and Child Tax Credits. CBO decreased its projections of outlays for the EITC and CTC over the 2025–2034 period by $45 billion (5 percent). That decrease stemmed from a change to CBO's tax model to better align the number of children claimed on tax returns in future years with CBO's projections of the population. That change reduced the projected number of children claimed on tax returns and, in turn, reduced projected outlays for the EITC and CTC.

Veterans' Benefits and Services. For technical reasons, CBO increased its projections of outlays for veterans' benefits and services over the 2025–2034 period by $35 billion (or 1 percent). That increase reflects the incorporation of actual outcomes in 2024 into CBO's projections. The number of beneficiaries of disability compensation in 2024 was greater than CBO expected, which led the agency to increase the number of beneficiaries in each year of the projection period by 45,000. In addition, a sustained recovery in enrollments and a more intensive use of benefits resulted in greater projected outlays for readjustment benefits. (Those benefits are intended to assist veterans with the transition from military life to civilian life; they include employment programs, education assistance, and vocational rehabilitation benefits.)

Other Mandatory Programs. Technical changes increased CBO's projections of outlays for other mandatory programs over the 2025–2034 period by $8 billion, on net.

Discretionary Outlays. Technical changes increased CBO's projections of discretionary outlays over the 2025–2034 period by $57 billion (or less than 1 percent). In general, that increase stemmed from adjustments to better reflect the recent rates at which discretionary funding has translated into outlays.

Net Outlays for Interest. Increases in debt-service costs and other technical changes added $222 billion (or 2 percent) to CBO's projections of net outlays for interest over the 2025–2034 period. Those increases in debt-service costs stemmed from greater borrowing to finance more noninterest outlays and from less revenues.

Changes in Revenues

For technical reasons, CBO decreased its estimate of revenues in 2025 by $36 billion (or less than 1 percent) and its projections of revenues over the 2025–2034 period by $0.2 trillion (or less than 1 percent).

The largest downward revisions were to projections of receipts from individual and corporate income taxes and remittances from the Federal Reserve, which partially offset the upward revisions to those sources that were prompted by economic changes. The largest upward revisions were to projected receipts from payroll taxes and estate and gift taxes.

Individual Income Taxes. Technical revisions reduced CBO's estimate of individual income tax receipts in 2025 by $38 billion (or 1 percent) and its projections of such receipts over the 2025–2034 period by $59 billion (or less than 1 percent). CBO decreased its estimate of individual income tax receipts in 2025 because recent tax collections have been weaker than expected, given current economic data. The small net downward revisions over the 2025–2034 period reflect many offsetting factors, including the incorporation of information from recent tax collections, detailed historical tax data for prior tax years, and updated information on the distribution of earnings.

Corporate Income Taxes. For technical reasons, CBO decreased its estimate of revenues from corporate income taxes in 2025 by $6 billion (or 1 percent) and its projections of such revenues for the 2025–2034 period by $233 billion (or 5 percent). That decrease in projected revenues results from newly available data from corporate tax returns and from updated estimates of past profits reported by the Bureau of Economic Analysis.

Long-standing business credits reported on tax returns, including those for research and investment, have been larger than expected over the past several years, causing CBO to revise upward its projections of those credits going forward. In addition, the Bureau of Economic Analysis revised upward the estimated amount of profits earned during the 2021–2024 period. That upward revision caused CBO to increase its projections of profits in future years, which resulted in higher projections of corporate tax receipts for economic reasons. But because corporate tax revenues are already known for those years, the higher estimates of historical profits imply a lower average tax rate on those profits, resulting in a downward adjustment to projected revenues.

Payroll Taxes. For technical reasons, CBO increased its estimate of revenues from payroll taxes in 2025 by $12 billion (or less than 1 percent) and its projections of such revenues over the 2025–2034 period by $118 billion (or less than 1 percent). On the basis of recent tax information, CBO now projects that a larger share of earnings will fall below the taxable maximum for Social Security taxes, boosting projected payroll taxes.

Other Revenues. Technical revisions decreased CBO's estimate of revenues from other sources in 2025 by $5 billion (or 2 percent) and its projections of such revenues over the 2025–2034 period by $44 billion (or 1 percent), on net. CBO reduced its projections of remittances from the Federal Reserve over the 2025–2034 period by $68 billion (or 11 percent) to better reflect the rising interest costs that the Federal Reserve has been paying on deposits at Federal Reserve banks. CBO also reduced its projections of receipts from excise taxes over that period by $31 billion (or 3 percent), mostly because recent collections of aviation and highway taxes were smaller than anticipated. Those decreases were partly offset by increased projections of receipts from estate and gift taxes over the 2025–2034 period. Those projections were revised upward by $42 billion (or 8 percent) to account for recent collections.

Appendix B: The Budget Outlook in Tables

By law, the Congressional Budget Office is required to produce an annual report providing the agency's projections of what the federal budget and the economy would look like in the current fiscal year and over the next 10 years if current laws governing taxes and spending generally remained unchanged. This report is the latest in that series, presented in an abbreviated version to facilitate work on other Congressional priorities. The agency uses its economic forecast—which includes projections of income, inflation, interest rates, and other variables—as a basis for projecting revenues from each major revenue source (individual, corporate, payroll, and other taxes), spending for every federal budget account, the resulting deficits or surpluses, and federal debt.

The budget projections in this report reflect developments in the economy as of December 4, 2024. They also incorporate legislation enacted through January 6, 2025.

The first two tables in this appendix show CBO's projections for the budget by category (see Table B-1) and projections for those same categories of outlays (and thus of deficits) adjusted to exclude the effects of shifts in the timing of certain payments that can distort budgetary trends (see Table B-2). The rest of the tables show the agency's projections of federal debt (see Table B-3), details about mandatory (see Table B-4) and discretionary spending (see Table B-5), and a set of key projections (see Table B-6).

Mandatory spending, also called direct spending, includes outlays for certain benefit programs and other payments that generally are covered by statutory criteria. Discretionary spending, which covers a broad array of government programs and activities, is controlled by appropriation acts that specify the amount of funding (or budget authority), as well as the purpose and period of availability of that funding.

The agency's budget projections—often referred to as CBO's budget baseline—are constructed in accordance with provisions set forth in the Balanced Budget and Emergency Deficit Control Act of 1985 (Public Law 99-177) and the Congressional Budget and Impoundment Control Act of 1974 (P.L. 93-344). For projections of discretionary spending, CBO's baseline incorporates limits on discretionary funding for 2025, as specified in the Fiscal Responsibility Act of 2023 (FRA; P.L. 118-5). CBO's projections of discretionary spending generally reflect the assumption (as required by law) that funding will grow with inflation after 2025.

CBO's baseline is not intended to provide a forecast of future budgetary outcomes. Rather, it helps policymakers assess the potential effects of future policy decisions by providing a benchmark that can be used to evaluate the anticipated effects of proposed legislation and to determine whether that legislation is subject to various budget enforcement procedures.

CBO last released its baseline budget projections in June 2024; changes since then are discussed in Appendix A. Additional information about the agency's projections is available on CBO's website.

Table B-1.

CBO's Baseline Budget Projections, by Category

													Total	
	Actual, 2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2026–2030	2026–2035
							In billions of dollars							
Revenues														
Individual income taxes	2,426	2,621	2,968	3,253	3,355	3,455	3,584	3,721	3,870	4,037	4,220	4,413	16,615	36,876
Payroll taxes	1,709	1,759	1,840	1,915	1,990	2,072	2,155	2,242	2,329	2,419	2,510	2,605	9,973	22,078
Corporate income taxes	530	524	495	469	462	453	450	456	468	493	503	517	2,329	4,767
Other[a]	253	259	277	298	301	310	360	416	439	456	474	496	1,545	3,827
Total	**4,918**	**5,163**	**5,580**	**5,935**	**6,108**	**6,290**	**6,549**	**6,834**	**7,106**	**7,405**	**7,708**	**8,031**	**30,463**	**67,548**
On-budget	3,658	3,859	4,217	4,516	4,637	4,760	4,959	5,180	5,389	5,623	5,860	6,114	23,088	51,254
Off-budget[b]	1,260	1,304	1,364	1,418	1,472	1,530	1,591	1,654	1,718	1,782	1,848	1,917	7,375	16,293
Outlays														
Mandatory	4,060	4,228	4,386	4,596	4,852	4,948	5,276	5,520	5,788	6,208	6,341	6,465	24,058	54,380
Discretionary	1,810	1,848	1,897	1,951	2,002	2,033	2,086	2,130	2,175	2,229	2,271	2,315	9,969	21,090
Net interest	881	952	1,010	1,075	1,164	1,247	1,328	1,417	1,514	1,605	1,694	1,783	5,825	13,836
Total	**6,750**	**7,028**	**7,294**	**7,622**	**8,019**	**8,228**	**8,689**	**9,067**	**9,477**	**10,042**	**10,306**	**10,563**	**39,852**	**89,306**
On-budget	5,430	5,603	5,784	6,029	6,325	6,434	6,791	7,060	7,357	7,809	7,972	8,126	31,363	69,687
Off-budget[b]	1,320	1,425	1,509	1,593	1,694	1,795	1,898	2,007	2,120	2,233	2,334	2,436	8,489	19,619
Total deficit (-)[c]	**-1,832**	**-1,865**	**-1,713**	**-1,687**	**-1,911**	**-1,938**	**-2,140**	**-2,233**	**-2,371**	**-2,637**	**-2,597**	**-2,531**	**-9,389**	**-21,758**
On-budget	-1,772	-1,744	-1,568	-1,513	-1,688	-1,674	-1,832	-1,880	-1,968	-2,186	-2,112	-2,012	-8,274	-18,432
Off-budget[b]	-60	-121	-146	-174	-223	-265	-308	-353	-403	-451	-485	-519	-1,115	-3,326
Primary deficit (-)[c,d]	-951	-913	-703	-612	-746	-691	-812	-816	-857	-1,033	-904	-749	-3,564	-7,922
Debt held by the public	28,199	30,103	31,883	33,636	35,601	37,581	39,748	41,992	44,372	46,985	49,556	52,056	n.a.	n.a.
Addendum:														
GDP	28,828	30,136	31,341	32,538	33,765	35,047	36,394	37,792	39,252	40,768	42,330	43,936	169,085	373,164
							As a percentage of GDP							
Revenues														
Individual income taxes	8.4	8.7	9.5	10.0	9.9	9.9	9.8	9.8	9.9	9.9	10.0	10.0	9.8	9.9
Payroll taxes	5.9	5.8	5.9	5.9	5.9	5.9	5.9	5.9	5.9	5.9	5.9	5.9	5.9	5.9
Corporate income taxes	1.8	1.7	1.6	1.4	1.4	1.3	1.2	1.2	1.2	1.2	1.2	1.2	1.4	1.3
Other[a]	0.9	0.9	0.9	0.9	0.9	0.9	1.0	1.1	1.1	1.1	1.1	1.1	0.9	1.0
Total	**17.1**	**17.1**	**17.8**	**18.2**	**18.1**	**17.9**	**18.0**	**18.1**	**18.1**	**18.2**	**18.2**	**18.3**	**18.0**	**18.1**
On-budget	12.7	12.8	13.5	13.9	13.7	13.6	13.6	13.7	13.7	13.8	13.8	13.9	13.7	13.7
Off-budget[b]	4.4	4.3	4.4	4.4	4.4	4.4	4.4	4.4	4.4	4.4	4.4	4.4	4.4	4.4
Outlays														
Mandatory	14.1	14.0	14.0	14.1	14.4	14.1	14.5	14.6	14.7	15.2	15.0	14.7	14.2	14.6
Discretionary	6.3	6.1	6.1	6.0	5.9	5.8	5.7	5.6	5.5	5.5	5.4	5.3	5.9	5.7
Net interest	3.1	3.2	3.2	3.3	3.4	3.6	3.6	3.7	3.9	3.9	4.0	4.1	3.4	3.7
Total	**23.4**	**23.3**	**23.3**	**23.4**	**23.8**	**23.5**	**23.9**	**24.0**	**24.1**	**24.6**	**24.3**	**24.0**	**23.6**	**23.9**
On-budget	18.8	18.6	18.5	18.5	18.7	18.4	18.7	18.7	18.7	19.2	18.8	18.5	18.5	18.7
Off-budget[b]	4.6	4.7	4.8	4.9	5.0	5.1	5.2	5.3	5.4	5.5	5.5	5.5	5.0	5.3
Total deficit (-)[c]	**-6.4**	**-6.2**	**-5.5**	**-5.2**	**-5.7**	**-5.5**	**-5.9**	**-5.9**	**-6.0**	**-6.5**	**-6.1**	**-5.8**	**-5.6**	**-5.8**
On-budget	-6.1	-5.8	-5.0	-4.6	-5.0	-4.8	-5.0	-5.0	-5.0	-5.4	-5.0	-4.6	-4.9	-4.9
Off-budget[b]	-0.2	-0.4	-0.5	-0.5	-0.7	-0.8	-0.8	-0.9	-1.0	-1.1	-1.1	-1.2	-0.7	-0.9
Primary deficit (-)[c,d]	-3.3	-3.0	-2.2	-1.9	-2.2	-2.0	-2.2	-2.2	-2.2	-2.5	-2.1	-1.7	-2.1	-2.1
Debt held by the public	97.8	99.9	101.7	103.4	105.4	107.2	109.2	111.1	113.0	115.3	117.1	118.5	n.a.	n.a.

Data source: Congressional Budget Office. See www.cbo.gov/publication/60870#data.

GDP = gross domestic product; n.a. = not applicable.

a. Consists of excise taxes, remittances from the Federal Reserve System, customs duties, estate and gift taxes, and miscellaneous fees and fines.

b. The revenues and outlays of the Social Security trust funds and the net cash flow of the Postal Service are classified as off-budget.

c. When outlays exceed revenues, the result is a deficit. Values in this row were calculated by subtracting outlays from revenues; thus, negative values indicate deficits.

d. Primary deficits exclude net outlays for interest.

Table B-2.

CBO's Baseline Projections of Outlays and Deficits, Adjusted to Exclude Effects of Timing Shifts

	Actual, 2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
						In billions of dollars						
Adjustments to exclude effects of timing shifts[a]	75	0	0	0	-116	116	0	0	0	-156	-11	167
Outlays, adjusted for timing shifts												
Mandatory	4,130	4,228	4,386	4,596	4,742	5,058	5,276	5,520	5,788	6,058	6,330	6,626
Discretionary	1,815	1,848	1,897	1,951	1,997	2,038	2,086	2,130	2,175	2,223	2,271	2,322
Net interest	881	952	1,010	1,075	1,164	1,247	1,328	1,417	1,514	1,605	1,694	1,783
Total	**6,826**	**7,028**	**7,294**	**7,622**	**7,903**	**8,344**	**8,689**	**9,067**	**9,477**	**9,886**	**10,294**	**10,730**
Total deficit (-), adjusted for timing shifts[b]	**-1,907**	**-1,865**	**-1,713**	**-1,687**	**-1,795**	**-2,054**	**-2,140**	**-2,233**	**-2,371**	**-2,481**	**-2,586**	**-2,699**
Primary deficit (-), adjusted for timing shifts[b,c]	-1,026	-913	-703	-612	-630	-807	-812	-816	-857	-877	-893	-916
						As a percentage of GDP						
Outlays, adjusted for timing shifts												
Mandatory	14.3	14.0	14.0	14.1	14.0	14.4	14.5	14.6	14.7	14.9	15.0	15.1
Discretionary	6.3	6.1	6.1	6.0	5.9	5.8	5.7	5.6	5.5	5.5	5.4	5.3
Net interest	3.1	3.2	3.2	3.3	3.4	3.6	3.6	3.7	3.9	3.9	4.0	4.1
Total	**23.7**	**23.3**	**23.3**	**23.4**	**23.4**	**23.8**	**23.9**	**24.0**	**24.1**	**24.2**	**24.3**	**24.4**
Total deficit (-), adjusted for timing shifts[b]	**-6.6**	**-6.2**	**-5.5**	**-5.2**	**-5.3**	**-5.9**	**-5.9**	**-5.9**	**-6.0**	**-6.1**	**-6.1**	**-6.1**
Primary deficit (-), adjusted for timing shifts[b,c]	-3.6	-3.0	-2.2	-1.9	-1.9	-2.3	-2.2	-2.2	-2.2	-2.2	-2.1	-2.1
Addendum:												
Baseline deficit (-), unadjusted												
In billions of dollars[b]	-1,832	-1,865	-1,713	-1,687	-1,911	-1,938	-2,140	-2,233	-2,371	-2,637	-2,597	-2,531
As a percentage of GDP[b]	-6.4	-6.2	-5.5	-5.2	-5.7	-5.5	-5.9	-5.9	-6.0	-6.5	-6.1	-5.8

Data source: Congressional Budget Office. See www.cbo.gov/publication/60870#data.

GDP = gross domestic product.

a. When October 1 (the first day of the fiscal year) falls on a weekend, certain payments that would have ordinarily been made on that day are instead made at the end of September and thus are shifted into the previous fiscal year. Those shifts primarily affect mandatory outlays; discretionary outlays are also affected but to a much lesser degree. Net interest outlays are not affected.

b. When outlays exceed revenues, the result is a deficit. Values in this row were calculated by subtracting outlays from revenues; thus, negative values indicate deficits.

c. Primary deficits exclude net outlays for interest.

Table B-3.

CBO's Baseline Projections of Federal Debt

Billions of dollars

	Actual, 2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
Debt held by the public at the beginning of the year	26,236	28,199	30,103	31,883	33,636	35,601	37,581	39,748	41,992	44,372	46,985	49,556
Changes in debt held by the public												
Resulting from the deficit	1,832	1,865	1,713	1,687	1,911	1,938	2,140	2,233	2,371	2,637	2,597	2,531
Resulting from other means of financing[a]	131	38	67	67	54	42	27	12	9	-24	-27	-31
Total	**1,964**	**1,903**	**1,780**	**1,753**	**1,965**	**1,980**	**2,167**	**2,245**	**2,379**	**2,613**	**2,570**	**2,500**
Debt held by the public at the end of the year												
In billions of dollars	**28,199**	**30,103**	**31,883**	**33,636**	**35,601**	**37,581**	**39,748**	**41,992**	**44,372**	**46,985**	**49,556**	**52,056**
As a percentage of GDP	**97.8**	**99.9**	**101.7**	**103.4**	**105.4**	**107.2**	**109.2**	**111.1**	**113.0**	**115.3**	**117.1**	**118.5**
Addendum:												
Federal financial assets[b]	2,198	2,237	2,303	2,370	2,424	2,465	2,493	2,505	2,513	2,489	2,463	2,432
Debt minus financial assets												
In billions of dollars	26,001	27,866	29,579	31,266	33,177	35,115	37,255	39,488	41,858	44,496	47,093	49,624
As a percentage of GDP	90.2	92.5	94.4	96.1	98.3	100.2	102.4	104.5	106.6	109.1	111.3	112.9
Federal Reserve's holdings of debt held by the public	4,384	4,467	5,017	5,602	6,202	6,803	7,343	7,859	8,377	8,896	9,418	9,941
Debt minus financial assets and the Federal Reserve's holdings												
In billions of dollars	21,617	23,399	24,563	25,664	26,975	28,312	29,912	31,629	33,482	35,599	37,675	39,683
As a percentage of GDP	75.0	77.6	78.4	78.9	79.9	80.8	82.2	83.7	85.3	87.3	89.0	90.3
Gross federal debt[c]	35,230	37,209	39,130	40,872	42,748	44,781	46,828	48,910	51,083	53,590	56,396	59,207
Debt subject to limit[d]	35,355	37,333	39,253	40,994	42,869	44,902	46,950	49,033	51,207	53,715	56,522	59,334
Average interest rate on debt held by the public (percent)	3.3	3.4	3.3	3.4	3.4	3.5	3.5	3.5	3.6	3.6	3.6	3.6

Data sources: Congressional Budget Office; Department of the Treasury. See www.cbo.gov/publication/60870#data.

GDP = gross domestic product.

a. Factors not included in budget totals that affect the government's need to borrow from the public. Those factors include changes in the government's cash balances and cash flows associated with federal credit programs, such as those related to student loans. Only the subsidy costs of those programs are reflected in the budget deficit.

b. The value of outstanding student loans and other credit transactions, cash balances, and various financial instruments.

c. Federal debt held by the public plus Treasury securities held by federal trust funds and other government accounts.

d. The amount of federal debt that is subject to the overall limit set in law. That measure of debt excludes debt issued by the Federal Financing Bank and reflects certain other adjustments that are excluded from gross federal debt. The statutory debt limit was reinstated on January 2, 2025, and set at $36.1 trillion, matching the amount of total debt outstanding on the prior day. In the coming weeks, the Department of the Treasury is expected to announce a "debt issuance suspension period" and to take "extraordinary measures" to borrow additional funds without breaching the debt limit. The Deficit Control Act requires CBO to project spending, revenues, and deficits independently of the debt limit. For more details, see Congressional Budget Office, *Federal Debt and the Statutory Limit, February 2023* (February 2023), www.cbo.gov/publication/58906.

Table B-4.

CBO's Baseline Projections of Mandatory Outlays, Adjusted to Exclude Effects of Timing Shifts

Billions of dollars

	Actual, 2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	Total 2026–2030	Total 2026–2035
Social Security														
Old-Age and Survivors Insurance	1,300	1,411	1,493	1,580	1,677	1,771	1,868	1,968	2,070	2,172	2,274	2,377	8,389	19,251
Disability Insurance	154	161	171	181	189	196	203	211	219	227	237	247	941	2,081
Subtotal	1,454	1,572	1,664	1,761	1,865	1,968	2,072	2,179	2,289	2,399	2,511	2,624	9,329	21,331
Major health care programs														
Medicare[a,b]	1,089	1,145	1,216	1,291	1,372	1,460	1,555	1,659	1,770	1,905	2,037	2,166	6,893	16,429
Medicaid	618	656	695	738	767	803	837	871	910	948	986	1,025	3,839	8,579
Premium tax credits and related spending[c]	122	136	115	119	122	125	128	133	139	148	139	155	610	1,324
Children's Health Insurance Program	19	21	21	22	22	23	23	23	16	15	15	15	110	195
Subtotal	1,848	1,957	2,047	2,169	2,283	2,411	2,542	2,686	2,835	3,015	3,176	3,362	11,452	26,527
Income security programs														
Supplemental Nutrition Assistance Program	107	110	107	110	111	111	111	112	115	115	116	116	550	1,124
Earned income, child, and other tax credits[d]	91	121	94	78	78	78	78	78	78	78	77	77	406	795
Supplemental Security Income[a]	62	65	67	69	71	73	75	77	80	82	84	87	354	764
Unemployment compensation	35	43	47	49	50	51	53	53	54	56	58	59	249	530
Child nutrition	34	35	37	39	40	42	43	45	46	48	49	51	201	440
Family support and foster care[e]	46	37	36	36	37	37	38	38	39	39	39	40	184	379
Subtotal	375	410	387	381	387	392	398	402	412	418	424	431	1,945	4,032
Federal civilian and military retirement														
Civilian[f]	128	131	136	140	144	148	152	156	162	168	172	177	719	1,556
Military[a]	78	80	83	86	89	91	93	96	98	101	104	106	442	947
Subtotal	206	211	219	226	232	239	245	252	260	269	276	283	1,161	2,502
Veterans' programs														
Income security[a,g]	175	188	202	215	228	239	248	259	270	282	294	306	1,132	2,543
Toxic exposures fund[h]	19	24	28	32	37	41	46	50	55	59	63	67	183	477
Other[a,i]	12	19	17	18	19	20	20	21	22	23	24	25	94	208
Subtotal	206	231	247	265	283	300	314	330	347	364	381	398	1,409	3,228
Other programs														
Higher education	125	25	27	27	27	27	27	28	28	29	29	29	134	276
Agriculture	20	22	23	25	26	24	22	21	22	22	23	23	119	230
Deposit insurance	36	-26	-23	-17	-95	-11	-12	-12	-12	-21	-14	-14	-158	-232
MERHCF	12	13	13	14	15	15	16	17	17	18	19	19	74	164
Fannie Mae and Freddie Mac[j]	0	0	4	6	7	7	7	8	8	10	12	13	31	82
Pension Benefit Guaranty Corporation	12	-6	-1	-4	-4	-4	-5	-5	-5	-5	-6	-6	-18	-44
Education Stabilization Fund	49	16	1	0	0	0	0	0	0	0	0	0	1	1
Other	140	184	172	160	155	150	141	133	123	109	99	93	778	1,334
Subtotal	395	229	216	210	129	208	197	189	181	161	162	157	961	1,811
Mandatory outlays, excluding offsetting receipts	**4,484**	**4,610**	**4,781**	**5,012**	**5,179**	**5,518**	**5,768**	**6,040**	**6,324**	**6,626**	**6,929**	**7,255**	**26,257**	**59,431**

Continued

Table B-4. Continued

CBO's Baseline Projections of Mandatory Outlays, Adjusted to Exclude Effects of Timing Shifts

Billions of dollars

													Total	
	Actual, 2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2026–2030	2026–2035
Offsetting receipts														
Medicare	-179	-203	-215	-233	-250	-267	-289	-311	-335	-363	-389	-413	-1,254	-3,065
Federal share of federal employees' retirement														
Civil service retirement and other	-61	-64	-66	-68	-70	-72	-74	-77	-79	-81	-84	-86	-350	-758
Military retirement	-25	-23	-22	-22	-23	-24	-24	-25	-25	-26	-27	-27	-115	-245
Social Security	-23	-23	-24	-25	-26	-27	-27	-28	-29	-30	-31	-32	-129	-278
Subtotal	-109	-109	-111	-115	-119	-122	-126	-130	-133	-137	-141	-145	-593	-1,280
Receipts related to natural resources	-19	-19	-19	-20	-19	-20	-20	-21	-21	-21	-22	-22	-99	-205
MERHCF	-11	-11	-13	-14	-14	-15	-16	-17	-17	-18	-19	-20	-72	-164
Fannie Mae and Freddie Mac[j]	-6	-7	0	0	0	0	0	0	0	0	0	0	0	0
Other	-30	-33	-36	-35	-35	-35	-41	-42	-29	-29	-29	-29	-181	-338
Total	**-354**	**-382**	**-395**	**-416**	**-437**	**-459**	**-492**	**-520**	**-536**	**-568**	**-599**	**-630**	**-2,199**	**-5,051**
Mandatory outlays, including offsetting receipts	**4,130**	**4,228**	**4,386**	**4,596**	**4,742**	**5,058**	**5,276**	**5,520**	**5,788**	**6,058**	**6,330**	**6,626**	**24,058**	**54,380**
Effects that timing shifts have on mandatory outlays in CBO's baseline projections														
Medicare	-45	0	0	0	77	-77	0	0	0	111	8	-119	n.a	n.a
Supplemental Security Income	-5	0	0	0	6	-6	0	0	0	7	*	-7	n.a	n.a
Military retirement	-6	0	0	0	7	-7	0	0	0	7	1	-8	n.a	n.a
Veterans' income security	-13	0	0	0	20	-20	0	0	0	23	2	-25	n.a	n.a
Veterans' other	-1	0	0	0	1	-1	0	0	0	1	*	-1	n.a	n.a
Total	**-70**	**0**	**0**	**0**	**110**	**-110**	**0**	**0**	**0**	**150**	**11**	**-161**	**n.a**	**n.a**
Mandatory outlays in CBO's baseline projections	**4,060**	**4,228**	**4,386**	**4,596**	**4,852**	**4,948**	**5,276**	**5,520**	**5,788**	**6,208**	**6,341**	**6,465**	**24,058**	**54,380**
Addendum:														
Outlays, net of offsetting receipts														
Medicare	910	942	1,000	1,058	1,122	1,193	1,266	1,348	1,435	1,542	1,648	1,753	5,639	13,365
Major health care programs	1,669	1,754	1,832	1,936	2,033	2,144	2,254	2,375	2,500	2,652	2,787	2,949	10,198	23,463

Data source: Congressional Budget Office. See www.cbo.gov/publication/60870#data.

Spending for benefit programs shown in this table generally excludes administrative costs, which are discretionary.

MERHCF = Department of Defense Medicare-Eligible Retiree Health Care Fund; n.a. = not applicable; * = between zero and $500 million.

a. When October 1 (the first day of the fiscal year) falls on a weekend, certain payments that would have ordinarily been made on that day are instead made at the end of September and thus are shifted into the previous fiscal year. Outlays have been adjusted to remove the effects of those timing shifts.

b. Gross spending, excluding the effects of Medicare premiums and other offsetting receipts. (Net Medicare spending is shown in the addendum section.)

c. Spending to subsidize health insurance purchased through the marketplaces established under the Affordable Care Act and provided through the Basic Health Program and spending to stabilize premiums for health insurance purchased by individuals and small employers.

d. Includes outlays for the American Opportunity Tax Credit and other credits.

e. Includes Temporary Assistance for Needy Families, Child Support Enforcement, Child Care Entitlement to States, and other programs that benefit children.

f. Includes benefits for retirement programs in the civil service, foreign service, and Coast Guard; benefits for smaller retirement programs; and annuitants' health care benefits.

g. Includes veterans' compensation, pensions, and life insurance programs.

h. Provides funding for health care, claims processing, and certain other incidental expenses related to providing care to veterans exposed to toxic substances.

i. Primarily the GI Bill and similar education benefits.

j. Cash payments from Fannie Mae and Freddie Mac to the Treasury are recorded as offsetting receipts in 2024 and 2025. Beginning in 2026, CBO's estimates reflect the net lifetime costs—that is, the subsidy costs adjusted for market risk—of the guarantees that those entities will issue and of the loans that they will hold. CBO counts those costs as federal outlays in the year of issuance.

Table B-5.

Changes in Discretionary Budget Authority From 2024 to 2025

Billions of dollars

	Actual, 2024	Enacted, 2025	Change	Percentage change
Defense				
Base funding[a]	886	888	2	**
Nonbase funding				
Emergency funding not subject to the caps[b]	*	*	0	0
Emergency funding resulting in cap adjustments[c]	67	12	-56	-82.6
Other nonbase funding	0	0	0	n.a.
Subtotal, nonbase funding	68	12	-56	-82.5
Effect of caps under section 102 of the FRA	0	-38	-38	n.a.
Subtotal, defense	954	862	-92	-9.7
Nondefense				
Base funding[a,d]	749	747	-1	**
Nonbase funding				
Emergency funding not subject to the caps[b]	70	68	-2	-2.6
Emergency funding resulting in cap adjustments[c]	56	118	61	109.3
Other nonbase funding	29	29	*	-1.0
Subtotal, nonbase funding	155	215	59	38.3
Effect of caps under section 102 of the FRA	0	0	0	n.a.
Subtotal, nondefense	904	962	58	6.5
Total				
Base funding[a]	1,635	1,636	1	**
Nonbase funding				
Emergency funding not subject to the caps[b]	70	68	-2	-2.6
Emergency funding resulting in cap adjustments[c]	124	130	6	4.7
Other nonbase funding	29	29	*	-1.0
Subtotal, nonbase funding	223	226	4	1.6
Effect of caps under section 102 of the FRA	0	-38	-38	n.a.
Total	**1,858**	**1,824**	**-34**	**-1.8**
Addendum:				
Caps under section 101 of the FRA				
Defense	886	895	9	1.0
Nondefense	704	711	7	1.0
Caps under section 102 of the FRA				
Defense	850	850	0	0
Nondefense	736	736	0	0

Data source: Congressional Budget Office. See www.cbo.gov/publication/60870#data.

FRA = Fiscal Responsibility Act of 2023; n.a. = not applicable; * = between zero and $500 million; ** = between -0.5 percent and 0.5 percent.

a. Consists of all discretionary appropriations except those that have been designated as an emergency requirement or for disaster assistance, certain program integrity activities (which identify and reduce overpayments in some benefit programs), certain fire suppression operations, certain funding for the Army Corps of Engineers, and programs designated in the 21st Century Cures Act. Funding in this category is constrained by the caps established by sections 101 and 102 of the FRA.

b. Consists almost entirely of funding designated as an emergency requirement and provided by the Infrastructure Investment and Jobs Act, the Bipartisan Safer Communities Act, and section 443 of the Consolidated Appropriations Act, 2023. Section 103 of the FRA stipulated that such funding is exempt from the caps.

c. Consists of funding, designated as an emergency requirement in keeping with section 251 of the Deficit Control Act, that changes the level of the caps.

d. Because compliance with statutory caps is based on cost estimates produced when appropriation legislation is enacted—rather than CBO's baseline—funding exceeds the level of the caps. Most of the difference stems from net reductions to mandatory funding that were included in appropriation acts. When those reductions are reflected in CBO's baseline, they appear as mandatory spending.

Table B-6.

Key Projections in CBO's Baseline

Percentage of GDP

	2025	2026	Annual average 2027–2030	Annual average 2031–2035
Revenues				
Individual income taxes	8.7	9.5	9.9	9.9
Payroll taxes	5.8	5.9	5.9	5.9
Corporate income taxes	1.7	1.6	1.3	1.2
Other[a]	0.9	0.9	0.9	1.1
Total revenues	**17.1**	**17.8**	**18.1**	**18.2**
Outlays				
Mandatory				
Social Security	5.2	5.3	5.6	5.9
Major health care programs[b,c]	5.8	5.8	6.1	6.5
Other[b]	3.0	2.8	2.6	2.5
Subtotal	14.0	14.0	14.3	14.9
Discretionary[b]	6.1	6.1	5.9	5.4
Net interest	3.2	3.2	3.5	3.9
Total outlays	**23.3**	**23.3**	**23.6**	**24.2**
Deficit (-)[d]	**-6.2**	**-5.5**	**-5.6**	**-6.1**
Debt held by the public at the end of the period	**100**	**102**	**109**	**118**
Addendum:				
Social Security				
Revenues[e]	4.5	4.6	4.6	4.7
Outlays[f]	5.2	5.3	5.6	5.9
Contribution to the deficit (-)[d,g]	-0.7	-0.7	-0.9	-1.2
Medicare				
Revenues[e]	1.5	1.5	1.5	1.6
Outlays[b,f]	3.8	3.9	4.1	4.7
Offsetting receipts	-0.7	-0.7	-0.8	-0.9
Contribution to the deficit (-)[d,g]	-1.7	-1.7	-1.8	-2.2
GDP at the end of the period (trillions of dollars)	30.1	31.3	36.4	43.9

Data source: Congressional Budget Office. See www.cbo.gov/publication/60870#data.

This table satisfies a requirement specified in section 3111 of S. Con. Res. 11, the Concurrent Resolution on the Budget for Fiscal Year 2016.

GDP = gross domestic product.

a. Consists of excise taxes, remittances from the Federal Reserve System, customs duties, estate and gift taxes, and miscellaneous fees and fines.

b. When October 1 (the first day of the fiscal year) falls on a weekend, certain payments that would have ordinarily been made on that day are instead made at the end of September and thus are shifted into the previous fiscal year. Outlays have been adjusted to remove the effects of those timing shifts.

c. Consists of outlays for Medicare (net of premiums and other offsetting receipts), Medicaid, and the Children's Health Insurance Program, as well as subsidies for health insurance purchased through the marketplaces established under the Affordable Care Act and related spending.

d. When outlays exceed revenues, the result is a deficit. Values in this row were calculated by subtracting outlays from revenues; thus, negative values indicate deficits or contributions to deficits.

e. Includes payroll taxes other than those paid by the federal government on behalf of its employees; those payments are intragovernmental transactions. Also includes income taxes paid on Social Security benefits, which are credited to the trust funds.

f. Does not include outlays related to the administration of the program, which are discretionary. For Social Security, outlays do not include intragovernmental offsetting receipts stemming from the employer's share of payroll taxes paid to the Social Security trust funds by federal agencies on behalf of their employees.

g. The contribution to the deficit shown in this row differs from the change in the trust fund balance for the associated program. It does not include intragovernmental transactions, interest earned on balances, or outlays related to the administration of the program.

Appendix C: The Economic Outlook in Tables

The economic projections in this report incorporate information through December 4, 2024, and reflect the assumption that current laws generally remain unchanged. For the Congressional Budget Office's economic projections, see Table C-1. For the agency's projections of real GDP and its components, see Table C-2. For key inputs in CBO's projections of real potential GDP, see Table C-3. And for a comparison of the agency's current and previous projections for the 2024–2034 period, see Table C-4.

Table C-1.

CBO's Economic Projections for Calendar Years 2025 to 2035

Percent

					Annual average	
	Estimated, 2024	2025	2026	2027	2028–2029	2030–2035
Change from fourth quarter to fourth quarter						
Gross domestic product						
Real[a]	2.3	1.9	1.8	1.8	1.8	1.8
Nominal	4.9	4.1	3.9	3.8	3.8	3.8
Inflation						
PCE price index	2.5	2.2	2.1	2.0	2.0	2.0
Core PCE price index[b]	2.9	2.3	2.1	2.0	2.0	2.0
Consumer price index[c]	2.7[f]	2.3	2.4	2.3	2.2	2.2
Core consumer price index[b]	3.3[f]	2.4	2.3	2.3	2.3	2.3
GDP price index	2.4	2.2	2.0	2.0	2.0	2.0
Employment cost index[d]	3.7	3.5	3.3	3.2	3.0	2.9
Payroll employment (average monthly change, in thousands)[e]	187[f]	90	58	46	52	57
Fourth-quarter level						
Unemployment rate	4.1[f]	4.3	4.4	4.4	4.4[g]	4.3[h]
Change from year to year						
Gross domestic product						
Real[a]	2.7	2.1	1.8	1.8	1.8	1.8
Nominal	5.2	4.4	3.9	3.8	3.8	3.8
Inflation						
PCE price index	2.5	2.2	2.1	2.0	2.0	2.0
Core PCE price index[b]	2.8	2.5	2.1	2.0	2.0	2.0
Consumer price index[c]	3.0[f]	2.2	2.4	2.3	2.2	2.2
Core consumer price index[b]	3.4[f]	2.6	2.4	2.3	2.3	2.3
GDP price index	2.4	2.2	2.1	2.0	2.0	2.0
Employment cost index[d]	3.9	3.5	3.4	3.2	3.1	2.9
Annual average						
Unemployment rate	4.0[f]	4.3	4.4	4.4	4.4	4.4
Interest rates						
Effective federal funds rate[i]	5.1[f]	4.0	3.5	3.3	3.3	3.2
3-month Treasury bills	5.0[f]	3.8	3.3	3.2	3.2	3.1
10-year Treasury notes	4.2[f]	4.1	3.9	3.9	3.9	3.8
Tax bases (percentage of GDP)						
Wages and salaries	42.6	42.8	43.1	43.2	43.5	43.6
Domestic corporate profits[j]	11.4	11.1	10.7	10.3	9.6	9.5

Data sources: Congressional Budget Office; Bureau of Economic Analysis; Bureau of Labor Statistics; Federal Reserve. See www.cbo.gov/publication/60870#data.

GDP = gross domestic product; PCE = personal consumption expenditures.

a. Real values are nominal values that have been adjusted to remove the effects of changes in prices.

b. Excludes prices for food and energy.

c. The consumer price index for all urban consumers.

d. The employment cost index for wages and salaries of workers in private industry.

e. Calculated by dividing by 12 the net change in nonfarm payrolls from the fourth quarter of one calendar year to the fourth quarter of the next year.

f. Actual value for 2024.

g. Value for the fourth quarter of 2029.

h. Value for the fourth quarter of 2035.

i. The median interest rate that financial institutions charge each other for overnight loans of their monetary reserves, weighted by loan volume.

j. Adjusted to exclude the effects of tax rules on depreciation allowances and the effects of changes in prices on the value of inventories.

Table C-2.

Projected Growth of Real GDP and Its Components

	Estimated, 2024	2025	2026	2027	Annual average 2028–2029	Annual average 2030–2035
	Change from fourth quarter to fourth quarter (percent)					
Real GDP	2.3	1.9	1.8	1.8	1.8	1.8
Components of real GDP						
Consumer spending	2.8	2.0	1.4	1.5	1.8	2.2
Business fixed investment[a]	3.1	2.8	2.8	2.8	2.3	2.7
Residential investment[b]	2.5	6.3	6.6	3.6	1.4	-0.8
Purchases by federal, state, and local governments[c]	2.4	0.2	0.2	0.2	0.1	0.2
Federal	2.7	-0.4	-0.1	-0.1	-0.1	0.2
State and local	2.3	0.6	0.5	0.4	0.3	0.2
Exports	1.7	1.9	3.5	3.8	2.8	2.2
Imports	5.4	2.3	1.8	1.6	1.3	2.3
Inventory investment (billions of 2017 dollars)[d]	16.5	-2.2	6.1	-0.1	1.7	1.1
	Contributions to the growth of real GDP (percentage points)					
Components of real GDP						
Consumer spending	1.9	1.4	1.0	1.0	1.2	1.5
Business fixed investment[a]	0.4	0.4	0.4	0.4	0.3	0.4
Residential investment[b]	0.1	0.3	0.3	0.2	0.1	*
Purchases by federal, state, and local governments[c]	0.4	*	*	*	*	*
Federal	0.2	*	*	*	*	*
State and local	0.2	0.1	0.1	*	*	*
Exports	0.2	0.2	0.4	0.4	0.3	0.2
Imports	-0.7	-0.3	-0.2	-0.2	-0.2	-0.3
Inventory investment[d]	0.1	*	*	*	*	*

Data source: Congressional Budget Office. See www.cbo.gov/publication/60870#data.

Real values are nominal values that have been adjusted to remove the effects of changes in prices.

GDP = gross domestic product; * = between -0.05 and 0.05 percentage points.

a. Purchases of new equipment, nonresidential structures, and intellectual property products (such as software) by private companies and nonprofit institutions.

b. Spending on home construction (new single-family and multifamily structures, manufactured homes, and dormitories), home improvements, and brokers' commissions and other ownership-transfer costs.

c. Based on the national income and product accounts.

d. The change in private inventories.

Table C-3.

Key Inputs in CBO's Projections of Real Potential GDP

Percent

	Average annual growth							Projected average annual growth		
	1950–1973	1974–1981	1982–1990	1991–2001	2002–2007	2008–2024	Overall, 1950–2024	2025–2029	2030–2035	Overall, 2025–2035
					Overall economy					
Real potential GDP[a]	4.0	3.1	3.2	3.3	2.3	1.9	3.1	2.2	1.9	2.0
Potential labor force[b]	1.6	2.4	1.6	1.2	1.0	0.6	1.3	0.9	0.4	0.6
Potential labor force productivity[c]	2.3	0.7	1.6	2.0	1.3	1.4	1.7	1.3	1.4	1.4
					Nonfarm business sector					
Real potential output	4.1	3.4	3.5	3.8	2.4	2.3	3.3	2.5	2.2	2.3
Potential hours worked	1.4	2.1	1.6	1.4	0.1	0.7	1.2	0.9	0.5	0.6
Capital services[d]	4.3	4.0	3.9	4.2	2.9	2.5	3.7	2.4	2.2	2.3
Potential total factor productivity[e]	1.7	0.6	1.1	1.4	1.4	1.0	1.3	1.1	1.1	1.1
Contributions to the growth of real potential output (percentage points)										
Potential hours worked	0.9	1.4	1.1	0.9	0.1	0.5	0.8	0.6	0.3	0.4
Capital services[d]	1.4	1.3	1.3	1.4	0.9	0.8	1.2	0.8	0.7	0.7
Potential total factor productivity[e]	1.7	0.6	1.1	1.4	1.4	1.0	1.3	1.1	1.1	1.1
Total contribution	**4.0**	**3.4**	**3.4**	**3.8**	**2.4**	**2.3**	**3.3**	**2.4**	**2.1**	**2.3**
Potential labor productivity[f]	2.6	1.2	1.8	2.4	2.3	1.6	2.1	1.6	1.7	1.6

Data source: Congressional Budget Office. See www.cbo.gov/publication/60870#data.

Real values are nominal values that have been adjusted to remove the effects of changes in prices.

The table shows compound annual growth rates over the specified periods. Those rates are calculated from the fourth quarter of the year immediately preceding each period to the fourth quarter of the last year of the period.

GDP = gross domestic product.

a. CBO's estimate of the amount of real GDP that could be produced if labor and capital were employed at their maximum sustainable rates.

b. CBO's estimate of how big the labor force would be if economic output and other key variables were at their maximum sustainable amounts.

c. The ratio of real potential GDP to the potential labor force.

d. The services provided by capital goods (such as software, equipment, and factories) that constitute the actual input in the production process.

e. The average real output per unit of combined labor and capital services, excluding the effects of business cycles.

f. The ratio of potential output to potential hours worked in the nonfarm business sector.

Table C-4.

CBO's Current and Previous Economic Projections for Calendar Years 2024 to 2034

Percent

	2024	2025	2026	Annual average 2024–2028	Annual average 2029–2034	Annual average Overall, 2024–2034
			Change from fourth quarter to fourth quarter			
Real GDP[a]						
January 2025	2.3	1.9	1.8	1.9	1.8	1.9
June 2024	2.0	2.0	1.8	1.9	1.8	1.8
Nominal GDP						
January 2025	4.9	4.1	3.9	4.1	3.8	3.9
June 2024	4.6	4.1	3.6	3.9	3.8	3.9
Inflation						
PCE price index						
January 2025	2.5	2.2	2.1	2.2	2.0	2.0
June 2024	2.7	2.1	1.9	2.1	2.0	2.0
Core PCE price index[b]						
January 2025	2.9	2.3	2.1	2.3	2.0	2.1
June 2024	3.0	2.3	2.1	2.3	2.0	2.1
Consumer price index[c]						
January 2025	2.6	2.3	2.4	2.4	2.2	2.3
June 2024	3.0	2.3	2.2	2.4	2.2	2.3
Core consumer price index[b]						
January 2025	3.2	2.4	2.3	2.5	2.3	2.4
June 2024	3.4	2.5	2.3	2.6	2.2	2.4
GDP price index						
January 2025	2.4	2.2	2.0	2.1	2.0	2.0
June 2024	2.6	2.0	1.8	2.0	2.0	2.0
Employment cost index[d]						
January 2025	3.7	3.5	3.3	3.3	3.0	3.1
June 2024	4.0	3.5	3.3	3.4	3.0	3.2
Real potential GDP[e]						
January 2025	2.3	2.3	2.3	2.2	1.9	2.1
June 2024	2.1	2.2	2.1	2.1	1.9	2.0

Continued

Table C-4. Continued

CBO's Current and Previous Economic Projections for Calendar Years 2024 to 2034

Percent

				Annual average		
	2024	2025	2026	2024–2028	2029–2034	Overall, 2024–2034
			Annual average			
Unemployment rate						
January 2025	4.0	4.3	4.4	4.3	4.4	4.3
June 2024	3.9	4.0	4.2	4.2	4.5	4.3
Interest rates						
Effective federal funds rate[f]						
January 2025	5.1	4.0	3.5	3.9	3.3	3.5
June 2024	5.3	4.8	3.8	4.1	3.0	3.5
3-month Treasury bills						
January 2025	5.0	3.8	3.3	3.7	3.1	3.4
June 2024	5.2	4.5	3.6	3.8	2.8	3.3
10-year Treasury notes						
January 2025	4.2	4.1	3.9	4.0	3.8	3.9
June 2024	4.5	4.1	3.7	3.9	4.0	3.9
Tax bases (percentage of GDP)						
Wages and salaries						
January 2025	42.6	42.8	43.1	43.0	43.6	43.3
June 2024	43.3	43.5	43.7	43.6	43.9	43.8
Domestic corporate profits[g]						
January 2025	11.4	11.1	10.7	10.7	9.5	10.0
June 2024	10.2	10.1	9.8	9.8	9.0	9.4

Data source: Congressional Budget Office. See www.cbo.gov/publication/60870#data.

GDP = gross domestic product; PCE = personal consumption expenditures.

a. Real values are nominal values that have been adjusted to remove the effects of changes in prices.

b. Excludes prices for food and energy.

c. The consumer price index for all urban consumers.

d. The employment cost index for wages and salaries of workers in private industry.

e. CBO's estimate of the amount of real GDP that could be produced if labor and capital were employed at their maximum sustainable rates.

f. The median interest rate that financial institutions charge each other for overnight loans of their monetary reserves, weighted by loan volume.

g. Adjusted to exclude the effects of tax rules on depreciation allowances and the effects of changes in prices on the value of inventories.

Appendix D: Tax Expenditures

Many exclusions, deductions, credits, and preferential rates in the federal tax system cause revenues to be lower than they would be otherwise for any underlying set of tax rates. Such provisions resemble federal spending and contribute to the budget deficit; thus, they are known as tax expenditures.[1]

Like federal spending, tax expenditures provide financial assistance for specific activities, entities, or groups of people. However, the budgetary treatment of tax expenditures differs from that of spending programs. Tax expenditures increase the deficit by reducing the government's revenue collections, although the amount of forgone revenues attributable to specific tax expenditures (or to tax expenditures in general) is not typically recorded separately in the budget, unlike outlays for each spending program.[2] The Congressional Budget and Impoundment Control Act of 1974 (Public Law 93-344) requires that the federal budget list tax expenditures. The Administration regularly publishes estimates of tax expenditures prepared by the Treasury Department's Office of Tax Analysis, and the Congress publishes estimates prepared by the staff of the Joint Committee on Taxation (JCT).[3]

Tax expenditures have a large effect on the federal budget. In fiscal year 2025, the value of all the tax expenditures in the individual and corporate income tax systems (including their effects on payroll taxes) is estimated to be $2.3 trillion, or 7.6 percent of gross domestic product (GDP).[4] That amount, which was calculated by the Congressional Budget Office on the basis of estimates prepared by JCT, equals about 44 percent of all federal revenues in 2025 and exceeds projected outlays for all discretionary programs combined (see Figure D-1).

Simply adding up the estimates for specific tax expenditures does not account for the interactions that may occur among those tax provisions. For instance, the total tax expenditure for all itemized deductions would be smaller than the sum of the separate tax expenditures for each deduction. The reason is that all taxpayers would claim the standard deduction if there were no itemized deductions; but if only one or a few itemized deductions were removed, many taxpayers would still choose to itemize. The progressive structure of the tax brackets (meaning that higher rates apply to higher income) ensures that the opposite would be the case with income exclusions. In other words, the tax expenditure for all exclusions considered together would be greater than the sum of the separate tax expenditures for each exclusion. In 2025, those and other factors are expected to be approximately offsetting, so the total amount of tax

1. Sec. 3(3) of the Congressional Budget and Impoundment Control Act of 1974, codified at 2 U.S.C. §622(3) (2023), defines tax expenditures as "those revenue losses attributable to provisions of the Federal tax laws which allow a special exclusion, exemption, or deduction from gross income or which provide a special credit, a preferential rate of tax, or a deferral of tax liability."

2. The exception is the portion of refundable tax credits that exceeds a taxpayer's tax liability; that amount is recorded in the budget as mandatory spending.

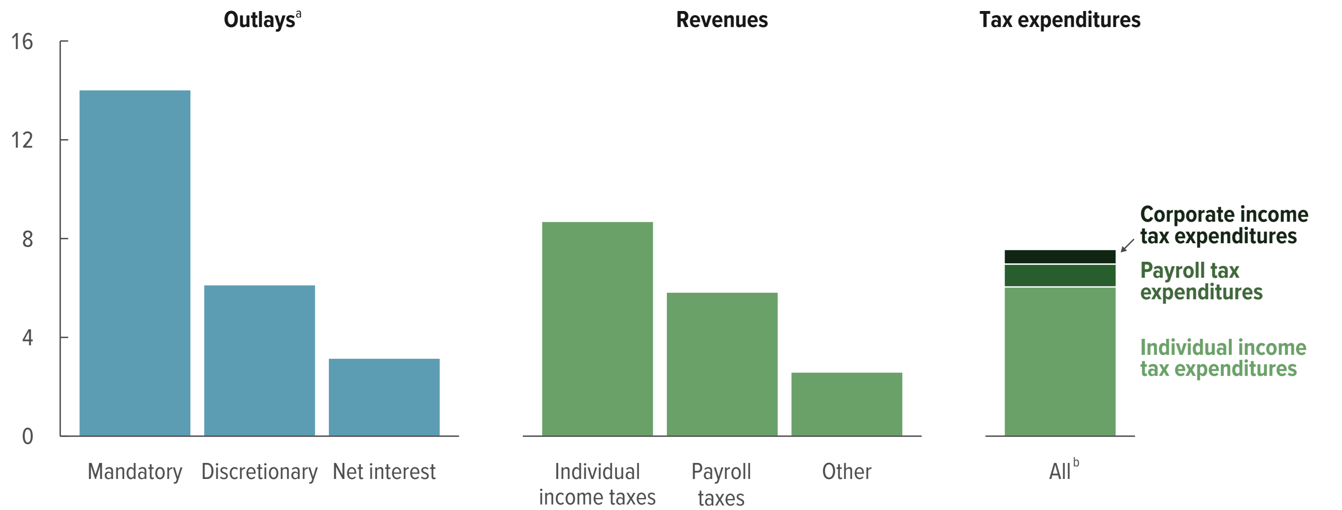
3. For this analysis, the Congressional Budget Office adopted JCT's definition of tax expenditures as deviations from a "normal" income tax structure. For the individual income tax, that structure includes existing regular tax rates, the standard deduction, personal exemptions, and deductions of business expenses. For the corporate income tax, that structure includes the statutory tax rate, generally defines income on an accrual basis (meaning that future income and expenses are recorded when they are incurred rather than when payments are exchanged), and allows for costs to be recovered according to a specified depreciation system that is less favorable than under current law. For more information, see Congressional Budget Office, *How Specifications of the Reference Tax System Affect CBO's Estimates of Tax Expenditures* (December 2021), www.cbo.gov/publication/57543; Joint Committee on Taxation, *Estimates of Federal Tax Expenditures for Fiscal Years 2024–2028*, JCX-48-24 (December 11, 2024), www.jct.gov/publications/2024/jcx-48-24. The Treasury's definition of tax expenditures is broadly similar to JCT's. See Treasury Department, *Tax Expenditures Fiscal Year 2026* (November 27, 2024), https://tinyurl.com/msmf3r3e.

4. Unlike JCT, CBO includes estimates of the largest payroll tax expenditures. As defined by CBO, a normal payroll tax structure includes the existing payroll tax rates as applied to a broad definition of compensation, which consists of cash wages and fringe benefits. Tax expenditures that reduce the tax base for payroll taxes also decrease spending for Social Security by reducing the earnings base used to calculate Social Security benefits.

Figure D-1.

Estimated Outlays, Revenues, and Tax Expenditures in Fiscal Year 2025

Percentage of GDP



Tax expenditures are provisions of the tax system (such as tax credits and deductions) that cause revenues to be lower than they would be otherwise. Like federal spending programs, tax expenditures contribute to the budget deficit. In 2025, the total revenues forgone because of tax expenditures are projected to equal 7.6 percent of GDP (or $2.3 trillion).

Data source: Congressional Budget Office, using estimates by the staff of the Joint Committee on Taxation. See www.cbo.gov/publication/60870#data.

GDP = gross domestic product.

a. The outlay portions of refundable tax credits are included in tax expenditures as well as in mandatory outlays. In 2025, they are estimated to total 0.8 percent of GDP.

b. This total is the sum of the estimates for each separate tax expenditure and does not account for interactions among them. However, CBO estimates that the total for all tax expenditures roughly equals the sum of the estimates for each separate tax expenditure. Because estimates of tax expenditures are based on people's behavior with current provisions of the tax code in place, they do not reflect the amount of revenues that would be collected if provisions were eliminated and taxpayers adjusted their activities accordingly.

expenditures is projected to roughly equal the sum of the individual tax expenditures.

Estimates of tax expenditures measure the difference between households' and businesses' tax liability under current law and the tax liability they would have incurred if the provisions generating those tax expenditures were repealed and taxpayers' behavior was unchanged. Such estimates do not represent the amount of revenues that would be raised if those provisions were eliminated, because the changes in incentives that would result from eliminating those provisions would lead households and businesses to modify their behavior in ways that would lessen the effect on revenues.

Appendix E: Table and Figure Notes

This appendix provides details about the tables and figures presented in the main text of the report.

The Budget Outlook, by Fiscal Year

Data source: Congressional Budget Office. See www.cbo.gov/publication/60870#data.

When October 1 (the first day of the fiscal year) falls on a weekend, certain payments that would have ordinarily been made on that day are instead made at the end of September and thus are shifted into the previous fiscal year. Outlays and deficits have been adjusted to exclude the effects of those timing shifts.

CHIP = Children's Health Insurance Program; GDP = gross domestic product.

Total Outlays and Revenues

Data source: Congressional Budget Office. See www.cbo.gov/publication/60870#data.

When October 1 (the first day of the fiscal year) falls on a weekend, certain payments that would have ordinarily been made on that day are instead made at the end of September and thus are shifted into the previous fiscal year. All projections presented here have been adjusted to exclude the effects of those timing shifts. Historical amounts have been adjusted as far back as the available data will allow.

GDP = gross domestic product.

Outlays, by Category

Data source: Congressional Budget Office. See www.cbo.gov/publication/60870#data.

When October 1 (the first day of the fiscal year) falls on a weekend, certain payments that would have ordinarily been made on that day are instead made at the end of September and thus are shifted into the previous fiscal year. All projections presented here have been adjusted to exclude the effects of those timing shifts. Historical amounts have been adjusted as far back as the available data will allow.

GDP = gross domestic product.

Revenues, by Category

Data source: Congressional Budget Office. See www.cbo.gov/publication/60870#data.

Revenues in the "other" category consist of excise taxes, remittances from the Federal Reserve System, customs duties, estate and gift taxes, and miscellaneous fees and fines.

GDP = gross domestic product.

Total Deficit, Net Interest Outlays, and Primary Deficit

Data source: Congressional Budget Office. See www.cbo.gov/publication/60870#data.

When October 1 (the first day of the fiscal year) falls on a weekend, certain payments that would have ordinarily been made on that day are instead made at the end of September and thus are shifted into the previous fiscal year. All projections presented here have been adjusted to exclude the effects of those timing shifts. Historical amounts have been adjusted as far back as the available data will allow.

GDP = gross domestic product.

Changes in CBO's Projections of the 10-Year Deficit Since June 2024

Data source: Congressional Budget Office. See www.cbo.gov/publication/60870#data.

Federal Debt Held by the Public

Data source: Congressional Budget Office. See www.cbo.gov/publication/60870#data.

GDP = gross domestic product.

The Economic Outlook, by Calendar Year

Data source: Congressional Budget Office. See www.cbo.gov/publication/60870#data.

For 2024, values for real GDP, inflation as measured by the PCE price index, and the tax bases are estimates; values for inflation as measured by the consumer price index, payroll employment, the unemployment rate, and interest rates are actual values.

GDP = gross domestic product; PCE = personal consumption expenditures.

Growth of Real GDP

Data source: Congressional Budget Office. See www.cbo.gov/publication/60870#data.

GDP = gross domestic product.

Residential Investment

Data source: Congressional Budget Office. See www.cbo.gov/publication/60870#data.

Unemployment

Data source: Congressional Budget Office. See www.cbo.gov/publication/60870#data.

Projections in this figure are fourth-quarter values.

Wages

Data source: Congressional Budget Office. See www.cbo.gov/publication/60870#data.

Overall Inflation and Core Inflation

Data source: Congressional Budget Office. See www.cbo.gov/publication/60870#data.

Interest Rates

Data source: Congressional Budget Office. See www.cbo.gov/publication/60870#data.

Projections in this figure are fourth-quarter values.

About This Document

This volume is one of a series of reports on the state of the budget and the economy that the Congressional Budget Office issues each year. It satisfies the requirement of section 202(e) of the Congressional Budget Act of 1974 for CBO to submit to the Committees on the Budget periodic reports about fiscal policy and to provide baseline projections of the federal budget. In keeping with CBO's mandate to provide objective, impartial analysis, this report makes no recommendations.

CBO consulted members of its Panel of Economic Advisers during the development of this report. Although the agency's outside advisers provided considerable assistance, they are not responsible for the contents of this report; that responsibility rests solely with CBO.

The following pages list CBO's staff members who contributed to this report by preparing the economic, revenue, and spending projections; writing the report; reviewing, editing, fact-checking, designing, and publishing it; compiling the supplemental materials posted along with it on CBO's website; and providing other support. The report is available at www.cbo.gov/publication/60870.

CBO seeks feedback to make its work as useful as possible. Please send comments to communications@cbo.gov.

Phillip L. Swagel
Director
January 2025

Economic Projections

The economic projections were prepared by the Macroeconomic Analysis Division, with contributions from analysts in other divisions. That work was supervised by Devrim Demirel, Robert Arnold, and Jaeger Nelson.

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Joyce Bai · Financial markets

Aaron Betz · Effects of fiscal policy, potential output, productivity

Daniel Fried · Net exports, exchange rates, energy prices

Edward Gamber · Labor markets, current-quarter analysis

Ron Gecan · Energy prices

Mark Lasky · Business investment, housing

Chandler Lester · Inflation, house prices

Kyoung Mook Lim · Federal, state, and local government spending and revenues; effects of fiscal policy

Michael McGrane · Financial markets, Federal Reserve's balance sheet, quantifying uncertainty

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Jeffrey Schafer · Interest rates, monetary policy

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Daniel Page · Excise taxes

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Samuel Liedtka · Appropriation bills (Interior and Related Agencies; Military Construction and Veterans Affairs)

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George McArdle · Appropriation bills (Agriculture and Food and Drug Administration; State and Foreign Operations)

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