

## Where Do Our Federal Tax Dollars Go?

The federal government collects taxes to finance various public services. As policymakers and citizens weigh key decisions about revenues and expenditures, it is instructive to examine what the government does with [the money it collects](#).

In fiscal year 2016, the federal government spent \$3.9 trillion, amounting to 21 percent of the nation's gross domestic product (GDP). Of that \$3.9 trillion, over \$3.3 trillion was financed by federal revenues. The remaining amount (\$585 billion) was financed by borrowing. As the chart below shows, three major areas of spending each make up about one-fifth of the budget:

- **Social Security:** Last year, 24 percent of the budget, or \$916 billion, paid for Social Security, which provided monthly retirement benefits averaging \$1,360 to 41 million retired workers in December 2016. Social Security also provided benefits to 3 million spouses and children of retired workers, 6 million surviving children and spouses of deceased workers, and 10.6 million disabled workers and their eligible dependents in December 2016.
- **Medicare, Medicaid, CHIP, and marketplace subsidies:** Four health insurance programs — Medicare, Medicaid, the Children's Health Insurance Program (CHIP), and Affordable Care Act (ACA) marketplace subsidies — together accounted for 26 percent of the budget in 2016, or \$1 trillion. Nearly three-fifths of this amount, or \$594 billion, went to Medicare, which provides health coverage to around 57 million people who are over age 65 or have disabilities. The rest of this category funds Medicaid, CHIP, and ACA subsidy and exchange costs. In a typical month, Medicaid and CHIP provide health care or long-term care to about 74 million low-income children, parents, elderly people, and people with disabilities. (Both Medicaid and CHIP require matching payments from the states.) In 2016, 9 million of the 11 million people enrolled in health insurance exchanges received ACA subsidies, at an estimated cost of about \$31 billion.
- **Defense and international security assistance:** Another 16 percent of the budget, or \$605 billion, paid for defense and security-related international activities. The bulk of the spending in this category reflects the underlying costs of the Defense Department. The total also includes the cost of supporting operations in Afghanistan and other related activities, described as Overseas Contingency Operations in the budget, funding for which totaled \$74 billion in 2016.

Two other categories together account for another fifth of spending:

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- **Safety net programs:** About 9 percent of the federal budget in 2016, or \$366 billion, supported programs that provide aid (other than health insurance or Social Security benefits) to individuals and families facing hardship. Spending on safety net programs increased by only \$4 billion between 2015 and 2016, and declined as a share of the budget, as the economy continued to improve.

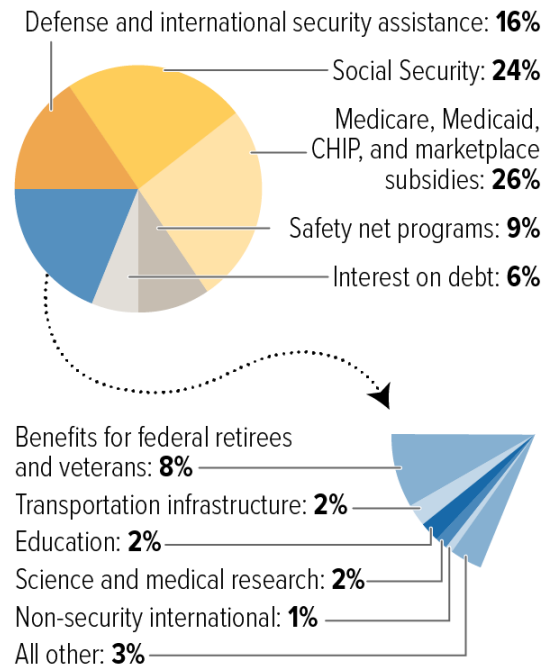
Safety net programs include: the refundable portions of the Earned Income Tax Credit and Child Tax Credit, which assist low- and moderate-income working families; programs that provide cash payments to eligible individuals or households, including Supplemental Security Income for the elderly or disabled poor and unemployment insurance; various forms of in-kind assistance for low-income people, including SNAP (food stamps), school meals, low-income housing assistance, child care assistance, and help meeting home energy bills; and various other programs such as those that aid abused and neglected children.

Such programs keep millions of people out of poverty each year. A [CBPP analysis](#) using Census' Supplemental Poverty Measure shows that government safety net programs kept some 36 million people out of poverty in calendar year 2016. Without any government income assistance, either from safety net programs or other income supports like Social Security, the poverty rate would have been 25.3 percent in 2016, nearly double the actual 14.0 percent. And these programs reduced the depth of poverty for millions more, even when not bringing them above the poverty line.

- **Interest on debt:** The federal government must make regular interest payments on the money it borrowed to finance past deficits – that is, on the federal debt held by the public, which reached \$14 trillion by the end of fiscal year 2016. In 2016, these interest payments claimed \$240 billion, or about 6 percent of the budget.

As the chart shows, the remaining fifth of federal spending supports a variety of other public services. These include providing health care and other benefits to veterans and retirement benefits to retired federal employees, ensuring safe food and drugs, protecting the environment, and investing in education, scientific and medical research, and basic infrastructure such as roads, bridges, and airports. A very small slice – less than 1 percent of the budget – goes to non-security programs that operate internationally, including programs providing humanitarian aid.

### Most of Budget Goes Toward Defense, Social Security, and Major Health Programs



Source: 2016 figures from Office of Management and Budget, FY 2018 Historical Tables

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## Policy Basics – Where Do Our Federal Tax Dollars Go

While critics often decry “government spending,” it is important to look beyond the rhetoric and determine whether the actual public services that government provides are valuable. To the extent that such services are worth paying for, the only way to do so is ultimately with tax revenue. Consequently, when thinking about the costs that taxes impose, it is essential to balance those costs against the benefits the nation receives from public services.

### Appendix

Because we discuss total federal spending, we do not distinguish programs financed by general revenues from those financed by dedicated revenues (e.g., Social Security). For more information, see [Policy Basics: Federal Payroll Taxes](#).

We based our estimates of spending in fiscal year 2016 on the most recent historical data released by the Office of Management and Budget. (Federal fiscal year 2016 ran from October 1, 2015, to September 30, 2016.)

The broad expenditure categories presented in this paper were constructed on the basis of classifications commonly used by budget agencies. The categories are constructed by grouping related programs and activities into broad functions, which are further broken down into subfunctions. The details of how the categories used in this paper were constructed from those functions and subfunctions are described below.

#### **Social Security:**

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

#### **Medicare, Medicaid, CHIP, and marketplace subsidies:**

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, and the “Refundable Premium Tax Credit and Cost Sharing Reductions” account (all in function 550).

#### **Defense and international security assistance:**

The largest component of this category is the national defense function (050). In addition, this category includes the international security assistance subfunction (152) of the international affairs function.

#### **Safety net programs:**

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This category includes all programs in the income security function (600) except those that fall 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 also covers programs that provide pension and disability benefits to certain small groups of private-sector workers.

### Interest on debt:

This category contains the net interest function (900).

### Remaining program areas:

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

- **Benefits for federal retirees and veterans:** This subcategory 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).
- **Transportation:** This subcategory consists of the entire transportation function (400).
- **Education:** The education 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).
- **Science and medical research:** This subcategory consists of the general science, space, and technology function (250) and the health research and training subfunction (552).
- **Non-security international:** This subcategory consists of the international affairs function (150) except for international security assistance, which is included with defense, above.
- **All other:** This subcategory consists of all other federal expenditures.

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

[Introduction to the Federal Budget Process](#)

[Where Do Federal Tax Revenues Come From?](#)

[Deficits, Debt, and Interest](#)