Budget *of the* U.S. Government

Analytical Perspectives

Office of Management and Budget
Fiscal Year 2027

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President's Budget: Volumes and Documents

***Budget of the United States Government*, Fiscal Year 2027**

Contains information on the President's priorities and summary tables.

***Analytical Perspectives,* Budget of the United States Government, Fiscal Year 2027**

Contains analyses that are designed to highlight specific subject areas or provide other significant presentation of budget data that place the budget in perspective. This volume includes economic and accounting analyses; information on Federal receipts and collections; analyses of Federal spending; information on Federal borrowing and debt; baseline or current services estimates; and other technical presentations. This volume also contains links at *https://www.whitehouse.gov/omb/information-resources/budget/analytical-perspectives/* to supplemental materials that include detailed tables showing the budget by agency and account, and by function, subfunction, and program, as well as other supplementary tables.

***Appendix, Budget of the United States Government,* Fiscal Year 2027**

Presents detailed information on individual programs and appropriation accounts that constitute the budget. It includes for each Government department and agency the text of proposed appropriations language, budget schedules for each account, explanations of the work to be performed and the funds needed, and proposed general provisions applicable to the appropriations of entire agencies or groups of agencies.

GENERAL NOTES

1. All years referenced for budget data are fiscal years unless otherwise noted. All years referenced for economic data are calendar years unless otherwise noted.

2. At the time the Budget was prepared, the 2026 appropriations bill for the Department of Homeland Security was not enacted, and funding provided by the last continuing resolution it had been operating under (Continuing Appropriations Act, 2026, division A of Public Law 119-37, as amended by division H of Public Law 119-75) had lapsed. References to 2026 spending in the text and tables for programs and activities normally provided for in the full-year appropriations bill reflect the annualized level provided by the last continuing resolution.

3. Three appropriations bills had been enacted with sufficient time to incorporate the text of enacted appropriations language into the Budget *Appendix* (Agriculture, Rural Development, Food and Drug Administration, and Related Agency Appropriations Act, 2026; Legislative Branch Appropriations Act, 2026; and Military Construction, Veterans Affairs, and Related Agencies Appropriations Act, 2026; divisions B, C, and D of Public Law 119-37). For the remaining nine appropriations bills, including the Department of Homeland Security bill, the 2027 Budget *Appendix* includes appropriations language in italics, reflecting the Administration's proposed language.

4. Detail in this document may not add to the totals due to rounding.

The President's Budget Information is Available Online

https://www.whitehouse.gov/omb/information-resources/budget/

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INTRODUCTION

The *Analytical Perspectives* volume presents analyses that highlight specific subject areas or provide other significant data that contextualize the President's 2027 Budget and assist the public, policymakers, the media, and researchers in better understanding the Budget's structure, underlying assumptions, and policy implications. This volume complements the main *Budget* volume, which presents the President's Budget policies and priorities, and the Budget *Appendix* volume, which provides appropriations language, schedules for budget expenditure accounts, and schedules for selected receipt accounts.

Presidential budgets have included separate analytical presentations of this kind for many years. The 1947 Budget and subsequent budgets included a separate section entitled *Special Analyses and Tables* that covered four, and later more, topics. For the 1952 Budget, the section was expanded to 10 analyses, including many subjects still covered today, such as receipts, investment, and credit programs. With the 1967 Budget, this material became a separate volume entitled *Special Analyses*, and included 13 chapters. The material has remained a separate volume since then, with the exception of the Budgets for 1991–1994, when all of the budget material was included in one volume. Beginning with the 1995 Budget, the volume has been named *Analytical Perspectives*.

The *Analytical Perspectives* volume, and some supplemental materials, are available online. Tables included online are indicated using an arrow in the Table of Contents. For technical reasons, the Department of War is referred to as the Department of Defense in some of these online tables.

Overview of the Chapters

Economic Analyses

Economic Assumptions. This chapter reviews recent economic developments; presents the Administration's assessment of the economic situation and outlook; compares the economic assumptions on which the 2027 Budget is based with the assumptions for last year's Budget and those of other forecasters; provides sensitivity estimates for the effects on the Budget of changes in specified economic assumptions; and reviews past errors in economic projections.

Special Analyses and Presentations

Budget Process. This chapter describes the Administration's approach and proposals related to budget enforcement, such as sequestration and Pay-As-You-Go procedures, highlights unique issues in budget presentation, such as the treatment of the Pell Grant program, and discusses suggested reforms in budgeting, including for large Federal capital projects.

Federal Investment. This chapter discusses federally financed spending that yields long-term benefits. It presents information on annual spending on physical capital, research and development, and education and training.

Credit and Insurance. This chapter provides cross-cutting analyses of the roles, risks, and performance of Federal credit and insurance programs and Government-sponsored enterprises (GSEs). The chapter covers the major categories of Federal credit (housing, education, small business and farming, energy and infrastructure, and international) and insurance programs (deposit insurance, pension guarantees, disaster insurance, and insurance against terrorism-related risks). Five additional tables address transactions including direct loans, guaranteed loans, and GSEs. These tables are available online.

Management Priorities

The Management Chapter discusses how the Budget is aligned with the President's Management Agenda (PMA) and supports the Administration's core management reform objectives and priority goals to drive change across the Federal enterprise by shrinking the Government and eliminating waste, ensuring accountability, rebuilding American industry, and delivering results for the American people. The chapter also includes tables and charts showing Federal workforce data and information about IT and cybersecurity spending. The Management Chapter includes three sections, which are aligned with the PMA's priorities.

Shrink the Government and Eliminate Waste. This section highlights how the Budget reins in Federal spending and shrinks the Government by eliminating woke, weaponized, and wasteful programs and funding, downsizing the Federal workforce, and optimizing Federal real estate. It also includes links to tables and charts showing Federal workforce data.

Ensure Accountability for Americans. This section highlights how the Budget ensures accountability for Americans and supports the Administration's efforts to hold employees, contractors, and grant recipients to the highest standards and use data to promote transparency and deliver performance-driven outcomes.

Deliver Results, Buy American. This section highlights how the Budget focuses on eliminating bureaucratic barriers to efficiently deploy the buying power of the Federal Government; maximizing the use of goods, products, and materials produced in the United States; and deploying technology, including the rapid and responsible adoption of artificial intelligence tools, to deliver faster, more secure services. It also includes links to tables and charts with information about information technology (IT) and cybersecurity spending.

Technical Budget Analyses

Budget Concepts. This chapter includes a basic description of the budget process, concepts, laws, and terminology, and includes a glossary of budget terms.

Coverage of the Budget. This chapter describes activities that are included in Budget receipts and outlays (and are therefore classified as "budgetary") as well as those activities that are not included in the Budget (and are therefore classified as "non-budgetary"). The chapter also defines the terms "on-budget" and "off-budget" and includes illustrative examples.

Governmental Receipts. This chapter presents information on estimates of Governmental receipts, which consist of taxes and other compulsory collections. It includes descriptions of tax-related legislation enacted in the last year and describes proposals affecting receipts in the 2027 Budget.

Offsetting Collections and Offsetting Receipts. This chapter presents information on collections that offset outlays, including collections from transactions with the public and intragovernmental transactions. In addition, this chapter presents information on "user fees," which are charges associated with market-oriented activities and regulatory fees. Detailed tables of offsetting receipts and offsetting collections in the Budget are available online.

Tax Expenditures. This chapter describes and presents estimates of tax expenditures, which are defined as revenue losses from special exemptions, credits, or other preferences in the tax code.

Federal Borrowing and Debt. This chapter analyzes Federal borrowing and debt and explains the budget estimates. It includes sections on special topics such as trends in debt, debt held by the public net of financial assets and liabilities, investment by Government accounts, and the statutory debt limit.

Current Services Estimates. This chapter discusses the conceptual basis of the Budget's current services, or "baseline," estimates, which are generally consistent with the baseline rules in the Balanced Budget and Emergency Deficit Control Act of 1985, as amended. The chapter presents estimates of receipts, outlays, and the deficit under this baseline. Supplemental tables addressing factors that affect the baseline and providing details of baseline budget authority and outlays are available online.

Trust Funds and Federal Funds. This chapter provides summary information about the two fund groups in the Budget—trust funds and Federal funds. In addition, it provides detailed information about income, outgo, and balances for the major trust funds and certain Federal fund programs.

Comparison of Actual to Estimated Totals. This chapter compares the actual receipts, outlays, and deficit for 2025 with the estimates for that year published in the 2025 Budget.

Supplemental Materials

The following supplemental materials are part of the *Analytical Perspectives* volume online:

Detailed Functional Table

Table 15–1, "Budget Authority and Outlays by Function, Category, and Program," displays budget authority and outlays for major Federal program categories, organized by budget function (such as healthcare, transportation, or national defense), category, and program.

Federal Budget by Agency and Account

Table 16–1, "Federal Budget by Agency and Account," displays budget authority and outlays for each account, organized by agency, bureau, fund type, and account.

Federal Drug Control Funding

The Federal Drug Control Funding crosscut displays enacted and proposed drug control funding for Federal Departments and Agencies to implement the President's National Drug Control Strategy.

Calfed Bay-Delta Program Federal Budget Crosscut

The Calfed Bay-Delta Program interagency budget crosscut report provides an estimate of Federal funding by each of the participating Federal agencies with authority and programmatic responsibility for implementing this program, fulfilling the reporting requirements of section 106(c) of Public Law 108–361.

Columbia River Basin Federal Budget Crosscut

The Columbia River interagency budget crosscut report includes an estimate of Federal funding by each of the participating Federal agencies to carry out restoration activities within the Columbia River Basin, fulfilling the reporting requirements of section 123 of the Clean Water Act (33 U.S.C. 1275).

ECONOMIC ASSUMPTIONS 01.

This chapter presents the economic assumptions that underlie the Administration's 2027 Budget.[1] It provides an overview of the recent performance of the American economy, presents the Administration's projections for key macroeconomic variables, compares them with other prominent forecasts, and discusses the inherent uncertainty of multiyear forecasts.

The chapter proceeds as follows. The first section provides an overview of the recent performance of the U.S. economy based on a broad array of key economic indicators. The second section presents a detailed exposition of the Administration's economic assumptions underlying the 2027 Budget and how key macroeconomic variables are expected to evolve over the 11-year window from 2026 through 2036. The third section compares the forecast of the Administration with those of the Congressional Budget Office (CBO), the Federal Open Market Committee of the Federal Reserve (FOMC), and the consensus from the Blue Chip Economic Indicators panel of professional forecasters available at the time the Administration's forecast was being finalized. The fourth section discusses the sensitivity of the Administration's projections of Federal receipts and outlays to alternative paths of macroeconomic variables. The fifth section considers the errors in past Administration forecasts, comparing them with the errors in forecasts produced by the CBO and the Blue Chip Economic Indicators panel of professional forecasters. The sixth section uses information on past accuracy of Administration forecasts to provide context for the uncertainty associated with the Administration's current forecast of the budget balance.

[1] Economic performance, unless otherwise specified, is discussed in terms of calendar years (January-December). Budget figures are discussed in terms of fiscal years (October-September).

Recent Economic Performance

In only the first year of this Administration, the President is already delivering on many top economic priorities: reshoring critical manufacturing, unleashing American energy, securing our supply chains, and powering the future of AI and advanced technology. The President's policies have unleashed trillions of dollars in support of U.S. dominance in manufacturing. The early successes of this Administration can also be seen in more traditional measures of the economy, such as declining rates of inflation and a strong labor market.

Employment. The labor market was solid in 2025. The unemployment rate averaged 4.3 percent over the year, and ended 2025 at 4.4 percent. Other indicators of labor market health also showed signs of strength in 2025, with several measures remaining near multidecade lows, including the manufacturing unemployment rate, the number of marginally attached and discouraged workers as shares of the labor force, and the share of the labor force working part-time for economic reasons (e.g., those unable to find full-time employment). Notably, sustained labor market strength in 2025 occurred simultaneously with a reduction in inflation.

The economy added an average of 10,000 jobs per month in 2025. Total employment at the end of the year was roughly 7.5 million above its pre-pandemic peak. Additionally, by the end of 2025 the prime-age labor force participation rate exceeded its pre-pandemic level by 1 percentage point.

Inflation. Price increases continued to slow over 2025. For example, inflation measured by the Consumer Price Index for all Urban Consumers (CPI-U) was 2.7 percent over the year ending in December 2025, compared with a 2.9 percent increase over the year-earlier 12 months. Core CPI-U inflation, which excludes food and energy prices, was 2.6 percent over the year ending in December 2025, down from a 3.2 percent increase over the year-earlier 12 months. While overall and core CPI-U 12-month inflation have fallen, they remain elevated relative to the Federal Reserve's target.[2] 12-month price increases slowed across several major components of the CPI-U from December 2024 to December 2025. One of the factors supporting slower inflation in 2025 was a reduction in shelter inflation and, more broadly, in overall service inflation. Consumer price inflation for shelter declined by 1.4 percentage points to 3.2 percent. The broader services

[2] The Federal Reserve's inflation target is 2 percent annual growth as measured by the Personal Consumption Expenditures price index. The rate of CPI-U annual inflation consistent with this target is approximately 2.3 percent.

Table 01—1. Economic Assumptions[1]

Calendar Years; In Billions of Dollars

	Actual	Projections											
	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036
Gross Domestic Product (GDP)													
Levels:													
Current Dollars	29,298	30,705	32,525	34,223	35,989	37,845	39,772	41,755	43,821	45,988	48,261	50,646	53,154
Real, Chained (2017) Dollars	23,358	23,816	24,562	25,333	26,118	26,928	27,746	28,561	29,389	30,242	31,119	32,021	32,950
Chained Price Index (2017=100)	125	129	132	135	138	140	143	146	149	152	155	158	161
Percent Change [3]													
Current Dollars	4.9	5.1	5.7	5.2	5.2	5.2	5.0	4.9	4.9	4.9	4.9	4.9	5.0
Real, Chained (2017) Dollars	2.4	1.8	3.5	3.1	3.1	3.1	3.0	2.9	2.9	2.9	2.9	2.9	2.9
Chained Price Index (2017=100)	2.5	3.2	2.2	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Incomes													
Domestic Corporate Profits	3,344	3,565	3,910	4,067	4,159	4,283	4,444	4,628	4,828	5,048	5,259	5,483	5,682
Employee Compensation	15,027	15,783	16,531	17,430	18,381	19,409	20,485	21,597	22,768	23,996	25,303	26,672	28,127
Wages and Salaries	12,388	13,006	13,607	14,359	15,137	15,984	16,869	17,783	18,748	19,748	20,825	21,951	23,148
Nonwage Personal Income	7,247	7,504	8,062	8,676	9,295	9,919	10,505	11,059	11,587	12,197	12,791	13,387	13,969
Consumer Price Index (All Urban)[4]													
Level (1982–1984=100)[2]	313.7	322.2	330.1	337.7	345.3	352.9	360.7	368.6	376.7	385.0	393.5	402.1	411.0
Percent Change:[3]	2.7	2.8	2.3	2.3	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2
Unemployment Rate, Civilian, Percent													
Annual Average	4.0	4.2	3.9	3.7	3.7	3.7	3.7	3.7	3.7	3.7	3.7	3.7	3.7
Q4 Level	4.2	4.2	3.7	3.7	3.7	3.7	3.7	3.7	3.7	3.7	3.7	3.7	3.7
Interest Rates, Percent													
91-Day Treasury Bills	5.0	4.1	3.2	3.1	3.1	3.1	3.1	3.1	3.1	3.1	3.1	3.1	3.1
10-Year Treasury Notes	4.2	4.3	3.7	3.5	3.5	3.4	3.3	3.3	3.3	3.3	3.3	3.3	3.3

1 Based on information available as of November 2025

2 Annual average

3 Fourth-quarter-over-fourth-quarter

4 Seasonally Adjusted

category declined from the end of 2024 to the end of 2025 by 1.4 percentage points to 3.0 percent.

Wages. Wage growth over 2025 was robust across a variety of measures. Over the year ending in December 2025, average hourly earnings (AHE) rose 4.1 percent across all private-sector workers, and 3.9 percent across private-sector workers in production and nonsupervisory positions. Similarly, wages and salaries increased 3.4 percent across all private-sector workers, according to the Employment Cost Index (ECI)—ECI is a measure of worker compensation that holds constant the composition of the workforce. Wage growth in 2025 outpaced consumer price inflation. For example, over the year ending in December 2025, real AHE rose 1.4 percent across all private-sector workers and 1.2 percent for private-sector workers in production and nonsupervisory positions. Wages and salaries as measured by the ECI also increased in real terms over the year, rising 0.7 percent across all private-sector workers. Looking ahead, sustaining the labor market's solid performance while continuing to bring inflation down further for American consumers remains an important economic priority for the Administration.

Gross Domestic Product[3]

Overview. Real GDP, which adjusts for inflation, rose 2.0 percent over 2025 (fourth-quarter-over-fourth-quarter), the highest among major advanced economies (G7). GDP growth in 2025 was driven most by consumption and business fixed investment. Net exports became less negative as exports grew and imports declined. Government expenditures subtracted 0.2 p.p. from real GDP growth over the four quarters of 2025, held down by the government shutdown in late 2025.

Consumption. Household consumption of goods and services accounts for more than two-thirds of U.S. GDP. Real personal consumption expenditures (PCE) increased

3 The data reported here on GDP and its underlying components reflect "second" estimates from the Bureau of Economic Analysis. These estimates are subject to revision.

by 2.1 percent over the four quarters of 2025. The consumption of durable goods increased 0.1 percent over 2025, while the consumption of nondurable goods rose 2.2 percent and the consumption of services rose 2.4 percent over 2025.

Nonresidential Fixed Investment. Real nonresidential fixed investment rose 5.5 percent over 2025 (fourth-quarter-over-fourth-quarter). 2025 growth marked an increase over the 2024 real nonresidential fixed investment growth of 0.9 percent. Investment in equipment was the primary contributor to 2025 business investment growth, rising 9.5 percent during the four quarters of 2025. Intellectual property investment also experienced an increase in growth to a strong 8.1 percent over the four quarters of 2025, while structures investment declined by 5.7 percent over the period.

The Government Sector. Real government expenditures on consumption and investment decreased 1.2 percent over 2025 (fourth-quarter-over-fourth-quarter), which reflects a 6.5 percent decrease in Federal spending and a 2.1 percent increase in State and local government spending over 2025. Within the Federal spending category, nondefense spending decreased 11.1 percent and defense spending decreased 3.0 percent over the fourth quarters of 2025. Driven by the lapse in appropriations in October 2025, the percent decrease in nondefense spending marks the largest decline since 1960.

Trade. Real exports of goods and services increased 1.0 percent over 2025 (fourth-quarter-over-fourth-quarter), reflecting a 1.9 percent increase in goods exports and 0.5 percent decrease in services exports. Real imports declined 2.0 percent over the same period, reflecting a 2.8 percent decrease in goods imports and a 0.8 percent increase in services imports.

Economic Projections

The Administration's economic assumptions for the 2027-2036 budget window inform the 2027 Budget and assume implementation of the Administration's policy proposals. The Administration's projections, which were finalized in early November 2025, are reported in Table 2-1 and summarized below. The overall picture of this forecast is one of a robust and thriving economy: strong overall economic growth is paired with a low unemployment rate and stable (on-target) inflation.

Real GDP. The Administration's economic assumptions project real GDP growth of 3.5 percent over the four quarters of 2026. Real GDP growth is then expected at 3.1 percent per year during the three years 2027-29, and to average 2.9 percent over the remainder of the forecast horizon.

Unemployment. The Administration's economic assumptions project a 3.9 percent unemployment rate on average during 2026. The unemployment rate is expected to fall during 2026-27, and stay at 3.7 percent during the remainder of the forecast horizon.

Interest Rates. Interest rates are expected to decline substantially over the forecast horizon. The 91-day Treasury bill rate is expected to average 3.2 percent in 2026, down from 4.1 percent over 2025, with a terminal rate of 3.1 percent in 2027. The 10-year rate is projected to average 3.7 percent over 2026, down from 4.3 percent over 2025, and then fall steadily to a terminal rate of 3.3 percent in 2030.

Inflation. The Administration's forecast anticipates a return to low and stable rates of inflation for the overall economy. As measured by CPI-U, currently elevated rates of inflation are projected to subside during 2026, and maintain an average rate of 2.2 percent over the remaining of the window.

Comparison with Other Forecasts

This section compares the Administration's forecast with contemporaneous forecasts from CBO, the FOMC, and the Blue Chip panel of professional forecasters.

There are important methodological differences across these forecasts. Aside from the inherent uncertainty of forecasting economic variables, different projections make different assumptions about which policies of the Administration will be enacted. The Administration's forecast assumes implementation of the Administration's proposed policies such as deregulation, energy abundance, reindustrialization, etc. In contrast, the CBO forecast assumes no changes to current law. It is unclear to what extent FOMC members or Blue Chip panelists incorporate policy implementation expectations into their respective outlooks. The Blue Chip panel comprises a large number of private-sector forecasters, who have different expectations about the enactment of the Administration's proposed policies and different views about how those policies might affect economic growth.

A second key difference is that the various forecasts were published on different dates. For example, while the forecast published by the Administration is based on data available as of early November 2025, the Blue Chip forecasts are drawn from a survey administered in early October. In addition, both the Federal Reserve's FOMC projections and the CBO forecast were published in September.

Real GDP. The Administration forecasts an average real GDP growth rate of 3.0 percent (fourth-quarter-over-fourth-quarter) during the 11 years from 2026 to 2036. This forecast is significantly higher than the forecasted growth rates of the Blue Chip consensus, the median FOMC member, or the CBO over the same forecast window. Over the coming year, the Administration forecasts a 2026 growth rate of 3.5 percent, which is above the 1.8 percent Blue Chip average and the FOMC median, and also above the 2.2 percent forecast from CBO.

Unemployment. The Administration forecasts an unemployment rate that decreases from an average of 4.2 percent in 2025 to 3.9 percent in 2026, before averaging 3.7 percent over the remainder of the window. The Blue Chip consensus, CBO, and the median FOMC participant all forecast a modestly higher average unemployment rate during 2026, as well as over the remainder of the forecast window. Over the long run, the Administration projects a terminal unemployment rate of 3.7 percent, compared

Table 01—2. Comparison of Economic Assumptions[1]

	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036
PERCENT CHANGE, FOURTH-QUARTER-OVER-FOURTH-QUARTER												
Real GDP												
2027 Budget (November 2025)	1.8	3.5	3.1	3.1	3.1	3.0	2.9	2.9	2.9	2.9	2.9	2.9
Blue Chip (October 2025)[2]	1.6	1.8	2.0	2.0	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9
CBO (September 2025)[3]	1.4	2.2	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.7	--
Federal Reserve (September 2025)[4]	1.6	1.8	1.9	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8
Consumer Price Index (CPI-U)												
2027 Budget (November 2025)	2.8	2.3	2.3	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2
Blue Chip (October 2025)[2]	3.0	2.7	2.5	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2
CBO (September 2025)[3]	3.1	2.4	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.3	--
Federal Reserve (September 2025)[4]	3.0	2.4	2.1	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
CALENDAR YEAR AVERAGE												
Unemployment Rate:												
2027 Budget (November 2025)	4.2	3.9	3.7	3.7	3.7	3.7	3.7	3.7	3.7	3.7	3.7	3.7
Blue Chip (October 2025)[2]	4.3	4.5	4.4	4.2	4.2	4.2	4.2	4.2	4.2	4.2	4.2	4.2
CBO (September 2025)[3]	4.3	4.4	4.4	4.4	4.4	4.4	4.4	4.4	4.3	4.3	4.3	--
Federal Reserve (September 2025)[4,6]	4.5	4.4	4.3	4.2	4.2	4.2	4.2	4.2	4.2	4.2	4.2	4.2
91-Day Treasury Bills (discount basis):												
2027 Budget (November 2025)	4.1	3.2	3.1	3.1	3.1	3.1	3.1	3.1	3.1	3.1	3.1	3.1
Blue Chip (October 2025)[2]	4.2	3.3	3.2	3.0	3.1	3.0	3.1	3.0	3.0	3.0	3.0	3.0
CBO (September 2025)[3]	4.1	3.5	3.2	3.2	3.1	3.1	3.1	3.1	3.0	3.0	3.0	--
10-Year Treasury Notes:												
2027 Budget (November 2025)	4.3	3.7	3.5	3.5	3.4	3.3	3.3	3.3	3.3	3.3	3.3	3.3
Blue Chip (October 2025)[2]	4.3	4.1	4.1	4.1	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0
CBO (September 2025)[3]	4.3	4.2	4.0	3.9	3.9	3.9	3.8	3.8	3.8	3.8	3.8	--

Sources: Administration; CBO, The Budget and Economic Outlook: 2025 to 2035 (January 2025); CBO, An Update to the Economic Outlook: 2025 to 2028 (September 2025); Blue Chip Economic Indicators, Aspen Publishers, Inc. (October 2025); Federal Reserve Open Market Committee (September 16 2025)

1 Calendar Year

2 Real GDP & CPI-U growth rates are year-over-year after 2026. Values for 2032-2036 are 5 year averages.

3 Values for 2025-2028 are from September 2025 report. Values for 2029-2035 are from January 2025 report.

4 Median of FOMC Participants' Projections

5 PCE Inflation

6 Average rate during 4th quarter

with 4.2 percent for both the Blue Chip consensus and the median FOMC participant, and 4.3 percent for CBO.

Interest Rates. The Administration's 91-day interest rate forecast is relatively consistent with the Blue Chip consensus and CBO over the forecast horizon, including slight declines in 2026 relative to 2025. In contrast, the Administration's forecast for the 10-year Treasury rate is lower than Blue Chip and CBO over most of the forecast window. For example, the Administration projects a 3.7 percent average rate in 2026 compared to 4.1 and 4.2 percent for Blue Chip and CBO forecast, respectively. This pattern holds in the outyears as well, where the Administration projects a 3.3 percent terminal rate compared with 4.0 percent by Blue Chip and 3.8 percent by CBO.

Inflation. The Administration's forecast for CPI-U inflation (on a fourth-quarter-over-fourth-quarter basis) is broadly consistent with outside forecasts throughout the budget window. The Administration, Blue Chip consensus, CBO, and the median FOMC participant all project that inflation will continue to moderate through 2026. The Administration's projection for the long-term CPI-U inflation rate of 2.2 percent matches the long-term projection for the Blue Chip consensus, is 0.1 percentage point lower than CBO, and is consistent with the FOMC's 2.0 percent target for PCE inflation.

Sensitivity of the Budget to Economic Assumptions

Federal spending and tax collections are heavily influenced by developments in the economy. Income tax receipts are a function of growth in incomes for households and firms. Spending on social assistance programs may rise when the economy enters a downturn, while increases in nominal spending on Social Security and other

Table 01–3. Sensitivity of the Budget to Economic Assumptions
Fiscal Years; In Billions of Dollars

BUDGET EFFECT	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	Total 2026–2036
Real Growth and Employment												
Budgetary effects of 1 percentage point lower real GDP growth:												
For calendar year 2026 only, with real GDP recovery in 2027–2036[1]												
Receipts	–23.8	–39.0	–19.5	–2.8	0.2	0.2	0.2	0.2	0.2	0.2	0.2	–59.7
Outlays	14.2	33.6	16.2	3.8	3.2	2.8	2.4	2.0	1.8	1.7	1.6	68.9
Increase in deficit (+)	38.0	72.6	35.7	6.6	3.0	2.6	2.1	1.7	1.5	1.4	1.4	128.7
For calendar year 2026 only, with no subsequent recovery[1]												
Receipts	–23.8	–51.5	–59.8	–62.8	–65.9	–69.1	–72.4	–75.8	–79.4	–83.3	–87.3	–707.3
Outlays	14.2	40.8	43.4	47.6	51.4	55.5	59.4	63.2	67.3	71.7	76.4	576.7
Increase in deficit (+)	38.0	92.3	103.2	110.4	117.3	124.6	131.8	139.1	146.7	155.0	163.7	1,284.0
Sustained during 2026–2036, with no change in unemployment												
Receipts	–23.8	–76.6	–139.9	–209.0	–284.1	–365.5	–453.2	–547.9	–650.2	–760.7	–879.8	–4,366.9
Outlays	0.1	1.4	3.4	5.3	6.5	6.3	3.8	–1.9	–11.7	–26.0	–45.8	–58.7
Increase in deficit (+)	23.9	78.0	143.3	214.3	290.7	371.8	457.1	546.0	638.5	734.6	834.0	4,308.2
Inflation and Interest Rates												
Budgetary effects of 1 percentage point higher rate of:												
Inflation and interest rates during calendar year 2026 only												
Receipts	25.5	52.0	54.9	55.6	58.2	61.1	64.0	67.0	70.2	73.5	77.1	633.5
Outlays	64.3	108.5	78.7	76.5	76.5	77.2	74.6	77.8	76.5	78.1	81.7	806.0
Increase in deficit (+)	38.8	56.5	23.8	21.0	18.2	16.2	10.6	10.8	6.3	4.6	4.6	172.5
Inflation and interest rates, sustained during 2026–2036												
Receipts	25.5	79.4	139.5	204.0	275.0	352.8	437.7	530.6	632.1	743.1	864.2	4,258.4
Outlays	64.1	200.4	307.6	410.1	518.3	627.6	739.5	866.6	979.7	1,091.9	1,239.8	6,981.4
Increase in deficit (+)	38.6	121.0	168.1	206.1	243.3	274.8	301.8	336.0	347.6	348.8	375.5	2,723.0
Interest rates only, sustained during 2026–2036												
Receipts	1.7	3.9	4.9	5.4	5.8	6.2	6.5	6.8	7.1	7.3	7.5	61.4
Outlays	44.1	142.4	206.0	265.2	318.1	370.0	417.4	463.2	505.8	548.2	590.6	3,827.0
Increase in deficit (+)	42.4	138.4	201.1	259.9	312.3	363.8	410.9	456.4	498.8	540.9	583.1	3,765.6
Inflation only, sustained during 2026–2036												
Receipts	23.8	75.4	134.5	198.5	268.9	346.3	430.8	523.3	624.5	735.0	855.9	4,193.1
Outlays	20.0	58.4	102.4	146.2	202.3	260.6	326.4	409.0	481.2	553.0	660.9	3,200.4
Decrease in deficit (–)	–3.7	–17.0	–32.1	–52.2	–66.6	–85.7	–104.5	–114.2	–143.3	–182.0	–195.0	–992.7
Interest Cost of Higher Federal Borrowing												
Outlay effect of $100 billion increase in borrowing in 2026	1.7	3.3	3.4	3.5	3.6	3.7	3.8	3.9	4.1	4.2	4.3	39.5

[1] The unemployment rate is assumed to be 0.5 percentage point higher per 1 percent shortfall in the level of real GDP.

Table 01—4. Forecast Errors, 2002-Present

	Administration	CBO	Blue Chip
Growth: Real GDP [1]			
2-Year Average Annual Real GDP Growth			
Mean Error	1.0	0.4	0.4
Mean Absolute Error	1.1	0.8	0.8
Root Mean Square Error	1.5	1.1	1.2
6-Year Average Annual Change in the Consumer Price Index			
Mean Error	1.3	0.9	0.8
Mean Absolute Error	1.3	1.1	0.9
Root Mean Square Error	1.5	1.2	1.1
Inflation (CPI-U) [1]			
2-Year Average Annual Change in the Consumer Price Index			
Mean Error	–0.1	–0.4	–0.2
Mean Absolute Error	0.8	0.8	0.7
Root Mean Square Error	1.1	1.0	0.9
6-Year Average Annual Change in the Consumer Price Index			
Mean Error	0.1	0.0	0.2
Mean Absolute Error	0.4	0.3	0.4
Root Mean Square Error	0.5	0.4	0.5
Interest Rates: 91-Day Treasury Bill [2]			
2-Year Average			
Mean Error	0.2	0.2	0.4
Mean Absolute Error	1.0	1.0	1.0
Root Mean Square Error	1.5	1.6	1.6
6-Year Average			
Mean Error	1.8	1.8	1.9
Mean Absolute Error	1.8	1.8	1.9
Root Mean Square Error	2.0	2.1	2.2

[1] Average annual growth rate
[2] Annual average interest rate

programs are dependent on consumer price inflation. A robust set of projections for macroeconomic variables assists in budget planning, but unexpected developments in the economy have ripple effects for Federal spending and receipts. This section seeks to provide an understanding of the magnitude of the effects that unforeseen changes in the economy can have on the budget.

To make these assessments, the Administration relies on a set of heuristics that can predict how certain spending and receipt categories will react to a change in a given subset of macroeconomic variables, holding nearly everything else constant. These sensitivity analyses provide a sense of the broad changes one would expect after a given development, but do not attempt to anticipate how policy makers would react and potentially change course in such an event. For example, if the economy were to suffer an unexpected recession, tax receipts would decline and spending on programs such as unemployment insurance would rise. However, policy makers might enact policies to stimulate the economy, leading to secondary and tertiary changes that are difficult to predict. Another caveat is that it is often unrealistic to suppose that one macroeconomic variable might change while others would remain constant. Most macroeconomic variables interact with each other in complex and subtle ways. Be mindful of these considerations when examining Table 1-3.

For real GDP growth and employment:

- The first panel in the table illustrates the effect on the deficit resulting from a one percentage point reduction in real GDP growth, relative to the Administration's forecast, in 2026 that is followed by a subsequent recovery in 2027 and 2028. The unemployment rate is assumed to be half a percentage point higher in 2026 before returning to the baseline level in 2027 and 2028.
- The next panel in the table reports the effect of a reduction of one percentage point in real GDP growth in 2026 that is not subsequently made up by faster growth in 2027 and 2028. Consistent with this output path, the rate of unemployment is assumed to rise by half a percentage point relative to that assumed in the Administration's forecasts.
- The third panel in the table shows the impact of a GDP growth rate that is permanently reduced by one percentage point, while the unemployment rate is not affected. This is the sort of situation that would arise if, for example, the economy was to experience a permanent decline in productivity growth.

For inflation and interest rates:

- The fourth panel in Table 2-3 shows the effect on the budget in the case of a one percentage point higher rate of inflation and a one percentage point higher nominal interest rate in 2026. Both inflation and interest rates return to their assumed levels in 2027. This would result in a permanently higher price level and nominal GDP level over the course of the forecast horizon.
- The fifth panel in the table illustrates the effects on the budget deficit of a one percentage point higher inflation rate and interest rate than projected in every year of the forecast.
- The sixth panel reports the effect on the deficit resulting from an increase in interest rates in every year of the forecast, with no accompanying increase in inflation.
- The seventh panel in the table reports the effect on the budget deficit of a one percentage point higher inflation rate than projected in every year of the forecast window, while the interest rate remains as forecast.
- The table also shows the effect on the budget deficit if the Federal Government were to borrow an additional $100 billion in 2026, while all of the other projections remain constant.
- These simple approximations that inform the sensitivity analysis are symmetric. This means that the effect of, for example, a one percentage point higher

Table 01–5. Differences Between Estimated and Actual Surpluses or Deficits for Five-Year Budget Estimates Since 1985

	Current Year Estimate	Budget Year Estimate	Estimate for Budget Year Plus: One Year (BY + 1)	Two Years (BY + 2)	Three Years (BY + 3)	Four Years (BY + 4)
Mean Error	–0.4	0.7	1.5	2.1	2.6	3.0
Mean Absolute Error	1.4	1.8	2.5	3.0	3.5	3.9
Root Mean Squared Error	2.3	2.8	3.5	4.1	4.5	4.7

rate of growth over the forecast horizon would be of the same magnitude as a one percentage point reduction in growth, though with the opposite sign.

Forecast Errors

Growth, Inflation, and Interest Rates

This section evaluates the historical accuracy of past Administration forecasts for real GDP growth, inflation, and short-term interest rates from 2002 to the present day, and compares this accuracy with that of forecasts produced by the CBO and Blue Chip panel. For this exercise, forecasts produced by all three entities are compared with realized values of these variables. As with any forecast, the Administration's projections are subject to inherent uncertainty because they are based on underlying assumptions about future social, political, and global conditions. It is impossible to foresee every eventuality over a one-year horizon, much less over ten or more years.

The results of this exercise are reported in Table 2-4 and contain three different measures of accuracy. The first is the average forecast error. A forecast with an average error of zero is unbiased, in the sense that realized values of the variables have not been systematically above or below the forecasted value. The second is the average absolute value of the forecast error, which offers a sense of the magnitude of errors. Thus, even if a forecast's errors are unbiased, the forecast can still be very inaccurate with very large positive and negative errors cancelling one another out. The table also reports the square root of the mean of squared forecast error (RMSE). This metric applies a harsher penalty to forecasts with larger errors. The table reports these measures of accuracy at both the 2-year and the 6-year horizons, thus evaluating the relative success of different forecasts in the short and medium run.

Past Administration forecasts have 2-year real GDP growth and average annual interest rates that were higher than realized, on average, by 1.0 percentage point and 0.2 percentage point, respectively. This is partly due to the assumption that Administration policy proposals contained in the Budget will be enacted, which may not come to pass. The 2-year average forecast error for CPI-U inflation is -0.1 percentage point, and similar to other forecasts' errors.

Uncertainty and Deficit Projections

This section assesses the accuracy of past budget forecasts for the deficit or surplus, measured at different time horizons. The results of this exercise are reported in Table 1-5, where the average error, the average absolute error, and the RMSE are reported.

In Table 1-5, a negative number signifies that the Federal Government budget ran a larger surplus or a smaller deficit than was expected, while a positive number in the table indicates a smaller surplus or a larger deficit. In the current year in which the budget is published, the Administration has tended to understate the surplus (or, equivalently, overstate the deficit) by an average of 0.4 percent of GDP. For the budget year, however, the historical pattern has been for the budget to understate the deficit by an average of 0.7 percent of GDP.[4] One possible reason for this is that past Administrations' policy proposals have not all been implemented. The forecast errors tend to grow with the time horizon, which is not surprising given that there is much greater uncertainty in the medium run about both the macroeconomic situation and the specific details of policy enactments.

[4] Additionally, the CBO's deficit forecasts have on average been smaller than what materialized.

BUDGET PROCESS 02.

This chapter addresses several broad categories of budget process—the budget enforcement framework, presentation issues, and reform proposals. First, the chapter provides a recent history of budget enforcement, which includes an explanation of the discretionary levels in the 2027 Budget; adjustments to base discretionary levels, including program integrity initiatives, funding requests for disaster relief, and wildfire suppression; limits on advance appropriations; a discussion of the system under the Statutory Pay-As-You-Go Act of 2010 (PAYGO; Public Law 111-139) of scoring legislation affecting receipts and mandatory spending; a discussion of how the spending reductions required by Section 251A of the Balanced Budget and Emergency Deficit Control Act of 1985 (BBEDCA; Public Law 99-177) are shown in the Budget; and a proposal to exempt mandatory defense resources from sequestration. Second, this chapter highlights certain budget presentation issues. These include a discussion of proposals to expand the Pell Grant program; a discussion of the proposal to extend the United States' participation in the International Monetary Fund, the budgetary treatment of the housing Government-sponsored enterprises; and the United States Postal Service. Finally, this chapter discusses reform proposals to improve budgeting regarding Federal capital projects. Reform proposals include changes to capital budgeting for large civilian Federal capital projects and protections for the rental payments made to the Federal Buildings Fund by Federal agencies.

BUDGET ENFORCEMENT FRAMEWORK

History of Recent Budget Enforcement

The Federal Government uses statutory budget enforcement mechanisms to control revenues, spending, and deficits. The PAYGO Act, enacted on February 12, 2010, reestablished a statutory procedure to enforce a rule of deficit neutrality on new revenue and mandatory spending legislation. The Budget Control Act of 2011 (BCA; Public Law 112-25), enacted on August 2, 2011, created a Joint Select Committee on Deficit Reduction that was instructed to develop a bill to reduce the Federal deficit by at least $1.5 trillion over a 10-year period, and imposed automatic spending cuts ("sequestration") to achieve $1.2 trillion of deficit reduction over nine years if the Joint Committee process failed to achieve its deficit reduction goal. The BCA also established limits ("caps") on the amount of discretionary budget authority that could be provided through the annual appropriations process.

While the original enforcement mechanisms established by the BCA—the caps on spending in annual appropriations and instructions to calculate reductions to achieve the $1.2 trillion deficit reduction goal—expired at the end of fiscal year 2021, sequestration of mandatory spending has been extended through 2032 for most programs and into 2033 for Medicare. Prior to the expiration of the BCA, the discretionary limits were revised upward a number of times, with changes usually occurring in the form of two-year budget agreements: the 2014 and 2015 limits were revised by the Bipartisan Budget Act of 2013 (BBA of 2013; Public Law 113-67); the 2016 and 2017 limits were revised by the Bipartisan Budget Act of 2015 (BBA of 2015; Public Law 114-74); the 2018 and 2019 limits were revised by the Bipartisan Budget Act of 2018 (BBA of 2018; Public Law 115-123); the 2020 and 2021 limits were revised by the Bipartisan Budget Act of 2019 (BBA of 2019; Public Law 116-37); and most recently, limits were reinstated for 2024 and 2025 by the Fiscal Responsibility Act of 2023 (FRA; Public Law 118-5), which amended BBEDCA. Similar enforcement mechanisms were established by the Budget Enforcement Act of 1990 (Public Law 101-508) and were extended in 1993 and 1997, but expired at the end of 2002.

The threat of sequestration if the limits were breached, and the ability to adjust the limits for certain types of spending, proved sufficient to ensure compliance with these statutorily adjusted discretionary spending caps. When limits are in place, BBEDCA has required the Office of Management and Budget (OMB) to adjust them each year for: changes in concepts and definitions; appropriations designated by the Congress and the President as emergency requirements; and appropriations designated by the Congress and the President for Overseas Contingency Operations/Global War on Terrorism (OCO/GWOT). BBEDCA also specifies cap adjustments (which are limited to fixed amounts) for: appropriations for continuing disability reviews and redeterminations by the Social Security Administration and specified program integrity and anti-fraud activities; the healthcare fraud and abuse control program at the Department of Health and Human Services (HHS); appropriations designated by the Congress as being for disaster relief; appropriations for reemployment services and eligibility assessments; appropriations for wildfire suppression at the Department of Agriculture and the Department of the Interior; and, for 2020 only, appropriations provided for the 2020 Census at the Department of Commerce. When statutory caps are not in place, these cap adjustments are still maintained as allocation adjustments in the congressional budget process. As a result, several of these adjustments are presented separately from base discretionary totals in the 2027 Budget.

Separate from the above adjustments, the FRA specified that certain previously-enacted discretionary funding that continues under current law would not be counted for purposes of budget enforcement under the discretionary limits, budgetary treatment that has been continued in subsequent laws (e.g., the Commerce, Justice, Science; Energy and Water Development; and Interior and Environment Appropriations Act, 2026, Public Law 119-74). This includes emergency-designated funding enacted in the Bipartisan Safer Communities Act (Public Law 117-159), the Infrastructure Investment and Jobs Act (Public Law 117-58), and section 443(b) of division G of the Consolidated Appropriations Act, 2023 (Public Law 117-328). Because this funding was enacted during a period of time when statutory limits were not in place, the FRA addressed spending on these programs by directing it be treated as not being within the BBEDCA limits, including those established for 2024 and 2025 by the FRA, or as any adjustments allowed under BBEDCA. This funding is reflected in the 2027 Budget at the enacted levels, but is not counted under the statutory limits for 2025 or for the purposes of congressional enforcement in 2026.

In addition, section 101 of the Water Resources Development Act of 2020 (division AA of Public Law 116-260) exempts from budget enforcement appropriations from the Harbor Maintenance Trust Fund and appropriations designated in statute for carrying out section 2106(c) of Public Law 113-121, which includes amounts for environmental remediation at ports. Finally, the 21st Century Cures Act (Public Law 114-255) directed that funds appropriated for certain activities cannot be counted for purposes of budget enforcement so long as the appropriations were specifically provided for the authorized purposes. As a result of these statutory exemptions, each of these amounts are displayed outside of the discretionary totals in Budget tables and OMB reports.

Discretionary Spending Levels

The 2027 Budget requests $1.45 trillion for the Department of War (DOW) in 2027, a 44 percent increase over 2026. When combined with other national defense funding, this brings the full request for defense function 050 programs to just over $1.5 trillion. This would be achieved through $1.15 trillion in base defense discretionary programs and an additional $350 billion in mandatory funds. The amounts in the 2027 Budget are in line with the National Security and National Defense strategies and the DOW Future Years Defense Program, which includes a five-year appropriations plan and estimated expenditures necessary to support the programs, projects, and activities of the Department of War.

For non-defense, the 2027 Budget requests appropriations at $660 billion, which is 10 percent below the 2026 non-defense levels. Non-defense spending is proposed to be reduced by two percent in all years after 2027, which reflects the Administration's commitment to maintain fiscal responsibility by rebalancing the non-defense mission to core Government responsibilities.

The discretionary policy levels are reflected in Table S–2 of the main *Budget* volume. The proposed adjustments to the base appropriations levels are described below.

Rescissions Act of 2025

Section 1012(a) of the Congressional Budget and Impoundment Control Act of 1974 (ICA, Public Law 93–344) established a process for the President to transmit a "special message" to the Congress to inform Members of proposed rescissions of budget authority. Once a special message is transmitted, any Member of Congress may introduce a rescission bill containing some or all of the rescissions proposed in the special message, and the ICA sets expedited procedures for consideration of rescissions bills in both Houses.

On June 3, 2025, the Administration sent a special message to the Congress proposing to rescind $9.4 billion from 22 accounts including programs of the Department of State, the Corporation for Public Broadcasting, the United States Agency for International Development (USAID), the United States Institute of Peace, and other international assistance programs. On June 6, H.R. 4, the "Rescissions Act of 2025," was introduced in the House, containing all $9.4 billion in rescissions proposed in the special message. The bill passed the House on June 12, passed the Senate on July 17, and was signed into law by the President on July 24.

As noted above, this was the first enactment of a standalone rescissions bill since 1992. While Presidents have used the procedures of the ICA to submit special messages to the Congress in the intervening years, those proposed rescissions, if enacted, have been included in regular or supplemental appropriations acts, and not passed using the procedures of the ICA.

Additionally, on August 28, 2025, the Administration sent a second special message to the Congress totaling $4.9 billion in rescissions, affecting accounts in the Department of State, USAID, and other international assistance programs.

ADJUSTMENTS TO BASE DISCRETIONARY FUNDING LEVELS

Program Integrity Funding

There is compelling evidence that investments in administrative resources can significantly decrease the rate of improper payments and recoup many times their initial investment for certain programs. Using adjustments to base discretionary funding for program integrity activities allows for the expansion of oversight and enforcement activities in the largest benefit programs including Social Security, Unemployment Insurance, Medicare, and Medicaid, and are a useful budgeting tool.

Formerly, when statutory spending limits on the discretionary budget were in place, the law allowed the limits to be adjusted upward to account for additional discretionary funding that supported savings in these mandatory programs. When statutory limits are not in place, program integrity funding has been proposed and enacted as an adjustment pursuant to congressional procedure. Such adjustments are needed because budget scoring rules do not allow the mandatory savings from these initiatives to be credited for congressional or statutory budget enforcement purposes.

The Administration continues to support making discretionary investments in program integrity activities and keeps the existing structure in place by supporting base levels sufficient to receive an allocation adjustment under the terms of the congressional budget resolution. The Budget assumes base and adjustment funding are available through 2036. The Budget shows the mandatory program savings derived from 10 years of discretionary program integrity funding in the baseline projections for spending in Social Security, Unemployment Insurance, Medicare, and Medicaid. Given the history of consistent enactment of these adjustments, this presentation provides a more accurate representation of expected mandatory outlays for these programs.

The following sections explain the benefits and budget presentation of the proposed level of adjustments to base discretionary funding for program integrity activities.

Social Security Administration (SSA) Dedicated Program Integrity Activities

SSA takes seriously its responsibilities to ensure eligible individuals receive the benefits to which they are entitled, and to safeguard the integrity of benefit programs to better serve recipients. The Budget's proposed discretionary amount of $2,397 million ($273 million in base funding and $2,124 million in allocation adjustment funding) will allow SSA to conduct 600,000 full medical continuing disability reviews (CDRs) and approximately 2.6 million Supplemental Security Income (SSI) non-medical redeterminations of eligibility. SSA conducts medical CDRs, which are periodic reevaluations to determine whether disabled Old-Age, Survivors, and Disability Insurance (OASDI) or SSI beneficiaries continue to meet SSA's standards for disability. Redeterminations are periodic reviews of non-medical eligibility factors, such as income and resources, for the means-tested SSI program and can result in a revision of the individual's benefit level. Program integrity funds also support the anti-fraud co-operative disability investigation (CDI) units and special attorneys for fraud prosecutions. To support these important anti-fraud activities, the Budget provides for SSA to transfer $25.1 million to the SSA Office of Inspector General to fund CDI unit activities.

The Budget includes a discretionary allocation adjustment for each year of the 10-year budget window. As a result of the discretionary funding requested in 2027, as well as the fully-funded base and continued funding of adjustment amounts in 2028 through 2036, the OASDI, SSI, Medicare and Medicaid programs would recoup approximately $96 billion in gross Federal savings, including approximately $69 billion from access to adjustments, with additional savings after the 10-year period, according to estimates from SSA's Office of the Chief Actuary and the Centers for Medicare and Medicaid Services' Office of the Actuary. Access to increased adjustment amounts and SSA's commitment to fund the fully-loaded costs of performing the requested CDR and redetermination volumes would produce net deficit savings of approximately $48 billion in the 10-year window, and provide additional savings in the outyears.

SSA is required by law to conduct medical CDRs for all beneficiaries who are receiving disability benefits under the OASDI program, as well as all children under age 18 who are receiving SSI. Per the agency's regulations to create uniformity across programs, SSA conducts medical CDRS for disabled adult SSI recipients. SSI redeterminations are also required by law. SSA uses predictive models to prioritize the completion of redeterminations based on the likelihood of change in non-medical factors. The frequency of CDRs and redeterminations relies on the availability of funds to support these activities. The proposed amounts fully support the dedicated program integrity workloads. With access to the proposed funding, SSA is on track to regain currency in its CDR workload no later than FY 2028 and prevent new backlogs from forming throughout the budget window.

Current estimates indicate that CDRs conducted in 2027 will yield a return on investment (ROI) of about $9 on average in net Federal program savings over 10 years per $1 budgeted for dedicated program integrity funding, including OASDI, SSI, Medicare, and Medicaid program effects. Similarly, SSA estimates indicate that non-medical redeterminations conducted in 2025 will yield a ROI of about $4 on average of net Federal program savings over 10 years per $1 budgeted for dedicated program integrity funding, including SSI and Medicaid program effects. The Budget assumes the full cost of performing CDRs to ensure that sufficient resources are available. The savings from one year of program integrity activities are realized over multiple years, as some reviews find that beneficiaries are no longer eligible to receive OASDI or SSI benefits.

The savings resulting from redeterminations will be different for the base funding and the allocation adjustment funding levels in 2027 through 2036 because redeterminations of eligibility can uncover both underpayment and overpayment errors. SSI recipients are more likely to initiate a redetermination of eligibility if they believe there are underpayments, and these recipient-initiated redeterminations are included in the base program amounts provided annually. The estimated savings per dollar budgeted for CDRs and non-medical redeterminations in the baseline reflects an interaction with the Patient Protection and Affordable Care Act's (Public Law 111-148) expansion of Medicaid to additional low-income adults, as a result of which some SSI recipients, who would otherwise lose Medicaid coverage due to a medical CDR or non-medical redetermination, would continue to be covered.

Health Care Fraud and Abuse Control Program (HCFAC)

The Budget proposes base funding of $318 million and adjustment funding of $658 million for discretionary HCFAC activities in 2027, which includes funding to invest in additional Medicare medical review; strengthen program integrity in Medicare Part C and Part D; support Medicaid systems; and measure improper payments in the Health Insurance Marketplaces. The funding is to be allocated among the Centers for Medicare & Medicaid Services (CMS), the HHS Office of Inspector General, and the Department of Justice. The HCFAC discretionary request will more than pay for itself based on years of documented recoveries to the Medicare Trust Funds and the U.S. Department of the Treasury. The FY 2027 HCFAC discretionary investment is estimated to yield $1.2 billion in gross savings.

Reemployment Services and Eligibility Assessments (RESEA)

The BBA of 2018 established a new adjustment to discretionary base funding for program integrity efforts targeted at Unemployment Insurance through 2027. The RESEA adjustment is permitted up to a maximum amount specified in the law if the underlying appropriations bill first funds a base level of $117 million for Unemployment Insurance program integrity activities. The Budget proposes allocation adjustment levels at $400 million in 2027 with increases for inflation for each year thereafter. These investments are estimated to produce mandatory savings of $5.2 billion over 10 years, which includes an estimated $193 million reduction in State unemployment taxes. When netted against the discretionary costs for the allocation adjustment funding, the 10-year net savings for the program is $832 million.

Disaster Relief Funding

The 2027 Budget maintains the same methodology for determining the funding ceiling for disaster relief used in previous budgets. For the 2027 Budget, OMB estimates the total adjustment available for disaster funding for 2027 at $28.5 billion. This ceiling estimate is based on three components: a 10-year average of disaster relief funding provided in prior years that excludes the highest and lowest years ($17.2); 5 percent of Robert T. Stafford Disaster Relief and Emergency Assistance Act (Stafford Act) amounts designated as emergency requirements since 2012 ($11.4 billion); and carryover from the previous year ($0). For the 10-year average, an enacted level of $26.6 billion is assumed for 2026, which is higher than the current CY estimate in the Budget as OMB assumes a 2026 ceiling of $26.6 billion will reached once a final Homeland Security appropriations bill is enacted. For 2027, the Administration is requesting $28.4 billion in funding for the Federal Emergency Management Agency's (FEMA) Disaster Relief Program. The request covers the costs of Presidentially-declared major disasters, including identified costs for previously declared catastrophic events and the estimated annual cost of non-catastrophic events expected to be obligated in 2027.

Consistent with past practice, the 2027 request level does not seek to pre-fund anticipated needs in other programs that may arise out of disasters that have yet to occur. After 2027, the Administration does not have adequate information about known or future requirements necessary to estimate the total amount that will be requested in future years. Accordingly, the Budget does not explicitly request any disaster relief funding in any year after the budget year and includes a placeholder in each of the outyears that is equal to the 10-year average ($17.2 billion) of disaster relief currently estimated under the formula for the 2027 ceiling. This funding level does not reflect a specific request but a placeholder amount that, along with other outyear appropriations levels, will be decided on an annual basis as part of the normal budget development process.

Wildfire Suppression Operations at the Departments of Agriculture and the Interior

Wildfires naturally occur on public lands throughout the United States. The cost of fighting wildfires has increased due to landscape conditions resulting from drought, pest and disease damage, overgrown forests, expanding residential and commercial development near the borders of public lands, and program management decisions. In the past, when these costs exceeded the funds appropriated, the Federal Government covered the shortfall through transfers from other land management programs. For example, in 2018, Forest Service wildfire suppression spending of $2.6 billion required transfers of $720 million from other non-fire programs. Historically, these transfers had been repaid in subsequent appropriations; however, such "fire borrowing" impedes the missions of land management agencies to reduce the risk of catastrophic fire and restore and maintain healthy functioning ecosystems.

To create funding certainty in times of wildfire disasters, the Consolidated Appropriations Act of 2018 enacted a new cap adjustment to BBEDCA, authorized for 2020 through 2027. The adjustment is permitted so long as a base level of funding for wildfire suppression operations is funded in the underlying appropriations bill. The base level is defined as being equal to average cost over 10 years for wildfire suppression operations that was requested in the President's 2015 Budget. Historically, these amounts have been determined to be $1,011 million for the Department of Agriculture's Forest Service and $384 million for the Department of the Interior (DOI). The 2027 Budget proposes to reform Federal wildland fire management by unifying the wildland fire programs currently at the Department of Agriculture's Forest Service and DOI into a U.S. Wildland Fire Service (USWFS) at DOI. The 2027 Budget requests base amounts for wildfire suppression and proposes the full $2,950 million adjustment specified in BBEDCA, as amended, as an allocation adjustment for 2027, both for USWFS at DOI. Providing the full level will ensure that adequate resources are available to fight wildland fires, protect communities, and safeguard human life during the most severe wildland fire seasons.

For the years after 2027, the Administration does not have sufficient information about future wildfire suppression needs and, therefore, includes a placeholder in the 2027 Budget for wildfire suppression in each of the outyears that is equal to the current 2027 request. Actual funding levels will be decided on an annual basis as part of the normal budget process.

Limit on Discretionary Advance Appropriations

An advance appropriation first becomes available for obligation one or more fiscal years beyond the year for which the appropriations act is passed. Budget authority is recorded in the year the funds become available for obligation, not in the year the appropriation is enacted.

There are legitimate policy reasons to use advance appropriations to fund programs. For example, some education grants are forward funded (available beginning July 1 of the fiscal year) to provide certainty of funding for an entire school year, since school years straddle Federal fiscal years. This funding is recorded in the budget year because the funding is first legally available in that fiscal year. However, $22.6 billion of this education funding is advance appropriated (available beginning three months later, on October 1) rather than forward funded. Prior Congresses increased advance appropriations and decreased the amounts of forward funding as a gimmick to free up room in the budget year without affecting the total amount available for a coming school year. This approach works because the advance appropriation is not recorded in the budget year but rather the following fiscal year. However, it works only in the year in which funds switch from forward funding to advance appropriations; that is, it works only in years in which the amounts of advance appropriations for such "straddle" programs are increased.

To curtail this approach, which allows over-budget funding in the budget year and exerts pressure for increased funding in future years, congressional budget resolutions since 2001 have set limits on the amount of discretionary advance appropriations and the accounts which can receive them. By freezing the amount that had been advance appropriated to these accounts at the level provided in the most recent appropriations bill, additional room within discretionary spending limits cannot be created by shifting additional funds to future fiscal years.

The 2027 Budget requests $28,768 million in advance appropriations for 2027, consistent with limits established in recent congressional budget resolutions, and freezes them at this level in subsequent years. Outside of these limits, the Administration's Budget would request discretionary advance appropriations for veterans' medical care, as is required by the Veterans Health Care Budget Reform and Transparency Act (Public Law 111-81); as well as for the Indian Health Service in the Department of Health and Human Services (HHS). The Department of Veterans Affairs and HHS have included detailed information in its Congressional Budget Justifications about the overall 2028 funding requests.

For a detailed table of accounts that have received discretionary and mandatory advance appropriations since 2025 or for which the Budget requests advance appropriations for 2028 and beyond, please refer to the Advance Appropriations chapter in the *Appendix*.

Statutory PAYGO

The Statutory Pay-As-You-Go Act of 2010 (PAYGO Act; Public Law 111-139) requires that new legislation changing mandatory spending or revenue must be enacted on a "pay-as-you-go" (PAYGO) basis; that is, that the cumulative effects of such legislation must not increase projected on-budget deficits. PAYGO is a permanent requirement, and it does not impose a cap on spending or a floor on revenues. Instead, PAYGO requires that legislation reducing revenues must be fully offset by cuts in mandatory programs or by revenue increases, and that any bills increasing mandatory spending must be fully offset by revenue increases or cuts in mandatory spending.

This requirement of deficit neutrality is not enforced on a bill-by-bill basis, but is based on two scorecards maintained by OMB that tally the cumulative budgetary effects of PAYGO legislation as averaged over rolling 5- and 10-year periods, starting with the budget year. Any impacts of PAYGO legislation on the current year deficit are counted as budget year impacts when placed on the scorecard. PAYGO is enforced by sequestration. Within 14 business days after a congressional session ends, OMB issues an annual PAYGO report. If either the 5- or 10-year scorecard shows net costs in the budget year column, the President is required to issue a sequestration order implementing across-the-board cuts to nonexempt mandatory programs by an amount sufficient to offset those net costs. The list of exempt programs and special sequestration rules for certain programs are contained in sections 255 and 256 of BBEDCA.

The PAYGO effects of legislation may be directed in legislation by reference to statements inserted into the *Congressional Record* by the chair of the House and Senate Budget Committees. Any such estimates are determined by the Budget Committees and are informed by, but not required to match, the cost estimates prepared by the Congressional Budget Office (CBO). If this procedure is not followed, then the PAYGO effects of the legislation are determined by OMB. Provisions of mandatory spending or receipts legislation that are designated in that legislation as an emergency requirement are not scored as PAYGO budgetary effects.

The PAYGO rules apply to the outlays resulting from outyear changes in mandatory programs made in appropriations acts and to all revenue changes made in appropriations acts. However, outyear changes to mandatory programs made in appropriations acts as part of provisions that have zero net outlay effects over the sum of the current year and the next five fiscal years are not considered under the PAYGO rules.

The PAYGO rules do not apply to increases in mandatory spending or decreases in receipts that result automatically under existing law. For example, mandatory spending for benefit programs, such as unemployment insurance, rises when the number of beneficiaries rises, and many benefit payments are automatically increased for inflation under existing laws.

Changes to off-budget programs (Social Security and the Postal Service) do not have budgetary effects for the purposes of PAYGO and are not counted, though they may have a real effect on the deficit. Provisions designated by the Congress in law as emergencies appear on the scorecards, but the effects are subtracted before computing the scorecard totals.

In addition to the exemptions in the PAYGO Act itself, the Congress has enacted laws affecting revenues or direct spending with a provision directing that the budgetary effects of all or part of the law be held off of the PAYGO scorecards. In the most recently completed congressional session, two laws were enacted with such a provision.

As was the case during an earlier PAYGO enforcement regime in the 1990s, PAYGO sequestration has not been required since the PAYGO Act reinstated the statutory PAYGO requirement. For the first session of the 119th Congress, the most recently completed session, enacted legislation placed costs of $529.120 billion in each year of the 5-year scorecard and $444.023 billion in each year of the 10-year scorecard. However, the budget year balance on each of the PAYGO scorecards was set to zero for all years by the Continuing Appropriations, Agriculture, Legislative Branch, Military Construction and Veterans Affairs, and Extensions Act, 2026 (Public Law 119-37). Consequently, no PAYGO sequestration was required in 2025.[1]

BBEDCA Section 251A Reductions

In August 2011, as part of the BCA, bipartisan majorities in both the House and Senate voted to establish the Joint Select Committee on Deficit Reduction to recommend legislation to achieve at least $1.5 trillion of deficit reduction over the period of fiscal years 2012 through 2021. The failure of the Congress to enact such comprehensive deficit reduction legislation to achieve the $1.5 trillion goal triggered a sequestration of discretionary and mandatory spending in 2013, led to reductions in the discretionary caps for 2014 through 2021, and forced additional sequestrations of mandatory spending in each of fiscal years 2014 through 2021.

Although the original provisions of the BCA ended in 2021, sequestration of mandatory resources has been extended in a series of laws for each year through 2032 for most programs and into 2033 for Medicare. This sequestration is now called the BBEDCA 251A sequestration, after the Balanced Budget and Emergency Deficit Control Act, as amended (BBEDCA), which is the law where mandatory sequestration continues to be extended.

Section 251A of BBEDCA requires that non-exempt mandatory defense spending be reduced by 8.3 percent each year through 2031 and mandatory non-defense spending be reduced by 5.7 percent each year through 2031 (and by 2 percent for Medicare and a small subset of other health programs). For 2032, the percentages for defense mandatory resources and non-defense mandatory resources are 4.0 percent and 2.8 percent, respectively, except that the percentage for Medicare is 2.0 percent through the beginning of 2033. These reductions to mandatory programs are triggered annually with the transmittal of the President's Budget for each year and take effect on the first day of the fiscal year. Because the percentage reduction is known in advance, the Budget presents these reductions in the baseline at the account level.

The 2027 Budget shows the net effect of these mandatory sequestration reductions by accounting for reductions in 2027, and each outyear, that remain in the sequestered account and are anticipated to become newly available for obligation in the year after sequestration, in accordance with section 256(k)(6) of BBEDCA. The budget authority and outlays from these "pop-up" resources are included in the baseline estimates and amount to a cost of $2.7 billion in 2027. Additionally, the Budget annually accounts for lost savings that results from the sequestration of certain interfund payments, which produces no net deficit reduction. Such amount is $2.9 billion in 2027.

The 2027 Budget proposes to eliminate the sequestration of mandatory defense funding, including of unobligated balances of mandatory defense funding. Sequestering this funding reduces critical defense resources.

[1] OMB's annual PAYGO report is available on OMB's website at *https://www.whitehouse.gov/omb/information-resources/legislative/paygo-reports/*

Budget Presentation

Pell Grants

The Pell Grant program includes features that make it unlike other discretionary programs, including that Pell Grants are awarded to all applicants who meet income and other eligibility criteria. This section provides some background on the unique nature of the Pell Grant program and explains how the Budget accommodates changes in discretionary costs.

Under current law, the Pell program has several notable features:

- The Pell Grant program acts like an entitlement program, such as the Supplemental Nutrition Assistance Program or Supplemental Security Income, in which anyone who meets specific eligibility requirements and applies for the program receives a benefit. Pell Grant costs in a given year are determined by the maximum award set in statute, the number of eligible applicants, and the award for which those applicants are eligible based on their needs and costs of attendance. The maximum Pell award for the academic year 2026-2027 is $7,395, of which $6,335 was established in discretionary appropriations and the remaining $1,060 in mandatory funding is provided automatically by the College Cost Reduction and Access Act as amended (CCRAA).
- The cost of each Pell Grant is funded by discretionary budget authority provided in annual appropriations acts, along with mandatory budget authority provided not only by the CCRAA but also the Health Care and Education Reconciliation Act of 2010. There is no programmatic difference between the mandatory and discretionary funding.
- If valid applicants are more numerous than expected, or if these applicants are eligible for higher awards than anticipated, the Pell Grant program will cost more than projected at the time of the appropriation. If the costs during one academic year are higher than provided for in that year's appropriation, the Department of Education funds the extra costs with the subsequent year's appropriation.[2]

To prevent deliberate underfunding of Pell costs, in 2006 the congressional and Executive Branch scorekeepers agreed to a special scorekeeping rule for Pell. Under this rule, the annual appropriations bill is charged with the full Congressional Budget Office estimated cost of the Pell Grant program for the budget year, plus or minus any cumulative shortfalls or surpluses from prior years.

Given the nature of the program, it is reasonable to consider Pell Grants an individual entitlement for purposes of budget analysis and enforcement. The discretionary portion of the award funded in annual appropriations acts counts against appropriations allocations established annually under §302 of the Congressional Budget Act.

The total cost of Pell Grants can fluctuate from year to year, even with no change in the maximum Pell Grant award, because of changes in enrollment, college costs, and student and family resources. The Budget includes historical trends in applications for the Free Application for Federal Student Aid (FAFSA) to project Pell-eligible applicants. Current enrollment levels of Pell-receiving students help determine the likelihood that eligible applicants become future recipients, which the Budget projects to increase by about one percent annually, on average, over the course of the ten-year budget window. In general, the demand for and costs of the program are countercyclical to the economy; more people go to school during periods of higher unemployment, but return to the workforce as the economy improves.

College enrollment has continued to rebound from the COVID-19 pandemic. In particular, undergraduate enrollment has increased more at community colleges than four-year colleges. Due to the increases in undergraduate enrollment as well as the eligibility changes included in the FAFSA Simplification Act first implemented in the 2024-2025 award year, there are nearly 300,000 more Pell recipients in 2025-2026 than 2024-2025. In addition, the discretionary maximum award has increased by $900 since fiscal year 2021. As a result of all of the above, annual discretionary costs of the Pell program have increased by about $10 billion since fiscal year 2021. Assuming no changes in current policy, the 2027 Budget baseline projects a shortfall of nearly $10.6 billion in fiscal year 2027 (see Table 2-1). These estimates have changed from year to year, which illustrates difficulty in forecasting Pell program costs.

The 2027 Budget provides a maximum award of $7,395, level with 2026 Enacted. As a result of the increasing costs of the Pell Grant program, the Budget provides over $33 billion in discretionary funding, $10.6 billion more than 2026 Enacted. This significant increase in funding for the Pell Grant program will ensure that low- and moderate-income students continue to have access to

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[2] This ability to "borrow" from a subsequent appropriation is unique to the Pell program. It comes about for two reasons. First, like many education programs, Pell is "forward-funded"—the budget authority enacted in one year is intended for the subsequent academic year, which begins in the following July. Second, even though the amount of funding is predicated on the expected cost of Pell during one academic year, the money is made legally available for the full 24-month period covering the current fiscal year and the subsequent fiscal year. This means that, if the funding for an academic year proves inadequate, the following year's appropriation will legally be available to cover the funding shortage for the first academic year. The 2027 Budget appropriations request, for instance, will support the 2027-2028 academic year beginning in July 2027 but will become available in October 2026 and can therefore help cover any shortages that may arise in funding for the 2026-2027 academic year.

Table 02—1. Discretionary Pell Funding Needs

Budget Authority in Millions of Dollars

	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036
Discretionary Pell Funding Needs (Baseline)										
Estimated Program Cost for $6,335 Discretionary Maximum Award	33,279	33,609	33,931	34,231	34,527	34,766	35,071	35,382	35,673	36,149
Baseline Discretionary Appropriation - 2026 Enacted	22,475	22,475	22,475	22,475	22,475	22,475	22,475	22,475	22,475	22,475
Surplus/Funding Gap from Prior Year	–980	–10,548	–20,446	–30,665	–41,185	–52,001	–63,055	–74,415	–86,086	–98,047
Mandatory Budget Authority Available	1,236	1,236	1,236	1,236	1,236	1,236	1,236	1,236	1,236	1,236
Baseline Discretionary Surplus/Funding Gap (–)	–10,548	–20,446	–30,665	–41,185	–52,001	–63,055	–74,415	–86,086	–98,047	–110,485
Effect of 2027 Budget Policies on Discretionary Pell Funding Needs										
Increase Discretionary Appropriation by $10.6 billion	10,548	---	---	---	---	---	---	---	---	---
Annual Effect of 2027 Budget Policies	10,548	---	---	---	---	---	---	---	---	---
Cumulative Effect of 2027 Budget Policies	10,548	10,548	10,548	10,548	10,548	10,548	10,548	10,548	10,548	10,548
2027 Budget Discretionary Surplus/Funding Gap (–)	0	–9,898	–20,117	–30,637	–41,453	–52,507	–63,867	–75,538	–87,499	–99,937

postsecondary education. In addition, these funds will support Workforce Pell Grants. Authorized by the Working Families Tax Cut Act (WFTC; Public Law 119-21), Workforce Pell Grants will provide students with access to high-quality, short-term programs aligned to in-demand, high-skill or high-wage industry, allowing students to enter the workforce quickly and at lower costs than traditional four-year programs.

International Monetary Fund (IMF), Quota Subscription Increase and the New Arrangements to Borrow

As part of a broader set of reforms at the IMF, the Administration supports a proposal to increase the U.S. Quota Subscription to the IMF, rollback a portion of the U.S. commitment to the New Arrangements to Borrow (NAB), and extend U.S. participation in the NAB. Because U.S. participation in the Quota constitutes an exchange of monetary assets, the Administration does not score it as budget authority or outlays, and it is not included in the total funding requested by the Administration. Budget authority is the authority to enter into obligations that are liquidated by outlays. U.S. transactions with the IMF do not result in outlays. The Administration's position follows the recommendation made by the 1967 President's Commission on Budget Concepts that "Subscriptions, drawings, and other transactions reflecting net changes in the U.S. position with the International Monetary Fund should be excluded from budget receipts and expenditures." There is little basis for treating IMF quota subscriptions or NAB increases differently from other financial asset exchanges, such as deposits of cash in Treasury's accounts at the Federal Reserve Bank or purchases of gold, which are not recorded as either budget authority or outlays.

Fannie Mae and Freddie Mac

The Budget continues to present Fannie Mae and Freddie Mac, the housing Government-sponsored enterprises (GSEs) currently in Federal conservatorship, as non-Federal entities. However, Treasury equity investments in the GSEs are recorded as budgetary outlays, and the dividends on those investments are recorded as offsetting receipts. In addition, the budget estimates reflect collections from the 10-basis point increase in GSE guarantee fees that was enacted under the Temporary Payroll Tax Cut Continuation Act of 2011 (Public Law 112-78) and extended by the IIJA. The Budget also reflects collections from a 4.2 basis point set-aside on each dollar of unpaid principal balance of new business purchases authorized under the Housing and Economic Recovery Act of 2008 (Public Law 111-289) to be remitted to several Federal affordable housing programs. The GSEs are discussed in more detail in the "Credit and Insurance" chapter of this volume.

Postal Service Treatment

The Postal Service is designated in statute as an off-budget independent establishment of the Executive Branch. This designation and budgetary treatment was most recently mandated in 1989. To reflect the Postal Service's practice since 2012 of using defaults to on-budget accounts to continue operations, despite losses, the Administration's baseline reflects probable defaults in the on-budget account showing no payment for Civil Service Retirement and Disability. This treatment allows for a clearer presentation of the Postal Service's likely actions.

Under current scoring rules, savings from any proposals for reform of the Postal Service would affect the unified deficit but would not directly affect the PAYGO scorecard. Any savings to on-budget accounts through lower projected defaults in future legislation affect both the PAYGO scorecard and the unified deficit.

Budget Reform Proposals

Federal Capital Revolving Fund

The structure of the Federal budget and budget enforcement requirements can create hurdles to funding large-dollar capital investments that are handled differently at the State and local government levels. Expenditures for capital investment are combined with operating expenses in the Federal unified budget. Both kinds of expenditures must compete for limited funding within the discretionary funding levels. Large-dollar Federal capital investments can be squeezed out in this competition, forcing agency managers to turn to operating leases to meet long-term Federal requirements. These alternatives are more expensive than ownership over the long-term because: (1) Treasury can always borrow at lower interest rates; and (2) to avoid triggering scorekeeping and recording requirements for capital leases, agencies sign shorter-term consecutive leases of the same space. For example, the cost of two consecutive 15-year leases for a building can far exceed its fair market value, with the Government paying close to 180 percent of the value of the building. Alternative financing proposals typically run up against scorekeeping and recording rules that appropriately measure cost based on the full amount of the Government's obligations under the contract, which further constrains the ability of agency managers to meet large capital needs.

In contrast, State and local governments separate capital investment from operating expenses. They are able to evaluate, rank, and finance proposed capital investments in separate capital budgets, which avoids direct competition between proposed capital acquisitions and operating expenses. If capital purchases are financed by borrowing, the associated debt service is an item in the operating budget. This separation of capital spending from operating expenses works well at the State and local government levels because of conditions that do not exist at the Federal level. State and local governments are required to balance their operating budgets, and their ability to borrow to finance capital spending is subject to the discipline of private credit markets that impose higher interest rates for riskier investments. In addition, State and local governments tend to own capital that they finance. In contrast, the Federal Government does not face a balanced budget requirement, and Treasury debt has historically been considered the safest investment regardless of the condition of the Federal balance sheet. Also, the bulk of Federal funding for capital is in the form of grants to lower levels of Government or to private entities, and it is difficult to see how non-federally owned investment can be included in a capital budget.

To deal with the drawbacks of the current Federal approach, the Budget proposes: (1) to create a Federal Capital Revolving Fund (FCRF) to fund large-dollar, federally owned, civilian real property capital projects; and (2) provide specific budget enforcement rules for the FCRF that would allow it to function, in effect, like State and local

Chart 02—1. Scoring of $375 Million GSA Project Using the Federal Capital Revolving Fund

Budget Authority in Millions of Dollars

Federal Capital Revolving Fund

	Year 1	Years 2-15
Mandatory:		
Transfer to purchasing agency to cons/disp building ...	375	
Purchasing agency repayments	–25	–350

Purchasing Agency

	Year 1	Years 2-15
Mandatory:		
Collection of transfer from Federal Capital Revolving Fund	–375	
Payment to cons/disp building	375	
Discretionary:		
Repayments to Federal Capital Revolving Fund	25	350

Total Government-wide Budget Impact

	Year 1	Years 2-15	Total
Mandatory:			
Consolidate/dispose building	375		375
Collections from purchasing agency	–25	–350	–375
Discretionary:			
Purchasing agency repayments	25	350	375
Total Government-wide	375	---	375

Note: The 2027 Budget proposes one project, the Whitten Yates Consolidation and South Disposal, estimated project balance of $375 million.

government capital budgets. This proposal incorporates principles that are central to the success of capital budgeting at the State and local level—a limit on total funding for capital investment, annual decisions on the allocation of funding for capital projects, and spreading the acquisition cost over 15 years in the discretionary operating budgets of agencies that purchase the assets. The 2025 Budget proposes that that FCRF would be capitalized initially by a $10 billion mandatory appropriation, and scored with anticipated outlays over the 10-year window for the purposes of pay-as-you-go budget enforcement rules. Balances in the FCRF would be available for transfer to purchasing agencies to fund large-dollar capital acquisitions only to the extent projects are designated in advance in appropriations Acts and the agency receives a discretionary appropriation for the first of a maximum of 15 required annual repayments. If these two conditions are met, the FCRF would transfer funds to the purchasing agency to cover the full cost to acquire the capital asset. Annual discretionary repayments by purchasing agencies would replenish the FCRF and would become available to fund additional capital projects. Total annual capital purchases would be limited to the lower of $5 billion or the balance in the FCRF, including annual repayments.

The Budget uses the FCRF concept to fund the Jamie L. Whitten Federal Building and Sidney R. Yates Federal Building consolidation and Agriculture South Federal Building disposal project with an estimated total project budget of $375 million. The buildings are within the General Services Administration's (GSA) inventory and currently house the Department of Agriculture. A project of this size and scope, if funded through the traditional discretionary appropriations process, would account for potentially one-fourth of GSA's capital funding in a given fiscal year. In accordance with the principles and design of the FCRF, the 2027 budget requests appropriations language in the GSA Federal Buildings Fund account, designating that the project to be funded out of the FCRF, which is also housed within GSA, along with $\frac{1}{15}$ of the full purchase price, or $25 million for the first-year repayment back to the FCRF. The FCRF account is displayed funding the joint Whitten-Yates consolidation and South disposal project with additional unspecified projects being funded in future years, along with returns to the account from the annual project repayments.

The flow of funds for the joint Whitten-Yates consolidation and South disposal project is illustrated in Chart 2–1. Current budget enforcement rules would require the entire $375 million project cost to be scored as discretionary budget authority in the first year, which would negate the benefit of the FCRF and leave agencies and policy makers facing the same trade-off constraints. As shown in Chart 2-1, under this proposal, transfers from the FCRF to agencies to fund capital projects, $375 million in the case of the proposed project in 2027, and the actual execution by GSA would be scored as direct spending (shown as mandatory in Chart 2-1), while agencies would use discretionary appropriations to fund the annual repayments to the FCRF, or $25 million for the first-year repayment. The proposal allocates the costs between direct spending and discretionary spending—the up-front cost of capital investment would already be reflected in the baseline as direct spending once the FCRF is enacted with $10 billion in mandatory capital. This scoring approves a total capital investment upfront, keeping individual large projects from competing with annual operating expenses in the annual appropriations process. On the discretionary side of the budget, the budgetary trade-off would be locking into the incremental annual cost of repaying the FCRF over 15 years. Knowing that future discretionary appropriations will have to be used to repay the FCRF provides an incentive for agencies, OMB, and the Congress to select projects with the highest mission criticality and returns. In future years, OMB would review agencies' proposed projects for inclusion in the President's Budget, as shown with the GSA request, and allocations by authorizing projects in annual appropriations Acts and providing the first year of repayment. This approach would allow for a more effective capital planning process for the Government's largest civilian real property projects, and is similar to capital budgets used by State and local governments.

Protecting Funding for the Federal Buildings Fund

Since 2011, the Congress has under-funded the GSA Federal Building Fund (FBF), the primary source of maintenance, repair, and construction for GSA's federally owned building inventory. Over the last 16 years, $15.6 billion in agency rental payments, intended to maintain and construct GSA facilities, were not appropriated. By enacting an FBF appropriations level below the estimated annual rent collections, the Congress creates an offset that allows the Appropriations Committee to fund other priorities. When that occurs, actual collections remain in the Fund as unavailable.

At the same time, the GSA inventory of federally owned buildings is seeing an increase in deferred maintenance while experiencing cost increases year over year for unfunded projects. This year, the Budget again proposes a reform to ensure that all agency rental payments can be used for construction and maintenance and repair, as intended, rather than merely sitting unavailable for use in the Fund. The Budget proposes directed scoring, to take effect starting in fiscal year 2028, that would not credit, or score, any savings from limiting the spending in the FBF. FBF revenues would be utilized for the intended purposes of maintaining and operating the GSA owned and leased buildings portfolio. In this way, the Congress will have every incentive to set new obligational authority (NOA) at the level of the estimated collections from across Federal agencies.

The FBF has hit a tipping point with a growing backlog of deferred maintenance and an increasing number of missed opportunities to consolidate into more cost-effective space – particularly given the unique opportunity to re-shape the Federal footprint and optimize utilization.

Table 02–2. Federal Buildings Fund 2011–2026
In Thousands of Dollars

	President's Budget Revenue Estimate	Enacted New Obligational Authority	Net Budget Authority [1]
2011	8,870,933	7,597,540	–1,202,123
2012	9,302,761	8,017,967	–1,205,174
2013	9,777,590	8,024,967	–1,665,003
2014	9,950,560	9,370,042	–580,518
2015	9,917,667	9,238,310	–679,357
2016	9,807,722	10,196,124	388,402
2017	10,178,339	8,845,147	–1,333,192
2018	9,950,519	9,073,938	–876,581
2019	10,131,673	9,285,082	–846,591
2020	10,203,596	8,856,530	–1,347,066
2021	10,388,375	9,065,489	–1,322,886
2022	10,636,648	9,342,205	–1,294,443
2023	10,488,857	10,013,150	–475,707
2024	10,728,410	9,470,022	–1,258,388
2025	10,496,084	9,308,000	–1,188,084
2026	10,464,262	9,710,373	–753,889
16 Year Total Underfunding			**–15,640,600**

[1] Net Budget Authority includes redemption of debt and does not include rescission of prior year funding, transfers, supplemental, or emergency appropriations.

Meanwhile, Government-wide, agencies continue to pay rent to the GSA FBF, but do not receive the commercially equivalent space and services that they pay for in accordance with the GSA statute that governs rent-setting, particularly in terms of capital reinvestment. Table 2-2, Federal Buildings Fund 2011 to 2026, shows 15 years of budget estimates of GSA rental collections (President's Budget Revenue Estimate) against the NOA enacted in the final appropriations process. The chart tells the story of years of rental payments being withheld from spending, thus creating an offset that allowed a reprioritization of spending away from the original purpose of the collections. Since 2011, the negative enacted net budget authority for the FBF for all years except one shows the annual appropriations process has gained $15.6 billion at the expense of the GSA Federal building inventory.

The Budget prioritizes FBF spending of collections, and provides the GSA with additional funding above the anticipated level of rental collections to make progress on the backlog of repairs and fund critical construction priorities. The Administration looks forward to working with the Congress to assure that the rental payments made to the FBF are prioritized for investment occupied by the agencies that paid them.

FEDERAL INVESTMENT 03.

Federal investment is the portion of Federal spending of taxpayer money intended to yield long-term benefits for the economy and the Nation. It promotes improved efficiency within Federal agencies, as well as growth in the national economy by increasing the overall stock of capital. Investment spending can take the form of direct Federal spending or grants. It can be designated for physical capital—a tangible asset or the improvement of that asset—that increases production over a period of years or increases value to the Government. It can also be used for research and development, education, or training, all of which are intangible, but can still increase income in the future or provide other long-term benefits.

Most presentations in the *Analytical Perspectives* volume combine investment spending with spending intended for current use. In contrast, this chapter focuses solely on Federal and federally financed investment, providing a comprehensive picture of Federal spending for physical capital, research and development, and education and training. Because the analysis in this chapter excludes spending for non-investment activities, it gives only a partial picture of Federal support for specific national needs, such as defense.

Total Federal investment spending was $696.3 billion in 2025. It is expected to increase by 14.5 percent in 2026 to $797.6 billion. The Budget proposes a 6.8 percent increase from 2026, for a total of $1,011.0 billion in 2027.

Description of Federal Investment

The Budget uses a relatively broad definition of investment. It defines Federal investment as encompassing spending for research, development, education, and training as well as physical assets such as land, structures, infrastructure, and major equipment. It also includes spending regardless of the ultimate ownership of the resulting asset or the purpose it serves. For the purposes of this definition, however, Federal investment does not include "social investment," meaning investments in healthcare or social services programs where it is difficult to separate out the degree to which the spending provides current versus future benefits. The distinction between investment spending and current outlays is a matter of judgment, but the definition used for the purposes of this analysis has remained consistent over time and is useful for historical comparisons.[1]

Investment in physical assets can be for the construction or improvement of buildings, structures, and infrastructure, including the development or acquisition of major equipment. The broader research and development category includes spending on the facilities in which these activities occur and major equipment for the conduct of research and development, as well as spending for basic and applied research, and experimental development. Investment in education and training includes vocational rehabilitation, programs for veterans, funding for school systems and higher education, and agricultural extension services. This category excludes training for military personnel or other individuals in Government service.

The Budget further classifies investments as either grants to State, local, tribal, and territorial governments (e.g., for highways or elementary and secondary education) or "direct Federal programs." The "direct Federal" category consists primarily of spending for assets owned by the Federal Government, such as weapons systems and buildings, but also includes grants to private organizations and individuals for investment, such as capital grants to Amtrak, Pell Grants, and higher education loans to individuals. For grants made to State, local, tribal, and territorial governments, it is the recipient jurisdiction, not the Federal Government, that ultimately determines whether the money is used to finance investment or for current use. This analysis classifies outlays based on the category in which the recipient jurisdiction is expected to spend a majority of the money. General purpose fiscal assistance is classified as current spending, although in practice, some may be spent by recipient jurisdictions on investment.

Additionally, in this analysis, Federal investment includes credit programs that are for investment purposes. When direct loans and loan guarantees are used to fund investment, the subsidy value is included as investment. The subsidies are classified according to their program purpose, such as construction, or education and training. This discussion presents spending for gross investment, without adjusting for depreciation.

[1] Historical figures on investment outlays beginning in 1940 may be found in the Budget's *Historical Tables*. The *Historical Tables* are available at *https://whitehouse.gov/omb/historical-tables/*.

COMPOSITION OF FEDERAL INVESTMENT OUTLAYS

Major Federal Investment

The composition of major Federal investment outlays is summarized in Table 3–1. The categories include major public physical investment, the conduct of research and development, and the conduct of education and training.

Table 03—1. Composition of Federal Investment Outlays

In Billions of Dollars

Federal Investment	2025 Actual	Estimate	
		2026	2027
Major Public Physical Capital Investment			
Direct Federal:			
National defense	215.4	266.5	347.0
Nondefense	58.5	83.6	74.8
Subtotal, direct major public physical capital investment	273.9	350.1	421.8
Grants	138.5	143.7	161.9
Subtotal, major public physical capital investment	412.4	493.8	583.7
Conduct of Research and Development			
National defense	104.5	84.9	152.8
Nondefense	88.2	90.5	86.7
Subtotal, conduct of research and development	192.7	175.4	239.4
Conduct of Education and Training			
Grants	68.4	51.8	48.1
Direct Federal	–33.6	11.1	72.0
Subtotal, conduct of education and training	34.8	62.9	120.1
Total, major Federal investment outlays	**691.2**	**792.7**	**1,004.8**
MEMORANDUM			
Major Federal investment outlays:			
National defense	320.0	351.4	499.8
Nondefense	371.2	441.3	505.0
Total, major Federal investment outlays	**691.2**	**792.7**	**1,004.8**
Miscellaneous physical investment:			
Commodity inventories	0.1	0.3	2.0
Other physical investment (direct)	5.0	4.6	4.2
Total, miscellaneous physical investment	**5.1**	**4.9**	**6.2**
Total, Federal investment outlays, including miscellaneous physical investment	**696.3**	**797.6**	**1,011.0**

Total major Federal investment outlays were $691.2 billion in 2025. They are estimated to increase by 14.7 percent to $792.7 billion in 2026, and increase by 26.8 percent to $1,004.8 billion in 2027. For 2025 through 2027, defense investment outlays comprise about 46 percent of total major Federal investment, while non-defense investment comprises about 54 percent. In 2026, defense investment outlays are expected to increase by $31.4 billion, or 9.8 percent, and non-defense investment outlays are expected to increase by $70.0 billion, or 18.9 percent. In 2027, the Budget projects a defense investment increase of $148.4 billion, or 42.2 percent over 2026 and an increase in non-defense investment of $63.7 billion, or 14.4 percent.

Physical Investment

Outlays for major public physical capital (hereafter referred to as "physical investment") were $412.4 billion in 2025 and are estimated to increase by 19.7 percent to $493.8 billion in 2026. In 2027, outlays for physical investment are estimated to increase by 18.2 percent to $583.7 billion. Physical investment outlays are for construction and renovation, the development or purchase of major equipment, and the purchase or sale of land and structures.

Direct physical investment outlays by the Federal Government are primarily for defense. Defense outlays for physical investment are estimated to be $347.0 billion in 2027, $80.5 billion higher than in 2026. Outlays for direct physical investment for non-defense purposes are estimated to be $74.8 billion in 2027, a decrease of 10.5 percent from 2026.

Outlays for grants for physical investment are estimated to be $161.9 billion in 2027, a 12.7 percent increase over the 2026 estimate of $143.7 billion. Grants for physical investment fund transportation programs, sewage treatment plants, community and regional development, public housing, and other State and tribal assistance.

Conduct of Research and Development

Outlays for research and development were $192.7 billion in 2025. Outlays are estimated to decrease by 9.0 percent to $175.4 billion in 2026, and decrease by 36.5 percent in 2027 to $239.4 billion. Roughly half of research and development outlays are for defense, a trend which has remained consistent over the past decade. Physical investment for research and development facilities and equipment is included in the physical investment category.

Non-defense outlays for the conduct of research and development are estimated to be $86.7 billion in 2027, 4.2 percent lower than 2026.

Conduct of Education and Training

Outlays for the conduct of education and training were $34.8 billion in 2025. Outlays are estimated to increase to $62.9 billion in 2026, and increase in 2027 to $120.1 billion. Grants for this category were $68.4 billion in 2025.

Direct Federal education and training outlays in 2025 were –$33.6 billion. They are estimated to be $11.1 billion in 2026, and $72.0 billion in 2027. Programs in this category primarily consist of aid for higher education through student financial assistance, loan subsidies, and veterans' education, training, and rehabilitation. This category does not include outlays for education and training of Federal civilian and military employees. Outlays for education and training that are for physical investment and for research and development are in the categories for physical investment and the conduct of research and development.

The negative outlays in this category are explained by changes in accounting for the Federal Direct Student Loan Program. In 2025, outlays for this program were –$78.7 billion, mainly due to the impacts of loan modifications and reestimates. There were much smaller negative subsidies and reestimates in this program for 2026, yielding total estimated outlays for the Federal Direct Student Loan Program in 2026 of roughly –$29.8 billion. In 2027, outlays for this program are estimated to be $21.2 billion and are only associated with loan subsidies for the 2027 cohort, as no modifications or reestimates for 2027 have been made.

Major Federal investment outlays will comprise an estimated 12.4 percent of total Federal outlays in 2027 and 3.0 percent of the Nation's gross domestic product. Budget authority and outlays for major Federal investment by subcategory may be found in Table 3–2 at the end of this chapter.

Miscellaneous Physical Investment

In addition to the categories of major Federal investment, miscellaneous categories of investment outlays are shown at the bottom of Table 3–1.

Outlays for commodity inventories are for the purchase or sale of agricultural products pursuant to farm price support programs and other commodities. Outlays for other miscellaneous physical investment are estimated to be $4.2 billion in 2027.

Detailed Table on Investment Spending

Table 3-2 provides data on budget authority as well as outlays for major Federal investment. Miscellaneous investment is not included in this table.

Table 03—2. Federal Investment Budget Authority and Outlays

In Millions of Dollars

Description	Budget Authority			Outlays		
	2025 Actual	2026 Estimate	2027 Estimate	2025 Actual	2026 Estimate	2027 Estimate
TOTAL FEDERAL INVESTMENTS						
Major public physical investment						
Construction and rehabilitation:						
National defense:						
Military construction and family housing	17,693	17,586	27,740	12,952	17,460	20,211
Atomic energy defense activities and other	7,708	4,236	6,800	4,754	6,192	9,922
Subtotal, national defense	25,401	21,822	34,540	17,706	23,652	30,133
Nondefense:						
International affairs	799	702	642	612	633	662
General science, space, and technology	3,163	1,681	2,219	1,902	2,139	2,023
Water resources projects	8,446	6,880	2,856	8,221	12,170	6,812
Other natural resources and environment	28,952	18,182	14,337	12,430	13,554	20,916
Energy	–4,027	5,178	3,525	4,972	5,271	5,279
Postal service	2,058	3,062	2,579	2,356	2,937	2,600
Transportation	123,443	120,176	83,799	103,427	103,660	110,307
Veterans hospitals and other health facilities	6,932	10,371	11,383	3,906	5,703	5,842
Administration of justice	59,794	1,988	936	1,883	12,064	6,522
GSA real property activities	682	1,742	11,742	3,133	3,970	4,320
Other construction	28,234	19,050	6,565	24,521	28,656	31,276
Subtotal, nondefense	258,476	189,012	140,583	167,363	190,757	196,559
Subtotal, construction and rehabilitation	283,877	210,834	175,123	185,069	214,409	226,692
Acquisition of major equipment:						
National defense:						
Department of War	253,784	230,869	508,712	196,517	241,389	315,414
Atomic energy defense activities	1,622	1,674	1,764	1,275	1,507	1,524
Subtotal, national defense	255,406	232,543	510,476	197,792	242,896	316,938

Table 03–2. Federal Investment Budget Authority and Outlays—Continued

In Millions of Dollars

Description	Budget Authority			Outlays		
	2025 Actual	2026 Estimate	2027 Estimate	2025 Actual	2026 Estimate	2027 Estimate
Nondefense:						
General science and basic research	434	571	1,455	534	585	598
Postal service	1,480	492	1,328	1,628	1,693	1,547
Air transportation	17,326	5,543	4,556	4,361	7,108	8,020
Water transportation (Coast Guard)	23,923	1,394	1,182	1,695	3,616	6,397
Other transportation (railroads)	7	6	408	6	6	6
Hospital and medical care for veterans	3,304	5,839	6,887	2,245	3,840	4,551
Federal law enforcement activities	4,323	3,537	2,614	3,459	3,799	3,200
Department of the Treasury (fiscal operations)	551	163	105	1,178	888	883
National Oceanic and Atmospheric Administration	1,707	1,267	1,356	1,112	826	883
Other	6,108	5,889	8,128	9,650	10,765	9,734
Subtotal, nondefense	59,163	24,701	28,019	25,868	33,126	35,819
Subtotal, acquisition of major equipment	314,569	257,244	538,495	223,660	276,022	352,757
Purchase or sale of land and structures:						
National defense	–48	–34	–38	–51	–33	–35
Natural resources and environment	514	551	483	399	452	452
General government	–134	–177	–25	–134	-177	....
Other	317	358	354	95	74	129
Subtotal, purchase or sale of land and structures	649	698	774	309	316	546
Other physical assets	3,075	2,556	2,437	3,394	3,075	3,712
Subtotal, major public physical investment	602,170	471,332	716,829	412,432	493,822	583,707
Conduct of research and development						
National defense:						
Defense military	117,739	76,807	211,028	98,190	78,744	145,788
Atomic energy and other	6,106	6,025	6,406	6,319	6,140	6,967
Subtotal, national defense	123,845	82,832	217,434	104,509	84,884	152,755
Nondefense:						
International affairs	249	92	92	249	98	96
General science, space, and technology:						
NASA	9,597	9,707	6,053	10,248	9,943	8,631
National Science Foundation	6,472	6,398	2,637	6,977	7,393	6,257
Department of Energy	6,985	6,641	5,750	6,858	7,678	7,842
Subtotal, general science, space, and technology	23,054	22,746	14,440	24,083	25,014	22,730
Energy	5,657	3,985	–262	4,643	5,550	6,364
Transportation:						
Department of Transportation	1,123	1,361	1,098	1,123	1,264	1,296
NASA	764	764	475	795	731	583
Other transportation	23	22	30	24	35	25
Subtotal, transportation	1,910	2,147	1,603	1,942	2,030	1,904
Health:						
National Institutes of Health	45,687	46,055	41,057	45,873	44,768	43,131
Other health	2,830	2,648	2,018	1,710	1,586	962
Subtotal, health	48,517	48,703	43,075	47,583	46,354	44,093
Agriculture	2,707	2,774	2,360	2,814	2,537	2,806
Natural resources and environment	2,680	2,624	1,198	2,529	2,473	1,292
National Institute of Standards and Technology	1,844	2,326	653	986	3,059	3,906
Hospital and medical care for veterans	1,839	1,852	1,833	1,773	1,760	1,797
All other research and development	796	1,618	1,648	1,620	1,647	1,700
Subtotal, nondefense	89,253	88,867	66,640	88,222	90,522	86,688
Subtotal, conduct of research and development	213,098	171,699	284,074	192,731	175,406	239,443

Table 03–2. Federal Investment Budget Authority and Outlays—Continued
In Millions of Dollars

Description	Budget Authority			Outlays		
	2025 Actual	2026 Estimate	2027 Estimate	2025 Actual	2026 Estimate	2027 Estimate
Conduct of education and training						
Elementary, secondary, and vocational education	48,059	48,242	40,392	67,737	48,702	44,918
Higher education	–39,592	18,707	70,323	–34,432	12,097	73,751
Research and general education aids	3,888	3,057	1,719	3,881	3,209	2,514
Training and employment	5,602	5,742	4,520	3,798	6,905	6,843
Health	2,495	2,718	1,623	2,642	3,299	3,036
Veterans education, training, and rehabilitation	18,489	25,487	24,952	16,499	22,125	24,694
General science and basic research	1,181	1,021	624	1,240	1,343	1,119
International affairs	753	654	230	836	755	723
Other	23,259	24,114	22,214	23,821	25,008	24,024
Subtotal, conduct of education and training	64,134	129,742	166,597	86,022	123,443	181,622
Total, Federal investment	**879,402**	**772,773**	**1,167,500**	**691,185**	**792,671**	**1,004,772**

CREDIT AND INSURANCE 04.

The Federal Government offers direct loans and loan guarantees to support a wide range of activities including home ownership, student loans, small business, farming, energy, infrastructure investment, and exports. In addition, Government-sponsored enterprises (GSEs) operate under Federal charters for the purpose of enhancing credit availability for targeted sectors. Through its insurance programs, the Federal Government insures deposits at depository institutions, guarantees private-sector defined-benefit pensions, and insures against some other risks such as flood and terrorism.

This chapter discusses the roles of these diverse programs. The first section discusses individual credit programs and GSEs. The second section reviews Federal deposit insurance, pension guarantees, disaster insurance, and insurance against terrorism and other security-related risks.

Credit in Various Sectors

Housing Credit Programs

Through its main housing credit programs, the Federal Government promotes homeownership among various groups that may face barriers to owning a home, including low- and moderate-income people, veterans, and rural residents. In times of economic crisis, the Federal Government's role and target market can expand dramatically.

Federal Housing Administration

The Federal Housing Administration (FHA) guarantees single-family mortgages that expand access to homeownership for households who may have difficulty obtaining a conventional mortgage. In addition to traditional single-family "forward" mortgages, FHA insures "reverse" mortgages for seniors (Home Equity Conversion Mortgages, described below) and loans for the construction, rehabilitation, and refinancing of multifamily housing, hospitals, and other healthcare facilities.

FHA Single-Family Forward Mortgages. FHA has been a primary facilitator of mortgage credit for first-time and low-wealth homebuyers, a pioneer of products such as the 30-year self-amortizing mortgage, and a vehicle to enhance credit for many low- to moderate-income households. One of the major benefits of an FHA-insured mortgage is that it provides a homeownership option for borrowers who, though they can only make a modest down payment, can show that they are credit-worthy and have sufficient income to afford the house they want to buy. First-time homebuyers accounted for 83 percent of new FHA purchase loans in 2025 and, for calendar year (CY) 2024, the low-income homebuyer share was 30 percent.

FHA Home Equity Conversion Mortgages. Home Equity Conversion Mortgages (HECMs), or "reverse" mortgages, are designed to support aging in place by enabling elderly homeowners to borrow against the equity in their homes without having to make repayments during their lifetime (unless they sell, refinance, or fail to meet certain requirements). A HECM is known as a "reverse" mortgage because the change in home equity over time is generally the opposite of a forward mortgage. While a traditional forward mortgage starts with a small amount of equity and builds equity with amortization of the loan, a HECM starts with a large equity cushion that declines over time as the loan accrues interest and premiums. The risk of HECMs is therefore weighted toward the end of the mortgage, while forward mortgage risk is concentrated in the first 10 years.

FHA Mutual Mortgage Insurance (MMI) Fund. FHA guarantees for forward and reverse mortgages are administered under the Mutual Mortgage Insurance (MMI) Fund. At the end of 2025, the MMI Fund had $1.6 trillion in total mortgages outstanding and a capital ratio of 11.47 percent, unchanged from 2024.

For more information on the financial status of the MMI Fund, please see the *Annual Report to Congress Regarding the Financial Status of the FHA Mutual Mortgage Insurance Fund, Fiscal Year 2025.*[1]

FHA's new origination volume in 2025 was $275 billion for forward mortgages and $15 billion for HECMs, and the Budget projects $284 billion and $15 billion, respectively, for 2027.

FHA Multifamily and Healthcare Guarantees. In addition to the single-family mortgage insurance provided through the MMI Fund, FHA's General Insurance and Special Risk Insurance (GISRI) loan programs continue to

[1] *https://www.hud.gov/sites/dfiles/Housing/documents/2025FHAAnnualReportMMIFund.pdf*

facilitate the construction, rehabilitation, and refinancing of multifamily housing, hospitals, and other healthcare facilities. The credit enhancement provided by FHA enables borrowers to obtain long-term, fixed-rate financing, which mitigates interest rate risk and facilitates lower monthly mortgage payments. This can improve the financial sustainability of multifamily housing and healthcare facilities, and may also translate into more affordable rents and lower healthcare costs for consumers.

GISRI's new origination loan volume for all programs in 2025 was $16 billion and the Budget projects $21 billion for 2027. The total amount of guarantees outstanding on mortgages in the FHA GISRI Fund were $153 billion at the end of 2025.

VA Housing Loan Program

The Department of Veterans Affairs (VA) assists veterans, members of the Selected Reserve, and active-duty personnel in purchasing homes in recognition of their service to the Nation. The VA housing loan program effectively substitutes a Federal guarantee for the borrower's down payment, meaning more favorable lending terms for veterans. Under this program, VA does not guarantee the entire mortgage loan, but typically fully guarantees the first 25 percent of losses upon default. In fiscal year 2025, VA guaranteed a total of 323,832 new purchase home loans, providing approximately $129 billion in guarantees. VA also guaranteed 119,458 Interest Rate Reduction Refinance loans and veteran borrowers lowered interest rates on their home mortgages through streamlined refinancing. VA provided approximately $206 billion in guarantees for 528,340 VA loans in fiscal year 2025. That followed $155 billion in guarantees for 416,376 VA loans closed in fiscal year 2024.

VA, in cooperation with VA-guaranteed loan servicers, also assists borrowers through home retention options and alternatives to foreclosure. VA intervenes when needed to help veterans and service members avoid foreclosure through loan modifications, special forbearances, repayment plans, and acquired loans, as well as assistance to complete compromised sales or deeds-in-lieu of foreclosure. These standard efforts helped resolve over 99 percent of defaulted VA-guaranteed loans and assisted 173,478 veterans retain homeownership or avoid foreclosure in 2025. These efforts resulted in over $9.9 billion in avoided guaranteed claim payments.

Rural Housing Service

The Rural Housing Service (RHS) at the U.S. Department of Agriculture (USDA) offers direct and guaranteed loans to help very-low- to moderate-income rural residents buy and maintain adequate, affordable housing. RHS housing loans and loan guarantees differ from other Federal housing loan programs in that they are means-tested, making them more accessible to low-income, rural residents. The single family housing guaranteed loan program is designed to provide home loan guarantees for moderate-income rural residents whose incomes are between 80 percent and 115 percent (maximum for the program) of area median income.

RHS has traditionally offered both direct and guaranteed homeownership loans. The direct single family housing loans have been historically funded at $1 billion a year, while the single family housing guaranteed loan program, authorized in 1990 at $100 million, has grown into a $20 billion loan program annually. USDA also offers direct and guaranteed multifamily housing loans, as well as housing repair loans.

Education Credit Programs

The Department of Education (ED) direct student loan program is one of the largest Federal credit programs, with $1.44 trillion in Direct Loan principal outstanding in 2025. The Federal student loan programs provide students and their families with the funds to help meet postsecondary education costs. Because funding for the loan programs is provided through mandatory budget authority, student loans are considered separately for budget purposes from other Federal student financial assistance programs (which are largely discretionary), but should be viewed as part of the overall Federal effort to expand access to higher education.

Loans for higher education were first authorized under the William D. Ford program, which was included in the Higher Education Act of 1965 (Public Law 89-329). The direct loan program was authorized by the Student Loan Reform Act of 1993 (subtitle A of title IV of Public Law 103–66). The enactment of the SAFRA Act (subtitle A of title II of Public Law 111–152) ended the guaranteed Federal Financial Education Loan program. On July 1, 2010, ED became the sole originator of Federal student loans through the Direct Loan program.

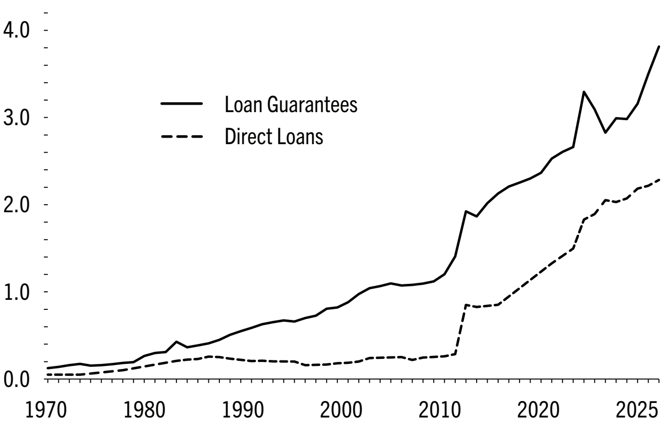
Under the current direct loan program, the Federal Government partners with over 5,500 institutions of higher education, which then disburse loan funds to students. Loans are available to students and parents of students regardless of income. There are three types of Direct Loans: Federal Direct Subsidized Stafford Loans, Federal Direct Unsubsidized Stafford Loans, and Federal Direct PLUS Loans, each with different terms.

On July 4, 2025, the President signed the Working Families Tax Cut Act (WFTC) into law, which implemented sweeping changes to simplify the student loan repayment system. For students starting an award year 2026-2027, Parent PLUS loans are capped at $20,000 per year, with a $65,000 lifetime cap per student. Graduate PLUS loans are eliminated, leaving Direct Unsubsidized Stafford loans as the only option for graduate students. Graduate borrowing is capped at $20,500 per year ($50,000 for professional degrees), with aggregate limits of $100,000 ($200,000 for professional degrees).

In addition to new borrowing limits, the WFTC made significant changes to student loan repayment plans. Borrowers after July 1, 2026 have two repayment options. The first is a Revised Standard Repayment plan that ties

Chart 04—1. Face Value of Federal Credit Outstanding

Dollars in Trillions



the repayment to loan size. The second is a new Income-Driven Repayment (IDR) plan, the Repayment Assistance Plan. The Repayment Assistance Plan calculates monthly payments based on a progressive formula tied to Adjusted Gross Income, fully subsidizes unpaid interest, provides principal payment subsidies to some borrowers, and offers forgiveness after 30 years of repayment. Current repayment plans are still available to existing borrowers, but all legacy IDR plans aside from the Income-Based Repayment Plan will be phased out by 2028.

The Department of Education also operates the Historically Black College and Universities (HBCU) Capital Financing Program. Since fiscal year 1996, the Program has provided HBCUs with access to low-cost capital financing for the repair, renovation, and, in exceptional circumstances, construction or acquisition of educational facilities, instructional equipment, research instrumentation, and physical infrastructure.

Small Business and Farm Credit Programs

The Government offers direct loans and loan guarantees to small businesses and farmers, who may have difficulty obtaining credit elsewhere. It also provides guarantees of debt issued by certain investment funds that invest in small businesses. Two GSEs, the Farm Credit System and the Federal Agricultural Mortgage Corporation, increase liquidity in the agricultural lending market.

Small Business Administration

The Small Business Administration (SBA) ensures that small businesses across the Nation have the tools and resources needed to start, grow, and recover their business. SBA's lending programs complement credit markets by offering creditworthy small businesses access to affordable credit through private lenders when they cannot otherwise obtain financing on reasonable terms or conditions.

In 2025, SBA provided $33 billion in loan guarantees to assist small business owners with access to affordable capital through its largest program, the 7(a) General Business Loan Guarantee program. This program provides access to financing for general business operations, such as operating and capital expenses. In addition, through the 504 Certified Development Company (CDC) and Refinance Programs, SBA supported nearly $8 billion in guaranteed loans for fixed-asset financing and provided the opportunity for small businesses to refinance existing 504 CDC loans. These programs enable small businesses to secure financing for assets such as machinery and equipment, construction, and commercial real estate, and to free up resources for expansion. The Small Business Investment Company (SBIC) Program also supports privately-owned and -operated venture capital investment firms that invest in small businesses. In 2025, SBA supported $4 billion in SBIC venture capital investments. In addition to these guaranteed lending programs, the 7(m) Direct Microloan program supports the smallest of businesses, startups, and entrepreneurs through loans of up to $50,000 made by non-profit intermediaries. In 2025, SBA facilitated a record $55 million in microlending.

Farm Service Agency

Farm operating loans were first offered in 1937 by the newly created Farm Security Administration (FSA) to assist family farmers who were unable to obtain credit from a commercial source to buy equipment, livestock, or seed. Farm ownership loans were authorized in 1961 to provide family farmers with financial assistance to purchase farmland. Presently, FSA assists low-income family farmers in starting and maintaining viable farming operations. Legislation mandates that a portion of appropriated funds are set aside for beginning and socially disadvantaged farmers.

FSA offers operating loans and ownership loans, both of which may be either direct or guaranteed loans. Operating loans provide credit to farmers and ranchers for annual production expenses and purchases of livestock, machinery, and equipment, while farm ownership loans assist producers in acquiring and developing their farming or ranching operations. As a condition of eligibility for direct loans, borrowers must be unable to obtain private credit at reasonable rates and terms. As FSA is the "lender of first opportunity," default rates on FSA direct loans are generally higher than those on private-sector loans. FSA-guaranteed farm loans are made to more creditworthy borrowers who have access to private credit markets. Because the private loan originators must, in most situations, retain 10 percent of the risk, they exercise care in examining the repayment ability of borrowers. The subsidy rates for the direct programs fluctuate largely because of changes in the interest component of the subsidy rate.

In 2025, there were more than 27,000 direct or guaranteed loan obligations totaling over $6.6 billion. The entire portfolio of outstanding debt as of September 30, 2025, totaled $36 billion, serving more than 123,000 farmers and ranchers. The amount of lending increased in both dollar and volume terms, up 23 and 12 percent, respectively. Lending in dollar terms for real estate purchases increased for both direct loans (increasing 11 percent) and guaranteed loans (increasing 38 percent). Operating loan obligations also increased in dollar terms for both direct loans (increasing 15 percent) and guaranteed loans (increasing 35 percent). The increase in 2025 obligations was not unexpected, as rising land values, rising interest rates and operating input costs put pressure on farm profits, resulting in increased demand for these low-cost FSA loans and loan guarantees that provide favorable rates and terms and provide lenders with lending risk protections. This cyclicality is typical for farm loan programs and underscores the importance of FSA's Farm Loan Programs as a safety net.

A beginning farmer is an individual or entity who: has operated a farm for not more than 10 years; substantially participates in farm operation; and, for farm ownership loans, the applicant cannot own a farm larger than 30 percent of the average size farm in the county at time of application. If the applicant is an entity, all entity members must be eligible beginning farmers. Beginning farmers received 40 percent of direct and guaranteed loans in 2025. Direct and guaranteed loan programs provided assistance totaling over $2.6 billion to more than 14,400 beginning farmers.

The FSA Microloan program increases overall direct and guaranteed lending to small niche producers and minorities. This program dramatically simplifies application procedures for small loans and implements more flexible eligibility and experience requirements. Demand for the micro-loan program continues to grow while delinquencies and defaults remain at or below those of the regular FSA operating loan program.

Energy and Infrastructure Credit Programs

The Department of Energy (DOE) Energy Dominance Financing (EDF) administers three active credit programs: Title XVII Innovative Technology Loan Guarantee Program (Title XVII), the Advanced Technology Vehicle Manufacturing (ATVM) Loan Program, and the Tribal Energy Loan Guarantee Program (TELGP). EDF also oversees two inactive credit programs: the Transmission Facility Financing (TFF) Program and the Carbon Dioxide Transportation Infrastructure Finance and Innovation (CIFIA) Program.

Section 1703 of title XVII of the Energy Policy Act of 2005, as amended (Public Law 109–58) authorizes DOE to issue loan guarantees for infrastructure projects that employ innovative technologies or are supported by State Energy Financing Institutions to reduce, avoid, or sequester air pollutants or man-made greenhouse gases. The American Recovery and Reinvestment Act of 2009 (Public Law 111-5) added section 1705 to Title XVII and appropriated credit subsidy to support loan guarantees on a temporary basis for commercial or advanced renewable energy systems, electric power transmission systems, and leading-edge biofuel projects. Authority for the temporary program to extend new loans expired September 30, 2011. The Inflation Reduction Act of 2022 (Public Law 117-169), as amended by the Working Families Tax Cut Act (Pub. L. 119-21), added section 1706 to the Title XVII and appropriated credit subsidy and loan limitation to support loan guarantees for projects that retool, repower, repurpose, or replace energy infrastructure. Appropriated authority for the section 1706 program expires September 30, 2028. Across all Title XVII authorities, DOE is authorized to guarantee up to 80 percent of eligible project costs and may guarantee 100 percent of loans issued by the Federal Financing Bank.

Section 136 of the Energy Independence and Security Act of 2007 (Public Law 110-140) authorizes DOE to issue loans to support the development of advanced technology vehicles and qualifying components. In 2009, the Congress appropriated credit subsidy and set a loan limitation for the program. The Inflation Reduction Act of 2022 appropriated additional credit subsidy and repealed the statutory loan limitation. The Working Families Tax Cut Act of 2025 rescinded all ATVM credit subsidy appropriated in the Inflation Reduction Act of 2022 and the FY 2027 President's Budget proposes to cancel all remaining credit subsidy appropriated in FY 2009.

Title XXVI of the Energy Policy Act of 1992 (Public Law 102-486), as amended, authorizes DOE to guarantee loans to Indian Tribes for energy development. The Congress has appropriated credit subsidy in annual appropriations acts as well as the Inflation Reduction Act of 2022 to cover the cost of guaranteed loans to support tribal energy development. For the Tribal Energy Loan Guarantee Program, DOE is authorized to guarantee up to 90 percent of eligible project costs and may guarantee 100 percent of loans issued by the Federal Financing Bank.

Section 40304 of the Infrastructure Investment and Jobs Act (IIJA; Public Law 117-58) amended Title IX of the Energy Policy Act of 2005 to establish CIFIA by authorizing DOE to issue loans, loan guarantees, and grants to support the development of carbon dioxide transportation infrastructure (e.g., pipelines). The 'Commerce, Justice, Science; Energy and Water Development; and Interior and Environment Appropriations Act of 2026 repurposed $1.5 billion of the unobligated balances for the program and the FY 2027 President's Budget proposes to cancel the remaining balances.

Section 50151 of the Inflation Reduction Act of 2022 established the TFF authorizing DOE to issue direct loans to support the construction or modification of electric transmission facilities designated necessary in the national interest under section 216(a) of the Federal Power Act (Public Law 115-325). The Working Families Tax Cut Act of 2025 rescinded all unobligated balances before any projects were financed.

Electric and Telecommunications Loans

Rural Utilities Service (RUS) programs of the Department of Agriculture (USDA) provide grants and loans to support the distribution of rural electrification, telecommunications, distance learning, and broadband infrastructure systems. In 2025, RUS delivered $9 billion in direct electrification loans (including $2.71 billion in Federal Financing Bank (FFB) Electric Loans, $900 million in electric underwriting, and $10 million rural energy savings loans). For telecommunications, RUS provided $122 million in direct and FFB telecommunications loans, and $146 million in Reconnect broadband loans. RUS also helped a multi-state electric cooperative head-quartered in North Dakota, providing a loan which will be used to finance transmission system improvements, replacement of a UPS battery system, and low impact internal network security monitoring across nine states serving a total of 140 members.

USDA Rural Infrastructure and Business Development Programs

USDA, through a variety of Rural Development (RD) programs, provides grants, direct loans, and loan guarantees to communities for constructing facilities such as healthcare clinics, police stations, and water systems, as well as to assist rural businesses and cooperatives in creating new community infrastructure (e.g., educational and healthcare networks) and to diversify the rural economy and employment opportunities. In 2025, RD provided $851 million in Community Facility (CF) direct loans, which are for communities of 20,000 or less. The CF programs have the flexibility to finance more than 100 separate types of essential community infrastructure that ultimately improve access to healthcare, education, public safety and other critical facilities and services. In 2025, RD also provided $897 million in water and wastewater (W&W) direct loans, and guaranteed $2.11 billion in rural business loans, which will help create and save jobs in rural America. Since 2020, CF and W&W loan guarantees have been for communities of 50,000 or less.

Water Infrastructure

The Environmental Protection Agency's (EPA) Water Infrastructure Finance and Innovation Act (WIFIA) program accelerates investment in the Nation's water infrastructure by providing long-term, low-cost supplemental loans for projects of regional or national significance. To date, EPA's WIFIA program has closed approximately 150 loans totaling $23 billion in credit assistance to help finance over $50 billion for water infrastructure projects and create 167,000 jobs. The selected projects demonstrate the broad range of project types that the WIFIA program can finance, including wastewater, drinking water, stormwater, and water reuse projects.

In addition, the WIFIA Statute, authorized by the Water Resources Reform and Development Act of 2014, as amended (Public Law 113-121), allows the U.S. Army Corps of Engineers to issue loans and loan guarantees for eligible non-Federal water resources projects. The Consolidated Appropriations Act, 2021 (Public Law 116-260) provided $12 million for the cost of loans and loan guarantees for dam safety projects at non-Federal dams identified in the National Inventory of Dams. The IIJA provided an additional $64 million for this purpose. The Corps of Engineers is actively working to establish this new Federal credit program.

Transportation Infrastructure

The Department of Transportation (DOT) administers innovative financing programs that fund critical transportation infrastructure projects. The two predominant programs are the Transportation Infrastructure Finance and Innovation Act (TIFIA) and the Railroad Rehabilitation and Improvement Financing (RRIF) loan programs. DOT's Build America Bureau administers both of these programs, as well as Private Activity Bonds. The Bureau serves as the single point of contact for State and local governments, transit agencies, railroads and other types of project sponsors seeking to utilize Federal transportation innovative financing expertise, apply for Federal transportation credit programs, and explore ways to access private capital in public-private partnerships.

Transportation Infrastructure Finance and Innovation Act (TIFIA). Established in 1998 by the Transportation Equity Act for the 21st Century (TEA-21; Public Law 105-178), the TIFIA program is designed to fill market gaps and leverage substantial private co-investment by providing supplemental financing to transportation infrastructure projects. Through TIFIA, DOT provides three types of Federal credit assistance to highway, transit, rail, intermodal, airport, and transit-oriented development projects: direct loans, loan guarantees, and lines of credit. TIFIA can help advance qualified, large-scale projects that otherwise might be delayed or deferred because of size, complexity, or uncertainty over the timing of revenues.

Railroad Rehabilitation and Improvement Financing (RRIF). Also established by TEA–21 in 1998, the RRIF program provides loans and loan guarantees for rail infrastructure projects that improve rail safety and efficiency, support economic development and opportunity, or increase the capacity of the national rail network. The RRIF program allows borrowers to pay the subsidy cost of a loan via a higher interest rate, thereby allowing the program to operate without Federal subsidy appropriations.

International Credit Programs

Multiple Federal agencies provide or have existing portfolios of direct loans, loan guarantees, and insurance to a variety of private and sovereign borrowers: USDA, the Department of War, the Department of State, the Treasury, the Export-Import Bank (ExIm), and the U.S. International Development Finance Corporation (DFC). These programs are intended to level the playing field for

U.S. exporters, deliver robust support for U.S. goods and services, stabilize international financial markets, enhance security, and promote economic development. Further, Federal export credit programs provide financing support for American businesses involved in international trade and to counteract unfair foreign trade financing. Various foreign governments provide their exporters official financing assistance, usually through export credit agencies.

Export Support Programs

When the private sector is unable or unwilling to provide financing, ExIm fills the gap for American businesses by equipping them with the financing support necessary to level the playing field against foreign competitors. ExIm support includes direct loans and loan guarantees for creditworthy foreign buyers to help secure export sales from U.S. exporters. It also includes working capital guarantees and export credit insurance to help U.S. exporters secure financing for overseas sales. USDA's Export Credit Guarantee Programs (GSM programs) similarly help to level the playing field. Like programs of other agricultural exporting nations, GSM programs guarantee payment from countries and entities that want to import U.S. agricultural products but cannot easily obtain credit. The GSM 102 program provides guarantees for credit extended with short-term repayment terms not to exceed 18 months.

Exchange Stabilization Fund

Consistent with U.S. obligations in the International Monetary Fund (IMF) regarding global financial stability, the Exchange Stabilization Fund (ESF) managed by the Treasury may provide loans or credits to a foreign entity or government of a foreign country. A loan or credit may not be made for more than six months in any 12-month period unless the President gives the Congress a written statement that unique or emergency circumstances require that the loan or credit be for more than six months. The Coronavirus Aid, Relief, and Economy Security Act (CARES); Public Law 116-136) established within the ESF an Economic Stabilization Program with temporary authority for lending and other eligible investments, which included programs or facilities established by the Board of Governors of the Federal Reserve System pursuant to section 13(3) of the Federal Reserve Act (Public Law 63-43). The Consolidated Appropriations Act, 2021 (Public Law 116-260) rescinded this authority, though loans and investments already made remain active until obligations are liquidated.

Sovereign Lending and Guarantees

The U.S. Government can extend short-to-medium-term loan guarantees that cover potential losses that might be incurred by lenders if a country defaults on its borrowings; for example, the U.S. may guarantee another country's sovereign bond issuance. The purpose of this tool is to provide the Nation's sovereign international partners access to necessary, urgent, and relatively affordable financing during temporary periods of strain when they cannot access such financing in international financial markets, and to support critical reforms that will enhance long-term fiscal sustainability, often in concert with support from international financial institutions such as the IMF. The goal of sovereign loan guarantees is to help lay the economic groundwork for the Nation's international partners to graduate to an unenhanced bond issuance in the international capital markets.

Development Programs

Credit is an important tool in U.S. bilateral assistance to promote economic growth and security. The DFC provides loans, guarantees, and other investment tools such as equity and political risk insurance to facilitate and incentivize private-sector investment in emerging markets that will have positive economic impact, advance U.S. foreign policy, and meet national security objectives.

The Government-Sponsored Enterprises (GSEs)

Fannie Mae and Freddie Mac

The Federal National Mortgage Association (Fannie Mae) created in 1938, and the Federal Home Loan Mortgage Corporation (Freddie Mac) created in 1970, were established to support the stability and liquidity of a secondary market for residential mortgage loans. Fannie Mae's and Freddie Mac's public missions were later broadened to promote affordable housing. The Federal Home Loan Bank (FHLB) System, created in 1932, is comprised of eleven individual banks with shared liabilities. Together they lend money to financial institutions, mainly banks and thrifts, that are involved in mortgage financing to varying degrees, and they also finance some mortgages using their own funds. The mission of the FHLB System is broadly defined as promoting housing finance, and the System also has specific requirements to support affordable housing.

Together these three GSEs currently are involved, in one form or another, with approximately half of residential mortgages outstanding in the U.S. today.

The Farm Credit System (Banks and Associations)

The Farm Credit System (FCS or System) is a GSE comprised of banks and associations, which are discussed in this section; service corporations; and the Federal Agricultural Mortgage Corporation (Farmer Mac), which is discussed below. System banks and associations constitute a nationwide network of borrower-owned cooperative lending institutions originally authorized by the Congress in 1916. Their mission is to provide sound and dependable credit to American farmers, ranchers, producers and harvesters of aquatic products, farm cooperatives, and farm-related businesses. The institutions also serve rural America by providing financing for rural residential real estate; rural communication, energy, and water/wastewater infrastructure; and agricultural exports. In addition, maintaining special policies and programs for the extension of credit to young, beginning, and small (YBS) farmers and ranchers is a legislative mandate for the System.

As of September, 30, 2025, the financial condition of the System's banks and associations remains fundamentally sound. For the 12-month period ended September

History of the Conservatorship of Fannie Mae and Freddie Mac and Budgetary Effects

Growing stress and losses in the mortgage markets in 2007 and 2008 seriously eroded the capital of Fannie Mae and Freddie Mac. Legislation enacted in July 2008 strengthened regulation of the housing GSEs through the creation of the Federal Housing Finance Agency (FHFA), a new independent regulator of housing GSEs, and provided the Treasury with authorities to purchase securities from Fannie Mae and Freddie Mac.

On September 6, 2008, FHFA placed Fannie Mae and Freddie Mac under Federal conservatorship. The next day, the Treasury launched various programs to provide temporary financial support to Fannie Mae and Freddie Mac under the temporary authority to purchase securities. The Treasury entered into agreements with Fannie Mae and Freddie Mac to make investments in senior preferred stock in each GSE in order to ensure that each company maintains a positive net worth. The cumulative funding commitment through these Preferred Stock Purchase Agreements (PSPAs) with Fannie Mae and Freddie Mac was set at $445.5 billion. In total, as of December 31, 2025, $191.5 billion has been invested in Fannie Mae and Freddie Mac. The remaining commitment amount is $254.1 billion.

The PSPAs also generally require that Fannie Mae and Freddie Mac pay quarterly dividends to the Treasury, though the terms governing the amount of those dividends have changed several times pursuant to agreements between the Treasury and Fannie Mae and Freddie Mac. Notably, changes announced on January 14, 2021, permit the GSEs to suspend dividend payments until they achieve minimum capital levels established by FHFA through regulation. Through December 31, 2025, the GSEs have paid a total of $301.0 billion in dividend payments to the Treasury on the senior preferred stock.

The Temporary Payroll Tax Cut Continuation Act of 2011 (Public Law 112–78) amended the Housing and Community Development Act of 1992 (Public Law 102-550) by requiring that Fannie Mae and Freddie Mac increase their annual credit guarantee fees on single-family mortgage acquisitions between 2012 and 2021 by an average of at least 0.10 percentage points. This sunset was extended through 2032 by the IIJA.

In addition, effective January 1, 2015 FHFA directed Fannie Mae and Freddie Mac to set aside 0.042 percentage points for each dollar of the unpaid principal balance of new business purchases (including but not limited to mortgages purchased for securitization) in each year to fund several Federal affordable housing programs created by the Housing and Economic Recovery Act of 2008 (Public Law 110-289), including the Housing Trust Fund and the Capital Magnet Fund.

30, 2025, the System reported favorable capital levels, rising earnings, and steady asset growth. Although the System's loan portfolio continued to perform well, credit risk has increased.

Capital as a percentage of total assets was 15.0 percent on September 30, 2025 unchanged from a year ago. Capital that is available to absorb losses equaled $84.3 billion, which is mainly composed of retained earnings (high-quality capital). System earnings continued to support capital growth, with net income for the first twelve months ending on September 30, 2025, equaling $7.9 billion compared with $7.8 billion in the prior year.

Over the 12-month period ended September 30, 2025, System assets grew 6.3 percent, mainly due to increased volume in real estate mortgage, production and intermediate-term, and rural infrastructure loans. While loan quality in the System's portfolio is good, credit risk has been trending higher. For crop producers and related agricultural businesses, operating conditions continue to be very challenging. Nonperforming assets as a percentage of the dollar volume of loans and other property owned was 1.0 percent on September 30, 2025, compared with 0.79 percent on September 30, 2024.

As of September 30, 2025, the System consisted of four banks and 55 associations. Of the 59 FCS banks and associations rated, 57 had a rating[2] of 1 or 2 on a safety and soundness scale of 1 to 5 (with 1 being most safe and sound); these institutions accounted for over 98 percent of System assets. Two FCS institutions had a rating of 3 or worse.

Starting in 2019, FCA committed to a multiyear effort to improve both the quality and depth of the young, beginning, and small farmer and rancher (YBS) information we collect. This is the second year of reporting YBS

[2] FCA examiners evaluate and categorize the safety and soundness of System banks and associations on an ongoing, uniform, and comprehensive basis. The examiners use FCA's Financial Institution Rating System (FIRS) to assign numerical ratings based on that evaluation. Rating numbers presented are based on June 30, 2025, financial reporting.

data in this manner. On December 29, 2023, FCA issued a revised bookletter 40, which increased the threshold for small farmers to those with less than $350,000 in annual gross cash farm income. This change is reflected in the new lending that occurred during the 2024 calendar year.

In calendar year 2024, the System made a total of 259,564 loans, totaling $131.2 billion. The total number of outstanding loans at year-end 2024 was 1,059,214, amounting to $401.2 billion. In calendar year 2024, System lending to the seven mutually exclusive YBS categories totaled 150,156 loans for $33.1 billion. The number of loans and loan volume outstanding to the seven mutually exclusive YBS categories was 647,284 loans for $122.8 billion at year-end 2024. This is the most current YBS data that the System has reported to FCA. The System recorded favorable earnings and capital growth for the 12-month period ended September 30, 2025, but it faces risks associated with its portfolio concentration in agriculture and rural America. Many crop producers are facing their third year of weak or negative returns due to large global supplies and sticky input costs.

Farm Credit System Insurance Corporation (FCSIC). FCSIC, a U. S. Government-controlled corporation, that provides insurance for the timely payment of principal and interest on FCS obligations for which the System banks are jointly and severally liable. If the Farm Credit Insurance Fund (Insurance Fund) does not have sufficient funds to ensure payment on insured obligations, System banks will be required to make payments under joint and several liability as required by section 4.4(a)(2) of the Farm Credit Act of 1971, as amended (12 U.S.C. 2155(a)(2)). The insurance provided by the Insurance Fund is limited to the resources in the Insurance Fund. System obligations are not guaranteed by the U.S. Government.

On September 30, 2025, the assets in the Insurance Fund totaled $8.4 billion. As of September 30, 2025, the Insurance Fund as a percentage of adjusted insured debt was 11 percent. This was above the statutory secure base amount of 2 percent. From September 30, 2024, to September 30, 2025, the principal amount of outstanding insured System obligations increased by 6.7 percent, from $431.8 billion to $460.6 billion.

Federal Agricultural Mortgage Corporation (Farmer Mac). Farmer Mac is a GSE. It was established in 1988 by the Agricultural Credit Act of 1987 (Public Law 100-233). It is a federally chartered instrumentality of the United States and an institution of the System whose purpose is to facilitate a secondary market for farm real estate and rural housing loans. Farmer Mac is not liable for any debt or obligation of the other System institutions, and no other System institutions are liable for any debt or obligation of Farmer Mac. The Farm Credit System Reform Act of 1996 (Public Law 104-105) expanded Farmer Mac's role from a guarantor of securities backed by loan pools to a direct purchaser of mortgages, enabling it to form pools to securitize. The Food, Conservation, and Energy Act of 2008 (Public Law 110-246) expanded Farmer Mac's program authorities by allowing it to purchase and guarantee securities backed by rural utility loans made by cooperatives.

Farmer Mac continues to meet core capital and regulatory risk-based capital requirements. As of September 30, 2025, Farmer Mac's total outstanding program volume (loans purchased and guaranteed, standby loan purchase commitments, and AgVantage bonds purchased and guaranteed) amounted to $31.1 billion, which represents an increase of 9.3 percent from the level a year ago. Of total program activity, on-balance-sheet loans and guaranteed securities amounted to $25.9 billion, and off-balance-sheet obligations amounted to $5.3 billion. Total assets were $33.4 billion, with nonprogram investments (including cash and cash equivalents) accounting for $7.6 billion of those assets. Farmer Mac's net income attributable to common stockholders for the first three quarters of calendar year 2025 was $141.9 million, compared with $129.6 million for the same period in 2024.

INSURANCE PROGRAMS

Deposit Insurance

Federal deposit insurance promotes stability in the U.S. financial system. Prior to the establishment of Federal deposit insurance, depository institution failures often caused depositors to lose confidence in the banking system and rush to withdraw deposits. Such sudden withdrawals caused serious disruption to the economy. In 1933, in the midst of the Great Depression, a system of Federal deposit insurance was established to protect depositors and to prevent bank failures from causing widespread disruption in financial markets.

Today, the Federal Deposit Insurance Corporation (FDIC) insures deposits in banks and savings associations (thrifts) using the resources available in its Deposit Insurance Fund (DIF). The National Credit Union Administration (NCUA) insures deposits (shares) in most credit unions through the National Credit Union Share Insurance Fund (SIF). (Some credit unions are privately insured.) As of September 30, 2025, the FDIC estimated $10.6 trillion in insured deposits at 4,379 commercial banks and thrifts, and as of September 30, 2025, the NCUA insured nearly $1.8 trillion of shares at 4,331 Federal and federally insured State-chartered credit unions.

Since its creation, the Federal deposit insurance system has undergone many reforms. As a result of the 2008 financial crisis, several reforms were enacted to protect both the immediate and longer-term integrity of the Federal deposit insurance system. The Helping Families Save Their Homes Act of 2009 (division A of Public Law 111–22) provided NCUA with tools to protect the SIF and the financial stability of the credit union system. Notably, the

Act established the Temporary Corporate Credit Union Stabilization Fund, which has now been closed with its assets and liabilities distributed into the SIF. In addition, the Act:

- Provided flexibility to the NCUA Board by permitting use of a restoration plan to spread insurance premium assessments over a period of up to eight years, or longer in extraordinary circumstances, if the SIF equity ratio falls below 1.2 percent; and
- Permanently increased the Share Insurance Fund's borrowing authority to $6 billion.

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank Act; Public Law 111-203) established new DIF reserve ratio requirements. The Act required the FDIC to achieve a minimum DIF reserve ratio (ratio of the deposit insurance fund balance to total estimated insured deposits) of 1.35 percent by 2020, up from 1.15 percent in 2016. On September 30, 2018, the DIF reserve ratio reached 1.36 percent. However, as of June 30, 2020 the DIF reserve ratio fell to 1.30 percent, below the statutory minimum of 1.35 percent. The decline was a result of strong one-time growth in insured deposits. On September 15, 2020, FDIC adopted a Restoration Plan to restore the DIF reserve ratio to at least 1.35 percent by 2027.

In addition to raising the minimum reserve ratio, the Dodd-Frank Act also:

- eliminated the FDIC's requirement to rebate premiums when the DIF reserve ratio is between 1.35 and 1.5 percent;
- gave the FDIC discretion to suspend or limit rebates when the DIF reserve ratio is 1.5 percent or higher, effectively removing the 1.5 percent cap on the DIF; and
- required the FDIC to offset the effect on small insured depository institutions (defined as banks with assets less than $10 billion) when setting assessments to raise the reserve ratio from 1.15 to 1.35 percent. In implementing the Dodd-Frank Act, the FDIC issued a final rule setting a long-term (i.e., beyond 2028) reserve ratio target of 2 percent, a goal that FDIC considers necessary to maintain a positive fund balance during economic crises while permitting steady long-term assessment rates that provide transparency and predictability to the banking sector.

The Dodd-Frank Act also permanently increased the insured deposit level to $250,000 per account at banks or credit unions insured by the FDIC or NCUA.

Recent Fund Performance

As of September 30, 2025, the FDIC DIF balance stood at $150.1 billion on an accrual basis, a $17 billion increase since the prior year.

As of September 30, 2024, the number of insured institutions on the FDIC's "problem list" (institutions with the highest risk ratings) totaled 57 insured institutions. This represents a significant decrease from December 2010, the peak year for bank failures during the 2008 financial crisis, but an increase from years prior two banks from the year prior. Moreover, the assets held by problem institutions were 87 percent below the level in December 2009, the peak year for assets held by problem institutions.

The NCUA-administered SIF ended September 2025 with assets of $23.6 billion and an equity ratio of 1.31 percent. If the equity ratio exceeds the normal operating level, a distribution is normally paid to insured credit unions to reduce the equity ratio.

The health of the credit union industry has markedly improved since the 2008 financial crisis.

Budget Outlook

The Budget estimates DIF net outlays of -$223.8 billion over the current 10-year budget window (2027–2036). This includes the repayment of $93.3 billion in principal on FFB financing transactions executed in 2023 and 2024 (see below), as well as the impact of a special assessment to recover the DIF's estimated losses associated with uninsured depositors following the closures of Silicon Valley Bank and Signature Bank, after the Secretary of the Treasury announced on March 12, 2023, that uninsured depositors would be covered to avoid systemic risk to the financial system. The Budget projects that FDIC's Restoration Plan will remain in effect until 2027, when the DIF is estimated to reach the statutory reserve ratio target of 1.35 percent. As in past years, the Budget also assumes that the DIF will reach the historic long-run reserve ratio target of 1.5 percent over the 10-year budget window.

Pension Guarantees

The Pension Benefit Guaranty Corporation (PBGC) insures the pension benefits of workers and retirees in covered defined-benefit pension plans. PBGC operates two legally and financially separate insurance programs: the Single-Employer Program and Multiemployer Program.

Single-Employer Insurance Program

Single-employer plans generally provide benefits to the employees of one employer. When an underfunded single-employer plan terminates, PBGC becomes trustee of the plan, applies legal limits on payouts, and pays benefits. To determine the amount to pay each participant, PBGC considers: a) the benefit that a participant had accrued in the terminated plan; b) the availability of assets from the terminated plan to cover benefits; c) how much PBGC recovers from employers for plan underfunding; and d) the legal maximum benefit level set in statute. The guaranteed benefit limits are indexed (i.e., they increase in proportion to the National Average Wage Index) and vary based on the participant's age and elected form of payment. For plans terminating in 2026, the maximum guaranteed annual benefit payable as a single life annuity under the single-employer program is $93,477 for a retiree at age 65.

Termination of underfunded plans typically occurs when the employer sponsoring an underfunded plan insured by PBGC goes bankrupt, ceases operation, or can no longer afford to keep the plan going. PBGC's claims exposure is the amount by which the present value of guaranteed benefits exceeds assets in insured plans. In the near term, the risk of loss stems from financially distressed firms with underfunded plans. In the longer term, loss exposure also results from the possibility that well-funded plans become underfunded due to inadequate contributions, poor investment results, or increased liabilities, and that the firms sponsoring those plans become distressed.

PBGC monitors companies with large, underfunded plans and acts to protect the interests of the pension insurance program's stakeholders where possible. Under its Early Warning Program, PBGC works with plan sponsors to mitigate risks to pension plans posed by corporate transactions or otherwise protect the insurance program from avoidable losses. However, PBGC's authority to manage risks to the insurance program is limited. Most private insurers can diversify or reinsure their catastrophic risks as well as flexibly price these risks. Unlike private insurers, Federal law does not allow PBGC to set premium rates or deny insurance coverage to a defined-benefit plan or adjust premiums according to risk. Both types of PBGC premiums, the flat rate (a per person charge paid by all plans) and the variable rate (paid by underfunded plans), are set by statute.

Claims against PBGC's insurance programs are highly variable. One large pension plan termination may result in a larger claim against PBGC than the termination of many smaller plans. PBGC's Single-Employer Program currently has a large surplus that is modeled to grow under most economic scenarios. Finally, PBGC's financial condition is sensitive to market risk. Interest rates and equity returns affect not only PBGC's own assets and liabilities, but also those of PBGC-insured plans.

Multiemployer Insurance Program

Multiemployer plans are collectively bargained pension plans maintained by one or more labor unions and more than one unrelated employer, usually within the same or related industries. PBGC does not trustee multiemployer plans. In the Multiemployer Program, the event triggering PBGC's guarantee is plan insolvency (the inability to pay guaranteed benefits when due), whether or not the plan has terminated. PBGC provides insolvent multiemployer plans with financial assistance in the statutorily required form of loans sufficient to pay PBGC guaranteed benefits and reasonable administrative expenses. Since multiemployer plans generally do not receive PBGC assistance until their assets are fully depleted, financial assistance is almost never repaid unless the plan receives Special Financial Assistance under the American Rescue Plan Act of 2021 (ARPA; Public Law 117-2).

Benefits guaranteed under the multiemployer program are calculated based on: a) the benefit a participant would have received under the insolvent plan, subject to; b) the multiemployer guarantee limit set in statute. The guarantee limit depends on the participant's years of service and the level of the benefit accruals. For example, for a participant with 30 years of service, PBGC guarantees 100 percent of the pension benefit up to a yearly amount of $3,960. If the pension exceeds that amount, PBGC guarantees 75 percent of the rest of the pension benefit up to a total maximum guarantee of $12,870 per year for a participant with 30 years of service. This limit has been in place since 2001 and is not adjusted for cost-of-living adjustments.

PBGC's FY 2024 Projections Report shows the Multiemployer Program is likely to remain solvent over the 40-year projection period. ARPA amended the Employee Retirement and Income Security Act of 1974 (Public Law 93-406) and established the SFA program that provides funding from the Treasury's General Fund certain underfunded multiemployer plans. This program allows eligible plans to apply to PBGC for the amount of finding assistance necessary to pay projected benefits at the plan level through 2051.

Disaster Insurance

Flood Insurance

The Federal Government provides flood insurance through the National Flood Insurance Program (NFIP), which is administered by the Department of Homeland Security's Federal Emergency Management Agency (FEMA). Flood insurance is available to homeowners, renters, businesses, and State and local governments in communities that have adopted and enforce minimum floodplain management standards. Coverage is limited to buildings and their contents. As of September 30, 2025, the program had 4.6 million policies worth $1.3 trillion in force in over 22,700 communities.[3]

The Congress established the NFIP in 1968 via the National Flood Insurance Act of 1968 (Title XIII of Public Law 90-448) to make flood insurance coverage widely available, to combine a program of insurance with flood mitigation measures to reduce the Nation's risk of loss from floods, protect the natural and beneficial functions of the floodway,[4] and to reduce Federal disaster-assistance expenditures on flood losses. The NFIP requires participating communities to adopt certain land use or-

[3] Community – any *State* or area or political subdivision thereof, or any Indian Tribe or authorized tribal organization, or Alaska Native village or authorized native organization, which has authority to adopt and enforce *flood plain management regulations* for the areas within its jurisdiction.

[4] A regulatory floodway is the channel of a river or other watercourse and the adjacent land areas that must be reserved in order to discharge the base flood without cumulatively increasing the water surface elevation more than a designated height.

dinances consistent with FEMA's floodplain management regulations and to take other mitigation efforts to reduce flood-related losses in high flood hazard areas ("Special Flood Hazard Areas") identified through partnership with FEMA, States, and local communities. These efforts have resulted in substantial reductions in the risk of flood-related losses nationwide. Legislation enacted in 2012 and 2014 established a Reserve Fund that is available to meet the expected future obligations of the flood insurance program and invest available resources. The Reserve Fund is funded by an assessment and fixed annual surcharge. Legislation also introduced a phase-in to higher full-risk premiums for structures newly mapped into the Special Flood Hazard Area until full-risk rates are achieved, capped annual premium increases at 18 percent for most structures, and created the Office of the Flood Insurance Advocate.

As of April 1, 2023, FEMA has fully implemented NFIP's new pricing approach. The approach leverages industry best practices and cutting-edge technology to enable FEMA to deliver rates that are actuarially sound and better reflect a property's flood risk. Since the 1970s, rates had been predominantly based on relatively static measurements, emphasizing a property's elevation within a zone on the Flood Insurance Rate Map (FIRM). The 1970s legacy methodology did not incorporate as many flooding variables as today's pricing approach. FEMA's pricing approach is building on years of investment in flood hazard information by incorporating private sector data sets, catastrophe models, and evolving actuarial science. In addition, the 1970s legacy rating methodology did not account for the cost of rebuilding a home. Policyholders with lower-valued homes may have been paying more than their share of the risk while higher-valued homes may have been paying less than their share of the risk. Today's NFIP pricing approach enables FEMA to set rates that are fairer and ensures up-to-date actuarial principles based upon new technology, including modeling. With the implementation of the NFIP's pricing approach, FEMA is now able to distribute premiums across all policyholders based on home value and a property's flood risk.

FEMA's Community Rating System offers discounts on policy premiums in communities that adopt and enforce more stringent floodplain land use ordinances than those identified in FEMA's regulations and/or engage in mitigation activities beyond those required by the NFIP. The discounts provide an incentive for communities to implement new flood protection activities that can help save lives and property when a flood occurs.

Further, NFIP offers flood mitigation assistance grants for planning and carrying out activities to reduce the risk of flood damage to structures covered by NFIP, which may include demolition or relocation of a structure, elevation or flood-proofing a structure, and community-wide mitigation efforts that will reduce future flood claims for the NFIP. In particular, flood mitigation assistance grants targeted toward repetitive and severe repetitive loss properties not only help owners of high-risk property, but also reduce the disproportionate drain these properties cause on the National Flood Insurance Fund (NFIF). The 2022 Infrastructure and Investment Jobs Act provided significant additional resources of $3.5 billion over five years for the flood mitigation assistance grants designed to reduce financial losses to the NFIF.

From 1985 until 2005, with minimal borrowing, FEMA was able to pay NFIP claims, administrative expenses, debt servicing costs, and small principal repayments out of collected premium and fees. However, the NFIP's cumulative debt increased substantially from 2005 to 2017 due to catastrophic loss years resulting from Hurricane Katrina (2005), Hurricane Sandy (2012), Louisiana Floods (2016), and Hurricane Harvey (2017).

In the aftermath of Hurricane Harvey, on October 26, 2017, the Congress passed, and President Trump signed into law, the "Additional Supplemental Appropriations for Disaster Relief Requirements Act, 2017," cancelling $16 billion of NFIP's debt.12 With the debt cancelation, on November 9, 2017, FEMA was able to borrow $6.1 billion to address outstanding claims from Hurricane Harvey and to carry out the NFIP.

In the fall of 2024, Hurricanes Helene and Milton struck the southwest United States including the southern coast of Florida. The two hurricanes resulted in FEMA paying almost $8 billion in claims as of March 24, 2026 to over 80,000 policyholders. In February 2025, FEMA exhausted its balances in the National Flood Insurance Fund and National Reserve Fund to pay claims associated with these events. In February 2025 the President authorized FEMA to exercise additional borrowing authority, resulting in FEMA borrowing an additional $2 billion from the U.S. Treasury. Of the $30.425 billion in borrowing authority, FEMA has $7.9 billion remaining in borrowing authority. The current outstanding debt is $22.5 billion. FEMA's current annual debt interest payment is approximately $670 million. FEMA pays its interest on the debt from premiums collected from policyholders.

Crop Insurance

Subsidized Federal crop insurance, administered by USDA's Risk Management Agency (RMA) on behalf of the Federal Crop Insurance Corporation (FCIC), assists farmers in managing yield and revenue shortfalls due to natural disasters and price fluctuations. The program is a cooperative partnership between the Federal Government and the private insurance industry. Private insurance companies sell and service crop insurance policies. The Federal Government, in turn, pays private companies an administrative cost subsidy to cover a portion of the expenses associated with selling and servicing these policies. The Federal Government also provides reinsurance through the Standard Reinsurance Agreement and pays companies an "underwriting gain" if they have a profitable year. For the 2027 Budget, the combined payments to the companies are projected to be $5.2 billion. The Federal Government also subsidizes premiums for farmers to incentivize them to participate in the program.

The most basic type of crop insurance is catastrophic coverage (CAT), which compensates the farmer for losses in excess of 50 percent of the individual's average yield at 55 percent of the expected market price. The CAT premium is entirely subsidized, and farmers pay only an administrative fee. Higher levels of coverage, called "buy-up," are also available. A portion of the premium for buy-up coverage is paid by FCIC on behalf of producers and varies by coverage level – generally, the higher the coverage level, the lower the percent of premium subsidized. The remaining (unsubsidized) premium amount is owed by the producer and represents an out-of-pocket expense.

Traditional forms of coverage include yield-based and revenue-based insurance products. These products are underwritten based on a producer's actual production history (APH) and provide protection against natural disasters that may impact an individual's farm. Yield-based products protect against a loss of yield while revenue-based programs protect against loss of revenue resulting from low prices, low yields, or a combination of both. For 2025, these forms of coverage accounted for over two-thirds of program liability (approximately $136 billion), led by corn and soybeans where producers purchased coverage on over 90 percent of U.S. planted acres.

In addition to the traditional yield and revenue insurance, FCIC has made other plans of insurance available to provide more tailored protections for specific producer needs or for additional risk mitigation. This includes area-based plans of insurance that offer protection based on the loss experience of a geographic area (most commonly a county), and do not directly insure an individual farm. Often, the loss trigger is based on an index, such as rainfall, which is established by a government entity (for example, the National Oceanic and Atmospheric Administration). One such plan is Rainfall Index, which insures against a decline in precipitation from normal levels. This program is available to livestock and hay producers who purchased coverage on over 318 million acres in 2025 to protect against forage losses. Similarly, apiculture producers purchased coverage on over 3.7 million bee hives to protect against declines in honey production. More recent forms of area-based coverage can be purchased in combination with individual coverage and cover a portion of the "base" policy's deductible, which essentially covers a portion of the premium the producer is responsible for paying. These are often referred to as supplemental "endorsement" policies and include peril specific coverages (such as damage from hurricane/tropical storm or wildfire smoke), and county yield or revenue coverage. In total, area-based coverage accounted for approximately 5 percent ($9.4 billion) of program liability in 2025. In addition to crops, other forms of coverage are available for livestock producers with different policies available to provide price protection, margin protection, and revenue protection. For 2025, livestock coverage exceeded $40 billion in liability, accounting for over 20 percent in program liability.

A crop insurance policy also contains coverage compensating farmers when they are prevented from planting their crops due to weather and other perils. When an insured farmer is unable to plant the planned crop within the planting time period because of excessive drought or moisture, the farmer may file a prevented planting claim, which pays the farmer a portion of the full coverage level. It is optional for the farmer to plant a second crop on the acreage. If the farmer does, the prevented planting claim on the first crop is reduced and the farmer's APH is recorded for that year. If the farmer does not plant a second crop, the farmer gets the full prevented planting claim, and the farmer's APH is held harmless for premium calculation purposes the following year. Extra prevented planting coverage, known as "buy-up," was available at a five percent level through the 2025 reinsurance year, but was eliminated as an option beginning with the 2026 reinsurance year.

RMA is continuously working to develop new products and to expand or improve existing products in order to cover more agricultural commodities. In 2025, RMA delivered on President Trump's promise to put American farmers first by quickly implementing enhanced insurance benefits following the passage of the Working Families Tax Cut Act. Enhanced benefits include improved insurance affordability for farmers and ranchers, additional premium support for beginning farmers and ranchers, and expanded coverage for Supplemental Coverage Option (SCO) and Whole Farm Revenue Protection (WFRP) to 90 percent. The agency also distributed one-time Congressionally mandated payments to Approved Insurance Providers (AIPs) administering eligible specialty crop insurance contracts for 2022 and 2023 reinsurance years through the Additional Payment Program II (ADD PAY II), which provided additional compensation to those on the front lines delivering crop insurance to America's specialty crop farmers. RMA expanded the Controlled Environment pilot program to an additional 48 counties in 17 states for the 2026 crop year, increased upper limit of coverage percentage from 75% to 85%, and provided coverage for quarantines when certain conditions are met. Additionally, the agency streamlined production reporting, deregulated coverage dates, and improved insurance coverage for producers of direct-marketed fresh market tomatoes, fresh market peppers, and safflowers. For more information and additional crop insurance program details please reference RMA's website.[5]

Farm Credit System Insurance Corporation (FCSIC)

The FCSIC, an independent Government-controlled insurance corporation, insuring payments of principal and interest on FCS obligations for which the System banks are jointly and severally liable. If the Farm Credit System Insurance Fund (Insurance Fund) does not have sufficient funds to ensure payment on insured obligations, System banks will be required to make payments under joint and several liability, as required by section 4.4(a)(2) of the Farm Credit Act of 1971, as amended (12 U.S.C. 2155(a)(2)). The insurance provided by the Insurance Fund is limited to

[5] *www.rma.usda.gov*

the resources in the Insurance Fund. System obligations are not guaranteed by the U.S. Government.

On September 30, 2024, the assets in the Insurance Fund totaled $7.2 billion. As of September 30, 2024, the Insurance Fund as a percentage of adjusted insured debt was 2.05 percent. This was slightly above the statutory secure base amount of 2.00 percent. From September 30, 2022, to September 30, 2024, the principal amount of outstanding insured System obligations increased by 6.5 percent, from $377.8 billion to $402.3 billion.

Insurance Against Security-Related Risks

Terrorism Risk Insurance

The Terrorism Risk Insurance Program (TRIP) was authorized by the Terrorism Risk Insurance Act of 2002 (Public Law 107-297) to ensure the continued availability of property and casualty insurance following the terrorist attacks of September 11, 2001. TRIP was previously intended to expire in 2020, but has been extended. It is currently set to expire on December 31, 2027, and authorizes collections through 2029, after it was reauthorized by the Terrorism Risk Insurance Program Reauthorization Act of 2019 (title V of division I of Public Law 116–94). TRIP's initial three-year authorization established a system of shared public and private compensation for insured property and casualty losses arising from certified acts of foreign terrorism.

The prior reauthorization, the Terrorism Risk Insurance Program Reauthorization Act of 2015 (Public Law 114–1), made several program changes to reduce potential Federal liability. Over the five years after the 2015 extension, the loss threshold that triggers Federal assistance was increased by $20 million each year to $22 million in 2020, and the Government's share of losses above the deductible decreased from 85 to 80 percent over the same period. The 2015 extension also required the Treasury to recoup 140 percent of all Federal payments made under the program up to a mandatory recoupment amount, which increased by $2 billion each year until 2019 when the threshold was set at $37.5 billion. Since January 1, 2020, the mandatory recoupment amount has been indexed to a running three-year average of the aggregate insurer deductible of 20 percent of direct-earned premiums.

The Budget baseline includes the estimated Federal cost of providing terrorism risk insurance, reflecting current law. Using market data synthesized through a proprietary model, the Budget projects annual outlays and recoupment for TRIP. While the Budget does not forecast any specific triggering events, the Budget includes estimates representing the weighted average of TRIP payments over a full range of possible scenarios, most of which include no notional terrorist attacks (and therefore no TRIP payments), and some of which include notional terrorist attacks of varying magnitudes. On this basis, the Budget projects net spending of $232 million over the 2027–2036 period.

Available Online ↗

https://www.whitehouse.gov/omb/information-resources/budget/analytical-perspectives/

Table 04-1. Estimated Future Cost of Outstanding Federal Credit Programs

Table 04-2. Direct Loan Subsidy Rates, Budget Authority, and Loan Levels, 2025-2027

Table 04-3. Loan Guarantee Subsidy Rates, Budget Authority, and Loan Levels, 2025-2027

Table 04-4. Summary of Federal Direct Loans and Loan Guarantees

Table 04-5. Reestimates of Credit Subsidies on Loans Disbursed Between 1995-2025

Table 04-6. Face Value of Government-Sponsored Lending

Table 04-7. Lending and Borrowing by Government-Sponsored Enterprises (GSEs)

Table 04-8. Direct Loan Transactions of the Federal Government

Table 04-9. Guaranteed Loan Transactions of the Federal Government

Aviation War Risk Insurance

In December 2014, the Congress sunset the premium aviation war risk insurance program, thereby sending U.S. air carriers back to the commercial aviation insurance market for all of their war risk insurance coverage. The Consolidated Appropriations Act of 2024 (P.L. 117-328) provided permanent authority to the FAA to temporarily provide war risk insurance for a premium for no more than one period, up to 90 days, in the event of a unilateral cancellation of a commercial policy by an air carriers' commercial insurer. The non-premium aviation insurance program was authorized through September 30, 2028, in the FAA Reauthorization Act of 2025, Part II (P.L. 118-63). It provides aviation insurance coverage for aircraft used in connection with certain Government contract operations by a department or agency that agrees to indemnify the Secretary of Transportation for any losses covered by the insurance.

MANAGEMENT 05.

The American people elected President Trump to reform the Federal Government, eliminate programs that waste taxpayer dollars, and restore accountability and results to Government operations. Since being sworn in, the President has taken bold and decisive action to reshape the Federal Government and end its weaponization against American citizens. Released in the first year of the Administration, the *President's Management Agenda (PMA)* articulates the Administration's core management reform objectives and establishes priority goals to drive change across the Federal enterprise. The PMA and this Budget reflect the President's drive to restore the America envisioned by our Founding Fathers and usher in a new Golden Age of America by shrinking the Government and eliminating waste, ensuring accountability, rebuilding American industry, and delivering results for the American people.

Shrink the Government and Eliminate Waste

With his inheritance of the largest national debt in the country's history, President Trump recognizes the urgent need to rein in Federal spending and eliminate waste. The PMA and Budget enable the Administration to eliminate woke, weaponized, and wasteful programs and funding, optimize Federal real estate, and downsize the Federal workforce.

The Budget:

- Eliminates programs that do not serve the core mission, cutting bloated, wasteful, and woke spending, such as Green New Scam projects and discriminatory DEI programs.
- Promotes financial integrity and operational efficiency and protects America's bank account against fraud, waste, and abuse by reinforcing agency adoption of the Do Not Pay system and encouraging cross-agency data sharing to support the screening of improper payments. Through efforts like these, the Administration has achieved an unprecedented benchmark, screening 70 percent of Federal payments (valued at $1.7 trillion), an all-time high.
- Offloads unnecessary leases and prioritizes cost-effective locations for agency buildings. This builds on the Administration's success in disposing of 90 Federal buildings—cutting $415 million in repairs and operating costs and generating $182 million in proceeds by eliminating 3 million square feet from the Federal Government's real estate portfolio.
- Supports President Trump's goal of building a smaller, more efficient Federal Government by eliminating jobs dedicated to non-essential and non-statutory functions, removing poor performers, and limiting hiring to essential jobs. Significant progress has already been made in this effort, with approximately 300,000 Federal employees exiting government service in 2025, the largest reduction of the Federal workforce in American history.

Available Online ↗

https://www.whitehouse.gov/omb/information-resources/budget/analytical-perspectives/

Federal Workforce Overview

Table 05-1. Federal Civilian Employment in the Executive Branch

Table 05-2. Total Federal Employment

Table 05-3. Personnel Pay and Benefits

Chart 05-1. Federal Employees Nearing Retirement or Younger Than 30

IT and Cyber Security Spending

Table 05-4. Estimated 2027 IT Spending and Percentage by Federal Civilian Agency

Chart 05-2. Trends in Federal Civilian IT Spending

Table 05-5. Estimated Civilian Federal Cybersecurity Spending by Agency

Table 05-6. NIST Framework Function Civilian CFO Act Agency Funding Totals

Ensure Accountability for Americans

Americans deserve a Federal Government that holds employees, contractors, and grant recipients to the highest standards, and uses data to promote transparency and deliver performance-driven outcomes. The PMA and Budget support the Administration's efforts to foster a merit-based Federal workforce, end censorship and over-classification of information, and demand partners who deliver.

The Budget:

- Funds a meritocracy built by recruiting exceptional talent to essential positions, ensuring that hiring is based on skills and merit, and executing Federal Staffing and Merit Hiring Plans throughout departments and agencies.
- Makes investments that will emancipate Federal information and empower agencies to leverage data to drive more efficient operations, enable intelligent automation, and make evidence-based policy decisions.
- Ensures the Federal Government is working exclusively with the best partners, ones that consistently demonstrate high performance and reliability, by strengthening oversight and holding contractors and grant recipients accountable for delivering results that advance America First priorities.
- Implements a systematic process for grant administration in which political appointees have the last word on grants announcements and awards, ensuring that all Federal financial assistance aligns with Administration priorities.

Deliver Results, Buy American

The President is building a Federal Government fit for the 21st century, one that delivers results and puts the American economy and American worker first. The PMA and Budget focus on eliminating bureaucratic barriers to efficient deployment of Federal Government buying power, maximizing the use of goods, products, and materials produced in the United States, and using technology, including artificial intelligence (AI) tools, to deliver faster, more secure services.

The Budget:

- Prioritizes consolidated procurement and streamlined buying whenever possible to eliminate wasteful spending and allow the Federal Government to negotiate better deals by buying as one entity. These efforts support the Administration's revolutionary overhaul to the Federal Acquisition Regulation (FAR), which has already resulted in the elimination of more than 2,700 burdensome directives and a 25-percent reduction of the regulatory text. The overhaul, the most significant streamlining of Federal regulatory buying procedures in over four decades, will make it easier for agencies to use common sense solutions from innovative small businesses to provide better, more cost-effective services to taxpayers. These efforts also have laid the foundation for eliminating from the Cost Accounting Standards more than 60 unnecessary and redundant government accounting requirements for Federal contractors.
- Ensures that Federal resources are being used to strengthen the U.S. industrial base in compliance with Made in America laws, and to rebuild American industry by maximizing Made in America purchases of goods and materials.
- Focuses on consolidating or eliminating duplicative and inefficient systems and websites, an initiative that has already resulted in the elimination of 1,200 redundant websites.
- Makes investments in digital-first services that are built for real people, not bureaucracy.
- Reflects use of AI to enhance efficiency, with over 3,500 AI use cases reported across the Federal Government.
- Fortifies the U.S. Government to defend against and persistently combat cyber enemies.

The PMA and Budget carry out the President's America First priorities and deliver on his vision for an effective and efficient Federal Government that tirelessly delivers for and is directly accountable to the American people.

BUDGET CONCEPTS 06.

The budget system of the United States Government provides the means for the President and the Congress to decide how much money to spend, what to spend it on, and how to raise the money they have decided to spend. Through the budget system, they determine the allocation of resources among the agencies of the Federal Government and between the Federal Government and the private sector. The budget system focuses primarily on dollars, but it also allocates other resources, such as Federal employment. Budget decisions made affect the Nation as a whole, State and local governments, and individual Americans. Many decisions have worldwide significance. The Congress and the President enact budget decisions into law. The budget system ensures that these laws are carried out.

This chapter provides an overview of the budget system and explains some of the more important budget concepts. It includes summary dollar amounts to illustrate major concepts. Other chapters of the budget documents discuss these concepts and more detailed amounts in greater depth.

The following section discusses the budget process, covering formulation of the President's Budget, action by the Congress, and execution of enacted budget laws. The next section provides information on budget coverage, including a discussion of on-budget and off-budget amounts, functional classification, presentation of budget data, types of funds, and full-cost budgeting. Subsequent sections discuss the concepts of receipts and collections, budget authority, and outlays. These sections are followed by discussions of Federal credit; surpluses, deficits, and means of financing; Federal employment; and the basis for the budget figures. A glossary of budget terms appears at the end of the chapter.

Various laws, enacted to carry out requirements of the Constitution, govern the budget system. The chapter refers to the principal ones by title throughout the text and gives complete citations in the section just preceding the glossary.

The Budget Process

The budget process has three main phases, each of which is related to the others:

1. Formulation of the President's Budget;
2. Action by the Congress; and
3. Execution of enacted budget laws.

Formulation of the President's Budget

The Budget of the United States Government consists of several volumes that set forth the President's fiscal policy goals and priorities for the allocation of resources by the Government. The primary focus of the Budget is on the budget year—the next fiscal year for which the Congress needs to make appropriations, in this case 2027. (Fiscal year 2027 will begin on October 1, 2026, and end on September 30, 2027.) The Budget also covers the nine years following the budget year in order to reflect the effects of budget decisions over the longer term. It includes the funding levels provided for the current year, in this case 2026, which allows the reader to compare the President's Budget proposals with the most recently enacted levels. The Budget also includes data on the most recently completed fiscal year, in this case 2025, so that the reader can compare budget estimates to actual accounting data.

In a normal year (excluding transitions between administrations), the President begins the process of formulating the budget by establishing general budget and fiscal policy guidelines, usually by late spring of each year. Based on these guidelines, the Office of Management and Budget (OMB) works with the Federal agencies to establish specific policy directions and planning levels to guide the preparation of their budget requests.

During the formulation of the budget, the President, the Director of OMB, and other officials in the Executive Office of the President continually exchange information, proposals, and evaluations bearing on policy decisions with the Secretaries of the Departments and the heads of the other Government agencies. Decisions reflected in previously enacted budgets—including the one for the fiscal year in progress, reactions to the last proposed budget (which the Congress is considering at the same time the process of preparing the forthcoming budget begins), and evaluations of program performance—all influence decisions concerning the forthcoming budget, as do projections of the economic outlook, prepared jointly by the Council of Economic Advisers, OMB, and the Department of the Treasury.

Agencies normally submit their budget requests to OMB, where analysts review them and identify issues that OMB officials need to discuss with the agencies. OMB and the agencies resolve many issues themselves. Others require the involvement of White House policy officials and the President. This decision-making process is usually completed by late December. At that time, the final stage of developing detailed budget data and the preparation of the budget documents begins.

The decision-makers must consider the effects of economic and technical assumptions on the budget estimates. Interest rates, economic growth, the rate of inflation, the unemployment rate, and the number of people eligible for various benefit programs, among other factors, affect Government spending and receipts. Small changes in these assumptions can alter budget estimates by many billions of dollars. (The "Economic Assumptions" chapter of this volume provides more information on this subject.)

Thus, the budget formulation process involves the simultaneous consideration of the resource needs of individual programs, the allocation of resources among the agencies and functions of the Federal Government, and the total outlays and receipts that are appropriate in light of current and prospective economic conditions.

The law governing the President's Budget requires the transmittal of the following fiscal year's Budget to the Congress on or after the first Monday in January but not later than the first Monday in February of each year. The budget is usually scheduled for transmission to the Congress on the first Monday in February, giving the Congress eight months to act on the budget before the fiscal year begins. However, because a significant portion of budget formulation depends on analyzing current year funding levels, budget timing can be affected by the timing of enactment of appropriations for the current year. In addition, in years when a Presidential transition has taken place, the timeline for budget release is commonly extended to allow the new administration sufficient time to take office and formulate its budget policy. While there is no specific timeline set for this circumstance, the detailed budget is usually completed and released in April or May. However, in order to aid the congressional budget process (discussed below), new administrations often release a budget blueprint that contains broad spending outlines and descriptions of major policies and priorities earlier in the year.

Congressional Action[1]

The Congress considers the President's Budget proposals and approves, modifies, or disapproves them. It can change funding levels, eliminate programs, or add programs not requested by the President. It can add or eliminate taxes and other sources of receipts or make other changes that affect the amount of receipts collected. The Congress does not enact a budget as such. Through the process of adopting a planning document called a budget resolution, the Congress agrees on targets for total spending and receipts, the size of the deficit or surplus, and the debt limit. The budget resolution provides the framework within which individual congressional committees prepare appropriations bills and other spending and receipts legislation. The Congress provides funding for specified purposes in appropriations acts each year. It also enacts changes each year in other laws that affect spending and receipts.

In making appropriations, the Congress does not vote on the level of outlays (spending) directly, but rather on budget authority, which is the authority provided by law to incur financial obligations that will result in outlays. In a separate process, prior to making appropriations, the Congress usually enacts legislation that authorizes an agency to carry out particular programs, authorizes the appropriation of funds to carry out those programs, and, in some cases, limits the amount that can be appropriated for the programs. Some authorizing legislation expires after one year, some expires after a specified number of years, and some is permanent. The Congress may enact appropriations for a program even though there is no specific authorization for it or its authorization has expired.

The Congress begins its work on its budget resolution shortly after it receives the President's Budget. Under the procedures established by the Congressional Budget Act of 1974 (Congressional Budget Act), the Congress decides on budget targets before commencing action on individual appropriations. The Congressional Budget Act requires each standing committee of the House and Senate to recommend budget levels and report legislative plans concerning matters within the committee's jurisdiction to the Budget Committee in each body. The House and Senate Budget Committees then each design and report, and each body then considers, a concurrent resolution on the budget. The Act calls for the House and Senate to resolve differences between their respective versions of the congressional budget resolution and adopt a single budget resolution by April 15 of each year.

In the report on the budget resolution, the Budget Committees allocate the total on-budget budget authority and outlays set forth in the resolution to the Appropriations Committees and the other committees that have jurisdiction over spending. These committee allocations are commonly known as "302(a)" allocations, in reference to the section of the Congressional Budget Act that provides for them. The Appropriations Committees are then required to divide their 302(a) allocations of budget authority and outlays among their subcommittees. These subcommittee allocations are known as "302(b)" allocations. There are procedural hurdles associated with considering appropriations bills that would breach an Appropriations subcommittee's 302(b) allocation. Similar procedural hurdles exist for considering legislation that would cause the 302(a) allocation for any committee to be breached. The Budget Committees' reports may discuss assumptions about the

[1] For a fuller discussion of the congressional budget process, see Saturno, James, "Introduction to the Federal Budget Process," *Congressional Research Service* (2023), *https://www.congress.gov/crs-product/R46240*, as well as Keith, Robert and Allen Schick, "Manual on the Federal Budget Process," *Congressional Research Service* (1998), *https://budgetcounsel.com/wp-content/uploads/2017/12/crs-budget-process-manual-98-720-august-28-1998.pdf.*

Budget Calendar. Scheduled Dates for Significant Budget Events During a Normal Budget Year

Between the 1st Monday in January and the 1st Monday in February	**President Transmits Budget**
Six Weeks Later	**Congressional Committees Report Budget Estimates to Budget Committees**
April 15	**Action to be Completed on Congressional Budget Resolution**
May 15	**House Consideration of Annual Appropriations Bills May Begin Even if Budget Resolution Has Not Been Agreed to**
June 10	**House Appropriations Committee to Report the Last of its Annual Appropriations Bills**
June 15	**Action to be Completed on "Reconciliation Bill" by the Congress**
June 30	**Action on Appropriations to be Completed by House**
July 15	**President Transmits Mid-Session Review of the Budget**
October 1	**Fiscal Year Begins**

level of funding for major programs. While these assumptions do not bind the other committees and subcommittees, they may influence their decisions.

Budget resolutions may include "reserve funds," which permit adjustment of the resolution allocations as necessary to accommodate legislation addressing specific matters, such as healthcare or tax reform. Reserve funds are most often limited to legislation that is deficit neutral, including increases in some areas offset by decreases in others. The budget resolution may also contain "reconciliation directives" (discussed further below).

Since the concurrent resolution on the budget is not a law, it does not require the President's approval. However, the Congress considers the President's views in preparing budget resolutions, because legislation developed to meet congressional budget allocations does require the President's approval. In some years, the President and the joint leadership of the Congress have formally agreed on plans to reduce the deficit. These agreements were then reflected in the budget resolution and legislation passed for those years.

If the Congress does not pass a budget resolution, the House and Senate typically adopt one or more "deeming resolutions" in the form of a simple resolution or as a provision of a larger bill. A deeming resolution may serve nearly all functions of a budget resolution, except it may not trigger reconciliation procedures in the Senate.

Once the Congress approves the budget resolution, it turns its attention to enacting appropriations bills and authorizing legislation. The Appropriations Committee in each body has jurisdiction over annual appropriations. These committees are divided into subcommittees that hold hearings and review detailed budget justification materials prepared by the Executive Branch agencies within the subcommittee's jurisdiction. After a bill has been drafted by a subcommittee, the full committee and the whole House, in turn, must approve the bill, sometimes with amendments to the original version. The House then forwards the bill to the Senate, where a similar review follows. If the Senate disagrees with the House on particular matters in the bill, which is often the case, the two bodies form a conference committee (consisting of some Members of each body) to resolve the differences. The conference committee revises the bill and returns it to both bodies for approval. When the revised bill is agreed to, first in the House and then in the Senate, the Congress sends it to the President for approval or veto.

Since 1977, when the start of the fiscal year was established as October 1, there have been only three fiscal years (1989, 1995, and 1997) for which the Congress agreed to and enacted every regular appropriations bill by that date. When one or more appropriations bills are not enacted by this date, the Congress usually enacts a joint resolution called a "continuing resolution" (CR), which is an interim or stop-gap appropriations bill that provides authority for the affected agencies to continue operations at some specified level until a specific date or until the regular appropriations are enacted. Occasionally, a CR has funded a portion or all of the Government for the entire year.

The Congress must present these CRs to the President for approval or veto. In some cases, Congresses have failed to pass a CR or Presidents have rejected CRs because they contained unacceptable provisions. Left without funds, Government agencies were required by law to shut down operations—with exceptions for some limited activities—until the Congress passed a CR or appropriations bill the President would approve. Previous shutdowns have ranged in duration from just one day to several weeks.

The Congress also provides budget authority in laws other than appropriations acts. In fact, while annual appropriations acts fund the majority of Federal programs, they account for only about a third of the total spending in a typical year. Authorizing legislation controls the rest of the spending, which is commonly called "mandatory spending." A distinctive feature of these authorizing laws is that they provide agencies with the authority or requirement to spend money without first requiring the Appropriations Committees to enact funding. This category of spending includes interest the Government pays on the public debt and the spending of several major programs, such as Social Security, Medicare, Medicaid, unemployment insurance, and Federal employee retirement. Almost all taxes and most other receipts also result from authorizing laws.

Some authorizing legislation making changes to laws that affect receipts or mandatory spending may be developed under a unique set of procedures known as reconciliation. The budget resolution often includes reconciliation directives, which direct each designated authorizing committee to report amendments to the laws under the committee's jurisdiction that would achieve changes in the levels of receipts or mandatory spending controlled by those laws. These directives specify the dollar amount of changes that each designated committee is expected to achieve, but do not specify which laws are to be changed or the changes to be made. However, the Budget Committees' reports on the budget resolution frequently discuss assumptions about how the laws would be changed. Like other assumptions in the report, they do not bind the committees of jurisdiction but may influence their decisions. A reconciliation instruction may also specify the total amount by which the statutory limit on the public debt is to be changed.

The committees subject to reconciliation directives draft the implementing legislation. Such legislation may, for example, change the tax code, revise benefit formulas or eligibility requirements for benefit programs, or authorize Government agencies to charge fees to cover some of their costs. Reconciliation bills are typically omnibus legislation, combining the legislation submitted by each reconciled committee in a single act.

The Senate considers such omnibus reconciliation acts under expedited procedures that limit total debate on the bill. To offset the procedural advantage gained by expedited procedures, the Senate places significant restrictions on the substantive content of the reconciliation measure itself, as well as on amendments to the measure. Any material in the bill that is extraneous or that contains changes to the Federal Old-Age and Survivors Insurance and the Federal Disability Insurance programs is not in order under the Senate's expedited reconciliation procedures. Non-germane amendments are also prohibited. Reconciliation acts, together with appropriations acts for the year, are usually used to implement broad agreements between the President and the Congress on those occasions where the two branches have negotiated a comprehensive budget plan. Reconciliation acts have sometimes included other matters, such as laws providing the means for enforcing these agreements.

Budget Execution

Government agencies may not spend or obligate more than the Congress has appropriated, and they may use funds only for purposes specified in law. The Antideficiency Act prohibits agencies from spending or obligating funds in advance or in excess of an appropriation, unless specific authority to do so has been provided in law. The Antideficiency Act also requires the President to apportion the budgetary resources available for most executive branch agencies. The President has delegated this authority to OMB. Some apportionments are by time periods (usually by quarter of the fiscal year), some are by projects or activities, and others are by a combination of both. Agencies may request OMB to reapportion funds during the year to accommodate changing circumstances. This system helps to ensure that funds do not run out before the end of the fiscal year.

During the budget execution phase, the Government sometimes finds that it needs more funding than the Congress has appropriated for the fiscal year because of unanticipated circumstances. For example, more might be needed to respond to a severe natural disaster. Under such circumstances, the Congress may enact a supplemental appropriation.

On the other hand, the President may propose to reduce a previously enacted appropriation, through a "rescission" or "cancellation" of those funds. How the President proposes this reduction determines whether it is considered a rescission or a cancellation. A rescission is a reduction in previously enacted appropriations proposed pursuant to the Impoundment Control Act (ICA). The ICA allows the President, using the specific authorities in that Act, to transmit a "special message" to the Congress to inform Members of these proposed rescissions, at which time the funding can be withheld from obligation for up to 45 days on the OMB-approved apportionment. Agencies are instructed not to withhold funds without the prior approval of OMB. If the Congress does not act to rescind these funds within the 45-day period, the funds are made available for obligation. In 2025, the President proposed, and the Congress enacted, $9.4 billion in rescissions from previously enacted appropriations.

The President can also propose reductions to previously enacted appropriations outside of the ICA; in these cases, these reductions are referred to as cancellations. Cancellation proposals are not subject to the requirements and procedures of the ICA and amounts cannot be withheld from obligation. The 2027 President's Budget includes $27.9 billion in proposed cancellations.

Coverage of the Budget

Federal Government and Budget Totals

The budget documents provide information on all Federal agencies and programs. However, because the laws governing Social Security (the Federal Old-Age and Survivors Insurance and the Federal Disability Insurance trust funds) and the Postal Service Fund require that the receipts and outlays for those activities be excluded from the budget totals and from the calculation of the deficit or surplus, the budget presents on-budget and off-budget totals. The off-budget totals include the Federal transactions excluded by law from the budget totals. The on-budget and off-budget amounts are added together to derive the totals for the Federal Government. These are sometimes referred to as the unified or consolidated budget totals.

It is not always obvious whether a transaction or activity should be included in the budget. Where there is a question, OMB normally follows the recommendation of the 1967 President's Commission on Budget Concepts to be comprehensive of the full range of Federal agencies, programs, and activities. In recent years, for example, the budget has included the transactions of the Affordable Housing Program funds, the Universal Service Fund, the Public Company Accounting Oversight Board, the Securities Investor Protection Corporation, Guaranty Agencies Reserves, the National Railroad Retirement Investment Trust, the United Mine Workers Combined Benefits Fund, the Federal Financial Institutions Examination Council, Electric Reliability Organizations (EROs) established pursuant to the Energy Policy Act of 2005, the Corporation for Travel Promotion, and the National Association of Registered Agents and Brokers.

In contrast, the budget excludes tribal trust funds that are owned by Indian Tribes and held and managed by the Government in a fiduciary capacity on the Tribes' behalf. These funds are not owned by the Government, the Government is not the source of their capital, and the Government's control is limited to the exercise of fiduciary duties. Similarly, the transactions of Government-sponsored enterprises, such as the Federal Home Loan Banks, are not included in the on-budget or off-budget totals. Federal laws established these enterprises for public policy purposes, but they are privately owned and operated corporations. Nevertheless, because of their public charters, the budget discusses them and reports summary financial data in the Budget *Appendix* and in some detailed tables.

The budget also excludes the revenues from copyright royalties and spending for subsequent payments to copyright holders where: 1) the law allows copyright owners and users to voluntarily set the rate paid for the use of protected material; and 2) the amount paid by users of copyrighted material to copyright owners is related to the frequency or quantity of the material used. The budget excludes license royalties collected and paid out by the Copyright Office for the retransmission of network broadcasts via cable collected under 17 U.S.C. 111 because these revenues meet both of these conditions. The budget includes the royalties collected and paid out for license fees for digital audio recording technology under 17 U.S.C. 1004, since the amount of license fees paid is unrelated to usage of the material.

The *Appendix* includes a presentation for the Board of Governors of the Federal Reserve System for information only. The amounts are not included in either the on-budget or off-budget totals because of the independent status of the System within the Government. However, the Federal Reserve System transfers its net earnings to the Treasury, and the budget records them as receipts.

The "Coverage of the Budget" chapter of this volume provides more information on this subject.

Table 06—1. Totals for the Budget and the Federal Government

In Billions of Dollars

	2025 Actual
Budget authority	
Unified	7,602
On-budget	6,163
Off-budget	1,439
Receipts:	
Unified	5,236
On-budget	3,953
Off-budget	1,284
Outlays:	
Unified	7,011
On-budget	5,580
Off-budget	1,432
Deficit (–) / Surplus (+):	
Unified	–1,775
On-budget	–1,627
Off-budget	–148

How the Budget Measures Costs

A budget is a financial plan for allocating resources—deciding how much the Federal Government should spend in total, program by program, and for the parts of each program, and deciding how to finance the spending. The budgetary system provides a process for proposing policies, making decisions, implementing these policies, and reporting the results. The budget needs to measure costs accurately so that decision makers can compare the cost of a program with its benefits, the cost of one program with another, and the cost of one method of reaching a specified goal with another. Furthermore, these costs need to be fully included in the budget up front, when the spending decision is made, so that executive and congressional decision makers have the necessary information and the incentive to take the total costs into account when setting priorities. Finally, the budget needs to differentiate between transactions that allocate resources—and therefore represent a cost to the Government—and transactions that finance those costs. (See "Means of Financing" later in this chapter for additional details.)

For most programs, the most transparent and easily comparable measure of cost to the Government (or value, in terms of revenues) are cash outlays and cash receipts. The budget records these outlays and receipts in full, as they occur; this approach is often referred to as "cash budgeting" or "the cash budget." In addition to facilitating comparisons between competing programs, cash budgeting has the benefit of producing intuitive aggregate totals, as the difference between spending and revenue in a given year is equal to that year's deficit or surplus. The cash budget also aligns with the requirements of the recording statute (31 U.S.C. 1501), which directs agencies to record their obligations in full, against available resources, as they are incurred. The primary exception to the cash budget is provided for Federal credit programs. (See "Federal Credit" later in this chapter for additional details.)

Unlike private sector accounting, or most State and local government budgeting, the Federal budget does not differentiate between capital and operating costs. The budget records capital investment on a cash basis, and it requires the Congress to provide budget authority before an agency can obligate the Government to make a cash outlay. However, the budget measures only costs, and the benefits with which these costs are compared, based on policy makers' judgment, must be presented in supplementary materials. By these means, the budget allows the total cost of capital investment to be compared up front in a rough way with the total expected future net benefits; this is similar to the way in which policy makers are able to compare operating costs with the benefits of that spending. In addition, such a comparison of total costs with benefits is consistent with the formal method of cost-benefit analysis of capital projects in Government, in which the full cost of a capital asset as the cash is paid out is compared with the full stream of future benefits (all in terms of present values). (The "Federal Investment" chapter of this volume provides more information on capital investment.)

Functional Classification

The functional classification system is used to organize budget authority, outlays, and other budget data according to the major purpose served—such as agriculture, transportation, income security, and national defense. There are 20 major functions, 17 of which are concerned with broad areas of national need and are further divided into subfunctions. For example, the Agriculture function comprises the subfunctions Farm Income Stabilization and Agricultural Research and Services. The functional classification meets the Congressional Budget Act requirement for a presentation in the budget by national needs and agency missions and programs. The remaining three functions—Net Interest, Undistributed Offsetting Receipts, and Allowances—enable the functional classification system to cover the entire Federal budget.

The following criteria are used in establishing functional categories and assigning activities to them:

- A function encompasses activities with similar purposes, emphasizing what the Federal Government seeks to accomplish rather than the means of accomplishment, the objects purchased, the clientele or geographic area served (except in the cases of functions 450 for Community and Regional Development, 570 for Medicare, 650 for Social Security, and 700 for Veterans Benefits and Services), or the Federal agency conducting the activity (except in the case of subfunction 051 in the National Defense function, which is used only for defense activities under the Department of War).
- A function must be of continuing national importance, and the amounts attributable to it must be significant.
- Each basic unit being classified (generally the appropriation or fund account) usually is classified according to its primary purpose and assigned to only one subfunction. However, some large accounts that serve more than one major purpose are subdivided into two or more functions or subfunctions.

In consultation with the Congress, the functional classification is adjusted from time to time as warranted. Detailed functional tables, which provide information on Government activities by function and subfunction, are available in the *Analytical Perspectives* volume online.

Agencies, Accounts, Programs, Projects, and Activities

Various summary tables in the *Analytical Perspectives* volume of the Budget provide information on budget authority, outlays, and offsetting collections and receipts arrayed by Federal agency. A table that lists budget authority and outlays by budget account within each agency and the totals for each agency of budget authority, outlays, and receipts that offset the agency spending totals is available in the *Analytical Perspectives* volume online. The *Appendix* provides budgetary, financial, and descriptive information about programs, projects, and activities by account within each agency.

Types of Funds

Agency activities are financed through Federal funds and trust funds.

Federal funds comprise several types of funds. Receipt accounts of the ***general fund***, which is the greater part of the budget, record receipts not earmarked by law for a specific purpose, such as income tax receipts. The general fund also includes the proceeds of general borrowing. General fund appropriation accounts record general fund expenditures. General fund appropriations draw from general fund receipts and borrowing collectively and, therefore, are not specifically linked to receipt accounts.

Special funds consist of receipt accounts for Federal fund receipts that laws have designated for specific purposes and the associated appropriation accounts for the expenditure of those receipts.

Public enterprise funds are revolving funds used for programs authorized by law to conduct a cycle of business-type operations, primarily with the public, in which outlays generate collections.

Intragovernmental funds are revolving funds that conduct business-type operations primarily within and between Government agencies. The collections and the outlays of revolving funds are recorded in the same budget account.

Trust funds account for the receipt and expenditure of monies by the Government for carrying out specific purposes and programs in accordance with the terms of a statute that designates the fund as a trust fund (such as the Highway Trust Fund) or for carrying out the stipulations of a trust where the Government itself is the beneficiary (such as any of several trust funds for gifts and donations for specific purposes). *Trust revolving funds* are trust funds credited with collections earmarked by law to carry out a cycle of business-type operations.

The Federal budget meaning of the term "trust," as applied to trust fund accounts, differs significantly from its private-sector usage. In the private sector, the beneficiary of a trust usually owns the trust's assets, which are managed by a trustee who must follow the stipulations of the trust. In contrast, the Federal Government owns the assets of most Federal trust funds, and it can raise or lower future trust fund collections and payments, or change the purposes for which the collections are used, by changing existing laws. There is no substantive difference between a trust fund and a special fund or between a trust revolving fund and a public enterprise revolving fund.

However, in some instances, the Government does act as a true trustee of assets that are owned or held for the benefit of others. For example, it maintains accounts on behalf of individual Federal employees in the Thrift Savings Fund, investing them as directed by the individual employee. The Government accounts for such funds in *deposit funds*, which are not included in the budget. (The "Trust Funds and Federal Funds" chapter of this volume provides more information on this subject.)

Receipts, Offsetting Collections, and Offsetting Receipts

In General

The budget records amounts collected by Government agencies two different ways. Depending on circumstances, they are recorded as either:

Governmental Receipts

Governmental receipts are compared in total to outlays (net of offsetting collections and offsetting receipts) in calculating the surplus or deficit; or

Offsetting Collections or Offsetting Receipts

Offsetting collections or offsetting receipts are deducted from gross outlays to calculate net outlay figures. These amounts are recorded as offsets to outlays so that the budget totals represent governmental rather than market activity and reflect the Government's net transactions with the public. They are recorded in one of two ways, based on interpretation of laws and long-standing budget concepts and practice. They are offsetting collections when the collections are authorized by law to be credited to expenditure accounts. Otherwise, they are deposited in receipt accounts and called offsetting receipts.

Offsetting collections and offsetting receipts result from any of the following types of transactions:

- *Business-like transactions or market-oriented activities with the public.* These include voluntary collections from the public in exchange for goods or services, such as the proceeds from the sale of postage stamps, the fees charged for admittance to recreation areas, and the proceeds from the sale of Government-owned land; and reimbursements for damages. The budget records these amounts as offsetting collections from non-Federal sources (for offsetting collections) or as proprietary receipts (for offsetting receipts).
- *Intragovernmental transactions.* Collections from other Federal Government accounts. The budget records collections by one Government account from another as offsetting collections from Federal sources (for offsetting collections) or as intragovernmental receipts (for offsetting receipts). For example, the General Services Administration rents office space to other Government agencies and records their rental payments as offsetting collections from Federal sources in the Federal Buildings Fund. These transactions are exactly offsetting and do not affect the surplus or deficit. However, they are an important accounting mechanism for allocating costs to the programs and activities that cause the Government to incur the costs.
- *Voluntary gifts and donations.* Gifts and donations of money to the Government, which are treated as offsets to budget authority and outlays.

Offsetting Governmental Transactions

Collections from the public that are governmental in nature and should conceptually be treated like Federal revenues and compared in total to outlays (e.g., tax receipts, regulatory fees, compulsory user charges, custom duties, license fees) but are required by law or longstanding practice to be misclassified as offsetting. The budget records amounts from non-Federal sources that are governmental in nature as *offsetting governmental collections* (for offsetting collections) or as *offsetting governmental receipts* (for offsetting receipts).

Governmental Receipts

Governmental receipts are collections that result from the Government's exercise of its sovereign power to tax or otherwise compel payment. Sometimes they are called receipts, budget receipts, Federal receipts, or Federal revenues. They consist mostly of individual and corporation income taxes and social insurance taxes, but also include excise taxes, compulsory user charges, regulatory fees, customs duties, court fines, certain license fees, and deposits of earnings by the Federal Reserve System. Total receipts for the Federal Government include both on-budget and off-budget receipts (see Table 6–1, "Totals for the Budget and the Federal Government," which appears earlier in this chapter.) The "Governmental Receipts" chapter of this volume provides more information on governmental receipts.

Offsetting Collections

Some laws authorize agencies to credit collections directly to the account from which they will be spent and, usually, to spend the collections for the purpose of the account without further action by the Congress. Most revolving funds operate with such authority. For example, a permanent law authorizes the Postal Service to use collections from the sale of stamps to finance its operations without a requirement for annual appropriations. The budget records these collections in the Postal Service Fund (a revolving fund) and records budget authority in an amount equal to the collections. In addition to revolving funds, some agencies are authorized to charge fees to defray a portion of costs for a program that are otherwise financed by appropriations from the general fund and usually to spend the collections without further action by the Congress. In such cases, the budget records the offsetting collections and resulting budget authority in the program's general fund expenditure account. Similarly, intragovernmental collections authorized by some laws may be recorded as offsetting collections and budget authority in revolving funds or in general fund expenditure accounts.

Sometimes appropriations acts or provisions in other laws limit the obligations that can be financed by offsetting collections. In those cases, the budget records budget authority in the amount available to incur obligations, not in the amount of the collections.

Offsetting collections credited to expenditure accounts automatically offset the outlays at the expenditure account level. Where accounts have offsetting collections, the budget shows the budget authority and outlays of the account both gross (before deducting offsetting collections) and net (after deducting offsetting collections). Totals for the agency, subfunction, and overall budget are net of offsetting collections.

Offsetting Receipts

Collections that are offset against gross outlays but are not authorized to be credited to expenditure accounts are credited to receipt accounts and are called offsetting receipts. Offsetting receipts are deducted from budget authority and outlays in arriving at total net budget authority and outlays. However, unlike offsetting collections credited to expenditure accounts, offsetting receipts do not offset budget authority and outlays at the account level. In most cases, they offset budget authority and outlays at the agency and subfunction levels.

Proprietary receipts from a few sources, however, are not offset against any specific agency or function and are classified as undistributed offsetting receipts. They are deducted from the Government-wide totals for net budget authority and outlays. For example, the collections of rents and royalties from outer continental shelf lands are undistributed because the amounts are large and for the most part are not related to the spending of the agency that administers the transactions and the subfunction that records the administrative expenses.

Similarly, two kinds of intragovernmental transactions—agencies' payments as employers into Federal employee retirement trust funds and interest received by trust funds—are classified as undistributed offsetting receipts. They appear instead as special deductions in computing total net budget authority and outlays for the Government rather than as offsets at the agency level. This special treatment is necessary because the amounts are so large they would distort measures of the agencies' activities if they were attributed to the agency.

User Charges

User charges are fees assessed on individuals or organizations for the provision of Government services and for the sale or use of Government goods or resources. The payers of the user charge must be limited in the authorizing legislation to those receiving special benefits from, or subject to regulation by, the program or activity beyond the benefits received by the general public or broad segments of the public (such as those who pay income taxes or customs duties). Policy regarding user charges is established in OMB Circular A–25, "User Charges." The term encompasses proceeds from the sale or use of Government goods and services, including the sale of natural resources (such as timber, oil, and minerals) and proceeds from asset sales (such as property, plant, and equipment). User charges are not necessarily dedicated to the activity they finance and may be credited to the general fund of the Treasury.

The term "user charge" does not refer to a separate budget category for collections. User charges are classified in the budget as receipts, offsetting receipts, or offsetting collections according to the principles explained previously.

See the "Offsetting Collections and Offsetting Receipts" chapter of this volume for more information on the classification of user charges.

Budget Authority, Obligations, and Outlays

Budget authority, obligations, and outlays are the primary benchmarks and measures of the budget control system. The Congress enacts laws that provide agencies with spending authority in the form of budget authority. Before agencies can use these resources—obligate this budget authority—the resources must be apportioned by OMB. After OMB apportions the resources, agencies can enter into binding agreements to purchase items or services or to make grants or other payments. These agreements are recorded as obligations of the United States and deducted from the amount of budgetary resources available to the agency. When payments are made, the obligations are liquidated and outlays recorded. These concepts are discussed more fully below.

Budget Authority and Other Budgetary Resources

Budget authority is the authority provided in law to enter into legal obligations that will result in immediate or future outlays of the Government. In other words, it is the amount of money that agencies are allowed to commit to be spent in current or future years. Government officials may obligate the Government to make outlays only to the extent they have been granted budget authority.

In deciding the amount of budget authority to request for a program, project, or activity, agency officials estimate the total amount of obligations they will need to incur to achieve desired goals and subtract the unobligated balances available for these purposes. The amount of budget authority requested is influenced by the nature of the programs, projects, or activities being financed. For current operating expenditures, the amount requested usually covers the needs for the fiscal year. For major procurement programs and construction projects, agencies generally must request sufficient budget authority in the first year to fully fund an economically useful segment of a procurement or project, even though it may be obligated over several years. This full funding policy is intended to ensure that the decision-makers take into account all costs and benefits at the time decisions are made to provide resources. It also avoids sinking money into a procurement or project without being certain if or when future funding will be available to complete the procurement or project, as well as saddling future agency budgets with must-pay bills to complete past projects.

Budget authority takes several forms:

- *Appropriations.* Provided in annual appropriations acts or other laws, permit agencies to incur obligations and make payments;
- *Borrowing authority.* Usually provided in permanent law, permits agencies to incur obligations but requires them to borrow funds, usually from the general fund of the Treasury, to make payments;
- *Contract authority.* Usually provided in permanent law, permits agencies to incur obligations in advance of a separate appropriation of the cash for payments or in anticipation of the collection of receipts that can be used for payments; and
- *Spending authority from offsetting collections.* Usually provided in permanent law, permits agencies to credit offsetting collections to an expenditure account, incur obligations, and make payments using the offsetting collections.

Because offsetting collections and offsetting receipts are deducted from gross budget authority, they are referred to as negative budget authority for some purposes, such as Congressional Budget Act provisions that pertain to budget authority.

Authorizing statutes usually determine the form of budget authority for a program. The authorizing statute may authorize a particular type of budget authority to be provided in appropriations acts, or it may provide one of the forms of budget authority directly, without the need for further appropriations.

An appropriation may make funds available from the general fund, special funds, or trust funds. An appropriations act may also authorize the spending of offsetting collections credited to expenditure accounts, including revolving funds. Borrowing authority is usually authorized for business-like activities where the activity being financed is expected to produce income over time with which to repay the borrowing with interest. The use of contract authority is traditionally limited to transportation programs.

New budget authority for most Federal programs is normally provided in annual appropriations acts. However, new budget authority is also made available through permanent appropriations under existing laws and does not require current action by the Congress. Much of the permanent budget authority is for trust funds, interest on the public debt, and the authority to spend offsetting collections credited to appropriation or fund accounts. For most trust funds, the budget authority is appropriated automatically under existing law from the available balance of the fund and equals the estimated annual obligations of the funds. For interest on the public debt, budget authority is provided automatically under a permanent appropriation enacted in 1847 and equals interest outlays.

Annual appropriations acts generally make budget authority available for obligation only during the fiscal year to which the act applies. However, they frequently allow budget authority for a particular purpose to remain available for obligation for a longer period or indefinitely (that is, until expended or until the program objectives have been attained). Typically, budget authority for current operations is made available for only one year, and budget authority for construction and some research projects is available for a specified number of years or indefinitely. Most budget authority provided in authorizing statutes, such as for most trust funds, is available indefinitely. If budget authority is initially provided for a limited period of availability, an extension of availability would require enactment of another law (see "Reappropriation" later in this chapter).

Budget authority that is available for more than one year and not obligated in the year it becomes available is carried forward for obligation in a following year. In some cases, an account may carry forward unobligated budget authority from more than one prior year. The sum of such amounts constitutes the account's *unobligated balance*. Most of these balances had been provided for specific uses, such as the multiyear construction of a major project, and so are not available for new programs. A small part may never be obligated or spent, primarily amounts provided for contingencies that do not occur or reserves that never have to be used.

Amounts of budget authority that have been obligated but not yet paid constitute the account's *unpaid obligations*. For example, in the case of salaries and wages, one to three weeks elapse between the time of obligation and the time of payment. In the case of major procurement and construction, payments may occur over a period of several years after the obligation is made. Unpaid obligations (which are made up of accounts payable and undelivered orders) net of the accounts receivable and unfilled customers' orders are defined by law as the *obligated balances*. Obligated balances of budget authority at the end of the year are carried forward until the obligations are paid or the balances are cancelled. (A general law provides that the obligated balance of budget authority that was made available for a definite period is automatically cancelled five years after the end of the period.) Due to such flows, a change in the amount of budget authority available in any one year may change the level of obligations and outlays for several years to come. Conversely, a change in the amount of obligations incurred from one year to the next does not necessarily result from an equal change in the amount of budget authority available for that year and will not necessarily result in an equal change in the level of outlays in that year.

The Congress usually makes budget authority available on the first day of the fiscal year for which the appropriations act is passed. Occasionally, the appropriations language specifies a different timing. The language may provide an *advance appropriation*—budget authority that does not become available until one fiscal year or more beyond the fiscal year for which the appropriations act is passed. *Forward funding* is budget authority that is made available for obligation beginning in the last quarter of the fiscal year (beginning on July 1) for the financing of ongoing grant programs during the next fiscal year. This kind of funding is used mostly for education programs, so that obligations for education grants can be made prior to the beginning of the next school year. For certain benefit programs funded by annual appropriations, the appropriation provides for *advance funding*—budget authority that is to be charged to the appropriation in the succeeding year, but which authorizes obligations to be incurred in the last quarter of the current fiscal year if necessary to meet benefit payments in excess of the specific amount appropriated for the year. When such authority is used, an adjustment is made to increase the budget authority for the fiscal year in which it is used and to reduce the budget authority of the succeeding fiscal year.

Provisions of law that extend into a new fiscal year the availability of unobligated amounts that have expired or would otherwise expire are called *reappropriations*. Reappropriations of expired balances that are newly available for obligation in the current or budget year count as new budget authority in the fiscal year in which the balances become newly available. For example, if a 2027 appropriations act extends the availability of unobligated budget authority that expired at the end of 2026, new budget authority would be recorded for 2027. This scorekeeping is used because a reappropriation has exactly the same effect as allowing the earlier appropriation to expire at the end of 2026 and enacting a new appropriation for 2027.

The Federal Government uses budget enforcement mechanisms to control revenues, spending, and deficits (see the "Budget Process" chapter of this volume for a detailed discussion of the budget enforcement framework). For purposes of budget enforcement, the budget classifies budget authority as *discretionary* or *mandatory*. This classification indicates whether an appropriations act or authorizing legislation controls the amount of budget authority that is available. Generally, budget authority is discretionary if provided in an appropriations act and mandatory if provided in authorizing legislation. However, the budget authority provided in appropriations acts for certain specifically identified programs is also classified as mandatory by OMB and the congressional scorekeepers. This is because the authorizing legislation for these programs entitles beneficiaries—persons, households, or other levels of government—to receive payment, or otherwise legally obligates the Government to make payment and thereby effectively determines the amount of budget authority required, even though the payments are funded by a subsequent appropriation.

Sometimes, budget authority is characterized as current or permanent. Current authority requires the Congress to act on the request for new budget authority for the year involved. Permanent authority becomes available pursuant to standing provisions of law without appropriations action by the Congress for the year involved. Generally, budget authority is current if an annual appropriations act provides it and permanent if authorizing legislation provides it. By and large, the current/permanent distinction has been replaced by the discretionary/mandatory distinction, which is similar but not identical. Outlays are also classified as discretionary or mandatory according to the classification of the budget authority from which they flow (see "Outlays" later in this chapter).

The amount of budget authority recorded in the budget depends on whether the law provides a specific amount or employs a variable factor that determines the amount. It is considered *definite* if the law specifies a dollar amount (which may be stated as an upper limit; for example, "shall not exceed ..."). It is considered *indefinite* if, instead of specifying an amount, the law permits the amount to be determined by subsequent circumstances. For example, indefinite budget authority is provided for interest on the public debt, payment of claims and judgments awarded by the courts against the United States, and many entitlement programs. Many of the laws that authorize collections to be credited to revolving, special, and trust funds make all of the collections available for expenditure for the authorized purposes of the fund, and such authority is considered to be indefinite budget authority because the amount of collections is not known in advance of their collection.

Obligations

Following the enactment of budget authority and the completion of required apportionment action, Government agencies incur obligations to make payments (see earlier discussion under “Budget Execution”). Agencies must record obligations when they incur a legal liability that will result in immediate or future outlays. Such obligations include the current liabilities for salaries, wages, and interest; and contracts for the purchase of supplies and equipment, construction, and the acquisition of office space, buildings, and land. For Federal credit programs, obligations are recorded in an amount equal to the estimated subsidy cost of direct loans and loan guarantees (see “Federal Credit” later in this chapter).

Outlays

Outlays are the measure of Government spending. They are payments that liquidate obligations (other than most exchanges of financial instruments, of which the repayment of debt is the prime example). The budget records outlays when obligations are paid, in the amount that is paid.

Agency, function and subfunction, and Government-wide outlay totals are stated net of offsetting collections and offsetting receipts for most budget presentations. (Offsetting receipts from a few sources do not offset any specific function, subfunction, or agency, as explained previously, but only offset Government-wide totals.) Outlay totals for accounts with offsetting collections are stated both gross and net of the offsetting collections credited to the account. However, the outlay totals for special and trust funds with offsetting receipts are not stated net of the offsetting receipts. In most cases, these receipts offset the agency, function, and subfunction totals but do not offset account-level outlays. However, when general fund payments are used to finance trust fund outlays to the public, the associated trust fund receipts are netted against the bureau totals to prevent double-counting budget authority and outlays at the bureau level.

The Government usually makes outlays in the form of cash (currency, checks, or electronic fund transfers). However, in some cases agencies pay obligations without disbursing cash, and the budget nevertheless records outlays for the equivalent method. For example, the budget records outlays for the full amount of Federal employees’ salaries, even though the cash disbursed to employees is net of Federal and State income taxes withheld, retirement contributions, life and health insurance premiums, and other deductions. (The budget also records receipts for the amounts withheld from Federal employee paychecks for Federal income taxes and other payments to the Government.) When debt instruments (bonds, debentures, notes, or monetary credits) are used in place of cash to pay obligations, the budget records outlays financed by an increase in agency debt. For example, the budget records the acquisition of physical assets through certain types of lease-purchase arrangements as though a cash disbursement were made for an outright purchase. The transaction creates a Government debt, and the cash lease payments are treated as repayments of principal and interest.

The budget records outlays for the interest on the public issues of Treasury debt securities as the interest accrues, not when the cash is paid. A small portion of Treasury debt consists of inflation-indexed securities, which feature monthly adjustments to principal for inflation and semi-annual payments of interest on the inflation-adjusted principal. As with fixed-rate securities, the budget records interest outlays as the interest accrues. The monthly adjustment to principal is recorded, simultaneously, as an increase in debt outstanding and an outlay of interest.

Most Treasury debt securities held by trust funds and other Government accounts are in the Government account series. The budget normally states the interest on these securities on a cash basis. When a Government account is invested in Federal debt securities, the purchase price is usually close or identical to the par (face) value of the security. The budget generally records the investment at par value and adjusts the interest paid by Treasury and collected by the account by the difference between purchase price and par, if any.

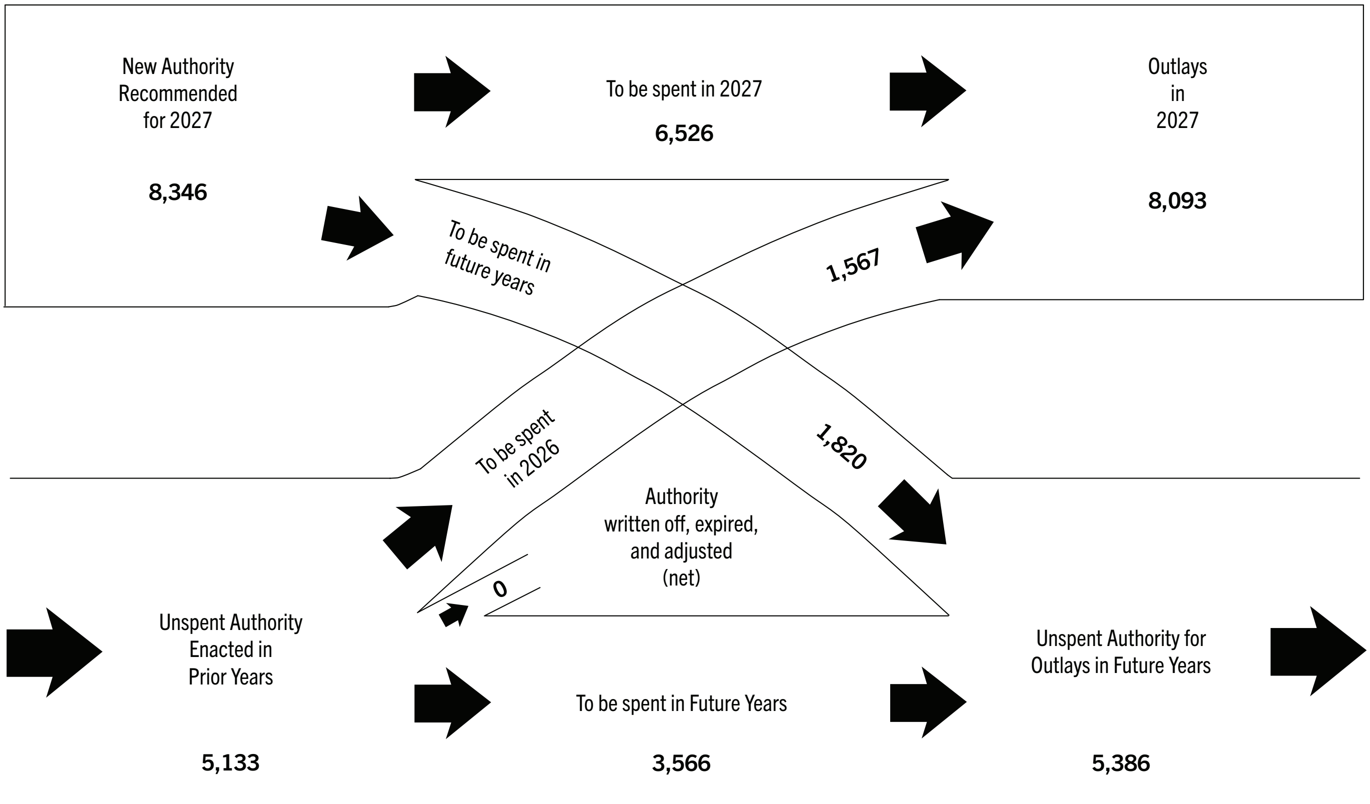
For Federal credit programs, outlays are equal to the subsidy cost of direct loans and loan guarantees and are recorded as the underlying loans are disbursed (see “Federal Credit” later in this chapter).

The budget records refunds of receipts that result from overpayments by the public (such as income taxes withheld in excess of tax liabilities) as reductions of receipts, rather than as outlays. However, the budget records payments to taxpayers for refundable tax credits (such as earned income tax credits) that exceed the taxpayer’s tax liability as outlays. Similarly, when the Government makes overpayments that are later returned to the Government, those refunds to the Government are recorded as offsetting collections or offsetting receipts, not as governmental receipts.

Not all of the new budget authority for 2027 will be obligated or spent in 2027. Outlays during a fiscal year may liquidate obligations incurred in the same year or in prior years. Obligations, in turn, may be incurred against budget authority provided in the same year or against unobligated balances of budget authority provided in prior years. Outlays, therefore, flow in part from budget authority provided for the year in which the money is spent and in part from budget authority provided for prior years. The ratio of a given year’s outlays resulting from budget authority enacted in that or a prior year to the original amount of that budget authority is referred to as the outlay rate for that year.

Figure 06—1. Relationship of Budget Authority to Outlays for 2027

In Billions of Dollars



As shown in the accompanying chart, $6,526 billion of outlays in 2027 (81 percent of the outlay total) will be made from that year's $8,346 billion total of proposed new budget authority (a first-year outlay rate of 78 percent). Thus, the remaining $1,567 billion of outlays in 2027 (19 percent of the outlay total) will be made from budget authority enacted in previous years. At the same time, $1,820 billion of the new budget authority proposed for 2027 (22 percent of the total amount proposed) will not lead to outlays until future years.

As described earlier, the budget classifies budget authority and outlays as discretionary or mandatory. This classification of outlays measures the extent to which actual spending is controlled through the annual appropriations process. About 27 percent of total outlays in 2025 ($1,875 billion) were discretionary and the remaining 73 percent ($5,136 billion in 2025) were mandatory spending and net interest. Such a large portion of total spending is mandatory because authorizing rather than appropriations legislation determines net interest ($970 billion in 2025) and the spending for a few programs with large amounts of spending each year, such as Social Security ($1,575 billion in 2025) and Medicare ($988 billion in 2025).

The bulk of mandatory outlays flow from budget authority recorded in the same fiscal year. This is not necessarily the case for discretionary budget authority and outlays. For most major construction and procurement projects and long-term contracts, for example, the budget authority available at the time the projects are initiated covers the entire estimated cost of the project even though the work will take place and outlays will be made over a period extending beyond the year for which the budget authority is enacted. Similarly, discretionary budget authority for most education and job training activities is appropriated for school or program years that begin in the fourth quarter of the fiscal year. Most of these funds result in outlays in the year after the appropriation.

Federal Credit

Some Government programs provide assistance through direct loans or loan guarantees. A *direct loan* is a disbursement of funds by the Government to a non-Federal borrower under a contract that requires repayment of such funds with or without interest and includes economically equivalent transactions, such as the sale of Federal assets on credit terms. A *loan guarantee* is any guarantee, insurance, or other pledge with respect to the payment of all or a part of the principal or interest on any debt obligation of a non-Federal borrower to a non-Federal lender.

Under the budgetary treatment specified by the Federal Credit Reform Act of 1990, as amended (FCRA), the budget records obligations and outlays for direct loans and loan guarantees up front, for the net cost to the Government, rather than recording the cash flows year by year over the term of the loan. By differentiating between the net cost to the Government (which represents an allocation of resources) and the cash flows associated with the direct loan or loan guarantee (which represents the financing of that cost), FCRA treatment allows the comparison of direct loans and loan guarantees to each other, and to other methods of delivering assistance, such as grants, on an apples-to-apples basis.

The cost of direct loans and loan guarantees, sometimes called the "subsidy cost," is estimated as the present value of expected payments to and from the public over the term of the loan, discounted using appropriate Treasury interest rates.[2] Similar to most other kinds of programs, agencies can make loans or guarantee loans only if the Congress has appropriated funds sufficient to cover the subsidy costs, or provided a limitation in an appropriations act on the amount of direct loans or loan guarantees that can be made.

The budget records the subsidy cost to the Government arising from direct loans and loan guarantees—the budget authority and outlays—in *credit program accounts*. When a Federal agency disburses a direct loan or when a non-Federal lender disburses a loan guaranteed by a Federal agency, the program account disburses or outlays an amount equal to the estimated present value cost, or subsidy, to a non-budgetary *credit financing account*. The financing accounts record the actual transactions with the public. For a few programs, the estimated subsidy cost is negative because the present value of expected Government collections exceeds the present value of expected payments to the public over the term of the loan. In such cases, the financing account pays the estimated subsidy cost to the program's negative subsidy receipt account, where it is recorded as an offsetting receipt. In a few cases, the offsetting receipts of credit accounts are dedicated to a special fund established for the program and are available for appropriation for the program.

The agencies responsible for credit programs must reestimate the subsidy cost of the outstanding portfolio of direct loans and loan guarantees each year. If the estimated cost increases, the program account makes an additional payment to the financing account equal to the change in cost. If the estimated cost decreases, the financing account pays the difference to the program's downward reestimate receipt account, where it is recorded as an offsetting receipt. FCRA provides permanent indefinite appropriations to pay for upward reestimates.

If the Government modifies the terms of an outstanding direct loan or loan guarantee in a way that increases the cost as the result of a law or the exercise of administrative discretion under existing law, the program account records obligations for the increased cost and outlays the amount to the financing account. As with the original subsidy cost, agencies may incur modification costs only if the Congress has appropriated funds to cover them. A modification may also reduce costs, in which case the amounts are generally returned to the general fund, as the financing account makes a payment to the program's negative subsidy receipt account.

Credit financing accounts record all cash flows arising from direct loan obligations and loan guarantee commitments. Such cash flows include all cash flows to and from the public, including direct loan disbursements and repayments, loan guarantee default payments, fees, and recoveries on defaults. Financing accounts also record intragovernmental transactions, such as the receipt of subsidy cost payments from program accounts, borrowing and repayments of Treasury debt to finance program activities, and interest paid to or received from the Treasury. The cash flows of direct loans and of loan guarantees are recorded in separate financing accounts for programs that provide both types of credit. The budget totals exclude the transactions of the financing accounts because they do not represent an allocation of resources by the Government; rather, they affect the means of financing a budget surplus or deficit (see "Credit Financing Accounts" in the next section). The budget documents display the transactions of the financing accounts, together with the related program accounts, for information and analytical purposes.

The budgetary treatment of direct loan obligations and loan guarantee commitments made prior to 1992 was grandfathered in under FCRA. The budget records these on a cash basis in credit liquidating accounts, the same as they were recorded before FCRA was enacted. However, this exception ceases to apply if the direct loans or

[2] Present value is a standard financial concept that considers the time-value of money. That is, it accounts for the fact that a given sum of money is worth more today than the same sum would be worth in the future because interest can be earned.

loan guarantees are modified as described above. In that case, the budget records the subsidy cost or savings of the modification, as appropriate, and begins to account for the associated transactions under FCRA treatment for direct loan obligations and loan guarantee commitments made in 1992 or later.

Under the authority provided in various acts, certain activities that do not meet the definition in FCRA of a direct loan or loan guarantee are reflected pursuant to FCRA. For example, the Emergency Economic Stabilization Act of 2008 (EESA) created the Troubled Asset Relief Program (TARP) under the Department of the Treasury, and authorized Treasury to purchase or guarantee troubled assets until October 3, 2010. Under TARP, Treasury purchased equity interests in financial institutions. Section 123 of the EESA provides the Administration the authority to treat these equity investments on a FCRA basis, recording outlays for the subsidy as is done for direct loans and loan guarantees. The budget reflects the cost to the Government of TARP direct loans, loan guarantees, and equity investments consistent with the FCRA and Section 123 of EESA, which requires an adjustment to the FCRA discount rate for market risks. Similarly, Treasury equity purchases under the Small Business Lending Fund are treated pursuant to FCRA, as provided by the Small Business Jobs Act of 2010. The Coronavirus Aid, Relief, and Economic Security (CARES) Act authorized certain investments in programs and facilities established by the Federal Reserve. Section 4003 of the CARES Act provided that these amounts be treated in accordance with FCRA.

Budget Deficit or Surplus and Means of Financing

When outlays exceed receipts, the difference is a deficit, which the Government finances primarily by borrowing. When receipts exceed outlays, the difference is a surplus, and the Government automatically uses the surplus primarily to reduce debt. The Federal debt held by the public is approximately the cumulative amount of borrowing to finance deficits, less repayments from surpluses, over the Nation's history.

Borrowing is not exactly equal to the deficit, and debt repayment is not exactly equal to the surplus, because of the other transactions affecting borrowing from the public, or other means of financing, such as those discussed in this section. The factors included in the other means of financing can either increase or decrease the Government's borrowing needs (or decrease or increase its ability to repay debt). For example, the change in the Treasury operating cash balance is a factor included in other means of financing. Holding receipts and outlays constant, increases in the cash balance increase the Government's need to borrow or reduce the Government's ability to repay debt, and decreases in the cash balance decrease the need to borrow or increase the ability to repay debt. In some years, the net effect of the other means of financing is minor relative to the borrowing or debt repayment; in other years, the net effect may be significant.

Borrowing and Debt Repayment

The budget treats borrowing and debt repayment as a means of financing, not as receipts and outlays. If borrowing were defined as receipts and debt repayment as outlays, the budget would always be virtually balanced by definition. This rule applies both to borrowing in the form of Treasury securities and to specialized borrowing in the form of agency securities. The rule reflects the commonsense understanding that lending or borrowing is just an exchange of financial assets of equal value—cash for Treasury securities—and so is fundamentally different from, say, paying taxes, which involve a net transfer of financial assets from taxpayers to the Government.

In 2025, the Government borrowed $1,973 billion from the public, bringing debt held by the public to $30,167 billion. This borrowing financed the $1,775 billion deficit in that year, as well as the net impacts of the other means of financing, such as changes in cash balances and other accounts discussed below.

In addition to selling debt to the public, the Department of the Treasury issues debt to Government accounts, primarily trust funds that are required by law to invest in Treasury securities. Issuing and redeeming this debt does not affect the means of financing, because these transactions occur between one Government account and another and thus do not raise or use any cash for the Government as a whole.

(See the "Federal Borrowing and Debt" chapter of this volume for a fuller discussion of this topic.)

Exercise of Monetary Power

Seigniorage is the profit from coining money. It is the difference between the value of coins as money and their cost of production. Seigniorage reduces the Government's need to borrow. Unlike the payment of taxes or other receipts, it does not involve a transfer of financial assets from the public. Instead, it arises from the exercise of the Government's power to create money and the public's desire to hold financial assets in the form of coins. Therefore, the budget excludes seigniorage from receipts and treats it as a means of financing other than borrowing from the public. The budget also treats proceeds from the sale of gold as a means of financing, since the value of gold is determined by its value as a monetary asset rather than as a commodity.

Credit Financing Accounts

The budget records the net cash flows of credit programs in credit financing accounts. These accounts include the transactions for direct loan and loan guarantee programs, as well as the equity purchase programs under TARP that are recorded on a credit basis consistent with Section 123 of EESA. Financing accounts also record equity purchases under the Small Business Lending Fund consistent with the Small Business Jobs Act of 2010, and certain investments in programs and facilities established by the Federal Reserve consistent with Section 4003 of the CARES Act. Credit financing accounts are excluded from the budget because they are not allocations of resources by the Government (see "Federal Credit" earlier in this chapter). However, even though they do not affect the surplus or deficit, they can either increase or decrease the Government's need to borrow. Therefore, they are recorded as a means of financing.

Financing account disbursements to the public increase the requirement for Treasury borrowing in the same way as an increase in budget outlays. Financing account receipts from the public can be used to finance the payment of the Government's obligations and therefore reduce the requirement for Treasury borrowing from the public in the same way as an increase in budget receipts.

Deposit Fund Account Balances

The Treasury uses non-budgetary accounts, called deposit funds, to record cash held temporarily until ownership is determined (for example, earnest money paid by bidders for mineral leases) or cash held by the Government as agent for others (for example, State and local income taxes withheld from Federal employees' salaries and not yet paid to the State or local government, or amounts held in the Thrift Savings Fund, a defined contribution pension fund held and managed in a fiduciary capacity by the Government). Deposit fund balances may be held in the form of either invested or uninvested balances. To the extent that they are not invested, changes in the balances are available to finance expenditures without a change in borrowing and are recorded as a means of financing other than borrowing from the public. To the extent that they are invested in Federal debt, changes in the balances are reflected as borrowing from the public (in lieu of borrowing from other parts of the public) and are not reflected as a separate means of financing.

United States Quota Subscriptions to the International Monetary Fund (IMF)

The United States participates in the IMF primarily through a quota subscription. Financial transactions with the IMF are exchanges of monetary assets. When the IMF temporarily draws dollars from the U.S. quota, the United States simultaneously receives an equal, offsetting, interest-bearing, Special Drawing Right (SDR)-denominated claim in the form of an increase in the U.S. reserve position in the IMF. The U.S. reserve position in the IMF increases when the United States makes deposits in its account at the IMF when the IMF temporarily uses members' quota resources to make loans and decreases when the IMF returns funds to the United States as borrowing countries repay the IMF (and the cash flows from the reserve position to the Treasury letter of credit).

The U.S. transactions with the IMF under the quota subscriptions do not increase the deficit in any year, and the budget excludes these transfers from budget outlays and receipts, consistent with the budgetary treatment for exchanges of monetary assets recommended by the President's Commission on Budget Concepts in 1967. The only exception is that interest earnings on U.S. deposits in its IMF account are recorded as offsetting receipts. Other exchanges of monetary assets, such as deposits of cash in Treasury accounts at commercial banks, are likewise not included in the Budget. However, the Congress has historically expressed interest in showing some kind of budgetary effect for U.S. transactions with the IMF.[3]

[3] For a more detailed discussion of the history of the budgetary treatment of U.S. participation in the quota and New Arrangements to Borrow (NAB), see pages 139-141 in the *Analytical Perspectives* volume of the 2016 Budget. As discussed in that volume, the budgetary treatment of the U.S. participation in the NAB is similar to the quota. See pages 85-86 of the *Analytical Perspectives* volume of the 2018 Budget for a more complete discussion of the changes made to the budgetary presentation of quota increases in Title IX of the Department of State, Foreign Operations, and Related Programs Appropriations Act, 2016.

Basis for Budget Figures

Data for the Past Year

The past year column (2025) generally presents the actual transactions and balances as recorded in agency accounts and as summarized in the central financial reports prepared by the Department of the Treasury for the most recently completed fiscal year. Occasionally, the Budget reports corrections to data reported erroneously to Treasury but not discovered in time to be reflected in Treasury's published data. In addition, in certain cases the Budget has a broader scope and includes financial transactions that are not reported to Treasury (see the "Comparison of Actual to Estimated Totals" chapter of this volume for a summary of these differences).

Data for the Current Year

The current year column (2026) includes estimates of transactions and balances based on the amounts of budgetary resources that were available when the Budget was prepared. In cases where the Budget proposes policy changes effective in the current year, the data will also reflect the budgetary effect of those proposed changes.

Data for the Budget Year

The Budget year column (2027) includes estimates of transactions and balances based on the amounts of budgetary resources that are estimated to be available, including new budget authority requested under current authorizing legislation, and amounts estimated to result from changes in authorizing legislation and tax laws.

The Budget *Appendix* generally includes the appropriations language for the amounts proposed to be appropriated under current authorizing legislation. In a few cases, this language is transmitted later because the exact requirements are unknown when the budget is transmitted. The *Appendix* generally does not include appropriations language for the amounts that will be requested under proposed legislation; that language is usually transmitted later, after the legislation is enacted. Some tables in the budget identify the items for later transmittal and the related outlays separately. Estimates of the total requirements for the Budget year include both the amounts requested with the transmittal of the budget and the amounts planned for later transmittal.

Data for the Outyears

The Budget presents estimates for each of the nine years beyond the budget year (2028 through 2036) in order to reflect the effects of budget decisions on objectives and plans over a longer period.

Allowances

The budget may include lump-sum allowances to cover certain transactions that are expected to increase or decrease budget authority, outlays, or receipts but are not, for various reasons, reflected in the program details. For example, the budget might include an allowance to show the effect on the budget totals of a proposal that would affect many accounts by relatively small amounts, in order to avoid unnecessary detail in the presentations for the individual accounts.

Baseline

The Budget baseline is an estimate of the receipts, outlays, and deficits or surpluses that would occur if no changes were made to current laws and policies during the period covered by the Budget. Its construction is governed by rules codified in BBEDCA. The baseline assumes, with limited exceptions, that receipts and mandatory spending, which generally are authorized on a permanent basis, will continue in the future consistent with current law and policy. Funding for discretionary programs is inflated from the most recent enacted appropriations using specified inflation rates. (The "Current Services Estimates" chapter of this volume provides more information on the baseline in the 2027 Budget.)

Baseline outlays represent the amount of resources that the Government would use over the period covered by the Budget on the basis of laws currently enacted.

The baseline serves several useful purposes:

- It may warn of future problems, either for Government fiscal policy as a whole or for individual tax and spending programs.
- It may provide a starting point for formulating the President's Budget.
- It may provide a benchmark against which the President's Budget and alternative proposals can be compared to assess the magnitude of proposed changes.

Principal Budget Laws.

The Budget and Accounting Act of 1921 created the core of the current Federal budget process. Before enactment of this law, there was no annual centralized budgeting in the Executive Branch. Federal Government agencies usually sent budget requests independently to congressional committees with no coordination of the various requests in formulating the Federal Government's budget. The Budget and Accounting Act required the President to coordinate the budget requests for all Government agencies and to send a comprehensive budget to the Congress. The Congress has amended the requirements many times and portions of the Act are codified in Title 31, United States Code. The major laws that govern the budget process are as follows:

Article 1, section 8, clause 1 of the Constitution. Empowers the Congress to lay and collect taxes.

Article 1, section 9, clause 7 of the Constitution. Requires appropriations in law before money may be spent from the Treasury and the publication of a regular statement of the receipts and expenditures of all public money.

Antideficiency Act (codified in Chapters 13 and 15 of Title 31, United States Code). Prescribes rules and procedures for budget execution.

Balanced Budget and Emergency Deficit Control Act of 1985, as amended. Establishes limits on discretionary spending and provides mechanisms for enforcing mandatory spending and discretionary spending limits.

Chapter 11 of Title 31, United States Code. Prescribes procedures for submission of the President's budget and information to be contained in it.

Congressional Budget and Impoundment Control Act of 1974, as amended (Public Law 93–344). This Act comprises the:

- Congressional Budget Act of 1974, as amended, which prescribes the congressional budget process;
- Impoundment Control Act of 1974, as amended, which controls certain aspects of budget execution; and
- Federal Credit Reform Act of 1990, as amended (2 U.S.C. 661–661f), which the Budget Enforcement Act of 1990 included as an amendment to the Congressional Budget Act to prescribe the budget treatment for Federal credit programs.

Chapter 31 of Title 31, United States Code. Provides the authority for the Secretary of the Treasury to issue debt to finance the deficit and establishes a statutory limit on the level of the debt.

Chapter 33 of Title 31, United States Code. Establishes the Department of the Treasury as the authority for making disbursements of public funds, with the authority to delegate that authority to executive agencies in the interests of economy and efficiency.

Government Performance and Results Act of 1993, as amended (Public Law 103–62). Emphasizes managing for results. It requires agencies to prepare strategic plans, annual performance plans, and annual performance reports.

Statutory Pay-As-You-Go Act of 2010. Establishes a budget enforcement mechanism generally requiring that direct spending and revenue legislation enacted into law not increase the deficit.

Glossary of Budget Terms

Account. A separate financial reporting unit used by the Federal Government to record budget authority, outlays and income for budgeting or management information purposes as well as for accounting purposes. All budget (and off-budget) accounts are classified as being either expenditure or receipt accounts and by fund group. Budget (and off-budget) transactions fall within either of two fund groups: 1) Federal funds and 2) trust funds. (Cf. Federal funds group and trust funds group.)

Accrual method of measuring cost. An accounting method that records cost when the liability is incurred. As applied to Federal employee retirement benefits, accrual costs are recorded when the benefits are earned rather than when they are paid at some time in the future. The accrual method is used in part to provide data that assists in agency policymaking, but not used in presenting the overall budget of the United States Government.

Advance appropriation. Appropriations of new budget authority that become available one or more fiscal years beyond the fiscal year for which the appropriation act was passed.

Advance funding. Appropriations of budget authority provided in an appropriations act to be used, if necessary, to cover obligations incurred late in the fiscal year for benefit payments in excess of the amount specifically appropriated in the act for that year, where the budget authority is charged to the appropriation for the program for the fiscal year following the fiscal year for which the appropriations act is passed.

Agency. A Department or other establishment of the Government.

Allowance. A lump-sum included in the budget to represent certain transactions that are expected to increase or decrease budget authority, outlays, or receipts but that are not, for various reasons, reflected in the program details.

Balanced Budget and Emergency Deficit Control Act of 1985, as amended (BBEDCA). Legislation that altered the budget process, primarily by replacing the earlier fixed targets for annual deficits with a Pay-As-You-Go requirement for new tax or mandatory spending legislation and with caps on annual discretionary funding. The

Glossary of Budget Terms, Continued

Statutory Pay-As-You-Go Act of 2010, which is a standalone piece of legislation that did not directly amend the BBEDCA, reinstated a statutory pay-as-you-go rule for revenues and mandatory spending legislation.

Balances of budget authority. The amounts of budget authority provided in previous years that have not been outlayed.

Baseline. A projection of the estimated receipts, outlays, and deficit or surplus that would result from continuing current law or current policies through the period covered by the Budget.

Budget means the Budget of the United States Government, which sets forth the President's comprehensive financial plan for allocating resources and indicates the President's priorities for the Federal Government.

Budget authority (BA). The authority provided by law to incur financial obligations that will result in outlays. (For a description of the several forms of budget authority, see "Budget Authority and Other Budgetary Resources" earlier in this chapter.)

Budget Control Act of 2011. Legislation that, among other things, amended BBEDCA to reinstate discretionary spending limits on budget authority through 2021 and restored the process for enforcing those spending limits. The legislation also increased the statutory debt ceiling; created a Joint Select Committee on Deficit Reduction that was instructed to develop a bill to reduce the Federal deficit by at least $1.5 trillion over a 10-year period; and provided a process to implement alternative spending reductions in the event that legislation achieving at least $1.2 trillion of deficit reduction was not enacted.

Budget resolution. See concurrent resolution on the budget.

Budget totals. The totals included in the Budget for budget authority, outlays, receipts, and the surplus or deficit. Some presentations in the Budget distinguish on-budget totals from off-budget totals. On-budget totals reflect the transactions of all Federal Government entities except those excluded from the Budget totals by law. Off-budget totals reflect the transactions of Government entities that are excluded from the on-budget totals by law. Under current law, the off-budget totals include the Social Security trust funds (Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds) and the Postal Service Fund. The Budget combines the on-and off-budget totals to derive unified (i.e., consolidated) totals for Federal activity.

Budget year. The fiscal year for which the Budget is being considered, that is, with respect to a session of the Congress, the fiscal year of the Government that starts on October 1 of the calendar year in which that session of the Congress begins.

Budgetary resources. Amounts available to incur obligations in a given year. The term comprises new budget authority and unobligated balances of budget authority provided in previous years.

Cap. The legal limits for each fiscal year under BBEDCA on the budget authority and outlays (only if applicable) provided by discretionary appropriations.

Cap adjustment. Either an increase or a decrease that is permitted to the statutory cap limits for each fiscal year under BBEDCA on the budget authority and outlays (only if applicable) provided by discretionary appropriations only if certain conditions are met. These conditions may include providing for a base level of funding, a designation of the increase or decrease by the Congress, (and in some circumstances, the President) pursuant to a section of the BBEDCA, or a change in concepts and definitions of funding under the cap. Changes in concepts and definitions require consultation with the Congressional Appropriations and Budget Committees.

Cash equivalent transaction. A transaction in which the Government makes outlays or receives collections in a form other than cash or the cash does not accurately measure the cost of the transaction. (For examples, see the section on "Outlays" earlier in this chapter.)

Collections. Money collected by the Government that the Budget records as a governmental receipt, an offsetting collection, or an offsetting receipt.**Concurrent resolution on the budget.** The concurrent resolution adopted by the Congress to set budgetary targets for appropriations, mandatory spending legislation, and tax legislation. These concurrent resolutions are required by the Congressional Budget Act of 1974, and are generally adopted annually.

Continuing resolution. An appropriations act that provides for the ongoing operation of the Government in the absence of enacted appropriations.

Glossary of Budget Terms, Continued

Cost. Legislation or administrative actions that increase outlays or decrease receipts. (Cf. savings.)

Credit program account. A budget account that receives and obligates appropriations to cover the subsidy cost of a direct loan or loan guarantee and disburses the subsidy cost to a financing account.

Current services estimate. See Baseline.

Debt held by the public. The cumulative amount of money the Federal Government has borrowed from the public and not repaid.

Debt held by the public net of financial assets. The cumulative amount of money the Federal Government has borrowed from the public and not repaid, minus the current value of financial assets such as loan assets, bank deposits, or private-sector securities or equities held by the Government and plus the current value of financial liabilities other than debt.

Debt held by Government accounts. The debt the Department of the Treasury owes to accounts within the Federal Government. Most of it results from the surpluses of the Social Security and other trust funds, which are required by law to be invested in Federal securities.

Debt limit. The maximum amount of Federal debt that may legally be outstanding at any time. It includes both the debt held by the public and the debt held by Government accounts, but without accounting for off-setting financial assets. When the debt limit is reached, the Government cannot borrow more money until the Congress has enacted a law to increase the limit.

Deficit. The amount by which outlays exceed receipts in a fiscal year. It may refer to the on-budget, off-budget, or unified budget deficit.

Direct loan. A disbursement of funds by the Government to a non-Federal borrower under a contract that requires the repayment of such funds with or without interest. The term includes the purchase of, or participation in, a loan made by another lender. The term also includes the sale of a Government asset on credit terms of more than 90 days duration as well as financing arrangements for other transactions that defer payment for more than 90 days. It also includes loans financed by the Federal Financing Bank (FFB) pursuant to agency loan guarantee authority. The term does not include the acquisition of a federally guaranteed loan in satisfaction of default or other guarantee claims or the price support “loans” of the Commodity Credit Corporation. (Cf. loan guarantee.)

Direct spending. See mandatory spending.

Disaster funding. A discretionary appropriation that is enacted that the Congress designates as being for disaster relief. Such amounts are a cap adjustment to the limits on discretionary spending under BBEDCA, when such limits are in place. The total adjustment for this purpose cannot exceed a ceiling for a particular year that is defined as the total of the average funding provided for disaster relief over the previous 10 years (excluding the highest and lowest years) and the unused amount of the prior year’s ceiling (excluding the portion of the prior year’s ceiling that was itself due to any unused amount from the year before). Disaster relief is defined as activities carried out pursuant to a determination under section 102(2) of the Robert T. Stafford Disaster Relief and Emergency Assistance Act.

Discretionary spending. Budgetary resources (except those provided to fund mandatory spending programs) provided in appropriations acts. (Cf. mandatory spending.)

Emergency requirement. An amount that the Congress has designated as an emergency requirement. Such amounts are not included in the estimated budgetary effects of PAYGO legislation under the requirements of the Statutory Pay-As-You-Go Act of 2010, if they are mandatory or receipts. Such a discretionary appropriation that is subsequently designated by the President as an emergency requirement results in a cap adjustment to the limits on discretionary spending under BBEDCA, when such limits are in place.

Entitlement. A program in which the Federal Government is legally obligated to make payments or provide aid to any person who, or State or local government that, meets the legal criteria for eligibility. Examples include Social Security, Medicare, Medicaid, and the Supplemental Nutrition Assistance Program (formerly Food Stamps).

Federal funds group. The moneys collected and spent by the Government through accounts other than those designated as trust funds. Federal funds include general, special, public enterprise, and intragovernmental funds. (Cf. trust funds group.)

Financing account. A non-budgetary account (an account whose transactions are excluded

Glossary of Budget Terms, Continued

from the budget totals) that records all of the cash flows resulting from post-1991 direct loan obligations or loan guarantee commitments. At least one financing account is associated with each credit program account. For programs that make both direct loans and loan guarantees, separate financing accounts are required for direct loan cash flows and for loan guarantee cash flows. (Cf. liquidating account.)

Fiscal year. The Government's accounting period. It begins on October 1 and ends on September 30, and is designated by the calendar year in which it ends.

Forward funding. Appropriations of budget authority that are made for obligation starting in the last quarter of the fiscal year for the financing of ongoing grant programs during the next fiscal year.

General fund means the accounts in which are recorded governmental receipts not earmarked by law for a specific purpose, the proceeds of general borrowing, and the expenditure of these moneys.

Government-sponsored enterprises. Private enterprises that were established and chartered by the Federal Government for public policy purposes. They are classified as non-budgetary and not included in the Federal budget because they are private companies, and their securities are not backed by the full faith and credit of the Federal Government. However, the budget presents statements of financial condition for certain Government sponsored enterprises such as the Federal National Mortgage Association. (Cf. off-budget.)

Intragovernmental fund. See Revolving fund.

Liquidating account. A budget account that records all cash flows to and from the Government resulting from pre-1992 direct loan obligations or loan guarantee commitments. (Cf. financing account.)

Loan guarantee. Any guarantee, insurance, or other pledge with respect to the payment of all or a part of the principal or interest on any debt obligation of a non-Federal borrower to a non-Federal lender. The term does not include the insurance of deposits, shares, or other withdrawable accounts in financial institutions. (Cf. direct loan.)

Mandatory spending. Spending controlled by laws other than appropriations acts (including spending for entitlement programs) and spending for the Supplemental Nutrition Assistance Program, formerly food stamps. Although the Statutory Pay-As-You-Go Act of 2010 uses the term direct spending to mean this, mandatory spending is commonly used instead. (Cf. discretionary spending.)

Means of financing. Borrowing, the change in cash balances, and certain other transactions involved in financing a deficit. The term is also used to refer to the debt repayment, the change in cash balances, and certain other transactions involved in using a surplus. By definition, the means of financing are not treated as receipts or outlays and so are non-budgetary.

Obligated balance. The cumulative amount of budget authority that has been obligated but not yet outlayed. (Cf. unobligated balance.)

Obligation. A binding agreement that will result in outlays, immediately or in the future. Budgetary resources must be available before obligations can be incurred legally.

Off-budget. Transactions of the Federal Government that would be treated as budgetary had the Congress not designated them by statute as "off-budget." Currently, transactions of the Social Security trust funds and the Postal Service are the only sets of transactions that are so designated. The term is sometimes used more broadly to refer to the transactions of private enterprises that were established and sponsored by the Government, most especially "Government-sponsored enterprises" such as the Federal Home Loan Banks. (Cf. budget totals.)

Offsetting collections. Collections that, by law, are credited directly to expenditure accounts and deducted from gross budget authority and outlays of the expenditure account, rather than added to receipts. Usually, they are authorized to be spent for the purposes of the account without further action by the Congress. They result from business-like transactions with the public, including payments from the public in exchange for goods and services, reimbursements for damages, and gifts or donations of money to the Government and from intragovernmental transactions with other Government accounts. The authority to spend offsetting collections is a form of budget authority. (Cf. receipts and offsetting receipts.)

Offsetting receipts. Collections that are credited to offsetting receipt accounts and deducted from gross budget authority and outlays, rather than

Glossary of Budget Terms, Continued

added to receipts. They are not authorized to be credited to expenditure accounts. The legislation that authorizes the offsetting receipts may earmark them for a specific purpose and either appropriate them for expenditure for that purpose or require them to be appropriated in annual appropriation acts before they can be spent. Like offsetting collections, they result from business-like transactions or market-oriented activities with the public, including payments from the public in exchange for goods and services, reimbursements for damages, and gifts or donations of money to the Government and from intragovernmental transactions with other Government accounts. (Cf. receipts, undistributed offsetting receipts, and offsetting collections.)

On-budget. All budgetary transactions other than those designated by statute as off-budget. (Cf. budget totals.)

Outlay. A payment to liquidate an obligation (other than the repayment of debt principal or other disbursements that are "means of financing" transactions). Outlays generally are equal to cash disbursements, but also are recorded for cash-equivalent transactions, such as the issuance of debentures to pay insurance claims, and in a few cases are recorded on an accrual basis such as interest on public issues of the public debt. Outlays are the measure of Government spending.

Outyear estimates. Estimates presented in the Budget for the years beyond the budget year of budget authority, outlays, receipts, and other items (such as debt).

Overseas Contingency Operations/ Global War on Terrorism (OCO/ GWOT). A discretionary appropriation that is enacted that the Congress and, subsequently, the President have so designated on an account by account basis. Such a discretionary appropriation that is designated as OCO/GWOT results in a cap adjustment to the limits on discretionary spending under BBEDCA, when such limits are in place. Funding for these purposes has most recently been associated with the wars in Iraq and Afghanistan.

Pay-as-you-go (PAYGO). Requirements of the Statutory Pay-As-You-Go Act of 2010 that result in a sequestration if the estimated combined result of new legislation affecting direct spending or revenue increases the on-budget deficit relative to the baseline, as of the end of a congressional session.

Public enterprise fund. See Revolving fund.

Reappropriation. A provision of law that extends into a new fiscal year the availability of unobligated amounts that have expired or would otherwise expire.

Receipts. Collections that result from the Government's exercise of its sovereign power to tax or otherwise compel payment. They are compared to outlays in calculating a surplus or deficit. (Cf. offsetting collections and offsetting receipts.)

Revolving fund. A fund that conducts continuing cycles of business-like activity, in which the fund charges for the sale of products or services and uses the proceeds to finance its spending, usually without requirement for annual appropriations. There are two types of revolving funds: Public enterprise funds, which conduct business-like operations mainly with the public, and intragovernmental revolving funds, which conduct business-like operations mainly within and between Government agencies. (Cf. special fund and trust fund.)

Savings. Legislation or administrative actions that decrease outlays or increase receipts. (Cf. cost.)

Scorekeeping. Measuring the budget effects of legislation, generally in terms of budget authority, receipts, and outlays, for purposes of measuring adherence to the Budget or to budget targets established by the Congress, as through agreement to a Budget Resolution.

Sequestration. The cancellation of budgetary resources. The Statutory Pay-As-You-Go Act of 2010 requires such cancellations if revenue or direct spending legislation is enacted that, in total, increases projected deficits or reduces projected surpluses relative to the baseline. The Balanced Budget and Emergency Deficit Control Act of 1985, as amended, requires annual across-the-board cancellations to selected mandatory programs through 2032.

Special fund. A Federal fund account for receipts or offsetting receipts earmarked for specific purposes and the expenditure of these receipts. (Cf. revolving fund and trust fund.)

Statutory Pay-As-You-Go Act of 2010. Legislation that reinstated a statutory pay-as-you-go requirement for new tax or mandatory spending legislation. The law is a standalone piece

Glossary of Budget Terms, Continued

of legislation that cross-references BBEDCA but does not directly amend that legislation. This is a permanent law and does not expire.

Subsidy. The estimated long-term cost to the Government of a direct loan or loan guarantee, calculated on a net present value basis, excluding administrative costs and any incidental effects on governmental receipts or outlays.

Surplus. The amount by which receipts exceed outlays in a fiscal year. It may refer to the on-budget, off-budget, or unified budget surplus.

Supplemental appropriation. An appropriation enacted subsequent to a regular annual appropriations act, when the need for additional funds is too urgent to be postponed until the next regular annual appropriations act.

Trust fund. A type of account, designated by law as a trust fund, for receipts or offsetting receipts dedicated to specific purposes and the expenditure of these receipts. Some revolving funds are designated as trust funds, and these are called trust revolving funds. (Cf. special fund and revolving fund.)

Trust funds group. The moneys collected and spent by the Government through trust fund accounts. (Cf. Federal funds group.)

Undistributed offsetting receipts. Offsetting receipts that are deducted from the Government-wide totals for budget authority and outlays instead of being offset against a specific agency and function. (Cf. offsetting receipts.)

Unified budget. Includes receipts from all sources and outlays for all programs of the Federal Government, including both on-and off-budget programs. It is the most comprehensive measure of the Government's annual finances.

Unobligated balance. The cumulative amount of budget authority that remains available for obligation under law in unexpired accounts. The term "expired balances available for adjustment only" refers to unobligated amounts in expired accounts.

User charges. Charges assessed for the provision of Government services and for the sale or use of Government goods or resources. The payers of the user charge must be limited in the authorizing legislation to those receiving special benefits from, or subject to regulation by, the program or activity beyond the benefits received by the general public or broad segments of the public (such as those who pay income taxes or custom duties).

COVERAGE OF THE BUDGET 07.

The Federal budget is the central instrument of national policy making. It is the Government's financial plan for proposing and deciding the allocation of resources to serve national objectives. The budget provides information on the cost and scope of Federal activities to inform decisions and to serve as a means to control the allocation of resources. When enacted, it establishes the level of public goods and services the Government provides.

Federal Government activities can be either "budgetary" or "non-budgetary." Those activities that involve direct and measurable allocation of Federal resources are budgetary. The payments to and from the public resulting from budgetary activities are included in the Budget's accounting of outlays and receipts. Federal activities that do not involve direct and measurable allocation of Federal resources are non-budgetary and are not included in the Budget's accounting of outlays and receipts. More detailed information about outlays and receipts may be found in the "Budget Concepts" chapter of this volume.

The Budget documents include information on some non-budgetary activities because they can be important instruments of Federal policy and provide insight into the scope and nature of Federal activities. For example, the Budget documents show the transactions of the Thrift Savings Program (TSP), a collection of investment funds managed by the Federal Retirement Thrift Investment Board (FRTIB). Despite the fact that the FRTIB is budgetary and one of the TSP funds is invested entirely in Federal securities, the transactions of these funds are non-budgetary because current and retired Federal employees own the funds. The Government manages these funds only in a fiduciary capacity.

The Budget also includes information on cashflows that are a means of financing Federal activity, such as for credit financing accounts. However, to avoid double-counting, means of financing amounts are not included in the estimates of outlays or receipts because the costs of the underlying Federal activities are already reflected in the deficit.[1] This chapter provides details about the budgetary and non-budgetary activities of the Federal Government.

[1] For more information on means of financing, see the "Budget Deficit or Surplus and Means of Financing" section of the "Budget Concepts" chapter of this volume.

Budgetary Activities

The Federal Government has used the unified budget concept—which consolidates outlays and receipts from Federal funds and trust funds, including the Social Security trust funds—since 1968, starting with the 1969 Budget. The 1967 President's Commission on Budget Concepts (the Commission) recommended the change to include the financial transactions of all of the Federal Government's programs and agencies. Thus, the budget includes information on the financial transactions of all 15 Executive Departments, all agencies (from all three branches of Government), and all Government corporations.[2]

The Budget shows outlays and receipts for on-budget and off-budget activities separately to reflect the legal distinction between the two. Although there is a legal distinction between on-budget and off-budget activities, there is no difference conceptually. Off-budget Federal activities reflect the same governmental roles as on-budget activities and result in outlays and receipts. Like on-budget activities, the Government funds and controls off-budget activities. The "unified budget" reflects the conceptual similarity between on-budget and off-budget activities by showing combined totals of outlays and receipts for both.

Many Government corporations are entities with business-type operations that charge the public for services at prices intended to allow the entity to be self-sustaining, although some operate at a loss to provide subsidies to specific recipients. Often, these entities are more independent than other agencies and have limited exemptions

[2] Government corporations are Government entities that are defined as corporations pursuant to the Government Corporation Control Act, as amended (31 U.S.C. 9101), or elsewhere in law. Examples include the Commodity Credit Corporation, the Export-Import Bank of the United States, the Federal Crop Insurance Corporation, the Federal Deposit Insurance Corporation, the Millennium Challenge Corporation, the U.S. International Development Finance Corporation, the Pension Benefit Guaranty Corporation, the Tennessee Valley Authority, and the Presidio Trust (16 U.S.C. 460bb note).

from certain Federal personnel requirements to allow for flexibility.

All accounts in Table 16-1, "Federal Budget by Agencies and Accounts," of this volume are budgetary. The majority of budgetary accounts are associated with the Departments or other entities that are clearly Federal agencies. Some budgetary accounts reflect Government payments to entities that the Government created or chartered as private or non-Federal entities. Some of these entities receive all or a majority of their funding from the Government, such as Gallaudet University, Howard University, the Legal Services Corporation, the National Railroad Passenger Corporation (Amtrak), the Smithsonian Institution, and the State Justice Institute. A related example is the Standard Setting Body, which is not a federally created entity but, since 2003, has received a majority of funding through a federally-mandated assessment on public companies under the Sarbanes-Oxley Act of 2022 (Public Law 107-204). Although the Federal payments to these entities are budgetary, the entities themselves are non-budgetary.

Whether the Government created or chartered an entity does not alone determine its budgetary status. The Commission recommended that the budget be comprehensive, but it also recognized that proper budgetary classification required weighing all relevant factors regarding establishment, ownership, and control of an entity while erring on the side of inclusiveness. Generally, entities that are primarily Government owned or controlled are classified as budgetary. The Office of Management and Budget (OMB) determines the budgetary classification of entities in consultation with the Congressional Budget Office (CBO) and the Budget Committees of the Congress.

One recent example of a budgetary classification was for the Financial Oversight and Management Board for Puerto Rico, created in June 2016 by the Puerto Rico Oversight, Management, and Economic Stability Act (Public Law 114–187). By statute, this oversight board is not a department, agency, establishment, or instrumentality of the Federal Government, but is an entity within the territorial government financed entirely by the territorial government. Because the flow of funds from the Territory to the oversight board is mandated by Federal law, the Budget reflects the allocation of resources by the territorial government to the territorial entity as a receipt from the territorial government and an equal outlay to the oversight board, with net zero deficit impact. Because the oversight board itself is not a Federal entity, its operations are not included in the Budget.

Another example involves the National Association of Registered Agents and Brokers (NARAB; 15 U.S.C. 6751-64), established by statute in 2015. NARAB allows for the adoption and application of insurance licensing, continuing education, and other nonresident producer qualification requirements on a multi-State basis. In other words, NARAB streamlines the ability of a nonresident insurer to become a licensed agent in another State. In exchange for providing enhanced market access, NARAB collects fees from its members. In addition to being statutorily established—which in itself is an indication that the entity is governmental for budget purposes—NARAB's board of directors is appointed by the President and confirmed by the Senate. It must also submit bylaws and an annual report to the Department of the Treasury (Treasury) and its primary function involves exercising a regulatory function.

Off-Budget Federal Activities

Despite the Commission's recommendation that the budget be comprehensive, every year since 1971 at least one Federal program or agency has been presented as off-budget because of a legal requirement.[3] The Government funds such off-budget Federal activities and administers them according to Federal legal requirements. However, their net costs are excluded, by law, from the rest of the Budget totals, also known as the "on-budget" totals.

Off-budget Federal activities currently consist of the U.S. Postal Service and the two Social Security trust funds: Old-Age and Survivors Insurance and Disability Insurance. Social Security has been classified as off-budget since 1986 and the Postal Service has been classified as off-budget since 1990.[4] Other activities that were designated in law as off-budget at various times before 1986 have been classified as on-budget by law since at least 1985 as a result of the Balanced Budget and Emergency Deficit Control Act of 1985, as amended (Public Law 99–177). Activities that were off-budget at one time, but that are now on-budget, are classified as on-budget for all years in historical budget data.

Social Security is the largest single program in the unified budget and it is classified by law as off-budget; as a result, the off-budget accounts constitute a significant part of total Federal spending and receipts. Table 7–1 divides total Federal Government outlays, receipts, and the surplus or deficit between on-budget and off-budget amounts. Within this table, the Social Security and Postal Service transactions are classified as off-budget for all years to provide a consistent comparison over time.

[3] While the term "off-budget" is sometimes used colloquially to mean non-budgetary, the term has a meaning distinct from non-budgetary. Off-budget activities would be considered budgetary, absent legal requirement to exclude these activities from the budget totals.

[4] See 42 U.S.C. 911 and 39 U.S.C. 2009a, respectively. The off-budget Postal Service accounts consist of the Postal Service Fund, which is classified as a mandatory account, and the Office of the Inspector General and the Postal Regulatory Commission, both of which are classified as discretionary accounts. The Postal Service Retiree Health Benefits Fund is an on-budget mandatory account with the Office of Personnel Management. The off-budget Social Security accounts consist of the Federal Old-Age and Survivors Insurance Trust Fund and the Federal Disability Insurance Trust Fund, both of which have mandatory and discretionary funding.

Non-Budgetary Activities

The Government characterizes some important Government activities as non-budgetary because they do not involve the direct allocation of resources.[5] These activities can affect budget outlays or receipts even though they have non-budgetary components.

Federal Credit Programs: Budgetary and Non-Budgetary Transactions

Federal credit programs make direct loans or guarantee private loans to non-Federal borrowers. The Federal Credit Reform Act of 1990 (FCRA; 2 U.S.C. § 661-661f) established the current budgetary treatment for credit programs. Under FCRA, the budgetary cost of a credit program, known as the "subsidy cost," is the estimated lifetime cost to the Government of a loan or a loan guarantee on a net present value basis, excluding administrative costs.

Outlays equal to the subsidy cost are recorded in the Budget up front, as they are incurred—for example, when a loan is made or guaranteed. Credit program cash flows to and from the public are recorded in non-budgetary financing accounts and the information is included in Budget documents to provide insight into the program size and costs. For more information about the mechanisms of credit programs, see the "Budget Concepts" chapter of this volume. More detail on credit programs is in the "Credit and Insurance" chapter of this volume.

Deposit Funds

Deposit funds are non-budgetary accounts that record amounts held by the Government temporarily until ownership is determined (such as earnest money paid by bidders for mineral leases) or held by the Government as an agent for others (such as State income taxes withheld from Federal employees' salaries and not yet paid to the States). The largest deposit fund is the Government Securities Investment Fund (G-Fund) which is part of the TSP, the Government's defined contribution retirement plan. The FRTIB manages the fund's investment for Federal employees who participate in the TSP (which is similar to private-sector 401(k) plans). The Department of the Treasury holds the G-Fund assets, which are the property of Federal employees, only in a fiduciary capacity; the transactions of the Fund are not resource allocations by the Government and are therefore non-budgetary.[6] For similar reasons, Native American-owned funds that are held and managed in a fiduciary capacity are also excluded from the Budget.

Government-Sponsored Enterprises (GSEs)

GSEs are privately owned and therefore distinct from Government corporations. The Federal Government has chartered GSEs such as the Federal National Mortgage Association (Fannie Mae), the Federal Home Loan Mortgage Corporation (Freddie Mac), the Federal Home Loan Banks, the Farm Credit System, and the Federal Agricultural Mortgage Corporation, to provide financial intermediation for specified public purposes. Although federally chartered to serve public-policy purposes, GSEs are classified as non-budgetary because they are intended to be privately owned and controlled—with any public benefits accruing indirectly from the GSEs' business transactions. Estimates of the GSEs' activities can be found in a separate chapter of the Budget Appendix, and their activities are discussed in the "Credit and Insurance" chapter of this volume.

In Septmber 2008, in response to the financial market crisis, the Director of the Federal Housing Finance Agency (FHFA)[7] placed Fannie Mae and Freddie Mac into conservatorship for the purpose of preserving the assets and restoring the solvency of these two GSEs. As conservator, FHFA has broad authority to direct the operations of these GSEs. However, these GSEs remain private companies with boards of directors and management responsible for their day-to-day operations. The Budget continues to treat these two GSEs as non-budgetary private entities in conservatorship rather than as Government agencies. By contrast, CBO treats these GSEs as budgetary Federal agencies. Both treatments include budgetary and non-budgetary amounts.

While OMB reflects all of the GSEs' transactions with the public as non-budgetary, the payments from the Treasury to the GSEs are recorded as budgetary outlays and dividends received by the Treasury are recorded as budgetary receipts. Under CBO's approach, the subsidy costs of Fannie Mae's and Freddie Mac's past credit activities are treated as having already been recorded in the Budget estimates; the subsidy costs of future credit activities will be recorded when the activities occur. Lending and borrowing activities between the GSEs and the public apart from the subsidy costs are treated as non-budgetary by CBO, and Treasury payments to the GSEs are intra-governmental transfers (from Treasury to the GSEs) that net to zero in CBO's budget estimates.

Overall, both the Budget's accounting and CBO's accounting present Fannie Mae's and Freddie Mac's gains and losses as Government receipts and outlays, which re-

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[5] Tax expenditures, which are discussed in the "Tax Expenditures" chapter of this volume, are an example of Government activities that could be characterized as either budgetary or non-budgetary. Tax expenditures refer to the reduction in tax receipts resulting from the special tax treatment accorded certain private activities. Because tax expenditures reduce tax receipts and receipts are budgetary, tax expenditures clearly have budgetary effects. However, the size and composition of tax expenditures are not explicitly recorded in the budget as outlays or as negative receipts and, for this reason, tax expenditures might be considered a special case of non-budgetary transactions.

[6] The administrative functions of the FRTIB are carried out by Government employees and included in the budget totals.

[7] FHFA is the regulator of Fannie Mae, Freddie Mac, and the Federal Home Loan Banks.

duce or increase Government deficits. The two approaches, however, reflect the effect of the gains and losses in the Budget at different times.

Other Federally Created Non-Budgetary Entities

In addition to the GSEs, the Federal Government has created a number of other entities that are classified as non-budgetary. These include federally funded research and development centers (FFRDCs), non-appropriated fund instrumentalities (NAFIs), and other entities; some of these are non-profit entities and some are for-profit entities.[8]

FFRDCs are entities that conduct agency-specific research under contract or cooperative agreement. Some FFRDCs were created to conduct research for the Department of War but are administered by colleges, universities, or other non-profit entities. Despite this non-budgetary classification, many FFRDCs receive direct resource allocation from the Government and are included as budget lines in various agencies. Examples of FFRDCs include the Center for Naval Analyses and the Jet Propulsion Laboratory.[9] Even though FFRDCs are non-budgetary, Federal payments to the FFRDC are budget outlays. In addition to Federal funding, FFRDCs may receive funding from non-Federal sources.

NAFIs are entities that support an agency's current and retired personnel. Nearly all NAFIs are associated with the Departments of War, Department of Homeland Security (Coast Guard), and Department of Veterans Affairs. Most NAFIs are located on military bases and include the Armed Forces exchanges (which sell goods to military personnel and their families), recreational facilities, and childcare centers. NAFIs are financed by proceeds from the sale of goods or services and do not receive direct appropriations; thus, they are characterized as non-budgetary, but any agency payments to the NAFIs are recorded as budget outlays.

A number of entities created by the Government receive a significant amount of non-Federal funding. Non-Federal individuals or organizations significantly control some of these entities. These entities include Gallaudet University, Howard University, Amtrak, and the Universal Services Administrative Company, among others. Most of these entities receive direct appropriations or other recurring payments from the Government. The appropriations or other payments are budgetary and included in Table 15-1. However, many of these entities are themselves non-budgetary. Generally, entities that receive a significant portion of funding from non-Federal sources but are not controlled by the Government are non-budgetary.

Regulation

Federal Government regulations often require the private sector or other levels of government to make expenditures for specified purposes that are intended to have public benefits, such as workplace safety and pollution control. Although the Budget reflects the Government's cost of conducting regulatory activities, the costs imposed on the private sector as a result of regulation are treated as non-budgetary and not included in the Budget. The annual Regulatory Plan and the Unified Agenda of Federal Regulatory and Deregulatory Actions describe the Government's regulatory priorities and plans.[10] OMB regularly publishes reports summarizing agency estimates of the costs and benefits of Federal regulation.[11]

Monetary Policy

As a fiscal policy tool, the budget is used by elected Government officials to promote economic growth and achieve other public policy objectives. Monetary policy is another tool that governments use to promote economic policy objectives. In the United States, the Federal Reserve System—which is composed of a Board of Governors and 12 regional Federal Reserve Banks—conducts monetary policy. The Federal Reserve Act provides that the goal of monetary policy is to "maintain long-run growth of the monetary and credit aggregates commensurate with the economy's long run potential to increase production, so as to promote effectively the goals of maximum employment, stable prices, and moderate long-term interest rates."[12]

[8] Although most entities created by the Federal Government are budgetary, the Congress and the President have chartered, but not necessarily created, approximately 100 non-profit entities that are non-budgetary. These include patriotic, charitable, and educational organizations under title 36 of the U.S. Code and foundations and trusts chartered under other titles of the Code. Title 36 corporations include the American Legion; the American National Red Cross; Big Brothers—Big Sisters of America; Scouting America; Future Farmers of America; Girl Scouts of the United States of America; the National Academy of Public Administration; the National Academies of Sciences, Engineering, and Medicine; and Veterans of Foreign Wars of the United States. Virtually all of the non-profit entities chartered by the Government existed under State law prior to the granting of a Government charter, making the Government charter an honorary rather than governing charter. A major exception to this is the American National Red Cross. Its Government charter requires it to provide disaster relief and to ensure compliance with treaty obligations under the Geneva Convention. Although any Government payments (whether made as direct appropriations or through agency appropriations) to these chartered non-profits, including the Red Cross, would be budgetary, the non-profits themselves are classified as non-budgetary. On April 29, 2015, the Subcommittee on Immigration and Border Security of the Committee on the Judiciary in the U.S. House of Representatives adopted a policy prohibiting the Congress from granting new Federal charters to private, non-profit organizations.

[9] The National Science Foundation maintains a list of FFRDCs at *https://nsf.gov/statistics/ffrdc/*.

[10] The most recent Regulatory Plan and introduction to the Unified Agenda issued by the General Services Administration's Regulatory Information Service Center are available at *https://reginfo.gov/* and at *https://gpo.gov/*.

[11] *https://whitehouse.gov/omb/information-regulatory-affairs/ reports/#ORC.*

[12] See 12 U.S.C. § 225a.

The Full Employment and Balanced Growth Act of 1978 (Humphrey-Hawkins Act; Public Law 95-523) reaffirmed the dual goals of full employment and price stability.[13]

By law, the Federal Reserve System is a self-financing entity that is independent of the Executive Branch and subject only to broad oversight by the Congress. Consistent with the recommendations of the Commission, the effects of monetary policy and the actions of the Federal Reserve System are non-budgetary, with exceptions for the transfer to the Treasury of excess income generated through its operations. The Federal Reserve System earns income from a variety of sources including interest on Government securities, foreign currency investments and loans to depository institutions, and fees for services (e.g., check clearing services) provided to depository institutions. The Federal Reserve System remits to the Treasury any excess income over expenses annually. For the fiscal year ending September 2025, Treasury recorded $5.5 billion in receipts from the Federal Reserve System.

The Board of Governors of the Federal Reserve is a Federal Government agency, but because of its independent status, its budget is not subject to Executive Branch review and is included in the Budget *Appendix* for informational purposes only. The Federal Reserve Banks are subject to Board oversight and managed by boards of directors chosen by the Board of Governors and member banks, which include all national banks and State banks that choose to become members. The budgets of the regional Banks are subject to approval by the Board of Governors and are not included in the Budget *Appendix*.

Available Online ↗

https://www.whitehouse.gov/omb/information-resources/budget/analytical-perspectives/

Table 07-1. Summary of Receipts, Outlays, and Surpluses or Deficits (—): 1789—2025

[13] See 15 U.S.C. § 3101 et seq.

GOVERNMENTAL RECEIPTS 08.

This chapter presents the Budget's estimates of taxes and governmental receipts including the effects of tax legislation enacted in 2025 and discusses the provisions of those enacted laws.

Estimates of Governmental Receipts

Governmental receipts are taxes and other collections from the public that result from the exercise of the Federal Government's sovereign or governmental powers. The difference between governmental receipts and outlays is the surplus or deficit.

The Federal Government also collects income from the public through market-oriented activities. Collections from these activities are subtracted from gross outlays, rather than added to taxes and other governmental receipts, and are discussed in the "Offsetting Collections and Offsetting Receipts" chapter of this volume.

Total governmental receipts (hereafter referred to as "receipts") are estimated to be $5,475.7 billion in 2026, an increase of $239.3 billion or 4.6 percent from 2025. The estimated increase in 2026 is largely due to increased tariff collections, along with higher social insurance and retirement receipts. Receipts in 2026 are estimated to be 17.1 percent of Gross Domestic Product (GDP).

Receipts in the 2027 Budget are estimated to rise to $5,921.0 billion in 2027, an increase of $445.2 billion or 8.1 percent relative to 2026. Receipts are projected to grow at an average annual rate of 6.3 percent between 2028 and 2031, rising to $7,559.4 billion. Receipts are projected to rise to $9,846.1 billion in 2036, growing at an average annual rate of 5.4 percent between 2032 and 2036. This growth is largely due to assumed increases in incomes resulting from both real economic growth and inflation, along with increased tariff collection and tax reforms.

As a share of GDP, receipts are projected to increase from 17.1 percent in 2026 to 17.5 percent in 2027, and to increase steadily to 18.7 percent in 2036.

Table 08—1. Receipts by Source—Summary
In Billions of Dollars

	2025 Actual	Estimate										
		2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036
Individual income taxes	2,656.0	2,629.9	2,869.3	3,074.0	3,280.0	3,564.2	3,802.7	4,043.8	4,294.9	4,546.2	4,804.3	5,069.1
Corporation income taxes	452.1	398.6	440.1	455.5	481.8	516.3	540.8	562.9	579.4	605.3	630.0	653.4
Social insurance and retirement receipts	1,748.3	1,849.8	1,934.5	2,053.9	2,158.5	2,276.4	2,395.1	2,518.8	2,675.6	2,806.0	2,954.7	3,110.3
(On-budget)	*(464.6)*	*(482.2)*	*(510.2)*	*(542.3)*	*(570.6)*	*(602.4)*	*(634.3)*	*(669.0)*	*(709.5)*	*(745.9)*	*(781.8)*	*(824.0)*
(Off-budget)	*(1,283.7)*	*(1,367.7)*	*(1,424.3)*	*(1,511.6)*	*(1,588.0)*	*(1,674.0)*	*(1,760.9)*	*(1,849.8)*	*(1,966.1)*	*(2,060.2)*	*(2,172.8)*	*(2,286.3)*
Excise taxes	105.9	105.6	107.4	107.6	110.2	113.1	113.6	114.7	116.2	116.9	120.0	123.0
Estate and gift taxes	29.5	35.8	42.0	45.1	47.5	51.6	54.7	57.8	61.5	64.8	68.7	72.7
Customs duties	194.9	406.1	464.0	479.2	500.0	524.2	551.7	575.0	600.0	625.4	652.4	681.3
Miscellaneous receipts	49.7	49.9	63.7	73.2	82.2	91.4	100.9	111.3	119.2	126.6	130.8	136.2
Total, receipts	**5,236.4**	**5,475.7**	**5,921.0**	**6,288.4**	**6,660.3**	**7,137.3**	**7,559.4**	**7,984.3**	**8,446.8**	**8,891.3**	**9,360.8**	**9,846.1**
(On-budget)	*(3,952.7)*	*(4,108.1)*	*(4,496.7)*	*(4,776.8)*	*(5,072.4)*	*(5,463.3)*	*(5,798.5)*	*(6,134.6)*	*(6,480.8)*	*(6,831.1)*	*(7,188.0)*	*(7,559.8)*
(Off-budget)	*(1,283.7)*	*(1,367.7)*	*(1,424.3)*	*(1,511.6)*	*(1,588.0)*	*(1,674.0)*	*(1,760.9)*	*(1,849.8)*	*(1,966.1)*	*(2,060.2)*	*(2,172.8)*	*(2,286.3)*
Total receipts as a percentage of GDP	17.3	17.1	17.5	17.7	17.8	18.2	18.3	18.4	18.6	18.6	18.7	18.7

Legislation Enacted in 2025 That Affects Governmental Receipts

Five laws were enacted during 2025 that affect receipts. The major provisions of those laws that have a significant impact on receipts are described below.[1]

Providing for congressional disapproval under chapter 8 of title 5, United States Code, of the rule submitted by the Environmental Protection Agency relating to “Waste Emissions Charge for Petroleum and Natural Gas Systems: Procedures for Facilitating Compliance, Including Netting and Exemptions”. (Public Law 119-2)

The Act, signed into law on March 14, 2025, repealed the Environmental Protection Agency’s November 18, 2024 rule “Waste Emissions Charge for Petroleum and Natural Gas Systems: Procedures for Facilitating Compliance, Including Netting and Exemptions.” That rule established compliance requirements under the Methane Emissions Reduction Program, which imposed an annual charge on methane and other greenhouse-gas emissions from the oil and gas sector when those emissions exceed the program’s waste-emissions thresholds.

Providing for congressional disapproval under chapter 8 of title 5, United States Code, of the rule submitted by the Internal Revenue Service relating to “Gross Proceeds Reporting by Brokers That Regularly Provide Services Effectuating Digital Asset Sales” (Public Law 119-5)

The Act, signed into law on April 10, 2026, repealed the IRS’s December 30, 2024 rule “Gross Proceeds Reporting by Brokers That Regularly Provide Services Effectuating Digital Asset Sales,” which had required parties conducting decentralized-finance transactions to report specific details of digital-asset sales to the IRS.

Working Families Tax Cut Act (Public Law 119-21)

This Act, also titled, “To provide for reconciliation pursuant to title II of H. Con. Res. 14”, which was signed into law on July 4, 2025, permanently extended many of the provisions in the 2017 Tax Cut and Jobs Act (TCJA; Public Law 115-409), provided additional comprehensive tax reform for individuals and corporations, and delivered on many of President Trump’s campaign promises such as “No Tax on Tips”, “No Tax on Overtime”, and “No Tax on Car Loans”. Significant provisions of this Act are described in greater detail below.

Individual Tax Reform

Extend the TCJA tax rates for individuals for real savings for U.S. taxpayers. This Act permanently extended the lower individual income tax rates and thresholds enacted in the TCJA, set to expire on January 1, 2026, and allowed for additional inflation adjustments for the two lowest tax brackets providing for additional relief for low and middle-income taxpayers.

Extend the TCJA standard deduction increases. This Act permanently extended the increased standard deduction enacted in the TCJA, set to expire on January 1, 2026. The Act increased the standard deduction levels for 2025 to $23,625 for heads of households; $15,750 for single filers; and $31,500 for joint filers. These amounts will be adjusted for inflation after 2025.

Extend the TCJA personal exemptions eliminations, with relief for seniors. This Act permanently extended the elimination of the personal exemptions enacted in the TCJA, set to expire on January 1, 2026. The Act also included a temporary $6,000 deduction for qualified seniors through 2028.

Provide permanent increases to the Child Tax Credit and require valid Social Security number. This Act permanently extended the child tax credit increases enacted in the TCJA, set to expire on January 1, 2026, and increased the level to $2,200, of which $1,400, is an inflation-adjusted, maximum refundable amount. The Act also required the parent (at least one parent if they are joint filers) and child to have an SSN to be eligible for the tax credit.

Extend and increase the qualified business income passthrough deduction. This Act permanently extended the Section 199A qualified business income deduction at 20 percent. Originally enacted in the TCJA, it was set to expire on January 1, 2026. The Act also provided small businesses with a new $400 minimum deduction for qualified taxpayers, and increased the deduction limit phase-in range by increasing the non-joint and joint return amounts to $75,000 and $150,000, respectively.

Extend the increased alternative minimum tax exemption amounts. The Act permanently extended the alternative minimum tax exemption enacted in the TCJA, set to expire on January 1, 2026.

Extend the home mortgage interest deduction. The Act permanently extended the deduction for qualified resident interest to the first $750,000 of acquisition indebtedness and eliminated the deduction for interest on home equity indebtedness.

Extend the repeal of miscellaneous itemized deductions. The Act permanently extended the temporary miscellaneous itemized deductions enacted in the TCJA, set to expire on January 1, 2026. This provision also restored

[1] In the discussions of enacted legislation, years referred to are calendar years, unless otherwise noted.

"educator expenses" as an eligible itemized deduction, which includes unreimbursed books, supplies, and computer purchases made by teachers, principals, and other instructors.

Extend the repeal of the limitation on itemized deductions. The Act permanently repealed the limitations on itemized deductions for certain individual taxpayers, also known as the "Pease Limitation". This was originally enacted in the TCJA and was set to expire on January 1, 2026. The Act also added an additional limitation on itemized deductions for taxpayers in the top income bracket by reducing the value of all itemized deductions by two percentage points.

Increase Limitation on SALT Deductions. This Act increased SALT deductions from $10,000 to $40,000 for joint filers (from $5,000 to $20,000 for separate filers) and indexed these limitations for inflation through tax year 2029. The Act also phased down the limitation for taxpayers with modified adjusted gross income over $500,000 (over $250,000 for married filing separately filers).

Deliver on No Tax on Tips. For tax years 2025 through 2028, the Act introduced below-the-line deductions for qualified tips up to $25,000.

Deliver on No Tax on Overtime. For tax years 2025 through 2028, the Act introduced below-the-line deductions for qualified overtime premium pay up to $12,500 ($25,000 for joint filers).

Deliver on No Tax on Car Loans. For tax years 2025 through 2028, the Act introduced below-the-line deductions for qualified, US-made passenger vehicle loan interest up to $10,000.

Establish Trump Accounts to Support the Next Generation of Americans. The Act defined Trump Accounts. A Trump Account is a traditional individual retirement account (IRA) established for the benefit of a child with special rules before the child turns 18. Trump Accounts may receive contributions from nonprofits, governments, employers, and individuals. Contributions to a Trump Account are generally subject to an annual limit of $5,000, adjusted for inflation. Distributions are generally prohibited prior to age 18 and allowed after age 18 under the same rules as other traditional IRAs, such as for higher education expenses and first home purchases. In the Trump Accounts Contribution Pilot Program, the U.S. Treasury will pay $1,000 to seed the Trump Accounts of eligible U.S. citizens born between 2025 and 2028.

Institute a Charitable Deduction for non-Itemizers. The Act created a permanent below-the-line deduction for individuals who do not itemize deductions to claim charitable deduction of up to $1,000 ($2,000 for joint filers).

Institute a Charitable Deduction floor for Itemizers. This act established a permanent floor of 0.5 percent of the individual's contribution base for charitable deductions when the individual chooses to itemize.

Establish a 1 percent Excise Tax on Remittance Transfers. This act established a 1 percent excise tax on remittance transfers made on money orders sent overseas paid by the sender.

Business Tax Reform

Extend Full Expensing. The Act permanently extended 100 percent bonus depreciation for property placed in service on or after January 20, 2025. In prior law, bonus depreciation was being reduced—from 100 percent in 2022 down to 20 percent in 2026 and to 0 percent in 2027.

Restore full expensing on domestic research and development expenses. This Act permanently restored immediate deductibility of domestic research costs, and allowed small businesses to apply this rule retroactively to tax year beginning after December 31, 2021.

Reinstate EBIDTA basis for the deductibility on business interest. This Act permanently reinstated the earnings before interest, taxes, depreciation, and amortization (EBIDTA) basis for determining the limit for the deductibility of business interest for tax years beginning in 2025.

Expand Expensing to Include Manufacturing Real Estate. This Act allowed taxpayers an additional first-year depreciation deduction equal to 100 percent of the adjusted basis of a qualified production property.

Expand Opportunity Zones. This Act expanded the Opportunity Zone program, which offers tax benefits for investments in low-income areas, to additional qualified areas starting in 2027.

International Tax Reform

Change Allocation Rules for Foreign Tax Credit. The Act changed the foreign tax credit limit on certain income such as net CFC tested income (NCTI), by reducing the foreign tax haircut from 20 percent to 10 percent and by no longer requiring domestic expenses to be allocated against foreign income, unless directly related.

Update the Deductions for Foreign derived eligible income and net CFC tested income. The Act permanently reduced the global intangible low-taxed income (GILTI) deduction from 50 percent to 40 percent, and permanently reduced the foreign derived intangible income (FDII) deduction from 37.5 percent to 33.34 percent.

Other Tax Reform

Extend and enhance the estate and gift tax Exemption. The Act permanently increased and indexed for inflation the estate and gift tax exemption to $15 million (per individual) for estates of decedents dying in 2026 and later.

Terminate Green New Deal Energy Credits. The Act terminated and phases out many clean energy tax credits introduced under the Inflation Reduction Act (Public Law 119-169), such as the Section 30D electric vehicle tax credit, the Section 25D residential clean energy credit, and the Section 25C energy efficient home improvement credit. The Section 45Y clean electricity production credit and the 48E clean electricity investment credit are also phased out early. Credits for solar and wind projects are terminated as soon as 2028 if construction begins after July 4, 2026, and other technologies start phasing out for facilities whose construction begins after 2033.

Disallow Premium Tax Credit for Individuals with Certain Alien Status. The Act prohibited individuals with alien status who report income below 100 percent of the federal poverty level from receiving the premium tax credit. The Act also limited premium tax credit eligibility for noncitizens to only certain alien statuses, such as permanent residents, beginning in 2027.

Guiding and Establishing National Innovation for U.S. Stablecoins Act (Public Law 119-27)

The Act, signed into law on July 18, 2025 also known as the GENIUS Act, created a regulatory regime for payment stablecoins—digital tokens that must be redeemable for a fixed value. Only "permitted issuers" may issue them to U.S. persons. The Act also set rules for reserve reuse, safekeeping services, and grants supervisory, examination, and enforcement powers over federal-qualified issuers. The Act established that stablecoins are excluded from securities law, but issuers must comply with the Bank Secrecy Act's anti-money laundering requirements.

Internal Revenue Service Math and Taxpayer Help Act (Public Law 119-39)

The Act, which was signed into law on November 25, 2025, required the Internal Revenue Service (IRS) to provide in the notice to taxpayers clearer explanations about identified math or clerical error and the procedures to request abatement of the error assessment. The Act also created a pilot program for sending notices of math or clerical errors by certified or registered mail.

OFFSETTING COLLECTIONS AND OFFSETTING RECEIPTS 09.

The Government records money collected in one of two ways. It is either recorded as a governmental receipt and included in the amount reported on the receipts side of the budget or it is recorded as an offsetting collection or offsetting receipt, which reduces (or "offsets") the amount reported on the outlay side of the budget. Governmental receipts are discussed in the previous chapter of this volume, "Governmental Receipts." The first section of this chapter broadly discusses offsetting collections and offsetting receipts. The second section discusses user charges, which consist of a subset of offsetting collections and offsetting receipts and a small share of governmental receipts. The third section describes the user charge proposals in the 2027 Budget.

Offsetting collections and offsetting receipts are recorded as offsets to spending so that the budget totals for receipts and (net) outlays reflect the amount of resources allocated by the Government through collective political choice, rather than through the marketplace.[1] This practice ensures that the budget totals measure the transactions of the Government with the public, and avoids the double counting that would otherwise result when one account makes a payment to another account and the receiving account then spends the proceeds. Offsetting receipts and offsetting collections are recorded in the budget in one of two ways, based on interpretation of laws and longstanding budget concepts and practice. They are offsetting collections when the collections are authorized to be credited to expenditure accounts. Otherwise, they are deposited in receipt accounts and called offsetting receipts.

[1] Showing collections from business-type transactions as offsets on the spending side of the budget follows the concept recommended by the Report of the President's Commission on Budget Concepts in 1967 and is discussed in the "Budget Concepts" chapter of this volume.

Background

There are two sources of offsetting receipts and offsetting collections: from the public and from other budget accounts. Like governmental receipts, offsetting receipts and offsetting collections from the public reduce the deficit or increase the surplus. In contrast, offsetting receipts and offsetting collections resulting from transactions with other budget accounts, called intragovernmental transactions, exactly offset the payments made by these accounts, with no net impact on the deficit or surplus. In 2025, offsetting receipts and offsetting collections from the public were $928 billion, while receipts and collections from intragovernmental transactions were $1,737 billion, for a total of $2,665 billion Government-wide.

As described above, intragovernmental transactions are responsible for the majority of offsetting collections and offsetting receipts, when measured by the magnitude of the dollars collected. Examples of intragovernmental transactions include interest payments to funds that hold Government securities (such as the Social Security trust funds), general fund transfers to civilian and military retirement pension and health benefits funds, and agency payments to funds for employee health insurance and retirement benefits. Although receipts and collections from intragovernmental collections exactly offset the payments themselves, with no effect on the deficit or surplus, it is important to record these transactions in the budget to show how much the Government is allocating to fund various programs. For example, in the case of civilian retirement pensions, Government agencies make accrual payments to the Civil Service Retirement and Disability Fund on behalf of current employees to fund their future retirement benefits; the receipt of these payments to the Fund is shown in a single receipt account. Recording the receipt of these payments is important because it demonstrates the total cost to the Government today of providing this future benefit.

Offsetting receipts and collections from the public comprise approximately one-third of total offsetting collections and offsetting receipts, when measured by the magnitude of the dollars collected. Most of the funds collected through offsetting collections and offsetting receipts from the public arise from business-like transactions with the public. Unlike governmental receipts, which are derived from the Government's exercise of its sovereign power, these offsetting collections and offsetting receipts arise primarily from voluntary payments from the public for goods or services provided by the Government. They are classified as offsets to outlays for the cost of producing the goods or services for sale, rather than as governmental receipts. These activities include the sale of postage

Table 09—1. Offsetting Collections and Offsetting Receipts from the Public
In Billions of Dollars

	Actual 2025	Estimate 2026	Estimate 2027
Offsetting collections (credited to expenditure accounts):			
User charges:			
Postal Service stamps and other Postal Service fees (off-budget)	81.1	82.1	84.9
Sale of energy:			
Tennessee Valley Authority	67.0	70.6	65.5
Bonneville Power Administration	4.3	4.5	4.8
Deposit Insurance	32.8	20.9	43.0
Employee contributions for employees and retired employees health benefits funds	22.7	26.0	27.8
Pension Benefit Guaranty Corporation fund	14.7	7.6	9.8
Federal Crop Insurance Corporation Fund	7.3	7.0	7.0
Defense Commissary Agency	4.8	6.6	6.6
Passenger Security Fee	3.1	3.5	5.2
Patent and Trademark fees	4.5	5.0	5.2
National Flood Insurance Fund	4.4	4.5	4.8
All other user charges	42.5	42.7	43.2
Subtotal, user charges	289.2	281.0	307.9
Other collections credited to expenditure accounts:			
Commodity Credit Corporation fund	6.4	7.3	7.6
Supplemental Security Income (collections from the States)	3.4	3.4	3.5
Other collections	64.5	7.9	9.2
Subtotal, other collections	74.3	18.6	20.3
Subtotal, offsetting collections	363.5	299.6	328.2
Offsetting receipts (deposited in receipt accounts):			
User charges:			
Medicare premiums	159.9	181.3	195.8
Outer Continental Shelf rents, bonuses, and royalties	5.8	6.3	6.3
Immigration fees	8.5	7.6	8.0
Spectrum auction, relocation, and licenses	....	....	....
All other user charges	32.0	34.1	35.4
Subtotal, user charges deposited in receipt accounts	206.3	229.3	245.6
Other collections deposited in receipt accounts:			
Military assistance program sales	64.0	63.8	65.7
Interest received from credit financing accounts	55.8	70.6	70.9
Government-sponsored enterprise (GSE) guarantee fees	6.4	6.5	6.7
Student loan receipt of negative subsidy and downward reestimates	152.4	75.4	3.4
All other collections deposited in receipt accounts	79.3	75.2	60.1
Subtotal, other collections deposited in receipt accounts	358.0	291.5	206.8
Subtotal, offsetting receipts	564.3	520.8	452.4
Total, offsetting collections and offsetting receipts from the public	927.8	820.4	780.6
Total, offsetting collections and offsetting receipts excluding off-budget	846.5	738.1	695.5
ADDENDUM:			
User charges that are offsetting collections and offsetting receipts [1]	495.4	510.4	553.5
Other offsetting collections and offsetting receipts from the public	432.3	310.1	227.1

[1] Excludes user charges that are classified on the receipts side of the budget. For total user charges, see Table 9–3.

stamps, land, timber, and electricity; charging fees for services provided to the public (e.g., admission to National parks); and collecting premiums for healthcare benefits (e.g., Medicare Parts B and D). As described above, treating offsetting collections and offsetting receipts as offsets to outlays ensures the budgetary totals represent governmental rather than market activity.

A relatively small portion ($28 billion in 2025) of offsetting collections and offsetting receipts from the public is derived from the Government's exercise of its sovereign power. From a conceptual standpoint, these should be classified as governmental receipts. However, they are classified as offsetting rather than governmental receipts either because this classification has been specified in law or because these collections have traditionally been classified as offsets to outlays. Most of the offsetting collections and offsetting receipts in this category derive from fees from Government regulatory services or Government licenses, and include, for example, charges for regulating the nuclear energy industry, bankruptcy filing fees, and immigration fees.

The final source of offsetting collections and offsetting receipts from the public is gifts. Gifts are voluntary contributions to the Government to support particular purposes or reduce the amount of Government debt held by the public.

The spending associated with the activities that generate offsetting collections and offsetting receipts from the public is included in total or "gross outlays." Offsetting collections and offsetting receipts from the public are subtracted from gross outlays to the public to yield "net outlays," which is the most common measure of outlays cited and generally referred to as simply "outlays." For 2025, gross outlays to the public were $7,939 billion, or 26.2 percent of GDP and offsetting collections and offsetting receipts from the public were $928 billion, or 3.1 percent of GDP, resulting in net outlays of $7,011 billion or 23.1 percent of GDP. Government-wide net outlays reflect the Government's net disbursements to the public and are subtracted from governmental receipts to derive the Government's deficit or surplus. For 2025, governmental receipts were $5,236 billion, or 17.3 percent of GDP, and the deficit was $1,775 billion, or 5.9 percent of GDP.

Although both offsetting collections and offsetting receipts are subtracted from gross outlays to derive net outlays, they are treated differently when it comes to accounting for specific programs and agencies. Offsetting collections are usually authorized to be spent for the purposes of an expenditure account and are generally available for use when collected, without further action by the Congress. Therefore, offsetting collections are recorded as offsets to spending within expenditure accounts, so that the account total highlights the net flow of funds.

Like governmental receipts, offsetting receipts are credited to receipt accounts, and any spending of the receipts is recorded in separate expenditure accounts. As a result, the budget separately displays the flow of funds into and out of the Government. Offsetting receipts may or may not be designated for a specific purpose, depending on the legislation that authorizes their collection. If designated for a particular purpose, the offsetting receipts may, in some cases, be spent without further action by the Congress. When not designated for a particular purpose, offsetting receipts are credited to the general fund, which contains all funds not otherwise allocated and which is used to finance Government spending that is not financed out of dedicated funds. In some cases where the receipts are designated for a particular purpose, offsetting receipts are reported in a particular agency and reduce or offset the outlays reported for that agency. In other cases, the offsetting receipts are "undistributed," which means they reduce total Government outlays, but not the outlays of any particular agency.

Table 09–2. Summary of Offsetting Receipts by Type

In Millions of Dollars

Receipt Type	Actual 2025	Estimate 2026	Estimate 2027
Intragovernmental	1,250,791	1,395,048	1,299,601
Receipts from non-Federal sources:			
Proprietary	545,801	502,229	434,557
Offsetting governmental	18,492	18,592	17,815
Total, receipts from non-Federal sources	564,293	520,821	452,372
Total, offsetting receipts	1,815,084	1,915,869	1,751,973

Table 9-1 summarizes offsetting collections and offsetting receipts from the public. The amounts shown in the table are not evident in the commonly cited budget measure of outlays, which is already net of these collections and receipts. For 2027, the table shows that total offsetting collections and offsetting receipts from the public are estimated to be $781 billion, or 2.3 percent of GDP. Of these, an estimated $328 billion are offsetting collections and an estimated $452 billion are offsetting receipts. Table 9–1 also identifies those offsetting collections and offsetting receipts that are considered user charges, as defined and discussed below.

As shown in the table, major offsetting collections from the public include proceeds from Postal Service sales, electrical power sales, loan repayments to the Commodity Credit Corporation for loans made prior to enactment of the Federal Credit Reform Act, and Federal employee payments for health insurance. As also shown in the table, major offsetting receipts from the public include premiums for Medicare Parts A, B and D, proceeds from military assistance program sales, rents and royalties from Outer Continental Shelf oil extraction, and interest income.

Tables 9–2 and 9–3 provide further detail about offsetting receipts, including both offsetting receipts from the public (as summarized in Table 9–1) and intragovernmental transactions. Table 9–5, "Offsetting Receipts by Type," and Table 9–6, "Offsetting Collections and Offsetting Re-

Table 09—3. Gross Outlays, User Charges, Other Offsetting Collections and Offsetting Receipts from the Public, and Net Outlays

In Billions of Dollars

	Actual 2025	Estimate 2026	Estimate 2027
Gross outlays to the public	7,938.9	8,363.5	8,874.1
Offsetting collections and offsetting receipts from the public:			
User charges [1]	495.4	510.4	553.5
Other	432.3	310.1	227.1
Subtotal, offsetting collections and offsetting receipts from the public	927.8	820.4	780.6
Net outlays	**7,011.1**	**7,543.1**	**8,093.5**

[1] $5.5 billion of the total user charges for 2025 were classified as governmental receipts, and the remainder were classified as offsetting collections and offsetting receipts. $5.5 billion and $5.6 billion of the total user charges for 2026 and 2027 are classified as governmental receipts, respectively.

ceipts, Detail—2027 Budget," which is a complete listing by account, are available in the *Analytical Perspectives* volume online. In total, offsetting receipts are estimated to be $1,752 billion in 2027; $1,300 billion are from intragovernmental transactions and $452 billion are from the public. The offsetting receipts from the public consist of proprietary receipts ($435 billion), which are those resulting from business-like transactions such as the sale of goods or services, and offsetting governmental receipts, which, as discussed above, are derived from the exercise of the Government's sovereign power and, absent a specification in law or a long-standing practice, would be classified on the receipts side of the budget ($18 billion).

User Charges

User charges or user fees refer generally to those monies that the Government receives from the public for market-oriented activities and regulatory activities. In combination with budget concepts, laws that authorize user charges determine whether a user charge is classified as an offsetting collection, an offsetting receipt, or a governmental receipt. Almost all user charges, as defined below, are classified as offsetting collections or offsetting receipts; for 2027, only an estimated 1.1 percent of user charges are classified as governmental receipts. As summarized in Table 9–3, total user charges for 2027 are estimated to be $559 billion with $553 billion being offsetting collections or offsetting receipts, and accounting for more than three-quarters of all offsetting collections and offsetting receipts from the public.

Definition

In this chapter, user charges refer to fees, charges, and assessments levied on individuals or organizations directly benefiting from or subject to regulation by a Government program or activity, where the payers do not represent a broad segment of the public such as those who pay income taxes.

Examples of business-type or market-oriented user charges and regulatory and licensing user charges include those charges listed in Table 9–1 for offsetting collections and offsetting receipts. User charges exclude certain offsetting collections and offsetting receipts from the public, such as payments received from credit programs, and interest, and also exclude payments from one part of the Federal Government to another. In addition, user charges do not include dedicated taxes (such as taxes paid to social insurance programs or excise taxes on gasoline) or customs duties, fines, penalties, or forfeitures.

Alternative definitions

The definition for user charges used in this chapter follows the definition used in OMB Circular No. A–25, "User Charges," which provides policy guidance to Executive Branch Agencies on setting the amount for user charges. Alternative definitions may be used for other purposes. Much of the discussion of user charges below—their purpose, when they should be levied, and how the amount should be set—applies to these alternative definitions as well.

A narrower definition of user charges could be limited to proceeds from the sale of goods and services, excluding the proceeds from the sale of assets, and to proceeds that are dedicated to financing the goods and services being provided. This definition is similar to one the House of Representatives uses as a guide for purposes of committee jurisdiction. (See the Congressional Record, January 3, 1991, p. H31, item 8.) The definition of user charges could be even narrower by excluding regulatory fees and focusing solely on business-type transactions. Alternatively, the user charge definition could be broader than the one used in this chapter by including beneficiary- or liability-based excise taxes.

What is the Purpose of User Charges?

User charges are intended to improve the efficiency and equity of financing certain Government activities. Charging users for activities that benefit a relatively limited number of people reduces the burden on the general taxpayer, as does charging regulated parties for regulatory activities in a particular sector.

User charges that are set to cover the costs of production of goods and services can result in more efficient resource allocation within the economy. When buyers are charged the cost of providing goods and services, they make better cost-benefit calculations regarding the size of their purchase, which in turn signals to the Government how much of the goods or services it should provide. Prices in private, competitive markets serve the same purposes. User charges for goods and services that do not have special social or distributional benefits may also improve equity or fairness by requiring those who benefit from an activity to pay for it and by not requiring those who do not benefit from an activity to pay for it.

When Should the Government Impose a Charge?

Discussions of whether to finance spending with a tax or a fee often focus on whether the benefits of the activity accrue to the public in general or to a limited group of people. In general, if the benefits of spending accrue broadly to the public or include special social or distributional benefits, then the program should be financed by taxes paid by the public. In contrast, if the benefits accrue to a limited number of private individuals or organizations and do not include special social or distributional benefits, then the program should be financed by charges paid by the private beneficiaries. For Federal programs where the benefits are entirely public or entirely private, applying this principle can be relatively easy. For example, the benefits from national defense accrue to the public in general, and according to this principle should be (and are) financed by taxes. In contrast, the benefits of electricity sold by the Tennessee Valley Authority accrue primarily to those using the electricity, and should be (and predominantly are) financed by user charges.

In many cases, however, an activity has benefits that accrue to both public and private groups, and it may be difficult to identify how much of the benefits accrue to each. Because of this, it can be difficult to know how much of the program should be financed by taxes and how much by fees. For example, the benefits from recreation areas are mixed. Fees for visitors to these areas are appropriate because the visitors benefit directly from their visit, but the public in general also benefits because these areas protect the Nation's natural and historic heritage now and for posterity. For this reason, visitor recreation fees generally cover only part of the cost to the Government of maintaining the recreation property. Where a fee may be appropriate to finance all or part of an activity, the extent to which a fee can be easily administered must be considered. For example, if fees are charged for entering or using Government-owned land then there must be clear points of entry onto the land and attendants patrolling and monitoring the land's use.

What Amount Should be Charged?

When the Government is acting in its capacity as sovereign and where user charges are appropriate, such as for some regulatory activities, current policy supports setting fees equal to the full cost to the Government, including both direct and indirect costs. When the Government is not acting in its capacity as sovereign and engages in a purely business-type transaction (such as leasing or selling goods, services, or resources), market price is generally the basis for establishing the fee. If the Government is engaged in a purely business-type transaction and economic resources are allocated efficiently, then this market price should be equal to or greater than the Government's full cost of production.

Classification of User Charges in the Budget

As shown in the note to Table 9–3, most user charges are classified as offsets to outlays on the spending side of the budget, but a few are classified on the receipts side of the budget. An estimated $5.5 billion of user charges in 2027 are classified on the receipts side and are included in the governmental receipts totals described in the previous chapter, "Governmental Receipts." They are classified as

Table 09—4. User Charge Proposals [1]

Estimated Collections in Millions of Dollars

	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2027-2031	2027-2036
OFFSETTING COLLECTIONS AND OFFSETTING RECEIPTS												
Discretionary:												
OFFSETTING COLLECTIONS												
Department of Health and Human Services												
Food and Drug Administration (FDA) Establish Foreign Food Facilities Registration fee	71	73	75	77	79	81	83	85	87	89	375	800
Small Business Administration												
Establish an upfront administrative fee	158	158	158	158	158	158	158	158	158	158	790	1,580
Commodity Futures Trading Commission (CFTC)												
Establish CFTC user fee	410	410	410	410	410	410	410	410	410	410	2,050	4,100
OFFSETTING RECEIPTS												
Department of State												
Extend Western Hemisphere Travel Initiative Surcharge	565	565	565	565	565	565	565	565	565	565	2,825	5,650
Total, user charge proposals	**1,204**	**1,206**	**1,208**	**1,210**	**1,212**	**1,214**	**1,216**	**1,218**	**1,220**	**1,222**	**6,040**	**12,130**

[1] A positive sign indicates an increase in collections.

receipts because they are regulatory charges collected by the Federal Government by the exercise of its sovereign powers. Examples include filing fees in the United States courts and agricultural quarantine inspection fees.

The remaining user charges, an estimated $554 billion in 2027, are classified as offsetting collections and offsetting receipts on the spending side of the Budget. As discussed above in the context of all offsetting collections and offsetting receipts, some of these user charges are collected by the Federal Government by the exercise of its sovereign powers and conceptually should appear on the receipts side of the budget, but they are required by law or a long-standing practice to be classified on the spending side.

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Table 09-5. Offsetting Receipts by Type

Table 09-6. Offsetting Collections and Offsetting Receipts, Detail by Source, BEW Category, Type, and Account

USER CHARGE PROPOSALS

As shown in Table 9–1, an estimated $328 billion of user charges for 2027 will be credited directly to expenditure accounts and will generally be available for expenditure when they are collected, without further action by the Congress. An estimated $452 billion of user charges for 2027 will be deposited in offsetting receipt accounts and will be available to be spent only according to the legislation that established the charges.

As shown in Table 9–4, the Administration is proposing new or increased user charges that would, in the aggregate, increase collections by an estimated $1 billion in 2027 and an estimated total of $12 billion from 2026 through 2034. These estimates reflect only the amounts to be collected; they do not include related spending.

Discretionary User Charge Proposals

Offsetting Collections

Department of Health and Human Services

- *Food and Drug Administration (FDA): Establish Foreign Food Facilities Registration Fee.* This proposal would establish a biennial registration fee for all foreign human and animal food facilities. Currently, FDA is not authorized to collect registration fees from foreign facilities that are required under law to register with FDA although resources required to conduct foreign food facility inspections and oversight activities are significant. FDA relies on registration data such as type of food manufactured to inform foreign inspections and to target import screening. This proposal would align with current registration renewal requirements and provide vital additional funding to support FDA's human and animal food program work abroad, including its food chemical safety program, thus ensuring the safety of foods imported into the United States.

Small Business Administration (SBA)

- *Establish an upfront administrative fee.* The Budget proposes a legislative change to authorize SBA to assess an administrative fee on lenders for the guaranteed business loan programs.

Commodity Futures Trading Commission (CFTC)

- *Establish CFTC user fee.* The Budget proposes an amendment to the Commodity Exchange Act (Public Law 74–675) authorizing the CFTC to collect user fees to fund the Commission's activities, like other Federal financial and banking regulators. Fee funding would shift the costs of services provided by CFTC from the general taxpayer to the primary beneficiaries of CFTC oversight. Contingent upon enactment of legislation authorizing the CFTC to collect fees, the Administration proposes that collections begin in 2027 to fully offset CFTC's annual appropriation.

Offsetting Receipts

Department of State

- *Extend Western Hemisphere Travel Initiative surcharge.* The Administration proposes to permanently extend the authority for the Department of State to collect the Western Hemisphere Travel Initiative surcharge. The surcharge was initially enacted by the Passport Services Enhancement Act of 2005 (Public Law 109–167) to cover the Department's costs of meeting increased demand for passports, which resulted from the implementation of the Western Hemisphere Travel Initiative.

TAX EXPENDITURES 10.

Tax expenditures, defined as revenue losses resulting from provisions in Federal tax laws that grant special exclusions, exemptions, deductions, credits, or preferential tax rates, play a significant role in shaping U.S. fiscal policy. These provisions serve as alternatives to direct spending programs or regulatory measures, achieving targeted policy outcomes through the tax code. The Congressional Budget Act of 1974 (Public Law 93-344) mandated the inclusion of a comprehensive list of tax expenditures in the federal budget, underscoring their importance in understanding the nation's fiscal framework.

The identification and measurement of tax expenditures depend crucially on the hypothetical baseline tax system against which the actual tax system is compared. The tax expenditure estimates presented in this document are patterned on a comprehensive income tax, which defines income as the sum of consumption and the change in net wealth in a given time period.

A key assumption underlying the tax expenditure estimates presented here is that other aspects of the Tax Code—specifically the Internal Revenue Code (IRC) of 1986— remain unchanged. This is because interactions between provisions could alter the estimates if multiple tax expenditures were modified simultaneously. Consequently, this document does not include an aggregate total for the estimated tax expenditures.

Tax expenditures related to individual and corporate income taxes for the years 2025-2035 are evaluated using two accounting methods: current tax receipt effects and present value effects. The present value method is particularly useful for estimating the receipt effects of tax expenditures that defer tax payments into future periods.

Tax Expenditures in the Income Tax

Tax Expenditure Estimates

The tax expenditure estimates and descriptions provided here are based on current tax laws enacted as of July 31, 2025. These estimates incorporate the economic assumptions outlined in the Midsession Review of the Fiscal Year 2026 Budget. Expired or repealed provisions are included if their effects on tax receipts extend into fiscal year 2025 or beyond.

Table 10-1 categorizes the total receipt effects of tax expenditures for fiscal years 2025–2035 according to the Budget's functional categories. Detailed descriptions of specific tax expenditure provisions follow a discussion on the general concept of tax expenditures.

Two baseline concepts are used to identify and estimate tax expenditures: the normal tax baseline and the reference tax law baseline.[1] Although these concepts largely align, some items classified as tax expenditures under the normal tax baseline are not considered as such under the reference tax law baseline. These items, marked as "normal tax method" in the tables, show zero receipt effects under the reference tax law. Further discussion on these baseline concepts is provided below.

Table 10-2 ranks the major tax expenditures by their projected receipt effects for 2026–2035. The first column cross-references each provision with Table 10-1 and the detailed descriptions. Some provisions result in increased government outlays in addition to revenue losses, with these outlays reported in Table 10-4. Historical and current tax expenditure tables are available on the Department of the Treasury website.[2]

Interpreting Tax Expenditure Estimates

The estimates shown for individual tax expenditures in Tables 10-1 and 10-2 do not necessarily equal the increase in Federal receipts (or the change in the budget balance) that would result from repealing these special provisions, for the following reasons.

First, eliminating a tax expenditure may have incentive effects that alter economic behavior. These incentives can affect the resulting magnitudes of the activity, or the consequences of other tax provisions or Government programs. For example, if capital gains were taxed at higher ordinary income tax rates, capital gain realizations would

[1] These baseline concepts are thoroughly discussed in Special Analysis G of the 1985 Budget, where the former is referred to as the pre-1983 method and the latter the post-1982 method.

[2] *https://home.treasury.gov/policy-issues/tax-policy/tax-expenditures*. Table numbering within this chapter may not match the Treasury website.

be expected to decline, which could result in lower tax receipts depending on the elasticity of the capital gains tax rates. Such behavioral effects are not reflected in the estimates.

Second, tax expenditures are interdependent even without incentive effects. Repeal of a tax expenditure provision can increase or decrease the tax receipts associated with other provisions. For example, even if behavior does not change, repeal of an itemized deduction could increase the receipt costs from other deductions because some taxpayers would be moved into higher tax brackets. Alternatively, repeal of an itemized deduction could lower the receipt cost from other deductions if taxpayers are led to claim the standard deduction instead of itemizing. Similarly, if two provisions were repealed simultaneously, the increase in tax liability could be greater or less than the sum of the two separate tax expenditures, because each is estimated assuming that the other remains in force. The estimates reported in Table 10-1 are the totals of corporate and individual income tax receipt effects and do not reflect any possible interactions between corporate and individual income tax receipts. Total income tax receipts are broken down into corporate and individual income tax expenditures, which are presented as separate tables on the Treasury website. For this reason, the estimates in Table 10-1 should be regarded as approximations.

Finally, some of the reported estimates reflect the cumulative effects of several pieces of legislation enacted over time to expand and modify provisions targeting a particular economic activity or groups of taxpayers. Each successive enacted piece of legislation may have increased or decreased tax expenditures depending on how an existing provision was modified. As an example, the Working Families Tax Cut Act (WFTC) modified several energy provisions. The tax expenditure estimates associated with these energy provisions capture the receipt effects of prior law and the adjustments introduced in WFTC.

Present-Value Estimates

The annual value of tax expenditures for tax deferrals is reported on a cash basis in all tables except Table 10-3. Cash-based estimates reflect the difference between taxes deferred in the current year and incoming receipts received due to deferrals of taxes from prior years. Although such estimates are useful as a measure of cash flows into the Government, they do not accurately reflect the true economic cost of these provisions. For example, for a provision where activity levels have changed over time, so that incoming tax receipts from past deferrals are greater than deferred receipts from new activity, the cash-basis tax expenditure estimate can be positive, despite the fact that in present-value terms, current deferrals have a real cost to the Government (i.e., taxpayers). Alternatively, in the case of a newly enacted deferral provision, a cash-based estimate can overstate the real effect on receipts to the Government because the newly deferred taxes will ultimately be received.

Table 10-3 provides present-value estimates for provisions with long-term receipt effects, complementing the cash-based estimates in other tables. The present-value estimates capture the receipt effects, net of future tax payments. These payments arise from activities undertaken during calendar year 2025, which cause the deferrals or other long-term receipt effects. For instance, a pension contribution in 2025 would cause a deferral of tax payments on wages in 2025 and on pension fund earnings on this contribution (e.g., interest) in later years. In some future year, however, the 2025 pension contribution and accrued earnings will be paid out and taxes will be due; these receipts are included in the present-value estimate. In general, this conceptual approach is similar to the one used for reporting the budgetary effects of credit programs, where direct loans and guarantees in a given year affect future cash flows.

Tax Expenditure Baselines

A tax expenditure is an exception to baseline provisions of the tax structure that usually results in a reduction in the amount of tax owed. The Congressional Budget Act of 1974, which mandated the tax expenditure budget, did not define the baseline provisions of the tax law. As noted previously, determining whether provisions qualify as exceptions is a matter of judgment. As in previous years, most of this year's tax expenditure estimates are presented using two baselines: the normal tax baseline and the reference tax law baseline. Tax expenditures may take the form of credits, deductions, special exceptions and allowances.

The normal tax baseline is patterned on a practical variant of a comprehensive income tax, which defines income as the sum of consumption and the change in net wealth in a given period of time. The normal tax baseline allows personal exemptions, a standard deduction, and deduction of expenses incurred in earning income. It is not limited to a particular structure of tax rates, or by a specific definition of the taxpaying unit. The reference tax law baseline is also patterned on a comprehensive income tax, but it is closer to existing law. Reference tax law tax expenditures are limited to special exceptions from a generally provided tax rule that serves programmatic functions in a way that is analogous to spending programs. Provisions under the reference tax law baseline are generally tax expenditures under the normal tax baseline, but the reverse is not always true.

Both the normal tax and reference tax law baselines allow several major departures from a pure comprehensive income tax. For example, under the normal tax and reference tax law baselines:

- Income is taxable only when it is realized in exchange. Thus, the deferral of tax on unrealized capital gains is not regarded as a tax expenditure. Accrued income would be taxed under a comprehensive income tax.
- There is a separate corporate income tax.
- Tax rates on noncorporate business income vary by level of income.
- Individual tax rates, including brackets, standard deduction, and personal exemptions, are allowed to vary with marital status.

- Values of assets and debt are not generally adjusted for inflation. A comprehensive income tax would adjust the cost basis of capital assets and debt for changes in the general price level. Thus, under a comprehensive income tax baseline, the failure to take account of inflation in measuring depreciation, capital gains, and interest income would be regarded as a negative tax expenditure (i.e., a tax penalty), and failure to take account of inflation in measuring interest costs would be regarded as a positive tax expenditure (i.e., a tax subsidy).
- The base erosion and anti-abuse tax (BEAT) for multinational corporations is treated as a minimum tax and considered part of the rate structure.

Although the reference tax law and normal tax baselines are generally similar, areas of difference include:

Tax rates. The methods apply different tax rates across several separate schedules to the various taxpaying units and the Alternative Minimum Tax is treated as part of the baseline rate structure under both the reference tax law and normal tax methods.

Income subject to tax. Income subject to tax is defined as gross income less the costs of earning that income. Under the reference tax law, gross income excludes gifts defined as receipts of money or property that are not consideration in an exchange, and excludes most transfer payments from the Government. The normal tax baseline also excludes gifts between individuals from gross income, but all cash transfer payments from the Government to individuals are counted in gross income, and exemptions of such transfers from tax are identified as tax expenditures. The costs of earning income are generally deductible in determining taxable income under both the reference tax law and normal tax baselines.

Capital recovery. Under the reference tax law baseline no tax expenditures arise from accelerated depreciation. under the normal tax baseline, the depreciation allowance for property is computed using estimates of economic depreciation.

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Table 10-1. Estimates of Total Income Tax Expenditures for Fiscal Years 2025–2035

Table 10-2. Income Tax Expenditures Ranked by Total Fiscal Years 2026–2035 Projected Revenue Effect

Table 10-3. Present Value of Selected Tax Expenditures for Activity in Calendar Year 2025

Table 10-4. Estimates of Outlay Tax Expenditures for Fiscal Years 2025–2035

Descriptions of Income Tax Provisions

Descriptions of the individual and corporate income tax expenditures reported on in this document follow. These descriptions relate to current law as of July 31, 2023.

National Defense

1. *Exclusion of benefits and allowances to armed forces personnel.* Under the baseline tax system, all compensation, including dedicated payments and in-kind benefits, should be included in taxable income because they represent accretions to wealth that do not materially differ from cash wages. For example, a rental voucher of $100 is (approximately) equal in value to $100 of cash income. In contrast to this treatment, certain housing and meals, in addition to other benefits provided military personnel, either in cash or in kind, as well as certain amounts of pay related to combat service, are excluded from income subject to tax.

International Affairs

2. *Exclusion of income earned abroad by U.S. citizens.* Under the baseline tax system, all compensation received by U.S. citizens and residents is properly included in their taxable income. It makes no difference whether the compensation is a result of working abroad or whether it is labeled as a housing allowance. In contrast to this treatment, U.S. tax law allows U.S. citizens and residents who live abroad, work in the private sector, and satisfy a foreign residency requirement to exclude up to $80,000, plus adjustments for inflation since 2004, in foreign earned income from U.S. taxes. In addition, if these taxpayers are provided housing by their employers, then they may also exclude the cost of such housing from their income to the extent that it exceeds 16 percent of the earned income exclusion limit. This housing exclusion is capped at 30 percent of the earned income exclusion limit, with geographical adjustments. If taxpayers do not receive a specific allowance for housing expenses, they may deduct housing expenses up to the amount by which foreign earned income exceeds their foreign earned income exclusion.

3. *Exclusion of certain allowances for Federal employees abroad.* In general, all compensation received by U.S. citizens and residents is properly included in their taxable income. It makes no difference whether the compensation is a result of working abroad or whether it is labeled as an allowance for the high cost of living abroad. In contrast to this treatment, U.S. federal civilian employees and Peace Corps members who work outside the continental United States are allowed to exclude from U.S. taxable income certain special allowances they receive to compensate them for the relatively high costs associated with living overseas. The allowances supplement wage income and cover expenses such as rent, education, and the cost of travel to and from the United States. *Reduced tax rate on active income of controlled foreign corporations (normal tax method)*. Under the baseline tax system, worldwide income forms the tax base of U.S. corporations. In contrast, U.S. tax law exempts or preferentially taxes certain portions of this income. Under current law, certain active income from controlled foreign corporations (CFCs), called "net CFC tested income," is taxed when earned, even if it is not distributed. U.S. corporations generally receive a 40-percent deduction from U.S. tax on their net CFC tested income, resulting in a substantially reduced rate of tax. In addition, some active CFC income is excluded from tax, and distributions out of active income are no longer taxed upon repatriation. These reductions and exemptions from U.S. taxation are considered tax expenditures.
4. *Reduced tax rate on active income of controlled foreign corporations (normal tax method)*. Under the baseline tax system, worldwide income forms the tax base of U.S. corporations. In contrast, U.S. tax law exempts or preferentially taxes certain portions of this income. Under current law, certain active income from controlled foreign corporations (CFCs), called "net CFC tested income," is taxed when earned, even if it is not distributed. U.S. corporations generally receive a 40-percent deduction from U.S. tax on their net CFC tested income, resulting in a substantially reduced rate of tax. In addition, some active CFC income is excluded from tax, and distributions out of active income are no longer taxed upon repatriation. These reductions and exemptions from U.S. taxation are considered tax expenditures.
5. *Deduction for foreign-derived intangible income derived from trade or business within the United States.* Under the baseline tax system, the United States taxes income earned by U.S. corporations from serving foreign markets (e.g., exports of goods and services) at the full U.S. rate. Under current law, domestic corporations are allowed a deduction equal to 33.3 percent of "foreign-derived deduction eligible income," which is essentially income from serving foreign markets (defined on a formulaic basis).
6. *Interest Charge Domestic International Sales Corporations (IC-DISCs)*. Under the baseline tax system, taxpayer earnings are subject to tax using the regular tax rates applied to all taxpayers. In contrast, IC-DISCs allow a portion of income from exports to be taxed at the qualified dividend rate which is no higher than 20 percent (plus a 3.8-percent surtax for high-income taxpayers).

General Science, Space, and Technology

7. *Expensing of research and experimentation expenditures (normal tax method)*. The baseline tax system allows a deduction for the cost of producing income. It requires taxpayers to capitalize the costs associated with investments over time to better match the streams of income and associated costs. Research and experimentation (R&E) projects can be viewed as investments because, if successful, their benefits accrue for several years. It is often difficult, however, to identify whether a specific R&E project is successful and, if successful, what its expected life will be. Because of this ambiguity, the reference tax law baseline system would allow expensing of R&E expenditures. In contrast, under the normal tax method, the expensing of R&E expenditures is viewed as a tax expenditure. The baseline assumed for the normal tax method is that all R&E expenditures are successful and have an expected life of five years. The Tax Code provides taxpayers an election to expense domestic R&E expenditures paid or incurred in taxable years beginning after December 31, 2024. Current law requires foreign R&E expenditures paid or incurred in taxable years beginning after December 31, 2021, to be capitalized and amortized over 15 years.
8. *Credit for increasing research activities.* The baseline tax system would uniformly tax all returns to investments and not allow credits for particular activities, investments, or industries. In contrast, the Tax Code allows an R&E credit of up to 20 percent of qualified research expenditures in excess of a base amount. The base amount of the credit is generally determined by multiplying a "fixed-base percentage" by the average amount of the company's gross receipts for the prior four years. The taxpayer's fixed base percentage generally is the ratio of its research expenses to gross receipts for 1984 through 1988. Taxpayers can elect the alternative simplified credit regime, which equals 14 percent of qualified research expenses that exceed 50 percent of the average qualified research expenses for the three preceding taxable years.

Energy

9. *Expensing of exploration and development costs, oil and gas.* Under the baseline tax system, the costs of exploring and developing oil and gas wells would be capitalized and then amortized (or depreciated) over an estimate of the economic life of the property. This ensures that the net income from the well or mine is measured appropriately each year. In contrast to this treatment, current law allows the immediate deduction, i.e., expensing, of intangible drilling costs

for successful investments in domestic oil and gas wells (such as wages, the cost of using machinery for grading and drilling, and the cost of unsalvageable materials used in constructing wells). Because expensing allows recovery of costs sooner, it is more advantageous to the taxpayer than amortization. Expensing provisions for exploration expenditures apply only to properties for which a deduction for percentage depletion is allowable. For oil and gas wells, integrated oil companies may expense only 70 percent of intangible drilling costs and must amortize the remaining 30 percent over five years. Non-integrated oil companies may expense all such costs.

10. *Expensing of exploration and development costs, coal.* This is similar to the above provision but limited to coal. Current law allows immediate deduction of eligible exploration and development costs for domestic coal mines and other natural fuel deposits.
11. *Excess of percentage over cost depletion, oil and gas.* The baseline tax system would allow recovery of the costs of developing certain oil and gas properties using cost depletion. Cost depletion is similar in concept to depreciation, in that the costs of developing or acquiring the asset are capitalized and then gradually reduced over an estimate of the asset's economic life, as is appropriate for measuring net income. In contrast, the Tax Code generally allows independent oil and gas producers and royalty owners to take percentage depletion deductions rather than cost depletion on limited quantities of output. Under percentage depletion, taxpayers deduct a percentage of gross income from oil and gas production. In certain cases, the deduction is limited to a fraction of the asset's net income. Over the life of an investment, percentage depletion deductions can exceed the cost of the investment. Consequently, percentage depletion may provide more advantageous tax treatment than would cost depletion, which limits deductions to an investment's cost.
12. *Excess of percentage over cost depletion, coal.* This is similar to the above provision but limited to coal.
13. *Exception from passive loss limitation for working interests in oil and gas properties.* The baseline tax system accepts current law's general rule limiting taxpayers' ability to deduct losses from passive activities against nonpassive income (e.g., wages, interest, and dividends). Passive activities generally are defined as those in which the taxpayer does not materially participate, though there are numerous additional considerations brought to bear on the determination of which activities are passive for a given taxpayer. Losses are limited in an attempt to limit tax sheltering activities. Passive losses that are unused may be carried forward and applied against future passive income. An exception from the passive loss limitation is provided for a working interest in an oil or gas property that the taxpayer holds directly or through an entity that does not limit the liability of the taxpayer with respect to the interest. Thus, taxpayers can deduct losses from such working interests against nonpassive income without regard to whether they materially participate in the activity.
14. *Enhanced oil recovery credit.* A credit is provided equal to 15 percent of the taxpayer's costs for enhanced oil recovery on U.S. projects. If the reference price of oil for the previous calendar year is above $28 (measured in barrels and adjusted for inflation from 1990), the credit is reduced in proportion to the ratio of the excess over the $28 threshold to $6. Beyond a $6 difference, the credit is fully phased out.
15. *Marginal wells credit.* A credit is provided for crude oil and natural gas produced from a qualified marginal well. A marginal well is one that does not produce more than 1,095 barrel-of-oil equivalents per year, with this limit adjusted proportionately for the number of days the well is in production in a given year. The credit is no more than $3.00 per barrel of qualified crude oil production and $0.50 per thousand cubic feet of qualified natural gas production. The credit for natural gas is reduced in proportion to the amount by which the reference price of natural gas at the wellhead for the previous calendar year exceeds $1.67 per thousand cubic feet and is zero for a reference price that exceeds $2.00. The credit for crude oil is reduced in proportion to the amount by which the reference price of oil for the previous calendar year exceeds $15.00 per barrel and is zero for a reference price that exceeds $18.00. All dollar amounts are adjusted for inflation from 2004.
16. *Amortize all geological and geophysical expenditures over two years.* The baseline tax system allows taxpayers to deduct the decline in the economic value of an investment over its economic life. However, the Tax Code allows geological and geophysical expenditures incurred in connection with oil and gas exploration in the United States to be amortized over two years for non-integrated oil companies, a span of time that is generally shorter than the economic life of the assets.
17. *Capital gains treatment of royalties on coal.* The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low tax rates to apply to certain types or sources of income. Current law allows capital gains realized by individuals to be taxed at a preferentially low rate that is no higher than 20 percent (plus the 3.8 percent surtax). Certain sales of coal under royalty contracts qualify for taxation as capital gains rather than ordinary income.
18. *Exclusion of interest on energy facility bonds.* The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. In contrast, the Tax Code allows interest earned on state and local bonds used to finance construction of certain energy facilities to be exempt from tax. These bonds are generally subject to the state private-activity-bond annual volume cap.

19. *Qualified energy conservation bonds.* The baseline tax system would uniformly tax all returns to investments and not allow credits for particular activities, investments, or industries. However, the Tax Code provides for the issuance of energy conservation bonds which entitle the bond holder to a federal income tax credit in lieu of interest. As of March 2010, issuers of the unused authorization of such bonds could opt to receive direct payment with the yield becoming fully taxable.
20. *Exclusion of utility conservation subsidies.* The baseline tax system generally takes a comprehensive view of taxable income that includes a wide variety of (measurable) accretions to wealth. In certain circumstances, public utilities offer rate subsidies to non-business customers who invest in energy conservation measures. These rate subsidies are equivalent to payments from the utility to its customer, and so represent accretions to wealth, income that would be taxable to the customer under the baseline tax system. In contrast, the Tax Code exempts these subsidies from the non-business customer's gross income.
21. *Credit for holding clean renewable energy bonds.* The baseline tax system would uniformly tax all returns to investments and not allow credits for particular activities, investments, or industries. In contrast, the Tax Code provides for the issuance of Clean Renewable Energy Bonds that entitle the bond holder to a federal income tax credit in lieu of interest. As of March 2010, issuers of the unused authorization of such bonds could opt to receive direct payment with the yield becoming fully taxable.
22. *Energy production credit.* The baseline tax system would not allow credits for particular activities, investments, or industries. Instead, it generally would seek to tax uniformly all returns from investment-like activities. In contrast, the Tax Code provides a credit for zero-emission electricity produced at a facility that begins construction after 2024, with a 10-year credit period starting on the date the facility is placed in service. Wind and solar facilities that begin construction after July 4, 2026, are ineligible for the credit if placed in service after December 31, 2027. The credit for technologies other than wind and solar begins to phaseout after 2033. The credit rate is increased for facilities meeting certain wage and apprenticeship requirements. Two additional bonus credits—each equal to 10 percent of the otherwise-applicable credit—are available for projects that meet domestic content requirements and projects located in energy communities. The credit for zero-emission production replaced the previous credit for electricity produced at certain renewable facilities that began construction before January 1, 2025.
23. *Energy investment credit.* The baseline tax system would not allow credits for particular activities, investments, or industries. Instead, it generally would seek to tax uniformly all returns from investment-like activities. However, the Tax Code provides a credit for investments in clean electricity generation and storage facilities that achieve a net-zero greenhouse gas emissions rate. The credit is 30 percent of the qualified investment basis for facilities that begin construction after 2024 and meet certain wage and apprenticeship requirements. Bonus credits of 10 percentage points each are available if projects meet domestic content requirements and are located in energy communities. There is also an allocated credit worth an additional 10 percentage points or 20 percentage points for certain projects located in low-income communities. Wind and solar facilities that begin construction after July 4, 2026, are ineligible for the credit if placed in service after December 31, 2027. The credit for technologies other than wind and solar begins to phaseout after 2033. Qualified fuel cell property which begins construction after December 31, 2025 is eligible for a 30-percent credit but not for bonus credits. The credit for investments in clean electricity generation and storage production replaced the previous credit for investments in certain renewable facilities that began construction before January 1, 2025.
24. *Advanced nuclear power facilities production credit.* The baseline tax system would not allow credits or deductions for particular activities, investments, or industries. Instead, it generally would seek to tax uniformly all returns from investment-like activities. In contrast, the Tax Code allows a tax credit equal to 1.8 cents times the number of kilowatt hours of electricity produced at a qualifying advanced nuclear power facility. A taxpayer may claim no more than $125 million per 1,000 megawatts of capacity. The Treasury Department may allocate up to 6,000 megawatts of credit-eligible capacity. Any unutilized national capacity limitation shall be allocated after December 31, 2020, according to prioritization rules set forth by statute.
25. *Zero-emission nuclear power production credit.* The baseline tax system would not allow credits or deductions for particular activities, investments, or industries. Instead, it generally would seek to tax uniformly all returns from investment-like activities. In contrast, the Tax Code allows a tax credit per unit of electricity produced at a nuclear facility placed in service before enactment of the Inflation Reduction Act of 2022. The credit is based on the gross receipts of the facility, the electricity produced, any other federal/state/local zero-emissions credits or grants received, and whether the facility adopts certain labor standards. The credit applies to electricity produced and sold after December 31, 2023, and before January 1, 2033.
26. *Reduced tax rate for nuclear decommissioning funds.* The baseline tax system would uniformly tax all returns to investments and not allow special rates for particular activities, investments, or industries. In contrast, the Tax Code provides a special 20-percent tax rate for investments made by Nuclear Decommissioning Reserve Funds.

27. *Alcohol fuel credits.* The baseline tax system would not allow credits for particular activities, investments, or industries. Instead, it generally would seek to tax uniformly all returns from investment-like activities. In contrast, the Tax Code provided an income tax credit for qualified cellulosic biofuel production which was renamed the Second generation biofuel producer credit. This provision expired on December 31, 2024.
28. *Biodiesel and small agri-biodiesel producer tax credits.* The baseline tax system would not allow credits for particular activities, investments, or industries. Instead, it generally would seek to tax uniformly all returns from investment-like activities. However, the Tax Code allowed an income tax credit for biodiesel and for biodiesel derived from virgin sources. In lieu of the biodiesel credit, the taxpayer could claim a refundable excise tax credit. In addition, a separate credit was available for qualified renewable diesel fuel mixtures. These provisions expired on December 31, 2024. Small agri-biodiesel producers are eligible for a separate income tax credit for biodiesel production, which expires December 31, 2026.
29. *Clean fuel production credit.* The baseline tax system would not allow credits for particular activities, investments or industries. Instead, it would generally seek to tax uniformly all returns from investment-like activities. In contrast, the Tax Code allows an income tax credit for the production of qualifying transportation fuel with zero or low greenhouse gas emissions. The amount of the credit is calculated from the base amount, or alternate amount, of the credit and the emissions factor of a transportation fuel. Sustainable aviation fuel has a higher base amount for fuel produced and sold before January 1, 2026. Producers are eligible for larger credits as the emission of the fuels they produce approach zero. The credit applies to fuel produced after December 31, 2024 and sold on or before December 31, 2029. A sustainable aviation fuel-specific excise credit was available for fuel produced after December 31, 2022 and before January 1, 2025.
30. *Clean hydrogen production credit*. The baseline tax system would not allow credits for particular activities, investments, or industries. Instead, it generally would seek to tax uniformly all returns from investment-like activities. In contrast, the Tax Code allows credits for the production of clean hydrogen. Clean hydrogen is defined in relation to its lifecycle greenhouse gas emissions rate; no credit is allowed for hydrogen with a lifecycle greenhouse gas emissions rate greater than 4 kilogram of carbon dioxide equivalent per kilogram of hydrogen. The credit applies to qualified clean hydrogen produced at a qualified clean hydrogen production facility during the 10-year period beginning on the date such facility was originally placed in service. Qualifying facilities must be placed in service before January 1, 2028.
31. *Tax credits for clean vehicles.* The baseline tax system would not allow credits for particular activities, investments, or industries. Instead, it generally would seek to tax uniformly all returns from investment-like activities. In contrast, the Tax Code allowed. a credit for up to $7,500 for a qualifying new plug-in electric vehicle or fuel cell vehicle acquired before October 1, 2025.
32. *Tax credits for refueling property.* The baseline tax system would not allow credits for particular activities, investments, or industries. Instead, it generally would seek to tax uniformly all returns from investment-like activities. In contrast, the Tax Code allows credits for alternative fuel vehicle refueling property of up to $1,000 for individuals or $100,000 per item for businesses or tax-exempt organizations if placed in service before July 1, 2026.
33. *Allowance of deduction for certain energy efficient commercial building property.* The baseline tax system would not allow deductions in lieu of normal depreciation allowances for particular investments in particular industries. Instead, it generally would seek to tax uniformly all returns from investment-like activities. In contrast, the Tax Code allows a deduction for certain energy efficient commercial building property. The basis of such property is reduced by the amount of the deduction. Starting in 2021, the maximum deduction amount per square foot will be increased by a cost-of -living adjustment. The property must begin construction by June 30, 2026 to qualify for the credit. The baseline tax system would not allow credits for particular activities, investments, or industries. Instead, it generally would seek to tax uniformly all returns from investment-like activities. However, the Tax Code provides a tax credit for eligible contractors who build or substantially reconstruct qualified new energy efficient homes of up to $5000 per home. The amount of the credit depends on factors including the type of home, its energy efficiency, and whether prevailing wage requirements were satisfied during construction of multifamily units. Qualifying new energy efficient homes must be acquired before July 1, 2026.
34. *Credit for construction of new energy efficient homes.* The baseline tax system would not allow credits for particular activities, investments, or industries. Instead, it generally would seek to tax uniformly all returns from investment-like activities. However, the Tax Code provides a tax credit for eligible contractors who build or substantially reconstruct qualified new energy efficient homes of up to $5000 per home. The amount of the credit depends on factors including the type of home, its energy efficiency, and whether prevailing wage requirements were satisfied during construction of multifamily units. Qualifying new energy efficient homes must be acquired before July 1, 2026.
35. *Credit for energy efficiency improvements to existing homes.* The baseline tax system would not allow credits for particular activities, investments, or industries. However, the Tax Code provided an investment tax credit for expenditures made on qualifying energy-efficient improvements, such as insulation, exterior windows and doors, heating, ventilation and

air conditioning (HVAC) systems, heat pumps and energy audits. To qualify for the credit all property must have been placed in service by the end of 2025.

36. *Credit for residential energy efficient property.* The baseline tax system would uniformly tax all returns to investments and not allow credits for particular activities, investments, or industries. However, the Tax Code provides a credit for the purchase of a qualified photovoltaic property and solar water heating property, as well as for fuel cell power plants, geothermal heat pumps, small wind property, and qualified battery storage technology used in or placed on a residence. The credit is 30 percent for property placed in service before January 1, 2020, 26 percent for property placed in service in 2020–2021, and 30 percent for property placed in service in 2022–2025. To qualify for the credit all property must be placed in service by the end of 2025.
37. *Advanced energy property credit.* The baseline tax system would not allow credits for particular activities, investments, or industries. However, the Tax Code provides a 30-percent investment credit for property used in a qualified advanced energy manufacturing project. The Treasury Department may award up to $12.3 billion in tax credits for qualified investments. Of the total $12.3 billion, $4 billion is reserved for projects located in energy communities.
38. *Advanced manufacturing production credit.* The baseline tax system would not allow credits for particular activities, investments, or industries. However, the Tax Code provides credits of varying amounts for the production within the United States and sale of specified eligible components, including specified solar energy components, wind energy components, inverters, qualifying battery components, and applicable critical minerals. The production of an eligible component is only eligible for a credit if sold after 2022. For most eligible components, the credit is phased out from 2030 to 2032, with components no longer receiving any credit if sold after 2032. Wind energy components are not eligible after 2027. Critical minerals aside from metallurgical coal phase out between 2031 and 2033. Metallurgical coal is eligible for a credit through 2029. Eligibility is limited according to foreign entity rules after 2026.

Natural Resources and Environment

39. *Expensing of exploration and development costs, nonfuel minerals.* The baseline tax system allows the taxpayer to deduct the depreciation of an asset according to the decline in its economic value over time. However, certain capital outlays associated with exploration and development of nonfuel minerals may be expensed rather than depreciated over the life of the asset.
40. *Excess of percentage over cost depletion, nonfuel minerals.* The baseline tax system allows the taxpayer to deduct the decline in the economic value of an investment over time. Under current law, however, most nonfuel mineral extractors may use percentage depletion (whereby the deduction is fixed as a percentage of receipts) rather than cost depletion, with percentage depletion rates ranging from 22 percent for sulfur to 5 percent for sand and gravel. Over the life of an investment, percentage depletion deductions can exceed the cost of the investment. Consequently, percentage depletion may provide more advantageous tax treatment than would cost depletion, which limits deductions to an investment's cost.
41. *Exclusion of interest on bonds for water, sewage, and hazardous waste facilities.* The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. In contrast, the Tax Code allows interest earned on state and local bonds used to finance construction of sewage, water, or hazardous waste facilities to be exempt from tax. These bonds are generally subject to the state private-activity bond annual volume cap.
42. *Capital gains treatment of certain timber income.* The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low tax rates to apply to certain types or sources of income. However, under current law certain timber sales can be treated as a capital gain rather than ordinary income and therefore subject to the lower capital-gains tax rate. Current law allows capital gains to be taxed at a preferentially low rate that is no higher than 20 percent (plus the 3.8-percent surtax).
43. *Expensing of multiperiod timber growing costs.* The baseline tax system requires the taxpayer to capitalize costs associated with investment property. However, most of the production costs of growing timber may be expensed under current law rather than capitalized and deducted when the timber is sold, thereby accelerating cost recovery.
44. *Tax incentives for preservation of historic structures.* The baseline tax system would not allow credits for particular activities, investments, or industries. However, expenditures to preserve and restore certified historic structures qualify for an investment tax credit of 20 percent for certified rehabilitation activities. The taxpayer's recoverable basis must be reduced by the amount of the credit. The credit must be claimed ratably over the five years after the property is placed in service, for property placed in service after December 31, 2017.
45. *Carbon oxide sequestration credit.* The baseline tax system would uniformly tax all returns to investments and not allow credits for particular activities, investments, or industries. In contrast, the Tax Code allows a credit for qualified carbon oxide captured at a qualified facility and disposed of in secure geological storage. In addition, the provision allows a credit for qualified carbon oxide that is captured at a qualified facility and used as a tertiary injectant in a qualified enhanced oil or natural gas recovery project. The credit also allows for utilized captured carbon. The credit differs according to whether the carbon was captured using equipment which was

originally placed in service before February 9, 2018, or thereafter. Facilities must begin construction by the end of 2032 to be eligible.

46. *Deduction for endangered species recovery expenditures.* The baseline tax system would not allow deductions in addition to normal depreciation allowances for particular investments in particular industries. Instead, it generally would seek to tax uniformly all returns from investment-like activities. In contrast, under current law farmers can deduct up to 25 percent of their gross income for expenses incurred as a result of site and habitat improvement activities that will benefit endangered species on their farmland, in accordance with site specific management actions included in species recovery plans approved pursuant to the Endangered Species Act of 1973.

Agriculture

47. *Expensing of certain capital outlays.* The baseline tax system requires the taxpayer to capitalize costs associated with investment property. However, farmers may expense certain expenditures for feed and fertilizer, for soil and water conservation measures, and certain other capital improvements under current law.
48. *Expensing of certain multiperiod production costs.* The baseline tax system requires the taxpayer to capitalize costs associated with an investment over time. However, the production of livestock and crops with a production period greater than two years is exempt from the uniform cost capitalization rules (e.g., for costs for establishing orchards or structure improvements), thereby accelerating cost recovery.
49. *Treatment of loans forgiven for solvent farmers.* Because loan forgiveness increases a debtors net worth the baseline tax system requires debtors to include the amount of loan forgiveness as income or else reduce their recoverable basis in the property related to the loan. If the amount of forgiveness exceeds the basis, the excess forgiveness is taxable if the taxpayer is not insolvent. For bankrupt debtors, the amount of loan forgiveness reduces carryover losses, unused credits, and then basis, with the remainder of the forgiven debt excluded from taxation. Qualified farm debt that is forgiven, however, is excluded from income even when the taxpayer is solvent.
50. *Capital gains treatment of certain agriculture income.* The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low tax rates to apply to certain types or sources of income. In contrast, current law allows capital gains to be taxed at a preferentially low rate that is no higher than 20 percent (plus the 3.8-percent surtax). Certain agricultural income, such as unharvested crops, qualify for taxation as capital gains rather than ordinary income, and so benefit from the preferentially low 20-percent maximum tax rate on capital gains (plus the 3.8-percent surtax).
51. *Income averaging for farmers.* The baseline tax system generally taxes all earned income each year at the rate determined by the income tax. However, taxpayers may average their taxable income from farming and fishing over the previous three years.
52. *Deferral of gain on sale of farm refiners.* The baseline tax system generally subjects capital gains to taxes the year that they are realized. However, the Tax Code allows a taxpayer who sells stock in a farm refiner to a farmers' cooperative to defer recognition of the gain if the proceeds are re-invested in a qualified replacement property.
53. *Expensing of reforestation expenditures.* The baseline tax system requires the taxpayer to capitalize costs associated with an investment over time. In contrast, the Tax Code provides for the expensing of the first $10,000 in reforestation expenditures with 7-year amortization of the remaining expenses.

Commerce

This category includes a number of tax expenditure provisions that also affect economic activity in other functional categories. For example, provisions related to investment, such as accelerated depreciation, could be classified under the energy, natural resources and environment, agriculture, or transportation categories.

54. *Exemption of credit union income.* Under the baseline tax system, corporations pay taxes on their profits under the regular tax rate schedule. However, in the Tax Code the earnings of credit unions not distributed to members as interest or dividends are exempt from the income tax.
55. *Exclusion of life insurance death benefits.* Under the baseline tax system, individuals and corporations would pay taxes on their income when it is (actually or constructively) received or accrued. Nevertheless, current law generally excludes from tax amounts received under life insurance contracts if such amounts are paid by reason of the death of the insured.
56. *Exemption or special alternative tax for small property and casualty insurance companies.* The baseline tax system would require corporations to pay taxes on their profits under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. Under current law, however, stock non-life insurance companies are generally exempt from tax if their gross receipts for the taxable year do not exceed $600,000 and more than 50 percent of such gross receipts consist of premiums. Mutual non-life insurance companies are generally tax-exempt if their annual gross receipts do not exceed $150,000 and more than 35 percent of gross receipts consist of premiums. Also, nonlife insurance companies with no more than a specified level of annual net written premiums generally may elect to pay tax only on their taxable investment income provided certain ownership diversification requirements are met. The underwriting income (premiums, less insur-

ance losses and expenses) of electing companies is excluded from tax. The specified premium limit is indexed for inflation; for 2025, the premium limit is $2.85 million.

57. *Tax exemption of insurance income earned by tax-exempt organizations.* Under the baseline tax system, corporations pay taxes on their profits under the regular tax rate schedule. The baseline tax system would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. Generally, the income generated by life and property and casualty insurance companies is subject to tax, albeit under special rules. However, income from insurance operations conducted by certain tax-exempt organizations, such as fraternal societies, voluntary employee benefit associations, and others are exempt from tax.

58. *Exclusion of interest spread of financial institutions.* The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. Consumers pay for some deposit-linked services, such as check cashing, by accepting a below-market interest rate on their demand deposits. If they received a market rate of interest on those deposits and paid explicit fees for the associated services, they would pay taxes on the full market rate and (unlike businesses) could not deduct the fees. The Government thus foregoes tax on the difference between the risk-free market interest rate and below-market interest rates on demand deposits, which under competitive conditions should equal the value of deposit services.

59. *Exclusion of interest on owner-occupied mortgage subsidy bonds.* The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. In contrast, the Tax Code allows interest earned on state and local bonds used to finance homes purchased by first-time, low-to-moderate-income buyers to be exempt from tax. These bonds are generally subject to the state private-activity-bond annual volume cap.

60. *Exclusion of interest on rental housing bonds.* The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. In contrast, the Tax Code allows interest earned on state and local government bonds used to finance multifamily rental housing projects to be tax-exempt.

61. *Deductibility of mortgage interest expense on owner-occupied residences.* Under the baseline tax system, expenses incurred in earning income would be deductible. However, such expenses would not be deductible when the income or the return on an investment is not taxed. In contrast, the Tax Code allows an exclusion from a taxpayer's taxable income for the value of owner-occupied housing services and allows the owner-occupant to deduct mortgage interest paid on his or her primary residence and one secondary residence as an itemized non-business deduction. In general, the mortgage interest deduction is limited to interest on debt no greater than the owner's basis in the residence and is also limited to interest on debt of no more than $1 million. Interest on up to $100,000 of other debt secured by a lien on a principal or second residence is also deductible, irrespective of the purpose of borrowing, provided the total debt does not exceed the fair market value of the residence. As an alternative to the deduction, holders of qualified Mortgage Credit Certificates issued by state or local governmental units or agencies may claim a tax credit equal to a proportion of their interest expense. In the case of taxable years beginning after December 31, 2017, 1) the $1 million limit is reduced to $750,000 for indebtedness incurred after December 15, 2017, and 2) the deduction for interest on home equity indebtedness is disallowed.

62. *Deductibility of state and local property tax on owner-occupied homes.* Under the baseline tax system, expenses incurred in earning income would be deductible. However, such expenses would not be deductible when the income or the return on an investment is not taxed. In contrast, the Tax Code allows an exclusion from a taxpayer's taxable income for the value of owner-occupied housing services and allows the owner-occupant to deduct property taxes paid on real property. In the case of taxable years beginning after December 31, 2024, and before January 1, 2030, 1) the deduction for foreign real property taxes paid is disallowed, and 2) the deduction for taxes paid in any taxable year, which includes the deduction for property taxes on real property, is limited to $40,000 ($20,000 in the case of a married individual filing a separate return). The deduction limit phases down at a 30-percent rate beginning at $500,000 of adjusted gross income until it reaches $10,000 ($5,000 in the case of a married individual filing a separate return). The $40,000 deduction limit and $500,000 phase-down start point increase by one percent in each year from 2026 to 2029. For taxable years beginning after December 31, 2029 the deduction limit is $10,000 ($5,000 in the case of a married individual filing a separate return).

63. *Deferral of income from installment sales.* The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates, or deferral of tax, to apply to certain types or sources of income. Dealers in real and personal property (i.e., sellers who regularly hold property for sale or resale) cannot defer taxable income from installment sales until the receipt of the loan repayment. Nondealers (i.e., sellers of real property used in their business) are required to pay interest on deferred taxes attributable to their total installment obligations in excess of $5 million. Only properties with sales prices exceeding $150,000 are includable in the total. The payment of a market rate of interest eliminates the benefit of the tax deferral. The tax exemption for nondealers with

total installment obligations of less than $5 million is, therefore, a tax expenditure.

64. *Capital gains exclusion on home sales.* The baseline tax system would not allow deductions and exemptions for certain types of income. In contrast, the Tax Code allows homeowners to exclude from gross income up to $250,000 ($500,000 in the case of a married couple filing a joint return) of the capital gains from the sale of a principal residence. To qualify, the taxpayer must have owned and used the property as the taxpayer's principal residence for a total of at least two of the five years preceding the date of sale. In addition, the exclusion may not be used more than once every two years.
65. *Exclusion of net imputed rental income.* Under the baseline tax system, the taxable income of a taxpayer who is an owner-occupant would include the implicit value of gross rental income on housing services earned on the investment in owner-occupied housing and would allow a deduction for expenses, such as interest, depreciation, property taxes, and other costs, associated with earning such rental income. In contrast, the Tax Code allows an exclusion from taxable income for the implicit gross rental income on housing services, while in certain circumstances allows a deduction for some costs associated with such income, such as for mortgage interest and property taxes.
66. *Exception from passive loss rules for $25,000 of rental loss.* The baseline tax system accepts current law's general rule limiting taxpayers' ability to deduct losses from passive activities against nonpassive income (e.g., wages, interest, and dividends). Passive activities generally are defined as those in which the taxpayer does not materially participate, and there are numerous additional considerations brought to bear on the determination of which activities are passive for a given taxpayer. Losses are limited in an attempt to limit tax sheltering activities. Passive losses that are unused may be carried forward and applied against future passive income. In contrast to the general restrictions on passive losses, the Tax Code exempts certain owners of rental real estate activities from "passive income" limitations. The exemption is limited to $25,000 in losses and phases out for taxpayers with income between $100,000 and $150,000.
67. *Credit for low-income housing investments.* The baseline tax system would uniformly tax all returns to investments and not allow credits for particular activities, investments, or industries. However, under current law taxpayers who invest in certain low-income housing projects are eligible for a tax credit. The credit rate is set so that the present value of the credit is equal to at least 70 percent of the building's qualified basis for new construction and 30 percent for 1) housing receiving other federal benefits (such as tax-exempt bond financing), or 2) substantially rehabilitated existing housing. The credit can exceed these levels in certain statutorily defined and state designated areas where project development costs are higher. The credit is allowed in equal amounts over 10 years and is generally subject to a volume cap.
68. *Accelerated depreciation on rental housing (normal tax method).* Under a comprehensive economic income tax, the costs of acquiring a building are capitalized and depreciated over time in accordance with the decline in the property's economic value due to wear and tear or obsolescence. This ensures that the net income from the rental property is measured appropriately each year. Current law allows depreciation that is accelerated relative to economic depreciation. However, the depreciation provisions of the Tax Code are part of the reference tax law and thus do not give rise to tax expenditures under reference tax law. Under normal tax baseline, in contrast, depreciation allowances reflect estimates of economic depreciation.
69. *Discharge of mortgage indebtedness.* Under the baseline tax system, all income would generally be taxed under the regular tax rate schedule. The baseline tax system would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. In contrast, the Tax Code allows an exclusion from a taxpayer's taxable income for any discharge of indebtedness of up to $750,000 ($375,000 in the case of a married individual filing a separate return) from a qualified principal residence. The provision applies to debt discharged after December 31, 2020, and before January 1, 2026.
70. *Discharge of business indebtedness.* Under the baseline tax system, all income would generally be taxed under the regular tax rate schedule. The baseline tax system would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. In contrast, the Tax Code allows an exclusion from a taxpayer's taxable income for any discharge of qualified real property business indebtedness by taxpayers other than a C corporation. If the canceled debt is not reported as current income, however, the basis of the underlying property must be reduced by the amount canceled.
71. *Exceptions from imputed interest rules.* Under the baseline tax system, holders (issuers) of debt instruments are generally required to report interest earned (paid) in the period it accrues, not when received. In addition, the amount of interest accrued is determined by the actual price paid, not by the stated principal and interest stipulated in the instrument. But under current law, any debt associated with the sale of property worth less than $250,000 is exempted from the general interest accounting rules. This general $250,000 exception is not a tax expenditure under reference tax law but is under normal tax baseline. Current law also includes exceptions for certain property worth more than $250,000. These are tax expenditure under reference tax law and normal tax baselines. These exceptions include sales of personal residences worth more than $250,000 and sales of farms and small businesses worth between $250,000 and $1 million.

72. *Treatment of qualified dividends.* The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low tax rates to apply to certain types or sources of income. For individuals, tax rates on regular income vary from 10 percent to 39.6 percent in the budget window (plus a 3.8-percent surtax on high income taxpayers), depending on the taxpayer's income. In contrast, under current law, qualified dividends are taxed at a preferentially low rate that is no higher than 20 percent (plus the 3.8-percent surtax).
73. *Capital gains (except agriculture, timber, iron ore, and coal)*. The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low tax rates to apply to certain types or sources of income. Under current law, capital gains on assets held for more than one year are taxed at a preferentially low rate that is no higher than 20 percent (plus the 3.8-percent surtax).
74. *Capital gains exclusion of small corporation stock*. The baseline tax system would not allow deductions and exemptions or provide preferential treatment of certain sources of income or types of activities. In contrast, the Tax Code provides an exclusion for capital gains from qualified small business stock (QSBS) held by individuals. For QSBS issued after July 4, 2025, the exclusion equals 50 percent for stock held for three years; 75 percent for stock held for four years; and 100 percent for stock held for five years or more. For QSBS issued prior to July 4, 2025, the stock must be held for five years to qualify for the exclusion. The exclusion equals 50 percent for stock issued between August 11, 1993, and February 17, 2009; 75 percent for stock issued after February 17, 2009, and before September 28, 2010; and 100 percent for stock issued after September 27, 2010, and before July 4, 2025. Under current law, a qualified small business is a corporation whose gross assets never exceed $75 million prior to and including the date of issuance of the stock. For QSBS issued prior to July 4, 2025, a qualified small business is a corporation whose gross assets never exceeded $50 million prior to and including the date of issuance of the stock.
75. *Step-up basis of capital gains at death.* Under the baseline tax system, unrealized capital gains would be taxed when assets are transferred at death. It would not allow for exempting gains upon transfer of the underlying assets to the heirs. In contrast, capital gains on assets held at the owner's death are not subject to capital gains tax under current law. The cost basis of the appreciated assets is adjusted to the market value at the owner's date of death which becomes the basis for the heirs.
76. *Carryover basis of capital gains on gifts.* Under the baseline tax system, unrealized capital gains would be taxed when assets are transferred by gift. In contrast, when a gift of appreciated asset is made under current law, the donor's basis in the transferred property (the cost that was incurred when the transferred property was first acquired) carries over to the donee. The carryover of the donor's basis allows a continued deferral of unrealized capital gains.
77. *Ordinary income treatment of loss from small business corporation stock sale.* The baseline tax system limits to $3,000 the write-off of losses from capital assets, with carryover of the excess to future years. In contrast, the Tax Code allows up to $100,000 in losses from the sale of small business corporate stock (capitalization less than $1 million) to be treated as ordinary losses and fully deducted.
78. *Deferral of capital gains from like-kind exchanges.* The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates, or deferral of tax, to apply to certain types or sources of income. In contrast, current law allows the deferral of accrued gains on assets transferred in qualified like-kind exchanges.
79. *Depreciation of buildings other than rental housing (normal tax method)*. Under a comprehensive economic income tax, the costs of acquiring a building are capitalized and depreciated over time in accordance with the decline in the property's economic value due to wear and tear or obsolescence. This ensures that the net income from the property is measured appropriately each year. Current law allows depreciation deductions that differ from those under economic depreciation. However, the depreciation provisions of the Tax Code are part of the reference tax law and thus do not give rise to tax expenditures under reference tax law. Under normal tax baseline, in contrast, depreciation allowances reflect estimates of economic depreciation.
80. *Accelerated depreciation of machinery and equipment (normal tax method)*. Under a comprehensive economic income tax, the costs of acquiring machinery and equipment are capitalized and depreciated over time in accordance with the decline in the property's economic value due to wear and tear or obsolescence. This ensures that the net income from the property is measured appropriately each year. Current law allows depreciation deductions that are accelerated relative to economic depreciation. In particular, in 2023, 80 percent of the purchase cost of qualified property is eligible to be expensed immediately; this percentage phases out to zero through 2027. Additionally, subject to investment limitations, the Tax Code allows up to $1 million (indexed for inflation) in qualifying investments in tangible property and certain computer software to be expensed rather than depreciated over time. The depreciation provisions of the Tax Code are part of the reference tax law and thus do not give rise to tax expenditures under reference tax law. Under the normal tax baseline, in contrast, depreciation allowances reflect estimates of economic depreciation.
81. *Exclusion of interest on small issue bonds.* The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. In contrast, the Tax

Code allows interest earned on small issue industrial development bonds (IDBs) issued by state and local governments to finance manufacturing facilities to be tax exempt. Depreciable property financed with small issue IDBs must be depreciated, however, using the straight-line method. The annual volume of small issue IDBs is subject to the unified volume cap discussed in the mortgage housing bond section above.

82. *Special rules for certain film and TV production.* The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow deductions and exemptions or preferentially low (or zero) tax rates to apply to certain types or sources of income. In contrast, the Tax Code allowed taxpayers to deduct up to (in general) $15 million per production in non-capital expenditures incurred during the year. This provision expired at the end of 2025. .
83. *Allow 20-percent deduction to certain pass-through income.* The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow deductions and exemptions or preferentially low (or zero) tax rates to apply to certain types or sources of income. In contrast, the Tax Code allows for a deduction equal to up to 20 percent of income attributable to domestic pass-through businesses, subject to certain limitations.
84. *Advanced manufacturing investment credit.* The baseline tax system would not allow credits for particular activities, investments, or industries. Instead, it generally would seek to tax uniformly all returns from investment-like activities. However, the Tax Code provides credits for investments in semiconductor manufacturing equipment within the United States. The credit is 25 percent for qualified property placed into service after December 31, 2022, and 35 percent for qualified property placed into service after December 31, 2025. Construction on a qualified facility must begin before January 1, 2027. Owners of facilities that qualify for the advanced manufacturing investment credit may elect to treat investment credits as a payment of tax equal to the amount of the credit.
85. *Deduction of interest on car loans.* The baseline tax system would not allow a deduction for qualified passenger vehicle loan interest. In contrast, under current law, taxpayers may deduct qualified passenger vehicle loan interest, up to $10,000, from their taxable income. This deduction is phased out by $200 for each $1,000 (or portion thereof) by which the taxpayer's modified adjusted gross income exceeds $100,000 ($200,000 in the case of joint returns). Vehicle loan interest must meet certain conditions in order to be eligible for the deduction, including that the original use of the vehicle commences with the taxpayer (interest on used cars is not eligible) and that the vehicle undergoes final assembly in the U.S. This deduction is allowed for taxable years beginning after December 31, 2024, and ending before January 1, 2029.

Transportation

86. *Tonnage tax.* The baseline tax system generally would tax all profits and income under the regular tax rate schedule. U.S. shipping companies may choose to be subject to a tonnage tax based on gross shipping weight in lieu of an income tax, in which case profits would not be subject to tax under the regular tax rate schedule.
87. *Deferral of tax on shipping companies.* The baseline tax system generally would tax all profits and income under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. In contrast, the Tax Code allows certain companies that operate U.S. flag vessels to defer income taxes on that portion of their income used for shipping purposes (e.g., primarily construction, modernization and major repairs to ships, and repayment of loans to finance these investments).
88. *Exclusion of reimbursed employee parking expenses.* Under the baseline tax system, all compensation, including dedicated payments and in-kind benefits, would be included in taxable income. Dedicated payments and in-kind benefits represent accretions to wealth that do not differ materially from cash wages. In contrast, the Tax Code allows an exclusion from taxable income for employee parking expenses that are paid for by the employer or that are received by the employee in lieu of wages. In 2025, the maximum amount of the parking exclusion is $325 per month. The tax expenditure estimate does not include any subsidy provided through employer-owned parking facilities. However, beginning in 2018, parking expenses are no longer deductible to employers.
89. *Exclusion for employer-provided transit passes.* Under the baseline tax system, all compensation, including dedicated payments and in-kind benefits, would be included in taxable income. Dedicated payments and in-kind benefits represent accretions to wealth that do not differ materially from cash wages. In contrast, the Tax Code allows an exclusion from a taxpayer's taxable income for passes, tokens, fare cards, and vanpool expenses that are paid for by an employer or that are received by the employee in lieu of wages to defray an employee's commuting costs. Due to a parity to parking provision, the maximum amount of the transit exclusion is $325 per month in 2025. However, beginning in 2018, transit expenses are no longer deductible to employers.
90. *Tax credit for certain expenditures for maintaining railroad tracks.* The baseline tax system would not allow credits for particular activities, investments, or industries. However, the Tax Code allowed eligible taxpayers to claim a credit equal to the lesser of 40 percent of maintenance expenditures and the product of $3,500 and the number of miles of railroad track owned or leased.
91. *Exclusion of interest on bonds for highway projects and rail-truck transfer facilities.* The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow pref-

erentially low (or zero) tax rates to apply to certain types or sources of income. In contrast, the Tax Code provides for $15 billion of tax-exempt bond authority to finance qualified highway or surface freight transfer facilities.

Community and Regional Development

92. *Exclusion of interest for airport, dock, and similar bonds.* The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. In contrast, the Tax Code allows interest earned on state and local bonds issued to finance high-speed rail facilities and Government-owned airports, docks, wharves, and sport and convention facilities to be tax-exempt. These bonds are not subject to a volume cap.
93. *Exemption of certain mutuals' and cooperatives' income.* Under the baseline tax system, corporations pay taxes on their profits under the regular tax rate schedule. In contrast, the Tax Code provides for the incomes of mutual and cooperative telephone and electric companies to be exempt from tax if at least 85 percent of their receipts are derived from patron service charges.
94. *Empowerment zones.* The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low tax rates to apply to certain types or sources of income, tax credits, and write-offs faster than economic depreciation. In contrast, the Tax Code allows qualifying businesses in designated economically depressed areas to receive tax benefits such as an employment credit and special tax-exempt financing. A taxpayer's ability to accrue new tax benefits for empowerment zones expired on December 31, 2025.
95. *New markets tax credit.* The baseline tax system would not allow credits for particular activities, investments, or industries. However, the Tax Code allows taxpayers who make qualified equity investments in a community development entity (CDE), which then make qualified investments in low-income communities, to be eligible for a tax credit that is received over 7 years. The total equity investment available for the credit across all CDEs is generally $5 billion for each calendar year.
96. *Credit to holders of Gulf and Midwest Tax Credit Bonds.* The baseline tax system would not allow credits for particular activities, investments, or industries. Instead, under current law taxpayers that own Gulf and Midwest Tax Credit bonds receive a non-refundable tax credit rather than interest. The credit is included in gross income.
97. *Recovery Zone Bonds.* The baseline tax system would not allow credits for particular activities, investments, or industries. In addition, it would tax all income under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. In contrast, the Tax Code allowed local governments to issue up $10 billion in taxable Recovery Zone Economic Development Bonds in 2009 and 2010 and receive a direct payment from Treasury equal to 45 percent of interest expenses. In addition, local governments could issue up to $15 billion in tax exempt Recovery Zone Facility Bonds. These bonds financed certain kinds of business development in areas of economic distress.
98. *Tribal Economic Development Bonds.* The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. In contrast, the Tax Code was modified in 2009 to allow Indian tribal governments to issue tax exempt "tribal economic development bonds." There is a national bond limitation of $2 billion on such bonds.
99. *Opportunity Zones.* The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow deferral or exclusion from income for investments made within certain geographic regions. In contrast, the Tax Code allows the temporary deferral of the recognition of capital gain until December 31, 2026, if invested prior to December 31, 2026, in a qualified opportunity fund which in turn invests in qualifying low-income communities designated as opportunity zones. For qualifying investments held at least 5 years, 10 percent of the deferred gain is excluded from income; this exclusion increases to 15 percent for investments held for at least 7 years. For investments in a qualified opportunity fund made after December 31, 2026, the temporary deferral lasts for 5 years, and for qualifying investments held at least 5 years, 10 percent of the deferred gain is excluded from income (30 percent in the case of an investment in a qualified rural opportunity fund). In addition, capital gains from the sale or exchange of an investment in a qualified opportunity fund held for at least 10 years are excluded from gross income, regardless of whether the qualifying investment in the qualified opportunity fund was made prior to or after December 31, 2026.
100. *Disaster Employee Retention Credit.* The baseline tax system would not allow credits for particular activities, investments, or industries. In contrast, the Tax Code provides employers located in certain presidentially declared disaster areas during the years 2017 through 2020 a 40-percent credit for up to $6,000 in wages paid to each eligible employee while the business was inoperable as a result of the disaster. Only wages paid after the disaster occurred and within 150 days of the last day of the incident period are eligible for the credit. Employers must reduce their deduction for wages paid by the amount of the credit claimed.

Education, Training, Employment, and Social Services

101. *Exclusion of scholarship and fellowship income (nor-*

mal tax method). Scholarships and fellowships are excluded from taxable income to the extent they pay for tuition and course-related expenses of the grantee. Similarly, tuition reductions for employees of educational institutions and their families are not included in taxable income. From an economic point of view, scholarships and fellowships are either gifts not conditioned on the performance of services, or they are rebates of educational costs. Thus, under the baseline tax system of the reference tax law method, this exclusion is not a tax expenditure because this method does not include either gifts or price reductions in a taxpayer's gross income. The exclusion, however, is considered a tax expenditure under the normal tax method, which includes gift-like transfers of Government funds in gross income. (Many scholarships are derived directly or indirectly from Government funding.)

102. *Tax credits for post-secondary education expenses.* The baseline tax system would not allow credits for particular activities, investments, or industries. Under current law in 2025, however, there are two credits for certain post-secondary education expenses. The American Opportunity Tax Credit (AOTC) allows a partially refundable credit of up to $2,500 per eligible student for qualified tuition and related expenses paid. The AOTC may be claimed during each of the first four years of the student's post-secondary education. The Lifetime Learning Credit (LLC) allows a non-refundable credit for 20 percent of an eligible student's qualified tuition and fees, up to a maximum credit of $2,000 per return. The LLC may be claimed during any year of the student's post-secondary education. Only one credit may be claimed per student per year. The combined credits are phased out for taxpayers with modified adjusted gross income between $160,000 and $180,000 if married filing jointly ($80,000 and $90,000 for other taxpayers), not indexed. Married individuals filing separate returns cannot claim either credit.

103. *Deductibility of student loan interest.* The baseline tax system accepts current law's general rule limiting taxpayers' ability to deduct non-business interest expenses. In contrast, taxpayers may claim an above-the-line deduction of up to $2,500 on interest paid on an education loan. In 2025, the maximum deduction is phased down ratably for taxpayers with modified AGI between $170,000 and $200,000 if married filing jointly ($85,000 and $100,000 for other taxpayers). Married individuals filing separate returns cannot claim the deduction.

104. *Qualified tuition programs (includes Education IRA).* The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. Some states have adopted prepaid tuition plans, prepaid room and board plans, and college savings plans, which allow persons to pay in advance or save for college expenses for designated beneficiaries. Under current law, investment income, or the return on prepayments, is not taxed when earned, and is tax-exempt when withdrawn to pay for qualified expenses. Beginning in 2025, the definition of a qualified expense for section 529 accounts includes credentialing, licensing, and continuing education programs, including those in the trades. Rollovers to ABLE accounts are also permitted. Beginning in 2026, the definition of a qualified expense for primary or secondary education, including tuition at religious schools expands to $20,000 for section 529 accounts and includes expenses for supplies, test preparation, equipment, and other related expenses.

105. *Exclusion of interest on student loan bonds.* The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. In contrast, interest earned on state and local bonds issued to finance student loans is tax-exempt under current law. The volume of all such private activity bonds that each state may issue annually is limited.

106. *Exclusion of interest on bonds for private nonprofit educational facilities.* The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. In contrast, under current law interest earned on state and local Government bonds issued to finance the construction of facilities used by private nonprofit educational institutions is not taxed.

107. *Credit for holders of zone academy bonds.* The baseline tax system would not allow credits for particular activities, investments, or industries. Under current law, however, financial institutions that own zone academy bonds receive a nonrefundable tax credit rather than interest. The credit is included in gross income. Proceeds from zone academy bonds may only be used to renovate, but not construct, qualifying schools and for certain other school purposes. The total amount of zone academy bonds that may be issued was limited to $1.4 billion in 2009 and 2010. As of March 2010, issuers of the unused authorization of such bonds could opt to receive direct payment with the yield becoming fully taxable. An additional $0.4 billion of these bonds with a tax credit was authorized to be issued each year in 2011 through 2017.

108. *Exclusion of interest on savings bonds redeemed to finance educational expenses.* The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. Under current law, however, interest earned on U.S. savings bonds issued after December 31, 1989, is tax-exempt if the bonds are transferred to an educational institution to pay for educational expenses. The tax exemption is phased out for taxpayers with AGI between $149,250 and 179,250 if married filing jointly ($99,500 and $114,500 for other taxpayers) in 2025.

109. *Deductibility of charitable contributions (education).* The baseline tax system would not allow a deduction for personal expenditures. In contrast, the Tax Code provides taxpayers a deduction for contributions to nonprofit educational institutions that are similar to personal expenditures. Moreover, taxpayers who donate capital assets to educational institutions can deduct the asset's current value without being taxed on any appreciation in value. An individual's total charitable contribution generally may not exceed 60 percent of adjusted gross income; a corporation's total charitable contributions generally may not exceed 10 percent of pre-tax income.
110. *Exclusion of employer-provided educational assistance.* Under the baseline tax system, all compensation, including dedicated payments and in-kind benefits, should be included in taxable income because it represents accretions to wealth that do not materially differ from cash wages. Under current law, however, employer-provided educational assistance is excluded from an employee's gross income, even though the employer's costs for this assistance are a deductible business expense. The maximum exclusion is $5,250 per taxpayer per year. Employer-provided student loan payments are considered eligible educational assistance. The $5,250 amount is indexed after 2026.
111. *Special deduction for teacher expenses.* The baseline tax system would not allow a deduction for personal expenditures. In contrast, the Tax Code allows educators in both public and private elementary and secondary schools, who worked at least 900 hours during a school year as a teacher, instructor, counselor, principal or aide, to subtract up to $300 of qualified expenses when determining their adjusted gross income (AGI).
112. *Deductibility of educator expenses.* The baseline tax system would not allow a deduction for personal expenditures. In contrast, starting in 2026, the Tax Code allows a new miscellaneous itemized deduction for unreimbursed educator expenses with no dollar cap. The itemized deduction is also extended to include equipment for health or physical education courses and equipment used by administrators or coaches in the course of coaching at the school.
113. *Discharge of student loan indebtedness.* Under the baseline tax system, all compensation, including dedicated payments and in-kind benefits, should be included in taxable income. In contrast, the Tax Code allows certain professionals who perform in underserved areas or specific fields, and as a consequence have their student loans discharged, or who have their student loans discharged on account of death or permanent disability, not to recognize such discharge as income.
114. *Qualified school construction bonds.* The baseline tax system would not allow credits for particular activities, investments, or industries. Instead, it generally would seek to tax uniformly all returns from investment-like activities. In contrast, the Tax Code was modified in 2009 to provide a tax credit in lieu of interest to holders of qualified school construction bonds. The national volume limit is $22.4 billion over 2009 and 2010. As of March 2010, issuers of such bonds could opt to receive direct payment with the yield becoming fully taxable.
115. *Work opportunity tax credit.* The baseline tax system would not allow credits for particular activities, investments, or industries. Instead, it generally would seek to tax uniformly all returns from investment-like activities. In contrast, the Tax Code provides employers with a tax credit for qualified wages paid to individuals. The credit applies to employees who began work on or before December 31, 2025, and who are certified as members of various targeted groups. The amount of the credit that can be claimed is 25 percent of qualified wages for employment less than 400 hours and 40 percent for employment of 400 hours or more. Generally, the maximum credit per employee is $2,400 and can only be claimed on the first year of wages an individual earns from an employer. However, the credit for long-term welfare recipients can be claimed on second year wages as well and has a $9,000 maximum. Also, certain categories of veterans are eligible for a higher maximum credit of up to $9,600. Employers must reduce their deduction for wages paid by the amount of the credit claimed.
116. *Employer-provided child care exclusion.* Under the baseline tax system, all compensation, including dedicated payments and in-kind benefits, should be included in taxable income. In contrast, current law allows up to $7,500 of employer-provided child care to be excluded from an employee's gross income even though the employer's costs for the child care are a deductible business expense.
117. *Employer-provided child care credit.* The baseline tax system would not allow credits for particular activities, investments, or industries. In contrast, current law provides a credit equal to 25 percent of qualified expenses for employee child care and 10 percent of qualified expenses for child care resource and referral services. Employer deductions for such expenses are reduced by the amount of the credit. The maximum total credit is limited to $150,000 per taxable year.
118. *Assistance for adopted foster children.* Under the baseline tax system, all compensation, including dedicated payments and in-kind benefits, should be included in taxable income. Taxpayers who adopt eligible children from the public foster care system can receive monthly payments for the children's significant and varied needs and a reimbursement of up to $2,000 for nonrecurring adoption expenses; special needs adoptions receive the maximum benefit even if that amount is not spent. These payments are excluded from gross income under current law.
119. *Adoption credit and exclusion.* The baseline tax system would not allow credits for particular activities. In contrast, taxpayers can receive a tax credit for qualified adoption expenses under current law. Certain adoptions max qualify for the maximum

credit, regardless of actual expenses. Taxpayers may also exclude qualified adoption expenses provided or reimbursed by an employer from income, subject to the same maximum amounts and phase-out as the credit. The same expenses cannot qualify for tax benefits under both programs; however, a taxpayer may use the benefits of the exclusion and the tax credit for different expenses. Beginning in 2025, up to $5,000 total (indexed) of qualified expenses are fully refundable in the year of the expense. Qualified expenses in excess of tax liability (after considering the $5,000 of refundable expenses) can be carried forward for five years.

120. *Exclusion of employee meals and lodging (other than military)*. Under the baseline tax system, all compensation, including dedicated payments and in-kind benefits, should be included in taxable income. Furthermore, all compensation would generally be deductible by the employer. In contrast, under current law employer-provided meals and lodging are excluded from an employee's gross income. Additionally, beginning in 2018, employers are allowed a deduction for only 50 percent of the expenses of employer-provided meals, except that in 2021 and 2022, employers are eligible for a full deduction on restaurant meals provided to employees. Employer-provided lodging is fully deductible by the employer, in general.

121. *Credit for child and dependent care expenses*. The baseline tax system would not allow credits for particular activities or targeted at specific groups. In contrast, the Tax Code provides a tax credit to parents who work or attend school and who have child and dependent care expenses. Expenditures up to a maximum $3,000 for one dependent and $6,000 for two or more dependents are eligible for a non-refundable credit. In taxable year 2025, the credit is equal to 35 percent of qualified expenditures for taxpayers with incomes of up to $15,000. The credit is reduced to a minimum of 20 percent by one percentage point for each $2,000 of income in excess of $15,000. Starting in taxable year 2026, the credit is equal to 50 percent of qualified expenditures for taxpayers with incomes of up to $15,000. The credit is reduced to 35 percent at a rate of one percentage point for each $2,000 of income beginning at $15,000. It is further reduced to a minimum of 20 percent beginning at $75,000 ($150,000 for joint filers) at rates which depend on the filer's marital status.

122. *Credit for disabled access expenditures*. The baseline tax system would not allow credits for particular activities, investments, or industries. In contrast, the Tax Code provides small businesses (less than $1 million in gross receipts or fewer than 31 full-time employees) a 50-percent credit for expenditures in excess of $250 to remove access barriers for disabled persons. The credit is limited to $5,000.

123. *Deductibility of charitable contributions, other than education and health*. The baseline tax system would not allow a deduction for personal expenditures including charitable contributions. In contrast, the Tax Code provides taxpayers a deduction for contributions to charitable, religious, and certain other non-profit organizations. Taxpayers who donate capital assets to charitable organizations can deduct the assets' current value without being taxed on any appreciation in value. An individual's total charitable contribution generally may not exceed 60 percent of adjusted gross income; a corporation's total charitable contributions generally may not exceed 10 percent of pre-tax income.

124. *Exclusion of certain foster care payments*. The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. Foster parents provide a home and care for children who are wards of the state, under contract with the state. Under current law, compensation received for this service is excluded from the gross incomes of foster parents; the expenses they incur are nondeductible.

125. *Exclusion of parsonage allowances*. Under the baseline tax system, all compensation, including dedicated payments and in-kind benefits, would be included in taxable income. Dedicated payments and in-kind benefits represent accretions to wealth that do not differ materially from cash wages. In contrast, the Tax Code allows an exclusion from a clergyman's taxable income for the value of the clergyman's housing allowance or the rental value of the clergyman's parsonage.

126. *Indian employment credit*. The baseline tax system would not allow credits for particular activities, investments, or industries. Instead, it generally would seek to tax uniformly all returns from investment-like activities. In contrast, the Tax Code provides employers with a tax credit for qualified wages paid to employees who are enrolled members of Indian tribes. The amount of the credit that could be claimed is 20 percent of the excess of qualified wages and health insurance costs paid by the employer in the current tax year over the amount of such wages and costs paid by the employer in 1993. Qualified wages and health insurance costs with respect to any employee for the taxable year could not exceed $20,000. Employees have to live on or near the reservation where they work to be eligible for the credit. Employers must reduce their deduction for wages paid by the amount of the credit claimed. The credit does not apply to taxable years beginning after December 31, 2021.

127. *Employer-provided paid family and medical leave credit*. The baseline tax system would not allow credits for particular activities, investments, or industries. In contrast, current law provides a credit for certain firms that offer paid family and medical leave. The credit is equal either to a portion of wages paid to qualifying employees while on family and medical leave or a portion of premiums paid by taxpayers with respect to insurance policies that provide paid family and medical leave to their employees. In order to qualify for the credit, an employer must have

a written policy in place that provides at least two weeks of paid family and medical leave per year for full-time workers; additionally, employers must pay at least 50 percent of an employee's normal wages while they are on paid leave.

128. *Deduction for qualified tips.* The baseline tax system would not allow a deduction for qualified tips. In contrast, under the Tax Code, taxpayers may deduct their qualified tips, up to $25,000, from their taxable income. This deduction is phased out by $100 for each $1,000 by which the taxpayer's modified adjusted gross income exceeds $150,000 ($300,000 in the case of joint returns). Qualified tips used for the deduction must be received in an occupation which customarily and regularly received tips on or before December 31, 2024, and must not have been received in the course of a trade or business that is a specified service trade or business. The individual earning the qualified tips used to claim the deduction must have a social security number. In addition, married taxpayers must file a joint return to qualify for the deduction. This deduction is allowed for taxable years beginning after December 31, 2024, and ending before January 1, 2029.

129. *Deduction for qualified overtime income.* The baseline tax system would not allow a deduction for qualified overtime compensation. In contrast, under the Tax Code, taxpayers may deduct their qualified overtime compensation, up to $12,500 ($25,000 in the case of joint returns), from their taxable income. This deduction is phased out by $100 for each $1,000 by which the taxpayer's modified adjusted gross income exceeds $150,000 ($300,000 in the case of joint returns). Qualified overtime compensation is overtime compensation paid to an individual under section 7 of the Fair Labor Standards Act of 1938 that is in excess of the regular rate at which the individual is employed. The individual earning the qualified overtime compensation used to claim the deduction must have a social security number. In addition, married taxpayers must file a joint return to qualify for the deduction. This deduction is allowed for taxable years beginning after December 31, 2024, and ending before January 1, 2029.

Health

130. *Exclusion of employer contributions for medical insurance premiums and medical care.* Under the baseline tax system, all compensation, including dedicated payments and in-kind benefits, should be included in taxable income. In contrast, under current law, employer-paid health insurance premiums and other medical expenses (including long-term care or Health Reimbursement Arrangements) are not included in employee gross income even though they are deducted as a business expense by the employer.

131. *Self-employed medical insurance premiums.* Under the baseline tax system, all compensation and remuneration, including dedicated payments and in-kind benefits, should be included in taxable income. In contrast, under current law, self-employed taxpayers may deduct health insurance premiums paid for themselves, their spouse, dependents, and children up to age 26. Taxpayers without self-employment income are not eligible for this special deduction. The deduction is not available for any month in which the self-employed individual is eligible to participate in an employer-subsidized health plan and the deduction may not exceed the self-employed individual's earned income from self-employment.

132. *Health Savings Accounts and Medical Savings Accounts.* Under the baseline tax system, all compensation, including dedicated payments and in-kind benefits, should be included in taxable income. Also, the baseline tax system would not allow a deduction for personal expenditures and generally would tax investment earnings. In contrast, individual contributions to Health Savings Accounts (HSAs) are allowed as a deduction in determining adjusted gross income whether the individual itemizes deductions, and employer contributions are excluded from income and employment taxes. Individuals are only eligible to contribute to an HSA if they are covered by a qualifying high deductible health plan. The sum of employer and employee contributions is subject to an annual contribution limit. Earnings from investments in the accounts are excluded from taxable income and distributions from the accounts used for medical expenses are not taxable. Archer Medical Savings Accounts (MSAs) are similar to Health Savings Accounts but have more restrictions. HSAs have therefore almost entirely replaced MSAs.

133. *Deductibility of medical expenses.* The baseline tax system would not allow a deduction for personal expenditures. In contrast, under current law personal expenditures for medical care (including the costs of prescription drugs) exceeding 7.5 percent of the taxpayer's adjusted gross income are deductible to the extent not compensated by insurance or otherwise.

134. *Exclusion of interest on hospital construction bonds.* The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. In contrast, under current law, interest earned on state and local government debt issued to finance hospital construction is excluded from income subject to tax.

135. *Refundable Premium Assistance Tax Credit.* The baseline tax system would not allow credits for particular activities or targeted at specific groups. In contrast, for taxable years ending after 2013, the Tax Code provides a premium assistance credit to any eligible taxpayer for any qualified health insurance purchased through a Health Insurance Exchange. In general, an eligible taxpayer is a taxpayer with annual household income between 100 percent and 400 percent of the federal poverty level for a family of the taxpayer's size and that does not have access to affordable minimum essential health care coverage. The amount of the credit equals the lesser of 1) the actual premiums paid by the taxpayer for such coverage, or 2) the difference between the cost of a

statutorily-identified benchmark plan offered on the exchange and a required payment by the taxpayer that increases with income. The American Rescue Plan Act of 2021 (P.L. 117-2) and the Inflation Reduction Act of 2022 (P.L. 117-169) temporarily increased the Premium Tax Credit. For 2021 through 2025, the legislation increased the Premium Tax Credit for currently eligible individuals and families, provided access to free benchmark plans for those earning 100 to 150 percent of the federal poverty level, and expanded eligibility to newly include individuals and families with income above 400 percent of the federal poverty level.

136. *Credit for employee health insurance expenses of small business.* The baseline tax system would not allow credits for particular activities or targeted at specific groups. In contrast, the Tax Code provides a tax credit to qualified small employers that make a certain level of non-elective contributions towards the purchase of certain health insurance coverage for its employees. To receive a credit, an employer must have fewer than 25 full-time-equivalent employees whose average annual fulltime-equivalent wages from the employer are less than $50,000 (indexed for taxable years after 2013). However, to receive a full credit, an employer must have no more than 10 full-time-equivalent employees, and the average wage paid to these employees must be no more than $25,000 (indexed for taxable years after 2013). A qualifying employer may claim the credit for up to two consecutive years for insurance purchased through a Health Insurance Exchange. The maximum tax credit is 50 percent of premiums paid by qualified taxable employers and 35 percent of premiums paid by qualified tax-exempt organizations.

137. *Deductibility of charitable contributions (health).* The baseline tax system would not allow a deduction for personal expenditures including charitable contributions. In contrast, the Tax Code provides individuals and corporations a deduction for contributions to nonprofit health institutions. Tax expenditures resulting from the deductibility of contributions to other charitable institutions are listed under the education, training, employment, and social services function.

138. *Tax credit for orphan drug research.* The baseline tax system would not allow credits for particular activities, investments, or industries. In contrast, under current law drug firms can claim a tax credit of 25 percent of the costs for clinical testing required by the Food and Drug Administration for drugs that treat rare physical conditions or rare diseases.

139. *Special Blue Cross/Blue Shield tax benefits.* The baseline tax system generally would tax all profits under the regular tax rate schedule using broadly applicable measures of baseline income. It would not allow preferentially low tax rates to apply to certain types or sources of income. In contrast, certain Blue Cross and Blue Shield (BC/BS) health insurance providers and certain other health insurers are provided with special tax benefits, provided that their percentage of total premium revenue expended on reimbursement for clinical services provided to enrollees or for activities that improve health care quality is not less than 85 percent for the taxable year. A qualifying insurer may take as a deduction 100 percent of any net increase in its unearned premium reserves, instead of the 80 percent allowed other insurers. A qualifying insurer is also allowed a special deduction equal to the amount by which 25 percent of its health-claim expenses exceeds its beginning-of-the-year accounting surplus. The deduction is limited to the insurer's taxable income determined without the special deduction.

140. *Distributions from retirement plans for premiums for health and long-term care insurance.* Under the baseline tax system, all compensation, including dedicated and deferred payments, should be included in taxable income. In contrast, the Tax Code provides for tax-free distributions of up to $3,000 from governmental retirement plans for premiums for health and long-term care premiums of public safety officers.

Income Security

141. *Child tax credit.* The baseline tax system would not allow credits for particular activities or targeted at specific groups. Under current law, however, taxpayers with children under age 17 can qualify for a child tax credit. In taxable years beginning in 2025, taxpayers may claim a $2,200-per-child partially refundable child tax credit. This amount is indexed. In 2025 up to $1,700 per child of unclaimed credit due to insufficient tax liability may be refundable—taxpayers may claim a refund for 15 percent of earnings in excess of a $2,500 floor, up to the lesser of the amount of unused credit or $1,700 per child. A taxpayer may also claim a nonrefundable credit of $500 for each qualifying child not eligible for the $2,200 credit (those over sixteen and those without SSNs valid for work) and for each dependent relative. The total combined child and other dependent credit is phased out for taxpayers at the rate of $50 per $1,000 of modified AGI above $400,000 if married filing jointly ($200,000 for all other filers). To claim a credit, the filer (or at least one filer in the case of joint filers) must have an SSN valid for work at the time of filing.

142. *Other dependent tax credit.* The baseline tax system would not allow credits for particular activities or targeted at specific groups. Under current law, however, qualifying taxpayers with dependents who don't qualify for the child tax credit may be able to claim a maximum of $500 in credits for each dependent who meets certain conditions.

143. *Exclusion of railroad retirement (Social Security equivalent) benefits.* Under the baseline tax system, all compensation, including dedicated and deferred payments, should be included in taxable income. In contrast, the Social Security Equivalent Benefit paid to railroad retirees and the disabled is not generally subject to the income tax unless the recipient's

modified gross income reaches a certain threshold under current law. See provision number 166, Social Security benefits for retired and disabled workers and spouses, dependents, and survivors, for a discussion of the threshold.

144. *Exclusion of workers' compensation benefits.* Under the baseline tax system, all compensation, including dedicated payments and in-kind benefits, should be included in taxable income. However, workers compensation is not subject to the income tax under current law.

145. *Exclusion of public assistance benefits (normal tax method).* Under the reference tax law baseline, gifts and transfers are not treated as income to the recipients. In contrast, the normal tax method considers cash transfers from the Government as part of the recipients' income, and thus, treats the exclusion for public assistance benefits under current law as a tax expenditure.

146. *Exclusion of special benefits for disabled coal miners.* Under the baseline tax system, all compensation, including dedicated payments and in-kind benefits, should be included in taxable income. However, disability payments to former coal miners out of the Black Lung Trust Fund, although income to the recipient, are not subject to the income tax.

147. *Exclusion of military disability pensions.* Under the baseline tax system, all compensation, including dedicated payments and in-kind benefits, should be included in taxable income. In contrast, most of the military disability pension income received by current disabled military retirees is excluded from their income subject to tax.

148. *Defined benefit employer plans.* Under the baseline tax system, all compensation, including deferred and dedicated payments, should be included in taxable income. In addition, investment income would be taxed as earned. In contrast, under current law certain contributions to defined benefit pension plans are excluded from an employee's gross income until the money is withdrawn, even though employers can deduct their contributions. In addition, the tax on the investment income earned by defined benefit pension plans is deferred until the money is withdrawn.

149. *Defined contribution employer plans.* Under the baseline tax system, all compensation, including deferred and dedicated payments, should be included in taxable income. In addition, investment income would be taxed as earned. In contrast, under the Tax Code, individual taxpayers and employers can make tax-preferred contributions to employer-provided 401(k) and similar plans (e.g., 403(b) plans and the Federal Government's Thrift Savings Plan). In 2025, an employee could exclude up to $23,500 of wages from AGI under a qualified arrangement with an employer's 401(k) plan. Employees age 50 or over could exclude up to $31,000 in contributions. The defined contribution plan limit, including both employee and employer contributions, is $70,000 in 2025. The tax on contributions made by both employees and employers and the investment income earned by these plans is deferred until withdrawn.

150. *Individual Retirement Accounts.* Under the baseline tax system, all compensation, including deferred and dedicated payments, should be included in taxable income. In addition, investment income would be taxed as earned. In contrast, under the Tax Code, individual taxpayers can take advantage of traditional and Roth IRAs to defer or otherwise reduce the tax on the return to their retirement savings. The IRA contribution limit is $7,000 in 2025; taxpayers age 50 or over are allowed to make additional "catch-up" contributions of $1,000. Contributions to a traditional IRA are generally deductible but the deduction is phased out for workers with incomes above certain levels if the workers or their spouses are active participants in an employer-provided retirement plan. Contributions and account earnings are includible in income when withdrawn from traditional IRAs. Roth IRA contributions are not deductible, but earnings and withdrawals are exempt from taxation. Income limits also apply to Roth IRA contributions.

151. *Trump accounts.* The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. In contrast, under the Tax Code, children who have not yet reached the year of their 18th birthday are eligible to benefit from preferential tax treatment on investment gains through Trump accounts. The baseline tax system would also not treat an individual as having made a payment when no payment has been made. In contrast, under the Tax Code, an individual born in 2025–2028 for whom an election into the pilot program has been made is treated as having made an income tax payment of $1,000, which creates an overpayment, which is then refunded to the Trump account of the individual. Individuals, employers, nonprofits, and local governments may contribute to a child's Trump account until the year in which the beneficiary turns 18. Each account has a $5,000 annual contribution limit (indexed beginning in 2028), which applies only to individual and employer contributions. Individuals can make contributions with after-tax income, while employers may contribute up to $2,500 per employee to Trump accounts as a tax-deductible expense. Earnings on contributions made to a Trump account grow tax free. Distributions from the account are generally not allowed until the year in which the beneficiary reaches the age of 18, at which point the account will generally be subject to the rules that apply to traditional IRAs.

152. *Low- and moderate-income savers' credit.* The baseline tax system would not allow credits for particular activities or targeted at specific groups. In contrast, the Tax Code provides an additional incentive for lower-income taxpayers to save through a nonrefundable credit of up to 50 percent on IRA and other retirement contributions of up to $2,000. This credit is in addition to any deduction or exclu-

sion. The credit is completely phased out by $79,000 for joint filers, $59,250 for head of household filers, and $39,500 for other filers in 2025. Starting in Tax Year 2027, the Saver's Credit, which is nonrefundable, is replaced with the Saver's Match, which is refundable.

153. *Self-employed plans.* Under the baseline tax system, all compensation, all compensation, including deferred and dedicated payments, should be included in taxable income. In addition, investment income would be taxed as earned. In contrast, under current law self-employed individuals can make deductible contributions to their own retirement plans equal to 25 percent of their income, up to a maximum of $70,000 in 2025. Total plan contributions are limited to 25 percent of a firm's total wages. The tax on the investment income earned by self-employed SEP, SIMPLE, and qualified plans is deferred until withdrawn.
154. *Small employer pension plan startup credit.* The baseline tax system would not allow credits for particular activities or targeted at specific groups. However, under current law, certain small employers are eligible for a tax credit for the start-up cost of a new plan for the first three years in which the plan is maintained.
155. *Premiums on group term life insurance.* Under the baseline tax system, all compensation, including deferred and dedicated payments, should be included in taxable income. In contrast, under current law employer-provided life insurance benefits are excluded from an employee's gross income (to the extent that the employer's share of the total costs does not exceed the cost of $50,000 of such insurance) even though the employer's costs for the insurance are a deductible business expense.
156. *Premiums on accident and disability insurance.* Under the baseline tax system, all compensation, including dedicated payments and in-kind benefits, should be included in taxable income. In contrast, under current law employer-provided accident and disability benefits are excluded from an employee's gross income even though the employer's costs for the benefits are a deductible business expense.
157. *Exclusion of investment income from Supplementary Unemployment Benefit Trusts.* Under the baseline tax system, all compensation, including dedicated payments and in-kind benefits, should be included in taxable income. all compensation, including dedicated payments and in-kind benefits, should be included in taxable income. In addition, investment income would be taxed as earned. Under current law, employers may establish trusts to pay supplemental unemployment benefits to employees separated from employment. Investment income earned by such trusts is exempt from taxation.
158. *Exclusion of investment income from Voluntary Employee Benefit Association (VEBA) trusts.* Under the baseline tax system, all compensation, including dedicated payments and in-kind benefits, should be included in taxable income. Under current law, employers may establish VEBAs to pay employee benefits, which may include health benefit plans, life insurance, and disability insurance, among other employee benefits. Investment income earned by such trusts is exempt from taxation.
159. *Special Employee Stock Ownership Plan (ESOP) rules.* Under the baseline tax system, all compensation, including dedicated payments and in-kind benefits, should be included in taxable income. In addition, investment income would be taxed as earned. In contrast, employer-paid contributions (the value of stock issued to the ESOP) are deductible by the employer as part of employee compensation costs. They are not included in the employees' gross income for tax purposes, however, until they are paid out as benefits. In addition, the following special income tax provisions for ESOPs are intended to increase ownership of corporations by their employees: 1) annual employer contributions are subject to less restrictive limitations than other qualified retirement plans; 2) ESOPs may borrow to purchase employer stock, guaranteed by their agreement with the employer that the debt will be serviced by the payment (deductible by firm) of a portion of wages (excludable by the employees) to service the loan; 3) employees who sell appreciated company stock to the ESOP may defer any taxes due until they withdraw benefits; 4) dividends paid to ESOP-held stock are deductible by the employer; and 5) earnings are not taxed as they accrue.
160. *Additional deduction for the blind.* Under the baseline tax system, the standard deduction is allowed. An additional standard deduction for a targeted group within a given filing status would not be allowed. In contrast, the Tax Code allows taxpayers who are blind to claim an additional $2,000 standard deduction if single or $1,600 if married in 2025.
161. *Additional deduction for the elderly.* Under the baseline tax system, the standard deduction is allowed. An additional standard deduction for a targeted group within a given filing status would not be allowed. In contrast, the Tax Code allows taxpayers who are 65 years or older to claim an additional $1,850 standard deduction if single or $1,500 if married in 2023.
162. *Temporary additional deduction for the elderly.* Under the baseline tax system, the standard deduction is allowed. An additional deduction for a targeted group within a given filing status and income group would not be allowed. In contrast, the Tax Code allows taxpayers who are 65 years or older to claim an additional $6,000 "bonus" deduction if single and $12,000 if married for tax years 2025 through 2028. This "bonus" deduction starts phasing out at $75,000 if single and $150,000 if married and is fully eliminated at $175,000 if single and $250,000 if married.
163. *Deductibility of casualty losses.* Under the baseline tax system, neither the purchase of property nor insurance premiums to protect the property's value are deductible as costs of earning income. Therefore, reimbursement for insured loss of such property is not included as a part of gross income, and uninsured

losses are not deductible. In contrast, the Tax Code provides a deduction for uninsured casualty and theft losses of more than $100 each, to the extent that total losses during the year exceed 10 percent of the taxpayer's adjusted gross income. In the case of taxable years beginning after December 31, 2017, personal casualty losses are deductible only to the extent they are attributable to a federally declared disaster area or a state declared disaster.

164. *Earned income tax credit (EITC).* The baseline tax system would not allow credits for particular activities or targeted at specific groups. In contrast, the Tax Code provides an EITC to low-income workers at a maximum rate of 45 percent of income. In 2025, for a family with one qualifying child, the credit is 34 percent of the first $12,730 of earned income. The credit is 40 percent of the first $17,880 of income for a family with two qualifying children, and it is 45 percent of the first $17,880 of income for a family with three or more qualifying children. Low-income workers with no qualifying children are eligible for a 7.65-percent credit on the first $8,490 of earned income. The credit plateaus and then phases out with the greater of Adjusted Gross Income or earnings at income levels and rates which depend upon how many qualifying children are eligible and marital status. In 2025 the phaseout for joint filers with children begins at incomes $7,120 higher than for other filers ($7,110 for joint filers without children). Earned income tax credits in excess of tax liabilities are refundable to individuals.

165. *Recovery rebate credits.* The baseline tax system would not allow credits for particular activities or targeted at specific groups. In contrast, the Coronavirus Aid, Relief, and Economic Security (CARES) Act provided rebates of $1,200 ($2,400 for married couples filing jointly) and $500 per child for tax year 2020. The total rebate amount begins phasing out at adjusted gross income over $75,000 ($150,000 for married couples filing jointly, $112,500 for heads of household). This was followed by the Consolidated Appropriations Act which provided rebates for tax year 2020 of $600 per eligible taxpayer ($1,200 for married couples filing jointly) plus an additional $600 per child, with phase-out features similar to the CARES Act. The American Rescue Plan act provided another rebate credit of $1,400 ($2,800 for married couples filing jointly) and $1,400 per dependent for tax year 2021. The phase out begins at the same thresholds as the CARES Act, but the full credit is phased out proportionately by $80,000 of AGI ($160,000 for married couples filing jointly, $120,000 for heads of household).

Social Security

166. *Social Security benefits for retired and disabled workers and spouses, dependents, and survivors.* The baseline tax system would tax Social Security benefits to the extent that contributions to Social Security were not previously taxed. Thus, the portion of Social Security benefits that is attributable to employer contributions and to earnings on employer and employee contributions (and not attributable to employee contributions which are taxed at the time of contribution) would be subject to tax. In contrast, the Tax Code may not tax all of the Social Security benefits that exceed the beneficiary's contributions from previously taxed income. Actuarially, previously taxed contributions generally do not exceed 15 percent of benefits, even for retirees receiving the highest levels of benefits. Therefore, up to 85 percent of recipients' Social Security and Railroad Social Security Equivalent retirement benefits are included in (phased into) the income tax base if the recipient's provisional income exceeds certain base amounts. (Provisional income is equal to other items included in adjusted gross income plus foreign or U.S. possession income, tax-exempt interest, and one half of Social Security and Railroad Social Security Equivalent retirement benefits.) The untaxed portion of the benefits received by taxpayers who are below the income amounts at which 85 percent of the benefits are taxable is counted as a tax expenditure. Benefits paid to disabled workers and to spouses, dependents, and survivors are treated in a similar manner. Railroad Social Security Equivalent benefits are treated like Social Security benefits. See also provision number 143, Exclusion of railroad retirement (Social Security equivalent) benefits.

167. *Credit for certain employer contributions to Social Security.* Under the baseline tax system, employer contributions to Social Security represent labor cost and are deductible expenses. Under current law, however, certain employers are allowed a tax credit, instead of a deduction, against taxes paid on tips received from customers in connection with the providing, delivering, or serving of food or beverages for consumption, or for providing barbering and hair care, nail care, esthetics, and body and spa treatment services. The tip credit equals the full amount of the employer's share of FICA taxes paid on the portion of tips, when added to the employee's non-tip wages, in excess of $5.15 per hour. The credit is available only with respect to FICA taxes paid on tips.

Veterans Benefits and Services

168. *Exclusion of veterans death benefits and disability compensation.* Under the baseline tax system, all compensation, including dedicated payments and in-kind benefits, should be included in taxable income because they represent accretions to wealth that do not materially differ from cash wages. In contrast, all compensation due to death or disability paid by the Veterans Administration is excluded from taxable income under current law.

169. *Exclusion of veterans pensions.* Under the baseline tax system, all compensation, including dedicated payments and in-kind benefits, should be included in taxable income because they represent accretions to wealth that do not materially differ from cash wages. Under current law, however, pension payments made by the Veterans Administration are excluded from gross income.

170. *Exclusion of G.I. Bill benefits.* Under the baseline tax system, all compensation, including dedicated payments and in-kind benefits, should be included in taxable income because they represent accretions to wealth that do not materially differ from cash wages. under current law, however, G.I. Bill benefits paid by the Veterans Administration are excluded from gross income.
171. *Exclusion of interest on veterans housing bonds.* Under the baseline tax system, all compensation, including dedicated payments and in-kind benefits, should be included in taxable income because they represent accretions to wealth that do not materially differ from cash wages. Under current law, however, G.I. Bill benefits paid by the Veterans Administration are excluded from gross income.

General Government

172. *Exclusion of interest on public purpose State and local bonds.* The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. In contrast, under current law the interest earned on state and local government bonds issued to finance public purpose construction (e.g., schools, roads, sewers), equipment acquisition, and other public purposes is tax exempt. The interest on bonds issued by Indian tribal governments for essential governmental purposes is also tax exempt.
173. *Build America Bonds.* The baseline tax system would not allow credits for particular activities or targeting specific groups. In contrast, the Tax Code in 2009 allowed state and local governments to issue taxable bonds through 2010 and receive a direct payment from Treasury equal to 35 percent of interest expenses. Alternatively, state and local governments could issue taxable bonds and the private lenders would receive the 35-percent credit which is included in taxable income.
174. *Deductibility of nonbusiness State and local taxes other than on owner-occupied homes.* Under the baseline tax system, a deduction for personal consumption expenditures would not be allowed. In contrast, the Tax Code allows taxpayers who itemize their deductions to claim a deduction for state and local income taxes (or, at the taxpayer's election, state and local sales taxes) and property taxes, even though these taxes primarily pay for services that, if purchased directly by taxpayers, would not be deductible. (The estimates for this tax expenditure do not include the estimates for the deductibility of state and local property tax on owner-occupied homes, which are presented in provision number 62.) In the case of taxable years beginning after December 31, 2024, and before January 1, 2030, 1) the deduction for foreign real property taxes paid is disallowed, and 2) the deduction for taxes paid in any taxable year, which includes the deduction for property taxes on real property, is limited to $40,000 ($20,000 in the case of a married individual filing a separate return). The deduction limit phases down at a 30-percent rate beginning at $500,000 of adjusted gross income until it reaches $10,000 ($5,000 in the case of a married individual filing a separate return). The $40,000 deduction limit and $500,000 phase-down start point increase by one percent in each year from 2026 to 2029. For taxable years beginning after December 31, 2029, the deduction limit is $10,000 ($5,000 in the case of a married individual filing a separate return).

Interest

175. *Deferral of interest on U.S. savings bonds.* The baseline tax system would uniformly tax all returns to investments and not allow an exemption or deferral for particular activities, investments, or industries. In contrast, taxpayers may defer paying tax on interest earned on U.S. savings bonds until the bonds are redeemed.

Appendix

Performance Measures and the Economic Effects of Tax Expenditures

The Government Performance and Results Act of 1993 (GPRA) directs Federal agencies to develop annual and strategic plans for their programs and activities. These plans set out performance objectives to be achieved over a specific time period. Most of these objectives are achieved through direct expenditure programs. Tax expenditures—spending programs implemented through the tax code by reducing tax obligations for certain activities—contribute to achieving these goals in a manner similar to direct expenditure programs.

Tax expenditures by definition work through the tax system and, particularly, the income tax. Thus, they may be relatively advantageous policy approaches when the benefit or incentive is related to income and is intended to be widely available. Because there is an existing public administrative and private compliance structure for the tax system, income-based programs that require little oversight might be efficiently run through the tax system. In some cases, tax expenditures actually simplify the operation of the tax system. Tax expenditures also implicitly subsidize certain activities in a manner similar to direct expenditures. For example, exempting employer-sponsored health

Appendix—Continued

insurance from income taxation is equivalent to a direct spending subsidy equal to the forgone tax obligations for this type of compensation. Spending, regulatory, or tax-disincentive policies can also modify behavior, but may have different economic effects. A variety of tax expenditure tools can be used, e.g., deductions, credits, exemptions, deferrals, floors, ceilings, phase-ins, phase-outs, and these can be dependent on income, expenses, or demographic characteristics (age, number of family members, etc.). This wide range of policy instruments means that tax expenditures can be flexible and can have very different economic effects.

However, tax expenditures have limitations. In many cases they add to the complexity of the tax system, which raises both administrative and compliance costs. For example, exemptions, deductions, credits, and phase-outs can complicate filing and decision-making. The income tax system may have little or no contact with persons who have no or very low incomes, and does not require information on certain characteristics of individuals used in some spending programs, such as wealth or duration of employment. These features may reduce the effectiveness of tax expenditures for addressing socioeconomic disparities. Many tax expenditures, particularly those that are structured as deductions or exemptions, also deliver higher benefits to taxpayers in higher tax brackets, an outcome that may not be desirable or intentional in some contexts, and which could be avoided if the benefit was structured as an outlay program. Relatedly, tax expenditures generally do not enable the same degree of agency discretion as an outlay program. For example, grant or direct Federal service delivery programs can prioritize activities to be addressed with specific resources in a way that is difficult to emulate with tax expenditures.

Outlay programs have advantages where the direct provision of Government services is particularly warranted, such as equipping and maintaining the Armed Forces, administering the system of justice, building and maintenance of public infrastructure, and other provision of clear public goods. Outlay programs may also receive more year-to-year oversight and fine tuning through the legislative and executive budget process. Additionally, these programs encompass various forms of spending programs, including direct Government provision; credit programs; and payments to State and local governments, the private sector, or individuals in the form of grants or contracts, which provide flexibility for policy design. On the other hand, certain outlay programs may rely less directly on economic incentives and private-market provision than tax incentives, which could reduce the relative efficiency of spending programs for some goals. Spending programs, particularly on the discretionary side, may respond less rapidly to changing activity levels and economic conditions than tax expenditures.

Regulations may have more direct and immediate effects than outlay and tax-expenditure programs because regulations apply directly and immediately to the regulated party (i.e., the intended actor), generally in the private sector. Regulations can also be fine-tuned more quickly than tax expenditures because they can often be changed as needed by the Executive Branch without legislation. Like tax expenditures, regulations often rely largely on voluntary compliance, rather than detailed inspections and policing. As such, the public administrative costs tend to be modest relative to the private resource costs associated with modifying activities. Historically, regulations have tended to rely on proscriptive measures, as opposed to economic incentives. This reliance can diminish their economic efficiency, although this feature can also promote full compliance where (as in certain safety-related cases) policymakers believe that trade-offs with economic considerations are not of paramount importance. Also, regulations generally do not directly affect Federal outlays or receipts. Thus, like tax expenditures, they may escape the degree of scrutiny that outlay programs receive.

A Framework for Evaluating the Effectiveness of Tax Expenditures

Tax expenditures play a major role in Federal activity, cutting across areas like housing, health, technology, agriculture, and national defense. As such, establishing a comprehensive evaluation framework that examines incentives, outcomes, and spillover effects can improve the budgetary process by informing tax expenditure policy decisions.

As described above, tax expenditures share objectives with spending and regulatory programs. These objectives include promoting activities (e.g., saving for retirement or investing in certain sectors); increasing after-tax income (e.g., favorable tax treatment of Social Security income); and preferencing other types of pre-tax income (e.g. preferential rates on capital gains). They may also reduce private compliance costs and Government administrative costs (e.g., the exclusion for up to $500,000 in capital gains from home sales which could prevent the need for private home sellers to comply with baseline tax law). While some objectives lend themselves to quantitative evaluation others are harder to measure.

Performance measurement is generally concerned with inputs, outputs, and outcomes. In the case of tax expenditures, the principal input is usually the revenue effect. Outputs are quantitative or qualitative measures of goods and services, or changes in income and investment, directly produced by these inputs. Outcomes, in turn, represent the changes in the economy, society, or environment that are the ultimate goals of programs. Evaluations assess whether programs are meeting intended goals, but may also encompass analyzing whether initiatives are superior to other policy alternatives.

Despite challenges related to data, measurement and analysis, the Administration is working towards examining the objectives and effects of the wide range of tax expenditures included in the President's Budget. These evaluations focus on efficiency; minimizing burdens on individual taxpayers, and businesses; and identifying unintended effects. To illustrate how tax expenditure evaluations guide policymaking, consider infrastructure tax credits and research investment incentives:

Infrastructure. Tax credits and other incentives support public-private partnerships that fund critical infrastructure projects like roads, bridges, and energy systems. Evaluations of these tax benefits would assess their impact on private sector investment, efficiency in project execution, and whether they help develop underserved communities. Additionally, analysis could explore whether these incentives boost economic growth, create jobs, and improve national competitiveness, ensuring infrastructure investments deliver meaningful, long-term benefits.

R&D Investment. Tax expenditures help lower investment costs in areas like research, extraction, and industrial activities. Measures like accelerated depreciation reduce financial burdens associated with business expansion and technological development. Evaluations of these provisions would consider their effect on the cost of capital, effective tax rates, and sector-specific investments such as research funding, exploration activity, and equipment purchases. In areas like research, evidence suggests that private investment can generate significant positive externalities, benefiting broader economic growth. Quantifying these externalities and comparing them with tax expenditure levels can enhance policy effectiveness. Other considerations include whether tax preferences genuinely stimulate new production rather than just benefitting existing output, as well as their cost-effectiveness relative to alternative policies. Comprehensive assessments may also involve non-tax factors such as market structure, scientific advancements, and energy security.

The tax proposals subject to these analyses include items that indirectly affect the estimated value of tax expenditures (such as changes in income tax rates), proposals that make reforms to improve tax compliance and administration, as well as proposals which would change, add, or delete tax expenditures.

Barriers to Evaluation

Developing a framework that is sufficiently comprehensive, accurate, and flexible is a significant challenge. Evaluations are constrained by the availability of appropriate data and challenges in economic modeling:

Data Availability. Data may not exist, or may not exist in an analytically appropriate form, to conduct rigorous evaluations of certain types of expenditures. For example, measuring the effects of tax expenditures designed to achieve tax neutrality for individuals and firms earning income abroad, and foreign firms could require data from foreign governments or firms which are not readily available.

Analytical Constraints. Evaluations of tax expenditures face analytical constraints even when data are available. For example, individuals might have access to several tax expenditures and programs aimed at improving the same outcome. Isolating the effect of a single tax credit is challenging absent a well-specified research design.

Resources. Tax expenditure analyses are seriously constrained by staffing considerations. Evaluations typically require expert analysts who are often engaged in other areas of work related to the budget.

The Executive Branch is focused on addressing these challenges to lay the foundation for the analysis of tax expenditures comprehensively, alongside evaluations of the effectiveness of direct spending initiatives.

Table 10—1. Estimates of Total Income Tax Expenditures for Fiscal Years 2025–2035[1]

In Millions of Dollars

	Total from Corporations and Individuals											
	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2026–2035
National Defense												
1 Exclusion of benefits and allowances to armed forces personnel	17,960	18,680	19,430	18,270	18,590	19,320	20,200	21,170	22,210	23,320	24,510	205,700
International Affairs												
2 Exclusion of income earned abroad by U.S. citizens	5,040	5,000	4,960	4,920	4,880	4,830	4,790	4,750	4,710	4,670	4,630	48,140
3 Exclusion of certain allowances for Federal employees abroad	290	300	300	310	320	320	330	340	350	350	360	3,280
4 Reduced tax rate on active income of controlled foreign corporations (normal tax method)	30,550	31,190	31,840	32,510	33,190	33,890	34,600	35,330	36,070	36,830	37,600	343,050
5 Deduction for foreign-derived intangible income derived from trade or business within the United States	19,020	19,600	20,540	21,620	22,870	24,230	25,620	27,060	28,610	30,150	31,750	252,050
6 Interest Charge Domestic International Sales Corporations (IC-DISCs)	1,670	1,770	1,860	1,950	2,040	2,120	2,170	2,250	2,340	2,440	2,540	21,480
General Science, Space, and Technology												
7 Expensing of research and experimentation expenditures (normal tax method)	21,650	47,260	27,620	13,180	6,230	4,440	4,970	5,530	6,150	6,820	7,560	129,760
8 Credit for increasing research activities	36,060	36,520	38,790	41,100	43,510	46,020	48,600	51,280	54,070	56,990	60,040	476,920
Energy												
9 Expensing of exploration and development costs, oil and gas	70	80	170	200	140	100	220	250	210	340	340	2,050
10 Expensing of exploration and development costs, coal	0	10	10	10	10	10	10	20	10	30	30	150
11 Excess of percentage over cost depletion, oil and gas	1,210	1,370	1,470	1,490	1,520	1,530	1,620	1,680	1,710	1,840	1,900	16,130
12 Excess of percentage over cost depletion, coal	90	90	90	90	90	90	80	90	90	90	90	890
13 Exception from passive loss limitation for working interests in oil and gas properties	0	0	0	10	0	0	0	10	0	10	10	40
14 Enhanced oil recovery credit	140	170	430	770	1,100	1,380	1,540	1,590	1,610	1,620	1,640	11,850
15 Marginal wells credit	320	420	360	260	280	370	450	490	490	490	490	4,100
16 Amortize all geological and geophysical expenditures over 2 years	160	160	160	160	150	150	130	120	120	100	90	1,340
17 Capital gains treatment of royalties on coal	50	50	60	50	50	50	50	50	50	50	50	510
18 Exclusion of interest on energy facility bonds	0	0	0	0	0	0	0	0	0	0	0	0
19 Qualified energy conservation bonds[2]	30	30	30	30	30	30	30	30	30	30	30	300
20 Exclusion of utility conservation subsidies	70	70	70	60	60	60	60	60	60	60	60	620
21 Credit for holding clean renewable energy bonds[2]	70	70	70	70	70	70	50	50	50	50	50	600
22 Energy production credit[2]	9,850	11,610	13,290	13,680	13,990	13,560	12,820	11,400	10,940	9,590	7,320	118,200
23 Energy investment credit[2]	19,980	15,640	9,720	3,260	1,590	1,550	1,340	1,550	1,510	1,220	820	38,200
24 Advanced nuclear power production credit	210	240	270	280	280	280	240	110	20	0	0	1,720
25 Zero-emission nuclear power production credit[2]	2,590	1,700	1,550	2,450	2,270	2,000	1,780	2,040	700	60	0	14,550
26 Reduced tax rate for nuclear decommissioning funds	30	30	30	30	30	30	30	30	40	40	40	330
27 Alcohol fuel credits[3]	0	0	0	0	0	0	0	0	0	0	0	0
28 Bio-Diesel and small agri-biodiesel producer tax credits[4]	60	90	60	0	0	0	0	0	0	0	0	150
29 Clean fuel production credit[2,5]	1,260	12,470	11,370	12,400	13,480	2,690	690	0	0	0	0	53,100

Table 10—1. Estimates of Total Income Tax Expenditures for Fiscal Years 2025–2035[1]—Continued

In Millions of Dollars

		Total from Corporations and Individuals											
		2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2026–2035
30	Clean hydrogen production credit [2]	620	1,320	2,290	3,390	4,320	5,500	6,430	6,840	7,040	7,180	6,620	50,930
31	Tax credits for clean vehicles [2]	9,740	2,340	–690	–650	–380	–120	–10	0	0	0	0	490
32	Tax credits for refueling property [2]	370	360	100	0	0	0	0	0	0	0	0	460
33	Allowance of deduction for certain energy efficient commercial building property	700	850	570	290	20	–130	–170	–180	–180	–180	–180	710
34	Credit for construction of new energy efficient homes	910	700	220	0	0	0	0	0	0	0	0	920
35	Credit for energy efficiency improvements to existing homes	2,390	2,990	0	0	0	0	0	0	0	0	0	2,990
36	Credit for residential energy efficient property	7,710	2,280	800	0	0	0	0	0	0	0	0	3,080
37	Advanced energy property credit [2]	1,680	1,830	1,890	1,880	1,060	150	20	–30	–20	–10	–10	6,760
38	Advanced manufacturing production credit [2]	3,830	3,060	3,080	3,800	5,460	5,740	4,760	3,010	860	80	240	30,090
Natural Resources and Environment													
39	Expensing of exploration and development costs, nonfuel minerals	10	10	10	20	10	10	20	30	20	40	40	210
40	Excess of percentage over cost depletion, nonfuel minerals	250	290	310	310	310	320	330	340	350	370	390	3,320
41	Exclusion of interest on bonds for water, sewage, and hazardous waste facilities	370	380	390	380	410	420	420	410	410	430	420	4,070
42	Capital gains treatment of certain timber income	200	200	210	220	230	240	250	260	280	290	300	2,480
43	Expensing of multiperiod timber growing costs	340	350	370	380	400	420	440	460	490	510	530	4,350
44	Tax incentives for preservation of historic structures	590	580	590	610	620	640	650	670	700	720	750	6,530
45	Carbon oxide sequestration credit [2]	590	1,040	1,620	2,350	3,000	3,940	4,700	5,340	5,650	5,780	5,870	39,290
46	Deduction for endangered species recovery expenditures	40	40	60	60	60	70	70	80	90	100	110	740
Agriculture													
47	Expensing of certain capital outlays	130	130	130	130	130	130	130	140	140	150	150	1,360
48	Expensing of certain multiperiod production costs	290	290	290	300	300	300	300	310	330	340	350	3,110
49	Treatment of loans forgiven for solvent farmers	70	70	70	70	70	70	70	70	70	80	80	720
50	Capital gains treatment of certain agriculture income	2,020	2,040	2,130	2,170	2,270	2,400	2,530	2,660	2,810	2,960	3,110	25,080
51	Income averaging for farmers	210	220	220	220	220	220	220	220	220	220	220	2,200
52	Deferral of gain on sale of farm refiners	20	20	20	20	20	30	30	30	30	30	30	260
53	Expensing of reforestation expenditures	70	70	70	80	70	70	80	90	90	100	100	820
Commerce and Housing													
	Financial institutions and insurance:												
54	Exemption of credit union income	2,460	2,590	2,740	2,880	3,070	3,270	3,430	3,470	3,610	3,620	3,690	32,370
55	Exclusion of life insurance death benefits	18,640	18,730	19,200	19,680	20,340	20,980	21,550	22,140	22,810	23,490	24,150	213,070
56	Exemption or special alternative tax for small property and casualty insurance companies	1,910	1,990	2,060	2,130	2,200	2,270	2,340	2,410	2,480	2,550	2,630	23,060
57	Tax exemption of insurance income earned by tax-exempt organizations	410	420	430	450	460	470	490	500	520	530	540	4,810
58	Exclusion of interest spread of financial institutions	23,860	24,010	24,490	24,910	25,240	25,720	26,190	26,600	26,970	27,280	27,590	259,000

Table 10–1. Estimates of Total Income Tax Expenditures for Fiscal Years 2025–2035[1]—Continued
In Millions of Dollars

		Total from Corporations and Individuals											
		2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2026–2035
	Housing:												
59	Exclusion of interest on owner-occupied mortgage subsidy bonds	1,200	1,220	1,240	1,240	1,300	1,350	1,340	1,330	1,340	1,360	1,370	13,090
60	Exclusion of interest on rental housing bonds	2,960	3,010	3,030	3,060	3,210	3,320	3,300	3,270	3,290	3,330	3,380	32,200
61	Deductibility of mortgage interest on owner-occupied homes	23,880	24,520	23,480	23,930	24,580	16,350	13,160	13,740	13,890	14,010	14,140	181,800
62	Deductibility of State and local property tax on owner-occupied homes [6]	21,050	25,790	26,020	27,310	28,860	14,710	8,590	9,330	9,640	9,980	10,300	170,530
63	Deferral of income from installment sales	2,930	2,420	2,350	2,370	2,490	2,620	2,760	2,900	3,050	3,190	3,310	27,460
64	Capital gains exclusion on home sales	79,170	85,420	90,440	94,880	99,140	103,420	108,000	112,610	117,540	122,770	128,230	1,062,450
65	Exclusion of net imputed rental income	151,640	157,410	166,490	176,510	188,630	201,720	213,860	226,100	239,160	252,810	267,120	2,089,810
66	Exception from passive loss rules for $25,000 of rental loss	8,330	8,610	8,840	9,140	9,370	9,620	9,920	10,410	10,990	11,560	12,120	100,580
67	Credit for low-income housing investments	14,450	15,270	16,140	17,030	18,000	19,020	20,010	21,030	22,140	23,390	24,450	196,480
68	Accelerated depreciation on rental housing (normal tax method)	3,780	4,360	5,010	5,690	6,440	7,250	8,100	8,940	9,770	10,570	11,360	77,490
69	Discharge of mortgage indebtedness	80	30	0	0	0	0	0	0	0	0	0	30
	Commerce:												
70	Discharge of business indebtedness	–20	–20	–10	–20	–20	–30	–40	–40	–60	–70	–90	–400
71	Exceptions from imputed interest rules	80	100	90	90	90	80	80	80	80	80	80	850
72	Treatment of qualified dividends	32,500	34,170	36,060	38,170	40,140	42,400	44,650	46,980	49,670	52,190	54,850	439,280
73	Capital gains (except agriculture, timber, iron ore, and coal)	134,600	135,340	135,200	143,230	147,190	152,870	157,970	163,470	172,470	176,440	179,630	1,563,810
74	Capital gains exclusion of small corporation stock	4,570	4,700	4,930	5,320	6,040	6,610	7,090	7,410	7,770	8,160	8,540	66,570
75	Step-up basis of capital gains at death	36,430	40,260	43,520	46,840	50,610	54,250	57,790	61,920	66,900	71,080	76,260	569,430
76	Carryover basis of capital gains on gifts	5,310	5,820	6,150	6,010	5,950	6,000	6,170	6,500	6,580	6,550	6,760	62,490
77	Ordinary income treatment of loss from small business corporation stock sale	80	80	80	80	90	90	90	100	100	100	100	910
78	Deferral of capital gains from like-kind exchanges	11,330	12,720	11,910	9,210	9,820	10,240	10,240	10,250	10,380	10,550	10,760	106,080
79	Depreciation of buildings other than rental housing (normal tax method)	1,110	2,400	3,810	4,720	5,160	5,770	4,900	4,570	5,120	5,810	6,340	48,600
80	Accelerated depreciation of machinery and equipment (normal tax method)	47,660	81,650	73,530	66,910	67,450	68,230	67,810	67,300	68,620	71,370	74,200	707,070
81	Exclusion of interest on small issue bonds	40	40	50	50	50	50	50	50	50	50	50	490
82	Special rules for certain film and TV production	0	–650	–520	–110	–10	0	0	0	0	0	0	–1,290
83	Allow 20-percent deduction to certain pass-through income	64,680	68,120	72,190	76,190	80,090	83,860	87,120	90,150	93,750	97,760	101,620	850,850
84	Advanced manufacturing investment credit [2]	20	2,300	5,790	6,600	6,300	3,610	–30	–890	–480	–140	10	23,070
85	Deduction for car interest payments	0	1,720	2,060	2,510	1,790	0	0	0	0	0	0	8,080
Transportation													
86	Tonnage tax	180	170	160	170	170	170	170	170	180	180	190	1,730

Table 10–1. Estimates of Total Income Tax Expenditures for Fiscal Years 2025–2035[1]—Continued

In Millions of Dollars

		Total from Corporations and Individuals											
		2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2026–2035
87	Deferral of tax on shipping companies	–40	–30	–30	–30	–70	–50	–40	–40	–40	–40	–40	–410
88	Exclusion of reimbursed employee parking expenses	2,160	2,260	2,360	2,460	2,570	2,690	2,810	2,930	3,070	3,200	3,350	27,700
89	Exclusion for employer-provided transit passes	420	450	470	500	530	550	590	620	650	690	720	5,770
90	Tax credit for certain expenditures for maintaining railroad tracks	150	150	140	140	140	140	140	140	140	140	140	1,410
91	Exclusion of interest on bonds for Highway Projects and rail-truck transfer facilities	130	130	120	110	110	100	100	80	80	80	70	980
Community and Regional Development													
92	Exclusion of interest for airport, dock, and similar bonds	1,580	1,600	1,610	1,640	1,710	1,770	1,760	1,740	1,750	1,780	1,810	17,170
93	Exemption of certain mutuals' and cooperatives' income	110	110	110	120	120	120	130	130	130	140	140	1,250
94	Empowerment zones	110	90	50	30	10	10	10	10	10	0	0	220
95	New markets tax credit	1,310	1,360	1,420	1,450	1,460	1,460	1,460	1,460	1,460	1,460	1,450	14,440
96	Credit to holders of Gulf and Midwest Tax Credit Bonds	0	0	0	0	0	0	0	0	0	0	0	0
97	Recovery Zone Bonds[2]	10	10	10	10	10	10	20	20	20	20	20	150
98	Tribal Economic Development Bonds	0	0	0	0	0	0	0	0	0	0	0	0
99	Opportunity Zones	3,080	–7,750	–12,770	8,110	6,880	5,850	5,890	4,260	1,420	3,090	4,730	19,710
100	Disaster employee retention credit	40	50	20	20	10	10	10	10	10	10	10	160
Education, Training, Employment, and Social Services													
	Education:												
101	Exclusion of scholarship and fellowship income (normal tax method)	7,660	7,740	8,230	8,750	9,230	9,820	10,280	10,770	11,270	11,810	12,360	100,260
102	Tax credits for post-secondary education expenses[2]	10,940	10,310	10,190	10,040	9,860	9,790	9,670	9,460	9,230	8,990	8,780	96,320
103	Deductibility of student-loan interest	2,270	2,510	2,580	2,690	2,700	2,740	2,850	2,880	2,940	2,980	3,100	27,970
104	Qualified tuition programs (includes Education IRA)	3,320	3,420	3,660	3,900	4,230	4,570	4,870	5,180	5,530	5,900	6,290	47,550
105	Exclusion of interest on student-loan bonds	100	110	110	110	120	120	120	120	120	120	120	1,170
106	Exclusion of interest on bonds for private nonprofit educational facilities	2,780	2,840	2,850	2,880	3,020	3,120	3,110	3,070	3,100	3,140	3,180	30,310
107	Credit for holders of zone academy bonds[2]	60	50	50	40	40	40	30	30	30	30	20	360
108	Exclusion of interest on savings bonds redeemed to finance educational expenses	40	50	50	50	50	50	60	60	60	60	70	560
109	Deductibility of charitable contributions to educational institutions	9,550	9,600	9,680	10,260	10,890	11,340	11,560	12,190	12,900	13,690	14,460	116,570
110	Exclusion of employer-provided educational assistance	1,190	1,560	1,850	1,980	2,140	2,290	2,430	2,580	2,760	2,930	3,100	23,620
111	Special deduction for teacher expenses	170	160	250	240	250	250	230	240	240	330	250	2,440
112	Deductibility of educator expenses	0	0	80	80	80	80	60	60	60	60	60	620
113	Discharge of student loan indebtedness	4,770	10,470	5,380	3,010	1,770	970	1,000	1,020	1,040	1,080	1,120	26,860
114	Qualified school construction bonds[2]	330	310	290	270	250	240	220	200	180	160	140	2,260
	Training, employment, and social services:												
115	Work opportunity tax credit	2,140	1,360	510	330	250	190	150	110	80	70	40	3,090

Table 10–1. Estimates of Total Income Tax Expenditures for Fiscal Years 2025–2035[1]—Continued

In Millions of Dollars

		Total from Corporations and Individuals											
		2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2026–2035
116	Employer provided child care exclusion	850	820	850	920	980	1,050	1,120	1,190	1,260	1,310	1,370	10,870
117	Employer-provided child care credit	20	40	40	40	40	40	40	40	40	50	50	420
118	Assistance for adopted foster children	700	770	840	920	1,010	1,110	1,230	1,360	1,500	1,650	1,820	12,210
119	Adoption credit and exclusion	270	270	270	290	310	330	350	370	400	420	430	3,440
120	Exclusion of employee meals and lodging (other than military)	6,690	6,980	7,360	7,710	8,070	8,510	8,930	9,330	9,740	10,180	10,650	87,460
121	Credit for child and dependent care expenses [1]	3,220	4,190	4,650	4,650	4,660	4,670	4,670	4,680	4,690	4,690	4,690	46,240
122	Credit for disabled access expenditures	10	10	10	10	10	10	10	10	10	10	10	100
123	Deductibility of charitable contributions, other than education and health	51,360	51,650	52,030	55,150	58,540	60,970	62,140	65,540	69,390	73,620	77,770	626,800
124	Exclusion of certain foster care payments	1,000	1,080	1,190	1,300	1,430	1,570	1,740	1,920	2,120	2,330	2,570	17,250
125	Exclusion of parsonage allowances	1,140	1,200	1,270	1,340	1,410	1,480	1,560	1,640	1,730	1,820	1,920	15,370
126	Indian employment credit	20	20	20	20	0	0	0	0	0	0	0	60
127	Employer-provided paid family and medical leave credit	90	110	130	140	140	150	150	160	170	180	190	1,520
128	Exclusion of tip income	0	4,380	2,050	2,110	1,640	0	0	0	0	0	0	10,180
129	Exclusion of overtime income	0	17,040	13,900	14,240	10,880	0	0	0	0	0	0	56,060
Health													
130	Exclusion of employer contributions for medical insurance premiums and medical care [7]	279,180	295,660	313,630	331,190	350,680	369,710	388,830	408,660	429,420	451,220	474,030	3,813,030
131	Self-employed medical insurance premiums	9,100	9,530	10,050	10,640	11,320	12,080	12,820	13,530	14,270	14,980	15,650	124,870
132	Medical Savings Accounts/Health Savings Accounts	13,880	14,870	15,820	16,570	17,330	17,990	18,570	19,170	19,850	20,570	21,280	182,020
133	Deductibility of medical expenses	13,470	13,790	14,650	15,980	17,760	18,810	20,110	21,780	23,600	25,610	27,770	199,860
134	Exclusion of interest on hospital construction bonds	3,310	3,370	3,390	3,420	3,590	3,720	3,690	3,660	3,690	3,730	3,780	36,040
135	Refundable Premium Assistance Tax Credit [2]	11,530	11,650	6,540	6,930	6,600	7,150	7,240	7,390	7,820	8,380	8,770	78,470
136	Credit for employee health insurance expenses of small business	0	0	0	0	0	0	0	0	0	0	0	0
137	Deductibility of charitable contributions to health institutions	7,570	7,610	7,670	8,130	8,630	8,990	9,160	9,660	10,230	10,850	11,460	92,390
138	Tax credit for orphan drug research	1,960	2,140	2,340	2,560	2,810	3,070	3,360	3,680	4,030	4,410	4,830	33,230
139	Special Blue Cross/Blue Shield tax benefits	470	510	540	580	630	670	720	770	820	880	940	7,060
140	Distributions from retirement plans for premiums for health and long-term care insurance	500	590	630	650	660	670	670	680	690	700	710	6,650
Income Security													
141	Child credit [2]	32,810	37,250	41,090	40,520	42,660	39,220	41,300	41,910	44,170	44,750	47,220	420,090
142	Other Dependent Tax Credit	8,940	8,660	8,710	8,760	8,740	8,750	8,700	8,630	8,550	8,440	8,340	86,280
143	Exclusion of railroad retirement (Social Security equivalent) benefits	160	140	140	130	130	130	130	130	120	120	120	1,290
144	Exclusion of workers' compensation benefits	9,550	9,620	9,690	9,730	9,770	9,810	9,850	9,890	9,930	9,970	10,010	98,270
145	Exclusion of public assistance benefits (normal tax method)	830	870	900	950	960	960	1,020	1,050	1,100	1,130	1,100	10,040
146	Exclusion of special benefits for disabled coal miners	20	20	20	10	10	10	10	10	10	10	10	120
147	Exclusion of military disability pensions	150	130	130	130	170	180	190	190	190	190	200	1,700

Table 10—1. Estimates of Total Income Tax Expenditures for Fiscal Years 2025–2035[1]—Continued

In Millions of Dollars

		Total from Corporations and Individuals											
		2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2026–2035
	Net exclusion of pension contributions and earnings:												
148	Defined benefit employer plans	69,650	71,430	71,630	72,180	71,630	71,290	71,710	72,950	73,670	73,840	74,410	724,740
149	Defined contribution employer plans	142,820	156,480	169,260	178,660	190,170	195,870	206,150	219,790	234,410	249,590	263,980	2,064,360
150	Individual Retirement Accounts	28,430	32,100	35,560	38,060	40,880	42,410	45,070	47,920	51,540	55,410	59,520	448,470
151	Trump Accounts	0	5,600	3,560	3,620	1,560	140	80	30	10	0	0	14,600
152	Low and moderate income savers credit	1,780	1,540	1,730	3,360	3,310	3,250	3,190	3,150	3,110	3,050	3,000	28,690
153	Self-Employed plans	32,180	35,260	38,140	40,260	42,850	44,140	46,450	49,530	52,820	56,240	59,480	465,170
154	Small employer pension plan startup credit	320	380	360	310	280	230	180	130	130	130	130	2,260
	Exclusion of other employee benefits:												
155	Premiums on group term life insurance	3,680	3,790	3,940	4,080	4,230	4,370	4,500	4,640	4,840	5,010	5,170	44,570
156	Premiums on accident and disability insurance	1,840	1,870	1,920	1,970	2,040	2,090	2,140	2,190	2,240	2,300	2,360	21,120
157	Income of trusts to finance supplementary unemployment benefits	50	50	50	50	50	50	50	50	50	50	60	510
158	Income of trusts to finance voluntary employee benefits associations	1,400	1,470	1,550	1,630	1,720	1,810	1,910	2,010	2,120	2,230	2,460	18,910
159	Special Employee Stock Ownership Plan (ESOP) rules	290	300	310	330	340	350	360	360	370	390	400	3,510
160	Additional deduction for the blind	50	50	60	60	70	80	80	80	90	90	100	760
161	Additional deduction for the elderly	7,530	8,220	8,720	9,410	11,090	12,320	12,720	13,450	14,260	14,820	15,680	120,690
162	Temporary additional deduction for the elderly	0	36,480	23,820	24,350	11,050	0	0	0	0	0	0	95,700
163	Deductibility of casualty losses	140	120	110	100	100	90	80	70	70	60	60	860
164	Earned income tax credit[2]	900	670	670	690	690	800	810	850	860	900	910	7,850
165	Recovery rebate credits[2]	1,000	70	0	0	0	0	0	0	0	0	0	70
Social Security													
	Exclusion of social security benefits:												
166	Social Security benefits for retired and disabled workers and spouses, dependents and survivors	37,540	37,820	41,350	44,340	48,950	54,520	56,660	59,020	60,810	62,230	63,780	529,480
167	Credit for certain employer contributions to social security	2,090	2,240	2,410	2,600	2,790	3,000	3,220	3,470	3,730	4,010	4,310	31,780
Veterans Benefits and Services													
168	Exclusion of veterans death benefits and disability compensation	13,710	12,320	13,120	13,900	16,030	20,290	20,990	21,900	22,780	23,890	24,750	189,970
169	Exclusion of veterans pensions	190	120	110	100	110	160	150	140	140	130	120	1,280
170	Exclusion of GI bill benefits	1,660	1,700	1,790	1,850	1,990	2,270	2,330	2,400	2,460	2,550	2,620	21,960
171	Exclusion of interest on veterans housing bonds	30	30	40	40	40	40	40	40	40	40	40	390
General Purpose Fiscal Assistance													
172	Exclusion of interest on public purpose State and local bonds	39,740	40,480	40,690	41,110	43,060	44,630	44,290	43,870	44,170	44,820	45,420	432,540
173	Build America Bonds[1]	0	0	0	0	0	0	0	0	0	0	0	0
174	Deductibility of nonbusiness State and local taxes other than on owner-occupied homes[5]	21,600	26,120	25,490	26,670	27,910	9,730	3,230	4,580	4,610	4,640	4,650	137,630
Interest													
175	Deferral of interest on U.S. savings bonds	880	870	860	850	840	830	820	820	810	800	790	8,290

Table 10—1. Estimates of Total Income Tax Expenditures for Fiscal Years 2025–2035[1]—Continued

In Millions of Dollars

	Total from Corporations and Individuals											
	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2026–2035
Addendum: Aid to State and Local Governments												
Deductibility of:												
Property taxes on owner-occupied homes	21,050	25,790	26,020	27,310	28,860	14,710	8,590	9,330	9,640	9,980	10,300	170,530
Nonbusiness State and local taxes other than on owner-occupied homes	21,600	26,120	25,490	26,670	27,910	9,730	3,230	4,580	4,610	4,640	4,650	137,630
Exclusion of interest on State and local bonds for:												
Public purposes	39,740	40,480	40,690	41,110	43,060	44,630	44,290	43,870	44,170	44,820	45,420	432,540
Energy facilities	0	0	0	0	0	0	0	0	0	0	0	0
Water, sewage, and hazardous waste disposal facilities	370	380	390	380	410	420	420	410	410	430	420	4,070
Small-issues	40	40	50	50	50	50	50	50	50	50	50	490
Owner-occupied mortgage subsidies	1,200	1,220	1,240	1,240	1,300	1,350	1,340	1,330	1,340	1,360	1,370	13,090
Rental housing	2,960	3,010	3,030	3,060	3,210	3,320	3,300	3,270	3,290	3,330	3,380	32,200
Airports, docks, and similar facilities	1,580	1,600	1,610	1,640	1,710	1,770	1,760	1,740	1,750	1,780	1,810	17,170
Student loans	100	110	110	110	120	120	120	120	120	120	120	1,170
Private nonprofit educational facilities	2,780	2,840	2,850	2,880	3,020	3,120	3,110	3,070	3,100	3,140	3,180	30,310
Hospital construction	3,310	3,370	3,390	3,420	3,590	3,720	3,690	3,660	3,690	3,730	3,780	36,040
Veterans' housing	30	30	40	40	40	40	40	40	40	40	40	390

[1] All years referenced are fiscal years. Estimates under $10 million are rounded down to zero.

[2] See Table 10-4 for outlay estimates.

[3] The alternative fuel mixture credit results in a reduction in excise tax receipts (in millions of dollars) as follows: 2025 $780 and $0 thereafter.

[4] In addition, the biodiesel producer tax credit results in a reduction in excise tax receipts (in millions of dollars) as follows: 2025 $3,200; and $0 thereafter.

[5] In addition, the sustainable aviation fuel tax credit results in a reduction in excise tax receipts (in millions of dollars) as follows: 2025 $50; and $0 thereafter.

[6] These estimates differ from the combined effects of repealing deductions for both property taxes on owner occupied housing and other non-business taxes. The estimate of repealing both is (in millions of dollars): 2025 $41,200; 2026 $46,560; 2027 $46,330; 2028 $48,790; 2029 $51,520; 2030 $29,420; 2031 $21,390; 2032 $23,730; 2033 $24,840; 2034 $26,020; and 2035 $27,130.

[7] In addition, the employer contributions for health have effects on payroll tax receipts (in millions of dollars) as follows: 2025 $171,400; 2026 $182,580; 2027 $193,060; 2028 $203,230; 2029 $213,040; 2030 $222,780; 2031 $232,730; 2032 $242,680; 2033 $253,010; 2034 $263,960; and 2035 $275,350.

Table 10–2. Income Tax Expenditures Ranked by Total Fiscal Years 2026–2035 Projected Revenue Effect

In Millions of Dollars

	Provision	2025	2026	2026–35
130	Exclusion of employer contributions for medical insurance premiums and medical care [6]	279,180	295,660	3,813,030
65	Exclusion of net imputed rental income	151,640	157,410	2,089,810
149	Defined contribution employer plans	142,820	156,480	2,064,360
73	Capital gains (except agriculture, timber, iron ore, and coal)	134,600	135,340	1,563,810
64	Capital gains exclusion on home sales	79,170	85,420	1,062,450
83	Allow 20-percent deduction to certain pass-through income	64,680	68,120	850,850
148	Defined benefit employer plans	69,650	71,430	724,740
80	Accelerated depreciation of machinery and equipment (normal tax method)	47,660	81,650	707,070
123	Deductibility of charitable contributions, other than education and health	51,360	51,650	626,800
75	Step-up basis of capital gains at death	36,430	40,260	569,430
166	Social Security benefits for retired and disabled workers and spouses, dependents and survivors	37,540	37,820	529,480
8	Credit for increasing research activities	36,060	36,520	476,920
153	Self-Employed plans	32,180	35,260	465,170
150	Individual Retirement Accounts	28,430	32,100	448,470
72	Treatment of qualified dividends	32,500	34,170	439,280
172	Exclusion of interest on public purpose State and local bonds	39,740	40,480	432,540
141	Child credit [1]	32,810	37,250	420,090
4	Reduced tax rate on active income of controlled foreign corporations (normal tax method)	30,550	31,190	343,050
58	Exclusion of interest spread of financial institutions	23,860	24,010	259,000
5	Deduction for foreign-derived intangible income derived from trade or business within the United States	19,020	19,600	252,050
55	Exclusion of life insurance death benefits	18,640	18,730	213,070
1	Exclusion of benefits and allowances to armed forces personnel	17,960	18,680	205,700
133	Deductibility of medical expenses	13,470	13,790	199,860
67	Credit for low-income housing investments	14,450	15,270	196,480
168	Exclusion of veterans death benefits and disability compensation	13,710	12,320	189,970
132	Medical Savings Accounts / Health Savings Accounts	13,880	14,870	182,020
61	Deductibility of mortgage interest on owner-occupied homes	23,880	24,520	181,800
62	Deductibility of State and local property tax on owner-occupied homes [5]	21,050	25,790	170,530
174	Deductibility of nonbusiness State and local taxes other than on owner-occupied homes [5]	21,600	26,120	137,630
7	Expensing of research and experimentation expenditures (normal tax method)	21,650	47,260	129,760
131	Self-employed medical insurance premiums	9,100	9,530	124,870
161	Additional deduction for the elderly	7,530	8,220	120,690
22	Energy production credit [1]	9,850	11,610	118,200
109	Deductibility of charitable contributions to educational institutions	9,550	9,600	116,570
78	Deferral of capital gains from like-kind exchanges	11,330	12,720	106,080
66	Exception from passive loss rules for $25,000 of rental loss	8,330	8,610	100,580
101	Exclusion of scholarship and fellowship income (normal tax method)	7,660	7,740	100,260
144	Exclusion of workers' compensation benefits	9,550	9,620	98,270
102	Tax credits for post-secondary education expenses [1]	10,940	10,310	96,320
162	Temporary additional deduction for the elderly	0	36,480	95,700
137	Deductibility of charitable contributions to health institutions	7,570	7,610	92,390
120	Exclusion of employee meals and lodging (other than military)	6,690	6,980	87,460
142	Other Dependent Tax Credit	8,940	8,660	86,280
135	Refundable Premium Assistance Tax Credit [1]	11,530	11,650	78,470
68	Accelerated depreciation on rental housing (normal tax method)	3,780	4,360	77,490
74	Capital gains exclusion of small corporation stock	4,570	4,700	66,570
76	Carryover basis of capital gains on gifts	5,310	5,820	62,490
129	Exclusion of overtime income	0	17,040	56,060
29	Clean fuel production credit [1,4]	1,260	12,470	53,100
30	Clean hydrogen production credit [1]	620	1,320	50,930
79	Depreciation of buildings other than rental housing (normal tax method)	1,110	2,400	48,600
2	Exclusion of income earned abroad by U.S. citizens	5,040	5,000	48,140
104	Qualified tuition programs (includes Education IRA)	3,320	3,420	47,550
121	Credit for child and dependent care expenses [1]	3,220	4,190	46,240
155	Premiums on group term life insurance	3,680	3,790	44,570
45	Carbon oxide sequestration credit [1]	590	1,040	39,290

Table 10—2. Income Tax Expenditures Ranked by Total Fiscal Years 2026–2035 Projected Revenue Effect—Continued

In Millions of Dollars

	Provision	2025	2026	2026–35
23	Energy investment credit [1]	19,980	15,640	38,200
134	Exclusion of interest on hospital construction bonds	3,310	3,370	36,040
138	Tax credit for orphan drug research	1,960	2,140	33,230
54	Exemption of credit union income	2,460	2,590	32,370
60	Exclusion of interest on rental housing bonds	2,960	3,010	32,200
167	Credit for certain employer contributions to social security	2,090	2,240	31,780
106	Exclusion of interest on bonds for private nonprofit educational facilities	2,780	2,840	30,310
38	Advanced manufacturing production credit [1]	3,830	3,060	30,090
152	Low and moderate income savers credit	1,780	1,540	28,690
103	Deductibility of student-loan interest	2,270	2,510	27,970
88	Exclusion of reimbursed employee parking expenses	2,160	2,260	27,700
63	Deferral of income from installment sales	2,930	2,420	27,460
113	Discharge of student loan indebtedness	4,770	10,470	26,860
50	Capital gains treatment of certain agriculture income	2,020	2,040	25,080
110	Exclusion of employer-provided educational assistance	1,190	1,560	23,620
84	Advanced manufacturing investment credit [1]	20	2,300	23,070
56	Exemption or special alternative tax for small property and casualty insurance companies	1,910	1,990	23,060
170	Exclusion of GI bill benefits	1,660	1,700	21,960
6	Interest Charge Domestic International Sales Corporations (IC-DISCs)	1,670	1,770	21,480
156	Premiums on accident and disability insurance	1,840	1,870	21,120
99	Opportunity Zones	3,080	-7,750	19,710
158	Income of trusts to finance voluntary employee benefits associations	1,400	1,470	18,910
124	Exclusion of certain foster care payments	1,000	1,080	17,250
92	Exclusion of interest for airport, dock, and similar bonds	1,580	1,600	17,170
11	Excess of percentage over cost depletion, oil and gas	1,210	1,370	16,130
125	Exclusion of parsonage allowances	1,140	1,200	15,370
151	Trump Accounts	0	5,600	14,600
25	Zero-emission nuclear power production credit [1]	2,590	1,700	14,550
95	New markets tax credit	1,310	1,360	14,440
59	Exclusion of interest on owner-occupied mortgage subsidy bonds	1,200	1,220	13,090
118	Assistance for adopted foster children	700	770	12,210
14	Enhanced oil recovery credit	140	170	11,850
116	Employer provided child care exclusion	850	820	10,870
128	Exclusion of tip income	0	4,380	10,180
145	Exclusion of public assistance benefits (normal tax method)	830	870	10,040
175	Deferral of interest on U.S. savings bonds	880	870	8,290
85	Deduction for car interest payments	0	1,720	8,080
164	Earned income tax credit [1]	900	670	7,850
139	Special Blue Cross/Blue Shield tax benefits	470	510	7,060
37	Advanced energy property credit [1]	1,680	1,830	6,760
140	Distributions from retirement plans for premiums for health and long-term care insurance	500	590	6,650
44	Tax incentives for preservation of historic structures	590	580	6,530
89	Exclusion for employer-provided transit passes	420	450	5,770
57	Tax exemption of insurance income earned by tax-exempt organizations	410	420	4,810
43	Expensing of multiperiod timber growing costs	340	350	4,350
15	Marginal wells credit	320	420	4,100
41	Exclusion of interest on bonds for water, sewage, and hazardous waste facilities	370	380	4,070
159	Special Employee Stock Ownership Plan (ESOP) rules	290	300	3,510
119	Adoption credit and exclusion	270	270	3,440
40	Excess of percentage over cost depletion, nonfuel minerals	250	290	3,320
3	Exclusion of certain allowances for Federal employees abroad	290	300	3,280
48	Expensing of certain multiperiod production costs	290	290	3,110
115	Work opportunity tax credit	2,140	1,360	3,090
36	Credit for residential energy efficient property	7,710	2,280	3,080

Table 10–2. Income Tax Expenditures Ranked by Total Fiscal Years 2026–2035 Projected Revenue Effect—Continued

In Millions of Dollars

	Provision	2025	2026	2026–35
35	Credit for energy efficiency improvements to existing homes	2,390	2,990	2,990
42	Capital gains treatment of certain timber income	200	200	2,480
111	Special deduction for teacher expenses	170	160	2,440
114	Qualified school construction bonds [1]	330	310	2,260
154	Small employer pension plan startup credit	320	380	2,260
51	Income averaging for farmers	210	220	2,200
9	Expensing of exploration and development costs, oil and gas	70	80	2,050
86	Tonnage tax	180	170	1,730
24	Advanced nuclear power production credit	210	240	1,720
147	Exclusion of military disability pensions	150	130	1,700
127	Employer-provided paid family and medical leave credit	90	110	1,520
90	Tax credit for certain expenditures for maintaining railroad tracks	150	150	1,410
47	Expensing of certain capital outlays	130	130	1,360
16	Amortize all geological and geophysical expenditures over 2 years	160	160	1,340
143	Exclusion of railroad retirement (Social Security equivalent) benefits	160	140	1,290
169	Exclusion of veterans pensions	190	120	1,280
93	Exemption of certain mutuals' and cooperatives' income	110	110	1,250
105	Exclusion of interest on student-loan bonds	100	110	1,170
91	Exclusion of interest on bonds for Highway Projects and rail-truck transfer facilities	130	130	980
34	Credit for construction of new energy efficient homes	910	700	920
77	Ordinary income treatment of loss from small business corporation stock sale	80	80	910
12	Excess of percentage over cost depletion, coal	90	90	890
163	Deductibility of casualty losses	140	120	860
71	Exceptions from imputed interest rules	80	100	850
53	Expensing of reforestation expenditures	70	70	820
160	Additional deduction for the blind	50	50	760
46	Deduction for endangered species recovery expenditures	40	40	740
49	Treatment of loans forgiven for solvent farmers	70	70	720
33	Allowance of deduction for certain energy efficient commercial building property	700	850	710
20	Exclusion of utility conservation subsidies	70	70	620
112	Deductibility of educator expenses	0	0	620
21	Credit for holding clean renewable energy bonds [1]	70	70	600
108	Exclusion of interest on savings bonds redeemed to finance educational expenses	40	50	560
17	Capital gains treatment of royalties on coal	50	50	510
157	Income of trusts to finance supplementary unemployment benefits	50	50	510
31	Tax credit for clean vehicles [1]	9,740	2,340	490
81	Exclusion of interest on small issue bonds	40	40	490
32	Tax credits for refueling property [1]	370	360	460
117	Employer-provided child care credit	20	40	420
171	Exclusion of interest on veterans housing bonds	30	30	390
107	Credit for holders of zone academy bonds [1]	60	50	360
26	Reduced tax rate for nuclear decommissioning funds	30	30	330
19	Qualified energy conservation bonds [1]	30	30	300
52	Deferral of gain on sale of farm refiners	20	20	260
94	Empowerment zones	110	90	220
39	Expensing of exploration and development costs, nonfuel minerals	10	10	210
100	Disaster employee retention credit	40	50	160
10	Expensing of exploration and development costs, coal	0	10	150
28	Bio-Diesel and small agri-biodiesel producer tax credits [3]	60	90	150
97	Recovery Zone Bonds [1]	10	10	150
146	Exclusion of special benefits for disabled coal miners	20	20	120
122	Credit for disabled access expenditures	10	10	100
165	Recovery rebate credits [1]	1,000	70	70
126	Indian employment credit	20	20	60

Table 10–2. Income Tax Expenditures Ranked by Total Fiscal Years 2026–2035 Projected Revenue Effect—Continued
In Millions of Dollars

	Provision	2025	2026	2026–35
13	Exception from passive loss limitation for working interests in oil and gas properties	0	0	40
69	Discharge of mortgage indebtedness	80	30	30
18	Exclusion of interest on energy facility bonds	0	0	0
27	Alcohol fuel credits[2]	0	0	0
96	Credit to holders of Gulf and Midwest Tax Credit Bonds	0	0	0
98	Tribal Economic Development Bonds	0	0	0
136	Credit for employee health insurance expenses of small business	0	0	0
173	Build America Bonds[1]	0	0	0
70	Discharge of business indebtedness	–20	–20	–400
87	Deferral of tax on shipping companies	–40	–30	–410
82	Special rules for certain film and TV production	0	–650	–1,290

Note: See Table 11-1 footnotes for specific table information.

Table 10–3. Present Value of Selected Tax Expenditures for Activity in Calendar Year 2025
In Millions of Dollars

	Provision	Present Value of Revenue Loss
7	Expensing of research and experimentation expenditures (normal tax method)	4,360
9	Expensing of exploration and development costs, oil and gas	1,230
10	Expensing of exploration and development costs, coal	110
39	Expensing of exploration and development costs, nonfuel minerals	120
43	Expensing of multiperiod timber growing costs	320
47	Expensing of certain capital outlays - agriculture	200
48	Expensing of certain multiperiod production costs	420
53	Expensing of reforestation expenditures	60
67	Credit for low-income housing investments	14,450
68	Accelerated depreciation on rental housing	6,850
79	Depreciation of buildings other than rental	5,150
80	Accelerated depreciation of machinery and equipment	52,780
104	Qualified tuition programs	6,980
148	Defined benefit employer plans	92,570
149	Defined contribution employer plans	215,440
150	Exclusion of IRA contributions and earnings	2,620
	Exclusion of Roth earnings and distributions	800
	Exclusion of non-deductible IRA earnings	790
153	Exclusion of contributions and earnings for Self-Employed plans	8,660
172	Exclusion of interest on public purpose State and local bonds	18,800
	Exclusion of interest on non-public purpose bonds[1]	7,760
175	Deferral of interest on U.S. savings bonds	90

[1] Includes all components, other than public purpose, listed under 'Exclusion of interest on State and local bonds' in the Addendum to Table 10-1.

Table 10–4. Estimates of Outlay Tax Expenditures for Fiscal Years 2025–2035[1]

In Millions of Dollars

		Total											
		2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2026-2035
Energy													
19	Qualified energy conservation bonds	30	30	30	30	30	30	30	30	30	30	30	300
21	Credit for holding clean renewable energy bonds	40	40	30	30	30	30	30	30	30	30	30	310
22	Energy production credit	0	10	10	10	10	10	10	10	10	10	10	100
23	Energy investment credit	730	500	390	220	60	40	50	40	50	40	30	1,420
25	Zero-emission nuclear power production credit	0	500	470	440	670	440	320	240	350	0	0	3,430
29	Clean fuel production credit	10	690	610	650	710	180	0	0	0	0	0	2,840
30	Clean hydrogen production credit	470	970	1,650	2,400	3,000	3,810	4,410	4,710	4,970	5,090	4,610	35,620
31	Tax credits for clean vehicles	2,900	790	0	0	0	0	0	0	0	0	0	790
32	Tax credits for refueling property	0	10	0	0	0	0	0	0	0	0	0	10
37	Advanced energy property credit	0	0	0	0	0	0	0	0	0	0	0	0
38	Advanced manufacturing production credit	220	3,680	3,000	3,090	3,030	2,760	2,340	2,070	1,480	360	50	21,860
Natural resources and environment													
45	Carbon oxide sequestration credit	40	760	1,170	1,690	2,140	2,820	3,340	3,870	4,170	4,300	4,360	28,620
Commerce and housing													
84	Advanced manufacturing investment credit	620	1,780	3,680	4,410	4,290	2,750	700	60	40	20	10	17,740
Community and regional development													
97	Recovery Zone Bonds	50	50	50	50	50	40	40	40	40	40	30	430
Education, training, employment, and social services													
	Education:												
102	Tax credits for post-secondary education expenses	2,570	2,570	2,570	2,600	2,570	2,540	2,440	2,390	2,350	2,310	2,270	24,610
107	Credit for holders of zone academy bonds	30	30	30	30	30	30	30	30	30	30	30	300
114	Qualified school construction bonds	550	540	540	530	520	510	500	510	510	500	500	5,160
	Training, employment, and social services:												
119	Adoption credit and exclusion	0	580	430	430	430	430	440	430	440	460	470	4,540
Health													
132	Refundable Premium Assistance Tax Credit	109,520	89,510	83,660	83,470	86,450	89,370	94,540	99,920	105,140	110,540	116,310	958,910
Income security													
141	Child credit	42,540	45,170	48,650	48,840	51,330	49,710	52,100	53,080	55,820	56,770	59,760	521,230
164	Earned income tax credit	67,730	68,860	71,670	73,290	75,730	78,250	80,840	83,680	86,340	89,300	92,310	800,270
165	Recovery rebate credits	1,000	70										70
General purpose fiscal assistance													
173	Build America Bonds	2,170	2,130	2,090	2,050	2,010	1,970	1,930	1,890	1,850	1,810	1,770	19,500

[1] All years referenced are fiscal years. See Table 11-1 for corresponding revenue loss estimates.

11. FEDERAL BORROWING AND DEBT

Debt is the largest legally and contractually binding obligation of the Federal Government. At the end of 2025, debt issued to the public to finance deficits and other Federal transactions was $30,167 billion. At the same time, the Government also held financial assets, net of financial liabilities other than debt, of $3,043 billion. Therefore, debt held by the public net of financial assets was $27,124 billion. The gross Federal debt includes both debt held by the public and debt held by Federal trust funds and other Government accounts. At the end of 2025, debt held by Government accounts was $7,208 billion and gross Federal debt was $37,375 billion.[1]

Debt Held by the Public and Gross Federal Debt

The Federal Government issues debt securities for two main purposes. First, it borrows from the public to provide for the Federal Government's financing needs, including both the deficit and the other transactions requiring financing, such as disbursements for Federal credit programs. Second, it issues debt to Federal Government accounts, primarily trust funds, that accumulate surpluses and invest the surpluses in Federal securities. The gross Federal debt is comprised of the debt held by the public and the debt held by Government accounts. Table 11-1 presents 2025 gross Federal debt.

Borrowing from the public is important because it represents the Federal demand on credit markets. Regardless of whether the proceeds are used for tangible or intangible investments or to finance current consumption, the Federal demand on credit markets must be financed out of the saving of households and businesses, the State and local sector, or the rest of the world. Borrowing from the public can thus affect the size and composition of assets held by the private sector and the amount of saving imported from abroad and increase the amount of future resources required to pay interest to the public on Federal debt. Borrowing from the public is therefore an important consideration in Federal fiscal policy. However, borrowing from the public is an incomplete measure of the Federal impact on credit markets. Different types of Federal activities can affect the credit markets in different ways. For example, under its direct loan programs, the Government uses borrowed funds to acquire financial assets that might otherwise require financing in the credit markets directly. (For more information on other ways in which Federal activities impact the credit market, see the discussion at the end of this chapter.) By incorporating the change in direct loan and other financial assets, debt held by the public net of financial assets adds useful insight into the Government's financial condition.

Issuing debt securities to Government accounts performs an essential function in accounting for the operation of these funds. The balances of debt represent the cumulative surpluses of these funds due to the excess of their tax receipts, interest receipts, and other collections over their spending. The interest on the debt that is credited to these funds accounts for the fact that some earmarked taxes and user fees will be spent at a later time than when the funds receive the monies. These balances generally provide the

Table 11—1. Gross Federal Debt Outstanding, End of Year, 2025

In Billions of Dollars

	Actual 2025
Gross Federal Debt Held by:	
Debt held by Government accounts	7,207.7
Debt held by the public [1]	30,167.2
Total, gross Federal debt	37,375.0
Gross Federal Debt Issued By: [2]	
Debt issued by Treasury	37,351.2
Debt issued by other agencies	23.8
Total, gross Federal debt	37,375.0

[1] At the end of 2025, the Federal Reserve Banks held $4,196.3 billion of Federal securities and the rest of the public held $25,970.9 billion.

[2] Treasury securities held by the public and zero-coupon bonds held by Government accounts are almost all measured at sales price plus amortized discount or less amortized premium. Agency debt securities are almost all measured at face value. Treasury securities in the Government account series are otherwise measured at face value less unrealized discount (if any).

[1] For historical information on the Federal debt, see Tables 7.1–7.3 in the Budget's *Historical Tables* (*https://whitehouse.gov/omb/historical-tables/*).

fund with authority to draw upon the Department of the Treasury (Treasury) for future payments to the public.

However, issuing debt to Government accounts is an internal transaction of the Government, not a transaction with the public, and does not have any of the current credit market effects of borrowing from the public. It is not financed by private savings and does not compete with the private sector for available funds in the credit market. While such issuance provides the account with assets—a binding claim against Treasury—those assets are fully offset by Treasury's increased liability to pay the claims, which will ultimately be covered by the collection of revenues or by borrowing. Similarly, the current interest earned by the Government account on its Treasury securities does not need to be financed by other resources.

The debt held by Government accounts may differ from the estimated amount of the account's obligations or responsibilities to make future payments to the public. For example, if the account records the transactions of a social insurance program, the debt that it holds does not necessarily represent the actuarial present value of estimated future benefits (or future benefits less taxes) for the current participants in the program; nor does it necessarily represent the actuarial present value of estimated future benefits (or future benefits less taxes) for the current participants plus the estimated future participants over some stated time period. Information on the future transactions of Federal social insurance and employee retirement programs is available in the actuarial and financial reports for these programs.[2]

For these reasons, debt held by the public and debt held by the public net of financial assets are both better gauges of the effect of the budget on the credit markets than gross Federal debt.

Government Deficits or Surpluses and the Change in Debt

Debt Held by the Public

The Federal Government primarily finances deficits by borrowing from the public, and it primarily uses surpluses to repay debt held by the public. The borrowing or debt repayment depends on the Government's expenditure programs and tax laws, on the economic conditions that influence tax receipts and outlays, and on debt management policy. The sensitivity of the budget to economic conditions is analyzed in the "Economic Assumptions" chapter of this volume.

Over the long run, it is a good approximation to say that "the deficit is financed by borrowing from the public" or "the surplus is used to repay debt held by the public." However, the Government's need to borrow in any given year depends on several other factors besides the unified budget surplus or deficit,[3] such as the change in the Treasury operating cash balance. These other factors—"other transactions affecting borrowing from the public"—can either increase or decrease the Government's need to borrow and can vary considerably in size from year to year. The other transactions affecting borrowing from the public are presented in Table 11-2, available online, where an increase in the need to borrow is represented by a positive sign.

Three specific factors have historically been especially important.

Change in Treasury Operating Cash Balance. The Treasury operating cash balance was $891 billion at the end of 2025. For prudent risk management purposes, Treasury seeks to maintain a cash balance at least equal to projected Government outflows, including maturing securities, over the following week, subject to a $150 billion floor. Changes in the operating cash balance, while occasionally large, are inherently limited over time. Decreases in cash—a means of financing the Government—are limited by the amount of past accumulations, which themselves required financing when they were built up. Increases are limited because it is generally more efficient to repay debt.

Net Financing Disbursements of the Direct Loan and Guaranteed Loan Financing Accounts. Under the Federal Credit Reform Act of 1990 (FCRA)[4] the budgetary program account for each credit program records the estimated subsidy costs—the present value of estimated net losses—at the time when the direct or guaranteed loans are disbursed. The individual cash flows to and from the public associated with the loans or guarantees, such as the disbursement and repayment of loans, the default payments on loan guarantees, and the collection of interest and fees, are recorded in the credit program's non-budgetary financing account. Although the non-budgetary financing account's cash flows to and from the public are not included in the deficit (except for their impact on subsidy costs), they affect Treasury's net borrowing requirements.[5]

[2] Extensive actuarial analyses of the Social Security and Medicare programs are published in the annual reports of the boards of trustees of these funds. The actuarial estimates for Social Security, Medicare, and the major Federal employee retirement programs are summarized in the *Financial Report of the United States Government*, prepared annually by Treasury in coordination with the Office of Management and Budget, and presented in more detail in the financial statements of the agencies administering those programs.

[3] The unified (or total) budget surplus or deficit consists of two parts: the on-budget portion; and the off-budget Federal entities, which have been excluded from the budget by law. Under present law, the off-budget Federal entities are the two Social Security trust funds (Old-Age and Survivors Insurance and Disability Insurance) and the Postal Service Fund. The on-budget and off-budget surpluses or deficits are added together to determine the Government's financing needs. For further explanation of the off-budget Federal entities, see the "Coverage of the Budget" chapter of this volume.

[4] Title V of Public Law 93-344.

[5] FCRA (sec. 505(b)) requires that the financing accounts be non-budgetary, because they do not measure cost (the credit program costs are reflected in the budgetary program accounts). For additional discussion of credit programs, see the "Credit and Insurance" and "Budget Concepts" chapters of this volume.

In addition to the transactions with the public, the financing accounts include several types of intragovernmental transactions. They receive payment from the credit program accounts for the subsidy costs of new direct loans and loan guarantees and for any upward reestimate of the costs of outstanding direct and guaranteed loans. They also receive interest from Treasury on balances of uninvested funds. The financing accounts pay any negative subsidy collections or downward reestimate of costs to budgetary receipt accounts and pay interest on borrowings from Treasury.

The total net collections and gross disbursements of the financing accounts, consisting of transactions with both the public and the budgetary accounts, are called "net financing disbursements." They occur in the same way as the "outlays" of a budgetary account, even though they do not represent budgetary costs. However, only the financing account transactions with the public affect Federal borrowing from the public. Financing account disbursements to the public increase the requirement for borrowing from the public in the same way as an increase in budget outlays disbursed to the public, and financing account collections from the public reduce the requirement for Federal borrowing from the public in the same way as an increase in budgetary receipts. In contrast, the credit program's intragovernmental transactions have no net impact on Federal borrowing, since these are internal transactions between the credit program's budgetary program, negative subsidy receipt, and downward reestimate receipt accounts and the nonbudgetary financing accounts. For example, subsidy cost payments made from the budgetary program account are received in the nonbudgetary financing account, in an equal and offsetting amount.

In the past year and current year, large net upward or downward reestimates in the cost of outstanding direct and guaranteed loans may cause large swings in the net financing disbursements. In 2026, downward reestimates for Department of Education student loans were partially offset by upward reestimates for Small Business Administration COVID Economic Injury Disaster Loans, resulting in a net downward reestimate of $38 billion. In 2025, there was a net downward reestimate of $5 billion.

Net Purchases of Non-Federal Securities by the National Railroad Retirement Investment Trust (NRRIT). The NRRIT trust fund invests its assets primarily in private stocks and bonds. The law requires special treatment of the purchase or sale of these non-Federal assets, treating such purchases or sales as a means of financing rather than as outlays.[6] Therefore, an increased need to borrow from the public to finance NRRIT's purchases of non-Federal assets is an increase to the "other transactions affecting borrowing from the public," rather than an increase in the deficit. While net purchases and redemptions affect borrowing from the public, unrealized gains and losses on NRRIT's portfolio are included in both the "other transactions" and, with the opposite sign, in NRRIT's net outlays in the deficit, for no net impact on borrowing from the public.[7]

Debt Held by Government Accounts

While Federal borrowing from the public is determined by the Government's financing needs, the amount of Federal debt issued to Government accounts is determined largely by the surpluses of the on-budget and off-budget trust funds,[8] as well as the surpluses of the special funds and revolving funds that hold Federal securities. Net investment may differ from the surpluses of these funds due to changes in the amount of cash assets not currently invested. In 2025, there was a total trust fund surplus of $96 billion, while trust fund investment in Federal securities grew by $87 billion. The debt held in major accounts and the annual investments are shown in Table 11-5, available online.

Issuance of Federal Debt

Nearly all the Federal debt has been issued by Treasury and is sometimes called "public debt," but a small portion has been issued by other Government agencies and is called "agency debt."[9] The 2025 issuance of Federal debt is presented in Table 11-1.

Treasury Debt

Treasury meets most of the Federal Government's financing needs by issuing marketable securities to the public. These financing needs include both the change in debt held by the public and the refinancing—or rollover—of any outstanding debt that matures during the year. Treasury marketable debt is sold at public auctions on a regular schedule and, because it is very liquid, can be bought and sold on the secondary market at narrow bid-offer spreads. Treasury also sells to the public a relatively small amount

[6] NRRIT was established by the Railroad Retirement and Survivors' Improvement Act of 2001 (Title I of Public Law 107-90).

[7] The budget treatment of this fund is further discussed in the "Budget Concepts" chapter.

[8] For further discussion of trust funds, see the "Trust Funds and Federal Funds" chapter of this volume.

[9] Treasury debt held by the public is measured as the sales price plus the amortized discount (or less the amortized premium). At the time of sale, the book value equals the sales price. Subsequently, it equals the sales price plus the amount of the discount that has been amortized up to that time. In equivalent terms, the book value of the debt equals the principal amount due at maturity (par or face value) less the unamortized discount. (For a security sold at a premium, the definition is symmetrical.) For inflation-protected notes and bonds, the book value includes a periodic adjustment for inflation. Agency debt is generally recorded at par. For purposes of the budget, the term "agency debt" includes only the debt of Federal agencies (presented in Table 11-3). The securities market generally defines "agency debt" to additionally include certain Government-guaranteed securities and the debt of the Government-sponsored enterprises listed in the supplemental materials to the "Credit and Insurance" chapter of this volume. (These supplemental materials are available at: *https://www.whitehouse.gov/omb/information-resources/budget/analytical-perspectives/*.)

of nonmarketable securities, such as savings bonds and State and Local Government Series (SLGS) securities.[10] Treasury nonmarketable debt cannot be bought or sold on the secondary market.

Treasury issues marketable securities in a wide range of maturities, and issues both nominal (non-inflation-protected) and inflation-protected securities. Treasury's marketable securities include:

Treasury Bills. Treasury bills have maturities of one year or less from their issue date. In 2025, Treasury added the 6-week bill to its regular weekly auction calendar. In addition to the regular auction calendar of bill issuance, Treasury issues cash management bills on an as-needed basis for various reasons such as to offset the seasonal patterns of the Government's receipts and outlays.

Treasury Notes. Treasury notes have maturities of more than one year and up to 10 years.

Treasury Bonds. Treasury bonds have maturities of more than 10 years. The longest-maturity securities issued by Treasury are 30-year bonds.

Treasury Inflation-Protected Securities (TIPS). Treasury inflation-protected—or inflation-indexed—securities are coupon issues for which the par value of the security rises with inflation. The principal value is adjusted daily to reflect inflation as measured by changes in the Consumer Price Index (CPI-U-NSA, with a two-month lag). Although the principal value may be adjusted downward if inflation is negative, at maturity, the securities will be redeemed at the greater of their inflation-adjusted principal or par amount at original issue.

Floating Rate Securities. Floating rate securities have a fixed par value but bear interest rates that fluctuate based on movements in a specified benchmark market interest rate. Treasury's floating rate notes are benchmarked to the Treasury 13-week bill. Currently, Treasury is issuing floating rate securities with a maturity of two years.

Historically, the average maturity of outstanding debt issued by Treasury has been about five years. The average maturity of outstanding debt was 71 months at the end of 2025.

In addition to quarterly announcements about the overall auction calendar, Treasury publicly announces in advance the auction of each security. Individuals can participate directly in Treasury auctions or can purchase securities through brokers, dealers, and other financial institutions. Treasury accepts two types of auction bids: competitive and noncompetitive. In a competitive bid, the bidder specifies the yield. A significant portion of competitive bids are submitted by primary dealers, which are banks and securities brokerages that have been designated to trade in Treasury securities with the Federal Reserve System. In a noncompetitive bid, the bidder agrees to accept the yield determined by the auction.[11] At the close of the auction, Treasury accepts all eligible noncompetitive bids and then accepts competitive bids in ascending order beginning with the lowest yield bid until the offering amount is reached. All winning bidders receive the highest accepted yield bid.

Treasury marketable securities are highly liquid and actively traded on the secondary market, which enhances the demand for Treasuries at initial auction. The demand for Treasury securities is reflected in the ratio of bids received to bids accepted in Treasury auctions; the demand for the securities is substantially greater than the level of issuance. Because they are backed by the full faith and credit of the United States Government, Treasury marketable securities are considered to be credit "risk-free." Therefore, the Treasury yield curve is commonly used as a benchmark for a wide variety of purposes in the financial markets.

In May 2024, Treasury launched a buyback program, under which it repurchases a small portion of outstanding marketable securities. Treasury created the buyback program for liquidity support and cash management purposes. Liquidity support buybacks are generally conducted on a weekly basis. Cash management buybacks are conducted on a seasonal basis, mainly in relation to quarterly tax payment dates.[12]

Whereas Treasury issuance of marketable debt is based on the Government's financing needs, Treasury's issuance of nonmarketable debt is based on the public's demand for the specific types of investments. Decreases in outstanding balances of nonmarketable debt, such as occurred in 2025, increase the need for marketable borrowing.[13]

Agency Debt

A few Federal agencies other than Treasury, shown in Table 11-3 (available online), sell or have sold debt securities to the public and, at times, to other Government accounts. At the end of 2025, agency debt was $24 billion, less than one-tenth of one percent of total Federal debt held by the public.

The predominant agency borrower is the Tennessee Valley Authority (TVA), which had issued over 99 percent of the total agency debt outstanding at the end of 2025. TVA issues debt primarily to finance capital projects. TVA has traditionally financed its capital construction by selling bonds and notes to the public. Since 2000, it has also

[10] Under the SLGS program, Treasury offers special low-yield securities to State and local governments and other entities for temporary investment of proceeds of tax-exempt bonds.

[11] Noncompetitive bids cannot exceed $10 million per bidder.

[12] Treasury previously conducted buybacks in 2000-2002 for purposes of managing the Federal debt during a time of budget surplus. In 2015-2023, Treasury conducted very small-scale buybacks once or twice annually to test its systems.

[13] Detail on the marketable and nonmarketable securities issued by Treasury is found in the *Monthly Statement of the Public Debt,* published on a monthly basis by Treasury.

Table 11–4. Debt Held by the Public, Net of Financial Assets and Liabilities, 2025

Dollar Amounts in Billions

	Actual 2025
Debt Held by the Public:	
Debt held by the public	30,167.2
As a percent of GDP	99.5%
Financial Assets Net of Liabilities:	
Treasury operating cash balance	890.8
Credit financing account balances:	
Direct loan accounts	1,698.3
Guaranteed loan accounts	146.9
Subtotal, credit financing account balances	1,845.2
Government-sponsored enterprise stock [1]	374.5
Air carrier worker support warrants and notes	10.8
Emergency capital investment fund securities	1.4
Non-Federal securities held by NRRIT	27.4
Other assets net of liabilities	–106.7
Total, financial assets net of liabilities	3,043.4
Debt Held by the Public Net of Financial Assets and Liabilities:	
Debt held by the public net of financial assets	27,123.9
As a percent of GDP	89.5%

[1] Treasury's warrants to purchase 79.9 percent of the common stock of the enterprises expire after September 7, 2028. The warrants were valued at $79 billion at the end of 2025.

had available two types of alternative financing methods, lease financing obligations and prepayment obligations. Under the lease financing obligations method, TVA signs long-term contracts to lease some facilities and equipment. The lease payments under these contracts ultimately secure the repayment of third-party capital used to finance construction of the facility. TVA retains substantially all of the economic benefits and risks related to ownership of the assets.[14] Table 11-3 presents lease financing obligations separately from TVA bonds and notes to distinguish between the types of borrowing. As of the end of 2019, there are no outstanding obligations for prepayments.[15]

The Office of Management and Budget (OMB) determined that each of the two alternative financing methods is a means of financing the acquisition of assets owned and used by the Government, or of refinancing debt previously incurred to finance such assets. They are equivalent in concept to other forms of borrowing from the public, although under different terms and conditions. The budget therefore records the upfront cash proceeds from these methods as borrowing from the public, not offsetting collections.[16] The budget presentation is consistent with the reporting of these obligations as liabilities on TVA's balance sheet under generally accepted accounting principles.

Although the Federal Housing Administration (FHA) generally makes direct disbursements to the public for default claims on FHA-insured mortgages, it may also pay claims by issuing debentures. Issuing debentures to pay the Government's bills is equivalent to selling securities to the public and then paying the bills by disbursing the cash borrowed, so the transaction is recorded as being simultaneously an outlay and borrowing. The debentures are therefore classified as agency debt.

Several Federal agencies borrow from the Bureau of the Fiscal Service (Fiscal Service) or the Federal Financing Bank (FFB), both within Treasury. Agency borrowing from the FFB or the Fiscal Service is not included in gross Federal debt. It would be double counting to add together: (a) the agency borrowing from the Fiscal Service or FFB; and (b) the Treasury borrowing from the public that is needed to provide the Fiscal Service or FFB with the funds to lend to the agencies.

Debt Held by the Public

For the purposes of the Budget, "debt held by the public" is defined as debt held by investors outside of the Federal Government, both domestic and foreign, including U.S. State and local governments, foreign governments, and the Federal Reserve.

Debt Held by the Federal Reserve

The Federal Reserve acquires marketable Treasury securities as part of its exercise of monetary policy. For purposes of the Budget and reporting by Treasury, the transactions of the Federal Reserve are considered to be

[14] This arrangement is at least as governmental as a "lease-purchase without substantial private risk." For further detail on the current budgetary treatment of lease-purchase without substantial private risk, see OMB Circular No. A–11, Appendix B.

[15] Under the prepayment obligations method, TVA's power distributors prepay a portion of the price of the power they plan to purchase in the future. In return, they obtain a discount on a specific quantity of the future power they buy from TVA. The quantity varies, depending on TVA's estimated cost of borrowing.

[16] This budgetary treatment differs from the treatment in the *Monthly Treasury Statement of Receipts and Outlays of the United States Government* (Monthly Treasury Statement) Table 6 Schedule C, and the *Combined Statement of Receipts, Outlays, and Balances of the United States Government* Schedule 3, both published by Treasury. These two schedules, which present debt issued by agencies other than Treasury, exclude the TVA alternative financing arrangements. This difference in treatment is one factor causing minor differences between debt figures reported in the Budget and debt figures reported by Treasury. The other factors are: adjustments for the timing of the reporting of Federal debt held by NRRIT; and treatment of the Federal debt held by TVA, the Securities Investor Protection Corporation, and the Public Company Accounting Oversight Board.

non-budgetary, and accordingly the Federal Reserve's holdings of Treasury securities are included as part of debt held by the public.[17] Federal Reserve holdings were $4,196 billion (14 percent of debt held by the public) at the end of 2025. Over the last 10 years, the Federal Reserve holdings have averaged 18 percent of debt held by the public. The historical holdings of the Federal Reserve are presented in Table 7.1 in the Budget's *Historical Tables*. The Budget does not project Federal Reserve holdings for future years.

Foreign Holdings of Federal Debt

A portion of the Federal debt held by the public is held by foreign individuals and entities. In 2025, foreign holdings were $9,234 billion, 31 percent of total debt held by the public. Any changes in foreign holdings have been almost entirely due to decisions by foreign central banks, corporations, and individuals, rather than the direct marketing of these securities to foreign investors. All of the foreign holdings of Federal debt are denominated in dollars. In 2025, foreign central banks and other foreign official institutions owned 42 percent of the foreign holdings of Federal debt; private investors owned the rest.

Foreign holdings of Federal debt are around 20–25 percent of the foreign-owned assets in the United States, depending on the method of measuring total assets. The foreign purchases of Federal debt securities do not measure the full impact of the capital inflow from abroad on the market for Federal debt securities. The capital inflow supplies additional funds to the credit market generally, and thus affects the market for Federal debt. For example, the capital inflow includes deposits in U.S. financial intermediaries that themselves buy Federal debt.

Debt Held by the Public Net of Financial Assets and Liabilities

While debt held by the public is a key measure for examining the role and impact of the Federal Government in the U.S. and international credit markets and for other purposes, it provides incomplete information on the Government's financial condition. The U.S. Government holds significant financial assets, which can be offset against debt held by the public and other financial liabilities to achieve a more complete understanding of the Government's financial condition. The acquisition of those financial assets represents a transaction with the credit markets, broadening those markets in a way that is analogous to the demand on credit markets that borrowing entails. For this reason, debt held by the public is also an incomplete measure of the impact of the Federal Government in the United States and international credit markets.

One transaction that can increase both borrowing and assets is an increase to the Treasury operating cash balance. When the Government borrows to increase the Treasury operating cash balance, that cash balance also represents an asset that is available to the Federal Government. Looking at both sides of this transaction—the borrowing to obtain the cash and the asset of the cash holdings—provides much more complete information about the Government's financial condition than looking at only the borrowing from the public. Another example of a transaction that simultaneously increases borrowing from the public and Federal assets is Government borrowing to issue direct loans to the public. When the direct loan is made, the Government is also acquiring an asset in the form of future payments of principal and interest, net of the Government's expected losses on the loan. Similarly, when NRRIT increases its holdings of non-Federal securities, the borrowing to purchase those securities is offset by the value of the asset holdings.

The acquisition or disposition of Federal financial assets largely explains the difference between the deficit for a particular year and that year's increase in debt held by the public. Debt held by the public net of financial assets is a measure that is conceptually closer to the measurement of Federal deficits or surpluses; cumulative deficits and surpluses over time more closely equal the debt held by the public net of financial assets than they do the debt held by the public.

Table 11-4 presents debt held by the public net of the Government's financial assets and liabilities for 2025. Treasury debt is presented in the Budget at book value, with no adjustments for the change in economic value that results from fluctuations in interest rates. The balances of credit financing accounts are based on projections of future cash flows. For direct loan financing accounts, the balance generally represents the net present value of anticipated future inflows such as principal and interest payments from borrowers. For guaranteed loan financing accounts, the balance generally represents the net present value of anticipated future outflows, such as default claim payments net of recoveries, and other collections, such as program fees. NRRIT's holdings of non-Federal securities are marked to market on a monthly basis. Government-sponsored enterprise stock, Air carrier worker support warrants and notes, and Emergency capital investment fund securities are measured at market value.

Debt securities and other financial assets and liabilities do not encompass all the assets and liabilities of the Federal Government. For example, accounts payable occur in the normal course of buying goods and services; Social Security benefits are due and payable as of the end of the month but, according to statute, are paid during the next month; and Federal employee salaries are paid after they have been earned. Like debt securities sold in the credit market, these liabilities have their own distinctive effects

[17] For further detail on the monetary policy activities of the Federal Reserve and the treatment of the Federal Reserve in the Budget, see the "Coverage of the Budget" chapter.

on the economy. The Federal Government also has significant holdings of non-financial assets, such as land, mineral deposits, buildings, and equipment. The different types of assets and liabilities are reported annually in the financial statements of Federal agencies and in the *Financial Report of the United States Government*, prepared by Treasury in coordination with OMB.

Debt Held by Government Accounts

The Budget is composed of two groups of funds, Federal funds and trust funds. The Federal funds group includes all of the financial transaction of the Government that are not required by law to be recorded in trust funds. Trust funds are financed by taxes or other receipts dedicated by law for specified purposes, such as for paying Social Security benefits or making grants to State governments for highway construction.[18] Most accounts in the Federal funds group are funded by tax receipts and borrowing and used for the general purposes of the Government. However, similar to trust funds, special and revolving funds in the Federal funds group receive collections that are used for specific purposes. The cash surpluses of trust funds and these special and revolving funds are generally invested in Treasury securities. Of the debt held by Government accounts at the end of 2025, 86 percent was held by trust funds and the remainder was held by special and revolving funds in the Federal funds group.

The Government account holdings of Federal securities are concentrated among a few funds: the Social Security Old-Age and Survivors Insurance and Disability Insurance trust funds; the Medicare Hospital Insurance and Supplementary Medical Insurance trust funds; and four Federal employee retirement funds. These Federal employee retirement funds include two trust funds, the Military Retirement Fund and the Civil Service Retirement and Disability Fund (CSRDF), and two special funds, the Medicare-Eligible Retiree Health Care Fund (MERHCF) and the Postal Service Retiree Health Benefits Fund (PSRHBF). At the end of 2025, these Social Security, Medicare, and Federal employee retirement funds owned 88 percent of the total debt held by Government accounts.

Table 11-5, available online, presents the debt held in major accounts and their annual investments or disinvestments.

Technical Note on Measurement

The Treasury securities held by Government accounts consist almost entirely of the Government account series. Most were issued at par value (face value), and the securities issued at a discount or premium are traditionally recorded at par in the OMB and Treasury reports on Federal debt. However, there are two kinds of exceptions.

First, Treasury issues zero-coupon bonds to a very few Government accounts. Because the purchase price is a small fraction of par value and the amounts are large, the holdings are recorded in Table 11-5 at par value less unamortized discount. The only Government accounts that held zero-coupon bonds during 2025 are the Nuclear Waste Disposal Fund in the Department of Energy, the Military Retirement Fund, and the MERHCF. The unamortized discount on zero-coupon bonds held by these three funds was $48 billion at the end of 2025.

Second, Treasury subtracts the unrealized discount on other Government account series securities in calculating “net Federal securities held as investments of Government accounts.” Unlike the discount recorded for zero-coupon bonds and debt held by the public, the unrealized discount is the discount at the time of issue and is not amortized over the term of the security. In Table 11-5 it is shown as a separate item at the end of the table and not distributed by account.

Limitations on Federal Debt

Definition of Debt Subject to Limit

Statutory limitations have usually been placed on Federal debt. Until World War I, the Congress ordinarily authorized a specific amount of debt for each separate issue. Beginning with the Second Liberty Bond Act of 1917, however, the nature of the limitation was modified in several steps until it developed into a ceiling on the total amount of most Federal debt outstanding. This last type of limitation has been in effect since 1941. The limit currently applies to most debt issued by Treasury since September 1917, whether held by the public or by Government accounts; and other debt issued by Federal agencies that, according to statute, is explicitly guaranteed as to principal and interest by the U.S. Government.

Table 11-6 compares total Treasury debt with the amount of Federal debt that is subject to the limit and presents changes in debt subject to limit for 2025. Nearly all Treasury debt is subject to the debt limit. A large portion of the Treasury debt not subject to the general statutory limit was issued by FFB. The FFB is authorized to have outstanding up to $15 billion of publicly issued debt. The FFB has on occasion issued this debt to CSRDF in exchange for equal amounts of regular Treasury securities, with the same interest rates and maturities as the Treasury securities for which they were exchanged. Most recently, the FFB issued: $3 billion of securities to the CSRDF on October 15, 2015, with maturity dates from June 30, 2026,

[18] For further discussion of the trust funds and Federal funds groups, see the “Trust Funds and Federal Funds” chapter.

Table 11–6. Federal Debt Subject to Limit, 2025
In Billions of Dollars

	Actual 2025
Debt Subject to Statutory Limitation, End of Year:	
Debt issued by Treasury	37,351.2
Less: Treasury debt not subject to limitation (–) [1]	–4.6
Agency debt subject to limitation	*
Adjustment for discount and premium [2]	179.7
Total, debt subject to statutory limitation [3]	37,526.3
Changes in Debt Subject to Statutory Limitation:	
Change in debt held by the public	1,973.4
Change in debt held by Government accounts	170.9
Less: change in debt not subject to limit and other adjustments	27.2
Total, change in debt subject to statutory limitation	2,171.5

* Less than $50 million.

1 Consists primarily of debt issued by the FFB.

2 Consists mainly of unamortized discount (less premium) on public issues of Treasury notes and bonds (other than zero-coupon bonds) and unrealized discount on Government account series securities.

3 Under legislation enacted July 4, 2025 (Public Law 119-21), the statutory debt limit is $41,104.0 billion.

through June 30, 2029; and $2 billion to the CSRDF on May 25, 2023, with maturity dates ranging from June 30, 2023, through June 30, 2035. The outstanding balance of FFB debt held by CSRDF was $4 billion at the end of 2025.

The other Treasury debt not subject to the general limit consists almost entirely of silver certificates and other currencies no longer being issued. It was $475 million at the end of 2025 and is projected to gradually decline over time.

The sole agency debt currently subject to the general limit, $209 thousand at the end of 2025, is certain debentures issued by FHA.[19]

Some of the other agency debt, however, is subject to its own statutory limit. For example, TVA is limited to $30 billion of bonds and notes outstanding.

The comparison between Treasury debt and debt subject to limit also includes an adjustment for differences in the treatment of discounts and premiums in the measurement of gross Federal debt (and its components) and the statutory definition of debt subject to limit. An adjustment is needed to derive debt subject to limit (as defined by law) from Treasury debt. The amount of the adjustment was $180 billion at the end of 2025 compared with the total unamortized discount (less premium) of $286 billion on all Treasury securities.

Changes in the Debt Limit

The statutory debt limit has been changed many times to raise the limit, revise the definition, extend the duration of a temporary increase, or temporarily suspend the limit.[20] The Fiscal Responsibility Act of 2023,[21] enacted June 3, 2023, suspended the debt limit through January 1, 2025, and then raised the debt limit on January 2, 2025, by $4,723 billion, to $36,104 billion, the level of debt subject to limit on that date. Public Law 119-21, commonly referred to as the Working Families Tax Cut Act, enacted July 4, 2025, increased the debt limit to $41,104 billion.

At many times in the past several decades, including 2023 and 2025, the Government has reached the statutory debt limit before an increase has been enacted. When this has occurred, it has been necessary for Treasury to take “extraordinary measures” to meet the Government’s obligation to pay its bills and invest its trust funds while remaining below the statutory limit.

Treasury used these extraordinary measures in 2025, from the January 2025 reaching of the then-debt limit until the debt limit was increased in July 2025. One such extraordinary measure is the partial or full suspension of the daily reinvestment of the Thrift Savings Plan (TSP) Government Securities Investment Fund (G-Fund).[22] The Treasury Secretary has statutory authority to suspend investment of the G-Fund in Treasury securities as needed to prevent the debt from exceeding the debt limit. Treasury determines each day the amount of investments that would allow the fund to be invested as fully as possible without exceeding the debt limit. The TSP G-Fund had an outstanding balance of $348 billion at the end of February 2026. The Treasury Secretary is also authorized to suspend investments in the CSRDF and to declare a debt issuance suspension period, which allows the redemption of a limited amount of securities held by the CSRDF. The Postal Accountability and Enhancement Act[23] provides that investments in the PSRHBF shall be made in the same manner as investments in the CSRDF.[24] Therefore, Treasury is able to take similar administrative actions with the PSRHBF. The law requires that when any such actions are taken with the G-Fund, the CSRDF, or the PSRHBF, the Treasury Secretary must make the fund whole after the

19 At the end of 2025, there were also $18 million of FHA debentures not subject to limit.

20 The Acts and the statutory limits since 1940 are listed in Table 7.3 of the Budget’s *Historical Tables*.

21 Public Law 118-5.

22 The TSP is a defined contribution pension plan for Federal employees. The G-Fund is one of several components of the TSP.

23 Title VIII of Public Law 109-435.

24 Both the CSRDF and the PSRHBF are administered by the Office of Personnel Management.

debt limit has been raised by restoring the forgone interest and investing the fund fully.

In addition to the measures taken in 2025, several other extraordinary measures are available to Treasury and have been used in the past. These other measures include disinvestment of the Exchange Stabilization Fund, suspension of the issuance of SLGS to reduce unanticipated fluctuations in the level of the debt, adjustments to the schedule for auctions of marketable securities, and exchanging Treasury securities held by the CSRDF with borrowing by the FFB (which, as discussed above, is not subject to the debt limit).

The Budget assumes timely congressional action to address the statutory limit as necessary. The debt limit has always been increased prior to the exhaustion of Treasury's limited extraordinary measures.

Federal Funds Financing and the Change in Debt Subject to Limit

The change in debt held by the public and the change in debt held by the public net of financial assets are determined primarily by the total Government deficit or surplus. The debt subject to limit, however, includes not only debt held by the public but also debt held by Government accounts. The change in debt subject to limit is therefore determined both by the factors that determine the total Government deficit or surplus and by the factors that determine the change in debt held by Government accounts. The effect of debt held by Government accounts on the total debt subject to limit can be seen in the second part of Table 11-6. The change in debt held by Government accounts is equal to 8 percent of the total 2025 increase in debt subject to limit.

As discussed above, the Budget is composed of two groups of funds, Federal funds and trust funds. The total Government deficit is the sum of the Federal funds deficit and the trust fund surplus. A Federal funds deficit must generally be financed by borrowing, which can be done either by selling securities to the public or by issuing securities to Government accounts that are not within the Federal funds group. Federal funds borrowing consists almost entirely of Treasury securities that are subject to the statutory debt limit. Trust fund surpluses are primarily invested in securities subject to the debt limit. The trust fund surplus reduces the total budget deficit, decreasing the need to borrow from the public. When the trust fund surplus is invested in Federal securities, the debt held by Government accounts increases, offsetting the decrease in debt held by the public by an equal amount. Thus, there is no net effect on gross Federal debt. As a result, very little debt subject to statutory limit has been issued for reasons except to finance the Federal funds deficit and the change in debt subject to limit is determined primarily by the Federal funds deficit.

Table 11-7 derives the change in debt subject to limit for 2025. In 2025 the Federal funds deficit was $1,871 billion, and other factors increased financing requirements by $198 billion. In addition, special funds and revolving funds in the Federal funds group invested a net of $108 billion in Treasury securities. Adjustments are also made for the difference between the trust fund surplus or deficit and the trust funds' investment or disinvestment in Federal securities (including the changes in NRRIT's investments in non-Federal securities) and for the change in unrealized discount on Federal debt held by Government accounts. As a net result of all these factors, $2,144 billion in financing was required, increasing gross Federal debt by that amount. Since Federal debt not subject to limit grew by $2 billion (due to an increase in agency debt) and the adjustment for discount and premium changed by $29 billion, the debt subject to limit increased by $2,171 billion, while debt held by the public increased by $1,973 billion.

Table 11—7. Federal Funds Financing and Change in Debt Subject to Statutory Limit, 2025
In Billions of Dollars

	Actual 2025
Debt Subject to Statutory Limitation, End of Year:	
Federal funds deficit	1,871.0
Other transactions affecting borrowing from the public—Federal funds [1]	197.7
Increase (+) or decrease (–) in Federal debt held by Federal funds	108.2
Adjustments for trust fund surplus/deficit not invested/disinvested in Federal securities [2]	–8.6
Change in unrealized discount on Federal debt held by Government accounts	–24.0
Total financing requirements	2,144.2
Change in Debt Subject to Limit:	
Change in gross Federal debt	2,144.2
Less: increase (+) or decrease (–) in Federal debt not subject to limit	2.1
Less: change in adjustment for discount and premium [3]	–29.4
Total, change in debt subject to limit	2,171.5
MEMORANDUM:	
Debt subject to statutory limit	37,526.3

[1] Includes Federal fund transactions that correspond to those presented in Table 11-2, but that are for Federal funds alone with respect to the public and trust funds.

[2] Includes trust fund holdings in other cash assets and changes in the investments of the NRRIT in non-Federal securities.

[3] Consists of unamortized discount (less premium) on public issues of Treasury notes and bonds (other than zero-coupon bonds).

Federal, Federally Guaranteed, and Other Federally Assisted Borrowing

The Government's effects on the credit markets arise not only from its own borrowing but also from the direct loans that it makes to the public and the provision of assistance to certain borrowing by the public. The Government guarantees various types of borrowing by individuals, businesses, and other non-Federal entities, thereby providing assistance to private credit markets. The Government is also assisting borrowing by States through the Build America Bonds program, which subsidizes the interest that States pay on such borrowing. In addition, the Government has established private corporations—Government-sponsored enterprises—to provide financial intermediation for specified public purposes; it exempts the interest on most State and local government debt from income tax; it permits mortgage interest to be deducted in calculating taxable income; and it insures the deposits of banks and thrift institutions, which themselves make loans.

Federal credit programs and other forms of assistance are discussed in the "Credit and Insurance" chapter of this volume. Detailed data are presented in tables accompanying that chapter.

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Table 11-2. Other Transactions Affecting Borrowing from the Public

Table 11-3. Agency Debt

Table 11-5. Debt Held by Government Accounts

12. CURRENT SERVICES ESTIMATES

Current services, or "baseline" estimates, are designed to provide a benchmark against which the magnitude of the policy changes in the President's Budget or other budget proposals can be measured, and can also be used to warn of future problems if policy is not changed. A baseline is not a prediction of the final outcome of the annual budget process, nor is it a proposed budget. However, it can still be a useful tool in budgeting.

Ideally, a current services baseline would provide a projection of estimated receipts, outlays, deficits or surpluses, and budget authority reflecting this year's enacted policies and programs for each year in the future. Defining this baseline is challenging because funding for many programs in operation today expires within the 10-year budget window. Most significantly, funding for discretionary programs is typically provided one year at a time in annual appropriations acts. Mandatory programs are not generally subject to annual appropriations, but many operate under multiyear authorizations that expire within the budget window. The framework used to construct the baseline must address whether and how to project forward the funding for these programs beyond their scheduled expiration dates.

Since the early 1970s, when the first requirements for the calculation of a "current services" baseline were enacted, the Office of Management and Budget (OMB) has constructed the baseline using a variety of concepts and measures. Throughout the 1990s, OMB calculated the baseline using a detailed set of rules in the Balanced Budget and Emergency Deficit Control Act of 1985, as amended (BBEDCA) by the Budget Enforcement Act of 1990 (BEA; Title XIII of Public Law 101-508). Although BBEDCA's baseline rules lapsed for a period when the enforcement provisions of the BEA expired in 2002, budget practitioners continued to adhere to them. The Budget Control Act of 2011 (BCA; Public Law 112-25) formally reinstated the BEA's baseline rules.

Table 12–1 shows estimates of outlays by major component of the budget under the Administration's baseline for 2025 through 2036.[1] The estimates are based on the economic assumptions underlying the Budget, which, as discussed later in this chapter, were developed on the assumption that the Administration's budget proposals will be enacted.

Table 12—1. Category Totals for Baseline Outlays

In Billions of Dollars

	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036
Discretionary:												
Defense	894	903	953	975	984	998	1,017	1,037	1,064	1,092	1,121	1,151
Non-defense	982	992	1,011	1,028	1,049	1,057	1,071	1,091	1,114	1,141	1,169	1,192
Subtotal, discretionary	1,875	1,895	1,964	2,003	2,033	2,055	2,088	2,128	2,178	2,233	2,290	2,344
Mandatory:												
Social Security	1,575	1,670	1,764	1,858	1,951	2,046	2,145	2,248	2,353	2,461	2,573	2,688
Medicare	988	1,063	1,193	1,342	1,307	1,465	1,565	1,686	1,911	1,972	1,980	2,232
Medicaid and CHIP	691	750	751	769	811	844	875	923	978	1,036	1,109	1,179
Other mandatory	912	1,147	1,209	1,155	1,219	1,243	1,243	1,302	1,402	1,384	1,395	1,477
Subtotal, mandatory	4,166	4,629	4,918	5,123	5,288	5,597	5,829	6,160	6,644	6,853	7,058	7,576
Net Interest	970	1,017	1,063	1,160	1,223	1,290	1,349	1,409	1,461	1,513	1,556	1,609
Total, outlays	7,011	7,541	7,945	8,286	8,545	8,942	9,265	9,696	10,284	10,599	10,904	11,529

[1] The estimates are shown on a unified budget basis; i.e., the off-budget outlays of the Social Security trust funds and the Postal Service Fund are added to the on-budget outlays to calculate the unified budget totals.

Conceptual Basis for Estimates

Receipts and outlays are divided into two categories that are important for calculating the baseline: those controlled by authorizing legislation (receipts and direct or mandatory spending) and those controlled through the annual appropriations process (discretionary spending). Different estimating rules apply to each category.

Direct Spending and Receipts

Direct spending includes the major entitlement programs, such as Social Security, Medicare, Medicaid, Federal employee retirement, unemployment compensation, and the Supplemental Nutrition Assistance Program (SNAP). It also includes such programs as deposit insurance and farm price and income supports, where the Government is legally obligated to make payments under certain conditions. Taxes and other receipts are like direct spending in that they involve ongoing activities that generally operate under permanent or long-standing authority, and the underlying statutes generally specify the tax rates or benefit levels that must be collected or paid, and who must pay or who is eligible to receive benefits.

The baseline generally—but not always—assumes that receipts and direct spending programs continue in the future as specified by current law. The budgetary effects of anticipated regulatory and administrative actions that are permissible under current law are also reflected in the estimates. BBEDCA requires several exemptions to this general rule. Exceptions in BBEDCA are described below:

- Expiring excise taxes dedicated to a trust fund are assumed to be extended at the rates in effect at the time of expiration. During the projection period of 2026 through 2036, the taxes affected by this exception are:
  - taxes deposited in the Airport and Airway Trust Fund, the Sport Fish Restoration and Boating Trust Fund, and the Leaking Underground Storage Tank Trust Fund, and non-fuel taxes deposited into the Highway Trust Fund, which all expire after September 30, 2028;
  - the heavy vehicle use tax deposited into the Highway Trust Fund, which expires after September 30, 2029;
  - taxes deposited in the Patient-Centered Outcomes Research Trust Fund, which expire after September 30, 2029; and
  - taxes deposited in the Hazardous Substances Superfund, which expire after December 31, 2031.
- Expiring authorizations for direct spending programs that were enacted on or before the date of enactment of the Balanced Budget Act of 1997 are assumed to be extended if their current year outlays exceed $50 million. For example, even though the Environmental Quality Incentives Program, which was authorized prior to the Balanced Budget Act of 1997, continues only through 2031 under current law, the baseline estimates assume continuation of this program through the projection period, because the program's current year outlays exceed the $50 million threshold.[2]

The baseline also includes savings to mandatory entitlement programs due to the activities funded by discretionary program integrity allocation adjustments. Given the history of consistent enactment of these adjustments, this presentation provides a more accurate representation of expected mandatory outlays for these programs.[3]

Discretionary Spending

Discretionary programs differ in one important aspect from direct spending programs: the Congress provides spending authority for almost all discretionary programs one year at a time. The spending authority is normally provided in the form of annual appropriations. Absent appropriations of additional funds in the future, discretionary programs would cease to operate after existing balances were spent. If the baseline were intended strictly to reflect current law, then a baseline would reflect only the expenditure of remaining balances from appropriations laws already enacted. Instead, the BBEDCA baseline provides a mechanical definition to reflect the continuing costs of discretionary programs. Under BBEDCA, the baseline estimates for discretionary programs in the current year are based on that year's enacted appropriations, or on the annualized levels provided by a continuing resolution if final full-year appropriations have not been enacted.[4] For the budget year and beyond, the spending authority in the current year is adjusted for inflation, using specified inflation rates.[5] The definition attempts to keep discretionary spending for each program roughly level in real terms.

For purposes of budget enforcement, BBEDCA allows for adjustments to the discretionary levels for specified programs. Funding for other discretionary programs is excluded from the discretionary levels used for budget

[2] If enacted after the Balanced Budget Act of 1997 (Public Law 105-33), programs that are expressly temporary in nature expire in the baseline as provided by current law, even if their current year outlays exceed the $50 million threshold.

[3] See the "Budget Process" chapter of this volume for a more thorough discussion of program integrity initiatives.

[4] At the time the Budget was prepared, the 2026 appropriations bill for the Department of Homeland Security was not enacted, and funding provided by the last continuing resolution the Department had been operating under (Continuing Appropriations Act, 2026, division A of Public Law 119-37, as amended by division H of Public Law 119-75) had lapsed. References to 2026 spending in the text and tables for programs and activities normally provided for in the full-year appropriations bill reflect the annualized level provided by the last continuing resolution.

[5] The Administration's baseline uses the inflation rates for discretionary spending required by BBEDCA. This requirement results in an overcompensation in the calculation for Federal pay as a result of the calendar-year timing of Federal pay adjustments. Updating the calculation to address this annual timing discrepancy would have only a small effect on the discretionary baseline.

enforcement by statute. The adjustments are used when BBEDCA discretionary enforcement ("caps") is in place and in the congressional budget process.[6] These adjustments and exclusions are described below:

- *Disaster Relief and Wildfire Suppression.* The BBEDCA baseline projects forward the $22.5 billion of continuing disaster relief funding for the Department of Homeland Security and $0.3 billion in enacted disaster relief funding for the Small Business Administration in 2026. The BBEDCA baseline also projects the $2.9 billion in enacted funding for wildfire suppression activities at the Departments of Agriculture and the Interior. Both the disaster and wildfire amounts are increased after 2026 by the BBEDCA inflation rates.
- *Program Integrity.* The BBEDCA baseline assumes the program integrity levels at the amounts enacted in final 2026 appropriations Acts, and inflates those amounts after the current year. Additionally, as explained above, the baseline assumes savings from enacting the program integrity allocation adjustments.
- In addition to the adjustments specified in BBEDCA, there is other discretionary funding that is, by statute, not included in base amounts subject to the caps or congressional budget enforcement and for which neither BBEDCA nor congressional budget rules permit adjustments. This includes 21st Century Cures Act appropriations, certain revenues provided for the Environmental Protection Agency's Superfund program, appropriations for the Harbor Maintenance Trust Fund in the Corps of Engineers, and certain appropriations provided in the Infrastructure Investment and Jobs Act and the Bipartisan Safer Communities Act. These amounts are included in the baseline outside of the discretionary base levels at enacted or authorized levels and adjusted for inflation where applicable.

BBEDCA § 251A Sequestration

BBEDCA § 251A requires reductions to non-exempt mandatory spending through 2032 for most programs and into 2033 for Medicare.[7] The BBEDCA baseline includes the effects of the across-the-board reductions ("sequestration") already invoked by the BBEDCA § 251A sequestration orders for 2013 through 2026, the BBEDCA § 251A sequestration order for mandatory spending for 2027 issued with the transmittal of the 2027 Budget, and the extension of sequestration of mandatory spending through 2032 for most programs or into 2033 for Medicare.[8] Amounts that are sequestered in the baseline but return in the subsequent year as available (pop-up) are shown through 2033.

Economic Assumptions

As discussed above, an important purpose of the baseline is to serve as a benchmark against which policy proposals are measured. By convention, the President's Budget constructs baseline and policy estimates under the same set of economic and technical assumptions. These assumptions are developed on the basis that the President's Budget proposals will be enacted.

Of course, the economy and the budget interact. Government tax and spending policies can influence prices, economic growth, consumption, savings, and investment. In turn, changes in economic conditions due to the enactment of proposals affect tax receipts and spending, including for unemployment benefits, entitlement payments that receive automatic cost-of-living adjustments (COLAs), income support programs for low-income individuals, and interest on the Federal debt.

Because of these interactions, it would be reasonable, from an economic perspective, to assume different economic paths for the baseline projection and the President's Budget. However, this would greatly complicate the process of producing the Budget, which normally includes a large number of proposals that could have potential economic feedback effects. Agencies would have to produce two sets of estimates for programs sensitive to economic assumptions even if those programs were not directly affected by any proposal in the Budget. Using different economic assumptions for baseline and policy estimates would also diminish the value of the baseline estimates as a benchmark for measuring proposed policy changes, because it would be difficult to separate the effects of proposed policy changes from the effects of different economic assumptions. Using the same economic assumptions for the baseline and the President's Budget eliminates this potential source of confusion.

The economic assumptions underlying the Budget and the Administration's baseline are summarized in Table 12–2. The economic outlook underlying these assumptions is discussed in greater detail in the "Economic Assumptions" chapter of this volume.

Major Programmatic Assumptions

A number of programmatic assumptions must be made to calculate the baseline estimates. These include assumptions about annual cost-of-living adjustments in the indexed programs and the number of beneficiaries who will receive payments from the major benefit programs. These assumptions affect baseline estimates of direct spending

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[6] See the "Budget Process" chapter of this volume for a more thorough discussion of budget enforcement.

[7] Since enactment of the BCA, the Congress has extended sequestration of mandatory spending through a series of amendments to BBEDCA § 251A (2 U.S.C. 901a). See the "OMB Report to the Congress on the BBEDCA 251A Sequestration for Fiscal Year 2027", available at *https://www.whitehouse.gov/omb/information-resources/legislative/sequestration-reports-and-orders/*, for more information on the sequestration of mandatory spending required by BBEDCA § 251A.

[8] The effects of the sequestration reductions are reflected in the detailed schedules for the affected budget accounts for all years. See the "Budget Concepts" chapter of this volume for a more thorough discussion of sequestration procedures.

for each of these programs, and they also affect estimates of the discretionary baseline for a limited number of programs. For the administrative expenses for Medicare, Railroad Retirement, and unemployment insurance, the discretionary baseline is increased (or decreased) for changes in the number of beneficiaries in addition to the adjustments for inflation. Assumptions about various automatic cost-of-living-adjustments are shown in Table 12–2. It is also necessary to make assumptions about the continuation of expiring programs and provisions. As explained above, in the baseline estimates provided here, expiring excise taxes dedicated to a trust fund are extended at cur-

Table 12—2. Summary of Economic Assumptions

Fiscal Years; in Billions of Dollars

	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036
Gross Domestic Product (GDP):												
Levels, in billions of dollars:												
Current dollars	30,323	32,076	33,793	35,540	37,372	39,285	41,254	43,295	45,436	47,683	50,039	52,515
Real, chained (2017) dollars	23,709	24,352	25,140	25,920	26,723	27,542	28,357	29,180	30,026	30,897	31,793	32,715
Percent change, year over year:												
Current dollars	4.7	5.8	5.4	5.2	5.2	5.1	5.0	4.9	4.9	4.9	4.9	4.9
Real, chained (2017) dollars	2.1	2.7	3.2	3.1	3.1	3.1	3.0	2.9	2.9	2.9	2.9	2.9
Inflation measures (percent change, year over year):												
GDP chained price index	2.1	2.7	3.2	3.1	3.1	3.1	3.0	2.9	2.9	2.9	2.9	2.9
Consumer price index (all urban)	2.7	2.6	2.3	2.3	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2
Unemployment rate, civilian (percent)	**4.2**	**4.0**	**3.7**	**3.7**	**3.7**	**3.7**	**3.7**	**3.7**	**3.7**	**3.7**	**3.7**	**3.7**
Interest rates (percent):												
91-day Treasury bills	4.2	3.4	3.0	3.1	3.1	3.1	3.1	3.1	3.1	3.1	3.1	3.1
10-year Treasury notes	4.3	3.8	3.6	3.5	3.4	3.4	3.3	3.3	3.3	3.3	3.3	3.3
MEMORANDUM:												
Related program assumptions:												
Automatic benefit increases (percent):												
Social security and veterans pensions	2.5	2.8	2.4	2.3	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2
Federal employee retirement	2.5	2.8	2.4	2.3	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2
Supplemental Nutrition Assistance Program	0.2	1.9	2.6	2.3	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2
Insured unemployment rate	1.34	1.29	1.19	1.18	1.18	1.18	1.19	1.18	1.18	1.19	1.18	1.19

Table 12—4. Receipts by Source in the Baseline

In Billions of Dollars

	2025 Actual	Estimate										
		2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036
Individual income taxes	2,656.0	2,629.9	2,869.3	3,074.0	3,280.0	3,564.2	3,802.7	4,043.8	4,294.9	4,546.2	4,804.3	5,069.1
Corporation income taxes	452.1	398.6	440.1	455.5	481.8	516.3	540.8	562.9	579.4	605.3	630.0	653.4
Social insurance and retirement receipts	1,748.3	1,849.8	1,934.5	2,053.9	2,158.5	2,276.4	2,395.1	2,518.8	2,675.6	2,806.0	2,954.7	3,110.3
(On-budget)	*(464.6)*	*(482.2)*	*(510.2)*	*(542.3)*	*(570.6)*	*(602.4)*	*(634.3)*	*(669.0)*	*(709.5)*	*(745.9)*	*(781.8)*	*(824.0)*
(Off-budget)	*(1,283.7)*	*(1,367.7)*	*(1,424.3)*	*(1,511.6)*	*(1,588.0)*	*(1,674.0)*	*(1,760.9)*	*(1,849.8)*	*(1,966.1)*	*(2,060.2)*	*(2,172.8)*	*(2,286.3)*
Excise taxes	105.9	105.6	107.4	107.6	110.2	113.1	113.6	114.7	116.2	116.9	120.0	123.0
Estate and gift taxes	29.5	35.8	42.0	45.1	47.5	51.6	54.7	57.8	61.5	64.8	68.7	72.7
Customs duties	194.9	406.1	464.0	479.2	500.0	524.2	551.7	575.0	600.0	625.4	652.4	681.3
Miscellaneous receipts	49.7	49.9	63.7	73.2	82.2	91.4	100.9	111.3	119.2	126.6	130.8	136.2
Total, receipts	**5,236.4**	**5,475.7**	**5,921.0**	**6,288.4**	**6,660.3**	**7,137.3**	**7,559.4**	**7,984.3**	**8,446.8**	**8,891.3**	**9,360.8**	**9,846.1**
(On-budget)	*(3,952.7)*	*(4,108.1)*	*(4,496.7)*	*(4,776.8)*	*(5,072.4)*	*(5,463.3)*	*(5,798.5)*	*(6,134.6)*	*(6,480.8)*	*(6,831.1)*	*(7,188.0)*	*(7,559.8)*
(Off-budget)	*(1,283.7)*	*(1,367.7)*	*(1,424.3)*	*(1,511.6)*	*(1,588.0)*	*(1,674.0)*	*(1,760.9)*	*(1,849.8)*	*(1,966.1)*	*(2,060.2)*	*(2,172.8)*	*(2,286.3)*

Table 12–5. Effect on Receipts of Changes in the Social Security Taxable Earnings Base

In Billions of Dollars

Social security (OASDI) taxable earnings base increases:	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036
$184,500 to $193,500 on Jan. 1, 2027	5.5	13.9	15.4	17.1	19.0	21.0	23.5	25.8	28.4	31.2
$193,500 to $201,300 on Jan. 1, 2028	....	4.8	12.3	13.6	15.1	16.7	18.6	20.5	22.8	25.0
$201,300 to $211,200 on Jan. 1, 2029	....	....	6.3	15.8	17.5	19.3	21.7	23.9	26.5	29.3
$211,200 to $221,700 on Jan. 1, 2030	....	....	....	6.7	16.8	18.6	20.8	23.0	25.5	28.2
$221,700 to $233,100 on Jan. 1, 2031	....	....	....	....	7.3	18.3	20.4	22.5	25.1	27.7
$233,100 to $244,800 on Jan. 1, 2032	....	....	....	....	....	7.4	19.0	20.9	23.2	25.8
$244,800 to $256,800 on Jan. 1, 2033	....	....	....	....	....	....	7.8	19.5	21.6	23.9
$256,800 to $269,700 on Jan. 1, 2034	....	....	....	....	....	....	....	8.4	21.0	23.3
$269,700 to $282,900 on Jan. 1, 2035	....	....	....	....	....	....	....	....	8.7	21.6
$282,900 to $297,000 on Jan. 1, 2036	....	....	....	....	....	....	....	....	....	9.3

rent rates. In general, mandatory programs with spending of at least $50 million in the current year are also assumed to continue, unless the programs are explicitly temporary in nature. Table 12–3 provides a listing of mandatory programs and taxes assumed to continue in the baseline after their expiration.[9] Many other important assumptions must be made in order to calculate the baseline estimates. These include the timing and content of regulations that will be issued over the projection period, the use of administrative discretion under current law, and other assumptions about the way programs operate. Table 12–3 lists many of these assumptions and their effects on the baseline estimates. The list is not intended to be exhaustive; the variety and complexity of Government programs are too great to provide a complete list. Instead, the table shows some of the more important assumptions.

Current Services Receipts, Outlays, and Budget Authority

Receipts

Table 12–4 shows the Administration's baseline receipts by major source. Table 12–5 shows the scheduled increases in the Social Security taxable earnings base, which affect both payroll tax receipts for the program and the initial benefit levels for certain retirees.

Outlays

Tables 12–6 and 12–7 show the Administration's baseline outlays by function and by agency, respectively. A more detailed presentation of these outlays (by function, category, subfunction, and program) is provided as part of Table 12–10.

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Table 12-3. Impact of Regulations, Expiring Authorizations, and Other Assumptions in the Baseline

Table 12-6. Outlays by Function in the Baseline

Table 12-7. Outlays by Agency in the Baseline

Table 12-8. Budget Authority by Function in the Baseline

Table 12-9. Budget Authority by Agency in the Baseline

Table 12-10. Current Services Budget Authority and Outlays by Function, Category, and Program

Budget Authority

Tables 12–8 and 12–9 show estimates of budget authority in the Administration's baseline by function and by agency, respectively. A more detailed presentation of this budget authority with program-level estimates is provided as part of Table 12–10.

[9] All discretionary programs are assumed to continue and are therefore not presented in Table 12–3.

13. TRUST FUNDS AND FEDERAL FUNDS

As is common for State and local government budgets, the budget for the Federal Government contains information about collections and expenditures for different types of funds. This chapter presents summary information about the transactions of the two major fund groups used by the Federal Government, trust funds and Federal funds. It also presents information about the income and outgo of the major trust funds and certain Federal funds that are financed by dedicated collections in a manner similar to trust funds.

The Federal Funds Group

The Federal funds group includes all financial transactions of the Government that are not required by law to be recorded in trust funds. It accounts for a larger share of the budget than the trust funds group.

The Federal funds group includes the "general fund," which is used for the general purposes of Government rather than being restricted by law to a specific program. The general fund is the largest fund in the Government and it receives all collections not dedicated for some other fund, including virtually all income taxes and many excise taxes. The general fund is used for all programs that are not supported by trust, special, or revolving funds.

The Federal funds group also includes special funds and revolving funds, both of which receive collections that are dedicated by law for specific purposes. Where the law requires that Federal fund collections be dedicated to a particular program, the collections and associated disbursements are recorded in special fund receipt and expenditure accounts.[1] An example is the portion of the Outer Continental Shelf mineral leasing receipts deposited into the Land and Water Conservation Fund. Money in special fund receipt accounts must be appropriated before it can be obligated and spent. The majority of special fund collections are derived from the Government's power to impose taxes or fines, or otherwise compel payment, as in the case of the Crime Victims Fund. In addition, a significant amount of collections credited to special funds is derived from certain types of business-like activity, such as the sale of Government land or other assets or the use of Government property. These collections include receipts from timber sales and royalties from oil and gas extraction.

Revolving funds are used to conduct continuing cycles of business-like activity. Revolving funds receive proceeds from the sale of products or services, and these proceeds finance ongoing activities that continue to provide products or services. Instead of being deposited in receipt accounts, the proceeds are recorded in revolving fund expenditure accounts. The proceeds are generally available for obligation and expenditure without further legislative action. Outlays for programs with revolving funds are reported both gross and net of these proceeds; gross outlays include the expenditures from the proceeds and net program outlays are derived by subtracting the proceeds from gross outlays. Because the proceeds of these sales are recorded as offsets to outlays within expenditure accounts rather than receipt accounts, the proceeds are known as "offsetting collections."[2] There are two classes of revolving funds in the Federal funds group. Public enterprise funds, such as the Postal Service Fund, conduct business-like operations mainly with the public. Intragovernmental funds, such as the Federal Buildings Fund, conduct business-like operations mainly within and between Government agencies.

The Trust Funds Group

The trust funds group consists of funds that are designated by law as trust funds. Like special funds and revolving funds, trust funds receive collections that are dedicated by law for specific purposes. Some of the larger trust funds are used to budget for social insurance programs, such as Social Security, Medicare, and unemployment compensation. Other large trust funds are used to budget for military and Federal civilian employees' retirement benefits, highway and transit construction and maintenance, and airport and airway development and maintenance. There are a few trust revolving funds that are credited with collections earmarked by law to carry out a cycle of

[1] There are two types of budget accounts: expenditure (or appropriation) accounts and receipt accounts. Expenditure accounts are used to record outlays and receipt accounts are used to record governmental receipts and offsetting receipts. For further detail on expenditure and receipt accounts, see the "Budget Concepts" chapter of this volume.

[2] See the "Offsetting Collections and Offsetting Receipts" chapter of this volume for more information.

business-type operations. There are also a few small trust funds that have been established to carry out the terms of a conditional gift or bequest.

There is no substantive difference between special funds in the Federal funds group and trust funds, or between revolving funds in the Federal funds group and trust revolving funds. Whether a particular fund is designated in law as a trust fund is, in many cases, arbitrary. For example, the National Service Life Insurance Fund is a trust fund, but the Servicemen's Group Life Insurance Fund is a Federal fund, even though both receive dedicated collections from veterans and both provide life insurance payments to veterans' beneficiaries.

The Federal Government uses the term "trust fund" differently than the way in which it is commonly used. In common usage, the term is used to refer to a private fund that has a beneficiary who owns the trust's income and may also own the trust's assets. A custodian or trustee manages the assets on behalf of the beneficiary according to the terms of the trust agreement, as established by a trustor. Neither the trustee nor the beneficiary can change the terms of the trust agreement; only the trustor can change the terms of the agreement. In contrast, the Federal Government owns and manages the assets and the earnings of most Federal trust funds, and can unilaterally change the law to raise or lower future trust fund collections and payments or change the purpose for which the collections are used. Only a few small Federal trust funds are managed pursuant to a trust agreement whereby the Government acts as the trustee; even then, the Government generally owns the funds and has some ability to alter the amount deposited into or paid out of the funds.

Deposit funds, which are funds held by the Government as a custodian on behalf of individuals or a non-Federal entity, are similar to private-sector trust funds. The Government makes no decisions about the amount of money placed in deposit funds or about how the proceeds are spent. For this reason, these funds are not classified as Federal trust funds, but are instead considered to be nonbudgetary and excluded from the Federal budget.[3]

The income of a Federal Government trust fund must be used for the purposes specified in law. The income of some trust funds, such as the Employees and Retired Employees Health Benefits Fund, is spent almost as quickly as it is collected. In other cases, such as the military and Federal civilian employees' retirement trust funds, the trust fund income is not spent as quickly as it is collected. Currently, these funds do not use all of their annual income (which includes intragovernmental interest income). This surplus of income over outgo adds to the trust fund's balance, which is available for future expenditures. Trust fund balances are generally required by law to be invested in Federal securities issued by the Department of the Treasury (Treasury).[4] The National Railroad Retirement

Table 13—1. Receipts, Outlays, and Surplus or Deficit by Fund Group, 2025

In Billions of Dollars

	2025 Actual
RECEIPTS:	
Federal funds cash income:	
From the public	4,048.1
From trust funds	2.0
Total, Federal funds cash income	4,050.1
Trust funds cash income:	
From the public	2,116.1
From Federal funds:	
Interest	187.6
Other	996.6
Total, Trust funds cash income	3,300.2
Offsetting collections from the public and offsetting receipts:	
Federal funds	–638.5
Trust funds	–1,475.3
Total, offsetting collections from the public and offsetting receipts	–2,113.9
Unified budget receipts:	
Federal funds	3,411.5
Trust funds	1,824.9
Total, unified budget receipts	5,236.4
OUTLAYS:	
Federal funds cash outgo	5,921.1
Trust funds cash outgo	3,203.9
Offsetting collections from the public and offsetting receipts:	
Federal funds	–638.5
Trust funds	–1,475.3
Total, offsetting collections from the public and offsetting receipts	–2,113.9
Unified budget outlays:	
Federal funds	5,282.6
Trust funds	1,728.6
Total, unified budget outlays	7,011.1
SURPLUS OR DEFICIT (–):	
Federal funds	–1,871.0
Trust funds	96.3
Total, unified surplus/deficit (–)	–1,774.7

Note: Receipts include governmental, interfund, and proprietary, and exclude intrafund receipts (which are offset against intrafund payments so that cash income and cash outgo are not overstated).

[3] Deposit funds are also discussed in the "Coverage of the Budget" chapter of this volume.

[4] Securities held by trust funds (and by other Government accounts), debt held by the public, and gross Federal debt are discussed in the "Federal Borrowing and Debt" chapter of this volume.

Investment Trust is a rare example of a Government trust fund authorized to invest balances in equity markets.

A trust fund normally consists of one or more receipt accounts (to record income) and an expenditure account (to record outgo). However, a few trust funds, such as the Veterans Special Life Insurance fund, are established by law as trust revolving funds. Such a fund is similar to a revolving fund in the Federal funds group in that it may consist of a single account to record both income and outgo. Trust revolving funds are used to conduct cycle of business-type operations; offsetting collections are credited to the funds (which are also expenditure accounts) and the funds' outlays are displayed net of the offsetting collections.

Income and Outgo by Fund Group

Table 13-1 shows 2025 income, outgo, and the surplus or deficit by fund group and in the aggregate (netted to avoid double-counting) from which the unified budget totals are derived. Income consists mostly of governmental receipts (derived from governmental activity, primarily income, payroll, and excise taxes). Income also includes offsetting receipts, which include proprietary receipts (derived from business-like transactions with the public), interfund collections (derived from payments from a fund in one fund group to a fund in the other fund group), and gifts. Outgo consists of payments made to the public or to a fund in the other fund group.

Two types of transactions are treated specially in the table. First, income and outgo for each fund group exclude all transactions that occur between funds within the same fund group.[5] These intrafund transactions constitute outgo and income for the individual funds that make and collect the payments, but they are offsetting within the fund group as a whole. The totals for each fund group measure only the group's transactions with the public and the other fund group. Second, outgo is calculated net of the collections from Federal sources that are credited to expenditure accounts (which, as noted above, are referred to as offsetting collections); the spending that is financed by those collections is included in outgo and the collections from Federal sources are subsequently subtracted from outgo.[6] As a result, both interfund and intrafund offsetting collections from Federal sources are offset against outgo in Table 13-1 and are not shown separately.

The vast majority of the interfund transactions in the table are payments by the Federal funds to the trust funds. These payments include interest payments from the general fund to the trust funds for interest earned on trust fund balances invested in interest-bearing Treasury securities. The payments also include payments by Federal agencies to Federal employee benefits trust funds and Social Security trust funds on behalf of current employees and general fund transfers to employee retirement trust funds to amortize the unfunded liabilities of these funds. In addition, the payments include general fund transfers to the Supplementary Medical Insurance (SMI) trust fund for the cost of Medicare Parts B (outpatient and physician benefits) and D (prescription drug benefits) that is not covered by premiums or other income from the public.

In addition to investing their balances with the Treasury, some funds in the Federal funds group and most trust funds are authorized to borrow from the general fund of the Treasury.[7] Similar to the treatment of funds invested with the Treasury, borrowed funds are not recorded as receipts of the fund or included in the income of the fund. Rather, the borrowed funds finance outlays by the fund in excess of available receipts. Subsequently, any excess fund receipts are transferred from the fund to the general fund in repayment of the borrowing. The repayment is not recorded as an outlay of the fund or included in fund outgo. This treatment is consistent with the broad principle that borrowing and debt redemption are not budgetary transactions but rather a means of financing deficits or disposing of surpluses.[8]

Some income in both Federal funds and trust funds consists of offsetting receipts.[9] Offsetting receipts are not considered governmental receipts (such as taxes), but they are instead recorded on the outlay side of the budget.[10] Expenditures resulting from offsetting receipts are recorded

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[5] For example, the railroad retirement trust funds pay the equivalent of Social Security benefits to railroad retirees in addition to the regular railroad pension. These benefits are financed by a payment from the Federal Old-Age and Survivors Insurance trust fund to the railroad retirement trust funds. The payment and collection are not included in Table 13-1 so that the total trust fund income and outgo shown in the table reflect transactions with the public and with Federal funds.

[6] Collections from non-Federal sources are shown as income and spending that is financed by those collections is shown as outgo. For example, postage stamp fees are deposited as offsetting collections in the Postal Service Fund. As a result, the Fund's income reported in Table 13-1 includes postage stamp fees and the Fund's outgo is gross disbursements, including disbursements financed by those fees.

[7] For example, the Unemployment Trust Fund is authorized to borrow from the general fund for unemployment benefits and the Black Lung Disability Trust Fund is authorized to receive appropriations of repayable advances from the general fund, which constitute a form of borrowing.

[8] Borrowing and debt repayment are discussed in the "Federal Borrowing and Debt" and "Budget Concepts" chapters.

[9] Interest on borrowed funds is an example of an intragovernmental offsetting receipt and Medicare Part B's premiums are an example of offsetting receipts from the public.

[10] For further discussion of offsetting receipts, see the "Offsetting Collections and Offsetting Receipts" chapter.

Table 13–2. Comparison of Total Federal Fund and Trust Fund Receipts to Unified Budget Receipts, 2025

In Billions of Dollars

Gross Federal Fund and Trust Fund Cash Income:	
Federal funds	4,525.0
Trust funds	3,376.1
Total, gross Federal fund and Trust fund cash income	7,901.1
Deduct: intrabudgetary offsetting collections (from funds within same fund group):	
Federal funds	–417.6
Trust funds	–68.5
Subtotal, intrabudgetary offsetting collections	–486.1
Deduct: intrafund receipts (from funds within same fund group):	
Federal funds	–57.3
Trust funds	–7.4
Subtotal, intrafund receipts	–64.7
Federal fund and Trust fund cash income net of intrabudgetary offsetting collections and intrafund receipts:	
Federal funds	4,050.1
Trust funds	3,300.2
Total, Federal fund and Trust fund cash income net of intrafund receipts	7,350.3
Deduct: offsetting collections from the public:	
Federal funds	–334.6
Trust funds	–28.9
Subtotal, offsetting collections from the public	–363.5
Deduct: other offsetting receipts:	
Federal fund receipts from Trust funds	–2.0
Trust fund receipts from Federal funds:	
Interest in receipt accounts	–187.6
General fund payments to Medicare Parts B and D	–549.7
Employing agencies' payments for pensions, Social Security, and Medicare	–133.1
General fund payments for unfunded liabilities of Federal employees' retirement funds	–207.0
Transfer of taxation of Social Security and RRB benefits to OASDI, HI, and RRB	–101.9
Other receipts from Federal funds	–5.0
Subtotal, Trust fund receipts from Federal funds	–1,184.1
Proprietary receipts:	
Federal funds	–283.5
Trust funds	–262.3
Subtotal, proprietary receipts	–545.8
Offsetting governmental receipts:	
Federal funds	–18.5
Trust funds	–*
Subtotal, offsetting governmental receipts	–18.5
Subtotal, other offsetting receipts	–1,750.4
Unified budget receipts:	
Federal funds	3,411.5
Trust funds	1,824.9
Total, unified budget receipts	5,236.4
MEMORANDUM:	
Gross receipts: [1]	
Federal funds	3,772.8
Trust funds	3,278.7
Total, gross receipts	7,051.5

* Less than $50 million.

[1] Gross income excluding offsetting collections.

as gross outlays and the collections of offsetting receipts are then subtracted from gross outlays to derive net outlays. Net outlays reflect the Government's net transactions with the public.

As shown in Table 13-1, 35 percent of all governmental receipts were deposited in trust funds in 2025 and the remaining 65 percent of governmental receipts were deposited in Federal funds, which, as noted above, include the general fund. As noted above, most outlays between the trust fund and Federal fund groups (interfund outlays) flow from Federal funds to trust funds, rather than from trust funds to Federal funds. As a result, while trust funds accounted for 25 percent of total 2025 outlays, they accounted for 30 percent of 2025 outlays net of interfund transactions.

Because the income for Federal funds and trust funds recorded in Table 13-1 includes offsetting receipts and offsetting collections from the public, offsetting receipts and offsetting collections from the public must be deducted from the two fund groups' combined gross income in order to reconcile to total governmental receipts in the unified budget. Similarly, because the outgo for Federal funds and trust funds in Table 13-1 consists of outlays gross of offsetting receipts and offsetting collections from the public, the amount of the offsetting receipts and offsetting collections from the public must be deducted from the sum of the Federal funds' and the trust funds' gross outgo in order to reconcile to total (net) unified budget outlays. Table 13-2 reconciles, for 2025, the gross total of all trust fund and Federal fund receipts with the receipt total of the unified budget.

Income, Outgo, and Balances of Trust Funds

Table 13-3 shows, for the trust funds group as a whole, the funds' balance at the start of 2025, income and outgo during the year, and the end-of-year balance. Income and outgo are divided between transactions with the public and transactions with Federal funds. Receipts from Federal funds are divided between interest and other interfund receipts.

The definitions of income and outgo in this table differ from those in Table 13-1 in one important way. Trust fund collections that are offset against outgo (offsetting collections from Federal sources) within expenditure accounts instead of being deposited in separate receipt accounts are classified as income in this table, but not in Table 13-1. This classification is consistent with the definitions of income and outgo for trust funds used elsewhere in the budget. It has the effect of increasing both income and outgo by the amount of the offsetting collections from Federal sources. The difference was approximately $68 billion in 2025. Table 13-3, therefore, provides a more complete summary of trust fund income and outgo.

The size of the trust fund balances is largely the consequence of the way some trust funds are financed. Some of the larger trust funds (primarily Social Security and the Federal retirement funds) are fully or partially advance funded, with collections on behalf of individual participants received by the funds years earlier than when the associated benefits are paid. For example, under the Federal military and civilian retirement programs, Federal agencies and employees together are required to pay the retirement trust funds an amount equal to accruing retirement benefits. Since many years pass between the time when benefits are accrued and when they are paid, the trust funds accumulate substantial balances over time. Almost all of these balances are invested in Treasury securities and earn interest.

From the perspective of the trust fund, these balances are assets that represent the value, in today's dollars, of past taxes, fees, and other income from the public and from other Government accounts that the trust fund has received in excess of past spending. Trust fund assets held in Treasury securities are legal claims on the Treasury, similar to Treasury securities issued to the public. Like all other fund assets, these are available to the fund for future benefit payments and other expenditures. From the perspective of the Government as a whole, however, the trust fund balances do not represent net additions to the Government's balance sheet. The trust fund balances are assets of the agencies responsible for administering the trust fund programs and liabilities of Treasury. These assets and liabilities cancel each other out in the Government-wide balance sheet. The effects of Treasury debt held by trust funds and other Government accounts are discussed further in the "Federal Borrowing and Debt" chapter of this volume.

Table 13-4, available online, shows estimates of income, outgo, surplus or deficit, and balances for 2025 through 2031 for the major trust funds. With the exception of transactions between trust funds, the data for the individual trust funds are conceptually the same as the data in Table 13-3 for the trust funds group. As explained previously, transactions between trust funds are shown as outgo of the fund that makes the payment and as income of the fund that collects it in the data for an individual trust fund, but the collections are offset against outgo in the data for the trust fund group as a whole.

As noted above, trust funds are funded by a combination of payments from the public and payments from Federal funds, including payments directly from the general fund and payments from agency appropriations. Similarly, the fund outgo amounts in Table 13-4 represent both outflows to the public—such as for the provision of benefit payments or the purchase of goods or services—and outflows to other Government accounts—such as for reimbursement for services provided by other agencies or payment of interest on borrowing from Treasury. The outgo amounts reflect the Budget's assumption that all obligations of the trust funds are met.

Because trust funds and Federal special and revolving funds conduct transactions both with the public and with other Government accounts, the surplus or deficit of an individual fund may differ from the fund's impact on the surplus or deficit of the Federal Government. Transactions with the public affect both the surplus or deficit of an individual fund and the Federal Government surplus or deficit. Transactions with other Government accounts affect the surplus or deficit of the particular fund. However, because that same transaction is offset in another Government account, there is no net impact on the total Federal Government surplus or deficit.

Table 13–3. Income, Outgo, and Balances of Trust Funds Group, 2025

In Billions of Dollars

	2025 Actual
Balance, start of year	6,124.3
Adjustments to balances	61.0
Total balance, start of year	6,185.3
Income:	
Governmental receipts	1,824.9
Offsetting governmental	*
Proprietary	287.6
From Federal funds:	
Interest	194.6
Other	1,060.9
Total income during the year	3,368.0
Outgo (–)	–3,271.7
Change in Fund Balance:	
Surplus or deficit (–):	
Excluding interest	–98.3
Interest	194.6
Subtotal, surplus or deficit (–)	96.3
Borrowing, transfers, lapses, & other adjustments	0.1
Total change in fund balance	96.4
Balance, end of year	6,281.7

* Less than $50 million.

Note: In contrast to Table 13–1, income also includes income that is offset within expenditure accounts as offsetting collections from Federal sources, instead of being deposited in receipt accounts.

A brief description of the major trust funds is given below; additional information for these and other trust funds can be found in the Status of Funds tables in the Budget *Appendix*.

Social Security Trust Funds

The Social Security trust funds consist of the Old Age and Survivors Insurance (OASI) trust fund and the Disability Insurance (DI) trust fund. The trust funds are funded by payroll taxes from employers and employees, interest earnings on trust fund balances, Federal agency payments as employers, and a portion of the income taxes paid on Social Security benefits.

Medicare Trust Funds

Like the Social Security trust funds, the Medicare Hospital Insurance (HI) trust fund is funded by payroll taxes from employers and employees, Federal agency payments as employers, and a portion of the income taxes paid on Social Security benefits. The HI trust fund also receives transfers from the general fund of the Treasury for certain HI benefits and premiums from certain voluntary participants. The other Medicare trust fund, SMI, finances Part B (outpatient and physician benefits) and Part D (prescription drug benefits). SMI receives premium payments from covered individuals, transfers from States toward Part D benefits, excise taxes on manufacturers and importers of brand-name prescription drugs, and transfers from the general fund of the Treasury for the portion of Part B and Part D costs not covered by premiums or transfers from States. In addition, like other trust funds, these two trust funds receive interest earnings on their trust fund balances.

Highway Trust Fund

The fund finances Federal highway and transit infrastructure projects, as well as highway and vehicle safety activities. The Highway Trust Fund is financed by Federal motor fuel taxes and associated fees, and, in recent years, by general fund transfers, as those taxes and fees have been inadequate to support current levels of spending.

Unemployment Trust Fund

The Unemployment Trust Fund is funded by Federal and State taxes on employers, payments from Federal agencies, taxes on certain employees, and interest earnings on trust fund balances. Unemployment insurance is administered largely by the States, following Federal guidelines. The Unemployment Trust Fund is composed of individual accounts for each State and several Federal accounts, including accounts related to the separate unemployment insurance program for railroad employees.

Civilian and Military Retirement Trust Funds

The Civil Service Retirement and Disability Fund is funded by employee and agency payments, general fund transfers for the unfunded portion of retirement costs, and interest earnings on trust fund balances. The Military Retirement Fund likewise is funded by payments from the Department of War, general fund transfers for unfunded retirement costs, and interest earnings on trust fund balances.

Table 13-5, available online, shows income, outgo, and balances of two Federal funds that are designated as special funds. These funds are similar to trust funds in that they are financed by dedicated receipts, the excess of income over outgo is invested in Treasury securities, the interest earnings add to fund balances, and the balances remain available to cover future expenditures. The table is illustrative of the Federal funds group, which includes many revolving funds and special funds.

Available Online ↗

https://www.whitehouse.gov/omb/information-resources/budget/analytical-perspectives/

Table 13-4. Income, Outgo, and Balances of Major Trust Funds

Table 13-5. Income, Outgo, and Balances of Selected Special Funds

COMPARISON OF ACTUAL TO ESTIMATED TOTALS 14.

The Budget is required by statute to compare budget year estimates of receipts and outlays with the subsequent actual receipts and outlays for that year. This chapter meets that requirement by comparing the actual receipts, outlays, and deficit for 2025 with the current services estimates shown in the 2025 Budget, published in March 2024[1]. It also presents a more detailed comparison for mandatory and related programs, and reconciles the actual receipts, outlays, and deficit totals with the figures for 2025 previously published by the Department of the Treasury.

[1] The current services concept is discussed in the "Current Services Estimates" chapter of this volume. For a detailed explanation of the 2025 estimate, see the "Current Services Estimates" chapter of the 2025 Analytical Perspectives volume of the President's Budget.

Receipts

Actual receipts for 2025 were $5,236 billion, $150 billion more than the $5,087 billion current services estimate in the 2025 Budget, which was published in March 2024. As shown in Table 14-1, this increase was the net effect of legislative changes, economic conditions that differed from what had been expected, and technical factors that resulted in different tax liabilities and collection patterns than had been assumed.

Policy Differences

Legislated tax changes enacted after the March 2024 estimates were finalized decreased 2025 receipts by a net $51 billion relative to the 2025 Budget current services estimate.

The VSO Equal Tax Treatment Act (Public Law 118-146) allowed tax-exempt veterans' organizations to receive tax deductible charitable contributions for tax years after 2024. This Act was signed into law on December 12, 2024, and decreased 2025 receipts by $23 million.

The Federal Disaster Tax Relief Act of 2024 (Public Law 118-148) offered taxpayers in qualified disaster areas, such as East Palestine, Ohio and areas affected by wildfires, increased tax deductions for losses attributable to the disaster. This Act was signed into law on December 12, 2024, and decreased 2025 receipts by an estimated $2 billion.

The combined result of the American Relief Act, 2025 (Public Law 118-158), signed into law on December 21, 2024, and the Full-Year Continuing Appropriations and Extensions Act, 2025 (Public Law 119-4) signed into law on March 15, 2025, increased 2025 receipts by an estimated $8 billion.

The Working Families Tax Cut Act (WFTC, Public Law 119-21) permanently extended many of the provisions in the 2017 Tax Cut and Jobs Act (Public Law 115-97), provided additional comprehensive tax reform for individuals and corporations, and delivered on many of President Trump's campaign promises such as "No Tax on Tips," "No Tax on Overtime," and "No Tax on Car Loans." The Act was signed in to law on July 4, 2025, and decreased 2025 receipts by an estimated $57 billion.

Economic differences

Differences between the economic assumptions upon which the current services estimates were based and actual economic performance increased 2025 receipts by a net $101 billion relative to the March 2024 current services estimate. Stronger than anticipated GDP growth increased individual receipts by $71 billion and social insurance and retirement receipts by $15 billion relative to the March 2024 estimates. Different economic factors than those assumed in March 2024 had a smaller effect on other sources of receipts, increasing collections by a net $15 billion.

Technical Factors

Technical factors increased receipts by a net $100 billion relative to the March 2024 current services estimate. These factors had the greatest effect on customs duties, increasing collections by $132 billion. This significant increase in customs receipts is the result of the Administration's America First trade policies focusing on increased tariff collections. This increase in customs duties was offset by a net decrease of $32 billion attributable to other technical factors.

Outlays

Outlays for 2025 were $7,011 billion, $59 billion more than the $6,952 billion current services estimate in the 2025 Budget. Table 14–2 distributes the $59 billion net increase in outlays among discretionary and mandatory

Table 14–1. Comparison of Actual 2025 Receipts with the Initial Current Services Estimates

In Billions of Dollars

	Estimate (March 2024)	Changes			Total Changes	Actual
		Legislative	Economic	Technical		
Individual income taxes	2,639	–16	71	–38	17	2,656
Corporation income taxes	467	–35	7	13	–15	452
Social insurance and retirement receipts	1,754	....	15	–21	–6	1,748
Excise taxes	97	0	2	6	8	106
Estate and gift taxes	31	....	5	–6	–2	29
Customs duties	61	....	2	132	134	195
Miscellaneous receipts	37	....	....	13	13	50
Total receipts	5,087	–51	101	100	150	5,236

Table 14–2. Comparison of Actual 2025 Outlays with the Initial Current Services Estimates

In Billions of Dollars

	Estimate (March 2024)	Changes			Total Changes	Actual
		Policy	Economic	Technical		
Discretionary						
Defense	884	55	....	–46	9	894
Nondefense	995	42	....	–56	–14	982
Subtotal, discretionary	1,879	98	....	–102	–4	1,875
Mandatory						
Social Security	1,543	....	–1	33	32	1,575
Other programs	2,560	–122	10	142	30	2,591
Subtotal, mandatory	4,104	–122	9	175	62	4,166
Net interest	969	*	–43	43	1	970
Total outlays	6,952	–24	–33	117	59	7,011

* 500 million or less

Table 14–3. Comparison of the Actual 2025 Deficit with the Initial Current Services Estimate

In Billions of Dollars

	Estimate (March 2024)	Changes			Total Changes	Actual
		Policy	Economic	Technical		
Receipts	5,087	–51	101	100	150	5,236
Outlays	6,952	–24	–33	117	59	7,011
Deficit	1,865	27	–134	17	–90	1,775

Note: Deficit changes are outlays minus receipts. For these changes, a positive number indicates an increase in the deficit.

programs and net interest. The table also shows rough estimates according to three reasons for the changes: policy; economic conditions; and technical estimating differences, a residual.

Policy Differences

Policy changes are the result of legislative actions that change spending levels, primarily through higher or lower appropriations or changes in authorizing legislation, which may themselves be in response to changed economic conditions. For 2025, policy changes decreased outlays by $24 billion relative to the initial current services estimates. Policy changes increased discretionary outlays by $98 billion, largely due to the Consolidated Appropriations Act, 2024 (Public Law 118-42), the related Further Consolidated Appropriations Act, 2024 (Public Law 118-47), and the Full-Year Continuing Appropriations and Extensions Act, 2025 (Public Law 119-4) and several emergency supplemental appropriations. Policy changes decreased mandatory outlays by a net $122 billion, largely due to significant programmatic changes to higher education programs included in the WFTC. Debt service costs associated with all policy changes increased outlays by less than $1 billion.

Economic and Technical Factors

Economic and technical estimating factors resulted in a net increase in outlays of $84 billion. Technical changes result from changes in such factors as the number of beneficiaries for entitlement programs, crop conditions, or other factors not associated with policy changes or economic conditions. Defense and non-defense discretionary spending decreased by $102 billion relative to the 2025 current services estimate largely due to slower-than-estimated spending of both new and prior-year authority. Outlays for mandatory programs increased $184 billion due to economic and technical factors. Outlays for net interest were approximately $1 billion higher due to economic and technical factors, primarily due to higher interest rates than originally assumed.

Deficit

The preceding two sections discussed the differences between the initial current services estimates and the actual Federal Government receipts and outlays for 2025. This section combines these effects to show the net deficit impact of these differences.

As shown in Table 13–3, the 2025 current services deficit was initially estimated to be $1,865 billion. The actual deficit was $1,775 billion, which was a $90 billion decrease from the initial estimate. Receipts were $150 billion higher and outlays were $59 billion higher than the initial estimate. The table shows the distribution of the changes according to the categories in the pre-ceding two sections. The net effect of policy changes for receipts and outlays increased the deficit by $27 billion. Economic conditions that differed from the initial assumptions in March 2025 decreased the deficit by $134 billion. Technical factors increased the deficit by an estimated $17 billion.

Table 14—4. Comparison of Actual and Estimated Outlays for Mandatory and Related Programs Under Current Law

In Billions of Dollars

	2025		
	Estimate	Actual	Change
Mandatory Outlays			
Human resources programs:			
Education, training, employment, and social services:			
Higher Education	45	–74	–120
Other	17	22	5
Total, education, training, employment, and social services	62	–53	–115
Health:			
Medicaid	587	668	82
Other	174	216	42
Total, health	760	884	124
Medicare	936	988	51
Income security:			
Retirement and disability	198	196	–1
Unemployment compensation	49	38	–10
Food and nutrition assistance	155	141	–14
Other	198	213	14
Total, income security	600	588	–11
Social security	1543	1575	32
Veterans benefits and services:			
Income security for veterans	191	201	10
Other	44	51	7
Total, veterans benefits and services	234	251	17
Total, mandatory human resources programs	4,136	4,234	98
Other functions:			
Agriculture	22	22	–*
International	–3	–16	–13
Mortgage credit	–14	–33	–19
Deposit insurance	–11	–32	–21
Other advancement of commerce	26	35	10
Other functions	97	107	9
Total, other functions	117	82	–35
Undistributed offsetting receipts:			
Employer share, employee retirement	–141	–144	–3
Rents and royalties on the outer continental shelf	–8	–6	2
Other undistributed offsetting receipts	–*	–*	–*
Total, undistributed offsetting receipts	–149	–150	–1
Total, mandatory	4,104	4,166	62
Net Interest			
Interest on Treasury debt securities (gross)	1,211	1,216	5
Interest received by trust funds	–174	–188	–14
Other interest	–68	–58	10
Total, net interest	969	970	1
Total, outlays for mandatory and net interest	5,072	5,136	64

* $500 million or less

Comparison of the Actual and Estimated Outlays for Mandatory and Related Programs for 2025

This section compares the original 2025 outlay estimates for mandatory and related programs in the current services estimates of the 2025 Budget with the actual outlays. Major examples of these programs include Social Security and Medicare benefits, Medicaid and unemployment compensation payments, and deposit insurance for banks and thrift institutions. This category also includes net interest outlays and undistributed offsetting receipts.

A number of factors may cause differences between the amounts estimated in the Budget and the actual mandatory outlays. For example, legislation may change benefit rates or coverage, the actual number of beneficiaries may differ from the number estimated, or economic conditions (such as inflation or interest rates) may differ from what was assumed in making the original estimates.

Table 14–4 shows the differences between the actual outlays for these programs in 2025 and the current services estimates included in the 2025 Budget. Actual outlays for mandatory spending and net interest in 2025 were $5,136 billion, which was $64 billion more than the current services estimate of $5,072 billion in March 2024.

As Table 14–4 shows, actual outlays for mandatory human resources programs were $4,234 billion, $98 billion higher than originally estimated. This increase was the net effect of legislative action, differences between actual and assumed economic conditions, differences between the anticipated and actual number of beneficiaries, and other technical differences.

Outlays in higher education programs were $115 billion lower than estimates primarily due to the changes in federal student loan repayment plans and loan cancellation reforms enacted in the WFTC. Health program outlays were $124 billion higher than estimates, driven by higher than estimated outlays in Medicaid resulting in $82 billion in additional outlays, and the refundable premium tax credit resulting in $47 billion more outlays. Outlays for Social Security were $32 billion higher than projected in the 2025 Budget mainly due to the implementation of the Social Security Fairness Act, which was not anticipated in the 2025 Budget projections, and a higher than estimated number of beneficiaries. In addition, income security, veterans' benefits and services programs, and other functions accounted for an increase of outlays of $51 billion.

Outlays for net interest were $970 billion, or $1 billion higher than the original estimate. As shown on Table 14–4, interest payments on Treasury debt securities increased by $5 billion. Interest earnings of trust funds increased by $14 billion, decreasing net outlays, while net outlays for other interest increased net outlays by $10 billion.

Reconciliation of Differences with Amounts Published by the Treasury for 2025

Table 14-5 provides a reconciliation of the receipts, outlays, and deficit totals for 2025 published by the Department of the Treasury in the September 2025 Monthly Treasury Statement (MTS) and those published in this Budget. The Department of the Treasury made adjustments to the estimates for the Combined Statement of Receipts, Outlays, and Balances that increased outlays by $18 million. Additional adjustments for the 2027 Budget increased receipts by $1,805 million and increased outlays by $1,113 million. Some of these adjustments were for financial transactions that are not reported to the Department of the Treasury but are included in the Budget, including those for the Affordable Housing Program, the Concrete Masonry Products Board, the Electric Reliability Organization, Federal Financial Institutions Examination Council Activities and Assessments, Federal Retirement Thrift Investment Board Program Expenses, the National Oilheat Research Alliance, the Public Company Accounting Oversight Board, the Puerto Rico Oversight Board, the Securities Investor Protection Corporation, fees and payments related to the Standard Setting Body, and the United Mine Workers of America benefit funds. There was also an adjustment for the National Railroad Retirement Investment Trust (NRRIT), which relates to a conceptual difference in reporting. NRRIT reports to the Department of the Treasury with a one-month lag so that the fiscal year total provided in the Treasury Combined Statement covers September 2024 through August 2025. The Budget has been adjusted to reflect NRRIT transactions that occurred during the actual fiscal year, which begins October 1.

Table 14—5. Reconciliation of Final Amounts for 2025

In Millions of Dollars

	Receipts	Outlays	Deficit
Totals published by Treasury (September MTS)	5,234,616	7,009,974	1,775,358
Miscellaneous Treasury adjustments	....	18	18
Totals published by Treasury in Combined Statement	5,234,616	7,009,992	1,775,376
Affordable Housing Program	650	650	....
Concrete Masonry Products Board	10	....	–10
Electric Reliability Organization	116	116	....
Federal Financial Institutions Examination Council Activities and Assessments	24	24	....
Federal Retirement Thrift Investment Board Program Expenses	....	–33	–33
National Oilheat Research Alliance	8	6	–2
National Railroad Retirement Investment Trust	....	–158	–158
Public Company Accounting Oversight Board	376	359	–17
Puerto Rico Oversight Board	59	59	....
Securities Investor Protection Corporation	519	45	–474
Standard Setting Body	33	33	....
United Mine Workers of America benefit funds	9	9	....
Other	1	3	2
Total adjustments, net	1,805	1,113	–692
Totals in the Budget	5,236,421	7,011,105	1,774,684
MEMORANDUM			
Total change since year–end statement	1,805	1,131	–674

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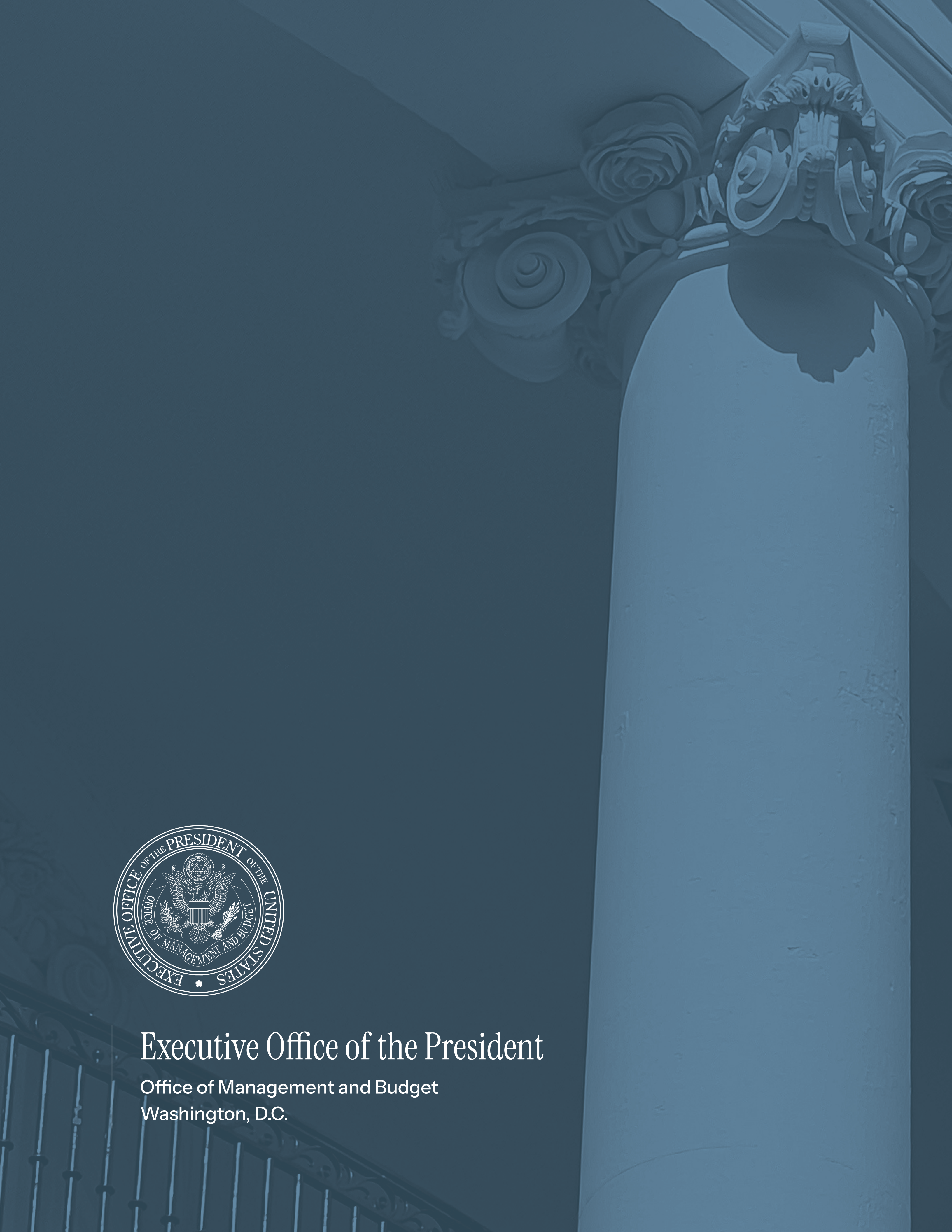

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