

Where Do Our Federal Tax Dollars Go?

The federal government collects taxes to finance various public services. As policymakers and the public weigh key decisions about revenues and expenditures, it is important to examine what the government does with the money it collects.

In fiscal year 2023, the federal government spent \$6.1 trillion, amounting to 22.7 percent of the nation's gross domestic product (GDP). About nine-tenths of the total went toward federal programs; the remainder went toward interest payments on the federal debt. Of that \$6.1 trillion, over \$4.4 trillion was financed by federal revenues. The remaining amount was financed by borrowing.

As the chart below shows, three major areas of program spending make up the majority of the budget:

- **Health insurance:** Four health insurance programs — Medicare, Medicaid, the Children's Health Insurance Program (CHIP), and Affordable Care Act (ACA) marketplace health insurance subsidies — together accounted for 24 percent of the budget in 2023, or \$1.6 trillion. Roughly half of this amount, or \$848 billion, went to Medicare, which in March 2023 provided health coverage to around 65.7 million people who are age 65 or older or have disabilities. The rest of this amount funded the federal costs of Medicaid and CHIP (\$633 billion) and ACA subsidy and marketplace costs (\$91 billion). Both Medicaid and CHIP require states to pay some of their total costs.

In March 2023, Medicaid and CHIP provided health coverage or long-term care to 93.9 million low-income children, parents, older adults, and people with disabilities. That was significantly higher than the 70.9 million enrollees before the pandemic because of temporary pandemic-related coverage protection, which expired in April 2023. With its expiration, enrollment dropped to 82.8 million by March 2024 and is likely to fall further, though projections are highly uncertain.

In February 2023, 14.3 million of the 15.7 million people enrolled in health insurance through ACA marketplaces received subsidies that lowered their premiums and out-of-pocket costs. Additionally, 20.8 million people opted for ACA marketplace coverage during the 2024 open enrollment period, a significant increase over enrollment in 2023.

- **Social Security:** In 2023, 21 percent of the budget, or \$1.4 trillion, was spent on Social Security, which provided monthly retirement benefits in March 2023 averaging \$1,833 to 49.1 million retired workers. Social Security also provided benefits to 2.7 million spouses and children of retired workers, 5.9 million surviving children and spouses of deceased workers, and 8.7 million disabled workers and their eligible dependents.

Policy Basics is a series of brief background reports on issues related to budgets, taxes, and government assistance programs.

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- **Defense:** Another 13 percent of the budget, or \$820 billion, was spent on national defense activities. About 95 percent of the spending in this category reflects the underlying costs of the Defense Department, largely for operations and maintenance; military personnel; procurement of weapons; and research, development, testing, and evaluation.

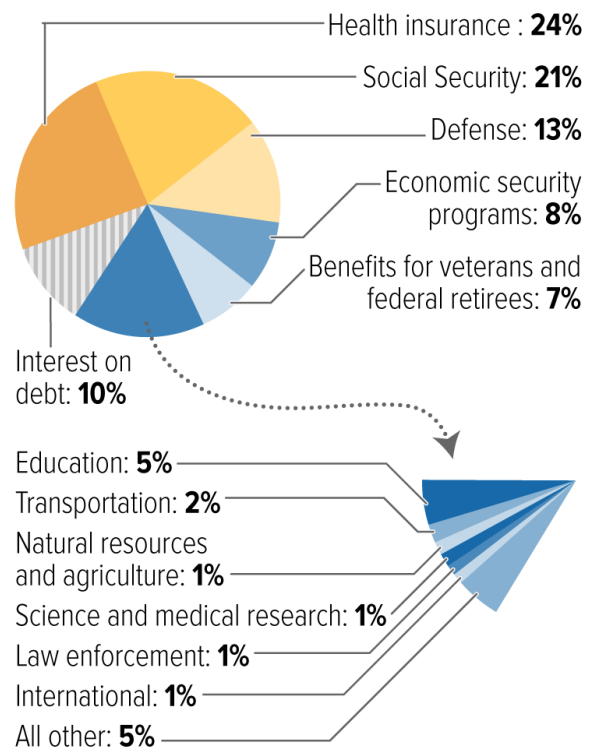
Three other categories together account for the remaining program spending:

- **Economic security programs:** About 8 percent (or \$545 billion) of the 2023 federal budget supported programs that provide aid (other than health insurance or Social Security benefits) to individuals and families facing hardship. Economic security programs include: the refundable portions of the Earned Income Tax Credit and Child Tax Credit, which assist low- and moderate-income working families; programs that provide cash payments to eligible individuals or households, including unemployment insurance and Supplemental Security Income for low-income people who are over age 65 or disabled; various forms of in-kind assistance for low-income people, including the Supplemental Nutrition Assistance Program (formerly known as food stamps), school meals, low-income housing assistance, child care assistance, and help meeting home energy bills; and other programs such as aid for abused or neglected children.

Economic security programs keep millions of people above the poverty line each year. They also reduce, but do not eliminate, racial and ethnic differences in poverty rates.

- **Benefits for veterans and federal retirees:** In 2023, about 7 percent (or \$481 billion) of the budget provided benefits to veterans and former career employees of the federal government, both civilian and military. About nine-tenths of the benefits available to all veterans are either disability payments or medical care, which is often specialized to deal with the unusual conditions that military service may impose. In March 2023 there were more than 18 million veterans of U.S. military service, of whom 2.2 million were retired career military who have earned monthly retiree pensions or survivor benefits. There were also 2.7 million federal civil service retirees.

The Majority of the Budget Goes For Health, Social Security, and Defense



Note: Figures differ from OMB's for technical reasons related to the shifting status of the Administration's 2022 student loan forgiveness policy and its effect in 2023. Percentages do not add to 100 due to rounding.

Source: 2023 figures from the Office of Management and Budget, March 11, 2024

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- **All other program spending:** As the chart above shows, the remaining federal program spending — the dark blue slice of the pie — supports a variety of other public services. They include investing in education; investing in basic infrastructure such as roads, bridges, and airports; maintaining natural resources, farms, and the environment; investing in scientific and medical research; enforcing the nation’s laws to promote justice; and other basic duties of the federal government. A very small slice — 1 percent of the budget — goes to programs that operate internationally, including humanitarian aid and the operation of U.S. embassies and consulates.

In addition to program spending, the federal government makes regular interest payments on the money it has borrowed to finance past and current deficits. The net federal debt reached \$23.7 trillion by the end of fiscal year 2023 and led to \$658 billion in interest payments in 2023, or 10 percent of the budget. Interest costs reflect debt accumulated over the nation’s history — that is, the net impact of deficits and surpluses since 1789 — and therefore result from both revenue levels and program costs, past and present.

While critics often decry “government spending” in the abstract, it is important to determine whether the actual public services and investments that government programs provide are valuable. Federal revenue is used to pay for these services and investments. Consequently, when thinking about the costs that taxes impose, those costs should be weighed against the benefits the nation receives from the expenditure of those funds.

Appendix

This backgrounder discusses total federal spending and thus does not distinguish between programs financed by general revenue and those financed by dedicated revenue (for example, the payroll taxes that support Social Security). For more information, see [Policy Basics: Federal Payroll Taxes](#).

Our figures for fiscal year 2023 are derived from a database of account-level expenditures accompanying the President’s budget, released by the Office of Management and Budget on March 11, 2024. (Fiscal year 2023 ran from October 1, 2022 to September 30, 2023.)

The broad expenditure categories presented in this paper are constructed from official classifications commonly used by budget agencies. The categories consist of related programs and activities in different functions and subfunctions, as described below.

Health insurance:

This category consists of the Medicare function (570), including benefits, administrative costs, and premiums, as well as the “Grants to States for Medicaid” account, the “Children’s health insurance fund” account, the ACA’s “Refundable Premium Tax Credit and Cost Sharing Reductions” account, and the ACA’s “Risk Adjustment Program Payments” account (all in function 550).

Social Security:

This category consists of all expenditures in the Social Security function (650), including both benefits and administrative costs.

Defense:

This category is the national defense function (050).

Economic security programs:

This category includes all programs in the income security function (600) except those in the following two subfunctions: federal employees’ retirement and disability (602) and general retirement and disability insurance (601). The latter contains the Pension Benefit Guarantee Corporation and covers programs that provide pension and disability benefits to certain small groups of private sector workers.

Benefits for veterans and federal retirees:

This category combines the veterans’ benefits and services function (700) and the federal employee retirement and disability subfunction (602), which is part of the income security function.

Interest on debt:

This category consists of the net interest function (900).

Remaining program areas:

This category includes all federal expenditures not included in one of the six categories defined above. The subcomponents of this category that are displayed in the chart are defined as follows:

Policy Basics – Where Do Our Federal Tax Dollars Go?

- **Education:** This subcategory combines three subfunctions of the education, training, employment, and social services function: elementary, secondary, and vocational education; higher education; and research and general educational aids (subfunctions 501, 502, and 503, respectively).
- **Transportation:** This subcategory consists of the entire transportation function (400).
- **Natural resources and agriculture:** This subcategory consists of the natural resources and environment function (300) and the agriculture function (350).
- **Science and medical research:** This subcategory consists of the general science, space, and technology function (250) and the health research and training subfunction (552).
- **Law enforcement:** This subcategory consists of the administration of justice function (750).
- **International:** This subcategory consists of the international affairs function (150).
- **All other:** This subcategory consists of all other federal expenditures.

Updated July 2024

For more information on the federal budget and tax revenue, see:

Policy Basics: Where Do Federal Tax Revenues Come From?

<https://www.cbpp.org/research/policy-basics-where-do-federal-tax-revenues-come-from>

Policy Basics: Deficits, Debt, and Interest

<https://www.cbpp.org/research/federal-budget/policy-basics-deficits-debt-and-interest>

Policy Basics: Introduction to the Federal Budget Process

<https://www.cbpp.org/research/policy-basics-introduction-to-the-federal-budget-process>