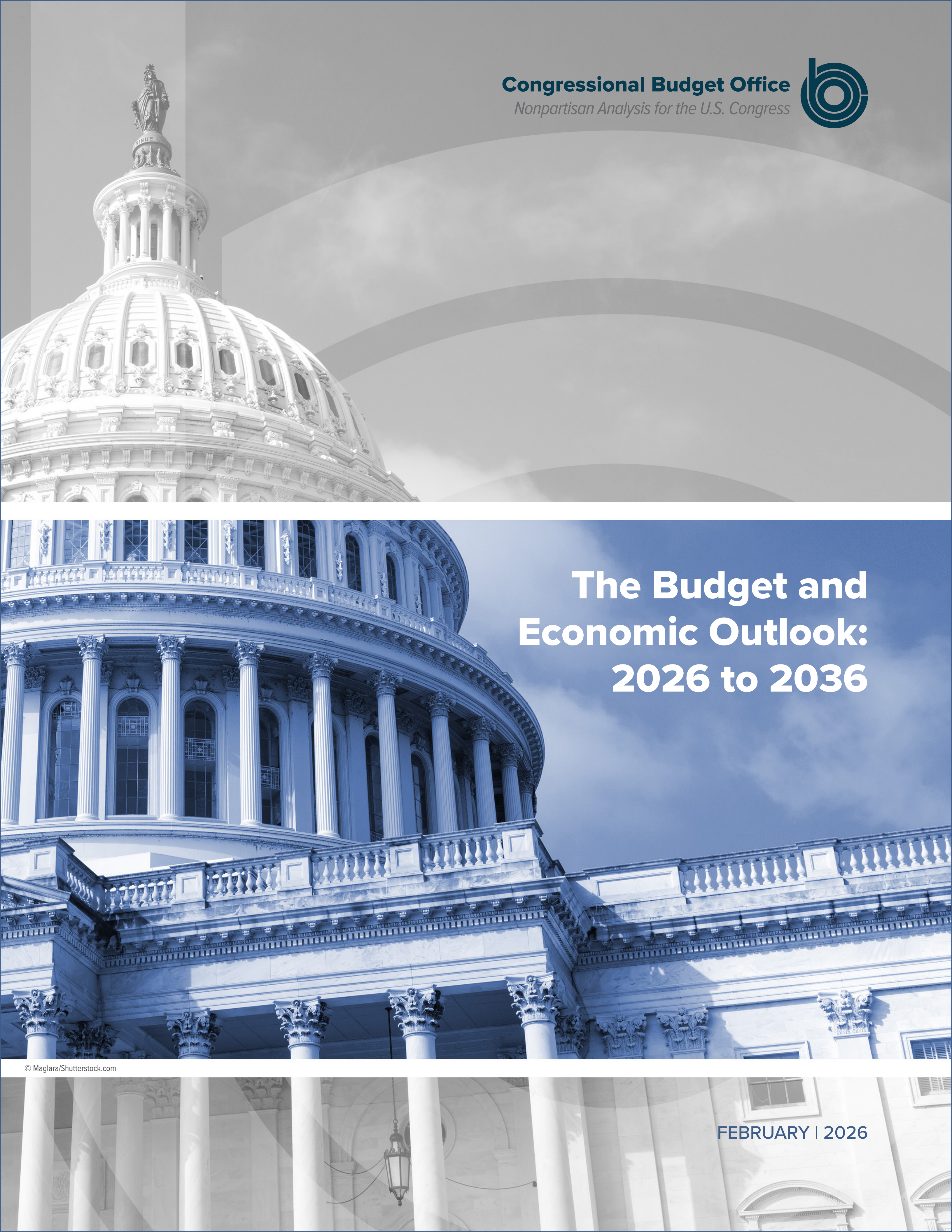
Congressional Budget Office

Nonpartisan Analysis for the U.S. Congress



The Budget and Economic Outlook: 2026 to 2036

FEBRUARY | 2026

Projections at a Glance

The Federal Budget

Deficits are large by historical standards. The deficit totals $1.9 trillion in fiscal year 2026 and grows to $3.1 trillion in 2036. Relative to the size of the economy, the deficit is 5.8 percent of gross domestic product (GDP) in 2026 and increases to 6.7 percent in 2036. Deficits averaged 3.8 percent of GDP over the last 50 years (see Chapter 1).

Debt held by the public rises from 101 percent of GDP in 2026 to 120 percent in 2036, well above the previous record of 106 percent just after World War II.

Outlays are large by historical standards—and growing. They total 23.3 percent of GDP in 2026, exceeding their 50-year average of 21.2 percent. After being adjusted for shifts in the timing of certain payments, outlays remain at about that level through 2028 but then grow steadily, boosted by rising spending on mandatory programs and increasing net interest costs. Outlays in 2036 are 24.4 percent of GDP (see Chapter 3).

Revenues in 2026 total 17.5 percent of GDP, surpassing their 50-year average of 17.3 percent. Revenues stay at or slightly above that 2026 level through 2036, when they total 17.8 percent of GDP. Over the 2026–2036 period, individual income tax receipts and remittances from the Federal Reserve rise as a percentage of GDP; those increases are offset by declining customs duties receipts as imports, as a percentage of GDP, fall in response to tariffs (see Chapter 4).

Changes in CBO's Budget Projections Since January 2025

The deficit for 2026 is $0.1 trillion (or 8 percent) more in CBO's current projections than it was in the agency's January 2025 projections, and the cumulative deficit over the 2026–2035 period is $1.4 trillion (or 6 percent) greater (see Chapter 5). Three major policy developments contribute to those changes: The 2025 reconciliation act (see Appendix A) increased deficits by an estimated $4.7 trillion; higher tariffs reduced deficits by an estimated $3.0 trillion; and administrative actions related to immigration increased deficits by an estimated $0.5 trillion. Those amounts include the effects of related changes in the economy and net interest costs (see Box 5-1).

The U.S. Economy

Output growth strengthens in calendar year 2026 because of provisions in the 2025 reconciliation act and the rebound in economic activity following the lapse in discretionary appropriations last year. That growth moderates in later years (see Chapter 2).

The labor market gradually improves in 2026 as output growth strengthens. Employment growth rebounds as the 2025 reconciliation act's effects increase overall economic activity. The unemployment rate remains steady at 4.6 percent this year and then declines through 2036.

Inflation, as measured by the price index for personal consumption expenditures, slows from 2.8 percent in 2025 to 2.7 percent in 2026. Inflation returns to a rate roughly in line with the Federal Reserve's long-run goal of 2 percent in 2030 and stabilizes thereafter.

Interest rates declined in 2025 as the Federal Reserve cut the federal funds target rate by 0.75 percentage points. That rate is expected to continue to decline this year and to stabilize thereafter. The interest rate on 10-year Treasury notes rises gradually through 2027 and remains relatively stable in later years.

In this report, the budget projections are based on CBO's economic forecast, which reflects trade policy as of November 20, 2025, and economic developments and laws in place as of December 3, 2025. The budget projections also incorporate the effects of laws in place as of January 14, 2026.

Changes in CBO's Economic Projections Since January 2025

Real GDP growth in 2026 is projected to be stronger in the current projections, partly because of the effects of the 2025 reconciliation act. In later years, output growth is generally the same as it was in CBO's January 2025 projections, reflecting factors that both increase and decrease economic activity. Nominal GDP from 2026 to 2035 and inflation from 2026 to 2029 are now expected to be higher than previously projected. The forecast of short-term interest rates is generally the same as it was last January.

By the Numbers

The Budget Outlook, by Fiscal Year

	Percentage of GDP					Billions of dollars			
	Average, 1976–2025	Actual, 2025	2026	2027	2036	Actual, 2025	2026	2027	2036
Revenues	**17.3**	**17.2**	**17.5**	**17.7**	**17.8**	**5,235**	**5,596**	**5,885**	**8,301**
Individual income taxes	8.0	8.7	8.6	8.8	9.1	2,656	2,751	2,947	4,249
Payroll taxes	6.0	5.8	5.7	5.7	5.7	1,748	1,826	1,897	2,666
Corporate income taxes	1.7	1.5	1.3	1.3	1.2	452	404	419	576
Customs duties	0.2	0.6	1.3	1.3	0.9	195	418	421	402
Other	1.2	0.6	0.6	0.6	0.9	183	197	201	408
Outlays	**21.2**	**23.1**	**23.3**	**23.3**	**24.4**	**7,010**	**7,449**	**7,772**	**11,416**
Mandatory	11.2	13.7	14.2	14.4	15.0	4,168	4,529	4,783	7,028
Social Security	4.5	5.2	5.2	5.3	5.9	1,575	1,666	1,769	2,747
Major health care programs	3.5	6.0	6.0	6.0	6.7	1,819	1,908	1,985	3,115
Medicare	2.2	3.3	3.3	3.4	4.2	988	1,063	1,140	1,970
Medicaid, CHIP, and marketplace subsidies	1.4	2.7	2.6	2.5	2.5	832	845	845	1,145
Other mandatory	3.2	2.5	3.0	3.1	2.5	773	955	1,029	1,166
Discretionary	7.8	6.2	5.9	5.6	4.8	1,872	1,880	1,882	2,244
Defense	4.1	2.9	2.8	2.7	2.4	893	885	901	1,100
Nondefense	3.7	3.2	3.1	2.9	2.4	980	996	981	1,144
Net interest	2.1	3.2	3.3	3.3	4.6	970	1,039	1,108	2,144
Total deficit (-)	**-3.8**	**-5.8**	**-5.8**	**-5.7**	**-6.7**	**-1,775**	**-1,853**	**-1,887**	**-3,115**
Primary deficit (-)	-1.7	-2.7	-2.6	-2.3	-2.1	-805	-814	-779	-971
Debt held by the public	51.2	99.4	100.6	102.1	120.2	30,172	32,095	34,005	56,152

See Chapter 1. Primary deficits exclude net outlays for interest. CHIP = Children's Health Insurance Program.

The Economic Outlook, by Calendar Year

					Annual average	
	Estimated, 2025	2026	2027	2028	2029–2030	2031–2036
			Change from fourth quarter to fourth quarter (percent)			
Real (inflation-adjusted) GDP	1.9	2.2	1.8	1.8	1.8	1.8
Inflation						
PCE price index	2.8	2.7	2.3	2.1	2.0	2.0
Consumer price index	3.0	2.8	2.4	2.3	2.3	2.3
Payroll employment (average monthly change, in thousands)	70	105	31	42	43	45
			Annual average (percent)			
Unemployment rate	4.3	4.6	4.5	4.5	4.3	4.2
Interest rates						
Effective federal funds rate	4.2	3.5	3.4	3.4	3.4	3.4
3-month Treasury bills	4.1	3.3	3.2	3.2	3.2	3.1
10-year Treasury notes	4.3	4.1	4.3	4.3	4.3	4.4
Tax bases (percentage of GDP)						
Wages and salaries	42.3	42.0	42.0	42.1	42.1	42.1
Domestic corporate profits	11.3	11.1	10.8	10.4	10.0	10.0

See Chapter 2 and Appendix D. Payroll employment and interest rates show actual values for 2025. PCE = personal consumption expenditures.

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Notes About This Report

The budget projections in this report include the effects of all legislation that passed both Houses of Congress as of January 14, 2026. Those projections include the effects of the Ending Improper Payments to Deceased People Act (S. 269) and the Bankruptcy Administration Improvement Act of 2025 (S. 3424) but not the effects of the Commerce, Justice, Science; Energy and Water Development; and Interior and Environment Appropriations Act, 2026 (Public Law 119-74), which did not pass the Senate until January 15, 2026. Also not included is the Consolidated Appropriations Act, 2026 (P.L. 119-75), which did not pass the House until February 3, 2026. The budget projections are based on the Congressional Budget Office's current economic projections. Those economic projections reflect trade policy as of November 20, 2025; the agency's latest demographic projections, which are based on laws and policies in place as of September 30, 2025; and economic developments and laws in place as of December 3, 2025. CBO's economic projections are available on its website (www.cbo.gov/recurring-data/51135).

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

When October 1 falls on a weekend, certain monthly payments that the government would ordinarily have made on that day are instead made at the end of September and thus are shifted into the previous fiscal year. Consequently, the number of payments in the fiscal year that begins on a weekend decreases, and the number in the previous year increases. Those shifts in the timing of payments affect outlays and deficits (or surpluses) and thus are reflected in the agency's baseline budget projections (for example, see Table 1-1 and see Table 5-1). But timing shifts can complicate comparisons of annual outlays and deficits and distort certain budgetary trends, so CBO also presents adjusted baseline projections that treat the payments as if they were not subject to the shifts (for example, see Table 1-2 and see Table 3-2).

Unless this report indicates otherwise, historical data presented in the text, tables, and figures describing the economic forecast reflect data available from the Bureau of Economic Analysis and other sources in late January 2026. Those data contain updated values for the third quarter of 2025 and the last three months of 2025, which were not available when CBO developed its current projections. In addition, some data for October 2025, such as data on the consumer price index and the unemployment rate, were not collected because of the government shutdown. For variables with missing values for October 2025, the text, tables, and figures reflect CBO's estimates of those values for the fourth quarter of 2025.

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

Some of the figures in this report use shaded vertical bars to indicate recessions, which begin just after a peak in economic activity and run through the subsequent trough.

Supplemental data for this analysis are available on CBO's website (www.cbo.gov/publication/61882#data), along with a guide that explains the differences between common budgetary terms (www.cbo.gov/publication/57420), descriptions of how CBO develops its baseline budget projections (www.cbo.gov/publication/58916) and its economic forecast (www.cbo.gov/publication/53537), and previous editions of this report (www.cbo.gov/recurring-publication/55126).

Executive Summary

The Congressional Budget Office regularly publishes reports presenting its baseline projections of what the federal budget and the economy would look like in the current year and over the next 10 years if laws governing taxes and spending generally remained unchanged. This report is the latest in that series. The budget projections are based on CBO's economic forecast, which reflects trade policy as of November 20, 2025, and economic developments and laws in place as of December 3, 2025. The budget projections also incorporate the effects of laws in place as of January 14, 2026. (CBO's projections do not include the effects of appropriation acts passed by the House and Senate after January 14, 2026.)

The Budget Outlook

Deficits

In CBO's projections, the federal budget deficit in fiscal year 2026 is $1.9 trillion and grows to $3.1 trillion by 2036. Relative to the size of the economy, the deficit is 5.8 percent of gross domestic product (GDP) in 2026 and grows to 6.7 percent in 2036, which is greater than the 3.8 percent deficits averaged over the past 50 years. Rising net interest costs drive much of that increase. The primary deficit, which excludes those net interest costs, totals 2.6 percent of GDP this year and stays below that level through 2036, when it totals 2.1 percent.

Debt

From 2026 to 2036, large and growing deficits cause debt to increase. Federal debt held by the public rises from 101 percent of GDP this year to 120 percent in 2036, surpassing its previous high of 106 percent of GDP in 1946.

Outlays and Revenues

In CBO's projections, federal outlays in 2026 total $7.4 trillion, or 23.3 percent of GDP. Relative to the size of the economy, outlays remain near their 2026 level through 2028 and then rise, reaching 24.4 percent of GDP in 2036; that trend is a result of greater spending on Social Security and Medicare and growth in net interest costs that are partly offset by declining outlays for discretionary programs. Revenues total $5.6 trillion, or 17.5 percent of GDP, in 2026. Over the 2026–2036 period, increasing individual income tax receipts and remittances from the Federal Reserve are partly offset by declining customs duties measured in relation to the size of the economy. In 2036, revenues total 17.8 percent of GDP, slightly above their 50-year average of 17.3 percent.

Changes in CBO's Budget Projections

The deficit for 2026 is $0.1 trillion (or 8 percent) more in CBO's current projections than it was in the agency's January 2025 projections, and the cumulative deficit over the 2026–2035 period is $1.4 trillion (or 6 percent) greater. The 2025 reconciliation act (Public Law 119-21) and administrative actions related to immigration increased CBO's projections of deficits by $4.7 trillion and $0.5 trillion, respectively, after changes in the economy and related debt-service costs are accounted for. By contrast, higher tariffs reduced deficits by $3.0 trillion (including the effects of related changes in the economy and net interest payments).

Projections for **2026**

Budget deficit:
$1.9 trillion

Debt held by the public:
101% of GDP

Outlays:
$7.4 trillion

Revenues:
$5.6 trillion

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

The Budget Outlook, by Fiscal Year

	Percentage of GDP					Billions of dollars			
	Average, 1976–2025	Actual, 2025	2026	2027	2036	Actual, 2025	2026	2027	2036
Revenues	**17.3**	**17.2**	**17.5**	**17.7**	**17.8**	**5,235**	**5,596**	**5,885**	**8,301**
Individual income taxes	8.0	8.7	8.6	8.8	9.1	2,656	2,751	2,947	4,249
Payroll taxes	6.0	5.8	5.7	5.7	5.7	1,748	1,826	1,897	2,666
Corporate income taxes	1.7	1.5	1.3	1.3	1.2	452	404	419	576
Customs duties	0.2	0.6	1.3	1.3	0.9	195	418	421	402
Other	1.2	0.6	0.6	0.6	0.9	183	197	201	408
Outlays	**21.2**	**23.1**	**23.3**	**23.3**	**24.4**	**7,010**	**7,449**	**7,772**	**11,416**
Mandatory	11.2	13.7	14.2	14.4	15.0	4,168	4,529	4,783	7,028
Social Security	4.5	5.2	5.2	5.3	5.9	1,575	1,666	1,769	2,747
Major health care programs	3.5	6.0	6.0	6.0	6.7	1,819	1,908	1,985	3,115
Medicare	2.2	3.3	3.3	3.4	4.2	988	1,063	1,140	1,970
Medicaid, CHIP, and marketplace subsidies	1.4	2.7	2.6	2.5	2.5	832	845	845	1,145
Other mandatory	3.2	2.5	3.0	3.1	2.5	773	955	1,029	1,166
Discretionary	7.8	6.2	5.9	5.6	4.8	1,872	1,880	1,882	2,244
Defense	4.1	2.9	2.8	2.7	2.4	893	885	901	1,100
Nondefense	3.7	3.2	3.1	2.9	2.4	980	996	981	1,144
Net interest	2.1	3.2	3.3	3.3	4.6	970	1,039	1,108	2,144
Total deficit (-)	**-3.8**	**-5.8**	**-5.8**	**-5.7**	**-6.7**	**-1,775**	**-1,853**	**-1,887**	**-3,115**
Primary deficit (-)	-1.7	-2.7	-2.6	-2.3	-2.1	-805	-814	-779	-971
Debt held by the public	51.2	99.4	100.6	102.1	120.2	30,172	32,095	34,005	56,152

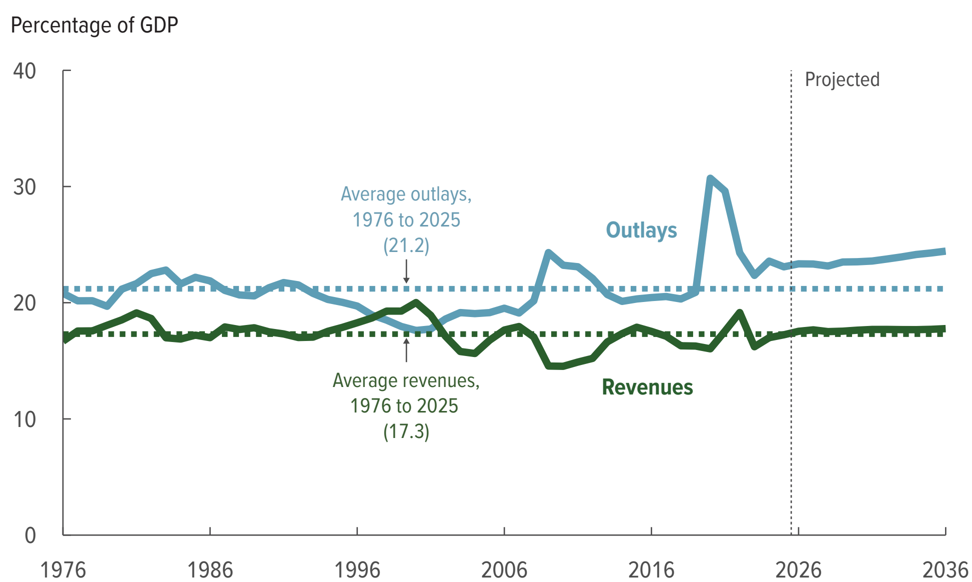
See Chapter 1. Primary deficits exclude net outlays for interest. CHIP = Children's Health Insurance Program.

The Budget Outlook in Six Figures

Total Outlays and Revenues

Measured as a percentage of GDP, federal outlays exceed their 50-year average by a widening margin from 2026 to 2036 in CBO's projections. Revenues rise just above their 50-year average in 2026 and remain slightly above that historical average throughout the 10-year period.

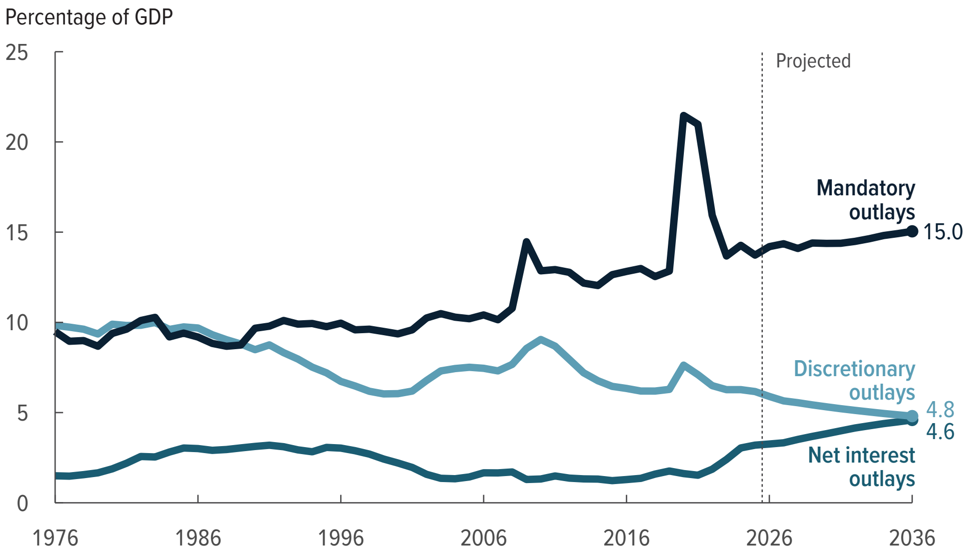
See Figure 1-2 on page 15.



Outlays, by Category

In CBO's projections, greater spending on Social Security and Medicare causes mandatory outlays to increase in relation to GDP. Discretionary outlays fall in relation to GDP because GDP growth outpaces the growth of discretionary funding. Net outlays for interest increase as longer-term interest rates rise and debt mounts.

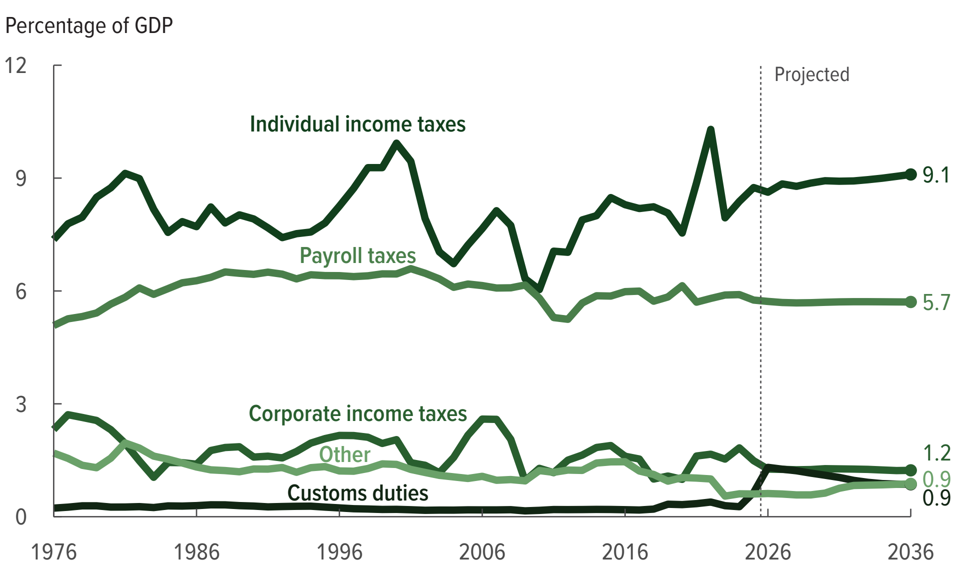
See Figure 3-1 on page 62.



Revenues, by Category

Revenues over the 2026–2036 period reflect stable receipts from payroll taxes and corporate income taxes and variation in receipts from all other sources. As a share of GDP, receipts from individual income taxes rise, whereas receipts from customs duties decline.

See Figure 4-2 on page 89.



Outlook for **Outlays and Revenues**

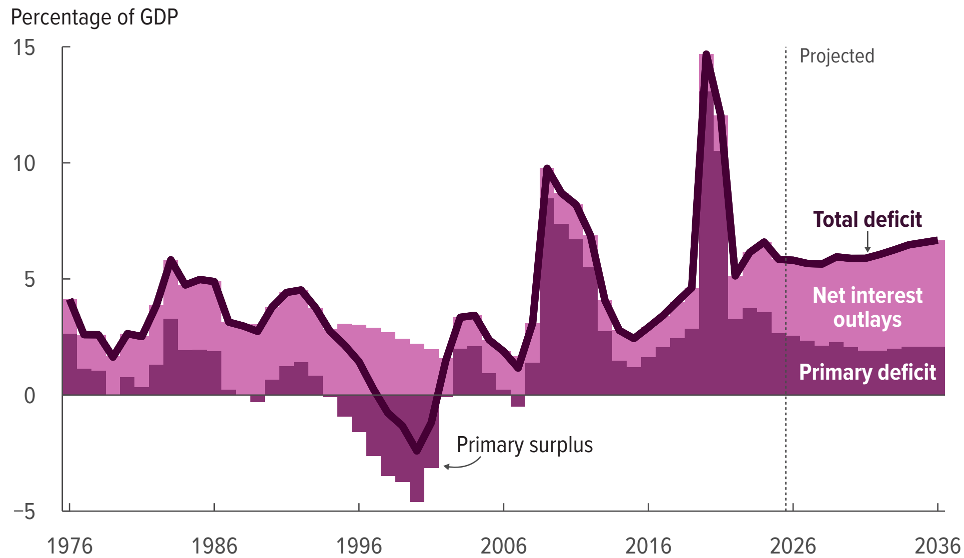
Increases in spending for Social Security and Medicare and rising net interest costs push outlays to **$11.4** trillion, or **24.4%** of GDP, in 2036.

Revenues in 2036 total **$8.3** trillion, or **17.8%** of GDP, up from **17.5%** in 2026.

Total Deficits, Net Outlays for Interest, and Primary Deficits

In CBO's projections, the total deficit—the amount by which outlays exceed revenues—grows from 5.8 percent of GDP in 2026 to 6.7 percent in 2036. The primary deficit declines over the same period, from 2.6 percent of GDP in 2026 to 2.1 percent in 2036, while net interest payments grow from 3.3 percent of GDP to 4.6 percent.

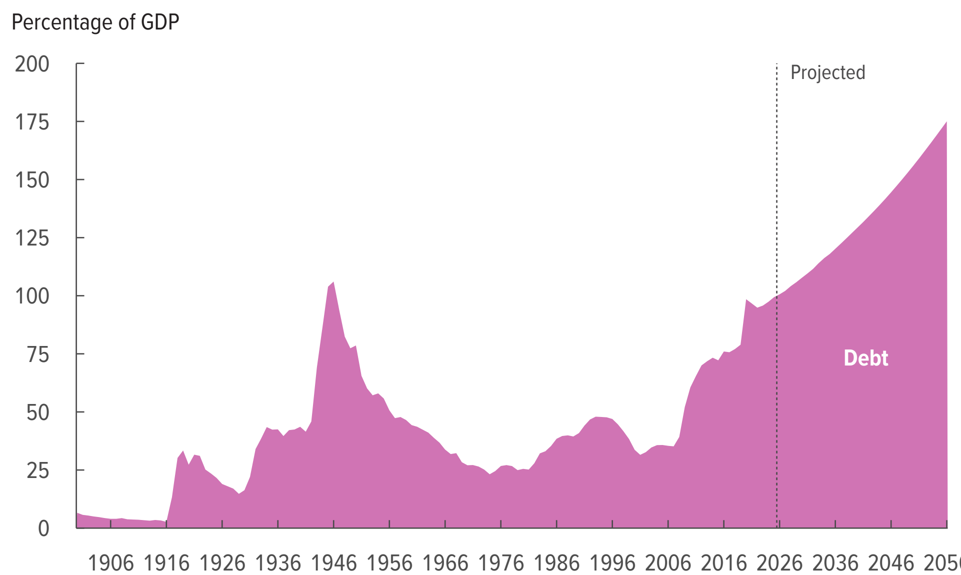
See Figure 1-1 on page 10.



Federal Debt Held by the Public

Debt held by the public rises each year of the projection period, from 101 percent of GDP this year to 120 percent in 2036—higher than at any point in the nation's history. Over the following two decades, growing deficits push federal debt to 175 percent of GDP.

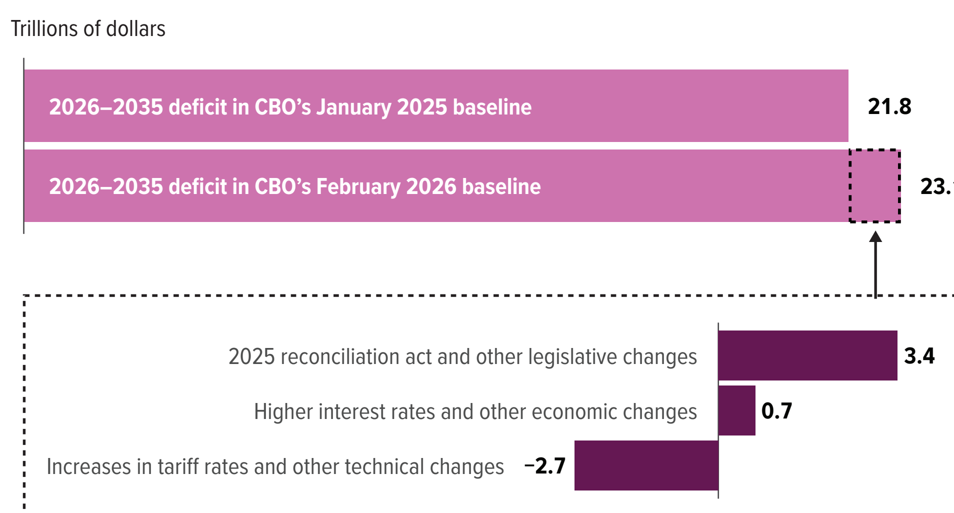
See Figure 1-8 on page 23.



Changes in CBO's Baseline Projections of the 10-Year Deficit Since January 2025

Deficits from 2026 to 2035 are projected to total $23.1 trillion, $1.4 trillion more than CBO projected in January 2025. Most of that increase is attributable to the projected effects of the 2025 reconciliation act, partly offset by projected revenue increases from higher tariff rates.

See Figure 5-1 on page 100.



The Economic Outlook

Output Growth and the Labor Market

In CBO's projections, the 2025 reconciliation act and the rebound in economic activity following last fall's lapse in discretionary appropriations boost output growth in calendar year 2026, but that growth is partially offset by the effects of last year's increases in tariffs and increased immigration enforcement. Growth of real GDP (that is, GDP adjusted to remove the effects of changes in prices) moderates in later years of the projection period, reflecting various offsetting factors, including faster productivity growth as generative artificial intelligence (AI) is more widely adopted and continued slow growth of the labor supply as the population ages.

Employment growth is projected to rebound from its 2025 dip with the pickup in overall economic activity. The unemployment rate reaches 4.6 percent in 2026 and then declines to 4.2 percent in 2032.

Inflation and Interest Rates

The overall growth of prices slows slightly in 2026. Inflation as measured by growth in the price index for personal consumption expenditures (PCE) softens in 2026 as the effects of higher tariffs on inflation continue to wane. Inflation returns to a rate roughly in line with the Federal Reserve's long-run goal of 2 percent in 2030 and stabilizes thereafter.

In CBO's projections, the Federal Reserve reduces the federal funds rate (the rate financial institutions charge each other for overnight loans) in 2026 to address downside risks to the labor market. Longer-term interest rates, such as the rate on 10-year Treasury notes, rise gradually in 2027 and remain relatively stable in later years.

Changes in CBO's Economic Projections

Real GDP growth is greater in 2026 in CBO's current projections (partly because of the effects of the 2025 reconciliation act) than it was in the agency's January 2025 projections but is generally the same in later years, reflecting factors that both increase and decrease economic activity. Inflation from 2026 to 2029 is now expected to be higher than the agency projected last year, mostly because of the effects of higher tariffs. As a result of those revisions, nominal GDP from 2026 to 2035 is greater in the current projections than it was in last year's. The forecast for short-term interest rates is generally the same as it was last January, but the current forecast for long-term interest rates is higher.

Outlook for **2026–2036**

The growth of real GDP accelerates this year and slows thereafter. Inflation slows, and the federal funds rate falls.

The Economic Outlook, by Calendar Year

					Annual average	
	Estimated, 2025	2026	2027	2028	2029–2030	2031–2036
	Change from fourth quarter to fourth quarter (percent)					
Real (inflation-adjusted) GDP	1.9	2.2	1.8	1.8	1.8	1.8
Inflation						
PCE price index	2.8	2.7	2.3	2.1	2.0	2.0
Consumer price index	3.0	2.8	2.4	2.3	2.3	2.3
Payroll employment (average monthly change, in thousands)	70	105	31	42	43	45
	Annual average (percent)					
Unemployment rate	4.3	4.6	4.5	4.5	4.3	4.2
Interest rates						
Effective federal funds rate	4.2	3.5	3.4	3.4	3.4	3.4
3-month Treasury bills	4.1	3.3	3.2	3.2	3.2	3.1
10-year Treasury notes	4.3	4.1	4.3	4.3	4.3	4.4
Tax bases (percentage of GDP)						
Wages and salaries	42.3	42.0	42.0	42.1	42.1	42.1
Domestic corporate profits	11.3	11.1	10.8	10.4	10.0	10.0

See Chapter 2 and Appendix D. Payroll employment and interest rates show actual values for 2025. PCE = personal consumption expenditures.

The Economic Outlook in Six Figures

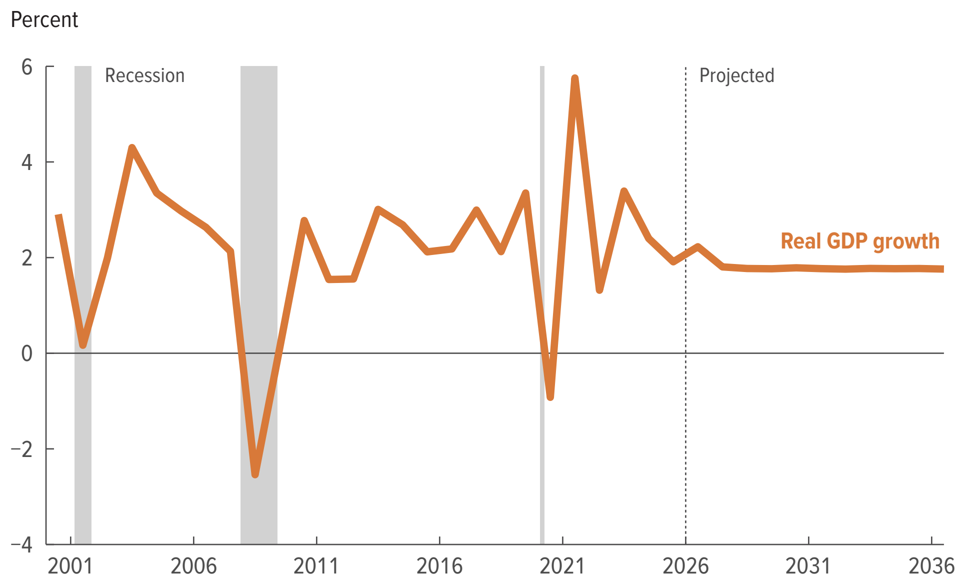
Outlook for **Output Growth**

Real GDP grows by **2.2%** in 2026 and by **1.8%** in 2027.

Growth of Real GDP

The growth of economic output, as measured by the nation's GDP, accelerates in 2026 in CBO's projections as the 2025 reconciliation act boosts consumer spending and private investment and as economic activity continues to rebound following the lapse in discretionary appropriations in late 2025. Economic growth then slows, averaging 1.8 percent per year from 2027 to 2036.

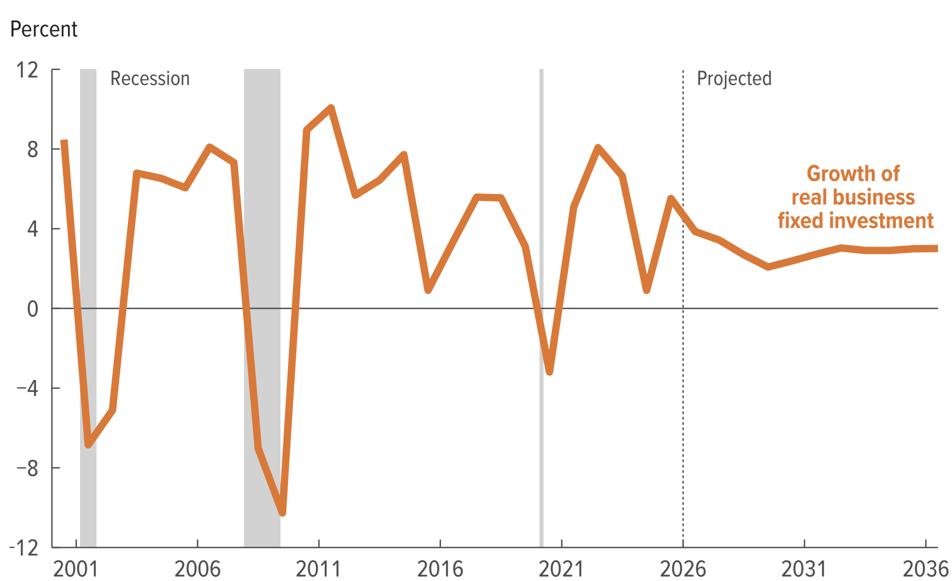
See Figure 2-1 on page 26.



Growth of Business Fixed Investment

In CBO's projections, real business fixed investment, which consists of purchases of new equipment, nonresidential structures, and intellectual property products by private businesses and nonprofit institutions, grows by 3.9 percent in 2026. That growth is driven by investments in generative AI and the investment incentives in the 2025 reconciliation act. Real business fixed investment growth slows in later years.

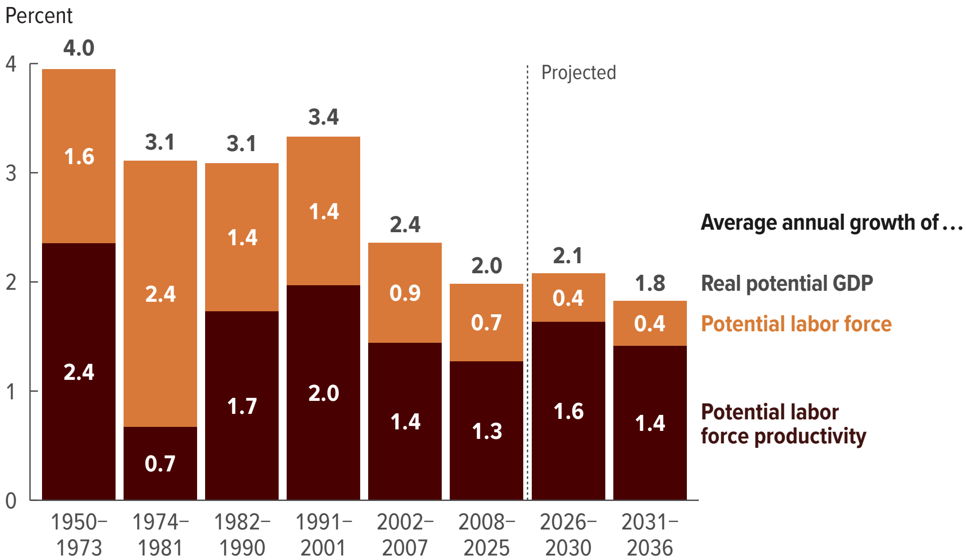
See Figure 2-2 on page 34.



Growth of Real Potential GDP

Real potential GDP (the amount of real GDP that could be produced if labor and capital were employed at their maximum sustainable rates) grows by an average of 2.1 percent per year from 2026 to 2030 and by an average of 1.8 percent per year from 2031 to 2036 in CBO's projections. Growth slows in the second half of the projection period because potential labor force productivity grows more slowly in those years.

See Figure 2-3 on page 38.



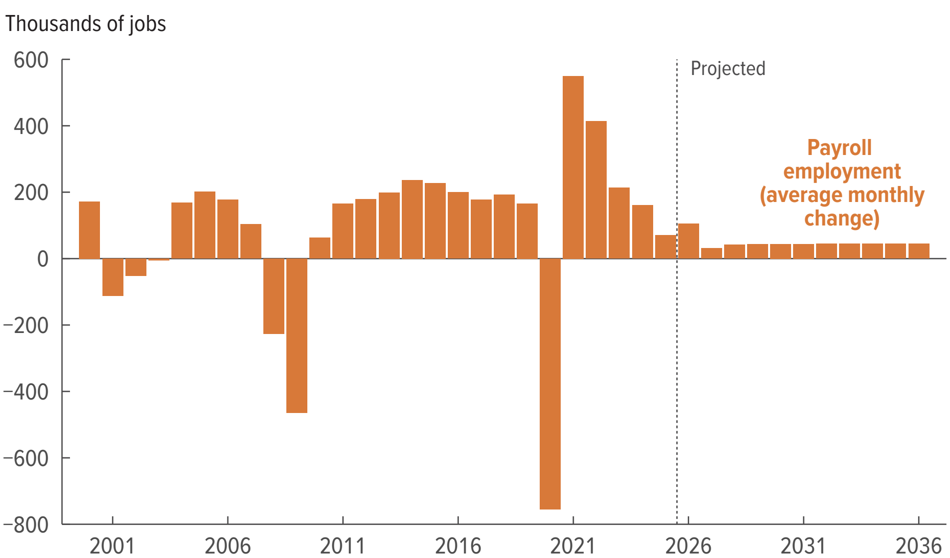
Outlook for **Employment**

From 2028 to 2036, payroll employment grows at an average rate of **44,000** jobs per month, which is slower than its growth in recent years.

Employment

In 2026, employment growth is projected to rebound as overall economic activity increases. In later years, fewer jobs are added to payrolls per month, on average, in CBO's projections, because of the aging population and weaker demand for labor.

See Figure 2-5 on page 41.



Outlook for **Inflation and Interest Rates**

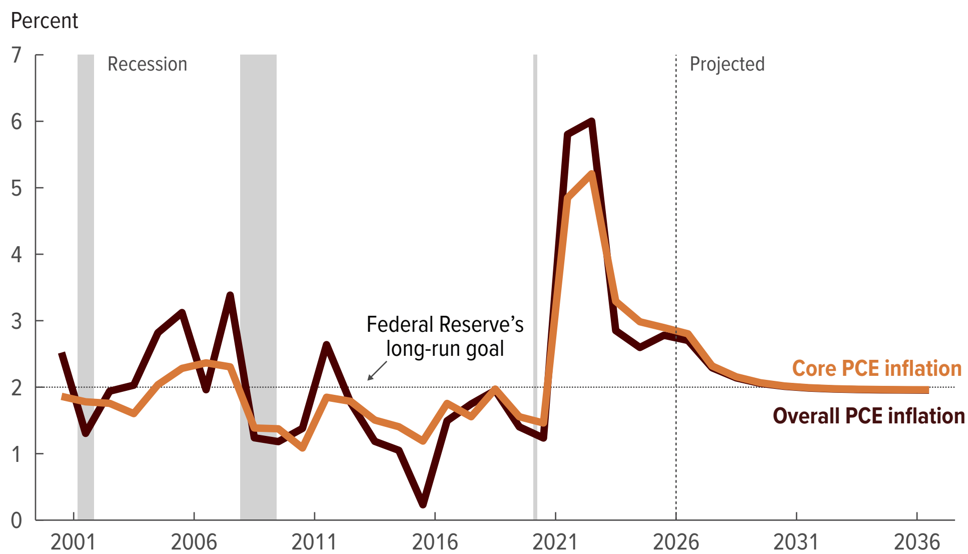
Inflation slows to **2.7%** in 2026 and to **2.0%** in 2030.

Interest rates on 10-year Treasury notes rise from **4.1%** in 2026 to **4.3%** in 2027.

Overall Inflation and Core Inflation

CBO expects overall price growth to slow in 2026 but to remain above the Federal Reserve's 2 percent target rate. In CBO's projections, inflation, as measured by the growth of the PCE price index, decreases from 2.8 percent in 2025 to 2.7 percent in 2026 as the effects of the tariffs imposed last year begin to wane. Inflation then declines gradually, reaching 2.0 percent in 2030 and remaining stable thereafter.

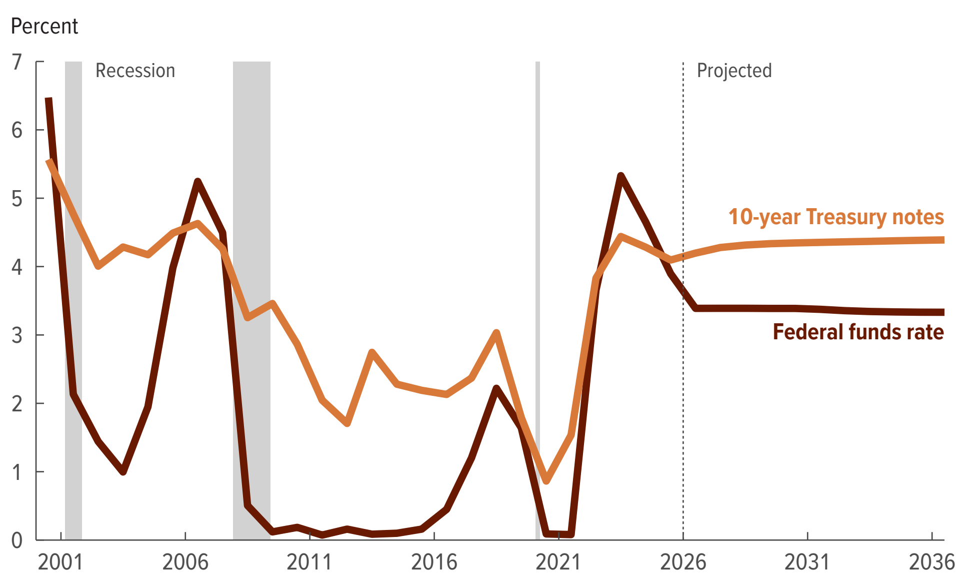
See Figure 2-6 on page 43.



Interest Rates

In CBO's projections, the Federal Reserve continues lowering the federal funds rate, to 3.4 percent in the fourth quarter of 2026. That rate remains steady thereafter. The rate on 10-year Treasury notes rises gradually from 2026 to 2036, reflecting an increase in term premiums (the additional returns that investors require to hold a longer-term bond instead of a series of shorter-term securities).

See Figure 2-7 on page 44.



Chapter 1: The Outlook for Deficits and Debt

Overview

Under the laws in place on January 14, 2026, federal deficits would remain large by historical standards and would increase over the next decade, the Congressional Budget Office projects (see Figure 1-1).[1] As a result of those deficits, federal debt would rise each year through 2036 and would be on track to continue rising over the following two decades.

Large Deficits

In CBO's baseline budget projections, the federal deficit equals $1.9 trillion this year and averages $2.4 trillion per year from 2027 to 2036.[2] The cumulative deficit over that period totals $24.4 trillion (see Table 1-1 on page 12). Deficits also generally increase in relation to the size of the economy, equaling or exceeding 5.6 percent of gross domestic product (GDP) in each year and reaching 6.7 percent of GDP in 2036. Over the 2027–2036 period, deficits average 6.1 percent. By comparison, deficits have averaged 3.8 percent of GDP over the past 50 years.

Growing Debt

The large deficits over the next 10 years would lead to steady growth in federal debt held by the public. Such debt is projected to increase from 101 percent of GDP at the end of 2026 to 108 percent of GDP at the end of 2030, surpassing its previous high of 106 percent in 1946. Federal debt would equal 120 percent of GDP in 2036 and would continue to rise over the following two decades, CBO estimates.

1. CBO's projections do not include the effects of appropriation acts passed by the House and Senate after January 14, 2026.

2. CBO prepares its baseline projections in accordance with provisions set forth in the Balanced Budget and Emergency Deficit Control Act of 1985 (Public Law 99-177) and the Congressional Budget and Impoundment Control Act of 1974 (P.L. 93-344). The baseline projections are not intended to be a forecast of budgetary outcomes; rather, they are meant to provide a benchmark that policymakers can use to assess the potential effects of policy decisions.

Uncertainty of Budgetary Outcomes

CBO's baseline budget projections are subject to considerable uncertainty. They depend on the agency's economic and demographic projections and on many other factors. Future legislative actions, administrative actions, or judicial decisions could lead to markedly different outcomes. Other developments that vary from what CBO projects would cause budgetary outcomes to vary as well. The uncertainty of budgetary outcomes grows as the projections extend into the future because changes in factors that affect the budget become increasingly difficult to anticipate.

Long-Term Budgetary Pressures

From 2037 to 2056, under current law, deficits would continue to grow in relation to the size of the economy. Outlays—particularly for interest on federal debt and Medicare—would grow steadily, and revenues would not keep pace. As a result, debt would rise as a percentage of GDP throughout the period.

Deficits

In CBO's baseline projections, the amount by which the government's outlays exceed its revenues widens from $1.9 trillion in 2026 to $3.1 trillion in 2036. The deficit, which totals 5.8 percent of GDP this year, increases to 6.7 percent of GDP by 2036.

The Deficit in 2026

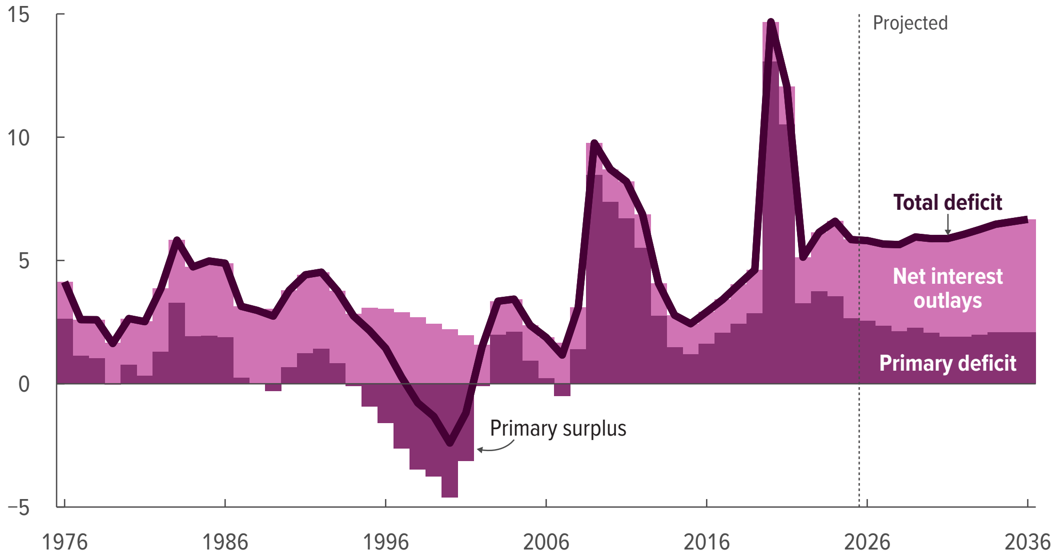
CBO projects that, under current law, the deficit in 2026 would amount to $1.9 trillion, $77 billion more than the shortfall recorded last year.

In the baseline, revenues increase by $361 billion (or 7 percent) in 2026, to $5.6 trillion. Measured in relation to the nation's output, they increase from 17.2 percent of GDP in 2025 to 17.5 percent this year—exceeding their 50-year average of 17.3 percent. Collections of customs duties rise from 0.6 percent of GDP in 2025 to 1.3 percent of GDP in 2026 because of increases in tariffs on a wide range of imports imposed by the Administration

Figure 1-1.

Total Deficits, Net Outlays for Interest, and Primary Deficits

Percentage of GDP



In CBO's projections, the total deficit increases from 5.8 percent of GDP in 2026 to 6.7 percent of GDP in 2036. Net interest payments grow each year in relation to the size of the economy. By contrast, the primary deficit (which excludes those payments) is smaller in 2036 than it is projected to be this year.

Data sources: Congressional Budget Office; Office of Management and Budget. See www.cbo.gov/publication/61882#data.

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

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

Primary deficits or surpluses exclude net outlays for interest.

beginning in February 2025. From 2025 to 2026, receipts from both individual income taxes and corporate income taxes decrease as a share of GDP, dipping from 8.7 percent to 8.6 percent and from 1.5 percent to 1.3 percent, respectively.

Outlays are projected to grow by $439 billion (or 6 percent) this year, to $7.4 trillion. That growth is the result of increases in the three major categories of federal spending:

- Mandatory outlays are projected to rise by $362 billion (or 9 percent) in 2026, to $4.5 trillion.[3] Increases in outlays for Social Security ($91 billion) and Medicare ($75 billion) account for nearly half of that growth. Increases in outlays are also projected for student loan programs ($89 billion), veterans' benefits ($49 billion), and Medicaid ($40 billion).
- Discretionary outlays are projected to rise by $8 billion (or less than 1 percent) this year, to $1.9 trillion.[4] By comparison, discretionary outlays increased by 3.4 percent last year. At the start of 2026, most agencies were operating under a continuing resolution, which maintains discretionary funding—other than amounts designated as an emergency requirement—at roughly the 2025 amount.
- Net outlays for interest are projected to rise by $69 billion (or 7 percent), from $970 billion in 2025 to over $1.0 trillion in 2026. Most of that change is attributable to growth in debt held by the public,

3. Mandatory spending (also referred to as direct spending) consists of spending for some federal benefit programs, such as Social Security, Medicare, and Medicaid, and certain other payments to people, businesses, nonprofit institutions, and state and local governments. It is governed by statutory criteria and is not normally controlled by the annual appropriation process.

4. Discretionary spending is controlled by appropriation acts that specify the amounts that are to be provided for a broad array of government activities, including defense, law enforcement, and transportation.

which is projected to increase by 6.4 percent between 2025 and 2026.

Total outlays rise from 23.1 percent of GDP in 2025 to 23.3 percent of GDP this year in CBO's projections. Relative to GDP, increases in mandatory and net interest outlays are partly offset by a decrease in discretionary outlays.

Deficits From 2027 to 2036

In CBO's baseline projections, deficits vary from year to year but generally increase over the projection period. That pattern is affected by shifts in the timing of certain federal payments when the fiscal year begins on a weekend. Without those shifts, the deficit would fluctuate between 5.6 and 6.0 percent of GDP from 2027 to 2031 and then increase each year until it reached 6.7 percent in 2036 (see Table 1-2 on page 14).[5] (Projections of outlays and deficits throughout the rest of this chapter have been adjusted to exclude the effects of those timing shifts.) Since 1946, the deficit has exceeded 6.7 percent of GDP in only six years: from 2009 to 2012, following the 2007–2009 recession, and in 2020 and 2021, during the COVID-19 pandemic. Whereas revenues are projected to remain relatively stable in relation to the size of the economy, outlays are projected to increase over the 2027–2036 period, particularly in the second half (see Figure 1-2 on page 15).

The sizable projected deficits reflect the growing cost of interest on the federal debt as well as primary deficits (which exclude net outlays for interest) that exceed their 50-year average throughout the period. In CBO's baseline projections, net outlays for interest increase from 3.3 percent of GDP this year to 4.6 percent in 2036. Primary deficits generally grow less quickly than output in the first half of the projection period, falling from 2.6 percent of GDP in 2026 to 1.9 percent in 2031 and 2032. They then tick up slightly, settling at 2.1 percent of GDP from 2034 to 2036.

Total deficits, net outlays for interest, and primary deficits are all projected to be large by historical standards:

- Total deficits are projected to equal or exceed 5.6 percent of GDP in every year from 2026 to 2036. Since at least 1930 (the first year for which the Office of Management and Budget reports such data), deficits have not remained that large for more than five years in a row.
- In CBO's baseline projections, net interest outlays exceed 3.2 percent of GDP in every year. That would be their highest recorded level since at least 1940 (the first year for which the Office of Management and Budget reports such data).
- From 2026 to 2036, primary deficits in CBO's baseline average 2.1 percent of GDP. By comparison, primary deficits averaged 1.7 percent of GDP over the past 50 years.

Those projected deficits are especially large given the relatively low unemployment rates—below 5 percent in each year—that CBO forecasts for 2026 to 2036 (see Figure 1-3 on page 16). In the past, deficits tended to be relatively small when economic conditions, such as unemployment, were favorable. From 1976 to 2025, the unemployment rate was below 5 percent in 14 years. In those years, primary deficits averaged 0.5 percent of GDP and total deficits averaged 2.6 percent of GDP—1.6 and 3.5 percentage points lower, respectively, than in the current baseline projections.

Revenues. In CBO's projections, total revenues remain relatively steady as a percentage of GDP from 2027 to 2036. Revenues dip from 17.7 percent of GDP in 2027 to 17.5 percent in 2028 and then gradually rise to 17.8 percent in 2036. Receipts from payroll taxes and corporate income taxes during that period are stable, and increases in some sources of revenues are partly offset by decreases in others:

- Receipts from individual income taxes grow slightly faster than the economy, from 8.8 percent of GDP in 2027 to 9.1 percent in 2036.
- Customs duties fall in relation to the size of the economy, from 1.3 percent of GDP in 2027 to 0.9 percent in 2036.
- On net, all other revenues rise in relation to GDP from 2027 to 2036. That increase is primarily attributable to remittances from the Federal Reserve

5. When October 1 (the first day of the fiscal year) falls on a weekend, certain payments that would ordinarily have been made on that day are instead made in the preceding fiscal year. October 1 will fall on a weekend in calendar years 2028, 2033, and 2034, causing certain payments due on those days to be made at the end of September and thus to be recorded in the previous fiscal year. Those timing shifts will boost federal outlays and deficits in fiscal years 2028, 2033, and 2034; they will reduce federal outlays and deficits in fiscal years 2029 and 2035.

Table 1-1.

CBO's Baseline Budget Projections, by Category

	Actual, 2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	Total 2027–2031	Total 2027–2036
							In billions of dollars							
Revenues														
Individual income taxes	2,656	2,751	2,947	3,044	3,193	3,339	3,461	3,594	3,744	3,903	4,072	4,249	15,985	35,546
Payroll taxes	1,748	1,826	1,897	1,970	2,048	2,132	2,216	2,302	2,389	2,478	2,570	2,666	10,263	22,667
Corporate income taxes	452	404	419	433	452	477	493	510	526	539	552	576	2,274	4,977
Customs duties	195	418	421	424	417	412	405	389	382	382	390	402	2,080	4,025
Other[a]	183	197	201	201	209	235	293	334	351	368	388	408	1,139	2,988
Total	**5,235**	**5,596**	**5,885**	**6,071**	**6,320**	**6,595**	**6,869**	**7,130**	**7,391**	**7,669**	**7,972**	**8,301**	**31,741**	**70,204**
On-budget	3,951	4,245	4,481	4,614	4,804	5,019	5,232	5,430	5,629	5,843	6,080	6,340	24,150	53,473
Off-budget[b]	1,284	1,350	1,404	1,458	1,516	1,576	1,638	1,699	1,762	1,826	1,892	1,961	7,591	16,731
Outlays														
Mandatory	4,168	4,529	4,783	5,005	5,067	5,375	5,582	5,835	6,277	6,437	6,545	7,028	25,812	57,933
Discretionary	1,872	1,880	1,882	1,929	1,948	1,989	2,024	2,063	2,111	2,147	2,187	2,244	9,772	20,524
Net interest	970	1,039	1,108	1,218	1,324	1,432	1,548	1,670	1,784	1,904	2,019	2,144	6,630	16,152
Total	**7,010**	**7,449**	**7,772**	**8,151**	**8,340**	**8,796**	**9,155**	**9,569**	**10,172**	**10,487**	**10,751**	**11,416**	**42,214**	**94,610**
On-budget	5,578	5,928	6,151	6,426	6,513	6,864	7,113	7,409	7,911	8,125	8,286	8,847	33,066	73,644
Off-budget[b]	1,432	1,521	1,621	1,725	1,827	1,932	2,043	2,160	2,261	2,363	2,465	2,569	9,147	20,965
Total deficit (-)[c]	**-1,775**	**-1,853**	**-1,887**	**-2,080**	**-2,020**	**-2,201**	**-2,286**	**-2,439**	**-2,781**	**-2,819**	**-2,779**	**-3,115**	**-10,473**	**-24,406**
On-budget	-1,628	-1,682	-1,670	-1,812	-1,709	-1,845	-1,881	-1,979	-2,281	-2,282	-2,206	-2,507	-8,916	-20,171
Off-budget[b]	-148	-171	-218	-267	-311	-356	-405	-460	-499	-537	-573	-608	-1,557	-4,235
Primary deficit (-)[c,d]	-805	-814	-779	-862	-695	-769	-737	-769	-996	-915	-760	-971	-3,843	-8,254
Debt held by the public	30,172	32,095	34,005	36,093	38,103	40,280	42,528	44,922	47,644	50,394	53,103	56,152	n.a.	n.a.
Addendum:														
GDP	30,362	31,902	33,315	34,666	36,010	37,391	38,813	40,277	41,796	43,373	45,012	46,712	180,195	397,364

Continued

System, which amount to less than 0.1 percent of GDP in 2027, begin rising in 2030, and total 0.4 percent of GDP in 2036.

In all, revenues average 17.7 percent of GDP throughout the projection period. (For a more detailed discussion of CBO's revenue projections, see Chapter 4.)

Outlays. When adjusted to exclude shifts in the timing of certain payments, total outlays in the baseline change little in relation to the size of the economy in 2027 and 2028, remaining close to their 2026 level of 23.3 percent of GDP (see Table 1-2). They then rise over the rest of the decade, reaching 24.4 percent of GDP in 2036. That growth is driven mainly by greater spending on interest payments and large benefit programs (see Figure 1-4 on page 17). Since 1946, outlays have reached or exceeded 24 percent of GDP in only four years—2009, 2020, 2021, and 2022—all of which were during a recession or the pandemic. (For a more detailed discussion of CBO's outlay projections, see Chapter 3.)

Mandatory Outlays. In CBO's projections, outlays for mandatory programs fluctuate between 14.1 and 14.4 percent of GDP over the first half of the projection period before rising in the second half, reaching 15.0 percent of GDP in 2036. Since 1962, they have exceeded 15.0 percent of GDP only during the pandemic (in 2020, 2021, and 2022). Over the 10-year period, those outlays average 14.6 percent of GDP—well above their historical average of 11.2 percent over the past 50 years.

Much of the projected increase in mandatory outlays stems from greater spending for Social Security and Medicare, driven by an aging population and rapid growth in federal health care costs. The number of people age 65 or older is now almost three times what it was 50 years

Table 1-1. Continued

CBO's Baseline Budget Projections, by Category

	Actual, 2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	Total 2027–2031	Total 2027–2036
							As a percentage of GDP							
Revenues														
Individual income taxes	8.7	8.6	8.8	8.8	8.9	8.9	8.9	8.9	9.0	9.0	9.0	9.1	8.9	8.9
Payroll taxes	5.8	5.7	5.7	5.7	5.7	5.7	5.7	5.7	5.7	5.7	5.7	5.7	5.7	5.7
Corporate income taxes	1.5	1.3	1.3	1.2	1.3	1.3	1.3	1.3	1.3	1.2	1.2	1.2	1.3	1.3
Customs duties	0.6	1.3	1.3	1.2	1.2	1.1	1.0	1.0	0.9	0.9	0.9	0.9	1.2	1.0
Other[a]	0.6	0.6	0.6	0.6	0.6	0.6	0.8	0.8	0.8	0.8	0.9	0.9	0.6	0.8
Total	**17.2**	**17.5**	**17.7**	**17.5**	**17.6**	**17.6**	**17.7**	**17.7**	**17.7**	**17.7**	**17.7**	**17.8**	**17.6**	**17.7**
On-budget	13.0	13.3	13.5	13.3	13.3	13.4	13.5	13.5	13.5	13.5	13.5	13.6	13.4	13.5
Off-budget[b]	4.2	4.2	4.2	4.2	4.2	4.2	4.2	4.2	4.2	4.2	4.2	4.2	4.2	4.2
Outlays														
Mandatory	13.7	14.2	14.4	14.4	14.1	14.4	14.4	14.5	15.0	14.8	14.5	15.0	14.3	14.6
Discretionary	6.2	5.9	5.6	5.6	5.4	5.3	5.2	5.1	5.1	5.0	4.9	4.8	5.4	5.2
Net interest	3.2	3.3	3.3	3.5	3.7	3.8	4.0	4.1	4.3	4.4	4.5	4.6	3.7	4.1
Total	**23.1**	**23.3**	**23.3**	**23.5**	**23.2**	**23.5**	**23.6**	**23.8**	**24.3**	**24.2**	**23.9**	**24.4**	**23.4**	**23.8**
On-budget	18.4	18.6	18.5	18.5	18.1	18.4	18.3	18.4	18.9	18.7	18.4	18.9	18.4	18.5
Off-budget[b]	4.7	4.8	4.9	5.0	5.1	5.2	5.3	5.4	5.4	5.4	5.5	5.5	5.1	5.3
Total deficit (-)[c]	**-5.8**	**-5.8**	**-5.7**	**-6.0**	**-5.6**	**-5.9**	**-5.9**	**-6.1**	**-6.7**	**-6.5**	**-6.2**	**-6.7**	**-5.8**	**-6.1**
On-budget	-5.4	-5.3	-5.0	-5.2	-4.7	-4.9	-4.8	-4.9	-5.5	-5.3	-4.9	-5.4	-4.9	-5.1
Off-budget[b]	-0.5	-0.5	-0.7	-0.8	-0.9	-1.0	-1.0	-1.1	-1.2	-1.2	-1.3	-1.3	-0.9	-1.1
Primary deficit (-)[c,d]	-2.7	-2.6	-2.3	-2.5	-1.9	-2.1	-1.9	-1.9	-2.4	-2.1	-1.7	-2.1	-2.1	-2.1
Debt held by the public	99.4	100.6	102.1	104.1	105.8	107.7	109.6	111.5	114.0	116.2	118.0	120.2	n.a.	n.a.

Data source: Congressional Budget Office. See www.cbo.gov/publication/61882#data.

n.a. = not applicable.

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

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

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

d. Primary deficits exclude net outlays for interest.

ago. From 2027 to 2036, as baby boomers (people born between 1946 and 1964) age and as life expectancy continues to increase, that number is expected to rise by about 15 percent (see Figure 1-5 on page 18). As a result, the number of participants in Social Security and Medicare is projected to continue growing faster than the overall population. At the same time, federal health care costs per beneficiary are projected to continue growing faster than GDP per capita. As a result of those two trends, outlays for Social Security and Medicare are projected to rise in relation to GDP, increasing from 8.7 percent of GDP in 2027 to 10.1 percent in 2036. Beyond the projection period, the aging of the population and the rising costs of health care will continue to put pressure on the federal budget.

In 2027, all other mandatory outlays remain at their 2026 level of 5.6 percent of GDP in CBO's projections, up from 5.3 percent of GDP in 2025. That increase is largely a result of the 2025 reconciliation act (Public Law 119-21), which increased spending for defense, homeland security, and other activities. Mandatory outlays then fall to 4.9 percent of GDP by 2036 as that increased spending tapers off and other provisions in that act restrain growth in outlays, particularly for Medicaid and the Supplemental Nutrition Assistance Program. Spending on other mandatory programs also declines as a share of GDP because benefit amounts for many such programs are adjusted for inflation each year, and in

Table 1-2.

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

	Actual, 2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036
						In billions of dollars						
Adjustments to exclude effects of timing shifts	0	0	0	-124	124	0	0	0	-166	-12	178	0
Outlays, adjusted												
Mandatory	4,168	4,529	4,783	4,887	5,185	5,375	5,582	5,835	6,117	6,425	6,716	7,028
Discretionary	1,872	1,880	1,882	1,923	1,954	1,989	2,024	2,063	2,105	2,147	2,194	2,244
Net interest	970	1,039	1,108	1,218	1,324	1,432	1,548	1,670	1,784	1,904	2,019	2,144
Total	**7,010**	**7,449**	**7,772**	**8,028**	**8,463**	**8,796**	**9,155**	**9,569**	**10,006**	**10,475**	**10,929**	**11,416**
Total deficit (-), adjusted[a]	**-1,775**	**-1,853**	**-1,887**	**-1,956**	**-2,143**	**-2,201**	**-2,286**	**-2,439**	**-2,615**	**-2,806**	**-2,957**	**-3,115**
Primary deficit (-), adjusted[a,b]	-805	-814	-779	-738	-819	-769	-737	-769	-830	-903	-938	-971
						As a percentage of GDP						
Outlays, adjusted												
Mandatory	13.7	14.2	14.4	14.1	14.4	14.4	14.4	14.5	14.6	14.8	14.9	15.0
Discretionary	6.2	5.9	5.6	5.5	5.4	5.3	5.2	5.1	5.0	4.9	4.9	4.8
Net interest	3.2	3.3	3.3	3.5	3.7	3.8	4.0	4.1	4.3	4.4	4.5	4.6
Total	**23.1**	**23.3**	**23.3**	**23.2**	**23.5**	**23.5**	**23.6**	**23.8**	**23.9**	**24.2**	**24.3**	**24.4**
Total deficit (-), adjusted[a]	**-5.8**	**-5.8**	**-5.7**	**-5.6**	**-6.0**	**-5.9**	**-5.9**	**-6.1**	**-6.3**	**-6.5**	**-6.6**	**-6.7**
Primary deficit (-), adjusted[a,b]	-2.7	-2.6	-2.3	-2.1	-2.3	-2.1	-1.9	-1.9	-2.0	-2.1	-2.1	-2.1
Addendum:												
Baseline deficit (-), unadjusted												
In billions of dollars[a]	-1,775	-1,853	-1,887	-2,080	-2,020	-2,201	-2,286	-2,439	-2,781	-2,819	-2,779	-3,115
As a percentage of GDP[a]	-5.8	-5.8	-5.7	-6.0	-5.6	-5.9	-5.9	-6.1	-6.7	-6.5	-6.2	-6.7

Data source: Congressional Budget Office. See www.cbo.gov/publication/61882#data.

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

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

b. Primary deficits exclude net outlays for interest.

CBO's economic forecast, the rate of inflation is lower than the rate of growth of nominal GDP.

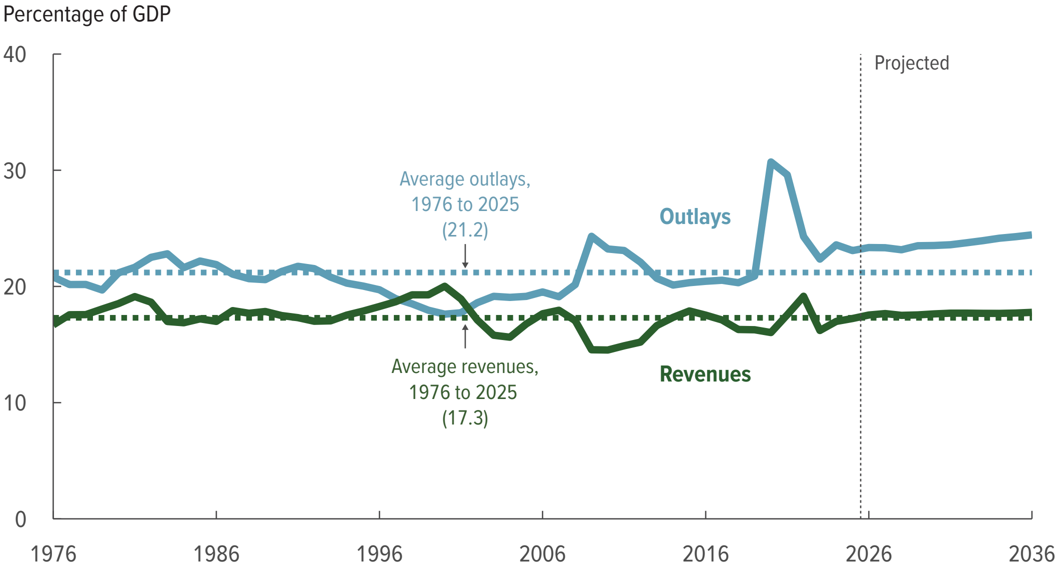
Discretionary Outlays. In CBO's baseline projections, discretionary outlays increase at an average annual rate of 1.8 percent over the 2027–2036 period.[6] Because that growth is slower than the growth projected for the economy, such outlays fall as a percentage of GDP. In 2036, discretionary outlays are projected to total 4.8 percent of GDP, 1.1 percentage points below CBO's estimate of such outlays for 2026. By comparison, such outlays have averaged 7.8 percent of GDP over the past 50 years.

Net Interest Outlays. In CBO's projections, net outlays for interest increase substantially over the next decade. Measured in nominal dollars, those outlays increase at an average annual rate of 7.5 percent. Whereas growth in net interest outlays in 2026 is primarily attributable to

6. In accordance with section 257 of the Deficit Control Act, in CBO's baseline projections, discretionary funding related to federal personnel is adjusted for inflation using the employment cost index for wages and salaries of workers in private industry; other discretionary funding is adjusted using the GDP price index.

Figure 1-2.

Total Outlays and Revenues



Measured as a percentage of GDP, outlays exceed their 50-year average by a widening margin from 2026 to 2036 in CBO's projections. Revenues rise just above their 50-year average in 2026 and then change little, remaining above that historical average throughout the 10-year period.

Data sources: Congressional Budget Office; Office of Management and Budget. See www.cbo.gov/publication/61882#data.

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

larger debt, such growth over the remainder of the projection period is about equally attributable to larger debt and higher average interest rates on that debt. All told, net interest outlays are projected to increase from 3.3 percent of GDP in 2026 to 4.6 percent in 2036, at which point they would account for nearly one-fifth of all federal spending.

Debt

Debt held by the public is the measure of debt that CBO uses most often in its reports on the budget because it best captures federal borrowing that affects interest rates and private investment: When the federal government borrows in financial markets, it competes with other participants for funds, and that competition can push up interest rates and crowd out private investment. In addition to debt held by the public, CBO's baseline projections include other measures of federal debt. Those other measures are used for various purposes, such as to provide a more comprehensive picture of the government's financial condition or to account for debt held by federal trust funds.

Debt Held by the Public

Debt held by the public consists mostly of securities that the Treasury issues to raise cash to fund the federal government's activities and to pay off its maturing liabilities.[7] The Treasury borrows money from the public by selling securities in capital markets; that debt is purchased by many entities, including buyers in the United States, private investors overseas, and central banks of other countries. Of the $30.2 trillion in federal debt held by the public as of September 30, 2025, roughly 70 percent was held by domestic entities and roughly 30 percent was held by foreign investors (see Figure 1-6 on page 19). The largest U.S. holders of Treasury securities were the Federal Reserve (16 percent), mutual funds (15 percent), and private financial institutions (6 percent).[8] The largest foreign holders of Treasury securities were investors in Japan (4 percent), the United Kingdom (3 percent), and mainland China (2 percent).

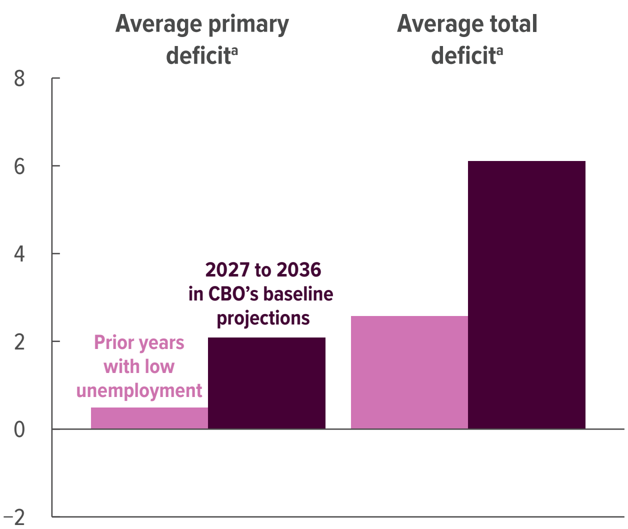
7. A small amount of debt held by the public is issued by other agencies, mainly the Tennessee Valley Authority.

8. The distribution of domestic holders is based on data from March 31, 2025.

Figure 1-3.

Average Deficits in CBO's Baseline Projections and in Prior Periods of Low Unemployment Over the Past 50 Years

Percentage of GDP



From 1976 to 2025, the unemployment rate was below 5 percent in 14 years. In those years, primary deficits averaged 0.5 percent of GDP, and total deficits averaged 2.6 percent of GDP. Although the unemployment rate remains below 5 percent from 2026 to 2036 in CBO's projections, both primary and total deficits in those years are much larger.

Data source: Congressional Budget Office. See www.cbo.gov/publication/61882#data.

When outlays exceed revenues, the result is a deficit. In this figure, deficits and surpluses were calculated by subtracting revenues from outlays; thus, positive values indicate deficits.

Primary deficits or surpluses exclude net outlays for interest.

The unemployment rate is the percentage of people in the labor force who are not working but are available for work and are either seeking work or expecting to be recalled from a temporary layoff.

a. The average deficit for these years includes surpluses in some years.

Under the assumptions that govern CBO's baseline, the federal government is projected to borrow an additional $26 trillion from the end of 2025 to the end of 2036. That borrowing would raise debt held by the public to $56 trillion, or 120 percent of GDP, by the end of the period (see Table 1-3 on page 20). Measured in relation to the size of the economy, that amount of debt would be the greatest in the nation's history—more than double the 50-year average of 51 percent of GDP.

If federal debt held by the public kept growing faster than GDP, as CBO projects it would under current law, it would have far-reaching implications for the nation's fiscal and economic outlook.[9] That large and growing debt would have many consequences, including the following:

- Borrowing costs throughout the economy would rise, reducing private investment and slowing the growth of economic output.
- Rising interest costs associated with federal debt would drive up interest payments to foreign holders of that debt and thus decrease national income.[10]
- The United States' fiscal position would be more vulnerable to an increase in interest rates, because the larger debt is, the more an increase in interest rates raises debt-service costs.
- The risk of a fiscal crisis—that is, a situation in which investors lose confidence in the value of the U.S. government's debt—would increase. Such a crisis would cause interest rates to rise abruptly and other economic and financial disruptions to occur.
- The likelihood of other adverse outcomes would also increase. For example, expectations of higher inflation could erode confidence in the U.S. dollar as the dominant international reserve currency.
- Lawmakers might feel constrained from using federal tax and spending policies to respond to unforeseen events or for other purposes, such as to promote economic activity or strengthen national defense.

Other Measures of Debt

Four other measures are sometimes used in reference to federal debt.

Debt Held by the Public Minus Financial Assets. This measure of debt subtracts the value of the government's financial assets, such as student loans, from debt held by the public. It therefore provides a more comprehensive picture of the government's financial condition. Calculating the measure is not straightforward, however, because neither the financial assets that are included nor the methods for evaluating them are clearly defined.

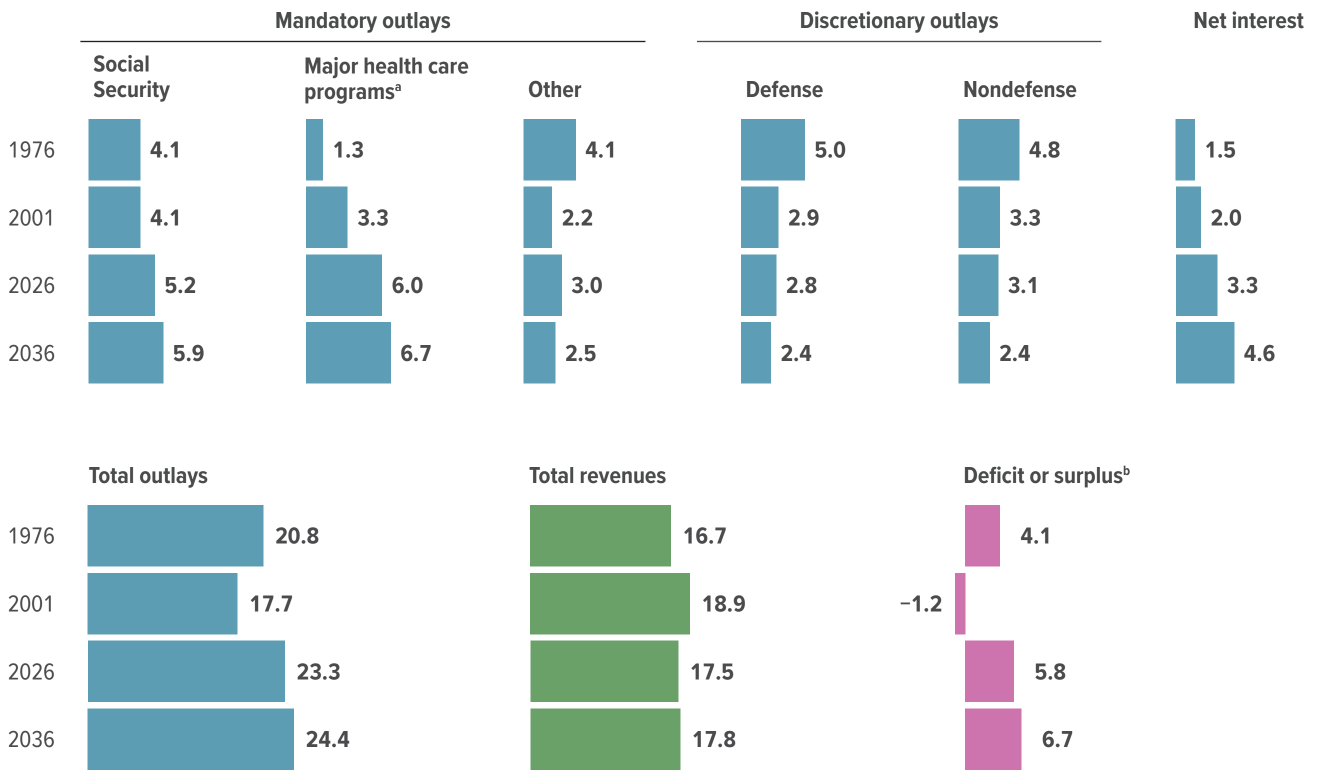
9. For more details about federal debt and the consequences of its growth, see Congressional Budget Office, *Federal Debt: A Primer* (March 2020), www.cbo.gov/publication/56165.

10. National income is the total income accruing to residents of a country.

Figure 1-4.

CBO's Baseline Projections of Outlays and Revenues, Compared With Actual Values 25 and 50 Years Ago

Percentage of GDP



Data sources: Congressional Budget Office; Office of Management and Budget. See www.cbo.gov/publication/61882#data.

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

b. When outlays exceed revenues, the result is a deficit. In this figure, deficits and surpluses were calculated by subtracting revenues from outlays; thus, positive values indicate deficits, and the negative value indicates a surplus.

In CBO's baseline projections, this measure of federal debt varies roughly in line with debt held by the public but is 4 to 7 percent smaller.

Debt Held by the Public Minus Financial Assets and Debt Held by the Federal Reserve. This measure of debt excludes Treasury securities held by the Federal Reserve in addition to financial assets held by the federal government.[11] As a result, it better reflects the government's overall effect on credit markets. In CBO's projections, this measure of debt increases from $25 trillion (or 79 percent of GDP) in 2026 to $45 trillion (or 96 percent of GDP) in 2036. Federal Reserve holdings are projected to rise as a share of debt held by the public, from 14 percent in 2026 to 17 percent in 2036.

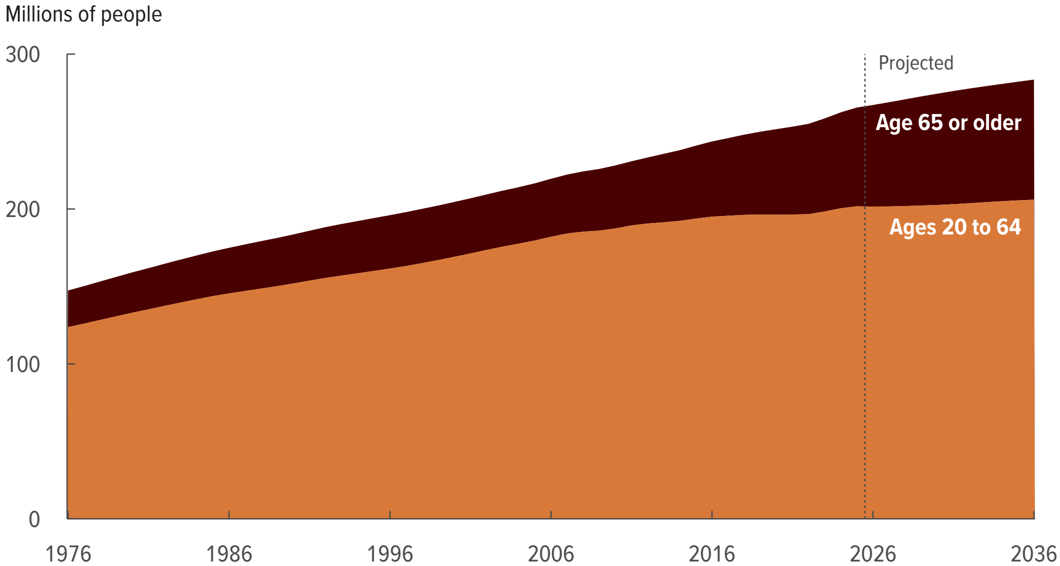
Gross Federal Debt. This measure consists of debt held by the public and debt held by government accounts, such as the Social Security trust funds.[12] (For a detailed discussion of those trust funds, see Appendix B.) The latter type of debt does not directly affect the economy

11. Although it remits earnings to the Treasury (which are recorded as revenues in the federal budget), the Federal Reserve's receipts and expenditures are not included directly in the federal budget, and the debt it holds is considered to be debt held by the public.

12. In keeping with the rules in section 257 of the Deficit Control Act, CBO's baseline projections incorporate the assumption that scheduled payments will continue to be made in full after the balance of a trust fund has been exhausted, even though there is no legal authority to make such payments.

Figure 1-5.

U.S. Population, by Age Group



Enrollment in Social Security and Medicare is expected to increase as the number of people age 65 or older grows.

Data source: Congressional Budget Office. See www.cbo.gov/publication/61882#data.

The population referred to in this figure is the Social Security area population, which includes all residents of the 50 U.S. states and the District of Columbia, as well as civilian residents of U.S. territories. It also includes federal civilian employees and members of the U.S. Armed Forces living abroad and their dependents, U.S. citizens living abroad, and noncitizens living abroad who are eligible for Social Security benefits on the basis of their earnings while in the United States.

and has no net effect on the budget. In CBO's baseline projections, whereas debt held by the public increases by $24 trillion from the end of 2026 to the end of 2036, debt held by government accounts remains relatively stable, averaging $7 trillion over the next decade. As a result, gross federal debt is also projected to rise by $24 trillion over that period, reaching $64 trillion at the end of 2036. Debt held by government accounts makes up 12 percent of that sum.

Debt Subject to Limit. This measure of debt, often called the debt ceiling, is the maximum amount of debt that the Treasury can issue. The main difference between debt subject to limit and gross federal debt is that the statutory limit on federal borrowing excludes most debt issued by agencies other than the Treasury.[13] The statutory limit on the issuance of new federal debt is currently set at $41.1 trillion. In CBO's baseline projections, the amount of outstanding debt subject to limit increases from $39.6 trillion at the end of 2026 to $63.8 trillion at the end of 2036. (Under the assumptions governing CBO's baseline projections, the Treasury would reach the limit sometime in 2027, but for the purpose of those projections, CBO's baseline incorporates the assumption that the statutory ceiling will be increased as necessary.)

Relationship Between Debt and Deficits

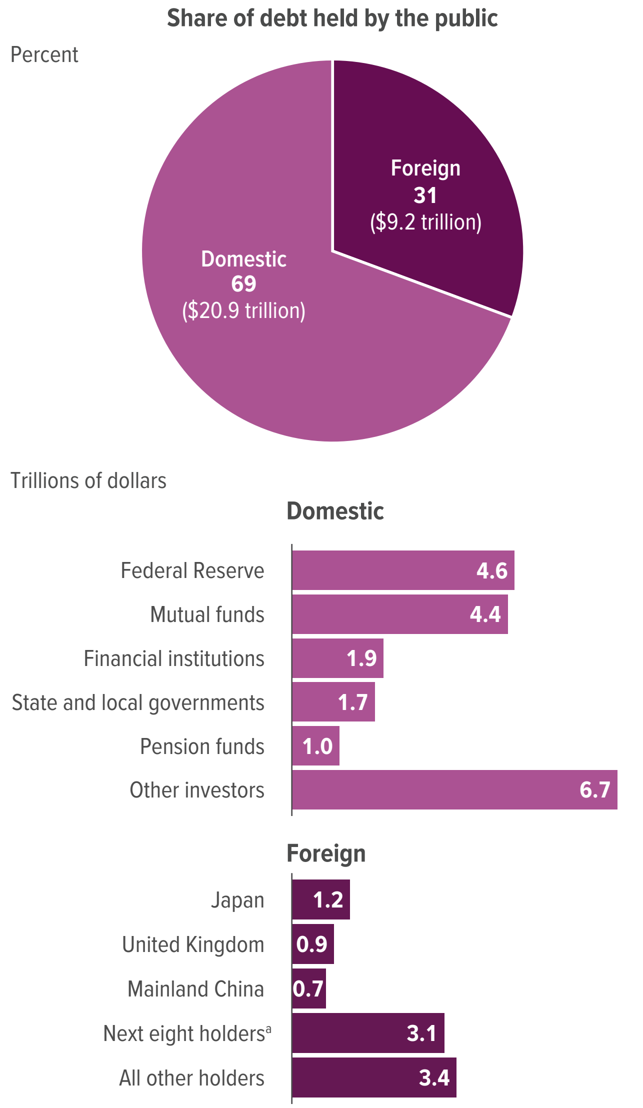
The net amount that the Treasury borrows is determined primarily by the annual deficit. However, several other factors—collectively labeled "other means of financing" and not directly included in budget totals—also affect the government's need to borrow from the public. Those factors include the cash flows associated with federal credit programs, such as those related to student loans (because only the subsidy costs of those programs are reflected in the deficit), as well as changes in the government's cash balances.[14] Taken together, those factors lead the Treasury to borrow more or less than would otherwise be necessary to finance the deficit. In 2026, that

13. For example, the Federal Financing Bank, a government corporation under the general supervision of the Treasury, assists federal agencies in managing their borrowing and lending programs. It can issue up to $15 billion of its own debt securities, and that amount does not count against the debt limit.

14. For more details about other means of financing, see Congressional Budget Office, *Federal Debt: A Primer* (March 2020), pp. 10–12, www.cbo.gov/publication/56165.

Figure 1-6.

Holders of Federal Debt, 2025



Data sources: Congressional Budget Office; Department of the Treasury. See www.cbo.gov/publication/61882#data.

All holdings are based on data as of September 2025 except for the distribution of domestic holders, which is based on data as of March 2025.

a. The next eight largest foreign holders of federal debt, listed from largest to smallest, are Canada, Belgium, the Cayman Islands, Luxembourg, France, Ireland, Taiwan, and Switzerland.

additional borrowing will cause the increase in debt held by the public to exceed the deficit by $70 billion, CBO estimates.

Uncertainty of CBO's Budget Projections

CBO's baseline budget projections are intended to show what would happen to federal spending, revenues, deficits, and debt if current laws governing spending and taxes generally remained the same. Changes to laws—particularly those affecting revenues and spending policies—as well as future judicial decisions or administrative actions could lead to budgetary outcomes that diverge considerably from CBO's baseline projections.

Some uncertainty stems from the assumptions that the agency is required to incorporate into its baseline projections, as specified in the Balanced Budget and Emergency Deficit Control Act of 1985 (P.L. 99–177). The following examples illustrate how those assumptions affect CBO's projections of deficits and debt:

- The baseline projections reflect the assumption—as required by law—that funding provided for 2026 by the Infrastructure Investment and Jobs Act (P.L. 117-58) and by the Bipartisan Safer Communities Act (P.L. 117-159) continues each year with adjustments for inflation. If the baseline incorporated the assumption that such funding would *not* continue beyond the amounts stated in those acts, the total deficit would be smaller by 0.2 percent of GDP in 2036, and debt would be lower by 1.0 percent of GDP. (For information about how that and other alternative assumptions about discretionary funding would affect CBO's projections of budgetary outcomes, see Chapter 3.)
- As required by law, CBO's baseline projections incorporate the assumption that expiring excise taxes that are dedicated to trust funds will be extended. Alternatively, if the baseline reflected the assumption that those taxes will expire as scheduled, the deficit in 2036 would be larger by 0.1 percent of GDP.

Even if federal laws and policies remained unchanged, actual budgetary outcomes over the next decade would differ from CBO's baseline projections because of unanticipated changes in economic conditions and a host of other factors that affect federal spending and revenues. CBO's projections of outlays and revenues, and therefore of deficits and debt, depend in part on the agency's economic projections for the coming decade, which include forecasts for such variables as interest rates, inflation, and productivity. CBO develops its economic projections so that they fall in the middle of a range of likely outcomes

Table 1-3.

CBO's Baseline Projections of Federal Debt

Billions of dollars

	Actual, 2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036
Debt held by the public at the beginning of the year	28,196	30,172	32,095	34,005	36,093	38,103	40,280	42,528	44,922	47,644	50,394	53,103
Changes in debt held by the public												
Resulting from the deficit	1,775	1,853	1,887	2,080	2,020	2,201	2,286	2,439	2,781	2,819	2,779	3,115
Resulting from other means of financing[a]	201	70	22	9	-10	-24	-37	-45	-59	-69	-70	-66
Total	**1,977**	**1,923**	**1,909**	**2,088**	**2,010**	**2,177**	**2,249**	**2,394**	**2,722**	**2,750**	**2,709**	**3,049**
Debt held by the public at the end of the year												
In billions of dollars	**30,172**	**32,095**	**34,005**	**36,093**	**38,103**	**40,280**	**42,528**	**44,922**	**47,644**	**50,394**	**53,103**	**56,152**
As a percentage of GDP	**99.4**	**100.6**	**102.1**	**104.1**	**105.8**	**107.7**	**109.6**	**111.5**	**114.0**	**116.2**	**118.0**	**120.2**
Addendum:												
Federal financial assets[b]	2,259	2,329	2,351	2,360	2,350	2,327	2,290	2,244	2,185	2,116	2,047	1,981
Debt minus financial assets												
In billions of dollars	27,913	29,766	31,653	33,733	35,752	37,953	40,239	42,678	45,459	48,277	51,056	54,172
As a percentage of GDP	91.9	93.3	95.0	97.3	99.3	101.5	103.7	106.0	108.8	111.3	113.4	116.0
Federal Reserve's holdings of debt held by the public	4,201	4,540	4,973	5,484	6,048	6,595	7,067	7,537	8,004	8,496	8,981	9,466
Debt minus financial assets and the Federal Reserve's holdings												
In billions of dollars	23,712	25,226	26,680	28,249	29,704	31,358	33,172	35,141	37,455	39,782	42,075	44,706
As a percentage of GDP	78.1	79.1	80.1	81.5	82.5	83.9	85.5	87.2	89.6	91.7	93.5	95.7
Gross federal debt[c]	37,373	39,430	41,279	43,297	45,192	47,192	49,218	51,480	54,379	57,359	60,386	63,693
Debt subject to limit[d]	37,526	39,581	41,428	43,446	45,341	47,341	49,368	51,630	54,530	57,510	60,538	63,846
Average interest rate on debt held by the public (percent)	3.4	3.4	3.4	3.5	3.6	3.7	3.8	3.9	3.9	3.9	3.9	3.9

Data sources: Congressional Budget Office; Department of the Treasury. See www.cbo.gov/publication/61882#data.

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

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

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

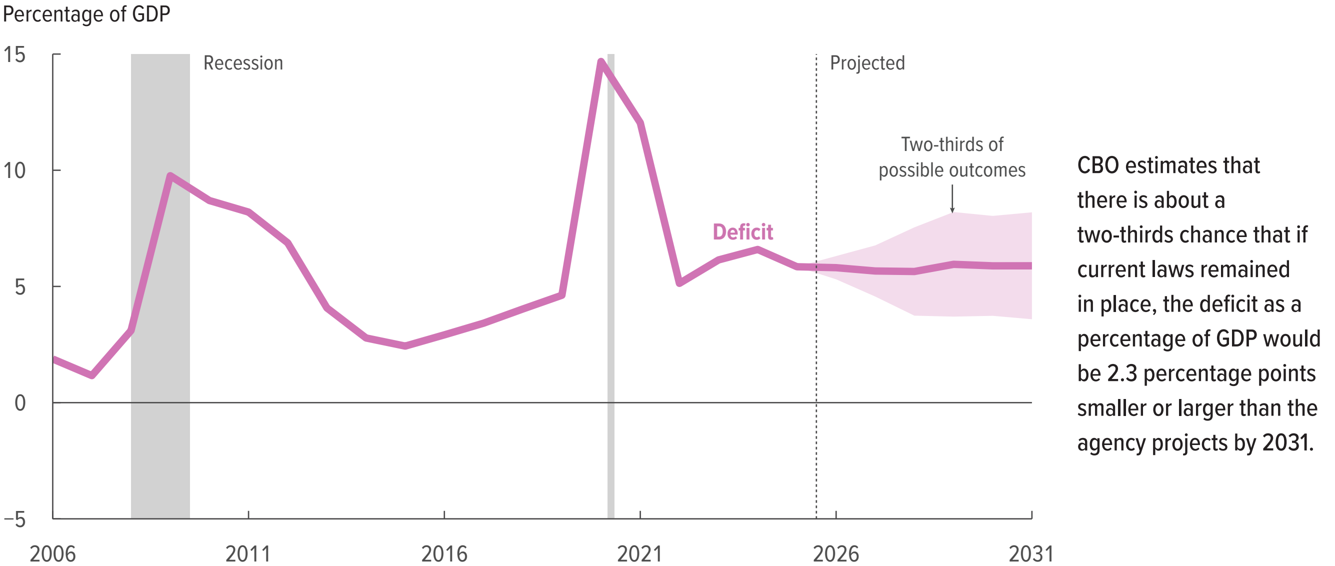
d. The amount of federal debt that is subject to the overall limit set in law. That measure of debt excludes debt issued by the Federal Financing Bank and reflects certain other adjustments that are excluded from gross federal debt. The statutory debt limit was most recently set at $41.1 trillion by the 2025 reconciliation act (Public Law 119-21) enacted on July 4, 2025. The Balanced Budget and Emergency Deficit Control Act of 1985 requires CBO to project spending, revenues, and deficits independently of the debt limit.

under current law. Discrepancies between the agency's economic forecasts and actual economic outcomes can cause its budget projections to differ significantly from actual budgetary outcomes. The potential for such discrepancies in other inputs to the baseline also contributes to uncertainty about CBO's projections.

Historical experience gives some indication of the magnitude of that uncertainty. CBO's baseline projections of deficits for 1985 to 2025 had an average absolute error of 1.1 percent of GDP when those years were the budget year (that is, the second year of the projection period). In other words, the average size of the error was

Figure 1-7.

Uncertainty of CBO's Baseline Projections of Deficits



Data sources: Congressional Budget Office; Office of Management and Budget. See www.cbo.gov/publication/61882#data.

The shaded area around CBO's baseline deficit projections, which encompasses approximately two-thirds of possible outcomes, is based on the errors in CBO's one-, two-, three-, four-, five-, and six-year projections of the deficit for fiscal years 1984 to 2025. Actual outcomes will be affected by legislation enacted in future years. The estimates in this figure do not account for those effects.

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

When outlays exceed revenues, the result is a deficit. In this figure, deficits and surpluses were calculated by subtracting revenues from outlays; thus, positive values indicate deficits.

1.1 percent of GDP, regardless of whether the projections were too high or too low.[15] An error of that size would make CBO's current deficit projection of $1.9 trillion for 2027 $0.4 trillion larger or smaller than the actual deficit in that year. The sixth-year projections of deficits are, as expected, less accurate than the budget year projections. CBO's sixth-year projections of deficits made for the years 1989 to 2025 had an average absolute error of 2.0 percent of GDP. An equivalent error would make the current deficit projection of $2.3 trillion for 2031 $0.8 trillion larger or smaller than the actual deficit in that year.

To help illustrate the uncertainty of the baseline projections, CBO has calculated a range of likely outcomes for the deficit under current law through 2031 (see Figure 1-7). In CBO's baseline projections, the deficit equals 5.7 percent of GDP in 2027 and 5.9 percent of GDP in 2031. On the basis of an analysis of its past projections, CBO estimates that there is approximately a two-thirds chance that if current laws generally remained unchanged, the deficit would be between 4.6 and 6.8 percent of GDP in 2027. For 2031, the range is wider: CBO estimates that there is approximately a two-thirds chance that the deficit would be between 3.6 and 8.2 percent of GDP.

CBO's sixth-year projections of federal debt have been much less accurate than its budget year projections. CBO's baseline projections of debt held by the public for

15. Calculations of CBO's average absolute errors exclude the effects of legislation enacted after the agency completed its projections and use the actual GDP recorded for each year. For more information, see Congressional Budget Office, *An Evaluation of CBO's Projections of Deficits and Debt From 1984 to 2023* (December 2024), www.cbo.gov/publication/60664. To review the data that the agency uses to evaluate the accuracy of its projections of outlays, revenues, deficits, and debt, see Congressional Budget Office, "Evaluating CBO's Projections of Components of the Federal Budget" (GitHub, updated January 2026), github.com/US-CBO/eval-projections.

Table 1-4.

Key Projections in CBO's Baseline

Percentage of GDP

	2026	2027	Annual average 2028–2031	Annual average 2032–2036	Annual average 2037–2046	Annual average 2047–2056
Revenues						
Individual income taxes	8.6	8.8	8.9	9.0	9.4	9.9
Payroll taxes	5.7	5.7	5.7	5.7	5.7	5.7
Corporate income taxes	1.3	1.3	1.3	1.2	1.3	1.3
Customs duties	1.3	1.3	1.1	0.9	0.8	0.7
Other[a]	0.6	0.6	0.6	0.9	0.9	1.0
Total revenues	**17.5**	**17.7**	**17.6**	**17.7**	**18.1**	**18.6**
Outlays						
Mandatory						
Social Security	5.2	5.3	5.5	5.8	5.8	5.9
Major health care programs[b,c]	6.0	6.0	6.0	6.5	7.2	7.9
Other[b]	3.0	3.1	2.8	2.5	2.4	2.3
Subtotal	14.2	14.4	14.3	14.8	15.4	16.1
Discretionary[b]	5.9	5.6	5.4	5.0	4.7	4.6
Net interest	3.3	3.3	3.8	4.4	5.2	6.4
Total outlays	**23.3**	**23.3**	**23.4**	**24.1**	**25.3**	**27.1**
Deficit (-)[d]	**-5.8**	**-5.7**	**-5.8**	**-6.4**	**-7.2**	**-8.5**
Debt held by the public at the end of the period	**101**	**102**	**110**	**120**	**144**	**175**
Addendum:						
Social Security						
Revenues[e]	4.4	4.4	4.4	4.5	4.4	4.4
Outlays[f]	5.2	5.3	5.5	5.8	5.8	5.9
Contribution to the deficit (-)[d,g]	-0.8	-0.9	-1.1	-1.3	-1.4	-1.5
Medicare						
Revenues[e]	1.5	1.5	1.5	1.5	1.6	1.6
Outlays[b,f]	4.0	4.1	4.4	4.9	5.8	6.6
Offsetting receipts	-0.7	-0.7	-0.8	-0.9	-1.1	-1.4
Contribution to the deficit (-)[d,g]	-1.9	-1.9	-2.1	-2.5	-3.1	-3.7
GDP at the end of the period (trillions of dollars)	31.9	33.3	38.8	46.7	67.5	95.7

Data source: Congressional Budget Office. See www.cbo.gov/publication/61882#data.

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

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

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

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

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

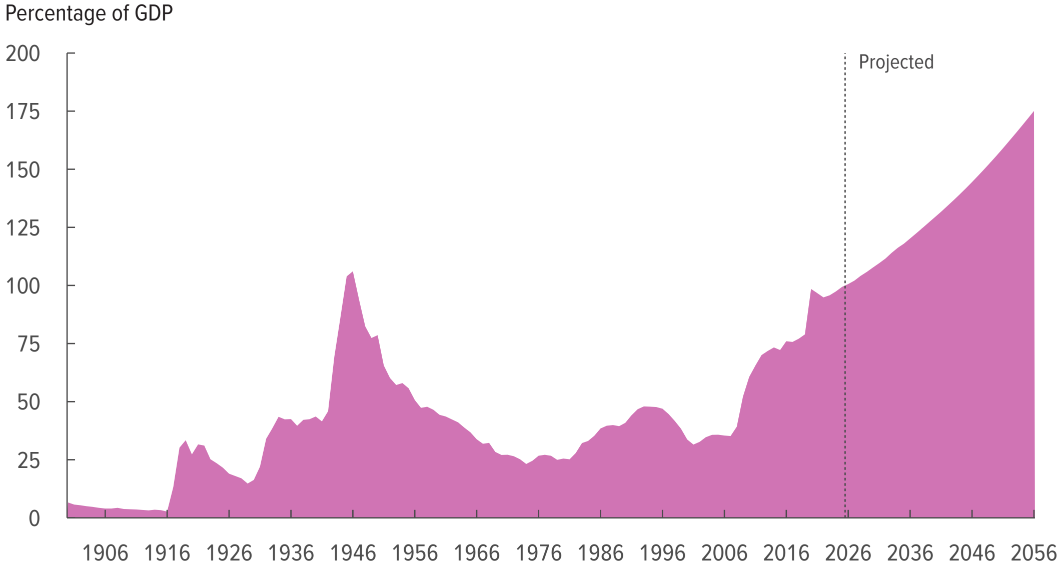
e. Includes payroll taxes other than those paid by the federal government on behalf of its employees; those payments are intragovernmental transactions. Also includes income taxes paid on Social Security benefits, which are credited to the trust funds.

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

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

Figure 1-8.

Federal Debt Held by the Public, 1900 to 2056



Debt held by the public rises in each year of CBO's projections, from 101 percent of GDP this year to 120 percent of GDP in 2036—higher than at any point in the nation's history. Over the next two decades, growing deficits push federal debt to 175 percent of GDP.

Data sources: Congressional Budget Office; Office of Management and Budget. See www.cbo.gov/publication/61882#data.

1985 to 2025 had an average absolute error of 1.9 percent of GDP when those years were the budget year and an average absolute error of 6.6 percent of GDP when they were the sixth year of the projection period. That larger error occurred because errors in projections of debt tend to compound over time. In CBO's current baseline projections, federal debt held by the public equals 110 percent of GDP in 2031. Given the patterns in its past projections, CBO estimates that there is approximately a two-thirds chance that under current law, federal debt would be between 101 and 118 percent of GDP in that year.

The Long-Term Outlook for the Budget

Beyond the coming decade, the fiscal outlook is more uncertain. In CBO's long-term projections, which extend through 2056, deficits increase steadily in relation to GDP under current law (see Table 1-4 on page 22).[16] Growing debt would cause net outlays for interest to rise rapidly as a percentage of GDP over that period, from 4.6 percent in 2036 to 6.9 percent by 2056. Net interest spending in 2056 would exceed spending for both Social Security (6.0 percent of GDP) and Medicare (5.5 percent of GDP), despite increases in spending for those programs due to the aging U.S. population and growth in per capita spending on health care. Federal revenues also would increase, but they would not keep pace with outlays. As a result, CBO estimates, debt held by the public would reach 175 percent of GDP by 2056, far higher than any percentage previously recorded in the United States (see Figure 1-8).

Debt is on track to grow even larger after 2056. To avoid the consequences of large and growing federal debt, lawmakers would have to make significant changes to tax and spending policies—increasing revenues, reducing spending, or adopting some combination of those approaches. The size of the policy changes needed to put debt on a sustainable path will grow the longer lawmakers wait to implement those changes.[17]

16. CBO's long-term projections follow the agency's 10-year baseline projections and then extend the concepts underlying them for an additional 20 years. Details about the long-term projections presented here are included in the supplemental data posted along with this report at www.cbo.gov/publication/61882#data. CBO expects to publish its next long-term budget projections in early 2026.

17. For further discussion, see Congressional Budget Office, *The Economic Effects of Waiting to Stabilize Federal Debt* (April 2022), www.cbo.gov/publication/57867.

Chapter 2: The Economic Outlook

Overview

The Congressional Budget Office's projections of how the economy will perform in coming years underlie the spending and revenue projections described in Chapter 3 and Chapter 4. CBO's current economic projections reflect trade policy as of November 20, 2025; the agency's latest demographic projections, which are based on laws and policies in place as of September 30, 2025; and economic developments and laws in place as of December 3, 2025.

CBO's projections reflect significant economic effects from three major policy developments since the beginning of last year:

- The **2025 reconciliation act (Public Law 119-21)** permanently extends the lower individual income tax rates put in place by the 2017 tax act (P.L. 115-97) and allows for the full expensing of certain investments. The law increases federal outlays in 2026 and 2027, on net, and reduces outlays in later years. Taken together, the provisions in the act boost economic growth in the short run and, through their effects on labor supply and investment, raise the productive capacity of the economy in the long run.
- **Changes in trade policy** that resulted in higher tariffs throughout the 2026–2036 projection period than those that were in place before 2025 are expected to continue to weigh on growth by raising the cost of imported goods, reducing investment from abroad, and lowering the efficiency of the U.S. economy.
- **Changes in immigration policy** led CBO to reduce its projections of net immigration below the levels that that were projected in January 2025 and far below the rates observed during the surge in immigration that occurred from 2021 through the middle of 2024. That reduction in net immigration slows the growth of the labor force and puts downward pressure on output in CBO's projections.

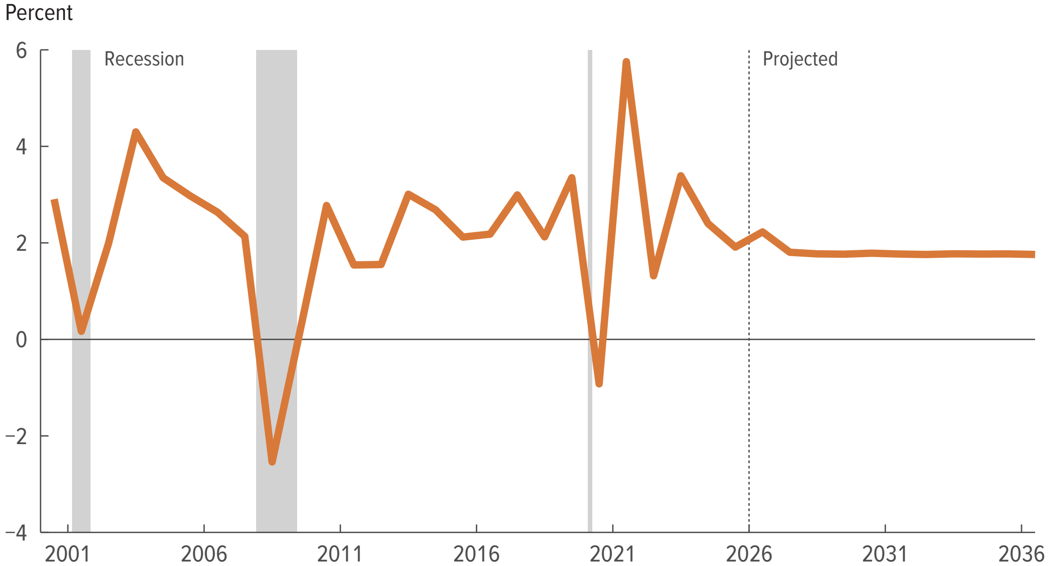
Gross Domestic Product

CBO expects the annual growth of real gross domestic product (GDP)—that is, the nation's economic output adjusted to remove the effects of changes in prices—to increase from 1.9 percent in 2025 to 2.2 percent in 2026 as fiscal support from the 2025 reconciliation act boosts consumer spending and private investment and as economic activity continues to rebound following the lapse in discretionary appropriations that caused a government shutdown in October and November 2025 (see Figure 2-1). In 2026, the reconciliation act boosts consumption in CBO's projections by lowering individual income taxes and thus increasing the resources available for households; it also strengthens investment by allowing businesses to immediately expense the full cost of certain capital investments (that is, the full cost can be immediately deducted from income rather than deducted incrementally over several years). At the same time, several factors weigh on real GDP growth in 2026, including the downward pressure on consumer spending and investment from higher tariffs.

After 2026, real GDP growth averages 1.8 percent per year from 2027 to 2036 in CBO's projections, reflecting factors that both increase and decrease economic activity. During that period, growth is supported by boosts to the labor supply and to investment that result from the 2025 reconciliation act, by an increase in the domestic production of some import-competing goods resulting from higher tariffs, and by the effects of stronger growth of total factor productivity (TFP, the average real output per unit of combined labor and capital services). That TFP growth is driven in part by the adoption of generative artificial intelligence (AI), technology that can produce original content such as text, images, video, audio, or code in response to user input. Other forces hinder growth over the period, including the fading of the reconciliation act's boost to aggregate demand, the weaker productivity growth due to higher tariffs, the slower labor force growth attributable to the aging of the population and reduced net immigration, and the gradual reduction in private investment that occurs as federal deficits and debt continue to increase (a phenomenon referred to as crowding out).

Figure 2-1.

Growth of Real GDP



The growth of economic output accelerates in 2026 in CBO's projections as the 2025 reconciliation act boosts consumer spending and private investment and as economic activity continues to rebound following the lapse in discretionary appropriations. Economic growth then slows, averaging 1.8 percent per year from 2027 to 2036.

Data sources: Congressional Budget Office; Bureau of Economic Analysis. See www.cbo.gov/publication/61882#data.

Real GDP is nominal GDP that has been adjusted to remove the effects of changes in prices. Growth of real GDP is measured from the fourth quarter of one calendar year to the fourth quarter of the next year.

Recessions, which begin just after a peak in economic activity and run through the subsequent trough, are plotted using monthly data; all other data are annual and are plotted at the midpoint (July 1) of each year.

The Labor Market

Labor market conditions weakened in the second half of 2025, but they are projected to improve modestly beginning in 2026 as the effects of the 2025 reconciliation act boost aggregate demand and, in turn, accelerate the growth of employment. In CBO's projections, the unemployment rate rises to 4.6 percent in 2026 and then gradually declines, averaging 4.3 percent from 2027 to 2036 (see Table 2-1). Employment grows more slowly over the next decade than it did over the past decade, reflecting the aging of the population and lower rates of net immigration than those recorded from 2021 to 2024—both of which moderate the expansion of the labor force.

Inflation and Interest Rates

Inflation as measured by the growth of the price index for personal consumption expenditures (PCE) is estimated to have been 2.8 percent in 2025, reflecting higher tariffs' upward pressure on prices and an increase in prices of energy services and food. Inflation declines to 2.7 percent in 2026 in CBO's projections and continues to soften thereafter, stabilizing near 2.0 percent by 2030. Core PCE inflation, which excludes prices for food and energy, follows a similar pattern, declining as the effects of tariffs wane and growth in the prices of shelter services (which reflect the costs of both rental and owner-occupied housing) slows.

Interest rates on short-term Treasury securities are projected to fall in 2026 as the Federal Reserve lowers its target range for the federal funds rate (the interest rate that financial institutions charge each other for overnight loans of their monetary reserves) to address downside risks to the labor market.

After 2026, both short- and long-term interest rates remain above their averages from the period before the COVID-19 pandemic, mainly because federal debt, measured as a percentage of GDP, continues to grow and crowd out private investment and because generative AI innovations accelerate growth in productivity, which increases the returns on capital investment.

Income

In CBO's projections, growth in wages and salaries accelerates in 2026 as the 2025 reconciliation act strengthens demand and boosts employment. Thereafter, that growth slows along with GDP growth. As a result, wages and salaries measured as a percentage of GDP remain relatively flat from 2026 to 2036.

Table 2-1.

CBO's Economic Projections for Calendar Years 2026 to 2036

Percent

	Estimated, 2025	2026	2027	2028	Annual average 2029–2030	Annual average 2031–2036
	Change from fourth quarter to fourth quarter					
Gross domestic product						
Real[a]	1.9	2.2	1.8	1.8	1.8	1.8
Nominal	5.0	4.8	4.1	3.9	3.8	3.8
Inflation						
PCE price index	2.8	2.7	2.3	2.1	2.0	2.0
Core PCE price index[b]	2.9	2.8	2.3	2.2	2.0	2.0
Consumer price index[c]	3.0	2.8	2.4	2.3	2.3	2.3
Core consumer price index[b]	3.1	3.0	2.4	2.3	2.3	2.3
GDP price index	3.0	2.5	2.3	2.1	2.0	2.0
Employment cost index[d]	3.4	3.5	3.2	3.1	3.0	2.9
Payroll employment (average monthly change, in thousands)[e]	70[f]	105	31	42	43	45
	Fourth-quarter level					
Unemployment rate	4.5	4.6	4.5	4.4	4.3[g]	4.2[h]
	Change from year to year					
Gross domestic product						
Real[a]	2.0	2.4	1.9	1.8	1.8	1.8
Nominal	4.8	5.1	4.3	4.0	3.8	3.8
Inflation						
PCE price index	2.6	2.7	2.4	2.2	2.1	2.0
Core PCE price index[b]	2.8	2.9	2.4	2.2	2.1	2.0
Consumer price index[c]	2.8	2.9	2.5	2.4	2.3	2.3
Core consumer price index[b]	3.0	3.1	2.6	2.4	2.3	2.3
GDP price index	2.7	2.7	2.4	2.2	2.0	2.0
Employment cost index[d]	3.5	3.4	3.4	3.1	3.0	2.9
	Annual average					
Unemployment rate	4.3	4.6	4.5	4.5	4.3	4.2
Interest rates						
Effective federal funds rate[i]	4.2[f]	3.5	3.4	3.4	3.4	3.4
3-month Treasury bills	4.1[f]	3.3	3.2	3.2	3.2	3.1
10-year Treasury notes	4.3[f]	4.1	4.3	4.3	4.3	4.4
Tax bases (percentage of GDP)						
Wages and salaries	42.3	42.0	42.0	42.1	42.1	42.1
Domestic corporate profits[j]	11.3	11.1	10.8	10.4	10.0	10.0

Data sources: Congressional Budget Office; Bureau of Economic Analysis; Bureau of Labor Statistics; Federal Reserve. See www.cbo.gov/publication/61882#data.

PCE = personal consumption expenditures.

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

b. Excludes prices for food and energy.

c. The consumer price index for all urban consumers.

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

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

f. Actual value for 2025.

g. Value for the fourth quarter of 2030.

h. Value for the fourth quarter of 2036.

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

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

Domestic corporate profits grow more slowly than GDP from 2026 to 2030, causing their share of GDP to decline over that period. After 2030, those profits' share of GDP rises gradually.

Uncertainty

CBO develops its economic projections so that they fall in the middle of the range of likely outcomes under current law. Those projections are subject to considerable uncertainty, not only because of unforeseen economic developments but also because the economic effects of policies may differ from the agency's estimates. In addition to domestic factors, developments outside the United States contribute to the uncertainty.

In the current forecast, uncertainty about the pace of economic growth and the paths of inflation and interest rates stems from a few key sources.[1] Those sources include uncertainty about the effects of the 2025 reconciliation act on consumption and investment spending, the effects of higher tariffs on international trade flows and inflation, and the effects of immigration policy on net immigration and the labor market. In addition, the extent to which businesses invest in AI and the pace at which AI innovations diffuse through the economy could result in productivity and output growth that differs from the projected rates. Internationally, changes in the demand for U.S. Treasury securities, geopolitical conflicts, and slower economic growth among major trading partners could affect exchange rates, interest rates, and trade flows.

How the Current Projections Compare With CBO's Previous Projections and With Other Economic Projections

CBO's current projection of real GDP growth in 2026 is slightly higher than it was in the agency's January 2025 forecast because of the near-term boost in demand that stems from the 2025 reconciliation act, though the reduced investment and consumption attributable to higher tariffs partly offset that boost in demand. After 2026, growth of real GDP begins to converge with the growth of potential output (the amount of real GDP that can be produced if labor and capital are employed at their maximum sustainable rates) and is essentially unchanged from the real GDP growth CBO projected in January 2025.

The current projections of short-term interest rates are similar to the January 2025 projections. Long-term interest rates are higher in the current projections than they were in the January 2025 forecast, mostly because projections of capital income as a percentage of total income are now higher, the projected rate of private domestic saving is lower, and productivity growth is projected to be faster.

CBO now projects inflation to be higher through 2029 than it projected in January 2025. The higher tariffs imposed in 2025 raise prices for imported goods and intermediate inputs used in the production of other goods, temporarily pushing up the growth of the PCE price index in CBO's projections. After tariffs' effects on price growth phase out, inflation gradually declines until it reaches the Federal Reserve's target rate of 2 percent in 2030—later than projected in January 2025.

CBO's current economic projections are broadly similar to those of other forecasters, particularly the private-sector forecasters who contributed to the January 2026 *Blue Chip Economic Indicators*. The agency's projections for 2026 are also similar to the latest forecasts by Federal Reserve officials.

Policy Changes Affecting CBO's Projections

CBO's current economic projections incorporate policy changes enacted or implemented in 2025, including the 2025 reconciliation act, frequent changes in tariffs that left tariff rates higher than they were in January 2025, and policies that reduced net immigration. Those policy changes have effects on output growth and other key economic indicators that vary over the short and long terms.

The 2025 Reconciliation Act

The 2025 reconciliation act affects the economy through both demand and supply channels. (For more information about the reconciliation act and its economic effects, see Appendix A.) In the near term, the increase in the demand for goods and services attributable to the reconciliation act exceeds the increase in supply and thus boosts real GDP by more than potential GDP, puts upward pressure on prices, and reduces the

1. The federal government shutdown in October and November 2025 delayed the release of several major economic indicators. Thus, when CBO finalized its economic forecast on December 3, 2025, it had less information than it typically does when it completes its forecast. That limitation adds to the uncertainty of the near-term projections.

unemployment rate. That near-term increase in aggregate demand is driven mostly by the provisions of the law that make more resources available to households, boost the incentives to invest, and increase government spending. In the long run, the law increases real GDP through its net effects on the supply of labor, private capital, and total factor productivity.

On average, the reconciliation act pushes up interest rates in both the short run and the long run in CBO's projections. The upward pressure on interest rates stems from several factors, including the Federal Reserve's response to the law's economic effects and the rise in debt as a percentage of GDP that is attributable to the law.

Trade Policy Changes

In 2025, the United States increased tariffs on a broad range of imported goods, including many consumer products, intermediate inputs, and capital goods. In CBO's projections, the new tariffs, on net, result in real GDP that is lower than it would have been if those tariffs had not been implemented (see Box 2-1). The higher tariffs raise the cost of imported goods, temporarily increase inflation, reduce households' purchasing power, and slow real investment. They also lower productivity in the near term as resources are reallocated to less-productive activities, such as producing goods that were previously imported. Increased domestic production in import-competing industries and investments by businesses to relocate production to the United States partially offset those effects.

Increases in tariffs and in nontariff barriers by foreign trading partners, weaker foreign demand for U.S. products, and increased production costs due to the higher cost of imported inputs put downward pressure on U.S. exports in 2025 and beyond in CBO's projections. Persistent uncertainty about the direction of U.S. trade policy also continues to lead some firms to postpone expansion plans, restraining business investment, hiring, and productivity growth this year. Those effects diminish over time as global trade adjusts to the new international policy conditions and growth in U.S. trade gradually returns to more typical rates.

Immigration Policy Changes

Over the next several years, net immigration in CBO's projections falls below the levels recorded during the surge in immigration that occurred from 2021 to 2024 and below the rates the agency projected last January.[2] The downward revisions to those projections were driven primarily by administrative actions taken in 2025, but also by the 2025 reconciliation act. As a result of that slower population growth, the labor force is smaller from 2026 to 2031 than CBO projected it would be last year (see Box 2-2). That reduction in the labor supply lowers potential output and slows the pace of long-run GDP growth while dampening aggregate consumer demand and slowing the construction of new housing. The slower population growth also limits the economy's capacity to expand without generating inflationary pressure. Over time, reduced immigration dampens growth in potential output.

GDP and Its Components

In CBO's projections—which reflect the assumption that current laws governing federal taxes and spending generally remain unchanged—real GDP grows faster in 2026 than it did in 2025 partially because of the increases in consumer spending and in investment that result from the 2025 reconciliation act. The growth in 2026 also reflects the temporary shift of federal purchases and private economic activity from late 2025 into early 2026 that occurs as the federal government completes purchases delayed by the shutdown near the end of 2025, which boosts economic activity. Partially offsetting those factors in 2026 are economic headwinds from the effects of the recently imposed tariffs, which weigh on consumption and investment, and from changes in immigration policy, which slow the growth of the labor force and of potential output.

After 2026, as the boost to aggregate demand from the 2025 reconciliation act fades and trade flows adjust to the recent policy changes, real GDP growth stabilizes at a rate similar to that of potential output.

To construct its economic projections, CBO focuses on the interaction between aggregate supply and aggregate demand in the economy.[3] In the agency's short-term economic projections, which generally cover the next two to five years, fluctuations in real GDP are determined

2. Congressional Budget Office, *The Demographic Outlook: 2026 to 2056* (January 2026), www.cbo.gov/publication/61879.

3. Aggregate supply is the total productive capacity of the economy, which depends on technology and supplies of labor and capital. Aggregate demand consists of consumer spending, business fixed investment, inventory investment, residential investment, government spending, and net exports.

Box 2-1.

Economic Effects of Recent Changes in Trade Policy

During 2025, the United States increased tariffs on most imported goods, including consumer products and intermediate inputs used in manufacturing. As of November 2025, the effective tariff rate was about 13 percentage points higher than the roughly 2 percent rate on imports in 2024 (see the table). By long-standing convention, the Congressional Budget Office's projections reflect the assumption that current U.S. tariff policies implemented through executive action—in this case, policies in place as of November 20, 2025—remain in place throughout the projection period.

The higher and frequently changing tariffs put in place in 2025 are expected to affect the U.S. economy through several interrelated channels. Those policies—together with the actions of major trading partners—will, in CBO's assessment, temporarily raise the rate of inflation, reduce real investment (that is, investment adjusted to remove the effects of inflation), lower the level of real gross domestic product (GDP), and reduce employment in relation to what would have occurred without the changes in trade policy.

CBO's projections reflect certain expectations about the extent of uncertainty and about the actions of U.S. trading partners. First, the elevated uncertainty about trade policy is expected to subside and to return to the average level of uncertainty observed over the past few decades. Second, CBO expects that U.S. trading partners will introduce additional tariff and nontariff measures on U.S. exports in the future.[1] Nontariff barriers could take the form of export restraints, regulatory barriers, port fees, boycotts, or industrial policies supporting import-competing domestic industries. CBO expects such measures to eventually be equivalent to a tariff that was set at the same rate as the rate set by the United States and applied to U.S. exports equal to 50 percent of the value of U.S. imports from those trading partners that are targeted by U.S. tariffs.

1. Some U.S. trading partners have already responded with higher tariffs and new nontariff measures targeting certain U.S. exports. Many countries' measures were suspended as of November 20, but Canada's additional 25 percent tariffs on U.S. exports of steel, aluminum, and automobiles remained in place.

Higher tariffs directly increase the cost of imported goods, raising prices for U.S. consumers and businesses. Because many imports are used as inputs in domestic production, higher tariffs also indirectly raise the costs of goods and services produced domestically using imports. In CBO's assessment, foreign exporters will absorb 5 percent of the cost of the tariffs, slightly offsetting the import price increases faced by U.S. importers. In the near term, CBO anticipates, U.S. businesses will absorb 30 percent of the import price increases by reducing their profit margins; the remaining 70 percent will be passed through to consumers by raising prices. In addition, U.S. businesses that produce goods that compete with foreign imports will, in CBO's assessment, increase their prices because of the decline in competition from abroad and the increased demand for tariff-free domestic goods. Those price increases are estimated to fully offset the 30 percent of price increases absorbed by U.S. businesses that import goods, so the net effect of tariffs is to raise U.S. consumer prices by the full portion of the cost of the tariffs borne domestically (95 percent).[2] In CBO's projections, the new tariffs increase the price index for personal consumption expenditures by about 0.8 percentage points at the end of 2026 but have negligible additional effects in 2027 and beyond.

In addition to raising prices and reducing consumption, tariffs are projected to reduce investment and output. Tariffs raise the cost of imported machinery, components, and materials, dampening real investment. Investment by businesses relocating production to the United States will offset some of the adverse effect of higher costs of investment. Reallocation of resources to produce products that were previously imported also lowers efficiency and reduces output. Uncertainty about the future path of trade policy further discourages and delays investment

2. These estimates were informed by Robert Minton and Mariano Somale, "Detecting Tariff Effects on Consumer Prices in Real Time," *FEDS Notes* (Board of Governors of the Federal Reserve System, May 9, 2025), https://doi.org/10.17016/2380-7172.3786; and Aaron Flaaen, Ali Hortaçsu, and Felix Tintelnot, "The Production Relocation and Price Effects of U.S. Trade Policy: The Case of Washing Machines," *American Economic Review*, vol. 110, no. 7 (July 2020), pp. 2103–2127, https://doi.org/10.1257/aer.20190611.

Continued

Box 2-1. Continued

Economic Effects of Recent Changes in Trade Policy

by increasing the risk associated with long-term planning. The elevated uncertainty about trade policy during 2025, which peaked in April, reduces investment through 2027 in CBO's projections.

The negative effects of tariffs on output are partially offset by both increased demand for domestically produced goods and higher federal revenues, which reduce federal borrowing and increase the funds available for private investment. However, those gains are smaller than the losses in industries that rely heavily on imported inputs or that face increased foreign barriers. On net, productivity in 2030 will be about 0.4 percent lower because of the tariff changes than it otherwise would have been, CBO estimates.

Tariffs also affect the U.S. labor market. In CBO's projections, aggregate employment and output remain slightly below what they otherwise would have been throughout the projection period. Employment is also dampened by costly frictions that slow the movement between industries of workers adjusting to the effects of tariffs, especially in the short term.

CBO's tariff-related estimates are subject to significant uncertainty. One source of uncertainty is that the Administration could continue to change tariff rates or the ways in which they are administered. Notably, the authority used to impose some of the changes in tariffs has been challenged in court, and the Supreme Court's decision could result in changes to tariff policy. A second source of uncertainty is that the United States has not implemented increases in tariffs of the size implemented last year in many decades, so little empirical evidence exists on which CBO can base its estimates of tariffs' long-term effects. Consumers and businesses could be more or less responsive to the increases in tariffs implemented last year than CBO anticipates, which would cause the tariffs' actual economic and budgetary effects to differ from the agency's projections.

U.S. Imports Affected by Recent Increases in Tariffs

Category of goods	Imports in 2024 (billions of dollars)	Category's share of imports in 2024 (percent)	Effective tariff rate in 2024 (percent)	Increase in effective tariff rate (percentage points)	Imports affected by tariff increases (billions of dollars)	Percentage of category affected by new tariffs
Foods, feeds, and beverages	764	24	2	12	333	44
Capital goods, except automotive	946	29	2	15	660	70
Automotive vehicles, parts, and engines	473	15	2	15	401	85
Consumer goods	798	25	4	14	510	64
Other goods	133	4	*	4	25	18
Total	**3,251**	**100**	**2**	**13**	**1,991**	**61**

Data source: Congressional Budget Office, using information from the Census Bureau and the U.S. Trade Representative. See www.cbo.gov/publication/61882#data.

* = between zero and 0.05 percent.

The effective tariff rate in 2024 reflects the measures "calculated duties" and "goods imports for consumption" produced by the Census Bureau. Calculated duties may not reflect the exact value of the duties paid. The increase in the effective tariff rate and the imports affected by new tariffs were calculated using imports for consumption in 2024.

Box 2-2.

Economic Effects of CBO's Revised Population Projections

When the Congressional Budget Office published its latest demographic projections in January 2026, it revised downward its projections of net immigration over the 2026–2029 period and its projections of fertility rates below the rates in its January 2025 demographic projections, which the agency used to prepare the economic forecast it published that month.[1] Those demographic adjustments lowered CBO's projections of population growth, the size of the labor force, and the pace of output growth and potential output growth over most of the 10-year projection period.

The U.S. population grows at an average rate of 0.3 percent per year from 2026 to 2035 in the current projections—half the rate projected in January 2025. As a result, in 2035, the working-age population (the civilian noninstitutionalized population age 16 or older) is now projected to comprise about 2.4 million fewer people than projected last year.[2]

Labor Market. The smaller population and labor force (the number of people in the civilian noninstitutionalized population age 16 or older who are either employed or actively seeking work) contribute to lower potential (maximum sustainable) output over the long run in the current projections because a smaller population leads to lower aggregate demand. Weaker aggregate demand and potential output also cause sluggish labor demand, which slightly raises the unemployment rate's noncyclical component. Lower net immigration through 2029 and the aging population also lower projections of the growth of the potential labor force and of the potential labor force participation rate because participation tends to be lower among older workers and higher among recently arrived immigrants with work authorization.[3]

In the short run, the slower population growth puts downward pressure on labor force growth and increases wage pressures in some sectors. With fewer available workers, overall employment in CBO's projections grows more slowly than it would have without the slowdown in population growth, and the tighter labor market then puts upward pressure on wages. Reduced labor supply could put upward pressure on wages and prices in industries in which worker shortages are most acute. Those effects are likely to be modest and temporary because slower population growth would also dampen the overall demand for goods, services, and housing.

Investment. Over time, businesses are expected to respond to weaker labor force growth by reducing capital investment to align with their lower employment, although they may also adopt labor-saving technologies or shift production toward less labor-intensive activities. In addition, the slower growth of the adult population reduces the need for new housing units, curtailing residential investment.

Inflation. The effects on prices of weaker aggregate demand and lower potential output roughly offset each other over time, leaving long-run inflation near the Federal Reserve's goal of 2 percent. As in previous analyses, CBO expects demographic factors to influence the composition of inflationary pressures—shifting them from goods and housing toward services—but not to alter the long-term trajectory of overall price growth.

Output. Lower net immigration, and the resulting smaller population over time, cause nominal gross domestic product (GDP) to be lower than it otherwise would have been. CBO previously projected that the surge in immigration that began in 2021, which was estimated to increase the population by about 10 million people by 2034, would boost nominal GDP over the 2024–2034 period by $8.9 trillion.[4] The lower cumulative net immigration estimates reduce the size of that boost to nominal GDP in CBO's current projections.

1. Congressional Budget Office, *The Demographic Outlook: 2026 to 2056* (January 2026), www.cbo.gov/publication/61879, and *The Demographic Outlook: 2025 to 2055* (January 2025), www.cbo.gov/publication/60875.

2. The civilian noninstitutionalized population excludes members of the armed forces on active duty and people in penal or mental institutions, detention facilities, or homes for the elderly or infirm.

3. The potential labor force is an estimate of how big the labor force would be if economic output and other key variables were at their maximum sustainable amounts. The labor force participation rate is the percentage of people in the civilian noninstitutionalized population age 16 or older who are in the labor force.

4. Congressional Budget Office, *Effects of the Immigration Surge on the Federal Budget and the Economy* (July 2024), www.cbo.gov/publication/60165.

mainly by movements in aggregate demand, although they are also affected by supply-related factors, such as immigration, taxes on labor, and factors that affect the cost of new investments.

Over time, businesses are increasingly able to respond to changes in demand and in supply-related factors by altering their inputs into production. Thus, CBO's economic projections for the long term mainly reflect the factors that underlie aggregate supply and determine potential output.

CBO's assessment of potential output depends on its projections of several key factors of production, including hours worked, the supply of capital services (the flow of productive services from the stock of capital assets, such as equipment, software, factories, and homes), and the pace and adoption of technological innovation in the economy.

Consumer Spending

In CBO's projections, real consumer spending increases by 1.8 percent in 2026, the same rate at which it grew in 2025. The 2025 growth was driven in part by increases in household wealth associated with higher valuations of financial assets. Consumer spending growth remains solid this year, as tailwinds from the 2025 reconciliation act offset a number of headwinds facing households.

In CBO's projections, consumer spending this year is boosted by the reduction in individual income taxes enacted in the 2025 reconciliation act. That reduction raises households' disposable income, in part through larger-than-usual tax refunds that will arrive in the first half of the year.

Several other factors restrain spending. Those factors include tariff-related price increases, which continue to erode purchasing power, and the slower population growth that stems from lower net immigration. The boost to spending growth from the greater household wealth that results from financial assets' higher values in 2025 also wanes in 2026. The higher prices for goods resulting from the tariffs further influence spending patterns by shifting the composition of consumer spending toward services and away from goods.

In 2027, real consumer spending growth slows to 1.5 percent in CBO's projections. The tax changes enacted in the 2025 reconciliation act raise the *level* of disposable income over the entire forecast period above what it would have been otherwise. Because most of that increase in disposable income occurs in 2026, the reconciliation act does not boost the *growth* of disposable income in 2027. As a result, consumer spending growth slows in 2027, though it continues to reflect the higher level of income. From 2028 to 2036, real consumer spending grows at an average annual rate of 1.9 percent, broadly consistent with the growth of income and potential output in those years.

Business Investment

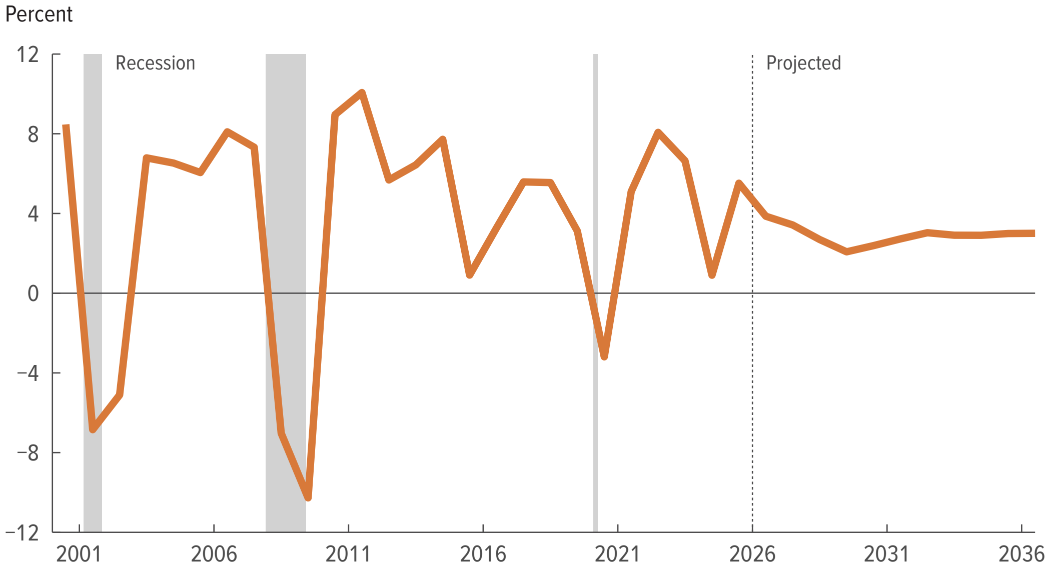
Driven by investments in generative AI and the investment incentives in the 2025 reconciliation act, real business fixed investment continues to grow at a solid pace in 2026 in CBO's projections. (Business fixed investment consists of purchases of new equipment, nonresidential structures, and intellectual property products, such as software, by private companies and nonprofit institutions. Such investment is labeled fixed to distinguish it from investment in inventories.) Growth in AI-related real business fixed investment—construction of data centers, purchases of the computers used in them, and investment in intellectual property deployed to use AI—is especially strong. After 2026, as the positive effects of investment incentives level off and slower growth of GDP reduces the need for businesses to expand capacity, growth of real business investment gradually slows. Even so, the investment incentives in the 2025 reconciliation act permanently boost the level of investment above what it otherwise would have been.

Real business fixed investment is projected to increase by 3.9 percent in 2026 and by 3.4 percent in 2027 after growing at an annual rate of 5.5 percent in 2025 (see Figure 2-2). Growth of real business fixed investment continues to slow along with the growth of GDP in CBO's projections, to just over 2 percent in 2029, but then picks up in 2030 and averages 2.9 percent per year from 2031 to 2036. Growth in such investment outpaces the growth of real potential output throughout the projection period because the price of investment goods and services grows more slowly than the prices of all the goods and services that make up GDP, meaning that investment becomes less expensive in terms of the output it produces.

Businesses' investment in real inventories (finished goods, work in process, and materials and supplies) is projected to increase in 2026 after slowing in the final three quarters of 2025. That weakness stemmed from an unusually large buildup of inventories in the first quarter of 2025 as businesses imported goods in advance of expected tariffs. As a result, inventory investment is projected to add to the growth of GDP in 2026. Investment

Figure 2-2.

Growth of Real Business Fixed Investment



After accelerating in 2025, the growth of real business fixed investment slows through 2029 in CBO's projections before beginning to pick back up in 2030. Growth in such investment outpaces the growth of real potential GDP throughout the projection period.

Data source: Congressional Budget Office. See www.cbo.gov/publication/61882#data.

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

Business fixed investment consists of purchases of new equipment, nonresidential structures, and intellectual property products (such as software) by private companies and nonprofit institutions.

Recessions, which begin just after a peak in economic activity and run through the subsequent trough, are plotted using monthly data; all other data are annual and are plotted at the midpoint (July 1) of each year.

in inventories has little effect on GDP growth after 2026 in CBO's projections.

Residential Investment

CBO expects pent-up demand, the reduced supply of recently completed multifamily units, and the scarcity of existing homes for sale to boost demand for new homes, leading real residential investment to increase by 2.9 percent in 2026 and by 3.6 percent in 2027 as homebuilding picks up.[4] Pent-up demand for additional housing units stems from people's desire for more living space after the pandemic and from the large number of immigrants who arrived from 2021 to 2024.

After another year of solid growth in 2028, real residential investment is projected to change little through the end of the projection period because of demographic trends. As the population ages, a rising number of deaths combined with smaller cohorts of young adults causes growth of the adult population to slow in CBO's projections, resulting in less demand for additional housing units. In addition, net immigration is projected to be lower in the future than it was from 2021 to 2024, further reducing the demand for additional housing units.

Home prices (as measured by the S&P Cotality Case-Shiller Home Price Index) rose by an average of 10.2 percent per year from 2020 to 2023 because of rising demand for homes and a limited inventory of existing homes for sale. Price growth cooled to 3.8 percent in 2024 and to an estimated 0.7 percent in 2025 as higher interest rates on mortgages and high home prices reduced demand. The growth of home prices rebounds over the next two years in CBO's projections, reaching 2.0 percent in 2026 and 3.0 percent in 2027.

Government Purchases

Total real purchases by federal, state, and local governments fluctuate in the near term in CBO's projections as temporary and policy-related factors shape spending at all levels of government. After declining by an estimated 1.3 percent in 2025, total real government purchases increase by 2.4 percent in 2026 and then grow by an average of 0.1 percent per year from 2027 to 2036 (see Table 2-2).

4. Residential investment includes spending on home construction (new single-family and multifamily structures, manufactured homes, and dormitories), home improvements, and brokers' commissions and other ownership-transfer costs.

Table 2-2.

Projected Growth of Real GDP and Its Components

	Estimated, 2025	2026	2027	2028	Annual average 2029–2030	Annual average 2031–2036
	Change from fourth quarter to fourth quarter (percent)					
Real GDP	1.9	2.2	1.8	1.8	1.8	1.8
Components of real GDP						
Consumer spending	1.8	1.8	1.5	1.6	1.9	2.0
Business fixed investment[a]	5.5	3.9	3.4	2.7	2.2	2.9
Residential investment[b]	-2.4	2.9	3.6	2.5	1.0	-0.4
Purchases by federal, state, and local governments[c]	-1.3	2.4	0.3	*	*	0.2
Federal	-6.1	5.8	0.1	-0.7	-0.5	-0.1
State and local	1.7	0.5	0.4	0.4	0.4	0.3
Exports	0.4	2.0	2.0	2.3	2.4	2.1
Imports	-1.3	2.7	0.6	0.3	1.1	1.6
Inventory investment (billions of 2017 dollars)[d]	17.9	16.4	-6.8	2.3	1.7	1.9
	Contributions to the growth of real GDP (percentage points)					
Components of real GDP						
Consumer spending	1.2	1.3	1.0	1.1	1.3	1.3
Business fixed investment[a]	0.7	0.5	0.5	0.4	0.3	0.4
Residential investment[b]	-0.1	0.1	0.1	0.1	*	*
Purchases by federal, state, and local governments[c]	-0.2	0.4	0.1	*	*	*
Federal	-0.4	0.4	*	*	*	*
State and local	0.2	*	*	*	*	*
Exports	*	0.2	0.2	0.2	0.2	0.2
Imports	0.2	-0.4	-0.1	*	-0.1	-0.2
Inventory investment[d]	0.1	0.1	*	*	*	*

Data source: Congressional Budget Office. See www.cbo.gov/publication/61882#data.

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

* = between -0.05 and 0.05 percentage points.

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

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

c. Based on the national income and product accounts.

d. The change in private inventories.

In CBO's projections, federal purchases, which fell by 6.1 percent in 2025 because of the government shutdown late in the year, rise in 2026 as activity resumes and as the 2025 reconciliation act increases funding for defense, border security, and immigration enforcement. Thereafter, growth slows and becomes negative, averaging a rate of –0.2 percent annually from 2027 to 2036 as spending stemming from the 2025 reconciliation act winds down and reductions (relative to 2025 amounts) in appropriations for fiscal year 2026 take effect.

The growth of purchases by state and local governments has been slowing since 2024 as revenue growth has normalized and pandemic-era federal aid has wound down. That deceleration continues over the next few years in CBO's projections. Growth in real purchases by state and local governments, which was 1.7 percent in 2025, moderates to 0.5 percent in 2026 and then continues at an average annual rate of 0.3 percent through the end of the projection period.

Exports and Imports

U.S. trade flows weakened in 2025, CBO estimates, as higher tariffs raised the cost of imported goods and foreign governments' policy responses reduced global demand for U.S. products. Trade activity begins to recover in 2026 in CBO's projections as tariff-related trade adjustments slow, the uncertainty about trade policy diminishes, and the 2025 reconciliation act boosts the overall demand for goods and services. Over the longer term, both exports and imports grow moderately, at roughly the same pace as potential output.

After declining as a percentage of GDP in 2025 in CBO's estimation, the U.S. trade deficit (the gap between the value of the United States' imports and the value of its exports) continues to decrease through 2034 in the agency's projections and remains roughly steady thereafter. The trade deficit in 2025 is estimated to have equaled 2.7 percent of GDP, less than the 3.1 percent of GDP it amounted to in 2024. From 2026 to 2036, nominal imports are projected to grow at an average annual rate of 3.0 percent and exports at a rate of 3.8 percent. Exports grow faster than imports in CBO's projections because recent tariff changes affect U.S. imports more than exports and because the U.S. dollar depreciates over the projection period. As a result, the trade deficit shrinks to 1.6 percent of GDP in 2036.

Value of the Dollar. The foreign exchange value of the U.S. dollar, measured against the currencies of major trading partners, is projected to decline after 2025. The dollar appreciated temporarily in early 2025 as tariffs and trade tensions increased demand for dollar-denominated assets and as investors sought safety amid uncertainty. However, over the rest of 2025, the dollar depreciated, largely in response to developments in U.S. trade policy and the uncertainty about it. From 2026 to 2036, the U.S. dollar continues to weaken in CBO's projections as top U.S. trading partners' interest rates rise in relation to U.S. rates, as inflation in those countries remains relatively low, and as foreign economic growth recovers from a weak second half of 2025, making foreign assets more attractive relative to U.S. assets. From 2026 to 2036, the exchange value of the dollar falls by a total of 9.6 percent, moving closer to its long-run average.

Exports. Real exports grew by an estimated 0.4 percent in 2025 as higher tariffs imposed on intermediate goods increased production costs for U.S. manufacturers and as trading partners responded to U.S. policy changes (see Table 2-2). Exports were also weakened by slower global growth, which reduced foreign demand for U.S. goods and services. In CBO's projections, exports recover and grow by 2.0 percent in 2026 as firms adjust their supply chains and global demand strengthens. Supported by the gradual depreciation of the dollar, strengthening foreign demand, and ongoing expansion in service exports (such as information technology, financial services, and intellectual property), real export growth averages 2.1 percent per year from 2027 to 2036.

Imports. Real imports fell by an estimated 1.3 percent in 2025 because tariffs raised the prices of foreign-sourced consumer goods, capital goods, and intermediary inputs and because the temporary drop in overall economic activity caused by the federal government shutdown reduced domestic demand for imported items. Imports are projected to recover and to grow by 2.7 percent in 2026 as income and investment strengthen under the 2025 reconciliation act. Over the longer term, import growth is relatively slow in CBO's projections as firms and consumers continue to adjust to higher tariffs, domestic production expands, the dollar depreciates, and slower population growth limits overall consumption. Additionally, strong growth in imports of computer equipment to support AI-related investment, which bolsters import growth in 2025 and 2026, dissipates by 2027. Real imports grow by an average of 1.3 percent per year from 2027 to 2036.

Potential Output and Productivity

CBO's projections of potential output reflect anticipated trends in the labor force, the noncyclical rate of unemployment (the rate of unemployment resulting from all sources except changes in aggregate demand), capital accumulation, and productivity. Over the next decade, the growth of potential output is shaped mainly by two forces: slower growth of the potential labor force caused by reduced net immigration and the aging of the population, and the slowing growth of potential labor force productivity. (The potential labor force is an estimate of how big the labor force would be if economic output and other key variables were at their maximum sustainable amounts. Potential labor force productivity is a measure of the maximum sustainable output per worker, calculated by dividing real potential GDP by the potential labor force.)

Growth of real potential GDP slows from an average rate of 2.1 percent per year over the 2026–2030 period to an average rate of 1.8 percent per year over the 2031–2036 period in CBO's projections (see Table 2-3). That decline in potential GDP growth is mainly attributable to the slightly slower growth of potential labor force productivity in the second half of the projection period that results from slowing growth in real business fixed investment.

Table 2-3.

Key Inputs in CBO's Projections of Real Potential GDP

Percent

	Average annual growth							Projected average annual growth		
	1950–1973	1974–1981	1982–1990	1991–2001	2002–2007	2008–2025	Overall, 1950–2025	2026–2030	2031–2036	Overall, 2026–2036
Overall economy										
Real potential GDP[a]	4.0	3.1	3.1	3.4	2.4	2.0	3.1	2.1	1.8	1.9
Potential labor force[b]	1.6	2.4	1.4	1.4	0.9	0.7	1.4	0.4	0.4	0.4
Potential labor force productivity[c]	2.4	0.7	1.7	2.0	1.4	1.3	1.7	1.6	1.4	1.5
Nonfarm business sector										
Real potential output	4.1	3.5	3.3	3.9	2.4	2.3	3.4	2.4	2.2	2.3
Potential hours worked	1.4	2.2	1.5	1.5	0.2	0.7	1.2	0.6	0.4	0.5
Capital services[d]	4.3	4.0	3.9	4.2	2.9	2.5	3.7	2.6	2.2	2.4
Potential total factor productivity[e]	1.7	0.6	1.0	1.4	1.4	1.0	1.3	1.1	1.1	1.1
Contributions to the growth of real potential output (percentage points)										
Potential hours worked	1.0	1.5	1.0	1.0	0.1	0.5	0.8	0.4	0.3	0.3
Capital services[d]	1.4	1.3	1.3	1.4	0.9	0.8	1.2	0.8	0.7	0.8
Potential total factor productivity[e]	1.7	0.6	1.0	1.4	1.4	1.0	1.3	1.1	1.1	1.1
Total contributions	**4.1**	**3.4**	**3.3**	**3.8**	**2.4**	**2.3**	**3.3**	**2.4**	**2.2**	**2.3**
Potential labor productivity[f]	2.6	1.2	1.8	2.3	2.3	1.6	2.1	1.8	1.7	1.8

Data source: Congressional Budget Office. See www.cbo.gov/publication/61882#data.

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

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

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

b. CBO's estimate of how big the labor force would be if economic output and other key variables were at their maximum sustainable amounts. Estimates are based on data from the Census Bureau through 2020 and CBO's estimates and projections thereafter.

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

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

e. The average real output per unit of combined labor and capital services, excluding the effects of cyclical changes in the economy.

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

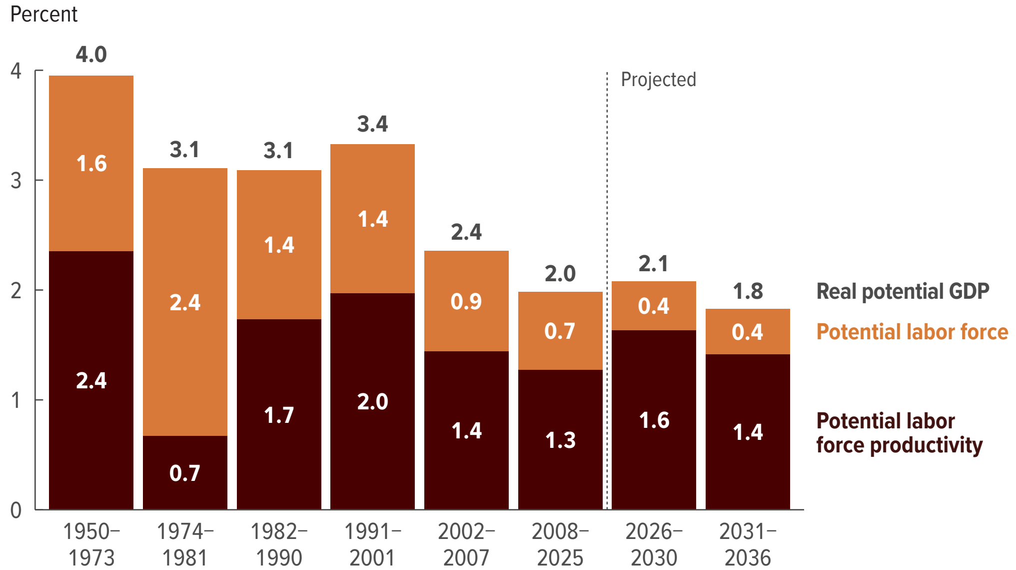
The 1.8 percent average annual growth of real potential GDP from 2031 to 2036 is slower than the average rate of 2.0 percent recorded from 2008 to 2025, primarily because the potential labor force grows more slowly over the next decade than it did in that earlier period. The potential labor force increases by an average of 0.4 percent per year over the 2026–2036 period—less than the annual average increase of about 0.7 percent recorded from 2008 to 2025 (see Figure 2-3). That slowdown mainly reflects the reduction in net immigration and the aging population, both of which reduce the number of new workers entering the labor market.

Potential labor force productivity, which captures the contributions to real GDP growth of both capital accumulation and the growth of total factor productivity, is projected to rise at an average annual rate of 1.5 percent from 2026 to 2036. That growth is slower than its average pace during the late 1990s but faster than the pace of the 2010s, largely because of increases in TFP.

The growth of TFP—the portion of real output growth not explained by increases in labor or capital inputs—is projected to gradually accelerate from its average pace over the past 20 years as new technologies, particularly

Figure 2-3.

Average Annual Growth of Real Potential GDP and Its Components



Real potential GDP grows by an average of 2.1 percent per year from 2026 to 2030 and by an average of 1.8 percent per year from 2031 to 2036 in CBO's projections. Growth slows in the second half of the projection period because potential labor force productivity grows more slowly in those years.

Data source: Congressional Budget Office. See www.cbo.gov/publication/61882#data.

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

Real potential GDP is CBO's estimate of the amount of real GDP that could be produced if labor and capital were employed at their maximum sustainable rates. Its growth is the sum of the growth of the potential labor force and of potential labor force productivity. The potential labor force is CBO's estimate of how big the labor force would be if economic output and other key variables were at their maximum sustainable amounts. Potential labor force productivity is a measure of the maximum sustainable output per worker, calculated by dividing real potential GDP by the potential labor force.

The bars show average annual growth rates over the specified periods. Those rates are calculated using calendar year data.

generative AI, diffuse through the economy. The widespread adoption of the generative AI applications currently in production is expected to improve business efficiency and the organization of work and thus to lift TFP growth modestly over the next decade. Because such technologies typically take years to integrate into business processes, their effects are gradual. In CBO's projections, annual TFP growth from 2026 to 2036 is 0.1 percentage point higher than it would have been without the additional contribution from generative AI diffusion; that faster growth increases the level of output in the nonfarm business sector by 1 percent in 2036. Other factors—such as the provisions in the reconciliation act that raise federal investment in infrastructure and private investment in research and development—also contribute to TFP growth in CBO's projections.

Those gains in TFP are slightly offset by the effects of higher tariffs. In the agency's estimation, the recent increases in tariffs change the allocation of capital to sectors and processes in such a way that capital is less productive.

The Labor Market

After weakening in 2025, labor market conditions are projected to gradually improve in 2026 as fiscal expansion takes effect. Conditions stabilize at levels consistent with long-run potential output thereafter. In CBO's projections, the labor force—the number of people in the civilian noninstitutionalized population age 16 or older who have jobs or are unemployed (available for work and either seeking work or expecting to be recalled from a temporary layoff)—grows more slowly than it has in recent years because the positive effects of the 2025 reconciliation act on labor force growth only partially offset the negative effects on that growth from the reduction in net immigration (relative to net immigration flows from 2021 to 2024) and the aging of the population.[5]

The labor force participation rate (the percentage of people in the civilian noninstitutionalized population age 16 or older who are in the labor force) gradually declines over the projection period as the population

5. The civilian noninstitutionalized population excludes members of the armed forces on active duty and people in penal or mental institutions, detention facilities, or homes for the elderly or infirm.

ages. Employment growth rebounds in 2026 with the pickup in overall economic activity that is largely due to the 2025 reconciliation act. The unemployment rate declines in 2027. Growth in wages slows after 2026 as the upward pressure on wages from elevated inflation eases. By the end of the projection period, growth in employment, the labor force, and wages moderates, and the unemployment rate declines to a level consistent with CBO's estimate of the noncyclical rate of unemployment.

Labor Force

The labor force continues to expand in CBO's projections, but it grows more slowly than it did over the 2021–2024 period. In those four years after the start of the pandemic, the labor force grew by an average of 1.6 percent annually. From 2026 to 2029, the labor force is projected to grow at an average annual rate of 0.4 percent.[6]

That near-term slowdown primarily reflects net immigration rates that are lower than they were from 2021 to 2024. By increasing incentives to work and thus the supply of labor, the 2025 reconciliation act provides a boost to labor force growth that partially offsets the negative effects of slow population growth from 2026 to 2029.

Over the long run, the labor force grows more slowly than it did in the decade before the pandemic. Whereas labor force growth averaged 0.7 percent annually from 2009 to 2019, it averages 0.4 percent per year from 2026 to 2036 in CBO's projections. That slowdown primarily reflects the aging of the population.

The overall labor force participation rate declines from 62.5 percent in 2025 to 61.9 percent in 2036 in CBO's projections (see Figure 2-4). Trends in the composition of the population are responsible for that gradual decline. As members of the baby boom generation (people born from 1946 to 1964) and members of Generation X (people born from 1965 to 1980) retire, the labor force participation rate declines. That decline is partially offset by increased participation among people at the prime working ages of 25 to 54, whose incentives to work are now greater because of the 2025 reconciliation act.

Employment

Employment growth slowed in late 2025 as weaker demand and the temporary federal shutdown reduced hiring. In 2026, employment growth is projected to rebound with the pickup in overall economic activity resulting mostly from the 2025 reconciliation act. As real GDP growth strengthens, businesses will, in CBO's assessment, expand payrolls to meet higher demand.

In CBO's projections, growth in nonfarm payroll employment accelerates this year: Whereas an average of 70,000 jobs were added per month in 2025, an average of 105,000 jobs are added per month in 2026 (see Figure 2-5). That growth then slows in 2027, when an average of 31,000 jobs are added per month (see Table 2-1 on page 27). From 2028 to 2036, payroll employment grows at an average annual rate of 0.3 percent—slower than in recent years—as population aging, lower net immigration than in the 2021–2024 period, and weaker labor demand limit the growth of the labor force and payroll employment.

Unemployment

The unemployment rate, which CBO estimates to have averaged 4.5 percent in the fourth quarter of 2025, reaches 4.6 percent in early 2026 in the agency's projections and remains steady through the rest of the year. It then declines to 4.5 percent in 2027 and to 4.4 percent in 2028 as it gradually reverts to its noncyclical rate.

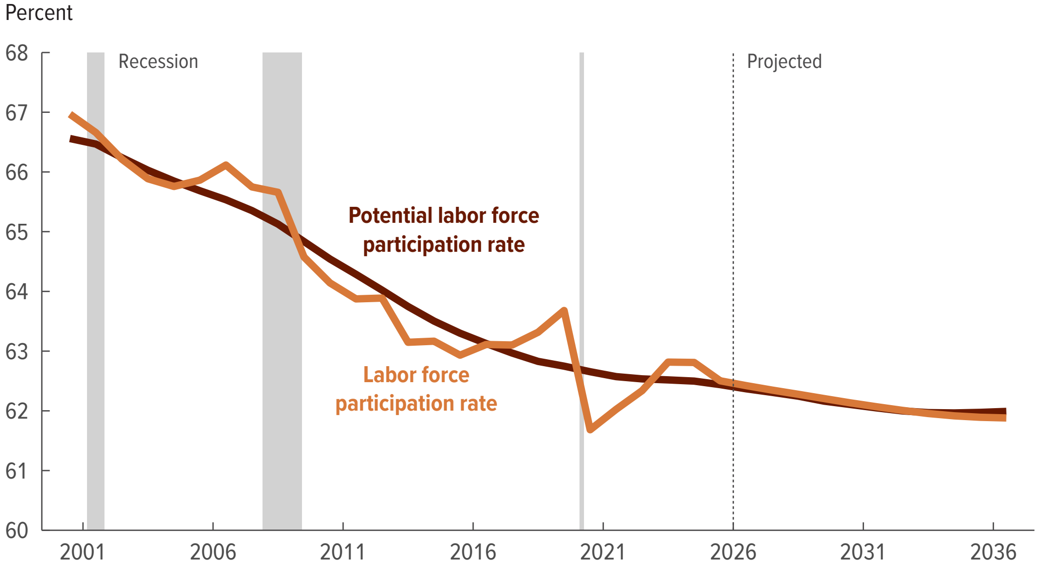
By boosting economic activity, the 2025 reconciliation act reduces the unemployment rate in 2026 and 2027 below what it otherwise would have been in CBO's projections. From 2028 to 2031, the unemployment rate remains near 4.3 percent. After 2031, it declines slightly to 4.2 percent, roughly in line with CBO's estimate of the noncyclical rate of unemployment. That decline reflects the continuing shift in the composition of the workforce toward older workers, who tend to have lower rates of unemployment (when they participate in the labor force), and away from less-educated workers, who tend to have higher rates of unemployment.

Temporary factors—including slower hiring during the government shutdown in the fourth quarter of last

6. CBO projects two measures of the civilian noninstitutionalized population age 16 or older. The first projection—which CBO calls Census Through 2020 Plus CBO Projection—incorporates population estimates made by the Census Bureau through 2020 and reflects CBO's estimates of population growth thereafter (including CBO's estimates of net immigration after 2020). The second projection—called BLS Through 2025 Plus CBO Projection—uses data from the Bureau of Labor Statistics (BLS) through 2025. The first projection is used in CBO's estimates of the labor force participation rate and the size of the labor force. CBO uses the second projection to estimate the unemployment rate and payroll employment numbers that will be reported by BLS. See Congressional Budget Office, *The Demographic Outlook: 2026 to 2056* (January 2026), www.cbo.gov/publication/61879.

Figure 2-4.

Labor Force Participation



The overall labor force participation rate declines from 62.5 percent in 2025 to 61.9 percent in 2036 in CBO's projections. Trends in the composition of the population are responsible for that gradual decline.

Data sources: Congressional Budget Office; Bureau of Labor Statistics. See www.cbo.gov/publication/61882#data.

The labor force participation rate is the percentage of people age 16 or older in the civilian noninstitutionalized population who have jobs or are unemployed (available for work and either seeking work or expecting to be recalled from a temporary layoff). (The civilian noninstitutionalized population excludes members of the armed forces on active duty and people in penal or mental institutions, detention facilities, or homes for the elderly or infirm.) The potential labor force participation rate is CBO's estimate of what the rate would be if economic output and other key variables were at their maximum sustainable amounts.

Recessions, which begin just after a peak in economic activity and run through the subsequent trough, are plotted using monthly data; all other data are annual and are plotted at the midpoint (July 1) of each year.

year and upward pressure on labor force participation stemming from the 2025 reconciliation act's lowering tax rates—contribute to modest fluctuations in unemployment into 2026. Over the longer term, the unemployment rate is projected to remain stable as output grows at nearly the same rate as potential output and as inflation remains close to the Federal Reserve's long-run goal.

Hourly Wages and Salaries

In CBO's forecast, nominal wage growth slows after 2026 as upward pressures from strong labor demand and elevated inflation ease. The employment cost index for wages and salaries of workers in private industry—a measure of the hourly price of labor, excluding fringe benefits—grows by 3.5 percent in 2026 and by 3.2 percent in 2027; it then increases by an average of 3.0 percent annually from 2028 to 2036.

The growth of real compensation per hour in the nonfarm business sector—a useful gauge of longer-term trends in labor costs—slows after 2026 in CBO's projections as inflation and labor demand moderate. From 2028 to 2036, real compensation per hour in the nonfarm business sector rises by an average of 1.8 percent annually, slightly outpacing growth in labor productivity in the nonfarm business sector over that period.

Inflation and Interest Rates

CBO projects that inflation will rise temporarily in early 2026 as tariffs raise costs for consumers and businesses. Inflation moderates thereafter in the agency's projections as demand stabilizes and the effects of the tariffs wane.

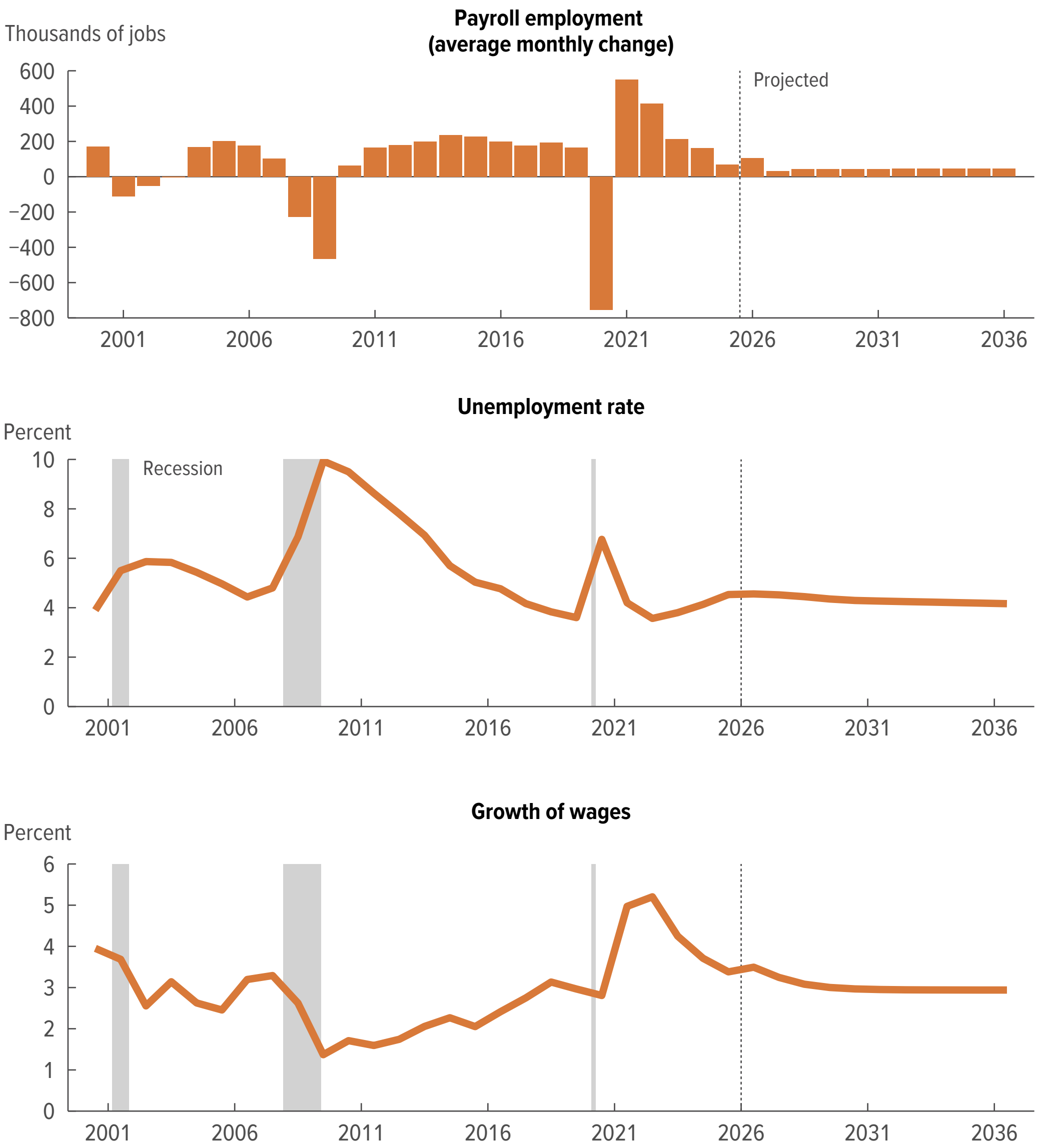
To address downside risks to the labor market, the Federal Reserve is expected to further lower the federal funds rate in 2026, and as a result, interest rates on short-term Treasury securities decline in CBO's projections. After 2026, both short- and long-term interest rates change little.

Inflation

Measured from the fourth quarter of one calendar year to the fourth quarter of the next, inflation in the price index for personal consumption expenditures (the Federal Reserve's preferred measure of inflation) is estimated to

Figure 2-5.

Employment, Unemployment, and Wage Growth



In CBO's projections, the average net number of jobs added to payrolls each month rebounds in 2026, but throughout the projection period, that number remains less than it was from 2021 to 2024.

The unemployment rate reaches 4.6 percent in 2026 before falling to 4.5 percent in 2027 and to 4.4 percent in 2028. It reverts to its noncyclical rate of 4.2 percent in 2032.

Nominal wage growth accelerates in 2026 but slows thereafter as labor market conditions tighten and inflation eases.

Data sources: Congressional Budget Office; Bureau of Labor Statistics. See www.cbo.gov/publication/61882#data.

Payroll employment is the number of employed workers, excluding proprietors, private household employees, unpaid volunteers, farm employees, and unincorporated self-employed workers. The average monthly change in payroll employment is calculated by dividing by 12 the net change in nonfarm payrolls from the fourth quarter of one calendar year to the fourth quarter of the next year.

The unemployment rate is the percentage of people in the labor force who are not working but are available for work and are either seeking work or expecting to be recalled from a temporary layoff. Data for the unemployment rate are fourth-quarter average values.

Wages are measured using the employment cost index for wages and salaries of workers in private industry. Annual wage growth is measured from the fourth quarter of one calendar year to the fourth quarter of the next year.

Recessions, which begin just after a peak in economic activity and run through the subsequent trough, are plotted using monthly data; all other data are annual and are plotted at the midpoint (July 1) of each year.

have risen to 2.8 percent in 2025, reflecting the effects of new tariffs on consumer goods and a rise in prices of energy services. Driven by continued price pressure from tariffs, inflation remains elevated through the first half of this year and softens thereafter. Inflation declines from 2.7 percent in 2026 to 2.1 percent in 2028.

Core PCE inflation, which excludes food and energy prices, follows a similar pattern: It peaks in the first quarter of 2026 and then gradually declines as the temporary effects from tariffs fade and the focus of monetary policy shifts from stabilizing prices to promoting full employment. In CBO's projections, both overall and core PCE inflation reach a rate roughly consistent with the Federal Reserve's long-run goal of 2 percent in 2030 (see Figure 2-6).

Inflation in the consumer price index for all urban consumers (CPI-U) follows a similar pattern in CBO's projections, reaching 2.8 percent in 2026. Overall and core CPI-U inflation return to prepandemic trends more quickly than overall and core PCE inflation; both CPI-U measures fall to 2.3 percent, a rate consistent with the Federal Reserve's long-run target for inflation, in 2028. Core CPI-U inflation is usually about 0.3 percentage points higher than core PCE inflation, but since the beginning of 2025, the gap has been smaller than its historical average as price increases have eased for categories of goods and services, such as shelter services, that are assigned greater weight in the calculation of the CPI-U. After 2030, the difference between CPI-U and PCE inflation is 0.3 percentage points, on average, consistent with the average difference between those two measures from 2000 to 2018, a period of low and stable inflation; the rates are also consistent with the Federal Reserve's long-run goal for inflation.

Interest Rates

In CBO's projections, the Federal Reserve further lowers the federal funds rate from an average of 3.9 percent in the fourth quarter of 2025 to an average of 3.4 percent in the fourth quarter of 2026, thereby bringing the rate to a level that neither stimulates nor restrains economic activity (see Figure 2-7). The Federal Reserve lowers the rate to address downside risks to the labor market as upside risks to inflation wane. As a result, interest rates on short-term Treasury securities also decline in 2026.

The interest rate on 10-year Treasury notes rises gradually in CBO's projections—from 4.1 percent in the fourth quarter of 2025 to 4.3 percent in the fourth quarter of 2027—reflecting a projected increase in term premiums (the additional returns that investors require to hold a longer-term bond instead of a series of shorter-term securities). Various factors—investors' heightened concern about relatively weak global economic growth and the increased demand for long-term Treasury securities as a hedge against unexpected declines in inflation, for example—have pushed term premiums downward over the past decade. Those factors have begun to dissipate and are expected to continue to do so, contributing to the projected rise in the interest rate on 10-year Treasury notes over the next several years.

After 2027, both short- and long-term interest rates remain relatively stable. That is because the forces exerting upward pressure on interest rates—most notably rising federal debt—and those exerting downward pressure—most prominently the slower growth of the labor force—balance each other out through the end of the projection period.

Over the next decade, both real and nominal interest rates are projected to remain higher than their averages over the past decade. In CBO's projections, federal debt is larger over the next 10 years than it was over the past 10 years, and productivity grows more quickly, pushing up real interest rates. In addition, inflation is higher than it was before the pandemic, resulting in higher nominal interest rates.

Income

CBO's projections of federal revenues depend, in part, on its projections of the amount of income earned by households and businesses in the U.S. economy. That income consists of income in several categories, such as wages and salaries, corporate profits, and proprietors' income, that are taxed at different rates—or not taxed at all. CBO's projections of the different categories of income depend on its projections of real output, prices, interest rates, and labor market conditions. The two income categories that tend to have the largest effect on revenues are wages and salaries and domestic corporate profits.

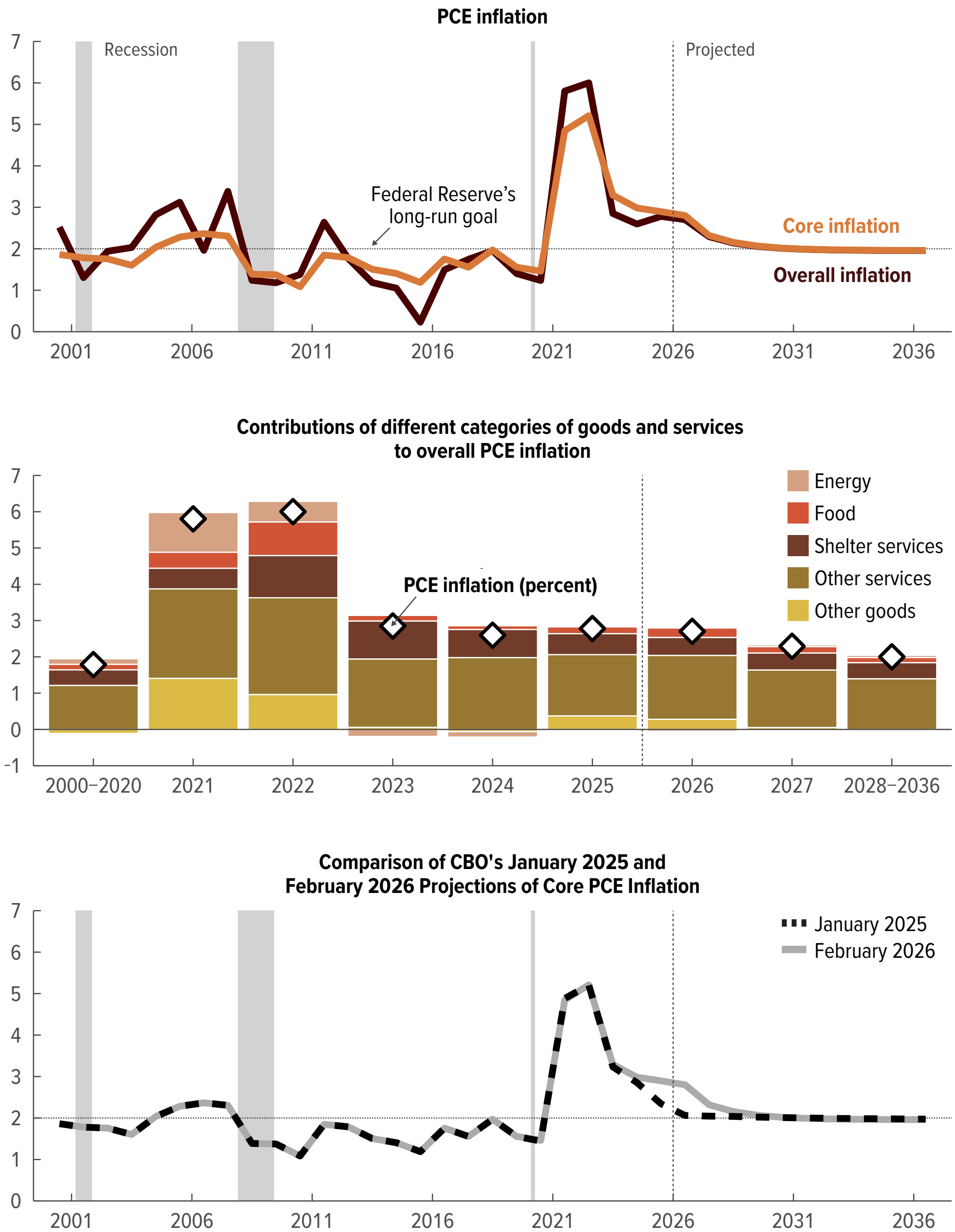
Wages and Salaries

In CBO's projections, the growth of wages and salaries increases in 2026 as the 2025 reconciliation act strengthens demand and boosts employment. That growth slows thereafter as the effects of fiscal expansion fade and slower labor force growth limits aggregate employment. Measured as a percentage of GDP, wages and salaries remain stable at 42 percent from 2026 to 2036, consistent with their level in recent years.

Figure 2-6.

Inflation

Percent



In CBO's projections, overall inflation, as measured by the PCE price index, remains elevated in 2026 because of the new tariffs imposed in 2025.

Prices for other goods, which, on average, fell from year to year over the 2000–2020 period, continue to rise in 2026, reflecting higher tariffs on imported goods and intermediate inputs.

CBO now projects inflation to be higher through 2029 than it projected in January 2025. After the higher tariffs' effects on price growth phase out, inflation gradually declines until it reaches the Federal Reserve's target rate of 2 percent in 2030—later than the agency projected last January.

Data sources: Congressional Budget Office; Bureau of Economic Analysis. See www.cbo.gov/publication/61882#data.

The overall inflation rate is the rate of growth of the PCE price index; the core inflation rate excludes prices for food and energy. Inflation is measured from the fourth quarter of one calendar year to the fourth quarter of the next year.

In the middle panel, bar segments represent CBO's estimates of the contributions, in percentage points, of each category of goods and services to the growth rate of the PCE price index. The sum of those estimates approximates the overall growth of that index. Values for 2000 to 2020 and for 2028 to 2036 are annual averages over those periods.

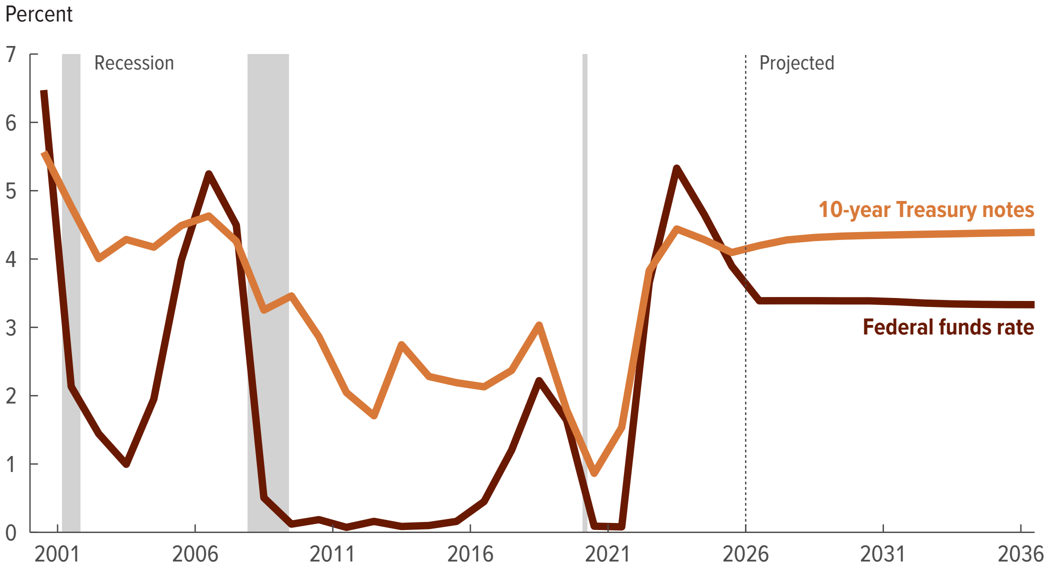
Other goods are core durable and nondurable goods, including vehicles and parts, electronics, home furnishings, and apparel. Shelter services are the flow of housing services that housing units provide to their occupants. Other services include medical services and transportation and recreation services.

Recessions, which begin just after a peak in economic activity and run through the subsequent trough, are plotted using monthly data; all other data are annual and are plotted at the midpoint (July 1) of each year.

PCE = personal consumption expenditures.

Figure 2-7.

Interest Rates



In CBO's projections, the Federal Reserve continues lowering the federal funds rate, to 3.4 percent in the fourth quarter of 2026. Throughout the projection period, both short- and long-term interest rates remain above their averages over the past decade as the federal debt exceeds the amounts recorded over the past 10 years and as productivity rises more rapidly than it did in those years.

Data sources: Congressional Budget Office; Federal Reserve. See www.cbo.gov/publication/61882#data.

The federal funds rate shown here is the effective federal funds rate—the median interest rate that financial institutions charge each other for overnight loans of their monetary reserves, weighted by loan volume. Data are fourth-quarter average values.

Recessions, which begin just after a peak in economic activity and run through the subsequent trough, are plotted using monthly data; all other data are annual and are plotted at the midpoint (July 1) of each year.

Corporate Profits

Domestic corporate profits, which have been elevated since 2020, are expected to continue to grow in 2026, albeit more slowly than GDP grows. From 2027 to 2030, domestic corporate profits continue to grow at a slower pace than GDP because increases in businesses' net interest payments and greater depreciation of capital reduce profits. Measured as a percentage of GDP, domestic corporate profits trend down, from an estimated 11.2 percent at the end of 2025 to 9.9 percent at the end of 2030. From 2031 to 2036, domestic corporate profits as a share of GDP rise gradually, consistent with their historical long-run trend, and reach 10.1 percent in 2036.

Uncertainty of CBO's Economic Projections

CBO's economic projections are subject to a large amount of uncertainty. Contributing to the overall uncertainty is the uncertainty about the future paths of many underlying factors, including economic growth; the strength of the labor market; increases in prices and wages; credit conditions and asset prices; productivity growth (especially growth attributable to the advances in artificial intelligence); interest rates and monetary policy; the effects of fiscal, trade, and immigration policies; and developments outside the United States (changes in global demand for U.S. assets, for example). Other sources of uncertainty include rare, hard-to-predict events that would have significant economic consequences, such as wars, pandemics, natural disasters, and financial crises. In addition, the federal government shutdown in October and November 2025 delayed the release of several key economic indicators, so CBO had less information than it typically does when finalizing its forecast, which added to the uncertainty of the near-term economic projections.

CBO's baseline projections reflect the assumption that current laws governing federal taxes and spending generally remain in place. The agency's current projections reflect the laws enacted through December 3, 2025, and administrative actions related to trade in place as of November 20, 2025. Although new laws could significantly alter federal taxes and spending, this discussion is limited to uncertainty stemming from sources other than new legislation and focuses on uncertainty in CBO's projections of three important economic indicators: GDP growth, inflation, and interest rates.

Uncertainty of Projections of GDP Growth

Output growth is highly uncertain and could be stronger or weaker than CBO projects. One reason for that uncertainty is that the economic effects of the 2025 reconciliation act could be larger or smaller than the agency has estimated. The agency's projections of GDP growth in the short run are most affected by that uncertainty because the legislation is not expected to have significant effects on the growth of the factors that drive GDP growth in the long run. For instance, if businesses were more responsive than anticipated to the provisions in the legislation that encourage investment, GDP growth over the next few years would be stronger than the agency projects. On the other hand, if workers were less responsive than expected to the reconciliation act's reduction in taxes, output growth over the next few years would be slower than projected.

Details about how the 2025 reconciliation act will be implemented are not yet known, which adds to the uncertainty of CBO's projections of GDP growth because administrative decisions can influence the timing and magnitude of the law's economic effects. For example, the regulations implementing tax provisions that allow deductions for amounts received as qualified overtime pay and tips, deductions for interest paid on loans for passenger vehicles, and changes in capital recovery allowances for businesses may differ from what JCT and CBO initially anticipated. The way the law is implemented could result in effects on consumption, investment, and the labor supply that differ from those that CBO estimates. In addition, state governments' responses to the act—whether they choose to conform to federal changes in individual or business taxation, for example—could shape households' and business' behavioral responses and thus affect short-run output growth.

The recent changes in tariffs are an additional source of uncertainty in the agency's projections of GDP growth. Because tariff increases in developed economies—particularly increases the size of those that the United States implemented in 2025—are rare in recent history, existing empirical research provides limited guidance about how businesses and consumers in the United States and abroad might respond. As a result, the effects of those tariffs on consumption, investment, and trade flows may be larger or smaller than the agency estimates. In addition, the possibility of additional changes in tariffs in the future has increased businesses' uneasiness about making certain types of investments, thus reducing business investment, and the extent to which businesses may delay or reduce investment in the future in response to that possibility is uncertain.

Changes in immigration flows and population growth are another source of uncertainty in the agency's projections of output growth. In CBO's updated demographic projections, net immigration declines through the second half of the decade because of administrative actions taken since January 20, 2025, and stricter immigration enforcement policies in the 2025 reconciliation act. The administration could implement additional actions on immigration or change its enforcement policies. If the population grew faster than CBO projects, the labor force and, in turn, potential GDP would grow faster as well.

Uncertainty about the pace of advancements in AI and their effects is another source of uncertainty in the agency's projections of long-run economic growth. One reason for that uncertainty is that the agency's estimate of business investment in AI-related capital, including data centers and the computers used in them, is uncertain. In addition, CBO's estimate of the positive effect of AI diffusion on TFP is also highly uncertain. If technological improvements continue rapidly and if businesses integrate generative AI effectively into their production processes, the pace of diffusion could be faster, which would accelerate long-run real GDP growth. Conversely, productivity gains could be smaller if adoption proves costly, especially in the early phase. Further adding to the uncertainty about CBO's projections of long-run output growth is the uncertainty about the effect of generative AI on the pace of innovation and technological advancement: Will it accelerate research and development and lead to the creation of new products, processes, and tasks? Or will it yield improvements consistent with the pace of innovation over the last 20 years?

Uncertainty of Inflation Projections

The key source of uncertainty in the agency's inflation forecast is the effect of tariffs on consumer prices. That uncertainty stems from three areas: tariff policy itself, the degree to which tariffs are passed through to consumers, and the timing of tariff-related price increases.

CBO's projections of tariff-related price effects are based on U.S. tariff policies implemented through executive action as of November 20, 2025; by convention, the projections reflect the assumption that those policies remain in place throughout the projection period. But because tariff policy has been volatile over the past year and because judicial rulings pertaining to tariffs are anticipated, the expectation that tariff policy may change in the near term persists, which affects the pricing decisions of businesses in ways that may delay or dampen the pass-through of higher import costs to domestic prices and, in turn, slow inflation.

Also uncertain is how much of the costs of higher tariffs businesses will pass through to consumers by raising prices. CBO currently estimates that consumers face price increases equivalent to 95 percent of tariff costs. If the share of costs passed through to consumers was larger or smaller than projected, the price effects of the tariffs would differ accordingly.

Finally, the timing of tariff-related price increases is uncertain. CBO currently projects that tariff-related inflation will peak in the first quarter of 2026, but that peak may arrive later than CBO anticipates. Although tariff-induced price increases are expected to be a onetime shock to the level of prices for both final and intermediate goods, the size and timing of those effects are expected to vary among categories of goods and services. That staggered timing introduces uncertainty about the path of inflation following the expected peak in early 2026.

The path of inflation is further complicated by changes in immigration policy that have affected CBO's projections of net immigration. CBO expects the reduction in net immigration to shift the composition of inflationary pressures, reducing demand for goods and housing while increasing price pressures in nonhousing service categories because of the smaller labor supply. Because nonhousing services are a substantial part of household expenditures, that shift may place additional upward pressure on inflation in the near term.

Another source of uncertainty in the inflation forecast is the uncertainty about output growth and how inflation responds to changes in that growth. Higher-than-projected real GDP growth would put upward pressure on inflation, whereas lower-than-projected growth would ease inflationary pressures. Recent fluctuations in near-term real GDP growth, however, have had only muted effects on inflation, adding uncertainty to any expectations about the strength of the relationship between output growth and inflationary pressures. That uncertainty reflects two developments:

- Labor market conditions weakened in 2025 despite strong output growth that year. Typically, labor market conditions (an important determinant of how inflation responds to changes in aggregate demand) are expected to improve when output growth is strong because higher output growth tends to boost labor demand.
- The relationship between the unemployment gap (the difference between the unemployment rate and the noncyclical rate of unemployment) and inflation has been relatively weak in recent years. In theory, when the unemployment rate falls below its noncyclical level (resulting in a negative unemployment gap), labor market tightness puts upward pressure on wages and prices, whereas a higher unemployment gap dampens inflation.

Together, those factors temper the inflationary effects of changes in near-term real GDP growth in the agency's forecast.

Uncertainty of Interest Rate Projections

CBO's projections of interest rates are uncertain in both the short and long runs. In the short run, they are uncertain mainly because the actions monetary policymakers will take are unknown. If inflation declines faster than the Federal Reserve expects or if labor market conditions deteriorate markedly, the central bank may lower interest rates more quickly than CBO projects. If inflation remains higher for longer than the Federal Reserve expects or if labor market conditions prove to be resilient, the central bank may lower rates more slowly, resulting in interest rates that are higher than those in CBO's projections.

In the long run, several factors underlying CBO's interest rate projections are uncertain. If the growth of productivity was higher than projected—perhaps because generative AI tools were adopted more quickly than anticipated or their capabilities were greater than expected—interest rates would be higher than CBO projects. Likewise, if the labor force grew more quickly than expected—because either labor force participation rates or net immigration rates were greater than projected—interest rates would be higher than those in CBO's projections. Conversely, if either productivity or the labor force grew more slowly than projected, interest rates would be lower than CBO projects.

Another area of uncertainty in the long run is the demand for Treasury securities from U.S. and foreign investors and the effect that demand will have on the interest rates that the federal government pays on its rising stock of debt. One factor that could affect the demand for Treasury securities is the international importance of the U.S. dollar.[7] If the use of the dollar to settle international transactions declined and foreign holdings of U.S. dollars and dollar-denominated assets shrank faster than CBO anticipates, foreign demand for Treasury securities would be lower than expected, and interest rates would be higher than projected. But if foreign demand for Treasury securities was stronger than anticipated, perhaps because of heightened geopolitical concerns, interest rates would be lower than projected.

Quantifying the Uncertainty of CBO's Projections

CBO's economic projections, especially for nominal GDP, are a primary input in the agency's baseline budget projections. Thus, the uncertainty of the economic forecast is the source of much of the uncertainty of the baseline budget projections.

To quantify the uncertainty of its economic projections for 2026 to 2036, CBO conducted 1,000 simulations of several key macroeconomic variables to produce probability distributions for the future path of those variables.[8] On the basis of that analysis, CBO estimates that there is approximately a two-thirds chance that the average annual rate of nominal GDP growth measured from the end of 2024 will be between 3.7 and 6.0 percent at the end of 2026 and between 2.7 and 5.1 percent at the end of 2036 (see Figure 2-8).

In addition, there is roughly a two-thirds chance that in 2026, the annual rate of real GDP growth will be between 0.5 and 3.9 percent, the unemployment rate will be between 3.9 and 5.4 percent, the rate of PCE inflation will be between 1.7 and 3.7 percent, and the interest rate on 10-year Treasury notes will be between 3.5 and 4.8 percent, CBO estimates (see Figure 2-9).

Comparison With CBO's January 2025 Economic Projections

Since January 2025, when CBO last published its full economic forecast, the agency's projections have been updated to incorporate the effects of the 2025 reconciliation act, newly imposed tariffs, updated demographic projections, and new and revised historical data. (For more information about the reconciliation act's economic effects, see Appendix A.) In addition, the current projections reflect a number of modeling improvements, including an adjustment to the population data that underlie the macroeconomic projections, a revised method for estimating how private investment responds to larger federal deficits, and a change to the agency's productivity projections to account for the effects of generative AI.

Real GDP growth in 2026 is greater in the current projections than it was in the January 2025 forecast because of the effects of the 2025 reconciliation act and upward revisions to the agency's projections of real business fixed investment to reflect stronger investment in AI-related infrastructure and intellectual property (see Table 2-4 on page 50). Inflation in 2026 is now projected to be higher than projected last year. For both real GDP growth and inflation, the gap between CBO's current and January 2025 projections declines in later years of the projection period.

Even though the agency's current forecast of output *growth* after 2026 is similar to last year's forecast, the *levels* of both nominal and real GDP in 2035 are higher in the current projections. Comparing the current projections with those published in January 2025 shows how new information and policy changes have shaped the current economic forecast and highlights the kinds of uncertainty that affect all economic projections.

Output

The upward revision to CBO's projections of real GDP growth in 2026 reflects several factors, including the boost to growth resulting from the 2025 reconciliation act, the resumption of federal government activity following the shutdown in October and November 2025, and stronger growth in investment related to generative AI. Those factors more than offset the drag on real investment and consumption stemming from higher tariffs and slower population growth. For years after 2026,

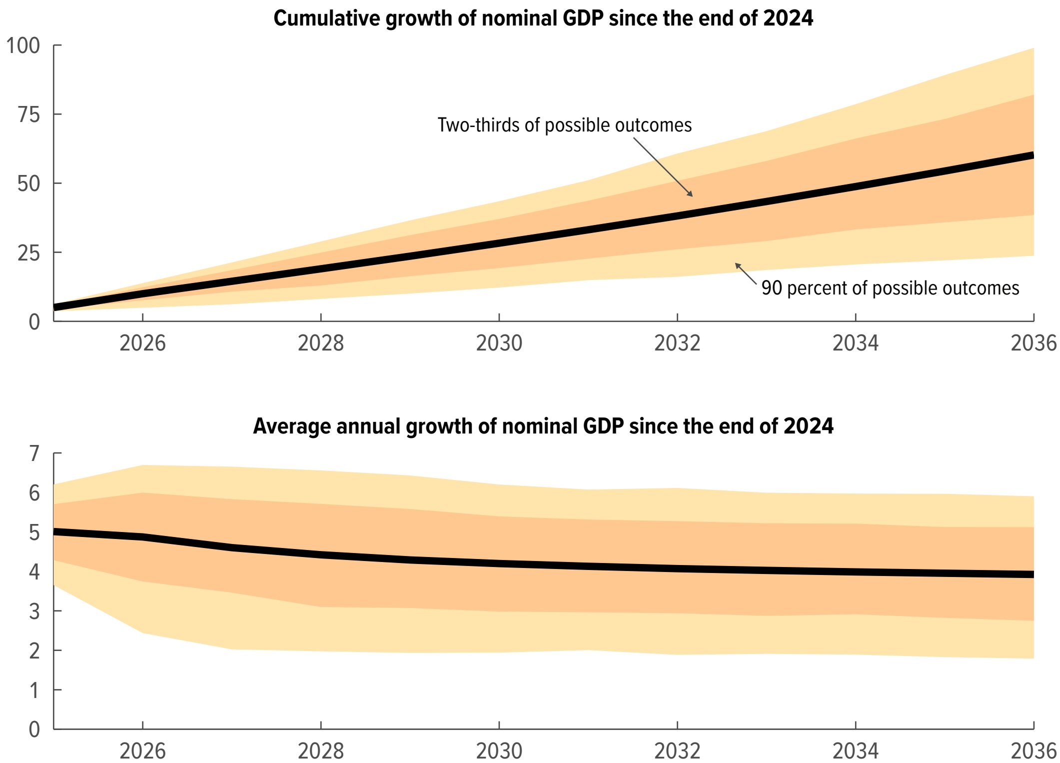
7. Daniel Fried, *The U.S. Dollar as an International Currency and Its Economic Effects*, Working Paper 2023-04 (Congressional Budget Office, April 2023), www.cbo.gov/publication/58764.

8. For a discussion of the methods used to quantify uncertainty, see Congressional Budget Office, "Estimating the Uncertainty of the Economic Forecast Using CBO's Expanded Markov-Switching Model" (January 2023), www.cbo.gov/publication/58884, and "Estimating the Uncertainty of the Economic Forecast Using CBO's Bayesian Vector Autoregression Model" (January 2023), www.cbo.gov/publication/58883.

Figure 2-8.

Uncertainty of CBO's Projections of the Growth of Nominal GDP

Percent



CBO estimates that there is approximately a two-thirds chance that the average annual rate of nominal GDP growth measured from the end of 2024 will be between 3.7 and 6.0 percent at the end of 2026 and between 2.7 and 5.1 percent at the end of 2036.

Data sources: Congressional Budget Office; Bureau of Economic Analysis; Bureau of Labor Statistics. See www.cbo.gov/publication/61882#data.

To quantify the uncertainty of its projections for this year and the next 10 years, CBO conducted 1,000 simulations of nominal GDP growth to produce probability distributions for the future path of that growth. For a discussion of the methods used to quantify uncertainty, see Congressional Budget Office, "Estimating the Uncertainty of the Economic Forecast Using CBO's Expanded Markov-Switching Model" (January 2023), www.cbo.gov/publication/58884, and "Estimating the Uncertainty of the Economic Forecast Using CBO's Bayesian Vector Autoregression Model" (January 2023), www.cbo.gov/publication/58883.

Annual growth of nominal GDP is measured from the fourth quarter of one calendar year to the fourth quarter of the next year.

CBO's projections of real GDP growth have changed little since January 2025.

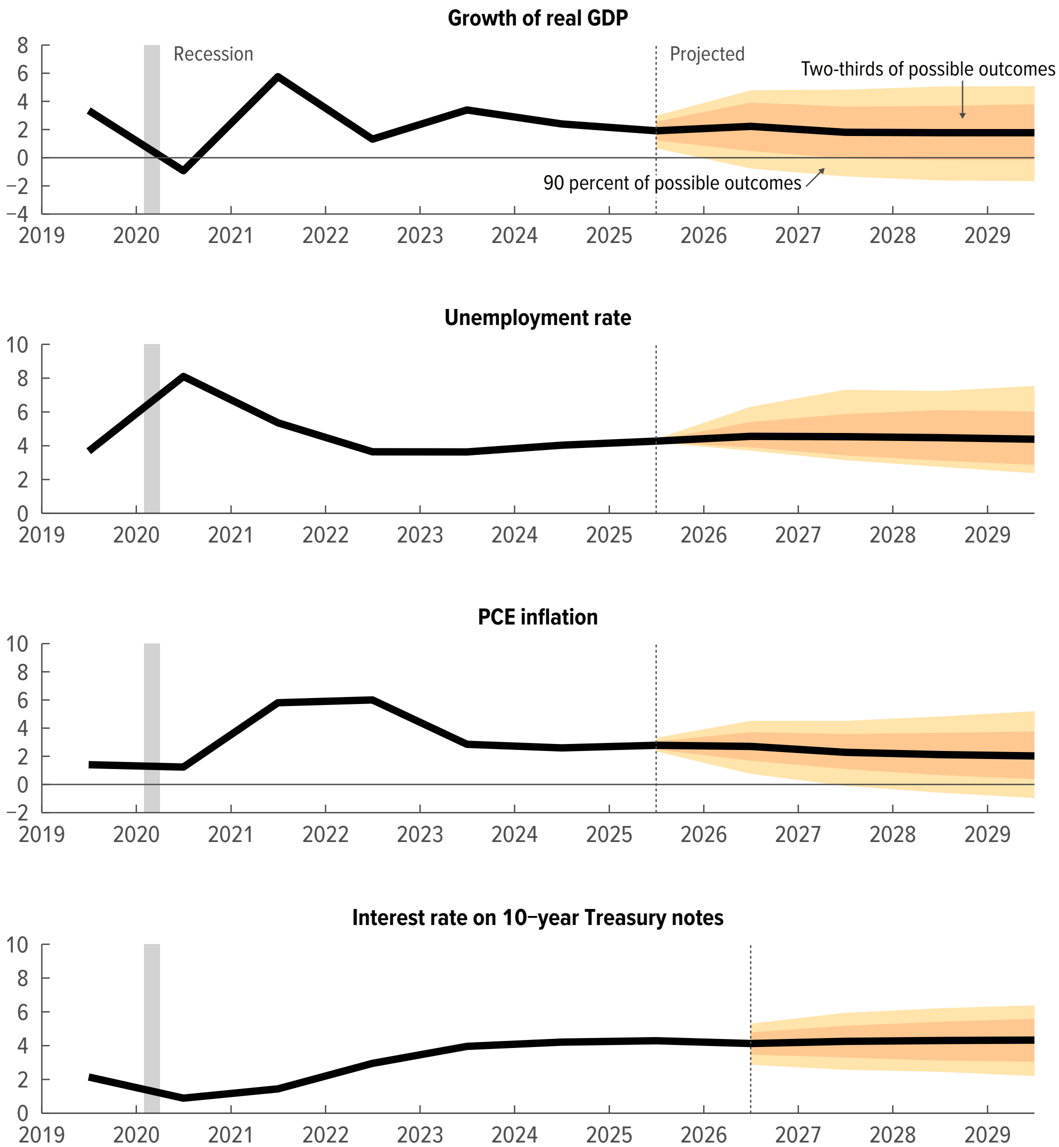
Even though the agency's current projections of the growth of real GDP after 2026 are roughly the same as last year's projections, they reflect several revisions the agency made to its projections of potential output that offset one another. Factors that pushed up the growth rate of potential output in CBO's projections include the 2025 reconciliation act (which boosted both the labor supply and investment) and the anticipated adoption of generative AI (which accelerated productivity growth). Offsetting those factors were the tariffs imposed in 2025, which reduced real investment and productivity growth in the agency's projections, and downward revisions to projected net immigration through 2029, which slowed the growth of labor supply. In addition to those factors, changes to CBO's modeling methods and the effects of incorporating new and revised historical data resulted in projections of the growth of potential output that are roughly the same as those that the agency published in January 2025. The net effect of all those factors, along with new data, results in paths for the *level* of real GDP and real potential GDP over the 2026–2035 period that are higher than those in the agency's January 2025 forecast. In 2035, real GDP is 0.6 percent greater in the current projections than it was in last year's projections.

Nominal GDP is now projected to be greater throughout the 2026–2035 period than previously projected, partly because of higher price levels stemming from tariffs and because of upward revisions to projected real GDP. In

Figure 2-9.

Uncertainty of CBO's Projections of Output, Unemployment, Inflation, and Interest Rates

Percent



CBO estimates there is roughly a two-thirds chance that in 2026, the annual rate of real GDP growth will be between 0.5 and 3.9 percent,

. . . the unemployment rate will be between 3.9 and 5.4 percent,

. . . the rate of PCE inflation will be between 1.7 and 3.7 percent, and

. . . the interest rate on 10-year Treasury notes will be between 3.5 and 4.8 percent.

Data sources: Congressional Budget Office; Bureau of Economic Analysis; Bureau of Labor Statistics. See www.cbo.gov/publication/61882#data.

To quantify the uncertainty of its projections for this year and the next three years, CBO conducted 1,000 simulations of several key macroeconomic variables to produce probability distributions for the future path of those variables. For a discussion of the methods used to quantify uncertainty, see Congressional Budget Office, "Estimating the Uncertainty of the Economic Forecast Using CBO's Expanded Markov-Switching Model" (January 2023), www.cbo.gov/publication/58884, and "Estimating the Uncertainty of the Economic Forecast Using CBO's Bayesian Vector Autoregression Model" (January 2023), www.cbo.gov/publication/58883.

Real GDP is nominal GDP that has been adjusted to remove the effects of changes in prices. Growth of real GDP is measured from the fourth quarter of one calendar year to the fourth quarter of the next year. The unemployment rate is the percentage of people in the labor force who are not working but are available for work and are either seeking work or expecting to be recalled from a temporary layoff. Data for the unemployment rate and the interest rate on 10-year Treasury notes are annual averages. The inflation rate based on the PCE price index is measured from the fourth quarter of one calendar year to the fourth quarter of the next year.

Recessions, which begin just after a peak in economic activity and run through the subsequent trough, are plotted using monthly data; all other data are annual and are plotted at the midpoint (July 1) of each year.

PCE = personal consumption expenditures.

Table 2-4.

CBO's Current and Previous Economic Projections for Calendar Years 2025 to 2035

Percent

	2025	2026	2027	Annual average: 2025–2029	Annual average: 2030–2035	Annual average: Overall, 2025–2035
	Change from fourth quarter to fourth quarter					
Real GDP[a]						
February 2026	1.9	2.2	1.8	1.9	1.8	1.8
January 2025	1.9	1.8	1.8	1.8	1.8	1.8
Nominal GDP						
February 2026	5.0	4.8	4.1	4.3	3.8	4.0
January 2025	4.1	3.9	3.8	3.9	3.8	3.9
Inflation						
PCE price index						
February 2026	2.8	2.7	2.3	2.4	2.0	2.2
January 2025	2.2	2.1	2.0	2.1	2.0	2.0
Core PCE price index[b]						
February 2026	2.9	2.8	2.3	2.4	2.0	2.2
January 2025	2.3	2.1	2.0	2.1	2.0	2.0
Consumer price index[c]						
February 2026	3.0	2.8	2.4	2.6	2.3	2.4
January 2025	2.3	2.4	2.3	2.3	2.2	2.3
Core consumer price index[b]						
February 2026	3.1	3.0	2.4	2.6	2.3	2.4
January 2025	2.4	2.3	2.3	2.3	2.3	2.3
GDP price index						
February 2026	3.0	2.5	2.3	2.4	2.0	2.2
January 2025	2.2	2.0	2.0	2.0	2.0	2.0
Employment cost index[d]						
February 2026	3.4	3.5	3.2	3.2	2.9	3.1
January 2025	3.5	3.3	3.2	3.2	2.9	3.1
Real potential GDP[e]						
February 2026	2.3	2.2	2.1	2.1	1.9	2.0
January 2025	2.3	2.3	2.2	2.2	1.9	2.0

Continued

2035, nominal GDP is 2.5 percent greater in the current projections than it was in the January 2025 projections.

The Labor Market

The size of the labor force is smaller from 2026 to 2031 in the current projections than it was in last year's forecast. After 2032, the labor force is now projected to be larger than CBO projected last winter. Changes to the projections of the size of the labor force are driven by two main factors: changes to the agency's projections of labor force participation and changes to its population projections. Higher projections of labor force participation were offset by lower projections of the civilian noninstitutionalized population age 16 or older, leading to a smaller labor force in the near term in the current projections (see Box 2-2 on page 32).

In CBO's current projections, the labor force participation rate is higher from 2026 to 2035 than the agency projected last January. One reason for that change is that those projections are now based on a new population measure that includes CBO's estimates of net immigration from 2021 to 2024.[9] Immigrants typically are younger and participate in the labor force at higher rates than the population overall.[10]

9. Congressional Budget Office, *The Demographic Outlook: 2026 to 2056* (January 2026), www.cbo.gov/publication/61879.

10. For information about the economic effects of the 2021–2026 immigration surge, see Congressional Budget Office, *Effects of the Immigration Surge on the Federal Budget and the Economy* (July 2024), www.cbo.gov/publication/60165.

Table 2-4. Continued

CBO's Current and Previous Economic Projections for Calendar Years 2025 to 2035

Percent

	2025	2026	2027	Annual average: 2025–2029	Annual average: 2030–2035	Annual average: Overall, 2025–2035
			Annual average			
Unemployment rate						
February 2026	4.3	4.6	4.5	4.4	4.2	4.3
January 2025	4.3	4.4	4.4	4.4	4.4	4.4
Interest rates						
Effective federal funds rate[f]						
February 2026	4.2	3.5	3.4	3.6	3.4	3.5
January 2025	4.0	3.5	3.3	3.5	3.2	3.4
3-month Treasury bills						
February 2026	4.1	3.3	3.2	3.4	3.1	3.3
January 2025	3.8	3.3	3.2	3.3	3.1	3.2
10-year Treasury notes						
February 2026	4.3	4.1	4.3	4.3	4.4	4.3
January 2025	4.1	3.9	3.9	3.9	3.8	3.9
Tax bases (percentage of GDP)						
Wages and salaries						
February 2026	42.3	42.0	42.0	42.1	42.1	42.1
January 2025	42.8	43.1	43.2	43.2	43.6	43.4
Domestic corporate profits[g]						
February 2026	11.3	11.1	10.8	10.7	10.0	10.3
January 2025	11.1	10.7	10.3	10.3	9.5	9.9

Data source: Congressional Budget Office. See www.cbo.gov/publication/61882#data.

PCE = personal consumption expenditures.

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

b. Excludes prices for food and energy.

c. The consumer price index for all urban consumers.

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

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

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

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

Payroll employment growth over the 2026–2035 period is now projected to be slightly slower—an average of 49,000 jobs are added per month over that period in the current projections versus an average of 55,000 jobs per month over the same period in the January 2025 forecast. From 2026 to 2035, boosts to labor force growth attributable to the 2025 reconciliation act are offset by slower population growth and weaker labor demand.

CBO's projection of the average unemployment rate over the 2026–2028 period is slightly higher than it was in January 2025—4.5 percent versus 4.4 percent—reflecting slower hiring in the near term and the temporary effects of the federal government shutdown that occurred in late 2025. After 2026, the unemployment rate falls. In 2035, it is 4.2 percent—lower than the 4.3 percent that the agency projected last January. That change to the unemployment rate in 2035 is driven by changes to CBO's modeling framework for the noncyclical rate of unemployment.

Inflation

CBO's current projections of inflation are higher through 2029 than those the agency published last

January (see Figure 2-6 on page 43). The new tariffs imposed in 2025 raise prices for imported goods and intermediate inputs in the current projections, temporarily boosting the growth of the price index for personal consumption expenditures. PCE inflation is now projected to be 2.7 percent in 2026 before falling to 2.3 percent in 2027 and settling at 2.0 percent in 2030; in CBO's January 2025 projections, PCE inflation was 2.1 percent in 2026 and then 2.0 percent through the rest of the projection period.

The higher projected inflation after 2026 reflects secondary, or indirect, price effects from tariffs. The recent tariffs cover most consumer and intermediate goods, affecting prices across nearly all categories of goods and services, including goods not directly affected by tariffs and domestically produced goods. Because those categories differ in the degree to which they are exposed directly and indirectly to tariff policy, inflation is expected to remain elevated for longer than previously projected as tariff-related price increases work their way through the supply chain.

CPI-U inflation follows a pattern similar to that of PCE inflation in the current projections: It reaches 2.8 percent in 2026, returns to 2.3 percent (or about 0.3 percentage points above PCE inflation) in 2028, and remains at that level through the rest of the projection period. In last January's projections, CPI-U inflation was 2.4 percent in 2026 and averaged 2.3 percent from 2027 to 2035.

Interest Rates

CBO's projections of short-term interest rates have changed only slightly, overall, because the effects of the changes that were made—to factors underlying the interest rate projections and to CBO's methods—nearly offset one another. The agency's projections of long-term interest rates have been revised upward.

The agency revised its projections of several of the factors that determine interest rates in the medium and longer terms. Most notably, the agency increased its projections of capital income as a percentage of total income, lowered its projections of the rate of private domestic saving, and revised upward its projections of the growth rate of TFP. Before accounting for other changes, those three revisions together resulted in higher projections of both short- and long-term interest rates.

The increase in federal debt as a percentage of GDP that results from the 2025 reconciliation act would also affect interest rates, but several other revisions to CBO's projections roughly offset that increase in the debt-to-GDP ratio, negating its impact on both short- and long-term interest rates. Those other revisions include an upward revision to revenues to account for new tariffs and an upward revision to GDP resulting from increased productivity due to generative AI.

In addition to revising its projections of underlying factors, the agency changed the method it uses to project the effect of rising federal debt on interest rates. CBO now estimates that increases in federal debt as a percentage of GDP raise the term premiums paid to investors, though the agency did not change its estimate of the total effect of rising federal debt on long-term Treasury rates. Before other changes were accounted for, that modeling update resulted in a downward revision to CBO's projections of short-term interest rates.

Income

CBO has also revised its projections of two key categories of income: wages and salaries and domestic corporate profits. Wages and salaries measured as a percentage of GDP are now projected to be smaller through 2035 than projected last January; nominal wages and salaries were also revised downward. By contrast, domestic corporate profits' share of GDP is now projected to be larger through 2035 than previously forecast. Projections of nominal corporate profits are also higher because of both that upward revision to profits as a share of GDP and higher projections of nominal GDP.

CBO's projections of wages and salaries' share of GDP have been revised downward in response to downward revisions to historical data for that measure and newly released data that suggest that wages have not grown faster than GDP in recent years. In addition, that change was made following the agency's evaluating the accuracy of its past projections of growth in wages and salaries. That assessment led CBO to lower its estimate of wages and salaries' share of GDP at the end of 2025 by 0.8 percentage points and its projection of that measure at the end of 2026 by 1.1 percentage points to account for persistently low shares of wages and salaries in the data. The agency has revised downward its projections of wages and salaries' share of GDP over the 2027–2035 period by an average of 1.4 percentage points per year, thus bringing wages and salaries' share of GDP in CBO's current projections closer to the postpandemic average of roughly 42 percent.

Domestic corporate profits as a share of GDP are now higher through 2035 than they were in last year's projections. That upward revision primarily reflects the agency's lowering its projections of wages and salaries as a share of GDP, which reduced projected labor costs measured in relation to total output. CBO has raised its estimate of domestic corporate profits' share of GDP at the end of 2025 by 0.2 percentage points. (Data for the fourth quarter of 2025 are scheduled to be released in March.) The agency has revised upward its forecast of domestic corporate profits' share of GDP over the 2026–2035 period by an average of 0.5 percentage points per year.

Comparison With Other Economic Projections

CBO routinely compares its economic projections with those of other economists. This year, those comparisons are complicated because the government shutdown in October and November 2025 delayed the release of data for some key economic indicators that CBO would typically have incorporated in its economic forecast. Those data were not available when the agency completed its economic forecast on December 3, 2025. The canceled data include the following monthly releases:

- Payroll and household employment data for October and
- The consumer price index for October.

The delayed data include the following monthly releases:

- Retail sales data for October,
- Personal income data for September and October,
- The PCE price index for September and October, and
- Import and export flows for September.

In addition, the shutdown delayed the release of the Bureau of Economic Analysis's advance estimate of the fourth quarter of the national income and product accounts.

As a result of those delayed and canceled data releases, CBO relied more heavily than it usually does on economic information provided by the private sector and on past releases of government-sourced economic data when forming its near-term assessment of economic conditions. By contrast, the outside forecasts (aside from the *Survey of Professional Forecasters*) that CBO used for comparison with its own were completed more recently, and the forecasters had access to most of the delayed data. That difference in the availability of economic data contributes to the differences between CBO's projections and the more recent projections from the Federal Reserve and private forecasters.

CBO's projections of output growth, inflation, and interest rates remain broadly in line with those of private forecasters and the Federal Reserve, differing mainly in assessments of near-term timing and in the assumptions about current law that they reflect.

The *Blue Chip Economic Indicators*, which is published monthly, provides information as of January 9, 2026 (see Figure 2-10). The data *Blue Chip* forecasters used are slightly more recent than those underlying CBO's forecast.

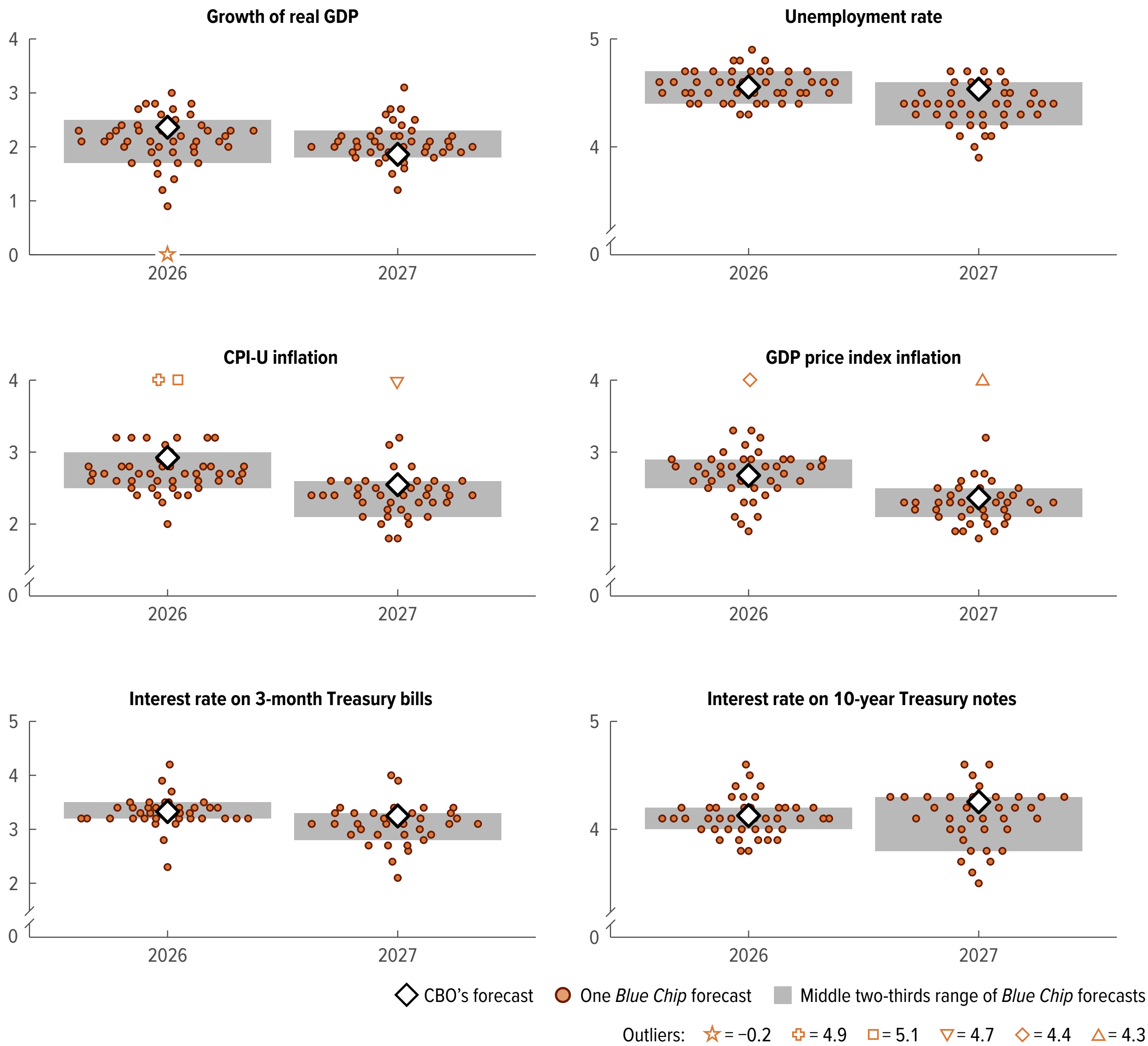
The Federal Reserve Bank of Philadelphia's *Survey of Professional Forecasters*, which is published four times a year, includes both quarterly and annual projections (see Figure 2-11 and see Figure 2-12). The forecasts in the most recent release, published on November 17, 2025, are based on data that were available when CBO finalized its projections.

The Federal Reserve's Federal Open Market Committee, which publishes projections four times a year, released its most recent projections on December 10, 2025 (see Figure 2-13). CBO's economic projections differ from those made by Federal Reserve officials in two key ways. First, CBO's projections reflect the assumption that current laws governing fiscal policy (laws enacted as of December 3, 2025, in this case) remain generally unchanged, whereas the Federal Reserve officials apply their own assessments about how fiscal policy will evolve. Second, whereas CBO develops its projections so that they fall in the middle of the range of likely outcomes, each Federal Reserve official provides a "modal" forecast—a forecast of the single most likely outcome—and the Federal Reserve reports ranges of those modal values. It is unclear which concepts are used by private-sector forecasters.

Figure 2-10.

Comparison of CBO's Economic Forecasts With Those of the *Blue Chip* Forecasters

Percent



Data sources: Congressional Budget Office; Wolters Kluwer, *Blue Chip Economic Indicators* (January 9, 2026). See www.cbo.gov/publication/61882#data.

Each of the data points represents a forecast made by one of the more than 40 forecasters included in the *Blue Chip* survey. The middle two-thirds range omits the highest one-sixth and the lowest one-sixth of the forecasts.

Real GDP is nominal GDP that has been adjusted to remove the effects of changes in prices. Growth of real GDP and inflation are measured as the change from the average of one calendar year to the average of the next year.

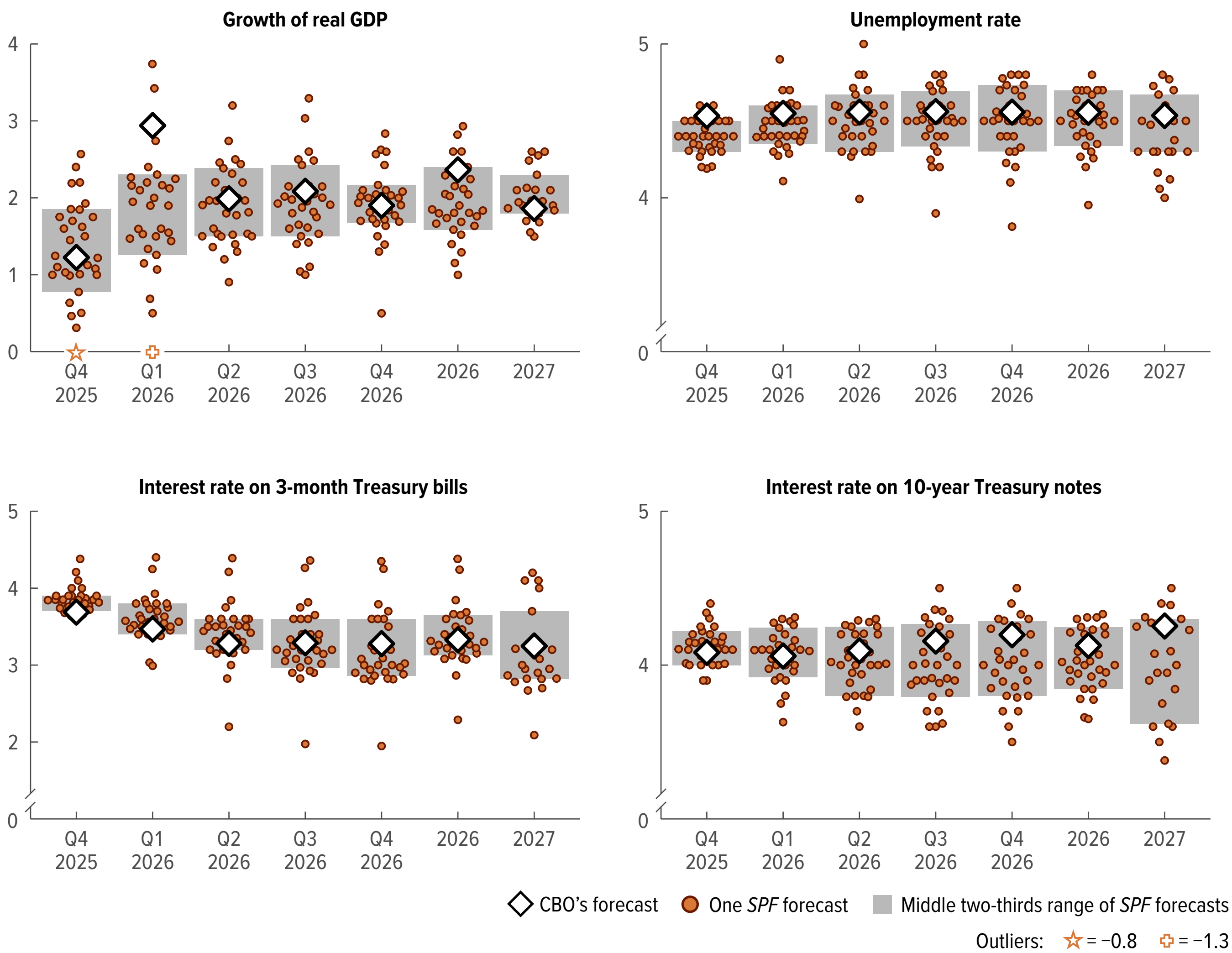
The unemployment rate is the percentage of people in the labor force who are not working but are available for work and are either seeking work or expecting to be recalled from a temporary layoff. The unemployment rate and interest rates are calendar year averages.

CPI-U = consumer price index for all urban consumers.

Figure 2-11.

Comparison of CBO's Economic Forecasts With Those in the *Survey of Professional Forecasters*

Percent



Data sources: Congressional Budget Office; Federal Reserve Bank of Philadelphia, *Survey of Professional Forecasters: Fourth Quarter 2025* (November 17, 2025), https://tinyurl.com/5n6s375b. See www.cbo.gov/publication/61882#data.

Each of the data points represents a forecast made by one of the more than 30 respondents in the *Survey of Professional Forecasters*. The middle two-thirds range omits the highest one-sixth and the lowest one-sixth of the forecasts.

Real GDP is nominal GDP that has been adjusted to remove the effects of changes in prices. Quarterly growth of real GDP is measured from one calendar year quarter to the next quarter and is expressed as an annual rate; annual growth is measured as the change from the average of one calendar year to the average of the next year.

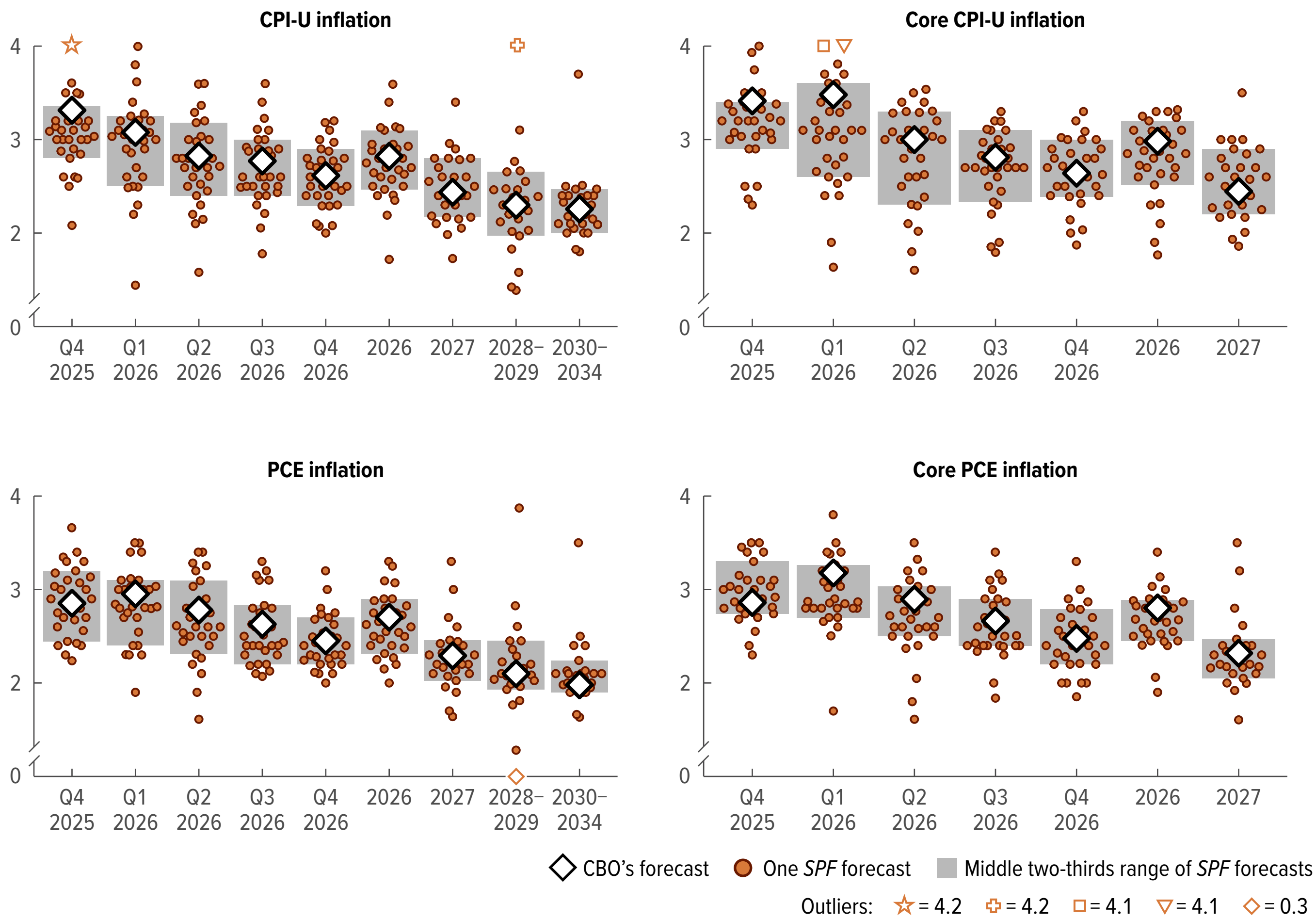
The unemployment rate is the percentage of people in the labor force who are not working but are available for work and are either seeking work or expecting to be recalled from a temporary layoff. The unemployment rate and interest rates are quarterly or calendar year averages.

SPF = *Survey of Professional Forecasters*.

Figure 2-12.

Comparison of CBO's Inflation Forecasts With Those in the *Survey of Professional Forecasters*

Percent



Data sources: Congressional Budget Office; Federal Reserve Bank of Philadelphia, *Survey of Professional Forecasters: Fourth Quarter 2025* (November 17, 2025), https://tinyurl.com/5n6s375b. See www.cbo.gov/publication/61882#data.

Each of the data points represents a forecast made by one of the more than 30 respondents in the *Survey of Professional Forecasters*. The middle two-thirds range omits the highest one-sixth and the lowest one-sixth of the forecasts.

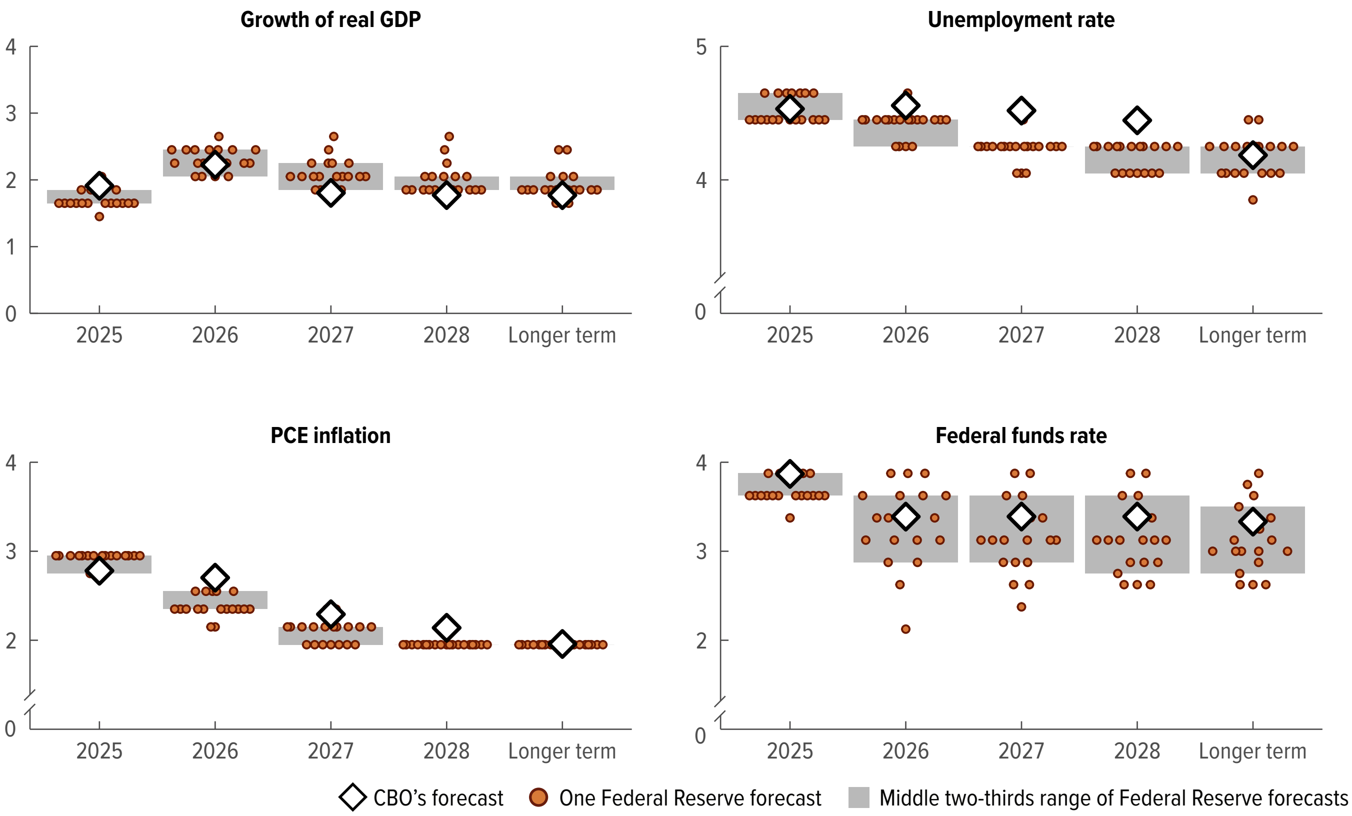
Quarterly inflation is measured from one quarter to the next quarter and is expressed as an annual rate; annual inflation is measured from the fourth quarter of one calendar year to the fourth quarter of the next year. Core inflation excludes prices for food and energy.

CPI-U = consumer price index for all urban consumers; PCE = personal consumption expenditures; *SPF* = *Survey of Professional Forecasters*.

Figure 2-13.

Comparison of CBO's Economic Forecasts With Those of the Federal Reserve

Percent



Data sources: Congressional Budget Office; Board of Governors of the Federal Reserve System, *Summary of Economic Projections* (December 10, 2025), Table 1, https://tinyurl.com/4nwn6bkv. See www.cbo.gov/publication/61882#data.

Each of the data points represents the midpoint of a forecast range (for real GDP growth, the unemployment rate, and PCE inflation) or a forecast (for the federal funds rate) made by one of the members of the Federal Reserve Board or one of the presidents of the Federal Reserve Banks in March 2024. The middle two-thirds range omits the three highest and three lowest projections.

Real GDP is nominal GDP that has been adjusted to remove the effects of changes in prices. Growth of real GDP is measured from the fourth quarter of one calendar year to the fourth quarter of the next year.

The unemployment rate is the percentage of people in the labor force who are not working but are available for work and are either seeking work or expecting to be recalled from a temporary layoff. Data for the unemployment rate are fourth-quarter average values.

Inflation in the PCE price index is measured from the fourth quarter of one calendar year to the fourth quarter of the next year.

The federal funds rate is the interest rate that financial institutions charge each other for overnight loans of their monetary reserves. Federal Reserve officials' forecasts of the federal funds rate are for the rate at the end of the year, whereas CBO's forecasts are fourth-quarter values.

PCE = personal consumption expenditures.

Chapter 3: The Spending Outlook

Overview

On the basis of laws in place on January 14, 2026, the Congressional Budget Office estimates that federal outlays will total $7.4 trillion this year.[1] In CBO's current baseline budget projections, outlays grow at an average rate of 4.4 percent a year over the coming decade, reaching $11.4 trillion in 2036.[2] Measured in relation to the size of the economy, outlays increase from 23.3 percent of gross domestic product (GDP) this year to 24.4 percent in 2036 (see Table 3-1). Greater spending on Social Security and Medicare and an increase in net interest costs drive that growth.

Outlays in 2026

In CBO's projections, total federal outlays for 2026 increase by $439 billion (or 6 percent) from the amount recorded in 2025. More than 80 percent of that growth is attributable to mandatory outlays, which increase by $362 billion (or 9 percent). The government's net interest costs are also expected to grow in 2026, increasing by $69 billion (or 7 percent) from 2025 to reach $1.0 trillion. Discretionary outlays remain close to last year's amount—$1.9 trillion—increasing by $8 billion (or 0.4 percent). (For descriptions of the three major categories of federal outlays, see Box 3-1 on page 66.)

Federal outlays are estimated to rise from 23.1 percent of GDP in 2025 to 23.3 percent in 2026—which is above their 50-year average of 21.2 percent. That increase relative to historical levels is largely attributable to growth in mandatory outlays (net of the offsetting receipts that are credited against those outlays). Such outlays are expected to equal 14.2 percent of GDP in 2026—higher than their average of 11.2 percent over the 1976–2025 period (see Figure 3-1 on page 62). Net outlays for interest are expected to equal 3.3 percent of GDP in 2026, above their 50-year average of 2.1 percent. By contrast, discretionary outlays for 2026 amount to 5.9 percent of GDP in CBO's projections, which is below their 50-year average of 7.8 percent.

Outlays From 2027 to 2036

In CBO's baseline projections, outlays generally grow from 2027 to 2036 in relation to the size of the economy. Total outlays increase by an average of 0.1 percentage point a year, reaching 24.4 percent of GDP in 2036. In relation to GDP, mandatory outlays generally increase over the projection period, and net interest costs rise each year. By contrast, discretionary outlays decline as a percentage of GDP.

In CBO's projections:

- Mandatory outlays increase from 14.4 percent of GDP in 2027 to 15.0 percent in 2036—mainly because an increase in the number of people age 65 or older and the rising cost of health care boost spending on Social Security and Medicare.
- Discretionary outlays fall from 5.6 percent of GDP in 2027 to 4.8 percent in 2036. That decline reflects the assumption (which CBO is required by law to make) that discretionary funding will grow at the rate of inflation—which is slower than projected growth in nominal GDP.
- Net outlays for interest climb steadily from 3.3 percent of GDP in 2027 to 4.6 percent in 2036, spurred by higher average interest rates and accumulating debt. Such outlays have not exceeded 3.2 percent of GDP since at least 1940 (the first year for which the Office of Management and Budget reports such data); they exceed that percentage in every year of the projection period.

Spending on Social Security and Medicare is projected to increase in relation to GDP, whereas spending on all other mandatory programs is projected to decline, on net, in relation to GDP—including the other major health care programs: Medicaid, premium tax credits and

1. CBO's projections do not include the effects of appropriation acts passed by the House and Senate after January 14, 2026.

2. CBO's baseline refers to the agency's projections of what the federal budget and the economy would look like in the current year and over the next 10 years if current laws governing revenues and spending generally remained unchanged.

Table 3-1.

CBO's Baseline Projections of Outlays

													Total	
	Actual, 2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2027–2031	2027–2036
	In billions of dollars													
Mandatory														
Social Security	1,575	1,666	1,769	1,875	1,979	2,083	2,190	2,298	2,409	2,519	2,632	2,747	9,895	22,500
Medicare[a]	1,180	1,287	1,374	1,533	1,470	1,649	1,753	1,867	2,123	2,153	2,155	2,421	7,778	18,497
Medicaid	668	708	726	746	754	777	804	834	870	905	941	981	3,806	8,338
Other spending	1,114	1,281	1,327	1,284	1,326	1,371	1,377	1,400	1,466	1,472	1,458	1,555	6,685	14,036
Offsetting receipts	-370	-412	-413	-434	-462	-504	-541	-564	-591	-613	-642	-675	-2,353	-5,438
Subtotal	4,168	4,529	4,783	5,005	5,067	5,375	5,582	5,835	6,277	6,437	6,545	7,028	25,812	57,933
Discretionary														
Defense	893	885	901	928	938	966	986	1,006	1,034	1,051	1,068	1,100	4,719	9,979
Nondefense	980	996	981	1,001	1,010	1,023	1,039	1,057	1,076	1,096	1,119	1,144	5,053	10,545
Subtotal	1,872	1,880	1,882	1,929	1,948	1,989	2,024	2,063	2,111	2,147	2,187	2,244	9,772	20,524
Net interest	970	1,039	1,108	1,218	1,324	1,432	1,548	1,670	1,784	1,904	2,019	2,144	6,630	16,152
Total	**7,010**	**7,449**	**7,772**	**8,151**	**8,340**	**8,796**	**9,155**	**9,569**	**10,172**	**10,487**	**10,751**	**11,416**	**42,214**	**94,610**
On-budget	5,578	5,928	6,151	6,426	6,513	6,864	7,113	7,409	7,911	8,125	8,286	8,847	33,066	73,644
Off-budget[b]	1,432	1,521	1,621	1,725	1,827	1,932	2,043	2,160	2,261	2,363	2,465	2,569	9,147	20,965
Addendum:														
Outlays adjusted to exclude timing shifts[c]														
Mandatory outlays	4,168	4,529	4,783	4,887	5,185	5,375	5,582	5,835	6,117	6,425	6,716	7,028	25,812	57,933
Discretionary outlays	1,872	1,880	1,882	1,923	1,954	1,989	2,024	2,063	2,105	2,147	2,194	2,244	9,772	20,524
Total outlays[d]	7,010	7,449	7,772	8,028	8,463	8,796	9,155	9,569	10,006	10,475	10,929	11,416	42,214	94,610
Gross domestic product	30,362	31,902	33,315	34,666	36,010	37,391	38,813	40,277	41,796	43,373	45,012	46,712	180,195	397,364

Continued

related spending, and the Children's Health Insurance Program, or CHIP (see Figure 3-2 on page 63).[3]

Mandatory Spending

Mandatory—or direct—spending consists of spending on most federal benefit programs and certain other payments to people, businesses, nonprofit institutions, and state and local governments. Mandatory spending is generally governed by statutory criteria and is not normally constrained by the annual appropriation process.[4] Certain types of payments that federal agencies receive from the public and from other government agencies are classified as offsetting receipts and are recorded in the federal budget as reductions in mandatory spending. In 2026, mandatory outlays (net of offsetting receipts) are estimated to account for about 60 percent of total federal outlays.

3. Premium tax credits subsidize the purchase of health insurance through the marketplaces established under the Affordable Care Act. Related spending is spending to subsidize health insurance provided through the Basic Health Program and to stabilize premiums for health insurance purchased by individuals and small employers. Federal subsidies lower the cost of health insurance purchased through the marketplaces by people who meet income and other criteria for eligibility.

4. Each year, some mandatory programs are modified by provisions in annual appropriation acts. Such changes may increase or decrease spending for the affected programs for one or more years. In addition, some mandatory programs, such as Medicaid, the Supplemental Nutrition Assistance Program, and benefits for Coast Guard retirees and annuitants, are considered mandatory but require benefits to be paid from amounts provided in appropriation acts. Section 257 of the Balanced Budget and Emergency Deficit Control Act of 1985 requires CBO to project outlays for those programs as if they were fully funded and thus able to make all scheduled payments, regardless of the amounts actually appropriated for them.

Table 3-1. Continued

CBO's Baseline Projections of Outlays

	Actual, 2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	Total 2027–2031	Total 2027–2036
							As a percentage of gross domestic product							
Mandatory														
Social Security	5.2	5.2	5.3	5.4	5.5	5.6	5.6	5.7	5.8	5.8	5.8	5.9	5.5	5.7
Medicare[a]	3.9	4.0	4.1	4.4	4.1	4.4	4.5	4.6	5.1	5.0	4.8	5.2	4.3	4.7
Medicaid	2.2	2.2	2.2	2.2	2.1	2.1	2.1	2.1	2.1	2.1	2.1	2.1	2.1	2.1
Other spending	3.7	4.0	4.0	3.7	3.7	3.7	3.5	3.5	3.5	3.4	3.2	3.3	3.7	3.5
Offsetting receipts	-1.2	-1.3	-1.2	-1.3	-1.3	-1.3	-1.4	-1.4	-1.4	-1.4	-1.4	-1.4	-1.3	-1.4
Subtotal	13.7	14.2	14.4	14.4	14.1	14.4	14.4	14.5	15.0	14.8	14.5	15.0	14.3	14.6
Discretionary														
Defense	2.9	2.8	2.7	2.7	2.6	2.6	2.5	2.5	2.5	2.4	2.4	2.4	2.6	2.5
Nondefense	3.2	3.1	2.9	2.9	2.8	2.7	2.7	2.6	2.6	2.5	2.5	2.4	2.8	2.7
Subtotal	6.2	5.9	5.6	5.6	5.4	5.3	5.2	5.1	5.1	5.0	4.9	4.8	5.4	5.2
Net interest	3.2	3.3	3.3	3.5	3.7	3.8	4.0	4.1	4.3	4.4	4.5	4.6	3.7	4.1
Total	**23.1**	**23.3**	**23.3**	**23.5**	**23.2**	**23.5**	**23.6**	**23.8**	**24.3**	**24.2**	**23.9**	**24.4**	**23.4**	**23.8**
On-budget	18.4	18.6	18.5	18.5	18.1	18.4	18.3	18.4	18.9	18.7	18.4	18.9	18.4	18.5
Off-budget[b]	4.7	4.8	4.9	5.0	5.1	5.2	5.3	5.4	5.4	5.4	5.5	5.5	5.1	5.3
Addendum:														
Outlays adjusted to exclude timing shifts[c]														
Mandatory outlays	13.7	14.2	14.4	14.1	14.4	14.4	14.4	14.5	14.6	14.8	14.9	15.0	14.3	14.6
Discretionary outlays	6.2	5.9	5.6	5.5	5.4	5.3	5.2	5.1	5.0	4.9	4.9	4.8	5.4	5.2
Total outlays[d]	23.1	23.3	23.3	23.2	23.5	23.5	23.6	23.8	23.9	24.2	24.3	24.4	23.4	23.8

Data source: Congressional Budget Office. See www.cbo.gov/publication/61882#data.

a. Excludes the effects of Medicare premiums and other offsetting receipts.

b. Off-budget outlays stem from transactions related to the Social Security trust funds and the net cash flow of the Postal Service.

c. When October 1 (the first day of the fiscal year) falls on a weekend, certain payments that would have ordinarily been made on that day are instead made at the end of September and thus are shifted into the previous fiscal year.

d. Includes net outlays for interest, which are not affected by timing shifts.

The Balanced Budget and Emergency Deficit Control Act of 1985 (Public Law 99-177), referred to here as the Deficit Control Act, requires that CBO's projections reflect the assumption that current laws governing mandatory programs generally remain unchanged.[5]

5. Section 257 of the Deficit Control Act also requires CBO to assume that certain mandatory programs will continue beyond their scheduled expiration and that entitlement programs—including Social Security and Medicare, which pay benefits from trust funds—will be fully funded and thus will be able to make all scheduled payments. Other rules that govern the construction of CBO's baseline have been developed by the agency in consultation with the House and Senate Budget Committees. For further details, see Congressional Budget Office, *CBO Explains How It Develops the Budget Baseline* (April 2023), www.cbo.gov/publication/58916.

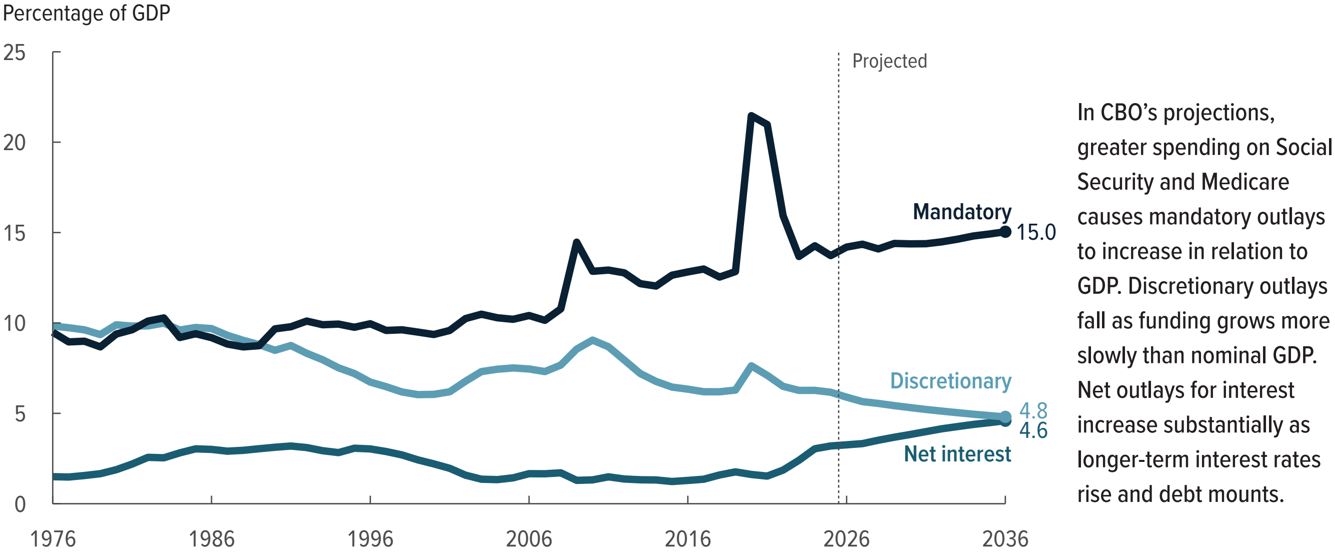
Therefore, CBO's baseline projections of mandatory spending reflect the estimated effects of economic influences, growth in the number of participants, and other factors, even for some programs that otherwise are set to expire. The projections also incorporate a set of across-the-board reductions (known as sequestration) that are required under current law through 2032. (See Box 3-2 on page 68 for details about how sequestration affects CBO's projections of spending on certain mandatory programs.)

Mandatory Spending From 2026 to 2036

CBO estimates that in 2026, total mandatory outlays will amount to $4.5 trillion, or 14.2 percent of GDP, up from $4.2 trillion, or 13.7 percent of GDP, in 2025.

Figure 3-1.

Outlays, by Category



Data source: Congressional Budget Office. See www.cbo.gov/publication/61882#data.

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

Nearly half of the nominal increase in outlays is attributable to spending on Social Security and Medicare.

From 2027 to 2036, outlays for mandatory programs are projected to rise by an average of 4.5 percent a year, reaching $7.0 trillion by the end of the period. Increased spending on Social Security and Medicare accounts for 81 percent of the estimated $2.2 trillion increase in mandatory outlays over that period.

In CBO's projections, mandatory outlays increase to 14.4 percent of GDP in 2027, decrease to 14.1 percent in 2028, and then return to 14.4 percent and remain at that percentage through 2031.[6] (Those numbers, which are shown in the addendum to Table 3-1, have been adjusted to exclude the effects of timing shifts, as have the other projections discussed in the rest of this chapter.)[7] Such outlays then rise through the end of the projection period, reaching 15.0 percent of GDP in 2036. By comparison, mandatory outlays averaged 11.2 percent of GDP over the past 50 years.

Much of the projected growth in mandatory spending after 2026 is attributable to two factors: an increase in the number of people age 65 or older and growth in federal health care costs. Today, the number of people age 65 or older is almost three times what it was 50 years ago. That number is expected to rise by about 15 percent over the next decade, as members of the baby boom generation (the cohort born between 1946 and 1964) age and as life expectancy continues to increase. Over the 2026–2036 period, the number of people age 65 or older and the number of beneficiaries of Social Security and Medicare are projected to grow faster than the overall population. In addition, federal health care costs per

6. As part of the ongoing resolution of bank failures that occurred in 2023, the Federal Deposit Insurance Corporation (FDIC), in its capacity as receiver, sold notes to the Federal Financing Bank financed through the issuance of Treasury securities. Those transactions were recorded in the federal budget as outlays in the years that the notes were issued by the FDIC. CBO's baseline projections include an expected repayment of $85 billion on those notes in 2028 (and an additional $8.3 billion in 2033), which is recorded in the federal budget as a negative outlay and thus reduces mandatory spending in that year.

7. When October 1—the first day of a fiscal year—falls on a weekend, certain payments that are due on that date are made at the end of September and, as a result, are recorded in the previous fiscal year. CBO estimates that $118 billion in mandatory outlays will shift from 2029 into 2028, $160 billion will shift from 2034 into 2033, and $172 billion will shift from 2035 into 2034.

Figure 3-2.

Major Changes in Projected Outlays From 2026 to 2036

	Outlays (percentage of GDP) 2026	2036	Change (percentage points)	Major reasons for change
Social Security	5.2	5.9	0.7	Increase in the number of people age 65 or older
Medicare[a]	3.3	4.2	0.9	Rising costs of health care; increase in the number of people age 65 or older
Other major health care programs[b]	2.7	2.5	−0.2	Slower Medicaid growth stemming from the 2025 reconciliation act
Other mandatory spending	3.0	2.5	−0.5	Inflation slower than nominal GDP growth; tapering outlays from the 2025 reconciliation act
Discretionary spending	5.9	4.8	−1.1	Inflation slower than nominal GDP growth
Net outlays for interest	3.3	4.6	1.3	Rising interest rates; accumulating debt

Data source: Congressional Budget Office. See www.cbo.gov/publication/61882#data.

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

a. Consists of outlays for Medicare net of premiums and other offsetting receipts.

b. Consists of outlays for Medicaid, the Children's Health Insurance Program, and premium tax credits and related spending. Premium tax credits subsidize the purchase of health insurance through the marketplaces established under the Affordable Care Act. Related spending is spending to subsidize health insurance provided through the Basic Health Program and to stabilize premiums for health insurance purchased by individuals and small employers.

beneficiary are projected to continue growing faster than GDP per capita. Both factors lead to upward pressure on mandatory outlays, particularly for Social Security and Medicare.

Social Security. The largest federal spending program, Social Security provides cash benefits to retired workers, people with disabilities, and their families. Last year, Social Security outlays totaled $1.6 trillion, or 5.2 percent of GDP (see Table 3-2). In CBO's projections, such outlays rise by 6 percent (or $91 billion) in 2026 and continue to grow at that rate through 2029. From 2030 to 2036, growth slows to about 5 percent a year, on average; projected outlays reach $2.7 trillion, or 5.9 percent of GDP, in 2036.

Social Security benefits are paid from the Old-Age and Survivors Insurance (OASI) Trust Fund and the Disability Insurance Trust Fund. CBO's baseline projections reflect the assumption that outlays from those trust funds will continue to be made even if their balances are exhausted. (In CBO's projections, the balance of the OASI trust fund is exhausted in 2032. For an illustrative scenario in which Social Security benefits are reduced after the balance is exhausted, see Appendix C. For more information about trust funds in the federal budget, see Appendix B.)

In general, the growth in outlays for Social Security reflects increases in the average benefit amount and the number of beneficiaries. In CBO's projections, the average benefit amount grows by an average of 4.0 percent a year from 2026 to 2028 and by an average of 3.6 percent a year from 2029 to 2036. That pattern is partly attributable to annual cost-of-living adjustments (COLAs), which are estimated to be larger in the earlier years of

Table 3-2.

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

Billions of dollars

	Actual, 2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	Total 2027–2031	Total 2027–2036
Social Security														
Old-Age and Survivors Insurance	1,418	1,503	1,598	1,697	1,794	1,892	1,992	2,094	2,196	2,299	2,402	2,507	8,972	20,469
Disability Insurance	158	163	171	178	185	191	198	205	212	221	230	239	924	2,031
Subtotal	1,575	1,666	1,769	1,875	1,979	2,083	2,190	2,298	2,409	2,519	2,632	2,747	9,895	22,500
Major health care programs														
Medicare[a,b]	1,180	1,287	1,374	1,452	1,552	1,649	1,753	1,867	2,006	2,145	2,280	2,421	7,778	18,497
Medicaid	668	708	726	746	754	777	804	834	870	905	941	981	3,806	8,338
Premium tax credits and related spending[c]	140	112	93	88	93	100	111	120	125	131	140	150	485	1,151
Children's Health Insurance Program	23	25	26	27	28	24	15	15	15	15	15	15	122	198
Subtotal	2,012	2,132	2,219	2,313	2,426	2,550	2,683	2,836	3,016	3,197	3,377	3,566	12,192	28,184
Income security programs														
Supplemental Nutrition Assistance Program	106	100	97	94	95	96	98	99	100	101	102	103	479	985
Earned income, child, and other tax credits[d]	115	105	101	102	103	102	102	104	103	104	103	104	510	1,028
Supplemental Security Income[a]	65	67	69	71	73	75	78	80	83	85	88	91	365	792
Unemployment compensation	39	45	47	48	49	49	50	52	53	55	56	58	244	518
Child nutrition	35	37	38	40	42	44	46	47	49	51	52	54	211	464
Family support and foster care[e]	38	37	37	37	37	38	38	39	39	40	40	41	187	386
Subtotal	397	389	389	392	399	405	411	421	428	436	442	451	1,996	4,173
Federal civilian and military retirement														
Civilian[f]	129	135	140	144	148	152	156	162	168	173	177	182	741	1,604
Military[a]	80	83	86	89	92	95	98	101	104	107	110	113	459	993
Subtotal	210	218	226	234	240	247	254	263	272	279	287	295	1,201	2,597
Veterans' programs														
Income security[a,g]	201	232	248	262	276	289	298	311	325	339	354	370	1,372	3,072
Toxic Exposures Fund[h]	33	50	56	61	65	69	73	76	80	84	88	93	324	746
Other[a,i]	18	19	20	21	21	22	23	24	25	26	27	28	107	236
Subtotal	251	301	324	343	362	380	394	411	430	449	470	491	1,803	4,055
Other programs														
Administration of justice	20	37	47	52	52	51	42	37	27	25	23	24	243	379
Agriculture	23	31	41	38	34	31	30	30	31	32	32	32	175	332
Deposit insurance	-32	-22	-20	-104	-12	-13	-14	-14	-23	-15	-16	-17	-162	-246
MEHRCF	13	14	14	15	16	16	17	18	18	19	20	20	78	173
Higher education	-76	18	21	12	11	12	12	12	13	13	13	13	68	131
Defense	-1	34	44	29	22	12	7	2	4	3	*	3	114	126
Fannie Mae and Freddie Mac[j]	0	0	4	4	5	7	8	8	10	11	12	13	28	83
Other	145	125	117	117	112	99	89	78	73	69	65	65	534	884
Subtotal	92	235	269	163	240	215	192	171	153	157	150	153	1,078	1,862
Mandatory outlays, excluding offsetting receipts	**4,537**	**4,942**	**5,196**	**5,321**	**5,646**	**5,879**	**6,123**	**6,399**	**6,708**	**7,038**	**7,358**	**7,703**	**28,165**	**63,371**

Data source: Congressional Budget Office. See www.cbo.gov/publication/61882#data.

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

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

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

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

Continued

Table 3-2. Continued

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

Billions of dollars

	Actual, 2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	Total 2027–2031	Total 2027–2036
Offsetting receipts														
Medicare[k]	-192	-224	-234	-249	-266	-292	-316	-340	-368	-394	-422	-451	-1,357	-3,332
Federal share of federal employees' retirement														
Civil service retirement and other	-63	-64	-66	-68	-70	-73	-75	-77	-80	-82	-84	-87	-352	-762
Military retirement	-23	-22	-19	-20	-21	-21	-22	-22	-23	-23	-24	-25	-103	-220
Social Security	-24	-25	-26	-27	-28	-29	-29	-30	-31	-32	-33	-34	-139	-299
Subtotal	-110	-112	-111	-115	-119	-122	-126	-130	-134	-137	-141	-145	-594	-1,281
Receipts related to natural resources	-17	-17	-18	-19	-20	-22	-23	-23	-24	-24	-25	-25	-103	-223
MERHCF	-11	-13	-15	-15	-16	-17	-18	-18	-19	-20	-21	-22	-81	-182
Fannie Mae and Freddie Mac	-6	-6	0	0	0	0	0	0	0	0	0	0	0	0
Other	-32	-40	-35	-36	-40	-50	-59	-52	-46	-37	-32	-32	-220	-419
Subtotal	-370	-412	-413	-434	-462	-504	-541	-564	-591	-613	-642	-675	-2,353	-5,438
Mandatory outlays, including offsetting receipts	**4,168**	**4,529**	**4,783**	**4,887**	**5,185**	**5,375**	**5,582**	**5,835**	**6,117**	**6,425**	**6,716**	**7,028**	**25,812**	**57,933**
Effects that timing shifts have on mandatory outlays in CBO's baseline projections														
Medicare	0	0	0	82	-82	0	0	0	117	8	-125	0	n.a	n.a
Supplemental Security Income	0	0	0	6	-6	0	0	0	7	*	-7	0	n.a	n.a
Military retirement	0	0	0	7	-7	0	0	0	7	1	-8	0	n.a	n.a
Veterans' income security	0	0	0	23	-23	0	0	0	27	2	-30	0	n.a	n.a
Other programs for veterans	0	0	0	1	-1	0	0	0	1	*	-1	0	n.a	n.a
Total	**0**	**0**	**0**	**118**	**-118**	**0**	**0**	**0**	**160**	**12**	**-172**	**0**	**n.a**	**n.a**
Total mandatory outlays in CBO's baseline projections	**4,168**	**4,529**	**4,783**	**5,005**	**5,067**	**5,375**	**5,582**	**5,835**	**6,277**	**6,437**	**6,545**	**7,028**	**25,812**	**57,933**
Addendum:														
Outlays, net of offsetting receipts														
Medicare	988	1,063	1,140	1,203	1,286	1,356	1,437	1,526	1,638	1,751	1,858	1,970	6,421	15,164
Major health care programs	1,819	1,908	1,985	2,064	2,160	2,258	2,367	2,495	2,649	2,803	2,955	3,115	10,834	24,852

c. Premium tax credits subsidize the purchase of health insurance through the marketplaces established under the Affordable Care Act. Related spending is spending to subsidize health insurance provided through the Basic Health Program and to stabilize premiums for health insurance purchased by individuals and small employers.

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

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

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

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

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

i. Primarily the GI Bill and similar education benefits.

j. Cash payments from Fannie Mae and Freddie Mac to the Treasury are recorded as offsetting receipts in 2025 and 2026. Beginning in 2027, CBO's estimates reflect the net lifetime costs—that is, the subsidy costs adjusted for market risk—of the guarantees that those entities will issue and of the loans that they will hold. CBO counts those costs as federal outlays in the year of issuance.

k. Includes premium payments, recoveries of overpayments made to providers, and amounts paid by states from savings on Medicare's prescription drug costs.

Box 3-1.

Categories of Federal Outlays

Outlays are the issuance of checks, disbursement of cash, or electronic transfer of funds made to liquidate a federal obligation. (Budget authority, sometimes referred to as funding, is the authority provided by federal law to enter into financial obligations that result in outlays.) On the basis of their treatment in the budget process, federal outlays can be divided into three broad categories: mandatory (also referred to as direct spending), discretionary, and net outlays for interest.

Mandatory outlays consist mainly of payments for benefit programs, such as Social Security, Medicare, and Medicaid. Lawmakers largely determine funding for those programs by setting rules for eligibility, benefit formulas, and other parameters rather than by appropriating specific amounts each year. In developing baseline projections, the Congressional Budget Office generally assumes that the existing laws and policies governing those programs will remain unchanged. Mandatory outlays are net of offsetting receipts—fees and other charges that are recorded as negative budget authority and outlays. Offsetting receipts differ from revenues: Revenues are collected through the government's sovereign powers (in the form of income taxes, for example), whereas offsetting receipts are mostly collected from other government accounts or from members of the public for businesslike transactions (in the form of premiums for Medicare or royalties for oil drilling on public lands, for example).

Discretionary outlays result from the funding controlled by appropriation acts in which policymakers specify how much money can be obligated for certain government programs in specific years. Appropriations fund a broad array of government activities, including defense, law enforcement, education, and veterans' health programs. They also fund the national park system, disaster relief, and foreign aid. Some of the fees and charges triggered by appropriation acts are classified as offsetting collections and are credited against discretionary budget authority and outlays for the particular accounts affected.

CBO's baseline projections depict the path of funding for individual discretionary accounts as directed by provisions of the Balanced Budget and Emergency Deficit Control Act of 1985 (Public Law 99-177). That law states that current appropriations should be assumed to grow with inflation in the future, using specified indexes.[1]

The baseline projections also include discretionary outlays for highway and airport infrastructure programs and public transit programs, all of which receive mandatory budget authority from authorizing legislation. Typically, outlays from mandatory budget authority are also classified as mandatory. However, appropriation acts each year include limits on how much of that mandatory budget authority the Department of Transportation can obligate. For that reason, those obligation limitations are often treated as a measure of discretionary budgetary resources, and the resulting outlays are considered discretionary.[2]

Net outlays for interest consist of interest paid on Treasury securities and other interest that the government pays (for example, interest paid on late refunds issued by the Internal Revenue Service) minus the interest that it collects from various sources (for example, from states that pay interest on advances they received from the federal Unemployment Trust Fund when the balances of their state unemployment accounts were insufficient to pay benefits promptly). Net outlays for interest are determined mostly by the size and composition of the government's debt and by market interest rates.

1. In CBO's baseline projections, discretionary funding related to federal personnel is adjusted for inflation using the employment cost index for wages and salaries of workers in private industry; other discretionary funding is adjusted using the gross domestic product price index.

2. Discretionary budgetary resources include new budget authority, unobligated balances of budget authority provided in previous years, and obligation limitations.

the projection period: COLAs average 2.8 percent a year from 2026 to 2028 and 2.3 percent a year from 2029 to 2036. In addition, initial Social Security benefits for new beneficiaries increase over the projection period because they are based on earnings, which generally rise over time. Growth in the number of beneficiaries slows over the projection period, from more than 2 percent a year from 2026 to 2028 to less than 1 percent in 2036. In CBO's projections, the total number of beneficiaries grows from 71 million in 2026 to 82 million in 2036.

The Major Health Care Programs. In 2025, federal outlays for Medicare, Medicaid, and the other major programs related to health care totaled $1.8 trillion net of offsetting receipts (see Table 3-2 on page 64, the addendum). In CBO's projections, such outlays increase by $89 billion (or 4.9 percent) in 2026. Outlays for the major health care programs increase by about 4.5 percent a year from 2027 to 2031 and by about 5.5 percent a year from 2032 to 2036. Growth in Medicare spending represents about 75 percent of the increase in spending on the major health care programs over the 2027–2036 period. In total, outlays for the major health care programs grow from $1.9 trillion, or 6.0 percent of GDP, in 2026 to $3.1 trillion, or 6.7 percent of GDP, in 2036.

Medicare. Medicare is a federal health insurance program for people age 65 or older and for younger people with certain disabilities and diseases.[8] CBO estimates that outlays for Medicare (net of offsetting receipts, which are mostly in the form of premiums paid by beneficiaries) will grow by $75 billion (or 8 percent) in 2026—totaling $1.1 trillion and accounting for about 60 percent of total outlays for the major health care programs.

In CBO's projections, increasing enrollment and greater spending per beneficiary drive the growth in Medicare spending. Enrollment in Medicare Part A grows from 71.5 million people in 2027 to 80.5 million in 2036—an average annual increase of about 1 percent. Enrollment in other parts of Medicare grows at a similar rate. Spending per person in the Medicare program grows at an average rate of 5 percent a year over the 2027–2036 period. In 2036, net outlays for Medicare total $2.0 trillion, or 4.2 percent of GDP, up from $1.1 trillion, or 3.4 percent of GDP, in 2027.

Medicaid. Medicaid is a joint federal-state program that covers acute and long-term health care for people with low income, including families with dependent children, people age 65 or older, and people under age 65 who have disabilities. Federal outlays for Medicaid are estimated to total $708 billion in 2026, an increase of $40 billion (or 6 percent) from the amount recorded in 2025.

In CBO's projections, growth in Medicaid outlays slows over the next several years, declining to 1 percent in 2029. That slower growth from 2027 to 2029 is mainly driven by provisions in the 2025 reconciliation act (P.L. 119-21) that changed Medicaid eligibility, enrollment processes, and the way the program is financed. (For more information about the budgetary and economic effects of the 2025 reconciliation act, see Appendix A.) From 2030 to 2036, outlays for Medicaid grow by an average of 4 percent a year. That growth is mainly driven by an increase in costs per enrollee, in the number of enrollees age 65 or older, and in the number of people whose enrollment is related to a disability.

Premium Tax Credits and Related Spending. CBO and the staff of the Joint Committee on Taxation (JCT) estimate that outlays for premium tax credits and related spending will amount to $112 billion in 2026, which is $28 billion (or 20 percent) less than the amount of such spending in 2025. The estimated reduction in outlays for 2026 is mostly attributable to lower projections of enrollment in health insurance plans purchased through the marketplaces established under the Affordable Care Act. That lower projected enrollment results from the expiration of the expanded premium tax credit structure first enacted in the American Rescue Plan Act of 2021 (P.L. 117-2) and later extended through calendar year 2025 by the 2022 reconciliation act (P.L. 117-169).

In CBO and JCT's projections, outlays for premium tax credits and related spending continue to decline through 2028 because of lower expected enrollment—a result of the 2025 reconciliation act's provisions that restrict the eligibility of certain immigrants and create new reporting requirements and limits on beneficiaries' ability to receive the credit before filing a tax return. Those outlays begin to increase in 2029—reflecting projected growth in marketplace enrollment and premiums—and reach $150 billion in 2036.

Children's Health Insurance Program. Financed jointly by the states and the federal government, CHIP provides health coverage to children in families whose income is low but above the threshold to qualify for Medicaid. CBO estimates that in 2026, federal outlays for the program will total $25 billion, which is $2 billion more than they were in 2025.

CHIP is authorized through 2029. In CBO's projections, outlays for the program grow by about 4 percent a year from 2027 to 2029 and fall substantially thereafter. Consistent with section 257 of the Deficit Control Act, CBO's baseline reflects the assumption that after 2029, annual funding for CHIP will equal the amount of budget authority currently specified in law for the final half of 2029—a sum that is significantly smaller than

8. Medicare covers three types of services: inpatient services through the Hospital Insurance program (Part A), outpatient and physicians' services through the Medical Insurance program (Part B), and prescription drugs through the prescription drug benefit (Part D). Part C of Medicare (known as Medicare Advantage) specifies the rules under which private health care plans can assume responsibility and be compensated for providing benefits covered under Parts A and B.

Box 3-2.

How Sequestration Affects CBO's Projections of Mandatory Spending

The Budget Control Act of 2011 (Public Law 112-25) implemented procedures to automatically reduce funding provided for certain mandatory programs from 2013 through 2021.[1] The law directed the Office of Management and Budget to determine and enforce the amount of the reduction each year for defense and nondefense programs in a process of across-the-board reductions known as sequestration. The full-year reductions began in 2014 at 9.8 percent for defense accounts and 7.3 percent for most nondefense accounts and then steadily declined to reductions of 8.3 percent for defense and of 5.7 percent for nondefense in 2021.

Subsequent legislation extended the cuts to mandatory funding through 2032 and specified that future reductions would use the same percentages as calculated for 2021—except for 2032; for that year, the reductions are set at 4.0 percent for defense programs and 2.8 percent for nondefense programs. Different rules apply to Medicare, the largest program subject to sequestration; most of its funding is reduced by a maximum of 2.0 percent, and the reductions continue through 2033.

1. The Budget Control Act also established caps on discretionary funding for defense and nondefense programs. Those caps were raised by subsequent legislation and expired after 2021. The Fiscal Responsibility Act of 2023 (P.L. 118-5) reinstated those caps for 2024 and 2025.

Which Mandatory Accounts Are Subject to Sequestration?

All mandatory federal programs are subject to sequestration unless they are explicitly listed as exempt or fall into one of the general categories for exemption detailed in section 255 or section 256 of the Balanced Budget and Emergency Deficit Control Act of 1985 (P.L. 99-177). Exempted categories include funding for Social Security benefits, veterans' programs, net interest, and certain refundable tax credits.[2]

How Does CBO Apply Sequestration to Its Baseline Projections?

In each account for which budgetary resources are subject to sequestration, the Congressional Budget Office includes a separate entry detailing the amount by which that account's resources would be reduced. CBO also estimates how those reductions to funding would affect outlays and therefore deficits. Certain accounts—including revolving funds, trust funds, and special funds—may be subject to sequestration, but any amounts made unavailable in one year are restored to those funds the following year. Those accounts are included in

2. Refundable tax credits reduce a filer's overall income tax liability (the amount they owe); if the credit exceeds the filer's income tax liability, the government pays all or some portion of that excess to the taxpayer (and the payment is treated as an outlay in the budget). For more information, see Congressional Budget Office, *Refundable Tax Credits* (January 2013), www.cbo.gov/publication/43767.

Continued

the funding provided in earlier years.[9] That amount of funding ($15 billion per year) would be insufficient to maintain outlays at their previous levels: CBO projects that during 2030, balances from the funding provided in years before the expiration of the program's authorization would be exhausted, resulting in a significant drop in outlays for the remainder of the projection period.

Income Security Programs. Mandatory spending on income security programs includes outlays for the Supplemental Nutrition Assistance Program (SNAP), certain refundable tax credits, Supplemental Security Income (SSI), unemployment compensation, and certain programs that support children and families. CBO estimates that outlays for those programs will total $389 billion in 2026, a 2 percent decline from the $397 billion spent in 2025. In the agency's projections, outlays for income security programs increase in most years thereafter—by an average of about 1.5 percent a year, which is slower than the rate at which GDP grows. As a result, such outlays are projected to shrink as a percentage of GDP, from 1.2 percent in 2026 to 1.0 percent in 2036.

Supplemental Nutrition Assistance Program. SNAP provides benefits to help people in low-income households purchase food. CBO expects that outlays for the program will total $100 billion this year, 6 percent less than the $106 billion spent in 2025. In the agency's projections, outlays for SNAP continue to decline through 2028, reaching $94 billion that year. Changes to the program made by the 2025 reconciliation act (including

9. For a definition of budget authority, see Box 3-1 on page 66.

Box 3-2. Continued

How Sequestration Affects CBO's Projections of Mandatory Spending

the total reductions in funding that result from sequestration, although they have little net effect on the deficit.

How Large Is the Effect of Sequestration on CBO's Projections of Deficits?

CBO estimates that as a result of the sequestration provisions in the Budget Control Act, as amended, outlays—and therefore deficits—will be $27 billion smaller in 2026 and $221 billion smaller from 2027 to 2036 (see the table). Most of the savings over the 2027–2036 period are attributable to reductions in Medicare funding, which amount to $203 billion; an additional $21 billion in savings is reflected in defense accounts in CBO's baseline. Changes to other accounts that are not related to Medicare or defense are projected to increase outlays by $3 billion, on net, thereby partly offsetting the overall savings. That increase occurs largely because certain intragovernmental payments made from defense programs to nondefense programs are subject to sequestration. Therefore, reducing those payments results in savings for defense programs but a cost for nondefense programs. CBO estimates that, excluding those payments, the effect of sequestration on other accounts would reduce deficits.

Effects of Sequestration on CBO's Baseline Projections of Mandatory Spending

Billions of dollars

	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	Total 2027–2031	Total 2027–2036
Change in budget authority													
Medicare	-25	-26	-30	-28	-32	-34	-36	-17	0	0	0	-150	-203
Defense	-2	-6	-4	-3	-3	-3	-2	*	0	0	0	-19	-21
Other	*	*	1	*	*	1	2	1	0	0	0	1	4
Total change in budget authority	**-27**	**-32**	**-33**	**-31**	**-35**	**-37**	**-36**	**-15**	**0**	**0**	**0**	**-168**	**-219**
Change in outlays													
Medicare	-25	-26	-30	-28	-32	-34	-36	-17	*	*	0	-150	-203
Defense	-2	-6	-4	-3	-3	-3	-2	*	0	0	0	-19	-21
Other	1	1	1	1	1	1	*	*	*	*	*	3	3
Total change in outlays	**-27**	**-31**	**-33**	**-31**	**-34**	**-36**	**-37**	**-17**	**-1**	*****	*****	**-166**	**-221**

Data source: Congressional Budget Office. See www.cbo.gov/publication/61882#data.

* = between -$500 million and $500 million.

an expansion of work requirements, changes to how benefits are calculated, and modifications to how the program is administered) as well as lower projected participation reduce outlays for the program throughout the projection period. After 2028, the effect of those changes on outlays is offset by projected increases in the cost of food, which SNAP benefits are linked to. As a result, in CBO's projections, outlays for the program increase after 2028—by an average of about 1 percent a year—and reach $103 billion in 2036.

Earned Income, Child, and Other Tax Credits. Refundable tax credits reduce a filer's income tax liability (the amount owed); if the amount of the credit exceeds that liability, the government pays all or some portion of that excess to the taxpayer.[10] Those payments are categorized in the federal budget as outlays.

CBO estimates that outlays for refundable tax credits will amount to $105 billion in 2026, 9 percent less than the $115 billion they totaled in 2025. That reduction is attributable to a decrease in expected outlays for U.S.

10. For more information, see Congressional Budget Office, *Refundable Tax Credits* (January 2013), www.cbo.gov/publication/43767.

Coronavirus Refundable Credits, which are down from $18 billion in 2025 to an estimated $5 billion in 2026.[11] By contrast, CBO estimates that outlays for the child tax credit will increase by $3 billion in 2026.

In CBO's projections, outlays for refundable tax credits continue to decrease in 2027, by nearly 4 percent. That decrease is largely driven by a further decline in outlays for U.S. Coronavirus Refundable Credits—from an estimated $5 billion in 2026 to less than $0.1 billion in 2027—as the Internal Revenue Service winds down its processing of those claims. From 2027 to 2036, outlays for refundable tax credits remain relatively steady, averaging $103 billion a year.

Supplemental Security Income. SSI provides cash benefits to people with low income who are elderly or disabled. CBO estimates that in 2026, outlays for SSI will total $67 billion, an increase of $2 billion from the amount recorded in 2025. Over the 2026–2036 period, outlays for the program are projected to grow by 3 percent a year. That growth is attributable to an increase in the number of beneficiaries, which is projected to grow by about 1 percent a year, and higher average benefits, which mainly stem from annual COLAs. In CBO's projections, outlays for SSI total $91 billion in 2036.

Unemployment Compensation. Jointly administered by the federal government and states, the unemployment compensation program provides benefits to people who lose their jobs through no fault of their own and who meet other criteria established by the laws in their states. Outlays for unemployment compensation depend on several factors, such as the unemployment rate, labor force participation, and wages and salaries.

CBO expects outlays for the program to amount to $45 billion in 2026, an increase of $6 billion (or 15 percent) from what was spent last year. The increase mainly reflects an uptick in the unemployment rate and higher average weekly benefits attributable to projected growth in wages and salaries. In CBO's projections, the unemployment rate peaks at 4.6 percent in 2026 and then declines throughout the projection period, falling to 4.2 percent in 2033 and remaining there through 2036. Despite that decline, outlays for unemployment compensation increase in nearly every year of the projection period because of continued growth in wages and salaries—reaching $58 billion in 2036.

Child Nutrition. CBO estimates that outlays for child nutrition programs, which include programs such as the National School Lunch Program, the School Breakfast Program, and the Summer Food Service Program, will increase to $37 billion in 2026, up from $35 billion in 2025. That growth largely reflects a projected rise in food costs, which are used to adjust federal reimbursement rates to states for meals and snacks. Outlays are projected to increase by an average of about 4 percent a year after 2026—mainly because of the projected increase in food costs—and total $54 billion in 2036.

Family Support and Foster Care. CBO estimates that outlays for other programs that support children and families, such as Temporary Assistance for Needy Families (TANF) and Child Support Enforcement, will total $37 billion in 2026—a 2 percent decrease from the $38 billion spent in 2025. After 2026, projected spending for such programs increases by an average of 1 percent a year, reaching $41 billion in 2036. Funding caps for some programs (such as for TANF) restrict the growth in outlays.

Federal Civilian and Military Retirement. Retirement and survivors' benefits for most federal civilian employees are estimated to cost $135 billion in 2026, an increase of $6 billion from the previous year's amount. (That total includes benefits provided through retirement programs for the civil service, foreign service, and Coast Guard, as well as through several smaller retirement programs for employees of various government agencies and for retired railroad workers.) The projected growth in federal civil service retirement benefits is mainly attributable to COLAs for retirees and increases in federal salaries, which boost benefits for people entering retirement. In CBO's projections, outlays for federal civilian retirement grow by about 5 percent in 2026, largely because of the 2.8 percent COLA effective in January 2026 and an increase in the number of new retirees. After 2026, such outlays grow by an average of about 3 percent a year, reaching $182 billion in 2036.

11. U.S. Coronavirus Refundable Credits are a group of tax credits that helped employers cover the costs of sick and family leave, employee retention, and continuation of health insurance for certain workers during 2020 and 2021. Employers could claim those temporary tax credits after 2021 on amended tax returns. Outlays for the employee retention tax credit are expected in 2026 and 2027 because the Internal Revenue Service is expected to continue processing claims for those credits that were filed before January 31, 2024.

The federal government also provides annuities to retired military personnel and their survivors. Outlays for those annuities are expected to total $83 billion in 2026, up from the $80 billion spent in 2025. Most of the projected annual growth in those outlays over the 2027–2036 period stems from COLAs and increases in military basic pay. Outlays for military retirement benefits are projected to grow by an average of about 3 percent a year, reaching $113 billion in 2036.

Veterans' Programs. Mandatory spending on veterans' benefits includes outlays for disability compensation, education and vocational rehabilitation benefits, pensions, insurance, housing assistance, burial benefits, and payments from the Toxic Exposures Fund (TEF). CBO estimates that outlays for those veterans' benefits will total $301 billion in 2026, an increase of 20 percent from the $251 billion recorded in 2025. (Outlays in this category do not include most federal spending on veterans' health care, which is largely funded through discretionary appropriations.)

In CBO's projections, that increase is mainly driven by the growth of disability compensation payments, which increase faster than inflation and represent more than three-quarters of total mandatory outlays for veterans' programs in 2026. Those payments increase with the severity of veterans' service-connected injuries and illnesses. The average severity of beneficiaries' disabilities and the number of veterans with service-connected disabilities have been rising in recent years. CBO anticipates that those two factors will continue to increase significantly in 2026 but that the rate of growth will decline in subsequent years, after the Department of Veterans Affairs has processed the initial surge of disability claims arising from the Honoring our PACT Act (P.L. 117-168).

In addition, about one-third of the increase in total estimated outlays for veterans' programs in 2026 stems from a 50 percent increase in outlays from the TEF. Established by the Honoring our PACT Act, the TEF provides mandatory funding to support benefits for veterans who have been exposed to toxic substances or environmental hazards. The amount of funding for the TEF (which is $52.7 billion in 2026) is set annually in legislation.

In CBO's projections, mandatory outlays for veterans' programs grow by 8 percent in 2027, by 6 percent in 2028 and 2029, and then by an average of about 4.5 percent a year through the end of the projection period; such outlays total $491 billion in 2036.

Other Mandatory Programs. The remainder of mandatory spending encompasses outlays for a variety of other programs and activities, including the administration of justice, agriculture, deposit insurance, health care benefits for retirees of the uniformed services and their families, higher education, defense, and Fannie Mae and Freddie Mac. Taken together, those outlays are expected to total $235 billion in 2026—more than double the $92 billion they totaled last year. (The 2025 amount was substantially reduced by the recording of savings from legislative changes to student loan programs; see the section below titled "Higher Education" for more details.) In CBO's projections, such outlays continue to grow in 2027, when they peak at $269 billion. Projected outlays for what are categorized as other mandatory programs do not follow a linear path of change from year to year but generally decline over the baseline period. In 2036, outlays for other mandatory programs are projected to total $153 billion.

Administration of Justice. In CBO's projections, outlays related to the administration of justice (which include outlays for programs administered by the Department of Homeland Security and the Department of Justice, among other agencies) increase from $20 billion in 2025 to $37 billion in 2026 and then to $52 billion in 2028 and 2029. Such outlays generally fall thereafter, totaling $24 billion in 2036. That pattern is largely the result of funding provided in the 2025 reconciliation act, mainly for immigration enforcement activities, which boosts outlays over the first half of the projection period; those outlays then taper off through 2036. Over the 2027–2036 period, outlays in this category total $379 billion, about one-third of which stems from funding provided in the 2025 reconciliation act.

Agriculture. CBO estimates that mandatory outlays for agriculture will total $31 billion in 2026—which is $7 billion more than the $23 billion recorded in 2025. (Some agriculture spending is discretionary.) That increase is mainly attributable to an administrative action announced by the Department of Agriculture involving the use of $12 billion in Commodity Credit Corporation funds to provide payments to farmers.

Projected outlays for agriculture rise further in 2027, to $41 billion. That rise results from several factors:

Increased funding for various agriculture programs provided in the 2025 reconciliation act (which includes a one-year requirement for farmers to receive the maximum of Agriculture Risk Coverage or Price Loss Coverage payments); a peak in support prices (that is, minimum crop prices guaranteed by the federal government to eligible farmers) for some commodities due to the recent historical pattern of those prices; and higher projected costs for the crop insurance program, which are partly attributable to CBO's expectation of continued growth in demand for the program.[12]

In CBO's projections, a gradual strengthening of crop prices causes mandatory outlays for agriculture to decline after 2027; those outlays level off from 2030 to 2036, when they average $31 billion a year. All told, mandatory outlays for agriculture total $332 billion over the 2027–2036 period, in CBO's projections.

Deposit Insurance. In the deposit insurance program, expected receipts exceed costs in every year of the projection period, and those results are recorded in the budget as negative outlays. CBO estimates that the negative amount will be smaller in 2026 than it was in 2025, causing an increase of $11 billion in net outlays. Over the 2027–2036 period, those negative outlays total $246 billion, boosted by an expected repayment of $85 billion in 2028 (and $8 billion in 2033) to the Federal Deposit Insurance Corporation's (FDIC's) Deposit Insurance Fund. Those repayments are for notes sold to the Federal Financing Bank, financed through the issuance of Treasury securities, as part of the ongoing resolution of bank failures in 2023. The sales of those notes were recorded in the federal budget as outlays in the years the notes were issued by the FDIC; the repayments are recorded as offsetting collections in the years the notes mature.

Higher Education. Among other mandatory programs, the largest change in estimated outlays for 2026 is an increase of $94 billion for higher education programs; such outlays are estimated to total $18 billion this year, up from a negative $76 billion recorded in 2025.[13] In September 2025, the Administration recorded a reduction in outlays of $131 billion resulting from modifications, authorized in the 2025 reconciliation act, to the terms of outstanding federal student loans.[14] In CBO's projections, total outlays for higher education rise to $21 billion in 2027 and then average $12 billion a year from 2028 to 2036. Changes to higher education programs made by the 2025 reconciliation act reduced such outlays, on net, in each year of the projection period.

Defense. CBO expects mandatory outlays for defense programs to total $34 billion in 2026, an increase of $35 billion over 2025 amounts. (Most defense spending is discretionary.) The 2025 reconciliation act provided $154 billion in mandatory appropriations for defense, mainly for shipbuilding programs, air and missile defense activities, and the purchase of munitions. That funding boosts outlays, particularly over the next few years, which then taper off over subsequent years. Altogether, mandatory outlays for defense programs are projected to total $126 billion over the 2027–2036 period.

Other Programs. On net, all other mandatory spending, which totaled $145 billion last year, is projected to fall to $125 billion in 2026 and to continue declining thereafter, to $65 billion in 2036. Such spending encompasses a broad array of programs and activities, including the Railroad Retirement Board, the Universal Service Fund, the Pension Benefit Guaranty Corporation, the Postal Service Retiree Health Benefits Fund, and certain health care services. The reasons for the decline vary and include the tapering off of spending from funding provided by the 2025 reconciliation act and other laws enacted in recent years.

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12. The Price Loss Coverage program makes payments to producers when the annual average market price per unit of a covered commodity falls below the effective reference price set in law. The Agriculture Risk Coverage–County program makes payments to producers when the actual average revenue for a crop (price times production) within the producer's county falls below the local guaranteed amount, which is based on an average for recent years.

13. CBO's projection of outlays for 2026 does not include the costs of the Administration's decision to delay the implementation of involuntary collections on federal student loans in default as authorized by the Higher Education Act and the Debt Collection Improvement Act. The administrative action announcing that delay was issued on January 16, 2026, after CBO had finalized its current projections.

14. As required by the Federal Credit Reform Act of 1990, that reduction was recorded as a single number representing the change in all expected future cash flows from outstanding loans—such as larger payments from borrowers—discounted to the year in which the modification occurred.

Offsetting Receipts. Offsetting receipts are funds that agencies receive from the public or from other agencies that generally arise from voluntary or businesslike activities that do not involve the sovereign power of the federal government. They are recorded in the federal budget as offsets to (or reductions in) spending. Such receipts include Medicare beneficiaries' premiums, intragovernmental payments made by federal agencies for their employees' retirement benefits, royalties and other charges for the production of oil and natural gas on federal lands, proceeds from sales of timber harvested and minerals extracted from federal lands, payments to the Treasury by Fannie Mae and Freddie Mac (shown for 2025 and 2026 only), and various fees paid by users of public property and services.[15]

CBO estimates that offsetting receipts will total $412 billion in 2026, $43 billion more than the $370 billion recorded in 2025. Most of that increase stems from projected increases in Medicare premiums paid by beneficiaries. From 2027 to 2036, offsetting receipts are projected to grow from $413 billion to $675 billion. Payments to Medicare account for about 80 percent of that projected increase.

Sources of Growth in Mandatory Spending After 2026

In CBO's projections, mandatory outlays excluding offsetting receipts increase from $4.9 trillion in 2026 to $7.7 trillion in 2036. Those outlays increase at an average annual rate of 4.5 percent over that period, faster than the overall economy. The agency has apportioned that growth to three factors: inflation, changes in the number of some programs' beneficiaries, and changes in real spending per beneficiary (see Table 3-3; real spending is nominal spending that has been adjusted to remove the effects of inflation). For most programs, inflation is the largest driver of nominal growth in mandatory outlays in CBO's baseline; for Medicare, growth in real spending per beneficiary is the most significant factor that increases outlays.

Inflation. Inflation causes CBO's projections of mandatory outlays to increase because benefit payments from programs are either explicitly linked to measures of inflation or are broadly affected by prices in the economy. Programs such as Social Security and federal civilian and military retirement have COLAs that are directly linked to inflation, and veterans' disability compensation and pension payments are increased in legislation each year by an amount equal to inflation. The total growth in outlays for those programs that is attributable to inflation ranges from 22 percentage points for federal civilian and military retirement to 30 percentage points for veterans' disability compensation and pensions. Outlays for Medicare, Medicaid, and premium tax credits are also boosted by inflation; among those programs, the total growth in outlays attributable to inflation ranges from 27 percentage points for Medicare to 35 percentage points for premium tax credits.

Number of Beneficiaries. Estimated changes in the number of beneficiaries contribute to growth in outlays for some programs over the 2026–2036 period but slow that growth for other programs. The total growth in projected outlays attributable to enrollment is about the same for Social Security and Medicare—19 percentage points and 20 percentage points, respectively. (Social Security and Medicare generally have similar age-related eligibility requirements.) By contrast, enrollment in Medicaid and the number of recipients of premium tax credits both decline in CBO's projections, causing the associated outlays to grow more slowly from 2026 to 2036 than they otherwise would. Reductions in enrollment cause total growth in outlays for Medicaid to be 14 percentage points smaller in 2036 than it would be if enrollment did not change over the projection period. And the shrinking number of beneficiaries of premium tax credits causes total growth in outlays to be 30 percentage points less than it would be without those changes.[16]

15. Because the government placed Fannie Mae and Freddie Mac in conservatorships in 2008 and now controls their operations, CBO considers their activities governmental and includes the budgetary effects of their mortgage guarantees in its projections as if they were federal agencies. On that basis, for the 10-year period after the current fiscal year, CBO projects the subsidy costs of their guarantees using procedures that are similar to those specified in the Federal Credit Reform Act for determining the costs of federal credit programs, but with adjustments to reflect the associated market risk (that is, the financial risk associated with the overall performance of the economy). The Administration, by contrast, considers Fannie Mae and Freddie Mac to be outside the federal government for budgetary purposes and records cash transactions between them and the Treasury as federal outlays or receipts. In its baseline projections, CBO treats only the current fiscal year in the same manner as the Administration to provide its best estimate of the amount that the Treasury ultimately will report as the budget deficit for 2026. Similarly, to match the Administration's historical budget totals, CBO uses the Administration's treatment for past years.

16. Projected enrollment in Medicaid declines mainly because of the effects of the 2025 reconciliation act; the number of people receiving premium tax credits or enrolled in the Basic Health Program is also projected to decline because of that law. The expiration of the expanded premium tax credit structure first enacted in the American Rescue Plan Act of 2021 and later extended through calendar year 2025 by the 2022 reconciliation act also causes the number of people receiving those credits to decline in CBO's projections.

Table 3-3.

Sources of Growth in CBO's Baseline Projections of Mandatory Outlays From 2026 to 2036

	Billions of dollars			Percent	Percentage points		
	2026	2036	Total change	Total growth	Growth from inflation	Growth from number of beneficiaries	Growth from real spending per beneficiary[a]
Mandatory outlays							
Social Security benefits[b]	1,659	2,739	1,080	65	29	19	17
Medicare[c]	1,287	2,421	1,134	88	27	20	41
Medicaid	708	981	273	39	34	-14	18
Premium tax credits[d]	100	132	31	31	35	-30	26
Veterans' income security[e]	231	370	139	60	30	29	1
Federal civilian and military retirement[f]	197	259	62	31	22	5	4
Other[g]	759	802	43	6	21	3	-18

Data source: Congressional Budget Office. See www.cbo.gov/publication/61882#data.

The growth attributable to each of the three factors—inflation, the number of beneficiaries, and real spending per beneficiary—is calculated to sum to the total nominal growth in a given category of mandatory outlays. The weights for each factor equal the natural logarithm of the growth rate of that factor divided by the natural logarithm of total nominal spending growth in the category.

a. Real spending is nominal spending adjusted to remove the effects of inflation.

b. The share of growth in Social Security outlays that is attributable to inflation reflects annual cost-of-living adjustments that are benchmarked to the consumer price index for urban wage earners and clerical workers and the portion of wage growth in the economy that is attributable to inflation.

c. Medicare consists of several parts: hospital insurance, supplementary medical insurance, prescription drug coverage, and Medicare Advantage. CBO's projections for each part are based on the agency's economic forecast and enrollment projections, which affect each part of Medicare differently. For this exercise, CBO removed the effects of price increases from each part by using a weighted average of prices based on the services provided in each part. The effects of enrollment on Medicare outlays are illustrated using projections of enrollment in Medicare's Hospital Insurance program.

d. Premium tax credits subsidize the purchase of health insurance through the marketplaces established under the Affordable Care Act. Amounts include spending to subsidize health insurance provided through the Basic Health Program. In this table, CBO uses increases in the consumer price index for medical services to illustrate how inflation affects growth in outlays for those programs. Premium tax credits also reduce revenues; when those revenue reductions are accounted for, programmatic growth attributable to inflation is 34 percent, the growth attributable to the number of beneficiaries is -29 percent, and the growth attributable to real spending per beneficiary is 18 percent.

e. Excludes burial benefits, miscellaneous assistance, and life insurance programs.

f. Outlays consist of pension benefits for former service members and most former federal civilian employees. Initial benefits, which are linked to wage growth and length of military or civilian service, are subject to cost-of-living adjustments in later years. The effects of cost-of-living adjustments are reflected as growth from inflation. The effects of wage growth and service length are reflected as growth from real spending per beneficiary.

g. Outlays for other mandatory programs, including the Supplemental Nutrition Assistance Program and the Supplemental Security Income program, are directly or indirectly linked to price or wage growth. Benefits from other programs, such as the maximum value of the child tax credit, are not affected by changes in inflation. To estimate the effect of inflation on outlays for all mandatory programs not listed in this table, CBO used the gross domestic product price index. To estimate the effects of growth in the number of beneficiaries, CBO used growth in the total U.S. population.

Real Spending per Beneficiary. Over the 2026–2036 period, total projected growth in outlays attributable to real spending per beneficiary is largest for Medicare and mainly stems from the increasing use of medical care. Greater use of medical care also drives growth in real spending per person for beneficiaries of Medicaid and for premium tax credits. For Social Security, increases in real spending per beneficiary cause total growth in outlays to be 17 percentage points larger than it would be otherwise, mainly as a result of growth in real wages that boosts average benefits.

Assumptions About Legislation for Expiring Programs Reflected in CBO's Baseline Projections

In keeping with the rules established by the Deficit Control Act, CBO's baseline projections reflect the assumption that some mandatory programs will be extended when their authorization expires (see Table 3-4). The rules provide for different treatment of programs created before and after the enactment of the Balanced Budget Act of 1997 (P.L. 105-33). All direct spending programs that predate that law and have current-year outlays greater than $50 million are assumed to continue in CBO's baseline projections. Whether programs of that size established after 1997 are assumed to continue is determined on a program-by-program basis in consultation with the House and Senate Budget Committees.

Programs whose authorization expires within the current projection period include SNAP, TANF, CHIP, most farm subsidies, rehabilitation services, and child nutrition programs. In addition, the Deficit Control Act directs CBO to assume that a COLA for veterans' compensation will be granted each year. Contract authority for certain transportation programs is also assumed to continue. (Outlays for those programs are typically controlled by obligation limitations set in appropriation acts, so those outlays are considered discretionary.) In the agency's projections, those assumptions account for $1.8 trillion in mandatory outlays from 2027 to 2036, most of which are for SNAP, COLAs for veterans' compensation, and TANF. That amount represents about 3 percent of all mandatory spending over that period.

Discretionary Spending

Discretionary spending encompasses an array of federal activities that are funded through or controlled by appropriation acts. That category includes most defense spending; spending for many nondefense activities, such as veterans' health benefits and services, elementary and secondary education, and health programs; and outlays for highway programs.[17]

CBO projects discretionary spending in accordance with section 257 of the Deficit Control Act. That section requires projections of funding for discretionary programs to grow each year with inflation. For any program without an appropriation provided for future years, CBO projects funding in those years by applying an inflation factor to the most recently appropriated amount.[18] The factor applied is specified in the Deficit Control Act and is based on CBO's economic forecast and estimates from the Office of Management and Budget that indicate how much of a program's funding is spent on compensation for federal employees and how much is spent for other purposes.[19]

Funding translates to outlays when the money is spent. Some funding is spent quickly, such as that provided for salaries and expenses for federal employees. Other funding, such as that for construction contracts, can be spent over several years. CBO estimates how quickly funds will be spent on the basis of how long the money is available for obligation by federal agencies and on historical patterns of related spending. In any year, some discretionary outlays result from budget authority provided in the same year, and some result from appropriations made in previous years.

Discretionary Spending in 2026

In CBO's baseline projections, discretionary budget authority for 2026 totals $1.8 trillion. That amount reflects the effects of the Continuing Appropriations, Agriculture, Legislative Branch, Military Construction and Veterans Affairs, and Extensions Act, 2026 (P.L. 119-37), which provided funding for most federal agencies through January 30, 2026; for the remaining agencies, it provided funding for the full fiscal year. Because the funding provided through the end of January was provided by a continuing resolution, CBO incorporates that funding into its baseline projections on an annualized basis—that is, calculated as if the funding was in effect for the entire fiscal year. (After CBO finalized its baseline projections, lawmakers enacted the Commerce, Justice, Science; Energy and Water Development; and Interior and Environment Appropriations Act, 2026, P.L. 119-74, and the Consolidated Appropriations Act, 2026, P.L. 119-75. Those laws provide $2 billion more in discretionary funding for 2026 than the amounts in CBO's baseline.)

17. Funding for highway programs is provided in authorizing legislation and is considered mandatory. Because appropriation acts typically put limits on that funding, outlays for those programs are considered discretionary.

18. For accounts with enacted advance appropriations, CBO applies provisions of law that require it to project future discretionary funding for the years for which funding has not been provided, starting with existing appropriations and adjusting them for inflation.

19. The factors specified are the employment cost index for wages and salaries of workers in private industry, which is used to adjust discretionary funding related to federal personnel, and the gross domestic product price index, which is used to adjust other discretionary funding.

Table 3-4.

Costs for Mandatory Programs That Continue Beyond Their Current Expiration Date in CBO's Baseline Projections

Billions of dollars

												Total	
	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2027–2031	2027–2036
Supplemental Nutrition Assistance Program													
Budget authority	0	97	93	95	96	98	99	100	101	102	103	479	986
Outlays	0	88	94	95	96	98	99	100	101	102	103	470	976
Veterans' compensation and pension COLAs													
Budget authority	0	6	13	19	26	33	40	48	56	65	77	98	385
Outlays	0	6	13	19	26	33	40	48	56	65	77	98	385
Temporary Assistance for Needy Families													
Budget authority	12	17	17	17	17	17	17	17	17	17	17	87	173
Outlays	13	17	17	17	17	17	17	17	17	17	17	86	172
Children's Health Insurance Program													
Budget authority	0	0	0	0	15	15	15	15	15	15	15	31	107
Outlays	0	0	0	0	15	15	15	15	15	15	15	31	107
Commodity Credit Corporation[a]													
Budget authority	0	*	*	*	*	*	6	7	22	21	22	1	79
Outlays	0	*	*	*	*	*	2	3	19	20	21	1	66
Rehabilitation services													
Budget authority	0	5	5	5	5	5	5	5	5	6	6	24	52
Outlays	0	2	4	4	5	5	5	5	5	5	5	19	45
Child nutrition[b]													
Budget authority	1	1	1	1	1	2	2	2	2	2	2	7	15
Outlays	1	1	1	1	1	1	2	2	2	2	2	7	15
Ground transportation programs not subject to annual obligation limitations													
Budget authority	0	1	1	1	1	1	1	1	1	1	1	3	6
Outlays	0	*	*	1	1	1	1	1	1	1	1	2	5

Continued

In total, discretionary funding for 2026 in CBO's baseline is $91 billion (or 5 percent) less than the amount appropriated for 2025. That decrease in funding stems from a $128 billion reduction in funding designated for emergency requirements, which is partly offset by a $37 billion increase in other funding. In total, discretionary outlays for 2026 amount to $1.9 trillion in CBO's projections—$8 billion (or less than 1 percent) more than recorded in 2025 (see Table 3-1 on page 60).

Defense Spending. In CBO's baseline projections, defense funding for 2026 totals $898 billion, $7 billion (or 1 percent) less than the $904 billion provided for 2025 (see Table 3-5). Because the continuing resolution (P.L. 119-37) that was in effect when CBO finalized its baseline projections generally held funding for 2026 at the 2025 amounts, most funding for defense programs remains unchanged from 2025. The decrease in defense funding in CBO's baseline stems from reductions in funding designated as an emergency requirement, which were partly offset by changes to appropriations that were provided for the full fiscal year and by greater agency contributions to the Medicare-Eligible Retiree Health Care Fund (MERHCF).[20]

20. The MERHCF partially funds the health expenses of military retirees who are also eligible for Medicare. Contributions to the MERHCF are intragovernmental transactions. The payments are set by a board of actuaries and are classified as discretionary outlays; the receipt of those payments is classified as mandatory offsetting receipts.

Table 3-4. Continued

Costs for Mandatory Programs That Continue Beyond Their Current Expiration Date in CBO's Baseline Projections

Billions of dollars

	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	Total 2027–2031	Total 2027–2036
Promoting Safe and Stable Families Program													
Budget authority	0	0	0	0	*	*	*	*	*	*	*	1	3
Outlays	0	0	0	0	*	*	*	*	*	*	*	*	3
National Flood Insurance Program[c]													
Budget authority	0	0	0	0	0	0	0	0	0	0	0	0	0
Outlays	1	1	1	1	*	*	*	*	*	*	*	3	2
Ground transportation programs controlled by obligation limitations[d]													
Budget authority	0	79	79	79	79	79	79	79	79	79	79	396	793
Outlays	0	0	0	0	0	0	0	0	0	0	0	0	0
Air transportation programs controlled by obligation limitations[d]													
Budget authority	0	0	0	4	4	4	4	4	4	4	4	12	32
Outlays	0	0	0	0	0	0	0	0	0	0	0	0	0
Total budget authority	**13**	**207**	**209**	**222**	**246**	**255**	**270**	**279**	**304**	**313**	**326**	**1,139**	**2,631**
Total outlays	**15**	**114**	**130**	**138**	**162**	**171**	**181**	**192**	**217**	**228**	**242**	**715**	**1,775**

Data source: Congressional Budget Office. See www.cbo.gov/publication/61882#data.

COLAs = cost-of-living adjustments; * = between -$500 million and $500 million.

a. Agricultural commodity price and income supports and conservation programs under the Agriculture Improvement Act of 2018 generally expired after 2023. Although permanent price support authority under the Agricultural Adjustment Act of 1938 and the Agricultural Act of 1949 would then become effective, CBO adheres to the rule in section 257(b)(2)(ii) of the Balanced Budget and Emergency Deficit Control Act of 1985 that indicates that the baseline should reflect the assumption that the provisions of the Agriculture Improvement Act of 2018 remain in effect.

b. Includes the Summer Food Service Program and states' administrative expenses.

c. Includes payments for claims (which are reflected as positive budget authority and outlays) as well as offsetting collections of premiums from policyholders (which are reflected as negative budget authority and outlays). In CBO's projections, payments for claims slightly exceed premium collections.

d. Authorizing legislation for these programs provides contract authority, which is counted as mandatory budget authority. However, because the programs' spending is subject to obligation limitations specified in annual appropriation acts, outlays are considered discretionary.

In CBO's baseline, almost no funding provided for defense programs is emergency-designated funding, whereas $12 billion in such funding was provided in 2025. Offsetting that reduction are the effects of appropriations provided for the full year and contributions to the MERHCF. Full-year appropriations provided $2 billion more for military construction than was provided in 2025, and funding for contributions to the MERHCF increased by $2 billion.

All told, those changes result in funding for operations and maintenance that is $4 billion (or 1 percent) less, funding for military personnel that is $2 billion (or 1 percent) more, and funding for procurement that is $6 billion (or 3 percent) less than last year. In CBO's baseline, discretionary outlays for defense programs and activities total $885 billion this year—$8 billion (or 1 percent) less than was spent in 2025.

That decrease is projected to be more than offset by an increase in mandatory outlays stemming from funding provided in the 2025 reconciliation act. Most of that funding was for defense programs and activities typically funded through the annual appropriation process. In CBO's projections, total defense outlays in 2026 amount to $918 billion, which is $27 billion (or 3 percent) more than the $891 billion spent in 2025.

Table 3-5.

Changes in Defense Discretionary Funding From 2025 to 2026

Billions of dollars

	2025	2026	Difference	Change (percent)
Operation and maintenance	342	338	-4	-1
Military personnel	182	184	2	1
Procurement	174	168	-6	-3
Research and development	141	141	*	**
Other	65	66	*	1
Total defense funding	**904**	**898**	**-7**	**-1**
Addendum:				
Total defense discretionary outlays	893	885	-8	-1
Total defense discretionary and mandatory outlays[a]	891	918	27	3

Data source: Congressional Budget Office. See www.cbo.gov/publication/61882#data.

The amounts in this table do not incorporate the effects of the Commerce, Justice, Science; Energy and Water Development; and Interior and Environment Appropriations Act, 2026 (Public Law 119-74), or the Consolidated Appropriations Act, 2026 (P.L. 119-75).

* = between zero and $500 million; ** = between zero and 0.5 percent.

a. Excludes outlays related to certain retirement and disability payments and mandatory offsetting receipts.

Nondefense Spending. In CBO's projections, funding for nondefense programs and activities, including obligation limitations on transportation-related programs, totals $948 billion in 2026, $84 billion (or 8 percent) less than the amount provided in 2025 (see Table 3-6).[21] That reduction is more than accounted for by changes in nondefense funding designated as an emergency requirement, which drops by $116 billion (or 64 percent) in 2026. Partly offsetting that reduction is a $32 billion (or 4 percent) increase in other funding.

Nondefense funding designated as an emergency requirement for 2026 totals $67 billion in CBO's baseline, down from $183 billion in 2025. Funding that was provided for 2025 by the Disaster Relief Supplemental Appropriations Act, 2025 (division B of P.L. 118-158)—totaling $105 billion—was not renewed in 2026, accounting for almost all the drop in emergency funding this year. Of the remaining emergency-designated funding provided for 2026, nearly all was provided by the Infrastructure Investment and Jobs Act (IIJA, P.L. 117-58) and the Bipartisan Safer Communities Act (BSCA, P.L. 117-159), both of which became law in fiscal year 2022 and provided emergency funding for certain purposes for each year through 2026. In total, funding provided by the IIJA and BSCA for 2026 is $2 billion less than those laws provided for 2025.

In CBO's baseline projections, nondefense funding not designated as an emergency requirement increases by $32 billion in 2026, mostly because rescissions of discretionary funding enacted in 2025 were not repeated in P.L. 119-37.[22] In 2025, $10 billion was rescinded from budget accounts for commerce and housing credit, and $9 billion was rescinded from accounts for international affairs, whereas only $1 billion has been rescinded from those accounts in 2026. Additionally, $8 billion in funding for housing programs that in recent years has been given an emergency designation was instead provided without one, resulting in a reduction in emergency-designated funding and a commensurate increase in funding not designated as such.

Together, those changes result in funding for community and regional development programs in 2026 that is $47 billion (or 54 percent) less than last year's funding in CBO's baseline; most of that decrease stems from reductions in emergency-designated funding for the Federal Emergency Management Agency to respond to disasters such as Hurricanes Helene and Milton. Programs for agriculture and for natural resources and the environment are projected to see reductions totaling $31 billion (or 81 percent) and $16 billion (or 20 percent), respectively; most of those reductions occur because emergency-designated funding provided to respond to weather- and fire-related disasters was not renewed this year. The largest boost in nondefense discretionary funding for 2026 is that for international affairs: a net increase of $10 billion (or 21 percent) over last year's amount that is mostly the result of not repeating rescissions enacted in 2025.[23]

21. Funding for most ground and air transportation programs is mandatory, but lawmakers typically limit the ability of the Administration to obligate that funding in annual appropriation acts. Like other appropriations, those limitations are projected to grow with inflation in CBO's baseline. Outlays that result from those limitations are considered discretionary.

22. Rescissions are provisions of law that cancel budget authority previously provided to federal agencies before it would otherwise expire.

23. Programs and activities for the administration of justice received $165 billion in mandatory funding in 2025 from the 2025 reconciliation act. Similar mandatory funding has not been provided for 2026.

Table 3-6.

Changes in Nondefense Discretionary Funding From 2025 to 2026

Billions of dollars

	2025			2026				
	Nonemergency	Emergency	Total	Nonemergency	Emergency	Total	Total difference	Change (percent)
Transportation[a]	127	45	172	127	37	164	-8	-5
Veterans' benefits and services[b]	130	*	130	134	0	134	4	3
Education, training, employment, and social services	111	*	111	111	*	111	*	**
Income security	102	9	110	110	*	110	*	**
Health	88	1	88	87	1	88	*	**
Administration of justice	78	1	79	79	*	79	*	**
Natural resources and environment	47	33	80	47	17	64	-16	-20
International affairs	51	0	51	61	0	61	10	21
General science, space, and technology	40	1	42	41	0	41	-1	-1
Community and regional development	37	49	86	38	1	39	-47	-54
General government	20	*	20	20	0	20	*	1
Energy	9	11	20	9	9	18	-2	-9
Medicare	9	0	9	9	0	9	*	-4
Agriculture[b]	8	31	39	7	*	7	-31	-81
Social Security	6	0	6	6	0	6	*	8
Commerce and housing credit	-11	2	-9	-4	1	-4	6	n.m.
Total nondefense funding	**850**	**183**	**1,033**	**882**	**67**	**948**	**-84**	**-8**
Addendum:								
Outlays from nondefense discretionary funding	n.a.	n.a.	980	952	44	996	16	2

Data source: Congressional Budget Office. See www.cbo.gov/publication/61882#data.

The amounts in this table do not incorporate the effects of the Commerce, Justice, Science; Energy and Water Development; and Interior and Environment Appropriations Act, 2026 (Public Law 119-74), or the Consolidated Appropriations Act, 2026 (P.L. 119-75).

n.a. = not available; n.m. = not meaningful; * = between -$500 million and $500 million; ** = between -0.5 percent and 0.5 percent.

a. Includes budgetary resources provided by obligation limitations for certain surface and air transportation programs.

b. Nearly all funding is provided by full-year appropriation acts and is therefore available through the end of the fiscal year.

Despite the projected overall reduction in nondefense discretionary funding, CBO expects outlays stemming from such funding to increase by $16 billion (or 2 percent) in 2026, reaching a total of $996 billion this year as outlays from funds provided in past years materialize.

Discretionary Spending From 2027 to 2036

In accordance with the laws governing the preparation of CBO's budget baseline, the agency's projections reflect the assumption that funding provided for 2026 as of January 14 of this year—including funding designated as an emergency requirement—will continue in future years, with adjustments for inflation.[24] As a result, in nominal terms, discretionary outlays are projected to increase in the coming decade, rising from $1.9 trillion in 2026 to $2.2 trillion in 2036 (see Table 3-7). Outlays from funding designated as an emergency requirement (consisting almost entirely of funding provided by the IIJA and BSCA, as well as amounts stemming from the assumption that such funding would continue to be provided in each year) account for 3 percent of discretionary outlays in CBO's baseline.

In CBO's projections, total discretionary budget authority grows at an average rate of 2.3 percent a year from 2026 to 2036. For most of the projection period, total discretionary outlays increase more slowly than budget authority does, as the effect of reductions to budget authority in 2026 ripple forward in time: With the effects of a shift in the timing of payments for military personnel accounted for, growth in discretionary outlays remains below the average annual rate of growth for discretionary budget authority until 2036, when such outlays grow by 2.3 percent—the same rate at which budget authority grows that year.

24. CBO's projections do not include the effects of appropriation acts passed by the House and Senate after January 14, 2026.

Table 3-7.

CBO's Baseline Projections of Discretionary Spending, Adjusted to Exclude the Effects of Timing Shifts

Billions of dollars

													Total	
	Actual, 2025[a]	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2027–2031	2027–2036
							Budget authority							
Defense														
Nonemergency spending[b]	893	898	921	944	967	990	1,013	1,037	1,061	1,085	1,110	1,137	4,835	10,265
Emergency spending	12	*	*	*	*	*	*	*	*	*	*	*	*	*
Subtotal	904	898	921	944	967	990	1,013	1,037	1,061	1,085	1,110	1,137	4,835	10,265
Nondefense														
Nonemergency spending[b]	768	800	814	834	854	872	893	914	935	957	979	1,002	4,267	9,054
Emergency spending	183	67	68	69	71	72	74	75	77	78	80	82	354	747
Subtotal	951	867	882	904	925	945	967	989	1,012	1,035	1,059	1,084	4,622	9,800
Total budget authority	**1,856**	**1,764**	**1,803**	**1,848**	**1,892**	**1,934**	**1,980**	**2,026**	**2,072**	**2,121**	**2,169**	**2,220**	**9,457**	**20,066**
							Outlays							
Defense														
Nonemergency spending[b,c]	893	885	901	923	944	966	986	1,006	1,028	1,050	1,075	1,100	4,719	9,979
Emergency spending	*	*	*	*	*	*	*	*	*	*	*	*	*	*
Subtotal[c]	893	885	901	923	944	966	986	1,006	1,028	1,051	1,075	1,100	4,719	9,979
Nondefense														
Nonemergency spending[b]	948	952	926	939	945	954	968	985	1,005	1,026	1,048	1,072	4,731	9,868
Emergency spending	32	44	54	61	65	69	71	72	72	70	71	72	321	678
Subtotal	980	996	981	1,001	1,010	1,023	1,039	1,057	1,076	1,096	1,119	1,144	5,053	10,545
Total outlays[c]	**1,872**	**1,880**	**1,882**	**1,923**	**1,954**	**1,989**	**2,024**	**2,063**	**2,105**	**2,147**	**2,194**	**2,244**	**9,772**	**20,524**
Addendum:														
Effects that timing shifts have on discretionary outlays in CBO's baseline projections	0	0	0	6	-6	0	0	0	6	*	-7	0	0	0
Discretionary outlays in CBO's baseline	1,872	1,880	1,882	1,929	1,948	1,989	2,024	2,063	2,111	2,147	2,187	2,244	9,772	20,524
Outlays from BSCA and IIJA appropriations as specified[d]	32	42	51	53	48	39	30	21	13	6	3	2	221	265

Data sources: Congressional Budget Office; Department of the Treasury; Office of Management and Budget. See www.cbo.gov/publication/61882#data.

The amounts in this table do not incorporate the effects of the Commerce, Justice, Science; Energy and Water Development; and Interior and Environment Appropriations Act, 2026 (Public Law 119-74), or the Consolidated Appropriations Act, 2026 (P.L. 119-75).

BSCA = Bipartisan Safer Communities Act; IIJA = Infrastructure Investment and Jobs Act; * = between zero and $500 million.

a. The Treasury does not distinguish between outlays by the categories shown in this table. Consequently, the budget does not record any actual amounts attributed specifically to ongoing funding or emergency funding. Outlays from emergency funding therefore exclude all funding not provided by the IIJA and BSCA. The outlays stemming from those laws are estimated on the basis of data from the Office of Management and Budget.

b. Consists of all discretionary appropriations except those that have been designated as an emergency requirement. For 2026 and beyond, nearly all emergency spending in CBO's baseline stems from the IIJA and BSCA.

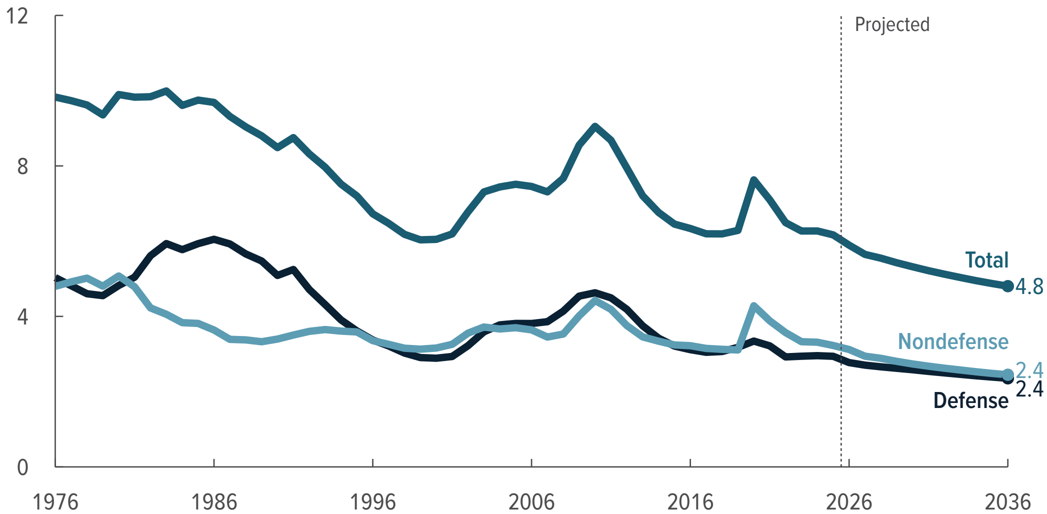
c. When October 1 (the first day of the fiscal year) falls on a weekend, certain payments that would have ordinarily been made on that date are instead made at the end of September and thus are shifted into the previous fiscal year. Outlays have been adjusted to remove the effects of those shifts.

d. The IIJA and BSCA did not provide any funding after 2026. In consultation with the House and Senate Budget Committees, CBO applied its typical baseline treatment of discretionary funding to the funding provided by those laws and therefore projects that such funding will grow with inflation beyond 2026. These amounts show what CBO's baseline projections of outlays from that funding would look like if that funding was instead not projected to continue.

Figure 3-3.

Discretionary Outlays, by Category

Percentage of GDP



In CBO's projections, discretionary outlays decline as a percentage of GDP because discretionary funding grows at the rate of inflation, which is slower than the growth of nominal GDP. In 2036, defense and nondefense outlays fall to their lowest percentages of GDP since 1962 (the earliest year that such data were reported).

Data sources: Congressional Budget Office; Office of Management and Budget. See www.cbo.gov/publication/61882#data.

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

Measured in relation to GDP, discretionary outlays total 5.9 percent in 2026, the lowest percentage recorded since 1962 (the earliest year for which such data have been reported). Because GDP grows faster than inflation in CBO's baseline, discretionary outlays fall relative to GDP; in 2036, such outlays total 4.8 percent of GDP (see Figure 3-3). By comparison, discretionary outlays averaged 7.8 percent of GDP over the past 50 years.

In CBO's projections, discretionary outlays for defense programs amount to 2.8 percent of GDP in 2026 (the smallest percentage recorded since 1962) and steadily decline to 2.4 percent in 2036. Discretionary outlays for nondefense programs total 3.1 percent of GDP in 2026 (matching their historical nadir) and decline to 2.4 percent in 2036.

Alternative Assumptions About Discretionary Funding

For the most part, current law does not specify discretionary appropriations for years after 2026. Lawmakers can, and do, set funding amounts that differ from amounts projected in CBO's budget baseline, which leads to outlays that differ from amounts projected in that baseline.

To illustrate how discretionary funding that differed from amounts in CBO's baseline projections would affect budgetary outcomes, the agency estimated such outcomes using four alternative assumptions about future funding (see Table 3-8). The following alternative assumptions were used:

- Discretionary funding (including obligation limitations for certain transportation programs) grows at the same rate as nominal GDP after 2026;
- Discretionary funding remains at the 2026 amount included in CBO's baseline;
- Projected funding from the IIJA and BSCA is excluded after 2026; or
- Additional emergency funding is included.

After 2026, Discretionary Funding Increases at the Growth Rate of Nominal GDP. Projecting discretionary funding using a measure that grows faster than the measure CBO currently uses provides an alternative benchmark for the agency's baseline projections of discretionary spending. If discretionary appropriations and obligation limitations for certain transportation programs grew from the 2026 amounts reflected in CBO's baseline at the same rate as nominal GDP, discretionary

Table 3-8.

Budgetary Effects of Four Alternative Assumptions About Discretionary Funding

Billions of dollars

	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	Total 2027–2031	Total 2027–2036
Discretionary funding increases at the growth rate of nominal GDP after 2026													
Increase in the primary deficit	0	17	40	67	96	128	162	198	235	275	317	348	1,536
Debt-service costs	0	*	1	3	7	11	17	25	34	45	58	23	203
Discretionary funding is frozen at the 2026 amount													
Decrease (-) in the primary deficit	0	-14	-65	-108	-148	-193	-239	-287	-334	-382	-434	-527	-2,202
Debt-service savings	0	*	-2	-5	-10	-17	-26	-37	-50	-66	-84	-35	-298
Funding from the IIJA and BSCA does not continue[a]													
Decrease (-) in the primary deficit	0	-2	-7	-16	-28	-39	-49	-57	-63	-66	-69	-93	-397
Debt-service savings	0	*	*	-1	-2	-3	-5	-7	-9	-12	-15	-5	-54
Additional funding designated as an emergency requirement is included[b]													
Increase in the primary deficit	19	39	53	63	70	76	78	80	81	83	85	300	705
Debt-service costs	*	1	3	5	8	11	15	18	22	26	30	30	140
Addendum:													
Primary deficit in CBO's baseline[c]	814	779	862	695	769	737	769	996	915	760	971	3,843	8,254
Net outlays for interest in CBO's baseline	1,039	1,108	1,218	1,324	1,432	1,548	1,670	1,784	1,904	2,019	2,144	6,630	16,152

Data source: Congressional Budget Office. See www.cbo.gov/publication/61882#data.

Estimates are relative to CBO's February 2026 baseline budget projections and reflect the economic forecast that underlies those projections. The baseline projections do not incorporate the effects of the Commerce, Justice, Science; Energy and Water Development; and Interior and Environment Appropriations Act, 2026 (Public Law 119-74), or the Consolidated Appropriations Act, 2026 (P.L. 119-75). Each alternative assumption is considered to be in place on March 1, 2026. The estimates do not account for how the alternatives could affect the economy or for how those potential economic changes could, in turn, affect the budget.

In CBO's baseline projections, discretionary funding generally grows from its current amount at the projected rate of inflation, which is measured by a weighted mixture of the gross domestic product price index and the employment cost index for wages and salaries of workers in private industry.

Primary deficits exclude net outlays for interest. The change in those outlays is CBO's estimate of the change in interest payments (that is, debt service) resulting from an increase or decrease in estimates of the primary deficit.

BSCA = Bipartisan Safer Communities Act; IIJA = Infrastructure Investment and Jobs Act; * = between -$500 million and $500 million.

a. This option removes the effects of CBO's baseline construction of discretionary spending from funding provided by the IIJA and BSCA.

b. This option reflects the assumption that $74 billion in funding designated as an emergency requirement will be provided for 2026. When incorporating that amount in its baseline, CBO would project that funding to continue through 2036 with adjustments for inflation. The amount of emergency-designated funding provided during the past 10 years has averaged $74 billion. That amount excludes emergency-designated funding provided in 2020 and 2021 (when exceptional amounts were provided during the COVID-19 pandemic); amounts provided by the IIJA and BSCA; and certain appropriations to the Hazardous Substance Superfund.

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

outlays would be $1.5 trillion higher—and primary deficits would thus be $1.5 trillion larger—over the 2027–2036 period than they are in CBO's current baseline projections; discretionary outlays would amount to 5.5 percent of GDP in 2036 instead of the 4.8 percent projected in the baseline. The additional debt-service costs associated with those outlays would total $203 billion through 2036. (Primary deficits exclude net outlays for interest. Debt service is the payment of scheduled interest obligations on outstanding debt.)

Discretionary Funding Is Frozen at the 2026 Amount Provided by P.L. 119-37. Projecting spending under the assumption that future discretionary funding is frozen at the 2026 amount instead of growing with inflation provides another alternative benchmark for CBO's baseline projections of discretionary spending. (In the case of appropriations that have already been provided for years beyond the current year, discretionary funding would be frozen at the latest amount provided in advance.) If, from 2027 to 2036, future appropriations and obligation limitations were provided at the nominal 2026 amount in CBO's baseline, primary deficits would be $2.2 trillion smaller over that period than the amount currently projected, excluding associated debt-service savings (which would amount to $298 billion). In 2036, discretionary outlays under this assumption would total 3.9 percent of GDP instead of the 4.8 percent projected in the current baseline.

IIJA and BSCA Funding Does Not Continue. Enacted in November 2021, the Infrastructure Investment and Jobs Act appropriated funds for investment in transportation programs, environmental programs, and other programs for each year from 2022 to 2026. Signed into law in June 2022, the Bipartisan Safer Communities Act provided funds for states to implement laws controlling access to guns and other safety measures through 2026.

CBO's baseline includes funding related to those laws with increases for inflation in each year of the projection period. That is because, in consultation with the Budget Committees, CBO treated that funding as it typically would when developing its baseline. As a result, for future years in which the IIJA and BSCA have not provided funding, CBO projected funding by adjusting existing appropriations for inflation.[25]

If CBO had not projected funding related to the IIJA and BSCA (thereby including only the funding specifically provided by those laws), primary deficits would be $397 billion smaller from 2027 to 2036 than they are in CBO's baseline, excluding debt-service savings; those savings would result in a $54 billion decrease in net interest costs, in CBO's estimation. Under this assumption, discretionary outlays in 2036 would amount to 4.7 percent of GDP instead of the 4.8 percent projected in CBO's baseline.

Additional Funding Designated as an Emergency Requirement Is Included in CBO's Projections. When CBO finalized its current projections, no funding designated as an emergency requirement had been provided for 2026 except funding provided by laws enacted in previous years, such as the IIJA and BSCA.[26] Lawmakers often respond to current events by providing such funding, which in recent years has ranged from $2 billion in 2016 to $487 billion in 2020. Excluding 2020 and 2021, when exceptional amounts were provided during the COVID-19 pandemic, the amount of emergency-designated funding provided each year since 2016 has averaged $74 billion, of which $55 billion was for nondefense programs and activities.[27]

If lawmakers provided an additional $74 billion in funding designated as an emergency requirement for 2026, and CBO incorporated that change into its baseline by applying its usual procedures for projecting such spending, primary deficits would be $19 billion larger in 2026, and $705 billion larger over the 2027–2036 period than they are in CBO's baseline. The associated debt-service costs would add $140 billion in net interest outlays over that period. Discretionary outlays would amount to 5.0 percent of GDP in 2036 instead of the 4.8 percent projected in CBO's baseline.

Net Outlays for Interest

In the federal budget, net outlays for interest consist of the government's interest payments on debt held by the public, offset by interest income that the government receives. Such outlays are dominated by the interest paid to holders of the securities that the Treasury sells to the public. The Treasury also pays interest on debt issued to trust funds and other government accounts, but such payments are intragovernmental transactions that do not affect the budget deficit. (For more information about federal debt, see Chapter 1.)

In CBO's current baseline projections, net outlays for interest increase by an average of 7.5 percent a year, more than doubling from $1.0 trillion in 2026 to $2.1 trillion in 2036 (see Table 3-1 on page 60). Measured relative to the size of the economy, such outlays increase from

25. For more information about how the IIJA's funding affects CBO's baseline projections of discretionary spending, see Congressional Budget Office, *The Budget and Economic Outlook: 2022 to 2032* (May 2022), Box 3-4, www.cbo.gov/publication/57950.

26. The Consolidated Appropriations Act, 2023 (P.L. 118-328), permanently appropriates receipts deposited into the Hazardous Substance Superfund; the budget authority resulting from the appropriation of those receipts is designated as an emergency requirement.

27. The average amounts of emergency-designated funding exclude funding designated as an emergency requirement that was provided in advance. Most such funding was provided by the IIJA and BSCA.

3.3 percent of GDP in 2026—exceeding mandatory spending on any program other than Social Security or Medicare—to 4.6 percent in 2036. At that point, net outlays for interest nearly equal all federal discretionary spending that year, and they are more than twice their average size over the past 50 years, 2.1 percent.

The amount of the federal government's net interest costs is mainly determined by the amount of debt held by the public and the average interest rate on that debt. Growth of net interest costs is affected by changes in the average interest rate on federal debt and by the size of the deficit, which requires the government to borrow more and thus boosts debt held by the public.[28] Borrowing to pay for greater interest costs pushes up the net cost of interest further.

In CBO's projections, average interest rates on federal debt rise as debt matures and is refinanced. In 2026, the average interest rate on debt held by the public is estimated to be 3.4 percent—nearly the same as it was in 2025 and 0.1 percentage point higher than it was in 2024. That rate generally increases after 2026, reaching 3.9 percent in the final years of the projection period. CBO's estimate of the average interest rate is based on the agency's forecast for interest rates and inflation and on the maturity structure of outstanding securities. (For a discussion of the factors that affect interest rates and inflation, see Chapter 2.) Primary deficits average 2.1 percent of GDP from 2026 to 2036, adding to debt held by the public each year.

On average, in CBO's projections, increases in the average interest rate on federal debt account for about half of the increase in net interest costs from 2026 to 2036.[29]

Uncertainty of CBO's Projections of Outlays

Budget projections are inherently uncertain; even if no changes were made to current law, actual outcomes would undoubtedly differ from CBO's projections. The agency attempts to construct its spending projections so that they fall in the middle of the distribution of possible outcomes under current law. Hence, actual outlays could turn out to be higher or lower than CBO projects because of changes in law, subsequent administrative actions or judicial decisions, and because outcomes could (and probably will) differ from CBO's estimates.

According to CBO's analysis of the accuracy of its past projections of outlays (excluding the effects of enacted legislation), those projections were generally close to actual amounts but, on average, were too high. For 1985 to 2025, the average absolute error of CBO's outlay projection for the second year of the projection period (often referred to as the budget year) was 2.5 percent.[30] For CBO's sixth-year projections made for 1989 to 2025, the average absolute error was 6.4 percent. In CBO's current baseline projections, those percentage errors would equal about $194 billion (or 0.6 percent of GDP) in 2027 and $586 billion (or 1.5 percent of GDP) in 2031. (The baseline projection of outlays for 2027 is $7.8 trillion, or 23.3 percent of GDP; for 2031, it is $9.2 trillion, or 23.6 percent of GDP.)

28. For more details, see Congressional Budget Office, *Federal Debt: A Primer* (March 2020), www.cbo.gov/publication/56165, and *Federal Net Interest Costs: A Primer* (December 2020), www.cbo.gov/publication/56780.

29. To assess the share of the increase in net interest costs attributable to changes in the average interest rate, CBO started by examining a benchmark scenario in which that rate did not change after 2026 and there were no primary deficits adding to the amount of debt. CBO then estimated the increase in net interest costs from the change in the average interest rate in CBO's projections (by using a scenario with those rates and no primary deficits) and from the primary deficits in CBO's projections (by using a scenario with those deficits and no change in the average interest rate). The agency used the relative size of those estimates to calculate the share of the total increase in net interest costs attributable to the increase in the average interest rate by allocating the interaction between the average interest rate and the primary deficit proportionally.

30. The average absolute error is the average of the errors without regard to whether they are overestimates or underestimates (the negative signs are removed from underestimates before averaging), so errors in different directions do not offset one another. For a more detailed analysis of errors in the agency's past projections of outlays, see Congressional Budget Office, *The Accuracy of CBO's Budget Projections for Fiscal Year 2025* (January 2026), www.cbo.gov/publication/61916, and *An Evaluation of CBO's Projections of Outlays From 1984 to 2021* (April 2023), www.cbo.gov/publication/58613.

Chapter 4: The Revenue Outlook

Overview

Under the laws in place as of January 14, 2026, federal revenues would rise by 7 percent this year, to $5.6 trillion, the Congressional Budget Office projects (see Table 4-1). That increase in total revenues, from 17.2 percent of gross domestic product (GDP) in 2025 to 17.5 percent in 2026, is anticipated to occur as receipts from customs duties more than double, to 1.3 percent of GDP. Partially offsetting the increase in receipts from customs duties in 2026 is a decrease relative to GDP in receipts from individual and corporate income taxes, which jointly are projected to be 9.9 percent of GDP, down from 10.2 percent in 2025.

Between 2026 and 2036, total revenues are projected to remain between 17.5 and 17.8 percent of GDP, above their average of 17.3 percent over the past 50 years (see Figure 4-1). Receipts from individual income taxes and remittances from the Federal Reserve System to the Treasury are projected to rise over the projection period, but receipts from excise taxes and customs duties are projected to decline relative to GDP. By long-standing convention, CBO's projections reflect the assumption that current U.S. tariff policies implemented through executive actions—in this case, policies that were in place as of November 20, 2025—remain in place throughout the projection period. In CBO's projections, imports grow more slowly than the overall economy through 2036, causing receipts from customs duties to decrease as a share of GDP.

The relative steadiness of overall revenues over the next decade reflects stable receipts from payroll taxes and corporate income taxes and largely offsetting changes in receipts from other sources.

- **Individual income tax receipts** are projected to rise from 8.6 percent of GDP in 2026 to 9.1 percent in 2036. The 2025 reconciliation act (Public Law 119-21) permanently extended many tax provisions that were previously scheduled to expire at the end of calendar year 2025 but also introduced several new temporary provisions. Two factors—the scheduled expiration of those new temporary provisions and real bracket creep (explained below)—are projected to boost receipts relative to GDP over the decade. A factor working in the opposite direction is the projected decline, after several years of above-average growth, in realizations of capital gains (profits from selling assets that have appreciated in value) as a share of GDP.
- **Collections of customs duties** are anticipated to rise from 0.6 percent of GDP in 2025 to 1.3 percent in 2026—well above their average of 0.2 percent over the past 50 years—following the increases in tariffs the Administration imposed on a wide range of imports beginning in February 2025. As consumers and businesses adjust their behavior (by importing less and by shifting from purchasing goods from countries with higher tariffs to purchasing goods from countries with lower tariffs) and imports decline in response to those increases in tariffs, collections of customs duties are projected to decrease steadily as a share of the economy. By 2036, customs duties total 0.9 percent of GDP in CBO's projections.
- **Excise tax receipts** are projected to decrease gradually from 0.34 percent of GDP in 2026 to 0.25 percent in 2036. That decrease occurs because per-unit taxes on fuel, tobacco, and alcohol are not adjusted for inflation and because the tax bases on which certain excise taxes are levied are expected to decline.
- **Federal Reserve remittances**, or the net earnings of the central bank, remain depressed over the next few years owing to higher short-term interest rates in recent years, which increased the Federal Reserve System's interest expenses relative to its income. CBO anticipates that remittances will rise in 2030 and total 0.4 percent of GDP in 2036—the same level as in 2022.

How Have CBO's Projections Changed Since Last Year?

In total, CBO's current revenue projections are similar to its previous projections, which were released in January 2025. At that time, CBO published revenue projections for the 2025–2035 period; the projections

Table 4-1.

CBO's Baseline Projections of Revenues

	Actual, 2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	Total 2027–2031	Total 2027–2036
							In billions of dollars							
Individual income taxes	2,656	2,751	2,947	3,044	3,193	3,339	3,461	3,594	3,744	3,903	4,072	4,249	15,985	35,546
Payroll taxes	1,748	1,826	1,897	1,970	2,048	2,132	2,216	2,302	2,389	2,478	2,570	2,666	10,263	22,667
Corporate income taxes	452	404	419	433	452	477	493	510	526	539	552	576	2,274	4,977
Customs duties	195	418	421	424	417	412	405	389	382	382	390	402	2,080	4,025
Other														
Excise taxes	106	108	108	107	108	110	110	111	112	113	116	119	543	1,114
Federal Reserve remittances	5	8	9	9	15	38	94	130	141	153	165	176	164	928
Estate and gift taxes	29	36	35	36	36	36	37	39	41	44	47	51	180	403
Miscellaneous fees and fines	42	44	49	49	51	51	53	55	56	58	60	62	252	543
Subtotal	183	197	201	201	209	235	293	334	351	368	388	408	1,139	2,988
Total	**5,235**	**5,596**	**5,885**	**6,071**	**6,320**	**6,595**	**6,869**	**7,130**	**7,391**	**7,669**	**7,972**	**8,301**	**31,741**	**70,204**
On-budget	3,951	4,245	4,481	4,614	4,804	5,019	5,232	5,430	5,629	5,843	6,080	6,340	24,150	53,473
Off-budget[a]	1,284	1,350	1,404	1,458	1,516	1,576	1,638	1,699	1,762	1,826	1,892	1,961	7,591	16,731
Addendum:														
Gross domestic product	30,362	31,902	33,315	34,666	36,010	37,391	38,813	40,277	41,796	43,373	45,012	46,712	180,195	397,364
Gross domestic income	30,102	31,847	33,301	34,665	36,014	37,396	38,819	40,283	41,803	43,380	45,019	46,720	180,195	397,400
							As a percentage of GDP							
Individual income taxes	8.7	8.6	8.8	8.8	8.9	8.9	8.9	8.9	9.0	9.0	9.0	9.1	8.9	8.9
Payroll taxes	5.8	5.7	5.7	5.7	5.7	5.7	5.7	5.7	5.7	5.7	5.7	5.7	5.7	5.7
Corporate income taxes	1.5	1.3	1.3	1.2	1.3	1.3	1.3	1.3	1.3	1.2	1.2	1.2	1.3	1.3
Customs duties	0.6	1.3	1.3	1.2	1.2	1.1	1.0	1.0	0.9	0.9	0.9	0.9	1.2	1.0
Other														
Excise taxes	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Federal Reserve remittances	*	*	*	*	*	0.1	0.2	0.3	0.3	0.4	0.4	0.4	0.1	0.2
Estate and gift taxes	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Miscellaneous fees and fines	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Subtotal	0.6	0.6	0.6	0.6	0.6	0.6	0.8	0.8	0.8	0.8	0.9	0.9	0.6	0.8
Total	**17.2**	**17.5**	**17.7**	**17.5**	**17.6**	**17.6**	**17.7**	**17.7**	**17.7**	**17.7**	**17.7**	**17.8**	**17.6**	**17.7**
On-budget	13.0	13.3	13.5	13.3	13.3	13.4	13.5	13.5	13.5	13.5	13.5	13.6	13.4	13.5
Off-budget[a]	4.2	4.2	4.2	4.2	4.2	4.2	4.2	4.2	4.2	4.2	4.2	4.2	4.2	4.2

Data source: Congressional Budget Office. See www.cbo.gov/publication/61882#data.

* = between zero and 0.05 percent of GDP.

a. Receipts from Social Security payroll taxes.

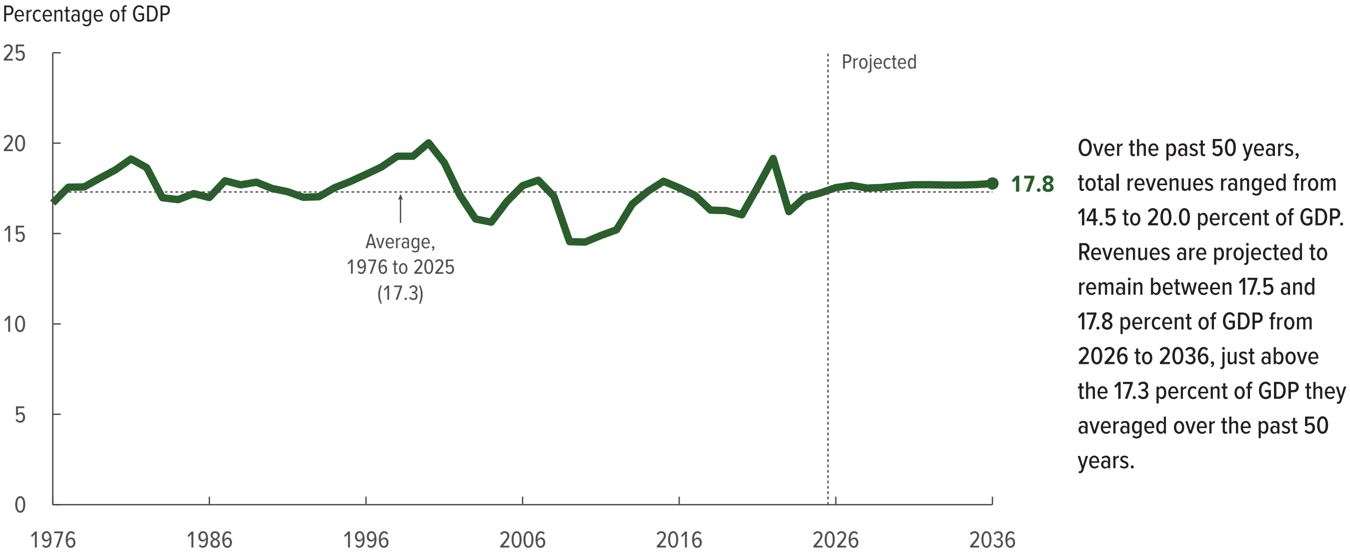
in this report cover the 2026–2036 period. For the overlapping years—2026 to 2035—CBO's projection of cumulative revenues has decreased by $49 billion, or 0.1 percent.

That small overall difference reflects large and offsetting changes among revenue sources stemming from various factors. CBO reduced projected revenues by $4.9 trillion over the 2026–2035 period to account for the effects of recently enacted legislation. But the agency increased projected revenues by $4.2 trillion to account for technical changes (largely driven by changes in tariff policy) and by $0.6 trillion because of changes in CBO's economic forecast. (For the agency's full economic outlook, see Chapter 2.)

Nearly all of the reduction in revenues from legislation stems from changes put in place by the 2025 reconciliation act. (For more information about how that act affects revenues, see Appendix A.) By extending tax

Figure 4-1.

Total Revenues



Data source: Congressional Budget Office. See www.cbo.gov/publication/61882#data.

provisions that were previously scheduled to expire, that law diminishes collections of individual income, corporate income, and estate and gift taxes. More than 80 percent of the reduction in revenues attributable to the reconciliation act results from extending tax provisions that were previously scheduled to expire.

The technical changes stem primarily from the implementation of higher tariff rates, which CBO estimates will substantially boost collections of customs duties over the next decade. (The projections in this report reflect tariff policy in effect as of November 20, 2025. The effects of those tariffs on the volume of imports and the indirect effects on other revenue sources are reflected in CBO's economic forecast.)

The economic changes stem from higher projections of GDP, which CBO increased by nearly $10 trillion (or 3 percent) over the 2026–2035 period.[1] Underlying the revisions to revenues that are attributed to economic changes are higher projections of certain types of income, such as corporate profits and proprietors' income, as well as higher asset values. Those effects are offset in part by lower projections of wages and salaries, which reduce projected income and payroll taxes. (Those lower projections partly result from actions taken by the Administration to curb immigration, which are expected to reduce the size of the labor force and the total amount of wages.) Projected imports also decline because of higher tariff rates, reducing the receipts from customs duties. For more information about those changes and others, see Chapter 5.

How Much Revenue Is Forgone Because of Tax Expenditures?

Many of the federal tax system's exclusions, deductions, credits, and preferential rates cause revenues to be lower than they would otherwise be for any underlying set of tax rates. Because those provisions resemble federal spending and contribute to the budget deficit, they are known as tax expenditures.

The income tax system has nearly 200 tax expenditures, the largest of which include the preferential tax treatment for retirement savings and the tax exclusion of employers' contributions for health insurance. Together, they have a major impact on the federal budget. In 2026, those expenditures will reduce revenues by 8.0 percent of GDP, CBO estimates, when their effects on collections of individual income, payroll, and corporate income taxes are taken into account. That amount equals 46 percent of all federal revenues expected to be collected in 2026.

1. The economic changes include the effects of the 2025 reconciliation act on the economy.

How Uncertain Are CBO's Revenue Projections?

Revenue projections are inherently uncertain. CBO constructs its projections to be consistent with the agency's economic forecast, which is intended to fall in the middle of the range of likely outcomes for the economy. In recent decades, CBO's revenue projections have exceeded actual values, on average, mainly because of the difficulty of forecasting the timing and nature of economic downturns. Since 1982, the mean absolute error of CBO's revenue projections (the average of all errors, without regard for whether they were positive or negative) was 5.7 percent for projections made for the second year of the projection period and 10.1 percent for projections made for the sixth year.

Several factors have made revenue projections especially uncertain since 2020. The COVID-19 pandemic and the novel policies implemented in response, as well as certain administrative actions, represented major shifts that had unanticipated effects that could not be incorporated (or incorporated fully) in CBO's projections. Examples of administrative actions are the implementation of new tariffs, changes in immigration policy that affected the labor force, delays in the customary payment deadlines for certain taxes, and regulatory guidance from the Treasury and the Internal Revenue Service for new tax laws that differs from expectations. The revenue projections in this report generally incorporate administrative actions through November 20, 2025, and do not attempt to anticipate future administrative actions.

Past and Projected Changes in the Composition of Revenues

Federal revenues come from many sources: taxes on individual income, payroll taxes (which are dedicated to certain social insurance programs), taxes on corporate income, customs duties on certain imports, excise taxes on the production or purchase of some goods and services, earnings of the Federal Reserve System, estate and gift taxes, and miscellaneous fees and fines.

The Past 50 Years

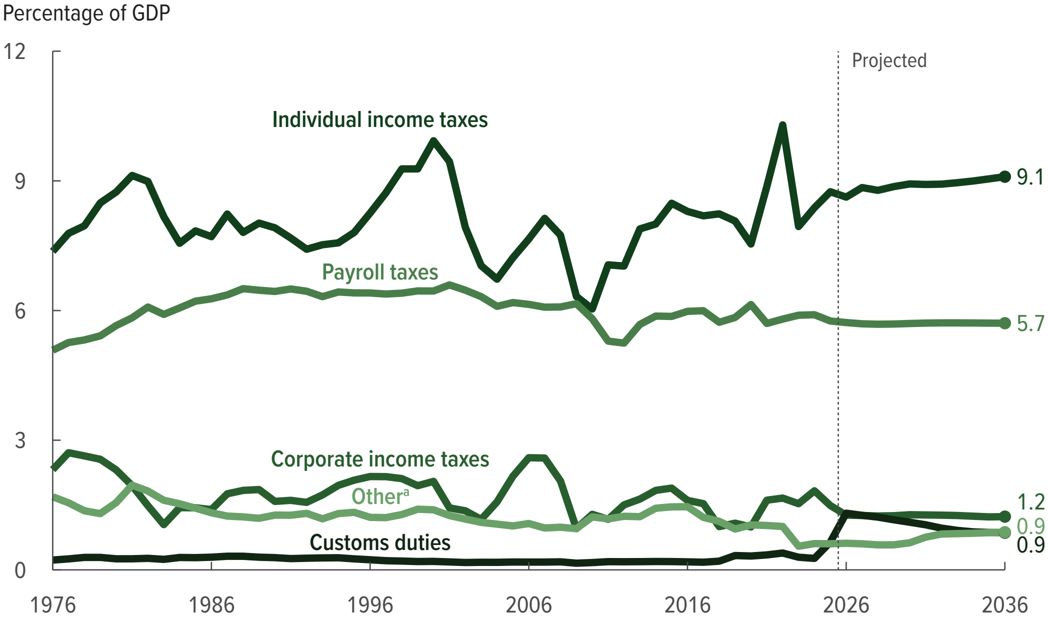
Individual income taxes are the largest source of federal revenues (see Figure 4-2). Over the past 50 years, they have accounted for nearly half of annual revenues (equal to 8.0 percent of GDP). The second-largest source of revenues has been payroll taxes—mainly for Social Security and Medicare Part A (the Hospital Insurance program)—which have accounted for an average of 35 percent of annual revenues (equal to 6.0 percent of GDP). Corporate income taxes have provided 10 percent of revenues (or 1.7 percent of GDP); customs duties have provided 1.4 percent of revenues (or 0.2 percent of GDP), on average; and all other sources combined have provided about 7 percent of revenues (or 1.2 percent of GDP).

Although that broad picture has remained roughly the same over the past five decades, the details have varied.

- Receipts from individual income taxes have fluctuated significantly since 1976, ranging from 42 to 54 percent of annual revenues (and from 6.0 to 10.3 percent of GDP). Those fluctuations are attributable to changes in laws and in the economy. The large increase in receipts in 2000, for example, stemmed from growth in wages and other types of taxable income that outpaced overall economic growth in the preceding years. And the sizable decrease in 2008 resulted from the financial crisis and legislation enacted to address it. Large realizations of capital gains explain the spike in 2022. Overall, the fluctuations in individual income tax receipts have shown no consistent trend over time.
- As a share of revenues, receipts from payroll taxes rose in the 1970s and 1980s, reflecting increases in the tax rates used to finance Social Security and Medicare. By the late 1980s, payroll tax receipts accounted for 37 percent of annual revenues (and 6.5 percent of GDP). Since 2001, those receipts have decreased relative to the size of the economy, averaging 5.9 percent of GDP. That period includes two years (2011 and 2012) when receipts fell because some payroll tax rates were cut temporarily.
- Receipts from corporate income taxes have fluctuated over the past 50 years, ranging from 6 to 15 percent of annual revenues (and from 1.0 to 2.7 percent of GDP). Corporate tax receipts fluctuate over time with cyclical changes in the economy.
- Customs duties generally declined as both a share of revenues and relative to GDP between the mid-1980s and 2018. Duties increased in 2019—to 2 percent of total revenues (and 0.3 percent of GDP), up from the 1.2 percent of total revenues (and 0.2 percent of GDP) they constituted in 2018—following the Administration's imposition of higher tariff rates on certain goods, particularly those imported from China. Those higher tariffs have largely remained in effect since 2018, boosting receipts from customs duties to 0.3 percent of GDP, on average, from 2019 to 2024. Duties rose sharply again in 2025 following the imposition of broad-based tariffs on most U.S. imports beginning last February; receipts from

Figure 4-2.

CBO's Baseline Projections of Revenues From All Sources



Projected revenues over the 2026–2036 period reflect stable receipts from payroll taxes and corporate income taxes and variation in receipts from other sources. As a share of GDP, receipts from individual income taxes rise, whereas receipts from customs duties decline.

Data source: Congressional Budget Office. See www.cbo.gov/publication/61882#data.

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

customs duties increased to 3.7 percent of total revenues (and 0.6 percent of GDP) in 2025.

- Revenues from other sources, particularly excise taxes, gradually declined as a share of annual revenues (and also relative to GDP) until 2009. Since then, remittances from the Federal Reserve have fluctuated as interest rates and the central bank's assets and liabilities have changed; revenues from each of the remaining sources have stayed flat or declined.

CBO's Projections

If current tax laws and how they are administered generally remain unchanged over the next decade—an assumption underlying CBO's baseline revenue projections—individual income taxes would continue to account for the largest share of total revenues, constituting about half of all revenues in each year through 2036. Those receipts would remain well above 8.0 percent of GDP, their average of the past 50 years. Individual income tax receipts are projected to total 8.6 percent of GDP in 2026, fluctuate some over the next several years, and then rise to 9.1 percent of GDP in 2036.

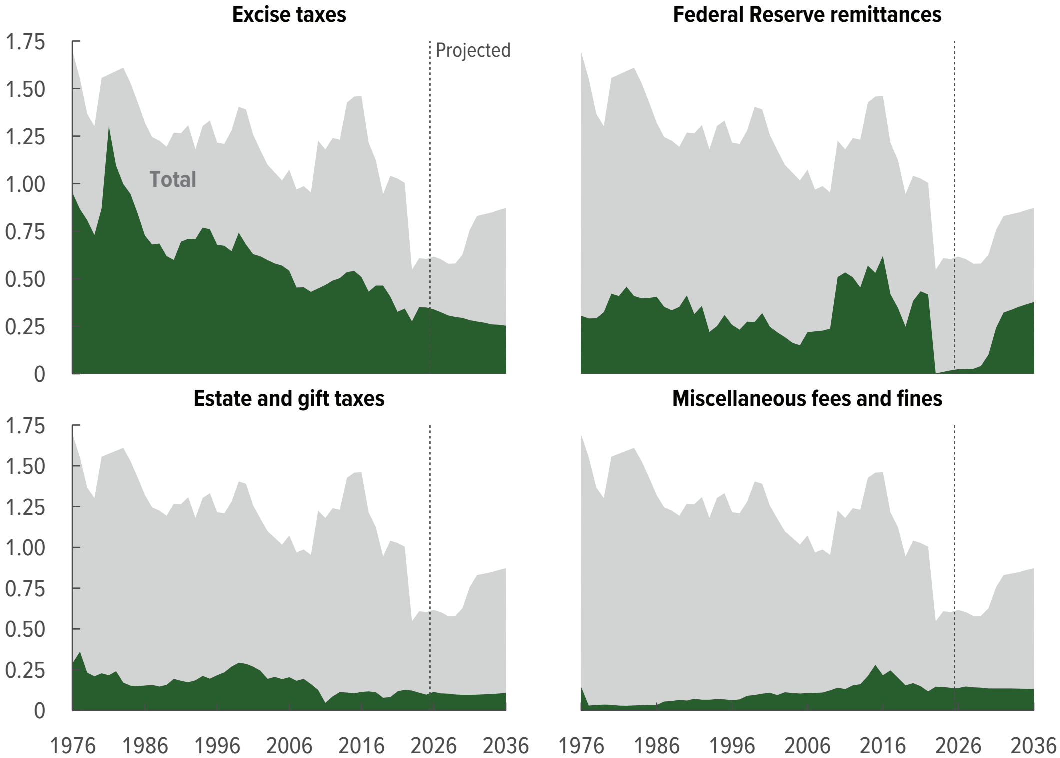
The pattern differs for other revenue sources. Receipts from payroll taxes are projected to remain stable over the next decade at 5.7 percent of GDP. Corporate income tax receipts are projected to range from 1.2 to 1.3 percent of GDP over the 2026–2036 period, below the 1.7 percent of GDP they averaged over the past 50 years. Receipts from customs duties are projected to remain well above their 50-year average of 0.2 percent of GDP, totaling 1.3 percent of GDP in 2026 before declining and settling at 0.9 percent starting in 2033. Over the projection period, receipts from customs duties decline as a share of the economy in response to tariff rates that are higher than they were before 2025. (In its baseline, CBO treats tariff rates set by administrative actions as of November 20, 2025, as permanent.) In particular, overall imports are projected to shrink as a share of the economy as businesses and consumers shift from importing goods from countries with higher tariffs to importing goods from countries with lower tariffs.

Taken together, all remaining sources of revenues are projected to rise from 0.6 percent of GDP in 2026 to 0.9 percent in 2036. CBO projects that the central bank will resume making significant remittances by 2031 and that the increase will more than offset a projected decline in revenues from excise taxes (see Figure 4-3).

Figure 4-3.

Other Sources of Revenues, by Category

Percentage of GDP



Excise tax receipts are projected to decline gradually relative to GDP through 2036 because certain per-unit taxes are not adjusted for inflation and because the tax bases on which certain excise taxes are levied are expected to decline. By 2031, remittances from the Federal Reserve are expected to return from depressed levels, once the central bank's profits have offset past losses.

Data source: Congressional Budget Office. See www.cbo.gov/publication/61882#data.

Individual Income Taxes

In 2025, receipts from individual income taxes totaled $2.7 trillion, or 8.7 percent of GDP. Those receipts peaked at 10.3 percent of GDP in 2022—the highest amount recorded since 1913, when ratification of the Sixteenth Amendment authorized the federal government to begin collecting income taxes—in part because of large realizations of capital gains, which reached an all-time high in calendar year 2021. Receipts from individual income taxes declined sharply in 2023, to 7.9 percent of GDP, and then rose in both 2024 and 2025.

CBO expects receipts from individual income taxes to grow in nominal terms but decline as a share of the economy this year. That decline—to 8.6 percent of GDP—occurs partly because taxable income, especially wages, is projected to grow more slowly than GDP in 2026. In addition, certain provisions of the 2025 reconciliation act are expected to reduce receipts in 2026 relative to amounts in 2025.

Individual income tax receipts are then projected to rise, reaching 9.1 percent of GDP in 2036. That projected increase as a share of the economy reflects offsetting factors. Real bracket creep and, to a lesser extent, scheduled changes in tax law are projected to boost receipts relative to GDP over the decade. Realizations of capital gains, which have exceeded historical averages in recent years, are expected to decline as a share of GDP.

Real Bracket Creep and Related Effects

The income thresholds for the various tax brackets in the individual income tax system are indexed to increase with inflation (as measured by the chained consumer price index published by the Bureau of Labor Statistics).[2] When income grows faster than prices—as CBO projects it will in each year of the 2026–2036 period—more income is pushed into higher tax brackets, a process known as real bracket creep. Many other parameters of the tax system are also indexed for inflation, including the amounts of the standard deduction and the earned

2. For more information, see Congressional Budget Office, "How Income Growth Affects Tax Revenues in CBO's Long-Term Budget Projections" (June 2019), www.cbo.gov/publication/55368.

income and child tax credits. But certain parameters, such as the threshold above which Social Security benefits are subject to income taxation, are fixed in nominal dollars and not adjusted for inflation.

The individual income tax system is thus not indexed for real growth (that is, growth beyond the rate of inflation). Instead, it is partially indexed for inflation, and the indexing occurs with a lag. Together, those features of the system cause projected annual individual income tax revenues measured as a percentage of GDP to rise by 0.5 percentage points from 2026 to 2036.

Changes in Individual Income Tax Rules

The 2025 reconciliation act permanently extended many individual income tax provisions that were scheduled to expire at the end of calendar year 2025. It also made several other notable changes that will reduce revenues by more during the next few years than in later years.

Some of those changes relate to provisions that provide incentives for investment that affect businesses, including pass-through entities like S corporations and partnerships, that are taxed under the individual income tax system rather than the corporate income tax system. For example, the act permanently allows for full and immediate expensing (100 percent bonus depreciation) of certain capital spending. Businesses may accelerate the timing of those deductions to take them earlier, instead of spreading them out over future years. That shift reduces taxes as a share of GDP more initially than in later years.

Additionally, new tax deductions were put in place by the reconciliation act. Among those are tax deductions for seniors, qualified tipped income, overtime pay, and interest on certain car loans. Those deductions are available for income earned or interest paid in calendar years 2025 to 2028. The act also changed the deductibility of state and local income taxes. The limit on deductibility was increased for calendar years 2025 to 2029 and is scheduled to return to its previous level after 2029. Taken together, the varying effects of those tax provisions over time are projected to boost annual receipts from individual income taxes as a share of GDP in 2036 by 0.3 percentage points relative to that measure in 2026.

Projected Decline in Realizations of Capital Gains

Over the past 40 years, profits from sales of assets—capital gains realizations—have equaled 3.9 percent of GDP per year, on average. Following strong growth in asset values, though, realizations exceeded that historical average over the past two years, totaling an estimated 5.3 percent of GDP in calendar year 2025. In CBO's projections, capital gains realizations decline through 2036 to a level consistent with their historical average as a percentage of GDP (after differences in applicable tax rates are taken into account). That anticipated decline reduces projected annual receipts from individual income taxes as a share of GDP by about 0.4 percentage points over the next decade.

Other Factors Affecting Individual Income Taxes

Under current law, other factors have smaller and partially offsetting effects on individual income taxes over the coming decade. Those factors are projected to increase receipts by less than 0.1 percentage point, on net. The most significant remaining factor boosting receipts is the expectation that earnings will grow faster for higher-income people than for other people during the next decade—a pattern that has persisted for the past few decades—causing a larger share of income to be taxed at higher rates. That effect is offset, in part, by a projected decline in collections of back taxes paid on previous years' tax liabilities. Those collections have been elevated in recent years, but they are projected to return to levels consistent with their historical average.

Payroll Taxes

Receipts from payroll taxes totaled $1.7 trillion in 2025, or 5.8 percent of GDP. Under current law, payroll tax receipts are projected to dip slightly, as GDP grows more quickly than wages, and to remain at 5.7 percent of GDP in each year through 2036.

Sources of Payroll Tax Receipts

The two largest sources of payroll tax receipts are the taxes dedicated to Social Security and Part A of Medicare (see Table 4-2). Much smaller sources of those receipts are unemployment insurance taxes (most of which are imposed by states, although their receipts are classified as federal revenues), employers' and employees' contributions to the Railroad Retirement system, and other contributions to federal retirement programs, mainly by federal employees. The premiums that Medicare enrollees pay for Part B (the Medical Insurance program) and Part D (prescription drug benefits) are voluntary payments and thus are not counted as tax revenues. Rather, they are considered offsets to spending and appear on the spending side of the budget as offsetting receipts.

Social Security and Medicare payroll taxes are calculated as a percentage of a worker's earnings. Almost all workers are in jobs covered by Social Security. The Social Security tax is 12.4 percent of earnings, with the employer and

Table 4-2.

CBO's Baseline Projections of Payroll Tax Revenues

Billions of dollars

	Actual, 2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	Total 2027–2031	Total 2027–2036
Social Security	1,284	1,350	1,404	1,458	1,516	1,576	1,638	1,699	1,762	1,826	1,892	1,961	7,591	16,731
Medicare Part A	395	415	434	453	473	493	513	534	555	577	600	624	2,366	5,256
Unemployment insurance	54	45	43	42	42	44	46	48	50	53	55	58	218	482
Railroad Retirement	7	7	7	7	7	7	7	7	7	7	8	8	35	72
Other retirement[a]	9	9	9	10	11	11	12	13	14	14	15	16	54	126
Total	**1,748**	**1,826**	**1,897**	**1,970**	**2,048**	**2,132**	**2,216**	**2,302**	**2,389**	**2,478**	**2,570**	**2,666**	**10,263**	**22,667**

Data source: Congressional Budget Office. See www.cbo.gov/publication/61882#data.

a. Consists largely of federal employees' contributions to the Federal Employees Retirement System and the Civil Service Retirement System.

employee each paying half. That tax applies only up to a certain amount of a worker's annual earnings. (That amount is indexed to increase with the growth of average earnings for all workers; in 2026, it is $184,500.) Only earnings up to that amount are counted toward future payments of Social Security benefits. The Medicare tax applies to all earnings, with no taxable maximum amount. It is levied at a rate of 2.9 percent, with the employer and employee each paying half. An additional Medicare tax of 0.9 percent is levied on the amount of an individual's earnings over $200,000 (or $250,000 for a married couple filing a joint income tax return), bringing the total Medicare tax on those earnings to 3.8 percent.

Projected Payroll Tax Receipts

Annual receipts from Social Security and Medicare payroll taxes are projected to remain stable relative to GDP over the 2026–2036 period. In CBO's projections, Social Security tax revenues remain at 4.2 percent of GDP, and Medicare tax revenues remain at 1.3 percent of GDP. Receipts from unemployment insurance and other smaller payroll taxes are projected to remain at 0.2 percent of GDP in each year from 2026 to 2036.

Corporate Income Taxes

Receipts from corporate income taxes totaled $452 billion (or 1.5 percent of GDP) in 2025, which was lower than their 2024 total of $530 billion (or 1.8 percent of GDP). Receipts were lower in 2025 for two reasons. First, receipts in 2024 were boosted by $35 billion in postponed payments for some taxpayers whose filing deadlines in 2023 were delayed, shifting their payments into the beginning of fiscal year 2024. Second, receipts in 2025 were reduced because of provisions of the 2025 reconciliation act. Among the provisions that reduced corporate income tax receipts are the full and immediate expensing of certain capital spending, an immediate deduction for domestic research expenditures, and an accelerated deduction for domestic research expenditures that occurred from 2022 to 2024. (Previously, businesses were required to amortize those expenditures over five years.)

CBO expects corporate tax receipts to decline further in 2026, to $404 billion (or 1.3 percent of GDP), as the provisions of the reconciliation act take full effect and as the scheduled payments of the onetime tax on previously untaxed foreign profits (known as deemed repatriation) begin to decrease. Businesses began making those payments in 2018, and the last set of payments is scheduled to occur in 2026; the largest installments were due in 2024 and 2025.

Corporate tax receipts remain between 1.2 and 1.3 percent of GDP through 2036, in CBO's projections. That steadiness reflects largely unchanged tax rules and factors that offset one another to varying degrees over time. The projected pattern of domestic profits relative to GDP contributes to the relatively steady flow of corporate receipts over time. Profits are expected to decline modestly as a share of GDP from 2026 to 2031 before gradually rising. Future collections will also be reduced after 2026, when the scheduled payments for deemed repatriation end. Those factors are offset, in part, by the effect over time of the provisions of the reconciliation act that provide for full and immediate expensing of certain capital spending. Those provisions reduce taxes as a share of GDP more in the initial years of the projection period than in later years because businesses may accelerate the timing of those deductions, taking them earlier rather than spreading them out over future years.

Customs Duties

In 2025, the Administration increased tariff rates on most imports from most countries and implemented additional tariffs on imports of automobiles, automobile parts, steel, aluminum, copper, and certain other goods. The Administration also suspended the de minimis exemption, which allowed commercial packages worth less than $800 to enter the United States duty-free. Consequently, receipts from customs duties rose from $77 billion in 2024 to $195 billion in 2025 and doubled to 0.6 percent of GDP. Before those increases, about half of the revenues from customs duties were from tariff rates set by statute; the rest came from tariffs, largely on imports from China, imposed by executive actions following findings of unfair trade practices.

The broad-based nature of the tariffs implemented by executive actions in 2025 diversified the goods subject to tariffs and the distribution of revenues from products' countries of origin. In 2024, 62 percent of calculated duties were collected on goods originating from China (primarily from tariffs imposed under section 301 of the Trade Act of 1974), but goods from China accounted for only 41 percent of calculated duties collected in 2025.[3] The next-largest collections of duties in 2025 were from those on goods coming from the European Union (accounting for 13 percent of calculated duties), Mexico (7 percent), and Vietnam (6 percent). Almost all of the 2025 increase in receipts from customs duties resulted from tariff changes imposed under the International Emergency Economic Powers Act (IEEPA) or for national security reasons under section 232 of the Trade Expansion Act. Tariff rates changed frequently throughout 2025.

When the Administration modifies tariffs through executive actions, CBO adjusts its baseline projections to reflect the assumption that those tariffs will continue permanently without changes.[4] The projections in this report reflect tariff policies in effect as of November 20, 2025. Because CBO's projections reflect the assumption that the higher tariffs recently imposed by the Administration will persist, the agency estimates that receipts from customs duties will rise further in 2026, to $418 billion (or 1.3 percent of GDP), exceeding corporate income tax receipts for the first time since at least 1934. CBO expects that businesses and consumers will adapt to the higher tariffs by reducing how much they import and by shifting to goods from countries with lower tariffs. Those changes push down receipts from customs duties in CBO's projections; in 2036, those receipts amount to 0.9 percent of GDP.

In calendar year 2025, roughly 41 percent (or $105 billion) of customs duties were imposed under IEEPA. The Administration's authority to impose tariffs under that law is currently under review by the Supreme Court. If the Court rules against the Administration, whether and how refunds would be issued for tariffs already collected is uncertain. In addition, CBO expects that the Administration could replicate most of the tariffs imposed under IEEPA using alternative authorities. The extent to which the Administration would do so, and the timeline of those possible actions, is uncertain.

Smaller Sources of Revenues

The other sources of federal revenues consist of excise taxes, remittances from the Federal Reserve System to the Treasury, estate and gift taxes, and miscellaneous fees and fines. Revenues from those sources totaled $183 billion in 2025, or 0.6 percent of GDP (see Table 4-3). In CBO's projections, those receipts remain at 0.6 percent of GDP in 2026 and rise over the second half of the projection period, amounting to 0.9 percent of GDP by 2036. Even though receipts from excise taxes decline as a share of GDP, an increase in remittances from the Federal Reserve more than offsets that change.

Excise Taxes

Most excise taxes are levied on the production or purchase of a particular type of good or service rather than on income. In CBO's baseline projections, about 80 percent of excise tax receipts come from taxes related to highways, aviation, tobacco, and alcohol.

Excise tax revenues are projected to rise from $108 billion in 2026 to $119 billion in 2036. As a share of GDP, though, those receipts are projected to decline slightly over the period, from 0.34 percent to 0.25 percent. That decline occurs because many excise taxes are imposed as

3. Calculated duties are estimates reported by the Census Bureau and may differ slightly from final duties paid.

4. Congressional Budget Office, "How CBO Projects Tariff Revenues" (October 2024), www.cbo.gov/publication/60692.

Table 4-3.

CBO's Baseline Projections of Smaller Sources of Revenues

Billions of dollars

	Actual, 2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	Total 2027–2031	Total 2027–2036
Excise taxes														
Highway	42.8	46.2	47.0	47.6	48.0	48.5	48.9	49.4	49.9	50.4	50.9	51.5	240.0	492.1
Aviation	20.1	21.2	22.1	22.9	23.8	24.7	25.6	26.6	27.6	28.6	29.7	30.9	119.1	262.5
Alcohol	10.4	10.4	10.4	10.3	10.3	10.4	10.4	10.4	10.4	10.5	10.5	10.6	51.8	104.2
Tobacco	9.0	7.9	7.1	6.3	5.7	5.1	4.7	4.3	3.9	3.6	3.3	3.1	28.9	47.2
Repurchase of corporate stock	8.7	8.3	8.5	8.8	8.7	8.9	9.1	9.4	9.7	10.0	10.5	10.9	44.0	94.4
Other	15.0	14.3	13.3	10.8	11.5	12.4	10.8	10.8	10.9	9.7	11.4	11.7	58.8	113.5
Subtotal	105.9	108.3	108.2	106.7	108.0	110.0	109.6	110.8	112.5	112.9	116.4	118.6	542.5	1,113.8
Federal Reserve remittances	5.5	7.9	8.6	9.2	14.8	37.9	93.9	129.7	140.5	152.9	164.5	176.4	164.3	928.4
Estate and gift taxes	29.5	36.4	35.2	35.9	35.6	36.2	37.4	39.2	41.4	44.0	47.2	50.7	180.3	402.7
Miscellaneous fees and fines														
Universal Service Fund fees[a]	10.1	10.0	10.0	9.9	9.9	9.8	9.8	9.7	9.7	9.6	9.6	9.6	49.4	97.6
Other fees and fines	32.4	34.0	39.2	39.3	40.7	40.8	42.7	45.0	46.8	48.5	50.3	52.4	202.7	445.7
Subtotal	42.4	44.1	49.1	49.3	50.5	50.6	52.5	54.7	56.5	58.2	59.9	62.0	252.1	543.3
Total	**183.3**	**196.7**	**201.1**	**201.0**	**209.0**	**234.7**	**293.4**	**334.5**	**350.8**	**368.0**	**387.9**	**407.7**	**1,139.2**	**2,988.2**
Addendum:														
Projected revenues from excise taxes that are assumed to be extended after expiration[b]	0	0.3	0.4	0.4	62.0	64.1	65.4	67.4	69.1	70.6	72.2	73.9	192.4	545.7

Data source: Congressional Budget Office. See www.cbo.gov/publication/61882#data.

a. Includes Universal Service Fund fees and Telecommunications Relay Services Fund fees.

b. The Balanced Budget and Emergency Deficit Control Act of 1985 (Public Law 99–177) requires that CBO's baseline projections reflect the assumption that expiring excise taxes dedicated to trust funds will be extended.

a fixed dollar amount per unit sold, and the number of units sold is projected to either grow more slowly than the overall economy or decline in coming years.

In general, CBO's baseline projections reflect the assumption that expiring tax provisions will follow the schedules set forth in current law. However, the Balanced Budget and Emergency Deficit Control Act of 1985 (P.L. 99–177) requires that CBO's baseline projections reflect the assumption that expiring excise taxes dedicated to trust funds will be extended. Receipts from excise taxes that are assumed to be extended after expiration account for about half of the excise tax revenues projected over the next decade. Trust funds financed in part by those excise taxes include the Highway, Airport and Airway, Patient-Centered Outcomes Research, Oil Spill Liability, Sport Fish Restoration and Boating, Hazardous Substance Superfund, and Leaking Underground Storage Tank Trust Funds.[5]

Highway Taxes. The largest share of excise tax receipts in 2026 comes from highway taxes. Those taxes include levies on the consumption of gasoline, diesel fuel, and blends of those fuels with ethanol; on the retail sale of trailers, trucks, and truck tires; and on the use of certain vehicles. Annual receipts from highway taxes, which are largely dedicated to the Highway Trust Fund, are projected to increase slightly each year through 2036. Over that period, those receipts average $49 billion per year.

5. Over the 2026–2036 period, revenues from excise taxes assumed to be extended after expiration are projected to total $546 billion. The excise tax on oil that finances the Oil Spill Liability Trust Fund (OSLTF) expired on December 31, 2025. Because that expiration occurred after the revenue projections presented in this report were completed, CBO's current projections reflect the assumption that the OSLTF excise tax is extended.

Taxes on fuel are imposed as a fixed amount per gallon sold and are not indexed for inflation. Those tax collections are expected to remain stable because improvements in vehicles' fuel efficiency are expected to roughly offset increases in the number of miles that people drive, resulting in stable consumption of gasoline. Taxes on trucks are expected to rise because those are imposed as a percentage of the taxable sales price of the vehicles.

Under current law, most of the federal excise taxes used to fund highway programs are scheduled to expire on September 30, 2028. By statute, CBO's baseline projections reflect the assumption that those expiring taxes will be extended because they are dedicated to a trust fund.[6]

Aviation Taxes. Receipts from taxes on airline tickets, aviation fuels, and various aviation-related transactions are projected to increase from $21 billion in 2026 to $31 billion in 2036—an average annual growth rate of 4 percent. That growth is close to the projected increase in GDP over that period. The largest component of aviation excise taxes, a tax on airline tickets, is levied as a percentage of the dollar value of transactions rather than on the number of units sold (as gasoline taxes are, for example). Thus, receipts from aviation taxes rise as both real economic activity and prices increase.

Although most aviation taxes are scheduled to expire in 2028, by statute CBO assumes that those expiring taxes will be extended because they are dedicated to the Airport and Airway Trust Fund.

Alcohol and Tobacco Taxes. In CBO's baseline projections, receipts from taxes on alcoholic beverages are expected to exceed $10 billion in 2026 and to change little through 2036. In contrast, revenues from taxes on tobacco products are projected to be $8 billion in 2026 and then to fall over the next decade, to $3 billion in 2036. Tobacco tax revenues are expected to decline as consumption habits change and because of a court ruling that allows some products to avoid federal excise taxes altogether.[7]

Other Excise Taxes. Collections of other excise taxes are projected to fluctuate between $20 billion and $23 billion from 2026 to 2036. The largest of those taxes is a 1 percent tax on the value of stock repurchased by certain publicly traded corporations. Instituted under the 2022 reconciliation act (P.L. 117-169), revenues from that tax are projected to total $9 billion per year, on average, over the next decade. Also in this category is an annual fee imposed on manufacturers and importers of brand-name drugs. Revenues from that tax, which was instituted under the Affordable Care Act (P.L. 111-148), average $2.7 billion per year through 2036 in CBO's projections.

Remittances From the Federal Reserve System

As they have been in recent years, remittances from the Federal Reserve continued to be small in 2025, at $5.5 billion. The central bank's remittances to the Treasury reflect the difference between the income the Federal Reserve earns on its portfolio of assets and the interest it pays on deposits plus the administrative costs of operating the system. Those remittances have been depressed since dropping steeply in 2023, from $107 billion (or 0.4 percent of GDP) in 2022 to less than $1 billion—the smallest amount as a share of the economy since remittances began in 1947.

That steep drop in 2023 occurred because higher short-term interest rates significantly boosted interest expenses paid by the Federal Reserve for the deposits that banks held at that institution. Most of the system's 12 Federal Reserve Banks' expenses exceeded their income, causing the banks to suspend remittances, but a few Federal Reserve Banks continued to record net profits. (Each bank has its own asset and liability allocations and operating costs.) For that reason, a small amount of remittances have been made in each of the past few years.

In CBO's projections, the system returns to net profitability in 2026, reflecting lower short-term interest rates. Those profits gradually offset past losses through about 2031; thereafter, remittances return to their longer-term historical average of between 0.3 and 0.4 percent of GDP. CBO's estimates of remittances are highly

6. For more information about the treatment of trust funds in CBO's baseline, see Appendix B.

7. On August 23, 2021, the U.S. Court of Appeals for the Federal Circuit upheld an earlier ruling by the U.S. Court of International Trade in *The National Association of Manufacturers, The Beer Institute v. Department of the Treasury, et al.* As a result of the ruling, importers of tobacco and alcohol products on which excise taxes would normally apply will receive a drawback (or refund) of those excise taxes in situations in which the merchandise can be matched to similar products that are exported or destroyed—even when no excise tax had previously been collected on the exported or destroyed merchandise.

uncertain because they depend on the path of short-term interest rates over the projection period.

Estate and Gift Taxes

Revenues from estate and gift taxes totaled $29 billion (or 0.1 percent of GDP) in 2025, and they are projected to remain near that percentage of GDP through 2036. The 2025 reconciliation act increased the amount exempted from estate and gift taxes for an individual from under $14 million for deaths in calendar year 2025 to $15 million in 2026; that amount is indexed for inflation for future years.

Miscellaneous Fees and Fines

Receipts from fees and fines totaled $42 billion (or 0.1 percent of GDP) in 2025. This category comprises many fees, fines, and criminal and civil penalties. The largest sources of those revenues have associated spending that roughly offsets the receipts, leaving the deficit largely unchanged. That is the case for the payments between telecommunications companies associated with the Universal Service Fund as well as the risk-adjustment payments between insurers under the Affordable Care Act. In CBO's projections, miscellaneous fees and fines remain between 0.1 and 0.2 percent of GDP from 2026 to 2036.

Tax Expenditures

Many exclusions, deductions, credits, and preferential rates in the federal tax system cause revenues to be lower than they would otherwise be for any underlying set of tax rates. Because such provisions resemble federal spending and contribute to the budget deficit, they are known as tax expenditures.[8]

Like federal spending, tax expenditures provide financial assistance for specific activities, entities, or groups of people. However, the budgetary treatment of tax expenditures differs from that of spending programs. Tax expenditures increase the deficit by reducing the government's revenue collections, although the amount of forgone revenues attributable to specific tax expenditures (or to tax expenditures in general) is not typically recorded separately in the budget, unlike outlays for each spending program.[9] The Congressional Budget and Impoundment Control Act of 1974 (P.L. 93-344) requires that the federal budget list tax expenditures. The Administration regularly publishes estimates of tax expenditures prepared by the Treasury Department's Office of Tax Analysis, and Congress publishes estimates prepared by the staff of the Joint Committee on Taxation (JCT).[10]

Tax expenditures have a large effect on the federal budget. In fiscal year 2026, the value of all tax expenditures in the individual and corporate income tax systems (including their effects on payroll taxes) is estimated to be $2.6 trillion, or 8.0 percent of GDP.[11] That amount, which CBO calculated using estimates prepared by JCT, equals about 46 percent of all federal revenues in 2026 and exceeds projected outlays for all discretionary programs combined (see Figure 4-4).

The 2025 reconciliation act created several new tax expenditures, including deductions for seniors, qualified tipped income, and overtime pay. It also modified or

8. Section 3(3) of the Congressional Budget and Impoundment Control Act of 1974, codified at 2 U.S.C. § 622(3) (2023), defines tax expenditures as "those revenue losses attributable to provisions of the Federal tax laws which allow a special exclusion, exemption, or deduction from gross income or which provide a special credit, a preferential rate of tax, or a deferral of tax liability." Conversely, provisions of the federal tax system that provide less favorable treatment than the underlying set of tax rates are considered negative tax expenditures.

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

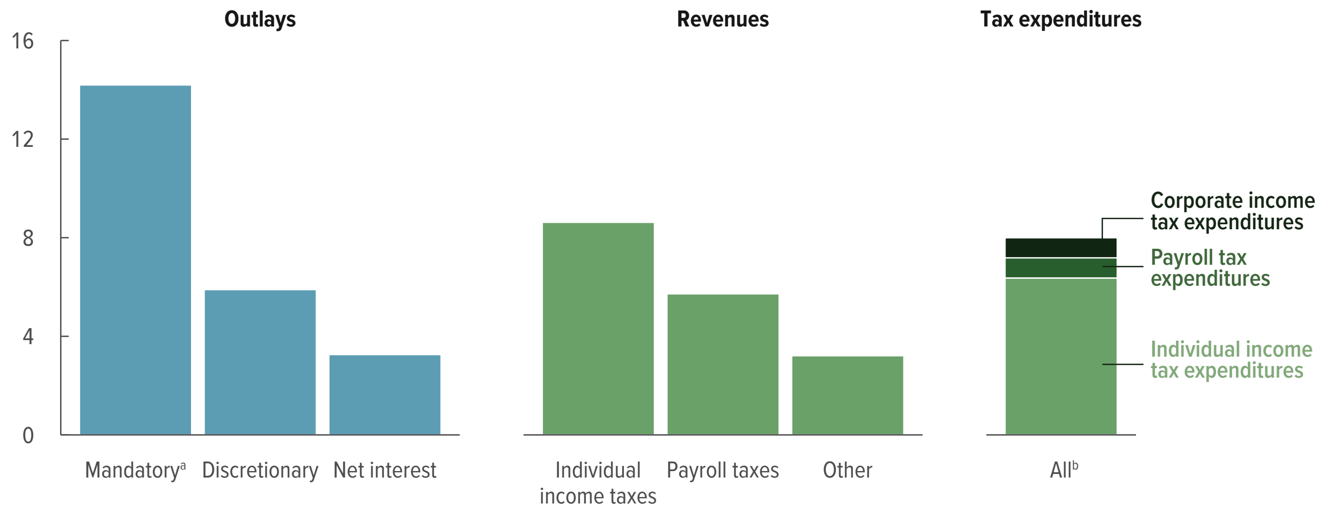
10. For this analysis, CBO adopted JCT's definition of tax expenditures as deviations from a "normal" income tax structure. For the individual income tax, that structure includes existing regular tax rates, the standard deduction, personal exemptions, and deductions of business expenses. For the corporate income tax, that structure includes the statutory tax rate, generally defines income on an accrual basis (meaning that future income and expenses are recorded when they are incurred rather than when payments are exchanged), and allows for costs to be recovered according to a specified depreciation system that is less favorable than the system in place under current law. For more information, see Congressional Budget Office, *How Specifications of the Reference Tax System Affect CBO's Estimates of Tax Expenditures* (December 2021), www.cbo.gov/publication/57543; and Joint Committee on Taxation, *Estimates of Federal Tax Expenditures for Fiscal Years 2025–2029*, JCX-45-25 (December 3, 2025), www.jct.gov/publications/2025/jcx-45-25. The Treasury's definition of tax expenditures is broadly similar to JCT's. For the Treasury's most recent estimates of tax expenditures, see Treasury Department, *Tax Expenditures Fiscal Year 2027* (December 16, 2025), https://tinyurl.com/4akvxvjr.

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

Figure 4-4.

Estimated Outlays, Revenues, and Tax Expenditures in 2026

Percentage of GDP



Tax expenditures are provisions of the tax system (such as tax credits, deductions, and exclusions) that cause revenues to be lower than they would be otherwise. Like federal spending programs, tax expenditures contribute to the budget deficit. In 2026, the total revenues forgone because of tax expenditures are projected to equal 8.0 percent of GDP (or $2.6 trillion).

Data source: Congressional Budget Office, using estimates by the staff of the Joint Committee on Taxation. See www.cbo.gov/publication/61882#data.

a. The outlay portions of refundable tax credits are included in tax expenditures as well as in mandatory outlays. For 2026, they are estimated to total 0.7 percent of GDP.

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

permanently extended many existing tax expenditures, while repealing other tax expenditures that supported certain energy-related purchases and investments.

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

Simply adding up the estimates for specific tax expenditures does not account for the interactions that may occur among those tax provisions. For instance, the total tax expenditure for all itemized deductions would be smaller than the sum of the separate tax expenditures for each deduction. The reason is that all taxpayers would claim the standard deduction if there were no itemized deductions, but if only one or a few itemized deductions were removed, many taxpayers would still choose to itemize. The progressive structure of the tax brackets (meaning that higher rates apply to higher income) ensures that the opposite would be the case with income exclusions. In other words, the tax expenditure for all exclusions considered together would be greater than the sum of the separate tax expenditures for each exclusion. In 2026, those and other factors are expected to be approximately offsetting, so the total value of tax expenditures is projected to roughly equal the sum of the individual tax expenditures.

Uncertainty of CBO's Revenue Projections

Because revenue projections are uncertain, actual revenues would differ from CBO's baseline projections even if no changes were made to current law. CBO constructs its revenue projections to be consistent with the agency's economic forecast, which is intended to fall in the middle of the range of likely outcomes for the economy. Thus, actual revenues could turn out to be higher or lower than CBO projects. Overall, the accuracy of CBO's revenue projections has been similar to that of revenue projections made by the Administration.

Historically, many of the errors in CBO's revenue projections have been attributable to errors in the agency's economic forecast. Economic forecast errors that have an important effect on revenue projections include errors in projected economic growth and differences in the composition of income, such as the shares allocated to wages and salaries compared with the shares allocated to corporate profits. The largest errors have involved specific hard-to-predict events, such as downturns in the economy, and do not indicate any general trend in the accuracy of CBO's projections. Nonroutine changes from administrative actions have also resulted in errors and similarly do not indicate any general trend in the accuracy of CBO's projections. Following a long-standing agreement between CBO and the House and Senate Budget Committees, if the Administration has not taken a clear, official, and public action that details a proposed change, CBO does not include the budgetary effects of that change in its baseline projections.

Several factors have made revenue projections especially uncertain since 2020. Those factors include the effects of the COVID-19 pandemic on the economy and the novel policies implemented in response. Administrative and judicial actions have also contributed to the uncertainty of CBO's projections. In some cases, those administrative actions have shifted the dates on which taxes are due for certain taxpayers. For example, the customary payment deadlines have been delayed for many taxpayers affected by natural disasters. In other cases, administrative actions have had more fundamental effects, including effects on the economy that impact receipts. Examples include the implementation of new tariffs and changes in immigration policy that affect the labor force and could affect the way that some immigrants are compensated for their labor.

In analyzing its baseline projections of revenues since 1982, CBO found that its projections for the second year (which is often called the budget year and usually begins about six months after the projections are released) and for the sixth year were generally too high, on average. The largest errors in revenue projections have occurred near economic downturns.

Since 1982, the mean absolute error (the average of all errors, regardless of whether they were positive or negative) was 5.7 percent for CBO's budget-year projections and 10.1 percent for its sixth-year projections.[12] In CBO's current baseline projections, those percentage errors would equal about $330 billion (or 1.0 percent of GDP) in 2027 and $690 billion (or 1.8 percent of GDP) in 2031.

12. Those errors were calculated for CBO's projections for 1982 through the most recent fiscal years for which actual receipts were available for each projection period: 2025 for the budget-year projections and 2021 for the sixth-year projections. The complete series of past errors is included with the supplemental materials that accompany this report at www.cbo.gov/publication/61882#data. For a more detailed analysis of past errors, see Congressional Budget Office, *An Evaluation of CBO's Past Revenue Projections* (August 2020), www.cbo.gov/publication/56499. That analysis included actual results through fiscal year 2018. For an analysis of errors in 2025, see Congressional Budget Office, *The Accuracy of CBO's Budget Projections for Fiscal Year 2025* (January 2026), www.cbo.gov/publication/61916. For the data that the agency uses to evaluate the accuracy of its projections of outlays, revenues, deficits, and debt, see Congressional Budget Office, "Evaluating CBO's Projections of Components of the Federal Budget" (GitHub, updated January 2026), github.com/US-CBO/eval-projections.

Chapter 5: Changes in CBO's Baseline Budget Projections Since January 2025

Overview

CBO's current estimate of the federal budget deficit for fiscal year 2026 is $1.9 trillion, which is $0.1 trillion (or 8 percent) greater than the deficit CBO projected for this year in its January 2025 baseline.[1] Since then, CBO has increased its projection of revenues in 2026 by $16 billion (or less than 1 percent) and increased its estimate of outlays in 2026 by $155 billion (or 2 percent).[2]

Under the laws in place as of January 14, 2026, deficits would total $23.1 trillion over the 2026–2035 period, CBO projects. That amount is $1.4 trillion (or 6 percent) more than the agency projected in January 2025. The increase in CBO's deficit projections is the net result of an increase of $1.3 trillion (or 1 percent) in projected outlays and a decrease of less than $0.1 trillion (or less than 1 percent) in projected revenues over the 2026–2035 period.

Federal debt held by the public is projected to total $53.1 trillion at the end of 2035, which is $1.0 trillion (or 2 percent) more than CBO projected in January 2025.[3] In relation to the size of the economy, however, debt is now projected to be slightly smaller at the end of 2035 than CBO projected previously: 118.0 percent of gross domestic product (GDP) instead of 118.5 percent. The reason is that the economy is now projected to be 2.4 percent larger in 2035 than previously projected—mainly because of the effects of the 2025 reconciliation act (Public Law 119-21) and increases in CBO's projections of investment by businesses to reflect greater investment in infrastructure and intellectual property related to artificial intelligence. The increase in the projected size of the economy through 2035 more than offsets the projected increase in nominal federal debt.

When CBO updates its baseline budget projections, it groups the changes from the previous baseline into three categories:

- **Legislative changes** result from laws enacted since the agency published its previous baseline projections. This category of changes does not include new laws' estimated effects on the economy. It also does not reflect revisions CBO makes to its baseline to incorporate additional information about how laws will be implemented that becomes available after the laws are enacted.[4]
- **Economic changes** result from revisions to CBO's economic forecast, including changes made to incorporate how new laws, administrative actions, and judicial rulings are projected to affect the economy.

1. The previous baseline projections were published in Congressional Budget Office, *The Budget and Economic Outlook: 2025 to 2035* (January 2025), www.cbo.gov/publication/60870. CBO's current economic forecast reflects changes to trade policies through November 20, 2025, and economic developments and laws enacted through December 3, 2025. CBO's current budget projections incorporate the effects of laws in place as of January 14, 2026, including the effects of the Continuing Appropriations, Agriculture, Legislative Branch, Military Construction and Veterans Affairs, and Extensions Act, 2026 (Public Law 119-37), which provided funding for most federal agencies through January 30, 2026, and for the remaining agencies for all of fiscal year 2026. CBO's projections do not include the effects of appropriation acts passed by the House and Senate after January 14, 2026.

2. The projections discussed in this chapter have not been adjusted to exclude the effects of timing shifts, which occur when October 1 (the first day of the fiscal year) falls on a weekend and certain payments that ordinarily would have been made on that day are instead made at the end of September (and thus are shifted into the previous fiscal year).

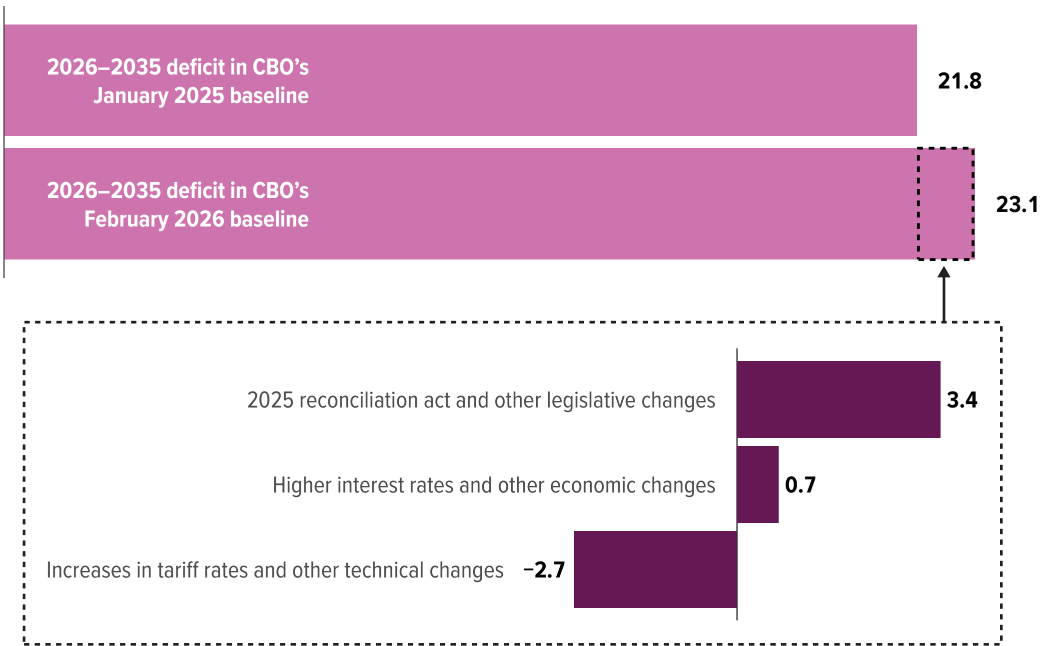
3. The projected increase in federal debt during the 2026–2035 period differs from the projected increase in deficits during that period. For a discussion of factors other than deficits that affect the change in debt held by the public, see the section titled "Relationship Between Debt and Deficits" in Chapter 1.

4. The effects of legislation discussed in this chapter generally reflect the estimates provided for budget enforcement purposes around the time the legislation was enacted.

Figure 5-1.

Changes in CBO's Baseline Projections of the 10-Year Deficit Since January 2025

Trillions of dollars



Deficits from 2026 to 2035 are projected to total $23.1 trillion, $1.4 trillion more than CBO projected in January 2025. Most of that increase is attributable to the projected effects of the 2025 reconciliation act, partly offset by projected revenue increases from higher tariff rates.

Data source: Congressional Budget Office. See www.cbo.gov/publication/61882#data.

- **Technical changes** are revisions to CBO's budget projections that are neither legislative nor economic. They can result from a variety of factors that affect federal spending or revenues, such as new information or data from federal agencies (including actual outlays and revenues in 2025), administrative actions, judicial rulings, changes in the way programs are administered, and additional information about how new laws will be implemented.

In 2025, three major policy developments occurred whose budgetary effects cut across those categories: the enactment of the 2025 reconciliation act, administrative actions that increased tariff rates, and administrative actions that reduced immigration. For details about the overall effects of those policy developments on CBO's baseline, see Box 5-1 on page 102.

The $1.4 trillion increase since January 2025 in the cumulative deficit projected for the 2026–2035 period is the net result of the following totals for legislative, economic, and technical changes (which include the changes in projected interest payments on federal debt, or debt-service costs, associated with each category's effects on projected deficits):

- A $3.4 trillion net increase stemming from legislative changes. Most of those changes are attributable to the 2025 reconciliation act, which modified various tax provisions in ways that are expected to reduce revenues. The law also changed a number of programs in ways that, to a lesser extent, reduce projected mandatory outlays. (For more details about the provisions and the budgetary and economic effects of the 2025 reconciliation act, see Appendix A.)
- A $0.7 trillion net increase stemming from economic changes. A major factor driving that deficit increase was an additional $0.9 trillion in projected net outlays for interest, largely because of higher projected interest rates on Treasury securities.
- A $2.7 trillion net decrease stemming from technical changes (see Figure 5-1). The largest factor contributing to that deficit reduction was a $3.4 trillion increase in revenues from customs duties because of administrative actions that raised tariff rates. (That increase was partly offset by a $0.4 trillion decrease in revenues from customs duties

because of a projected reduction in imports, which is included with economic changes.)[5] The largest technical changes that increased the deficit were upward revisions to CBO's projections of outlays for Medicare, Medicaid, and veterans' benefits.

As a result of those changes, primary deficits (which exclude net outlays for interest) are now projected to total $8.1 trillion over the 2026–2035 period. That total is $175 billion (or 2 percent) more than CBO projected in January 2025. The agency's projections of net interest outlays through 2035 grew by about seven times that amount: by $1.2 trillion (or 9 percent).

Legislative Changes

In preparing its current baseline, CBO revised its previous projections of outlays and revenues to account for legislation enacted since January 6, 2025. On net, those legislative revisions added $0.5 trillion to the deficit projected for 2026 and a total of $3.4 trillion to the deficits projected for the 2026–2035 period (see Table 5-1 on page 104).

The Congressional Budget Act of 1974 stipulates that the Joint Committee on Taxation (JCT) is responsible for estimating the budgetary effects of legislation that would alter income taxes, estate and gift taxes, excise taxes, or payroll taxes. CBO is required to use JCT's estimates for tax provisions in its estimates of the effects of legislation.

Most of the legislative revisions to CBO's baseline stemmed from the 2025 reconciliation act, the most significant legislative change since CBO's previous baseline. That law's major provisions (described in Appendix A) affected multiple sources of revenues and outlays. The legislative changes attributable to the 2025 reconciliation act do not reflect the law's estimated effects on the economy, which are included among economic changes. They also do not reflect revisions CBO made to its baseline to incorporate later information about how that law will be implemented or about how taxpayers will respond to the law's changes. Such revisions are included among technical changes. In addition, legislative changes to CBO's baseline do not include the effects of tariffs imposed through administrative actions; those effects are categorized as economic and technical changes (see Box 5-1).

5. CBO's projections incorporate the assumption that tariff rates in place as of November 20, 2025, are permanent and continue unchanged. Future updates will take into account any court rulings or further administrative actions that affect tariffs after November 20, 2025.

The legislative changes to CBO's baseline associated with the 2025 reconciliation act reflect estimates of outlay and revenue effects that were published near the date of the law's enactment.[6] In many cases, those estimates describe the budgetary effects of provisions that affect multiple sources of outlays or revenues. The legislative changes to CBO's baseline described in this chapter reflect an allocation of those effects to specific revenue sources, programs, or agencies.

Legislative Changes to Revenues

To account for legislation enacted since the previous baseline, CBO decreased its estimate of revenues in 2026 by $462 billion and its projections of revenues over the 2026–2035 period by $4.9 trillion. Those changes resulted almost entirely from the 2025 reconciliation act, although various other new laws had small effects. CBO's projections incorporate estimates provided by JCT.

The 2025 Reconciliation Act. CBO reduced its estimate of revenues in 2026 by $461 billion, and its projections of revenues over the 2026–2035 period by $4.9 trillion, to account for the effects of the 2025 reconciliation act as estimated by JCT and CBO. More than 80 percent of those reductions stemmed from provisions of the law that permanently extended most of the provisions of the 2017 tax act (P.L. 117-97) that had been scheduled to expire at the end of calendar year 2025. The 2025 reconciliation act lowered statutory tax rates and changed the amount of income subject to tax for most households. It also accelerated certain deductions for investment by businesses. Partially offsetting those changes, the law modified or repealed numerous tax credits for energy-related spending and investments. (For a fuller description of the changes made by that law and a discussion of its budgetary effects through 2034, see Appendix A.)

Most of the estimates for the 2025 reconciliation act were produced by JCT. For many of the law's tax provisions, those estimates describe budgetary effects that span multiple revenue sources. CBO's baseline incorporates legislative changes by allocating those effects to

6. Congressional Budget Office, "Estimated Budgetary Effects of Public Law 119-21, to Provide for Reconciliation Pursuant to Title II of H. Con. Res. 14, Relative to CBO's January 2025 Baseline" (July 21, 2025), www.cbo.gov/publication/61570; and Joint Committee on Taxation, *Estimated Revenue Effects Relative to the Present Law Baseline of the Tax Provisions in "Title VII – Finance" of the Substitute Legislation as Passed by the Senate to Provide for Reconciliation of the Fiscal Year 2025 Budget*, JCX-35-25 (July 1, 2025), www.jct.gov/publications/2025/jcx-35-25.

Box 5-1.

Effects of Three Major Policy Changes in 2025 on CBO's Baseline

The most significant policy developments in 2025 for the federal budget were the following changes:

- Enactment of the 2025 reconciliation act (Public Law 119-21), which is projected to increase the budget deficit over the 2026–2035 period by $4.7 trillion;
- Administrative actions that raised tariff rates, which are projected to reduce the 10-year deficit by $3.0 trillion; and
- Administrative actions that reduced immigration, which are projected to increase the 10-year deficit by $0.5 trillion.

Those policy developments have important budgetary effects that cut across the legislative, economic, and technical categories the Congressional Budget Office uses to describe changes to its baseline budget projections. Therefore, the budgetary impact of each policy is more fully understood by looking at the combination of its legislative, economic, and technical effects.

The 2025 Reconciliation Act

Legislative and economic changes stemming from the 2025 reconciliation act increased CBO's projection of the cumulative deficit over the 2026–2035 period by $4.7 trillion. (For a detailed discussion of that law's major provisions and its projected budgetary and economic effects from 2025 to 2034, see Appendix A.) Because the legislative effect on primary deficits was estimated in relation to CBO's January 2025 baseline, it does not reflect interactions between the reconciliation act and other recent policy and economic developments.

CBO also revised the baseline to incorporate additional information about the 2025 reconciliation act, such as updates to CBO's projections of how the law will be implemented and how taxpayers will respond to its changes. Such revisions are included among technical changes to the baseline, but CBO has not isolated the portion of technical changes that result from the reconciliation act.

In July 2025, near the time the law was enacted, CBO and the staff of the Joint Committee on Taxation (JCT) estimated that without budgetary feedback from macroeconomic changes, the law would increase primary deficits (which exclude net outlays for interest) over the 2025–2034 period by a total of $3.4 trillion.[1] Over the 2026–2035 period used for measuring changes to the baseline in this report, the estimated increase in primary deficits from the law is $3.7 trillion (also not including budgetary feedback effects). That estimate, which is based on CBO's and JCT's estimates from July, is incorporated in the baseline as legislative changes to projections of revenues and mandatory outlays. The increase in projected interest payments on federal debt resulting from the law's increase in primary deficits is also reflected in the baseline as a legislative change. That increase in debt-service costs is projected to total $0.9 trillion over the 2026–2035 period.

The 2025 reconciliation act is projected to have important effects on the economy, which are incorporated in CBO's baseline as economic changes. According to analyses by CBO and JCT, the law's provisions will increase the size of the economy, mainly by affecting the demand for goods and services, the labor supply, and investment. In addition to boosting economic growth, the law is projected to result in modest inflationary pressure and reduce the unemployment rate in the near term. Those effects, and the increase in government borrowing attributable to the law, will lead to higher interest rates. In total, economic revisions to CBO's baseline to account for the 2025 reconciliation act increase the projected cumulative deficit over the 2026–2035 period by $0.1 trillion.

Administrative Actions That Raised Tariff Rates

Actions taken by the Administration through November 20, 2025, increased tariff rates on most goods imported into the United States. Those increases resulted in technical and economic changes to CBO's baseline that reduce projected deficits

1. Those estimates were published in Congressional Budget Office, "Estimated Budgetary Effects of Public Law 119-21, to Provide for Reconciliation Pursuant to Title II of H. Con. Res. 14, Relative to CBO's January 2025 Baseline" (July 21, 2025), www.cbo.gov/publication/61570; and Joint Committee on Taxation, *Estimated Revenue Effects Relative to the Present Law Baseline of the Tax Provisions in "Title VII – Finance" of the Substitute Legislation as Passed by the Senate to Provide for Reconciliation of the Fiscal Year 2025 Budget*, JCX-35-25 (July 1, 2025), www.jct.gov/publications/2025/jcx-35-25. Budgetary feedback, which is excluded from those estimates, occurs when changes in the behavior of people and businesses affect the size of the economy and, in turn, those macroeconomic changes affect the government's revenues and outlays.

Continued

Box 5-1. Continued

Effects of Three Major Policy Changes in 2025 on CBO's Baseline

by a total of $3.0 trillion over the 2026–2035 period (including the budgetary feedback that results from the economic effects of higher tariffs; for a description of those economic effects, see Box 2-1 on page 30). Because that effect was estimated in relation to CBO's January 2025 baseline, it does not reflect interactions between the tariff changes and other recent policy and economic developments.

Before accounting for changes in the size of the economy, CBO estimates that the increases in tariff rates will reduce primary deficits by a total of $2.4 trillion over the 2026–2035 period. That estimate, which is based on analysis CBO published in November 2025, reflects the higher tariff rates on imported goods and changes in imports in response to those higher tariffs.[2] It also reflects partially offsetting reductions in projections of other sources of revenues, particularly income taxes, as a result of increased collections of customs duties. That $2.4 trillion deficit reduction is projected to decrease debt-service costs—and thus further reduce deficits—by $0.5 trillion through 2035.

On net, higher tariff rates will put temporary upward pressure on inflation, reduce the size of the economy, and lower interest rates, CBO estimates. Those economic changes will decrease deficits over the 2026–2035 period by an additional $0.1 trillion.

Policies That Reduced Immigration and Eligibility for Benefits

Administrative actions taken from January 20 to September 30, 2025, have significantly reduced net immigration to the United States (the number of people who migrate to the country minus the number who leave).[3] CBO estimates that because of those administrative actions, the U.S. population in 2035 will be smaller by 5.3 million people than the agency previously projected. Those administrative actions are also expected to affect the way in which certain immigrants are compensated for their labor.

In all, economic and technical changes stemming from administrative actions related to immigration have increased deficits in CBO's baseline by roughly $0.5 trillion over the 2026–2035 period.[4] That total effect reflects three main changes. First, the 10-year primary deficit is projected to increase by $0.4 trillion because of a decrease in the number of people paying taxes, partly offset by a decrease in the number of people collecting federal benefits. Second, the 10-year primary deficit is projected to increase by a further $0.2 trillion because of additional economic changes caused by the reduction in the size of the population.[5] Third, outlays for net interest are projected to decline by $0.1 trillion through 2035 because of two countervailing factors: Lower interest rates caused by the reduction in immigration reduce interest costs, and to a smaller extent, the increase in deficits stemming from all of the other budgetary effects of reduced immigration increase debt-service costs.

In addition to administrative actions, the 2025 reconciliation act made various changes related to immigration, which are included in the overall budgetary effects of the law discussed above. First, it provided $0.2 trillion in funding for various aspects of border security and immigration enforcement, such as improving barriers along U.S. borders, hiring more immigration agents and judges, and expanding detention space.[6] Second, the law restricted some immigrants' eligibility for federal benefit programs, including Medicaid, the Supplemental Nutrition Assistance Program, premium tax credits for purchasing health insurance through the marketplaces established under the Affordable Care Act, and Medicare. Third, the law imposed new fees on non-U.S. nationals applying for or renewing work authorizations, visas for temporary travel to the United States, and other benefits provided under the Immigration and Nationality Act. On net, those changes almost entirely offset each other and thus are estimated to have a minimal effect on primary deficits over the 2026–2035 period (not including budgetary feedback effects).

2. Congressional Budget Office, "CBO's Updated Projections of the Budgetary Effects of Tariffs as of November 15, 2025," *CBO Blog* (November 20, 2025), www.cbo.gov/publication/61877.

3. For more information about CBO's current projections of net immigration, see Congressional Budget Office, *The Demographic Outlook: 2026 to 2056* (January 2026), www.cbo.gov/publication/61879.

4. That estimate is calculated using the assumptions underlying CBO's current budgetary and economic projections—that is, all other changes since January 2025 are accounted for before calculating that estimate, including changes to eligibility for certain benefit programs made by the 2025 reconciliation act and updates to CBO's economic forecast.

5. For a description of how CBO analyzes the economic effects of changes in immigration, see Congressional Budget Office, *Effects of the Immigration Surge on the Federal Budget and the Economy* (July 2024), www.cbo.gov/publication/60165.

6. CBO estimated that the immigration enforcement provisions in the 2025 reconciliation act would reduce the size of the population in 2035 by 320,000 people. For details, see Congressional Budget Office, *An Update to the Demographic Outlook, 2025 to 2055* (September 2025), Box 1, www.cbo.gov/publication/61390.

Table 5-1.

Changes in CBO's Baseline Projections of the Deficit Since January 2025

Billions of dollars

	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	Total 2026–2030	Total 2026–2035
Deficit in CBO's January 2025 baseline[a]	1,713	1,687	1,911	1,938	2,140	2,233	2,371	2,637	2,597	2,531	9,389	21,758
Legislative changes												
Changes in revenues												
2025 reconciliation act												
Individual income taxes	-361	-479	-493	-457	-409	-398	-414	-434	-460	-479	-2,200	-4,386
Corporate income taxes	-98	-91	-79	-59	-26	-2	7	1	-2	-3	-354	-352
Customs duties	0	2	7	7	7	7	7	7	8	8	22	59
Other	-1	-13	-16	-17	-17	-19	-21	-22	-24	-27	-64	-177
Subtotal, 2025 reconciliation act	-461	-582	-582	-526	-445	-413	-421	-448	-479	-501	-2,595	-4,856
Other legislation	-1	-2	-2	-2	-1	-1	-1	-1	-1	-1	-7	-12
Total change in revenues	**-462**	**-584**	**-583**	**-527**	**-446**	**-413**	**-421**	**-448**	**-480**	**-502**	**-2,603**	**-4,867**
Changes in outlays												
Mandatory outlays												
2025 reconciliation act												
Medicaid	-19	-50	-67	-99	-118	-138	-152	-164	-180	-198	-353	-1,184
SNAP	-8	-16	-22	-22	-22	-22	-25	-25	-25	-25	-89	-211
Earned income and child tax credits	2	19	19	20	20	21	21	23	22	24	81	192
Immigration enforcement	13	23	33	34	29	19	12	4	1	-1	131	167
Student loans	-13	-14	-15	-16	-16	-16	-17	-17	-17	-17	-74	-158
Defense	42	46	27	20	10	5	3	1	1	*	146	156
Premium tax credits and related spending	-3	-10	-15	-17	-16	-15	-13	-14	-13	-14	-61	-130
Spectrum auction receipts	*	*	-2	-6	-13	-20	-22	-16	-6	0	-21	-85
Energy-related tax credits	-1	-4	-8	-13	-15	-16	-18	-1	-2	-2	-40	-80
Agriculture	1	8	9	9	8	8	8	8	8	9	34	75
Medicare and other health programs	4	6	7	9	8	8	4	-6	-1	-3	34	36
Coast Guard	*	1	2	3	4	3	3	4	2	0	11	23
Other	10	12	5	2	*	*	*	*	-1	-1	31	29
Subtotal, 2025 reconciliation act	26	20	-26	-75	-120	-162	-195	-196	-211	-228	-175	-1,168
Other legislation	2	*	-2	*	*	*	*	-7	*	*	1	-5
Subtotal, mandatory	29	21	-28	-75	-120	-162	-195	-203	-211	-228	-174	-1,172
Discretionary outlays												
Defense												
Nonemergency	24	23	25	27	28	28	29	30	30	31	126	274
Emergency	-3	-5	-8	-9	-11	-12	-12	-13	-13	-14	-36	-100
Subtotal, defense	22	17	17	17	17	16	17	17	17	17	90	174
Nondefense												
Nonemergency	-4	-15	-17	-18	-19	-19	-20	-21	-22	-23	-73	-177
Emergency	-34	-65	-81	-96	-107	-115	-121	-126	-130	-133	-383	-1,007
Subtotal, nondefense	-38	-81	-98	-113	-126	-134	-140	-146	-152	-156	-455	-1,183
Subtotal, discretionary	-16	-63	-81	-96	-109	-117	-124	-129	-135	-139	-365	-1,010
Net interest (debt service)[b]	5	28	47	64	78	88	95	103	112	122	222	742
Total change in outlays	**17**	**-15**	**-62**	**-107**	**-151**	**-191**	**-223**	**-229**	**-234**	**-246**	**-317**	**-1,440**
Increase or decrease (-) in the deficit from legislative changes	**479**	**569**	**522**	**420**	**295**	**222**	**198**	**220**	**246**	**256**	**2,285**	**3,427**
Economic changes												
Changes in revenues												
Individual income taxes	112	133	108	75	56	44	39	35	30	28	483	660
Payroll taxes	-6	-6	-5	-5	-8	-10	-13	-15	-18	-22	-31	-109
Corporate income taxes	28	38	39	38	37	34	32	29	28	28	179	330
Customs duties	-17	-20	-29	-35	-38	-42	-49	-55	-59	-63	-139	-408
Federal Reserve remittances	1	*	*	*	3	7	9	12	14	17	3	62
Other	5	6	5	4	4	3	3	3	3	3	23	38
Total change in revenues	**122**	**150**	**117**	**77**	**52**	**37**	**21**	**9**	**-2**	**-10**	**518**	**573**

Continued

Table 5-1. Continued

Changes in CBO's Baseline Projections of the Deficit Since January 2025

Billions of dollars

	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	Total 2026–2030	Total 2026–2035
Changes in outlays												
Mandatory outlays												
Social Security	4	13	19	20	21	22	22	23	24	25	77	193
SNAP	2	6	9	11	12	13	14	14	15	15	40	110
Medicare	*	*	-1	-2	-4	-7	-9	-12	-15	-17	-7	-67
Veterans' benefits	1	2	3	3	4	4	4	5	5	5	13	37
Medicaid	*	*	-1	-2	-2	-3	-4	-4	-5	-5	-5	-26
Other	*	1	4	3	3	1	3	2	4	2	11	23
Subtotal, mandatory	7	22	33	33	33	30	30	28	28	25	128	270
Discretionary outlays	0	1	5	7	9	9	10	10	10	10	22	70
Net interest												
Effect of interest rates and inflation	16	17	32	53	77	104	129	150	171	189	194	937
Debt service[b]	-1	-6	-9	-10	-8	-5	-1	5	13	22	-33	1
Subtotal, net interest	15	11	23	43	68	98	128	156	184	211	160	938
Total change in outlays	**22**	**35**	**61**	**83**	**110**	**138**	**168**	**194**	**222**	**245**	**310**	**1,277**
Increase or decrease (-) in the deficit from economic changes	**-100**	**-116**	**-57**	**6**	**58**	**101**	**148**	**185**	**224**	**255**	**-208**	**704**
						Technical changes						
Changes in revenues												
Individual income taxes	32	41	74	121	109	95	101	106	113	111	377	902
Payroll taxes	-9	-12	-13	-16	-13	-13	-12	-12	-11	-10	-62	-120
Corporate income taxes	-21	4	11	19	16	6	3	2	9	10	30	59
Customs duties	352	353	357	355	351	346	334	330	331	340	1,767	3,449
Other	1	-1	1	2	-24	-21	-2	*	*	1	-22	-44
Total change in revenues	**356**	**384**	**429**	**480**	**440**	**412**	**424**	**427**	**442**	**452**	**2,089**	**4,246**
Changes in outlays												
Mandatory outlays												
Medicare	61	83	87	90	95	96	101	122	121	117	415	973
Medicaid	31	39	48	51	61	74	79	91	104	119	230	697
Veterans' benefits	53	57	60	57	62	60	60	65	64	62	289	600
Energy-related tax credits	-17	-19	-18	-15	-12	-12	-12	-14	-5	-4	-80	-127
Social Security	-3	-5	-9	-8	-10	-11	-13	-14	-15	-16	-35	-105
Premium tax credits and related spending	1	-16	-19	-16	-12	-7	-6	-9	6	-1	-62	-79
SNAP	-1	-3	-4	-5	-5	-5	-5	-4	-4	-4	-19	-41
Earned income and child tax credits	5	4	4	3	2	2	2	2	2	1	19	29
Agriculture	7	9	4	1	1	1	1	1	1	1	21	25
Other	-30	-3	-5	3	3	-3	3	4	5	8	-31	-14
Subtotal, mandatory	107	144	147	161	186	194	211	244	279	283	746	1,957
Discretionary outlays												
Defense	-3	1	1	*	1	2	2	1	1	1	-1	7
Nondefense	3	-8	2	5	2	*	1	*	*	*	3	4
Subtotal, discretionary	*	-7	2	4	3	2	3	1	1	1	2	11
Net interest												
Debt service[b]	-3	-15	-26	-40	-54	-67	-79	-91	-102	-113	-138	-589
Other	12	8	9	10	12	12	12	12	15	17	52	120
Subtotal, net interest	9	-6	-17	-30	-42	-55	-67	-79	-86	-96	-86	-469
Total change in outlays	**116**	**131**	**133**	**135**	**147**	**142**	**147**	**166**	**193**	**188**	**662**	**1,499**
Increase or decrease (-) in the deficit from technical changes	**-239**	**-253**	**-296**	**-345**	**-293**	**-270**	**-277**	**-261**	**-249**	**-263**	**-1,426**	**-2,747**

Continued

Table 5-1. Continued

Changes in CBO's Baseline Projections of the Deficit Since January 2025

Billions of dollars

	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	Total 2026–2030	Total 2026–2035
						All changes						
Total increase or decrease (-) in the deficit	139	200	169	81	61	53	69	143	221	248	651	1,385
Deficit in CBO's February 2026 baseline[a]	1,853	1,887	2,080	2,020	2,201	2,286	2,439	2,781	2,819	2,779	10,040	23,143
Addendum:												
Total change in revenues	16	-50	-37	30	46	35	23	-13	-39	-60	4	-49
Total change in outlays	155	151	132	111	106	88	92	130	182	188	655	1,336
Increase or decrease (-) in the primary deficit[c]	111	168	116	4	-43	-78	-88	-36	11	11	355	175
Increase or decrease (-) in the deficit from the change in net interest outlays	29	32	53	77	104	131	157	180	210	236	296	1,211

Data source: Congressional Budget Office. See www.cbo.gov/publication/61882#data.

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

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

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

c. Primary deficits exclude net outlays for interest.

the relevant revenue sources. For example, a provision that provided full and immediate expensing for qualified investment spending was included in the law among "business taxes." Because the deduction is available to pass-through businesses, which are taxed under the individual income tax, as well as to corporations, which are taxed under the corporate income tax, that provision affects projections of both individual and corporate income tax revenues in CBO's baseline.

Individual Income Taxes. Most of the legislative changes to CBO's revenue projections stemmed from changes to individual income taxes. CBO reduced its projections of receipts from those taxes by $361 billion for 2026, and by $4.4 trillion for the 2026–2035 period, to account for the effects of the 2025 reconciliation act. Most of that reduction resulted from the law's permanent extension of individual income tax provisions that were set to expire after 2025, including lower tax rates on most income, a larger standard deduction, and an expanded child tax credit. (Legislative changes to CBO's baseline reduced projected outlays for refundable tax credits by $6 billion through 2035; those changes are discussed with mandatory outlays.)

Corporate Income Taxes. To account for the effects of the 2025 reconciliation act, CBO also reduced its projections of corporate income tax revenues by $98 billion for 2026 and by $352 billion for the 2026–2035 period. The largest impact on corporate income taxes comes from provisions that increased the amount businesses can immediately deduct for some investment costs by providing for full and immediate expensing of certain capital spending, including certain spending for research and experimentation. Those provisions are projected to reduce revenues from corporate income taxes. The 2025 reconciliation act also changed the tax treatment of income earned from sales and activity abroad, which generally decreases multinational companies' tax liabilities (the amount of tax they owe). Those reductions are offset in part by an increase in projected corporate income tax revenues because of the repeal of tax credits for investments in wind and solar power.

Customs Duties. The 2025 reconciliation act increased projected revenues from customs duties by $59 billion over the 2026–2035 period. The largest change resulted from a provision to end the de minimis exemption that had allowed commercial packages worth less than $800 from countries other than China to enter the United

States duty-free. (That provision was preempted by an executive order suspending the de minimis exemption ahead of the effective date in the reconciliation act, which CBO reflected in its baseline as a technical change.)

Other Revenues. On net, legislative changes attributable to the 2025 reconciliation act reduced CBO's projections of revenues from other sources by $1 billion for 2026 and by $177 billion for the 2026–2035 period. Those other sources of federal revenues include payroll taxes, excise taxes, remittances to the Treasury from the Federal Reserve System, estate and gift taxes, and miscellaneous fees and fines.

Most significantly, the 2025 reconciliation act permanently increased the exemption amount for estate and gift taxes, which caused CBO to reduce its projections of revenues from those taxes by $227 billion through 2035. The reconciliation act did not change laws governing payroll taxes, but it did modify health care programs and tax rules in ways that will affect the amount of income subject to those taxes. As a result, CBO reduced its projections of payroll tax revenues by $23 billion through 2035. In the other direction, CBO increased its projections of revenues from miscellaneous fees and fines over the 2026–2035 period by $45 billion, largely because of new immigration fees enacted in the reconciliation act. CBO also increased its projections of excise tax revenues through 2035 by $16 billion because of the law's provisions, including a new tax on remittances paid to recipients in other countries.

Other Legislation. On net, the effects of recent laws other than the 2025 reconciliation act reduced CBO's revenue projections by a total of $1 billion for 2026 and $12 billion for the 2026–2035 period. Among those other laws, the one with the largest effect was House Joint Resolution 35 (P.L. 119-2), which disapproved a final rule published by the Environmental Protection Agency to collect an annual charge on certain methane emissions.

Legislative Changes to Outlays

Incorporating the effects of recently enacted laws increased CBO's baseline estimate of outlays in 2026 by $17 billion (or less than 1 percent) but reduced its baseline projections of outlays over the 2026–2035 period by $1.4 trillion (or 5 percent). The largest legislative changes to CBO's spending projections were a $1.2 trillion reduction in outlays for mandatory programs because of the 2025 reconciliation act; a $1.0 trillion decrease in outlays for discretionary programs, which resulted mainly from a reduction in appropriations designated as emergency requirements; and a $0.7 trillion increase in net outlays for interest because of the increase in debt-service costs attributable to the legislative changes to revenues and noninterest outlays.

Mandatory Outlays. On net, CBO increased its estimate of mandatory outlays in 2026 by $29 billion (or 1 percent) to account for legislation enacted since the previous baseline but reduced its projections of such outlays over the 2026–2035 period by $1.2 trillion (or 3 percent). Virtually all of that change—an increase of $26 billion for 2026 and a reduction of $1.2 trillion for the 2026–2035 period—stemmed from enactment of the 2025 reconciliation act. (For more details about the estimated effects of that law, see Appendix A.)

In CBO's estimation, the largest effect of the 2025 reconciliation act on mandatory programs is a net decrease of $1.2 trillion in projected outlays for Medicaid from 2026 to 2035. The law altered Medicaid's eligibility requirements, enrollment processes, and financing. All told, CBO expects those changes to reduce Medicaid enrollment by 13.1 million people in 2035.[7] That reduction in enrollment accounts for most of the projected reduction in outlays.

The 2025 reconciliation act made other changes to mandatory programs that largely offset each other over the 2026–2035 period. The changes that account for the largest decreases in projected mandatory outlays include the following:

- The law reduced projected spending for the Supplemental Nutrition Assistance Program (SNAP) by $211 billion through 2035 because of provisions that will lower the number of people receiving benefits, decrease average benefit amounts, and increase the share of SNAP costs paid by state governments.
- Outlays for student loans are projected to be $158 billion smaller through 2035 than in CBO's previous baseline, largely because previous repayment

7. That number includes about 1.5 million enrollees whose records indicated enrollment in more than one state and who would retain Medicaid eligibility in their current state of residence.

plans are being replaced by new plans under which borrowers are expected to pay more, on average.

- The law reduced projected outlays for premium tax credits, which subsidize the purchase of health insurance through the marketplaces established under the Affordable Care Act (ACA), by $130 billion through 2035. Provisions that restrict the eligibility of certain immigrants and create new reporting requirements and limits on beneficiaries' ability to receive the credit before filing a tax return reduce projected outlays. That reduction is partly offset by the projection that some people who would no longer enroll in Medicaid because of changes made by the reconciliation act would instead purchase insurance through the marketplaces.
- Receipts from the federal government's auctions of licenses to use certain parts of the electromagnetic spectrum are projected to increase by $85 billion through 2035 because of the reconciliation act. Those additional receipts are recorded in the budget as a reduction in mandatory outlays.
- The law reduced projected outlays for energy-related tax credits by $80 billion through 2035 because of provisions that repealed tax credits for investments in wind and solar power and tax credits for purchasing clean (mainly electric) vehicles.

Changes made by the 2025 reconciliation act that increase projected mandatory outlays include the following:

- Outlays for the earned income tax credit and the child tax credit are projected to be $192 billion larger through 2035 than in CBO's previous baseline because of several changes, including a permanent increase in the maximum size of the child tax credit from $1,000 to $2,200 per child beginning in 2026 and adjustments to the size of the credit for inflation in future years. In addition, by reducing individual income tax liabilities, the law increases the portion of those tax credits that is refunded to taxpayers and counted as outlays.
- Increases in funding for activities related to immigration enforcement are projected to increase outlays by $167 billion through 2035. Those activities include expanding immigration courts, hiring additional agents, increasing detention capacity, and building or replacing parts of the barrier system along U.S. borders.
- Increases in mandatory funding for various defense programs are projected to boost outlays by $156 billion through 2035. The largest increases were for the Department of Defense to expand shipbuilding programs, carry out air and missile defense activities, and purchase munitions.
- Increases in funding for various agriculture programs are projected to boost outlays by $75 billion through 2035. Among other changes, those increases in outlays stem from higher payments for commodity support programs and increased spending on marketing assistance loans, crop insurance, programs to support agricultural trade and research, and support for producers of certain agricultural products.
- Increases in funding for certain health care programs, primarily for rural hospitals, were partly offset by minor projected reductions in spending for Medicare. On net, those health care provisions are projected to increase outlays by $36 billion through 2035.
- Increases in funding for the Coast Guard to buy vessels and aircraft and improve its facilities are projected to increase outlays by $23 billion through 2035.

Discretionary Outlays. Legislation enacted since early January 2025 caused CBO to reduce its baseline projections of discretionary outlays over the 2026–2035 period by $1.0 trillion. That downward revision is the net result of a $0.2 trillion increase in discretionary outlays for defense and a $1.2 trillion decrease in discretionary outlays for nondefense programs.

Defense Discretionary Outlays. Increases in projected defense funding—and thus in the outlays that flow from that funding—were the result of two partially offsetting factors: the expiration of statutory caps on discretionary funding after 2025 and the enactment of funding to date for 2026.

Caps on defense funding that were established by the Fiscal Responsibility Act of 2023 (P.L. 118-5), which were in effect for 2024 and 2025, have expired. No caps are currently in place for 2026. When CBO completed its January 2025 baseline, a continuing resolution was in effect for 2025 that provided funding greater than the cap that was in place at that time. Therefore, CBO's baseline projections for 2025 included a reduction in funding to comply with the cap. That downward adjustment affected the agency's January 2025 baseline projections after 2025 because, by law, projections for discretionary programs generally reflect the assumption that funding in future years will equal the amount provided for the current year with increases for projected inflation.[8] The adjustment was not continued in CBO's current baseline, because no caps on funding are now in effect for 2026. That change boosted outlays in the current baseline by $0.4 trillion through 2035.

Discretionary funding provided for 2026 in the Continuing Appropriations, Agriculture, Legislative Branch, Military Construction and Veterans Affairs, and Extensions Act, 2026 (P.L. 119-37)—including funding designated as an emergency requirement—was smaller than CBO projected in its January 2025 baseline (excluding the effects of the caps). That law provided funding for most federal agencies through January 30, 2026.[9] In total, on an annualized basis, it provided $898 billion in defense funding for 2026, which was $26 billion less than CBO projected in January 2025 (excluding the effects of the downward adjustment to account for the cap that was then in place).

CBO's current projections of defense discretionary funding begin with that smaller amount and grow with inflation over the next 10 years, which reduces projected outlays over that period by $0.2 trillion. (The increase in mandatory outlays for defense discussed earlier offsets most of that reduction.) About 40 percent of that overall decrease comes from a reduction in 2026 defense funding designated as an emergency requirement.

Nondefense Discretionary Outlays. The $1.2 trillion decrease in projected nondefense outlays through 2035 stems largely from decreases in funding designated as an emergency requirement. In keeping with the statutory procedures that govern the construction of CBO's baseline, CBO continues the current year's emergency funding throughout the 10-year baseline period, with increases each year to account for projected inflation. For 2026, the emergency nondefense discretionary funding in the current baseline is $121 billion smaller than the amount CBO projected in January 2025. Most of that difference reflects the American Relief Act, 2025 (P.L. 118-158), which provided $108 billion in supplemental appropriations for disaster relief in 2025, and the fact that no supplemental appropriations had been provided for 2026 through January 14. The largest decreases in nondefense discretionary funding involved funding for community and regional development (down $48 billion), agriculture (down $32 billion), and natural resources and the environment (down $17 billion). The overall decrease in emergency nondefense discretionary funding for 2026 caused CBO to reduce its projections of nondefense outlays over the 2026–2035 period by $1.0 trillion.

In addition, nondefense discretionary funding that is not designated as an emergency requirement is $7 billion less for 2026 and $19 billion less for 2027 than CBO projected in January 2025. Increasing those smaller amounts of funding by projected inflation through 2035 reduced CBO's projections of nonemergency nondefense outlays over that period by $0.2 trillion.

Net Outlays for Interest. Before accounting for the changes in federal interest payments that would result from changes in projected deficits (known as debt service), CBO increased its estimates of primary deficits by $0.5 trillion for 2026 and by $2.7 trillion for the 2026–2035 period because of legislation enacted since the January 2025 baseline. (Those deficit increases are the result of legislative changes to both revenues and noninterest outlays.) The increases in federal borrowing stemming from those larger primary deficits are projected to raise the government's debt-service costs—and thus net outlays for interest—by $0.7 trillion over the 2026–2035 period.

Economic Changes

The economic forecast that underlies CBO's baseline budget projections includes the agency's projections of economic output (GDP), interest rates, the labor force, wages and salaries, inflation, imports, and other factors that affect federal spending and revenues. (For details of

8. That practice is in accordance with provisions of the Balanced Budget and Emergency Deficit Control Act of 1985 (P.L. 99-177). CBO is required to use two different measures of inflation to adjust current discretionary funding for expected inflation. To project discretionary funding related to federal personnel, CBO must use the employment cost index for wages and salaries. To project other types of discretionary funding, the agency must use the GDP price index.

9. The law included full-year funding for nearly all programs and activities of the Department of Veterans Affairs, as well as for the Department of Agriculture and the legislative branch. See Congressional Budget Office, cost estimate for Senate Amendment 3937 to H.R. 5371, the Continuing Appropriations, Agriculture, Legislative Branch, Military Construction and Veterans Affairs, and Extensions Act, 2026 (November 10, 2025), www.cbo.gov/publication/61747.

that forecast, see Chapter 2.) Changes in the outlook for the economy since January 2025 caused CBO to revise its baseline projections of revenues and outlays. Taken together, those economic revisions reduced the estimated deficit in 2026 by $0.1 trillion but increased the total projected deficit over the 2026–2035 period by $0.7 trillion. The largest deficit increase came from upward revisions to CBO's projections of net interest outlays.

Economic changes to CBO's baseline include revisions that reflect the economic effects of three major policy developments in 2025: the reconciliation act, newly implemented tariffs, and changes to immigration policy (see Box 5-1 on page 102). Economic revisions to the baseline capture the budgetary effects that result from how those policies have affected CBO's economic forecast. For example, the budgetary effects that stem from the 2025 reconciliation act's projected impact on aspects of the economy such as the labor supply and investment are considered economic changes to the baseline. Similarly, the budgetary effects of projected changes to the economy resulting from administrative actions that affected tariff rates or immigration are generally classified as economic revisions. Other budgetary effects of those policy developments are categorized as legislative or technical revisions.

Economic Changes to Revenues

All told, changes to the economic forecast since January 2025 caused CBO to raise its estimate of revenues in 2026 by $122 billion (or 2 percent) and its projection of total revenues over the 2026–2035 period by $573 billion (or less than 1 percent). Those changes to the economic forecast include increases in CBO's projections of GDP and of several components of taxable income—particularly corporate profits and the income of pass-through businesses. The increase in projected corporate profits raises projected corporate income tax receipts, and the increase in the projected income of pass-through businesses raises projected individual income tax receipts.

Higher asset values have also contributed to increases in CBO's revenue projections. CBO now anticipates larger realizations of capital gains income than it did in its previous economic forecast, which boosts projected revenues from individual and corporate income taxes. Higher asset valuations are also projected to increase balances in taxable retirement accounts and distributions from those accounts. In addition, increases to CBO's projections of term premiums raise the Federal Reserve's projected interest income in relation to its projected interest expenses, resulting in larger projected net earnings, which the Federal Reserve remits to the Treasury.[10]

Those increases in projected revenues are partly offset by other changes to the economic forecast that reduce projected revenues. CBO decreased its projections of the size of the U.S. population, which reduced the projected size of the labor force and related earned income.[11] That change contributed to a reduction in CBO's projections of wages and salaries through 2035. Because wages and salaries make up most of the tax base for both individual income taxes and payroll taxes, that reduction decreased projected tax collections from those sources. In addition, the higher tariff rates the Administration has implemented over the past year are expected to reduce U.S. demand for imported goods, as consumers and businesses adjust to higher prices for those goods. Fewer imports would mean smaller collections of customs duties. (Despite the projected reduction in imports, the overall effect of higher tariff rates is expected to be an increase in revenues, which is discussed below with technical changes.)

Individual Income Taxes. On net, economic changes have added $112 billion (or 4 percent) to CBO's estimate of revenues from individual income taxes in 2026 and $660 billion (or 2 percent) to its projections of such revenues over the 2026–2035 period.

Those increases were partly driven by higher projections of various components of taxable income. For example, higher projected asset values in the near term, especially for equities, increased projections of capital gains realizations and distributions from taxable retirement accounts. Projected receipts were also boosted by increases in the projected income of pass-through businesses. Those increases were offset in part by a reduction of $1.2 trillion (or 0.7 percent) in CBO's projection of total wages

10. A term premium is the additional return that investors require to hold a longer-term bond instead of a series of shorter-term securities. In the case of the Federal Reserve System, the term premium affects the gap between the long-term rates that apply to assets on which the Federal Reserve earns interest and the short-term rates that apply to the reserves on which the Federal Reserve pays interest.

11. CBO's latest population projections are described in Congressional Budget Office, *The Demographic Outlook: 2026 to 2056* (January 2026), www.cbo.gov/publication/61879.

and salaries over the 2026–2035 period. That reduction partly reflects administrative actions in 2025 that affected net immigration and reduced the size of the labor force.

Payroll Taxes. Economic changes decreased CBO's projections of revenues from payroll taxes by $6 billion (or less than 1 percent) for 2026 and by $109 billion (also less than 1 percent) through 2035. Those decreases largely resulted from lower projections of total wages and salaries.

Corporate Income Taxes. Changes in CBO's economic forecast raised the agency's projections of revenues from corporate income taxes by $28 billion (or 6 percent) for 2026 and by $330 billion (or 7 percent) for the 2026–2035 period. Those changes resulted from an increase of $2.7 trillion (or 7 percent) in CBO's projection of domestic corporate profits through 2035 (see Figure 5-2). That increase stemmed from revisions to domestic corporate profits as a percentage of GDP in CBO's economic forecast and from updated estimates by the Bureau of Economic Analysis of total profits earned in 2022 and 2023.

Customs Duties. CBO lowered its projections of revenues from customs duties by $17 billion (or 20 percent) for 2026 and by $408 billion (or 43 percent) for the 2026–2035 period for economic reasons. That decrease resulted mainly from increases in tariff rates by the Administration, which prompted CBO to reduce its projection of imports, the tax base for customs duties (see Figure 5-2).

Besides affecting imports, the recent changes in tariff rates also affect customs duties directly. Those effects are considered technical changes because the rate increases occurred through administrative actions, not through legislation. Those technical revisions more than offset the economic changes to projected customs duties, as discussed below in the section on technical changes.

Federal Reserve Remittances. On net, economic changes increased CBO's projection of remittances from the Federal Reserve to the Treasury over the 2026–2035 period by $62 billion (or 8 percent). Increases to projections of term premiums raised CBO's projections of the Federal Reserve's interest income in relation to its interest expenses, in turn boosting projected remittances. In CBO's projections, the Federal Reserve System returns to net profitability in 2026 because of lower short-term interest rates. Those profits gradually offset past losses through about 2031 and are remitted to the Treasury thereafter.

Other Revenues. On net, changes in CBO's economic forecast caused the agency to increase its projections of revenues from all remaining sources by $5 billion (or 3 percent) for 2026 and by $38 billion (or 2 percent) for the 2026–2035 period. Those remaining revenue sources include estate and gift taxes, excise taxes, and miscellaneous fees and fines. Most of the increases stemmed from the effects of higher projections of asset values on projections of estate and gift taxes.

Economic Changes to Outlays

In total, changes in the outlook for the economy added $22 billion (or less than 1 percent) to CBO's estimate of outlays in 2026 and added $1.3 trillion (or 1 percent) to the agency's projections of outlays over the 2026–2035 period. Those changes largely reflect increases to CBO's projections of interest rates and inflation (for details, see Chapter 2).

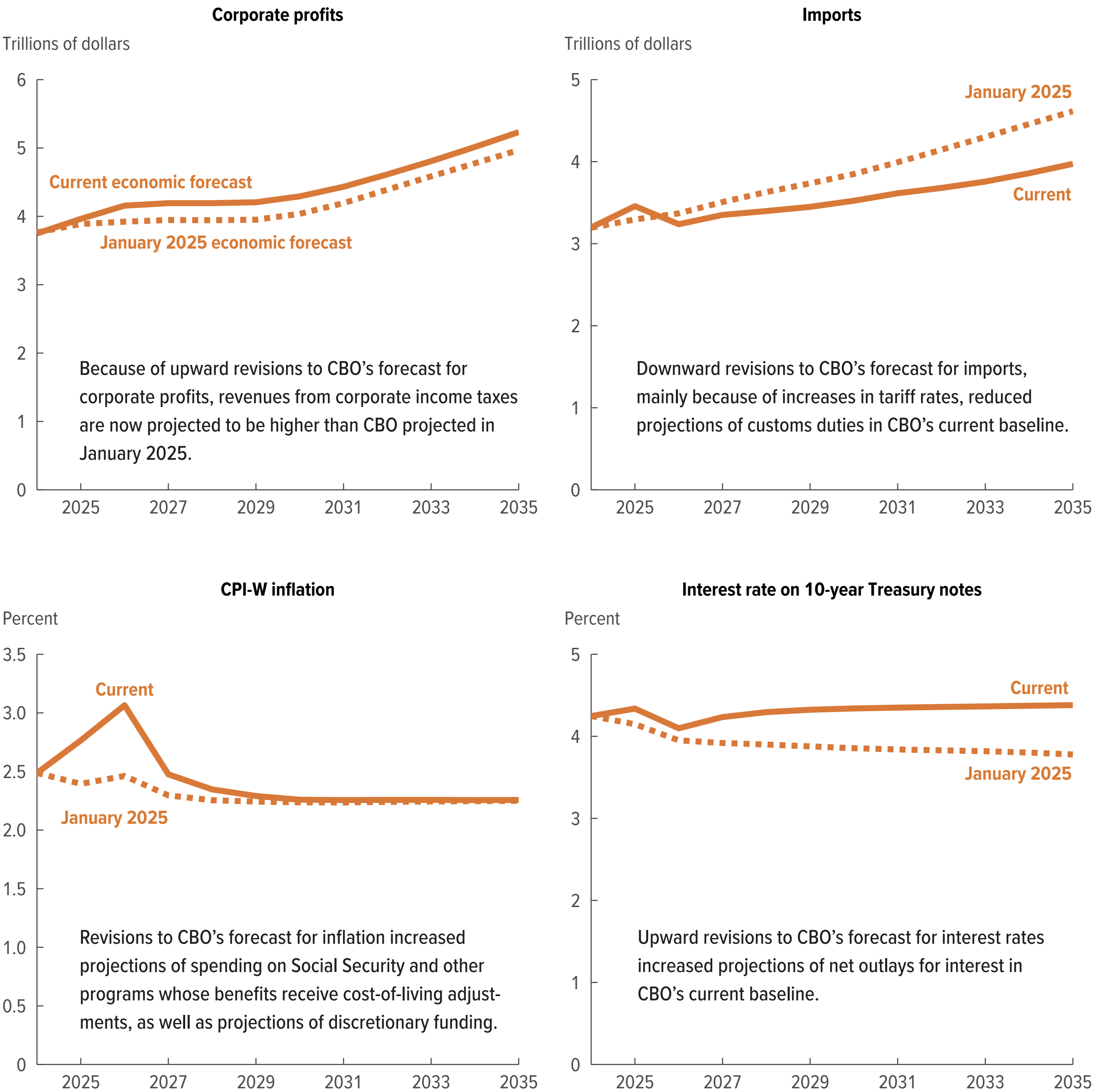
Mandatory Outlays. On net, economic changes increased CBO's projections of outlays for mandatory programs by $7 billion (or less than 1 percent) for 2026 and by $0.3 trillion (also less than 1 percent) for the 2026–2035 period. Most of that increase resulted from inflation-related increases in projected outlays for Social Security and SNAP.

Social Security. Slight increases in CBO's projections of inflation and other changes to the agency's economic forecast added $193 billion (or 1 percent) to CBO's projections of outlays for Social Security over the 2026–2035 period. Social Security benefits are adjusted each year for changes in the cost of living as measured by the consumer price index for urban wage earners and clerical workers (CPI-W). The increase in the CPI-W in 2026—and the corresponding cost-of-living adjustment in January 2027—is expected to be 0.6 percentage points larger than CBO previously projected (see Figure 5-2).

Supplemental Nutrition Assistance Program. CBO now projects that food prices will rise more through 2035 than it previously projected. That increase in price growth accounts for most of the $110 billion (or 10 percent) increase in projected outlays for SNAP over the 2026–2035 period stemming from economic factors.

Figure 5-2.

Key Changes in CBO's Economic Forecast Since January 2025



Data source: Congressional Budget Office. See www.cbo.gov/publication/61882#data.

Data are for fiscal years. In the lines representing the current economic forecast, values for 2024 and 2025 are actual values. In the lines representing the January 2025 economic forecast, values for 2024 are actual values.

CPI-W = consumer price index for urban wage earners and clerical workers. The change in the CPI-W is measured as the difference between the average for July to September of one year and the average for July to September of the next year.

Medicare. CBO reduced its projection of outlays for Medicare through 2035 by $67 billion (or 1 percent) for economic reasons. CBO's current economic forecast includes lower payment rates for providers than the previous forecast did. That change slows the expected growth of Medicare's payments to physicians and hospitals.

Veterans' Benefits. To account for changes in its economic forecast, CBO raised its estimate of total mandatory outlays for veterans' benefits over the 2026–2035 period by $37 billion (or 1 percent). As with Social Security, that increase resulted from increases in CBO's forecast for inflation and thus in projected cost-of-living adjustments for veterans' benefits.

Medicaid. CBO lowered its projection of Medicaid outlays over the 2026–2035 period by $26 billion (or less than 1 percent) because of economic changes. In the current economic forecast, a larger share of the population is projected to be employed than in the previous forecast. That change led CBO to decrease is projections of enrollment in Medicaid.

Other Mandatory Programs. Changes in CBO's economic forecast also affected projected outlays for other mandatory programs. Although those changes resulted in increases and decreases in spending, their net effect was to boost projected outlays for other mandatory programs over the 2026–2035 period by $23 billion.

Discretionary Outlays. Because CBO's projections for discretionary programs generally reflect the assumption that future funding will equal the amount provided for the current year plus increases for inflation, upward revisions to the agency's forecast for certain measures of inflation increase projected discretionary outlays. Those and other economic changes added $70 billion (or less than 1 percent) to CBO's projections of discretionary outlays over the 2026–2035 period.

Net Outlays for Interest. Changes to CBO's forecast for interest rates and inflation increased the agency's projections of net interest outlays by $16 billion (or 2 percent) for 2026 and by $937 billion (or 7 percent) for the 2026–2035 period. Those increases resulted largely from upward revisions to the forecast for interest rates on Treasury securities. For example, CBO's projections of interest rates on 10-year Treasury notes over the 2026–2035 period increased by an average of 0.4 percentage points (see Figure 5-2).

The effects of interest rates and inflation are the first of two components in CBO's analysis of economic changes to projected net outlays for interest.[12] The second component, the change in projected debt-service costs because of economic revisions to the baseline, is based on the sum of the changes in primary deficits and the effects of interest rates and inflation on net interest outlays.

Excluding the second component, debt service, all other changes to CBO's baseline stemming from revisions to the economic forecast increased the cumulative deficit projected for the 2026–2035 period by $0.7 trillion. Although the net effect of economic changes to the baseline over 10 years is an increase in the deficit, those changes reduce projected deficits and debt-service costs early in that period, partly offsetting increases in later years. As a result, the effect of those economic changes on debt-service costs increased CBO's projection of net interest outlays over that period by just $1 billion.

Technical Changes

Technical changes—revisions to CBO's baseline projections that are neither legislative nor economic—result from a variety of factors that affect federal spending and revenues. Examples include new data from federal agencies (such as information about actual outlays and revenues in 2025), administrative actions, judicial rulings, changes to the way programs are administered, and additional information about how new laws will be implemented. In all, technical changes reduced CBO's estimate of the deficit in 2026 by $0.2 trillion and its projection of the cumulative deficit over the 2026–2035 period by $2.7 trillion. The largest contributors to that deficit reduction were upward technical revisions to CBO's projections of revenues.

The biggest single technical change was an increase in projected customs duties resulting from administrative actions in 2025 that raised tariff rates on most goods imported into the United States. Those administrative actions increased CBO's projection of revenues from customs duties by $3.4 trillion through 2035 (before accounting for the revenue reduction stemming from reduced imports in response to the higher tariff rates, which is classified as an economic change). In addition, a number of administrative actions in 2025 related to

12. CBO calculated those effects by applying the changes in its interest rate and inflation projections between January 2025 and February 2026 to the amount of debt in its January 2025 projections.

immigration affected CBO's baseline (see Box 5-1 on page 102).

Three other administrative actions led to significant technical changes in CBO's baseline projections over the 2026–2035 period (changes of more than $5 billion in at least one year of that 10-year period):

- The Centers for Medicare & Medicaid Services (CMS) issued a final rule that changes how Medicare reimburses providers in the fee-for-service program for skin substitutes, a type of wound care. That rule is expected to reduce outlays for Medicare by $245 billion (including the effect of the change on payments to Medicare Advantage plans).
- CMS issued a final rule that alters the health insurance marketplaces established under the ACA in several ways that are projected to reduce outlays for premium tax credits by $40 billion.
- The Department of Agriculture announced that it will use $12 billion in funds for the Commodity Credit Corporation to provide what the Administration calls bridge payments to farmers.[13]

Technical Changes to Revenues

All told, CBO increased its revenue projections by $0.4 trillion (or 6 percent) for 2026 and by $4.2 trillion (also 6 percent) for the 2026–2035 period for technical reasons. Technical revisions to CBO's revenue projections incorporate some of the effects of recent major policy developments, including changes to CBO's models to reflect the implementation of the 2025 reconciliation act and taxpayers' responses. Technical changes also incorporate the effects of administrative actions related to tariffs and immigration, including projected changes in how immigrants receive labor compensation.

The largest revenue increases for technical reasons involved projections of receipts from customs duties and individual income taxes. The largest revenue decreases involved projections of receipts from payroll taxes and from the Federal Reserve's remittances.

Individual Income Taxes. On net, technical revisions added $32 billion (or 1 percent) to CBO's estimate of individual income tax receipts in 2026 and added $902 billion (or 2 percent) to the agency's projections of such receipts over the 2026–2035 period. Those increases partly reflect larger-than-expected collections of individual income taxes over the past year. In addition, CBO increased its projection of the share of business income that will be taxed at the individual level throughout the 2026–2035 period. That change reflects modeling refinements to reflect taxpayers' responses to the 2025 reconciliation act, as well as new and updated historical tax and economic data.

Such increases were partly offset by other technical changes that decreased CBO's projections of individual income tax receipts through 2035. For example, CBO reduced its projections of distributions from retirement plans because of new data indicating that such distributions were smaller in recent years than previously estimated. CBO also lowered its projections of individual income tax receipts to reflect certain effects of changes in immigration policies.

Payroll Taxes. Because of technical revisions, CBO reduced its projections of revenues from payroll taxes by $9 billion (or less than 1 percent) for 2026 and by $120 billion (also less than 1 percent) for the 2026–2035 period. Those reductions stemmed in part from the effects of changes in immigration policy on the amount of income subject to payroll taxes.

Corporate Income Taxes. For technical reasons, CBO decreased its estimate of revenues from corporate income taxes in 2026 by $21 billion (or 4 percent) but increased its projections of such revenues over the 2026–2035 period by $59 billion (or 1 percent). The increase through 2035 resulted largely from changes to CBO's modeling to better reflect the composition of the corporate tax base. Those modeling changes, which had various offsetting effects, included updates to projections of claims for some tax deductions and credits available to businesses (such as those for research and investment), which increased corporate tax receipts. In addition, CBO revised its projection of the share of business income that is earned by businesses taxed under the individual income tax, which reduced corporate income tax receipts. CBO also reclassified outlays for some energy-related tax credits as a reduction in corporate tax revenues. (That change was offset by a commensurate reduction in outlays, which is discussed below with technical changes to mandatory outlays.)

13. Department of Agriculture, "Trump Administration Announces $12 Billion Farmer Bridge Payments for American Farmers Impacted by Unfair Market Disruptions" (press release, December 8, 2025), https://tinyurl.com/4nm32pvx.

Besides those changes, revised data from the Bureau of Economic Analysis showed greater corporate profits in 2022 and 2023 than previously estimated. After incorporating the new data, CBO increased its projections of corporate profits in future years, resulting in the aforementioned economic change that increased CBO's projections of corporate income tax receipts. But because the corporate tax revenues associated with profits in 2022 and 2023 have already been collected, the higher estimates of those profits imply a lower average tax rate on corporate profits in those years. That lower average tax rate led CBO to reduce its projections of revenues from corporate income taxes over the 2026–2035 period.

Customs Duties. Technical changes increased CBO's projections of revenues from customs duties by $352 billion (or 421 percent) for 2026 and by $3.4 trillion (or 366 percent) for the 2026–2035 period. Those increases resulted from frequent changes to administratively imposed tariffs, which began in February 2025 and which, altogether, have increased CBO's projection of the average tariff rate in 2026 by about 10 percentage points (see Figure 5-3).[14] (Higher tariff rates are expected to reduce imports; that effect, which is classified as an economic change, partially offsets this technical change.)

CBO's projections of customs duties incorporate the assumption that administratively imposed tariff rates in place as of November 20, 2025, are permanent and will continue unchanged. Future updates to the baseline will take into account any court rulings or administrative actions after that date that affect tariffs.

Other Revenues. Technical revisions increased CBO's estimate of revenues from remaining sources by $1 billion (or less than 1 percent) in 2026 and decreased its projections of such revenues by $44 billion (or 2 percent) over the 2026–2035 period. Those sources include remittances from the Federal Reserve to the Treasury, estate and gift taxes, excise taxes, and miscellaneous fees and fines. Among the reductions, CBO lowered its projection of remittances from the Federal Reserve over the 2026–2035 period by $80 billion (or 10 percent) to better reflect the reported interest costs that the Federal Reserve System has been paying on deposits at Federal Reserve banks. CBO also reduced its projections of receipts from estate and gift taxes over the 2026–2035 period by $37 billion (or 6 percent) to reflect recent collections and updated tax data.

Those reductions were largely offset by an increase of $117 billion (or 12 percent) in CBO's projection of receipts from excise taxes through 2035. That increase reflects a change in CBO's modeling of receipts from gasoline taxes to better reflect anticipated changes in gasoline consumption under current rules for vehicles' fuel efficiency and emissions. It also reflects the effects of actions by the Administration to relax fuel-efficiency standards.

Technical Changes to Outlays

Taken together, technical revisions caused CBO to increase its estimate of outlays in 2026 by $0.1 trillion (or 2 percent) and its projections of outlays over the 2026–2035 period by $1.5 trillion (also 2 percent). Large increases to projected outlays for Medicare, Medicaid, and veterans' benefits through 2035 were partly offset by reductions to projected net outlays for interest.

Mandatory Outlays. CBO increased its projections of outlays for several mandatory programs, and decreased them for others, to account for revisions to its demographic projections, updated projections of enrollment in benefit programs, and changes in other technical factors that underlie those spending projections. On net, such technical changes increased CBO's projections of mandatory outlays by $0.1 trillion (or 2 percent) for 2026 and by $2.0 trillion (4 percent) for the 2026–2035 period.

Medicare. CBO raised its projection of Medicare outlays over the 2026–2035 period by $1.0 trillion (or 7 percent) because of technical revisions. Those revisions reflect several changes, including more spending for prescription drugs under Part D of Medicare, greater use of Medicare's fee-for-service program, less spending for wound care, and decreased use of the Medicare Advantage program:

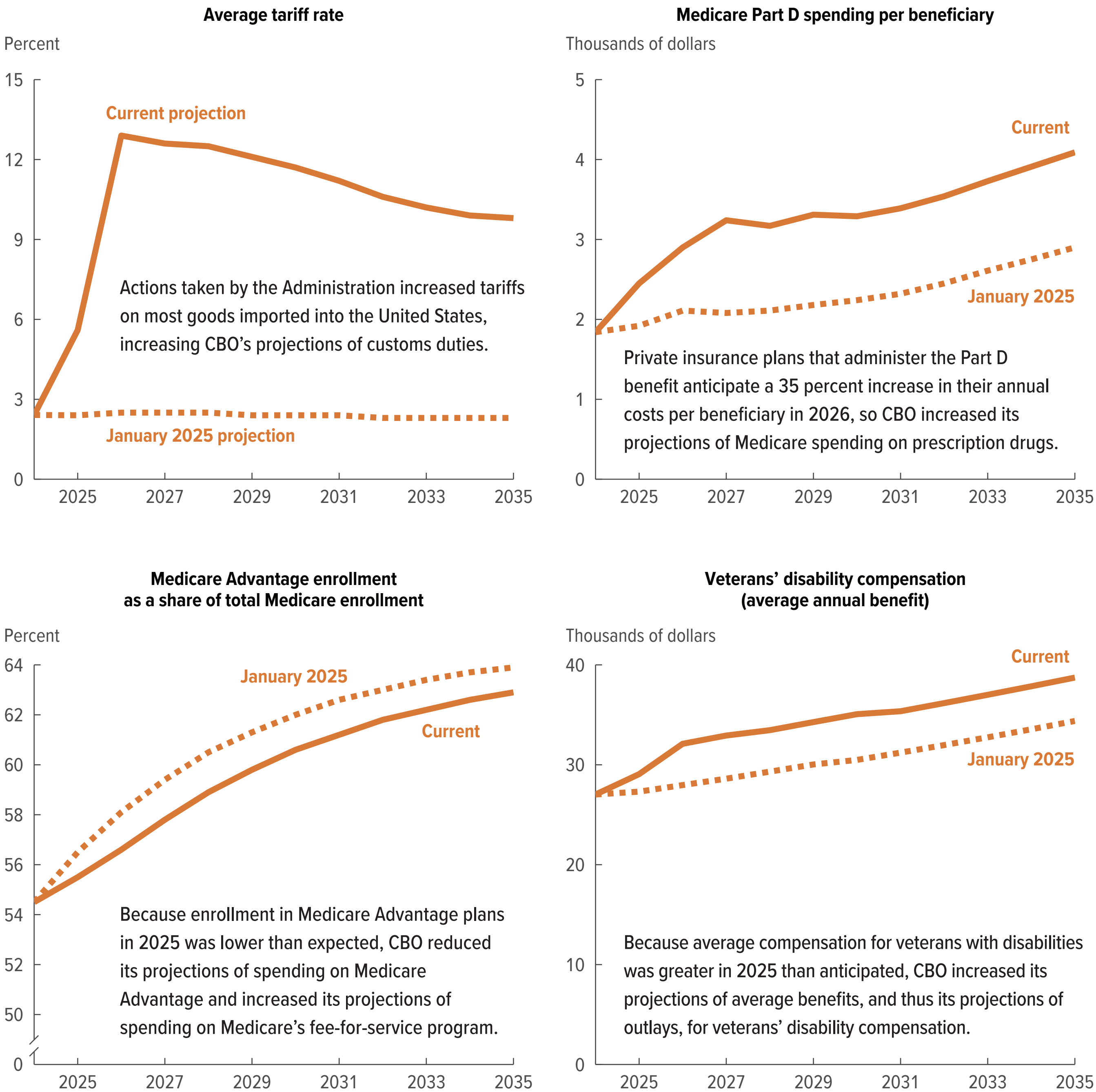
- Bids from private insurance plans that administer the Part D benefit anticipate a 35 percent increase in their annual per-enrollee costs in 2026, which was higher than CBO had expected.[15] As a result, CBO increased its projection of Medicare spending on

14. CBO calculates the average tariff rate by dividing actual or projected revenues from customs duties by the actual or projected customs value of imported goods.

15. Congressional Budget Office, "A Call for New Research in the Area of Spending on Medicare Part D," *CBO Blog* (November 21, 2025), www.cbo.gov/publication/61824.

Figure 5-3.

Key Technical Changes in CBO's Baseline Budget Projections Since January 2025



Data source: Congressional Budget Office. See www.cbo.gov/publication/61882#data.

Data are for fiscal years. In the lines representing CBO's current projections, values for 2024 and 2025 are actual values. In the lines representing the January 2025 projections, values for 2024 are actual values.

prescription drugs over the 2026–2035 period by $0.6 trillion. Part D spending per beneficiary in 2035 is now projected to be more than $4,000, up from less than $3,000 in the January 2025 baseline (see Figure 5-3).

- Spending on fee-for-service Medicare was 7 percent greater in 2025 than CBO had anticipated. That increase, which resulted from larger-than-expected increases in enrollment and per-enrollee spending, led CBO to raise its projection of outlays for the fee-for-service program through 2035 by $0.5 trillion.
- The final rule issued in 2025 that changes reimbursement for skin substitutes, a type of wound care, in the fee-for-service program is expected to reduce outlays for that program by $0.2 trillion over the 2026–2035 period, including effects on spending for the Medicare Advantage program.
- Enrollment in the Medicare Advantage program was lower in 2025 than CBO had expected (see Figure 5-3). The effects of that decrease were partly offset by an increase in projected outlays for the program stemming from higher-than-expected bids in 2026 by providers of Medicare Advantage plans. As a result, CBO reduced its projection of outlays for that program through 2035 by $0.1 trillion.

Medicaid. Technical changes increased CBO's projection of Medicaid outlays over the 2026–2035 period by $0.7 trillion (or 8 percent). The biggest reason for the increase was that outlays for Medicaid were larger than expected in 2025, despite lower-than-expected enrollment. Costs per enrollee grew by 16 percent in 2025—significantly more than CBO had anticipated. That growth is attributable to a reported decrease in the average health status of Medicaid enrollees after the continuous eligibility policy put in place during the COVID-19 pandemic ended in April 2023.[16] CBO expects that payment rates for health plans that manage care for Medicaid enrollees will begin to rise in 2026 to reflect the decrease in the average health status of enrollees.

16. For more information about the reported decline in the average health status of Medicaid enrollees, see Elizabeth Williams and others, *Medicaid Enrollment & Spending Growth: FY 2025 & 2026* (KFF, November 13, 2025), https://tinyurl.com/4a8hujr5. Continuous eligibility policies allow beneficiaries to remain in a program even if their circumstances change in ways that could affect their eligibility for the program.

Veterans' Benefits. For technical reasons, CBO increased its projections of outlays for veterans' benefits and services over the 2026–2035 period by $0.6 trillion (or 19 percent). The primary reason for the increase is that the average disability compensation benefit per recipient in 2025 was significantly larger than CBO had expected (see Figure 5-3). As a result, the agency increased the average benefit in each year of the projection period by 15 percent compared with its January 2025 projection.

Energy-Related Tax Credits. Technical revisions decreased CBO's projections of outlays for various energy-related tax credits over the 2026–2035 period by $0.1 trillion. That reduction reflects recent data on outlays for those credits, which prompted CBO to change its classification of how the tax credits are claimed—either as a credit that decreases tax liabilities (which reduces revenues) or as a direct payment to the claimant (which increases outlays). Many of the energy-related tax credits that could be received as a direct payment were modified or repealed by the 2025 reconciliation act. For the credits that were not fully repealed, CBO now expects a larger share of their total value to be claimed as tax credits instead of as direct payments. That change reduces projected outlays and projected revenues by the same amount.

CBO also updated its classification of energy-related tax credits that were later fully repealed by the 2025 reconciliation act. Although the modifications made by that law are legislative changes, CBO's changes to the credits' classification as tax credits or direct payments are technical changes. Such reclassifications do not affect projections of the budget deficit.

Social Security. CBO decreased its projection of outlays for Social Security over the 2026–2035 period by $0.1 trillion (or less than 1 percent) for technical reasons. Most of that change stems from a small decrease to CBO's projection of the growth of the U.S. population age 65 or older, which slightly decreases the projected number of recipients of Social Security's Old-Age and Survivors Insurance benefits.

Premium Tax Credits and Related Spending. Technical changes reduced CBO's projections of outlays for premium tax credits and related spending over the 2026–2035 period by $79 billion (or 6 percent). That decrease was the net result of several factors, including a reduction in projected enrollment in health insurance plans sold through the ACA marketplaces because of the final rule by CMS discussed above, and a reduction in projected outlays because of smaller-than-expected transfers in the risk adjustment program from insurers with healthier enrollees to insurers with less healthy enrollees. Those reductions were partly offset by increased projections of premiums for marketplace plans.

Supplemental Nutrition Assistance Program. Enrollment in SNAP was lower in 2025 than anticipated, which led CBO to decrease its projection of enrollment in the program by 2 million to 3 million people in each year of the 2026–2035 period. That change reduced CBO's projection of SNAP outlays over that period by $41 billion (or 4 percent).

Earned Income and Child Tax Credits. Technical changes added $29 billion (or 4 percent) to CBO's projections of outlays for the earned income tax credit and the child tax credit through 2035. That increase largely reflected higher-than-expected outlays for both credits in 2025.

Agriculture. For technical reasons, CBO raised its projections of outlays for programs related to agriculture over the 2026–2035 period by $25 billion (or 11 percent). That increase was mostly driven by two factors. First, CBO increased its projections of outlays to incorporate the $12 billion in bridge payments for farmers announced in December 2025. Second, CBO increased its projections of spending on crop insurance programs to better reflect recent trends in such spending.

Other Mandatory Programs. On net, technical revisions decreased CBO's projections of outlays for other mandatory programs over the 2026–2035 period by $14 billion.

Discretionary Outlays. CBO raised its projection of discretionary outlays over the 2026–2035 period by $11 billion (or less than 1 percent) for technical reasons. Most of that increase stemmed from adjustments to better reflect the recent rates at which discretionary funding has been spent.

Net Outlays for Interest. Excluding effects on debt-service costs, technical changes to CBO's baseline projections reduced the deficits projected for the 2026–2035 period by a total of $2.2 trillion. That deficit reduction decreased CBO's projection of outlays for interest payments on federal debt by $0.6 trillion over that period. The decrease in projected interest spending was partly offset by a reduction in the projected interest earnings of financing accounts that track the cash flows of federal credit programs (that reduction in earnings increased outlays). Together, those technical changes decreased CBO's projection of net interest outlays over the 2026–2035 period by $0.5 trillion (or 3 percent).

Appendix A: Budgetary and Economic Effects of the 2025 Reconciliation Act

Overview

Public Law 119-21 was enacted on July 4, 2025. Referred to here as the 2025 reconciliation act, that law is the most significant legislative change that has occurred since the Congressional Budget Office last published its baseline budget projections in January 2025.[1] In this appendix, CBO describes the law's budgetary and economic effects as estimated by the agency and by the staff of the Joint Committee on Taxation (JCT).

The reconciliation act's overall effects on the federal budget are discussed first. The estimate of those effects accounts for changes to federal revenues and outlays, including net outlays for interest, and the effects of budgetary feedback from macroeconomic changes. (Budgetary feedback occurs when changes in the behavior of people and businesses affect the size of the economy and, in turn, those macroeconomic changes affect the government's revenues and outlays.)

CBO and JCT's conventional estimate of the law's budgetary effects is then discussed at length. Published in July 2025, that estimate—like all of CBO and JCT's conventional cost estimates—did not account for the law's effects on net outlays for interest or budgetary feedback, but revisiting it provides context about the law's major effects on the budget and how changes to tax and spending policies influence people's incentives to work and businesses' incentives to invest.

Next, the estimated effects of the 2025 reconciliation act on households' resources are briefly described. The distribution of those resources has implications for the law's effects on CBO's economic forecast, and those effects are discussed next. The final section of the appendix provides information about the uncertainty of CBO and JCT's estimates.

Other changes to federal policy besides the 2025 reconciliation act have occurred since CBO last published its baseline projections in January 2025. Those other changes—including modifications to tariff rates and immigration policy—interact with the changes brought about by the reconciliation act. The budget and economic projections presented elsewhere in this report reflect those interactions as well as the effects of those other policy changes. But the interactions are not reflected in the estimates discussed in this appendix, because those estimates were developed in relation to the agency's January 2025 baseline projections.[2]

The Act's Major Provisions

The 2025 reconciliation act affected the way individuals and businesses are taxed and modified federal programs. The law's most significant tax changes were those that extended certain provisions of the 2017 tax act (P.L. 115-97) that had expired or were scheduled to expire after 2025. The reconciliation act lowered statutory tax rates and changed the amount of individual income subject to tax, thus reducing individual income tax liabilities for most households and for pass-through businesses (that is, businesses for which income is taxed under the individual income tax system). It also accelerated deductions for business investment and thus reduced effective marginal tax rates on that investment. (The effective marginal tax rate measures the tax burden on returns from a marginal investment—that is, one that is expected to earn just enough, after taxes, to attract investors.)

1. Congressional Budget Office, *The Budget and Economic Outlook: 2025 to 2035* (January 2025), www.cbo.gov/publication/60870. Like all of CBO's baseline projections, those January 2025 projections were developed under the assumption that the laws then in place governing revenues and spending would generally remain unchanged.

2. The estimates reported in this appendix were developed in relation to CBO's January 2025 baseline projections, updated to reflect judicial decisions and administrative actions through April 10, 2025. CBO and JCT also developed estimates of the budgetary effects of the 2025 reconciliation act in relation to the budget enforcement baseline used by the Senate. That baseline reflected adjustments regarding current tax policy made by the Chairman of the Senate Committee on the Budget (for more information, see Box A-1 on page 126).

Table A-1.

Budgetary Effects of the 2025 Reconciliation Act

Billions of dollars

	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	Total 2025–2029	Total 2025–2034
						Overall effects						
Increase or decrease (-) in the primary deficit[a]	-32	454	576	537	431	298	220	192	214	226	1,966	3,115
Increase in net outlays for interest	4	29	60	89	113	133	150	166	182	197	295	1,123
Effect on the total deficit[b]	**-28**	**483**	**636**	**626**	**544**	**431**	**370**	**358**	**396**	**423**	**2,260**	**4,238**
						Effects without budgetary feedback from macroeconomic changes[c]						
Increase or decrease (-) in the primary deficit[a]	-21	487	602	555	450	325	250	225	251	268	2,074	3,394
Increase in net outlays for interest	*	14	34	55	73	88	99	108	118	129	177	718
Effect on the total deficit[b]	-21	501	636	610	524	413	349	333	369	397	2,251	4,113
						Effects of budgetary feedback from macroeconomic changes[c]						
Increase or decrease (-) in the primary deficit[a]	-11	-33	-27	-19	-20	-27	-31	-34	-37	-42	-109	-280
Increase in net outlays for interest	4	15	26	34	40	45	51	58	64	68	118	405
Effect on the total deficit[b]	-7	-18	*	15	20	18	21	24	27	26	10	125
Addendum:												
Increase or decrease (-) in federal debt held by the public as a percentage of GDP (percentage points)	-0.3	0.5	2.5	4.3	5.7	6.5	7.1	7.7	8.3	9.0		

Data sources: Congressional Budget Office; staff of the Joint Committee on Taxation. See www.cbo.gov/publication/61882#data.

The estimates shown here were developed in relation to CBO's January 2025 baseline projections. For details about those projections, see Congressional Budget Office, *The Budget and Economic Outlook: 2025 to 2035* (January 2025), www.cbo.gov/publication/60870.

Years are fiscal years.

* = between -$500 million and $500 million.

a. Primary deficits exclude net outlays for interest.

b. Positive numbers indicate an increase in the deficit; negative numbers indicate a decrease in the deficit.

c. Budgetary feedback occurs when changes in the behavior of people and businesses affect the size of the economy and, in turn, those macroeconomic changes affect the government's revenues and outlays.

The reconciliation act modified eligibility and financing for Medicaid and the Supplemental Nutrition Assistance Program (SNAP) and altered the terms of federal student loans, reducing federal spending on those programs. It also provided additional funding for defense, homeland security, and immigration-related activities.

The Act's Budgetary Effects

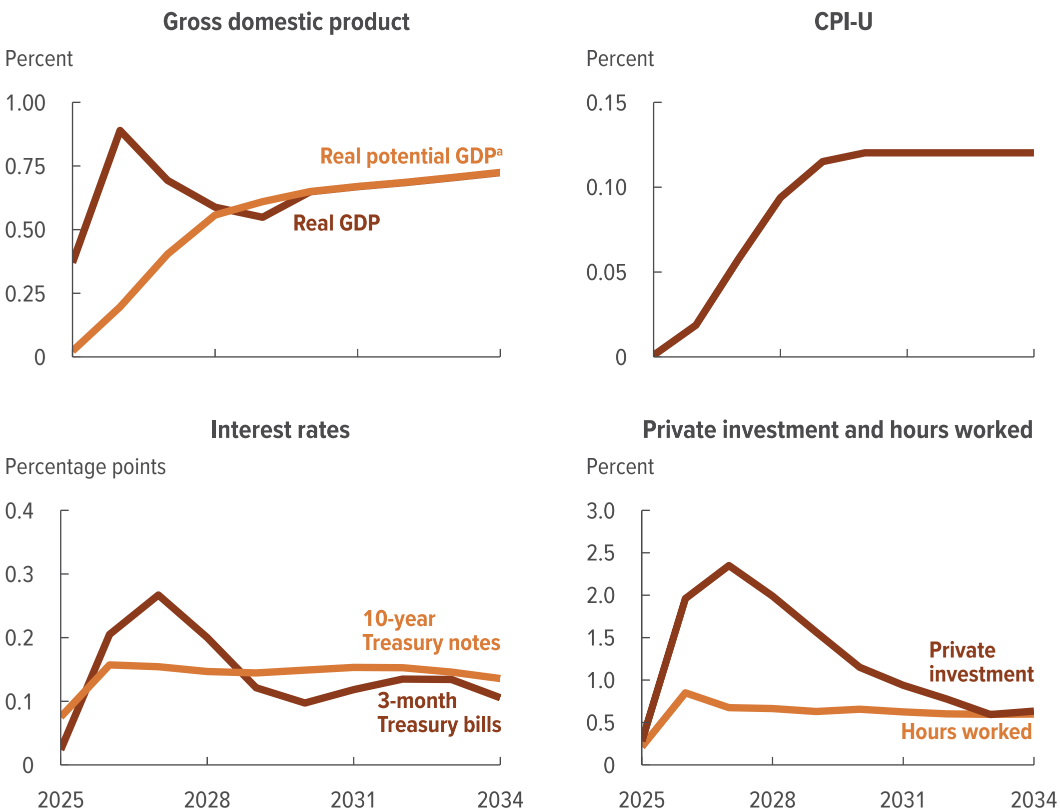
The 2025 reconciliation act is estimated to increase total deficits over the 2025–2034 period by $4.2 trillion relative to CBO's January 2025 baseline projections (see Table A-1). That amount reflects CBO and JCT's July 2025 conventional estimate of the law's budgetary effects as well as the effects of increased interest costs and of budgetary feedback from macroeconomic changes. (In this appendix, the reconciliation act's budgetary and economic effects are estimated over the 2025–2034 period because that is the period specified in H. Con. Res. 14, the continuing resolution that initiated the 2025 budget reconciliation process. That time period differs from the period reported on in Chapter 5. As is required by statute, JCT estimated the budgetary effects of provisions that modified income taxes, estate and gift taxes, and excise taxes.)

The Act's Economic Effects

The 2025 reconciliation act is estimated to increase real gross domestic product (GDP) over the 2025–2034 period by an average of 0.7 percent a year relative to CBO's January 2025 baseline projections (see Figure A-1; real values are those that have been adjusted to remove the effects of inflation). In the near

Figure A-1.

Key Changes in CBO's Economic Forecast Attributable to the 2025 Reconciliation Act



In the near term, the reconciliation act is estimated to boost real GDP in relation to real potential GDP. That change creates additional demand in the economy and slightly increases prices and interest rates. In the longer term, the act is estimated to increase output by boosting private investment and hours worked.

Data source: Congressional Budget Office. See www.cbo.gov/publication/61882#data.

The estimates shown here were developed in relation to CBO's January 2025 baseline projections. For details about those projections, see Congressional Budget Office, *The Budget and Economic Outlook: 2025 to 2035* (January 2025), www.cbo.gov/publication/60870.

Years are calendar years.

Real values are nominal values that have been adjusted to remove the effects of inflation.

CPI-U = consumer price index for all urban consumers.

a. Potential GDP is CBO's estimate of the maximum sustainable output of the economy.

term, that increase mainly reflects a boost in the demand for goods and services. In the longer term, the increase reflects greater labor supply, investment, and total factor productivity (TFP, the average real output per unit of combined labor and capital services) resulting from the reconciliation act.

In the early years of the projection period, the boost in aggregate demand for goods and services puts upward pressure on prices and slightly increases inflation (as measured by changes in the consumer price index for all urban consumers, or CPI-U). Additionally, the increase in economic activity driven by the reconciliation act reduces the unemployment rate compared with what the agency would have otherwise estimated. The act also increases interest rates throughout the projection period. The near-term increase mainly reflects the Federal Reserve's anticipated response to the law's economic effects; the long-term increase mainly reflects the law's effect on the ratio of debt to GDP.

Uncertainty of CBO and JCT's Estimates

CBO and JCT's estimates of the 2025 reconciliation act's budgetary and economic effects are uncertain. Many factors contribute to that uncertainty—including how the law will be implemented, how states will respond to its provisions, how households and businesses will respond to changes in incentives to work and invest, and how the law will affect the overall economy. There is also uncertainty about the way recent significant policy developments, including those related to tariffs and immigration, will interact with the budgetary and economic effects of the reconciliation act. (Those interactions are not reflected in the estimates reported in this appendix, but they are reflected in the economic and budget projections described elsewhere in this report.)

Overall Effects on the Federal Budget

To account for the effects of the 2025 reconciliation act, CBO increased its estimate of total deficits over the 2025–2034 period by $4.2 trillion relative to the agency's January 2025 baseline projections (see Table A-1 on page 120). That amount reflects CBO and JCT's conventional estimate of the law's effects on primary deficits (which exclude net outlays for interest) as well as effects of increased net outlays for interest and of budgetary feedback from macroeconomic changes. In total, the reconciliation act increases CBO's estimate of federal debt as a percentage of GDP in 2034 by 9.0 percentage points, from 117.1 percent of GDP to 126.0 percent.

In July 2025, CBO and JCT estimated that without budgetary feedback from macroeconomic changes, the reconciliation act would increase primary deficits over the 2025–2034 period by $3.4 trillion.[3] Because of those larger deficits, net spending for interest would increase by $718 billion.[4] Thus, before accounting for budgetary feedback from macroeconomic changes, CBO and JCT estimated that the law would increase deficits over the 2025–2034 period by $4.1 trillion. That amount is $125 billion less than the $4.2 trillion by which the reconciliation act is estimated to increase deficits over the projection period when budgetary feedback from macroeconomic changes is included.

That $125 billion effect of the law's macroeconomic changes reflects both an increase in the size of the economy and higher interest rates. As analyzed by CBO and JCT, the reconciliation act increases the size of the economy, mainly through its effects on the demand for goods and services, the labor supply, and investment. The act results in higher interest rates, mainly because of stronger economic growth, modest inflationary pressure, and an increase in government borrowing attributable to the law.

Macroeconomic changes stemming from the reconciliation act are estimated to reduce primary deficits over the 2025–2034 period by $280 billion relative to CBO's January 2025 projections. The net effect of those macroeconomic changes on primary deficits is less than one-tenth the size of the estimated increase in primary deficits without such changes. The reduction in primary deficits is attributable to an increase in revenues that is partly offset by an increase in noninterest spending. That net effect mainly reflects increases in individual and business income and inflation stemming from the act.

The increase in revenues that results from the reconciliation act's macroeconomic effects is itself affected by the tax incentives included in the act. The act reduces income taxes on specific forms of individual income, which increases the economic activities that generate those types of income. The act also increases the after-tax return on certain investments, encouraging more of those types of investments. Those activities and investments expand the economy but have a more limited effect on the tax base. Taking the effects of those and other provisions into account, the federal revenues generated by an additional dollar of labor or capital income stemming from the act are less than the revenues generated, on average, by a dollar of such income in the economy.

The reconciliation act's macroeconomic effects are estimated to increase net outlays for interest over the 2025–2034 period by $405 billion, more than offsetting their effects on primary deficits. That increase is the net result of higher interest rates and the reduction in interest costs stemming from smaller primary deficits. The effect on net outlays for interest increases over time as a growing share of debt is issued at higher interest rates than CBO would have estimated without the reconciliation act. Nearly all of the increase in net outlays for interest over the 2025–2034 period stems from higher interest rates associated with greater amounts of debt as a percentage of GDP; other factors influencing the effective interest rate on government debt roughly offset each other.

3. In this appendix, estimates of the 2025 reconciliation act's budgetary effects before accounting for budgetary feedback from macroeconomic changes match estimates that CBO published in July 2025; see Congressional Budget Office, "Estimated Budgetary Effects of Public Law 119-21, to Provide for Reconciliation Pursuant to Title II of H. Con. Res. 14, Relative to CBO's January 2025 Baseline" (July 21, 2025), www.cbo.gov/publication/61570.

4. Congressional Budget Office, letter to the Honorable Jeff Merkley about the effects on deficits and the debt of Public Law 119-21 and of making certain tax policies in the act permanent (August 4, 2025), www.cbo.gov/publication/61466.

Conventional Estimate of Budgetary Effects

Before budgetary feedback from macroeconomic changes is accounted for, the 2025 reconciliation act is estimated to increase primary deficits over the 2025–2034 period by $3.4 trillion relative to CBO's January 2025 baseline projections (see Table A-2).[5] That total is the result of changes to taxes and federal programs. In CBO and JCT's estimates, the changes to taxes (excluding tax changes related to health care) increase primary deficits over the 2025–2034 period by $4.6 trillion, on net; the changes to health care and other federal programs (including tax changes related to health care) reduce primary deficits over that period by $1.2 trillion, on net.

Certain provisions of the 2025 reconciliation act affect people's incentives to work and businesses' incentives to invest. Those incentive effects are highlighted in the following discussion, and they contribute to the law's economic effects, which are described in a subsequent section of this appendix. (The reconciliation act's incentive effects are not reflected in the budgetary results shown in Table A-2 or the conventional estimates for specific provisions discussed in this section, but they are reflected in other estimates in this appendix and in CBO's projections throughout the rest of this report.)

Changes to Taxes

The 2025 reconciliation act affects how individuals and businesses are taxed by extending certain provisions of the 2017 tax act that had expired, or were scheduled to expire, and making other changes.[6] (See Box A-1 on page 126 for details about those extended provisions and how they are reflected in CBO's baseline projections.) For individuals, the 2025 reconciliation act reduced income tax rates and increased the standard deduction (the flat amount that taxpayers can subtract from income without itemizing deductions). For businesses, the act provided full and immediate expensing (known as 100 percent bonus depreciation) of certain capital investments and an immediate deduction for domestic research expenditures. Because income from pass-through businesses is taxed under the individual income tax system, owners of pass-through businesses also benefit from the lower individual income tax rates. Owners of certain pass-through businesses can deduct a portion of their qualified business income, further reducing their taxes. Those changes are estimated to increase primary deficits over the 2025–2034 period relative to CBO's January 2025 baseline projections.

In addition, the reconciliation act provided new temporary tax reductions. For individuals, the act changed the tax treatment of income earned as tips or overtime pay through 2028, for example. For businesses, it allowed expensing, through 2028, for qualified production property not otherwise eligible for full expensing. Taken together, those changes increase projections of primary deficits.

The act also included tax changes that reduce projected deficits. For example, it repealed or modified tax credits for purchasing qualifying clean vehicles (mainly electric vehicles) and for certain energy-related investments.

On net, the changes to taxes in the reconciliation act increased estimated primary deficits over the 2025–2034 period by $4.6 trillion in relation to CBO's January 2025 baseline projections and before accounting for budgetary feedback from macroeconomic changes. That increase is reflected in the agency's current baseline projections as a legislative change (see Chapter 5). Most of that increase is the result of extending tax provisions that were set to expire under law that was current when CBO developed its January 2025 baseline projections.

In CBO and JCT's assessment, the major tax provisions of the 2025 reconciliation act increase after-tax income for most households (as discussed in the subsequent section titled "Effects on Households' Resources"). The act also increases the incentives for people to work and businesses to invest.

5. For more details, see the estimate of the law's budgetary effects by section and title: Congressional Budget Office, "Estimated Budgetary Effects of Public Law 119-21, to Provide for Reconciliation Pursuant to Title II of H. Con. Res. 14, Relative to CBO's January 2025 Baseline" (July 21, 2025), www.cbo.gov/publication/61570.

6. For a detailed description of the tax provisions in the 2025 reconciliation act, see Nicholas E. Buffie and others, *Tax Provisions in P.L. 119-21, the FY2025 Reconciliation Law*, Report R48611, version 3 (Congressional Research Service, July 29, 2025), www.congress.gov/crs-product/R48611.

Table A-2.

Conventional Estimate of the Budgetary Effects of the 2025 Reconciliation Act

Billions of dollars

											Total	
	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2025–2029	2025–2034
					Increase or decrease (-) in the primary deficit[a]							
Changes to taxes[b]												
Taxes paid by individuals	32	326	477	499	477	443	439	461	479	499	1,810	4,131
Business taxes	100	152	152	137	108	80	56	47	45	44	650	920
Energy-related taxes	*	-10	-34	-46	-56	-72	-84	-92	-58	-49	-145	-499
Other tax changes	*	1	9	11	7	2	9	9	4	7	27	58
Subtotal	132	469	605	600	536	454	419	425	471	501	2,341	4,610
Changes to health care and other federal programs												
Health care	*	-19	-54	-73	-104	-122	-141	-157	-172	-189	-251	-1,031
Direct appropriations for defense, homeland security, and immigration enforcement[c]	2	56	70	61	55	43	29	19	10	5	244	350
Higher education[d]	-154	-11	-6	-15	-16	-16	-16	-17	-17	-17	-202	-284
Supplemental Nutrition Assistance Program	0	-8	-16	-22	-22	-22	-22	-25	-25	-25	-68	-187
Spectrum auctions[e]	*	*	*	-1	-6	-13	-20	-22	-16	-6	-8	-85
Agriculture, conservation, and forestry	*	*	6	7	7	7	8	10	10	10	20	66
Other changes[f]	-1	*	-2	-1	*	-6	-7	-8	-9	-10	-4	-45
Subtotal	-153	18	-2	-45	-85	-128	-169	-199	-219	-233	-267	-1,216
Total increase or decrease (-) in the primary deficit	**-21**	**487**	**602**	**555**	**450**	**325**	**250**	**225**	**251**	**268**	**2,074**	**3,394**
Decrease (-) in revenues	-131	-461	-582	-582	-526	-445	-413	-421	-448	-479	-2,281	-4,486
Increase or decrease (-) in outlays	-152	26	20	-26	-75	-120	-162	-195	-196	-211	-207	-1,091

Data sources: Congressional Budget Office; staff of the Joint Committee on Taxation. See www.cbo.gov/publication/61882#data.

The conventional estimate of the 2025 reconciliation act's effects on the federal budget accounts for changes to federal revenues and outlays but does not account for net outlays for interest or the effects of budgetary feedback from macroeconomic changes. (Budgetary feedback occurs when changes in the behavior of people and businesses affect the size of the economy and, in turn, those macroeconomic changes affect the government's revenues and outlays.) The estimates shown here were developed in relation to CBO's January 2025 baseline projections. For details about those projections, see Congressional Budget Office, *The Budget and Economic Outlook: 2025 to 2035* (January 2025), www.cbo.gov/publication/60870. For more details about these estimates, see CBO's estimate of the law's budgetary effects by section and title: Congressional Budget Office, "Estimated Budgetary Effects of Public Law 119-21, to Provide for Reconciliation Pursuant to Title II of H. Con. Res. 14, Relative to CBO's January 2025 Baseline" (July 21, 2025), www.cbo.gov/publication/61570.

The Congressional Budget Act of 1974, as amended, stipulates that revenue estimates provided by the staff of the Joint Committee on Taxation (JCT) will be the official estimates for legislation that changes income taxes, estate and gift taxes, excise taxes, or payroll taxes. CBO therefore incorporates those estimates in its estimates of the effects of legislation.

Years are fiscal years.

* = between -$500 million and $500 million.

a. Primary deficits exclude net outlays for interest.

b. Changes to taxes paid by individuals include changes made in title VII, subtitle A, chapters 1 and 2 of the act. Changes to business taxes include changes made in title VII, subtitle A, chapter 3. Changes in energy-related taxes include changes made in title VII, subtitle A, chapter 5, subchapters A and B. Changes to health-related taxes made in title VII, subtitle B of the act are considered changes to health care programs; the effects of those changes are included under "health care."

c. Direct appropriations are those not provided in an appropriation act.

d. In September 2025, the Administration recorded a reduction in outlays of $131 billion resulting from modifications, authorized in the 2025 reconciliation act, to the terms of outstanding federal student loans.

e. Administered by the Federal Communications Commission, spectrum auctions are auctions of licenses and permits for the commercial use of the electromagnetic spectrum.

f. Includes, among other changes, new fees imposed on non-U.S. nationals seeking benefits under the Immigration and Nationality Act, increases in receipts generated from oil and gas leases, funding for activities related to transportation and space, increases in spending from the Radiation Exposures Compensation Fund, and rescissions of funds provided in the 2022 reconciliation act (Public Law 117-169).

Taxes Paid by Individuals. In JCT's estimates, the changes to individual income taxes and estate and gift taxes in the reconciliation act increase primary deficits over the 2025–2034 period by $4.1 trillion, on net.[7] About half of that total stems from the reduction in individual income tax rates. Like other conventional estimates reported in this section of the appendix, that estimate does not reflect budgetary feedback from macroeconomic changes.

The changes to individual income taxes in the 2025 reconciliation act reduce taxes for most households and thus increase after-tax income. On net, those changes reduce effective marginal tax rates on labor income throughout the projection period (see Table A-3 on page 128). Lower individual income tax rates also increase the after-tax return on investment for pass-through businesses.

Tax Rates. The 2025 reconciliation act lowered statutory tax rates for most taxpayers. The top individual income tax rate was permanently set at 37 percent; it had been scheduled to be 39.6 percent after 2025. The law also raised the income thresholds at which the lower income tax brackets begin, making tax brackets wider at the lower part of the income distribution. Lower individual income tax rates and wider tax brackets cause more income to be taxed at lower rates.

The Tax Base. Many provisions in the reconciliation act made changes—some permanent and others temporary—to the tax base. (The individual income tax base is the amount of income subject to tax after accounting for exclusions, deductions, and other adjustments.) Some of the permanent changes narrowed the tax base (thus reducing the amount of income subject to tax), while other permanent changes broadened it. The temporary changes narrowed the tax base through 2028. The overall effect of the permanent changes is to broaden the tax base after the temporary changes expire. The provisions that broadened the tax base thus increased the amount of income subject to tax. Through 2028, those provisions partly offset the effects on revenues and the economy of provisions that reduced the amount of income subject to tax; after 2028, they more than offset those effects.

Some provisions of the 2025 reconciliation act permanently reduced the amount of income subject to tax. The act provided a higher standard deduction amount, which reduces the number of taxpayers who itemize deductions and provides higher after-tax income for taxpayers who do not itemize deductions (or choose not to itemize them after the change). Under the reconciliation act, a limit on the tax benefits from itemized deductions is applied only to taxpayers in the top individual income tax bracket. The act also increased the income levels at which the alternative minimum tax takes effect, thus making less income and fewer taxpayers subject to that tax.[8]

Other permanent provisions increased the amount of income subject to tax. Specifically, the reconciliation act repealed personal exemption deductions for most taxpayers, eliminated several miscellaneous itemized deductions, tightened the limits on the amount of interest paid on mortgages that can be deducted, and imposed limits on the deduction for state and local taxes (SALT). Eliminating personal exemptions results in lower after-tax income for some taxpayers. Provisions that lower the number of households that itemize deductions and limit the deductibility of property taxes and mortgage interest reduce the incentive for residential investment. That reduced incentive is reflected in the higher user cost of capital and higher effective marginal tax rate on owner-occupied housing that result from the reconciliation act.[9]

The 2025 reconciliation act made several temporary changes to individual income taxes. Those changes increase after-tax income and decrease effective marginal tax rates on labor income through 2028. The changes include a new deduction for taxpayers age 65 and older,

7. Joint Committee on Taxation, *Estimated Revenue Effects Relative to the Present Law Baseline of the Tax Provisions in "Title VII – Finance" of the Substitute Legislation as Passed by the Senate to Provide for Reconciliation of the Fiscal Year 2025 Budget*, JCX-35-25 (July 1, 2025), www.jct.gov/publications/2025/jcx-35-25. The changes made in title VII, subtitle A, chapters 1 and 2 of the 2025 reconciliation act are reflected as legislative changes to individual income taxes, estate and gift taxes, and outlays in CBO's projections (see Chapter 5).

8. The alternative minimum tax (AMT) is intended to limit the extent to which filers with high income can reduce their individual income tax liability (the amount they owe) through the use of preferences in the tax code. Taxpayers subject to the AMT are required to recalculate their tax liability on the basis of a more limited set of exemptions, deductions, and tax credits than would normally apply. The amount by which a taxpayer's AMT calculation exceeds that person's regular tax calculation is the taxpayer's AMT liability.

9. The user cost of capital is the before-tax return on new investment that provides the required return to investors after covering taxes and depreciation. For potential investors, it is the cost they would incur when using one unit of capital.

Box A-1.

How Tax Provisions in the 2025 Reconciliation Act Affect Projected Revenues

As is required by law, the Congressional Budget Office develops its baseline budget projections under the assumption that current laws governing revenues and spending will generally remain unchanged. CBO's January 2025 baseline projections therefore reflected the scheduled expiration of temporary tax provisions in the 2017 tax act (Public Law 115-97).[1] When the 2025 reconciliation act (P.L. 119-21) became law, it extended and, in some cases, modified provisions of the 2017 tax act. Because the scheduled expiration of those temporary tax provisions was reflected in CBO's January 2025 projections, the budgetary and economic effects of extending those provisions are reflected in the agency's current baseline as a change relative to those January 2025 projections.

The Reconciliation Act's Effects on Revenues in CBO's Baseline Projections

With each new baseline, CBO includes updated projections of tax revenues that reflect new laws. By statute, the staff of the Joint Committee on Taxation (JCT) estimates the budgetary effects of any legislation that changes income taxes, estate and gift taxes, excise taxes, or payroll taxes. CBO is required to use JCT's estimates of tax legislation in its cost estimates, and JCT's and CBO's cost estimates for enacted legislation are incorporated into CBO's baseline projections.

In CBO's current baseline projections, the 2025 reconciliation act's changes to taxes increase primary deficits over the 2025–2034 period by $4.6 trillion relative to CBO's January 2025 baseline, before budgetary feedback from macroeconomic changes or technical changes are accounted for (see Table A-2 on page 124).[2] That amount includes changes to taxes estimated by JCT and a change in tariffs estimated by CBO; it excludes the effects of tax changes related to health care estimated by CBO and JCT, which are instead included in "changes to health care" in Table A-2. Future CBO baseline projections of tax revenues will be updated to reflect newly available data and any other information that was not available when JCT and CBO prepared their initial estimates for the 2025 reconciliation act.

Most households would have paid a greater share of their income in taxes beginning in 2026, if the reconciliation act had not become law. In January 2025 (before the act became law), CBO estimated that revenues from individual income taxes would climb to 10.0 percent of gross domestic product (GDP) in 2027 (from 8.7 percent in 2025) and remain at or close to that level through 2035. In the agency's current baseline projections, which reflect the budgetary and economic effects of the reconciliation act, revenues from individual income taxes equal 8.8 percent of GDP in 2027 and average 8.9 percent through 2035. (For more information about CBO's revenue projections, see Chapter 4.) The reconciliation act is also estimated to reduce taxes for many businesses relative to amounts in CBO's January 2025 baseline projections.

Estimates of the 2025 Reconciliation Act's Budgetary Effects Used by the Senate

Most of the reconciliation act's overall effect on the federal budget stems from its extending temporary provisions of the 2017 tax act. When the Senate was considering the reconciliation act, it used a budget enforcement baseline that was

1. For details about the provisions in the 2017 tax act, see Congressional Budget Office, *The Budget and Economic Outlook: 2018 to 2028* (April 2018), Appendix B, www.cbo.gov/publication/53651.

2. Primary deficits exclude net outlays for interest. Budgetary feedback occurs when changes in the behavior of people and businesses affect the broader economy and, in turn, those macroeconomic changes affect the government's revenues and outlays.

Continued

deductions for amounts received as qualified overtime pay and qualified tip income, and a deduction for interest paid on loans for passenger vehicles. Those four deductions are gradually reduced to zero for taxpayers with income above specified threshold amounts.

Starting in 2025, the SALT deduction is limited to $40,000; that amount is set to increase by 1 percent a year through 2029. The $40,000 cap on the deduction phases down to a $10,000 limit for higher-income taxpayers. After 2029, the limit on the SALT deduction is scheduled to be $10,000 for all taxpayers.

Tax Credits. The 2025 reconciliation act increased the amount of the child tax credit and the income threshold at which the credit begins to phase down. That change increases after-tax income for most taxpayers with children. The act also allows for a $500 nonrefundable credit for nonchild dependents.

Box A-1. Continued

How Tax Provisions in the 2025 Reconciliation Act Affect Projected Revenues

adjusted to reflect the assumption that those temporary provisions would be extended. By contrast, CBO's January 2025 current-law baseline reflected the scheduled expiration of the 2017 tax act's temporary provisions—including the expiration at the end of 2025 of most provisions affecting individual income taxes and the phaseout by the end of 2026 of the provision that allowed businesses to immediately expense (that is, deduct from their taxable income) a portion of the cost of certain investments. Among the expiring provisions affecting individual income taxes were those related to statutory tax rates and brackets, allowable deductions, the amount and refundability of the child tax credit, the 20 percent deduction for certain business income, and the income levels at which the alternative minimum tax takes effect.[3]

CBO and JCT each published two estimates of the reconciliation act's budgetary effects on primary deficits: one relative to CBO's January 2025 baseline projections and one relative to the adjusted budget enforcement baseline used for consideration by the Senate.[4] (CBO's published estimates used the numbers from JCT's estimates for the provisions that modified income taxes, estate and gift taxes, and excise taxes.) Both sets of estimates were conventional and thus did not account for budgetary feedback from macroeconomic changes that would result from the law's enactment. The conventional estimate that CBO developed relative to its January 2025 baseline (which included estimates for tax provisions developed by JCT) is reflected as a legislative change in CBO's current baseline projections. In addition, CBO's estimates of the changes to revenues that result from the increase in GDP and other changes in the economy are reflected as an economic change in the agency's current baseline projections. (For more information about changes to CBO's revenue projections, see Chapter 5. That chapter also discusses technical changes made to CBO's models in response to the 2025 reconciliation act that are not reflected in the budgetary and economic effects discussed in this appendix.)

JCT estimated that the adjustments reflected in the Senate's budget enforcement baseline—permanently extending 20 expiring individual income tax provisions and 6 expiring business tax provisions from the 2017 tax act—would increase primary deficits over the 2025–2034 period by $3.8 trillion (without accounting for budgetary feedback from macroeconomic changes).[5] Those adjustments account for more than 80 percent of the total estimated change in revenues that stems from tax provisions in the 2025 reconciliation act.

3. The alternative minimum tax (AMT) is intended to limit the extent to which filers with high income can reduce their individual income tax liability (the amount they owe) through the use of preferences in the tax code. Taxpayers subject to the AMT are required to recalculate their tax liability on the basis of a more limited set of exemptions, deductions, and tax credits than would normally apply. The amount by which a taxpayer's AMT calculation exceeds that person's regular tax calculation is the taxpayer's AMT liability.

4. For CBO's estimates, see Congressional Budget Office, "Estimated Budgetary Effects of Public Law 119-21, to Provide for Reconciliation Pursuant to Title II of H. Con. Res. 14, Relative to CBO's January 2025 Baseline" (July 21, 2025), www.cbo.gov/publication/61570, and "Estimated Budgetary Effects of Public Law 119-21, to Provide for Reconciliation Pursuant to Title II of H. Con. Res. 14, Relative to the Budget Enforcement Baseline for Consideration in the Senate" (July 21, 2025), www.cbo.gov/publication/61569. For JCT's estimates, see Joint Committee on Taxation, *Estimated Revenue Effects Relative to the Present Law Baseline of the Tax Provisions in "Title VII – Finance" of the Substitute Legislation as Passed by the Senate to Provide for Reconciliation of the Fiscal Year 2025 Budget*, JCX-35-25 (July 1, 2025), www.jct.gov/publications/2025/jcx-35-25, and *Estimated Revenue Effects Relative to the Current Policy Baseline of the Tax Provisions in "Title VII – Finance" of the Substitute Legislation as Passed by the Senate to Provide for Reconciliation of the Fiscal Year 2025 Budget*, JCX-34-25 (July 1, 2025), www.jct.gov/publications/2025/jcx-34-25.

5. That $3.8 trillion is the difference between JCT's estimates of the act's effect on revenues before and after making the adjustments regarding current tax policy for the budget enforcement baseline used in the Senate.

Tax Treatment of Pass-Through Business Income. The reconciliation act made changes that reduce taxes on certain income from pass-through businesses (the profits of pass-through businesses are allocated to their owners and taxed through the individual income tax). Specifically, the law allows owners of certain pass-through businesses to deduct a portion of their qualified business income from their taxable income after 2025. (Under prior law, that deduction was scheduled to expire after 2025.) That change, along with the lower individual income tax rates, reduces effective marginal tax rates on pass-through businesses. As a result, CBO expects more business income to be taxed under the individual income tax (and less under the corporate income tax) than was anticipated in its January 2025 baseline projections.

Estate and Gift Taxes. The 2025 reconciliation act more than doubled the cumulative dollar amount (relative to amounts that would have been in effect under prior law) that is exempt from estate and gift taxes. That change gives people a greater incentive to hold assets and transfer them when they die.

Table A-3.

Changes in Effective Marginal Tax Rates Attributable to Tax Provisions in the 2025 Reconciliation Act

Percent

	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
On labor income[a]										
Under prior law	27.2	29.4	29.5	29.6	29.7	29.8	29.9	30.0	30.0	30.1
Under tax provisions in the 2025 reconciliation act	26.9	27.1	27.2	27.4	27.6	27.9	28.0	28.1	28.2	28.3
Difference (percentage points)	**-0.4**	**-2.3**	**-2.3**	**-2.3**	**-2.2**	**-1.9**	**-1.9**	**-1.9**	**-1.9**	**-1.8**
On capital income: business assets[b]										
Under prior law	18.5	21.3	22.3	22.4	22.4	22.6	22.7	22.6	22.8	22.7
Under tax provisions in the 2025 reconciliation act	13.8	14.3	15.0	15.1	16.9	17.1	17.1	17.1	17.1	17.1
Difference (percentage points)	**-4.7**	**-7.0**	**-7.3**	**-7.3**	**-5.5**	**-5.5**	**-5.7**	**-5.5**	**-5.7**	**-5.6**
On capital income: owner-occupied housing[b]										
Under prior law	8.2	1.0	0.7	0.6	0.4	0.4	0.5	0.3	0.4	0.2
Under tax provisions in the 2025 reconciliation act	6.3	6.7	6.2	5.8	5.3	7.5	7.3	7.0	6.9	6.7
Difference (percentage points)	**-1.9**	**5.6**	**5.5**	**5.1**	**4.9**	**7.1**	**6.8**	**6.8**	**6.5**	**6.5**

Data source: Congressional Budget Office. See www.cbo.gov/publication/61882#data.

The estimates shown here were developed in relation to CBO's January 2025 baseline projections. For details about those projections, see Congressional Budget Office, *The Budget and Economic Outlook: 2025 to 2035* (January 2025), www.cbo.gov/publication/60870.

For more details about how effective marginal tax rates on different forms of capital income are affected by tax provisions in the 2025 reconciliation act, see the supplemental materials posted at www.cbo.gov/publication/61882#data.

Years are calendar years.

a. The effective marginal tax rate on labor income is the share of an additional dollar of such income that is unavailable to a worker because it is paid in federal individual income taxes and payroll taxes or offset by reductions in benefits from government programs, averaged among workers with weights proportional to their labor income.

b. The effective marginal tax rate on capital income is the share of the return on an additional investment made in a particular year that will be paid in taxes over the life of that investment. The before- and after-tax rates of return used to calculate that effective tax rate are weighted averages of the rates for every combination of asset type, industry, form of organization, and source of financing; the weights used are the asset values of each combination. All of those rates of return incorporate estimated values for interest rates on corporate debt, rates of inflation, and returns paid by C corporations on equity that are consistent with recent trends and with CBO's economic forecast. Specifically, CBO has incorporated a nominal interest rate on debt for corporate securities of 6.2 percent; a rate of inflation, measured by changes in the consumer price index for all urban consumers, of 2.2 percent; and a nominal return on equity of 8.2 percent.

Business Taxes. The 2025 reconciliation act reduces the tax liability (the amount owed) of domestic and multinational businesses. In JCT's estimates, the act's changes to business taxes increase primary deficits over the 2025–2034 period by nearly $1 trillion, on net.[10] Those changes increase incentives for business investment.

Expensing for Capital Investments. When a business invests in a tangible asset, it generally deducts the cost of the investment from its income over a specified recovery period until it has deducted the asset's full purchase price. Under certain circumstances, the business can deduct the cost of an asset (or an additional portion of that cost) in the year the asset is placed in service. That treatment is referred to as expensing. If the full cost of the asset can be expensed, it is sometimes referred to as 100 percent bonus depreciation.

Changes to the speed with which businesses can deduct their capital spending, including through expensing, affect the cost of new investment. The reconciliation act's provisions that provide full expensing for certain capital investments reduce the user cost of capital, which leads to a lower effective marginal tax rate on capital income

10. The changes to business taxes made in title VII, subtitle A, chapter 3 of the 2025 reconciliation act are reflected as legislative changes to both individual and corporate income taxes in CBO's projections because pass-through business income is subject to tax under the individual income tax (see Chapter 5).

from new investment.[11] CBO expects that change to boost business investment because it exempts the normal return—the minimum risk-adjusted return required to make an investment worthwhile—from taxation.

The 2025 reconciliation act allows permanent full expensing for capital investments in new tangible equipment and certain other assets with a recovery period of 20 years or less. Prior law provided 40 percent bonus depreciation in 2025, 20 percent bonus depreciation in 2026, and none thereafter. In addition, the act allows full expensing for investments in new manufacturing, production, and refining facilities through 2028. Typically, nonresidential real property, such as manufacturing facilities, is depreciated over 39 years. Residential real property is depreciated over 27.5 years.

In CBO's assessment, the provision in the 2025 reconciliation act that allows for full expensing of equipment is the largest single factor contributing to the decrease in the user cost of capital and effective marginal tax rates on capital income. In addition, full expensing for property (which mainly affects manufacturing structures and property used in agricultural or chemical production) reduces the user cost of capital for investment in those types of assets. CBO expects that the provision allowing full expensing will thus increase investment in such property. Because of that provision, the reduction in the effective marginal tax rate that results from the act is larger through 2028 than afterward, when the provision expires (see Table A-3 on page 128).

Several other changes resulting from the reconciliation act also reduce the user cost of capital and effective marginal tax rates on capital income. The law increased the amount of investment eligible for full expensing under section 179 of the tax code by increasing both the amount that businesses can deduct and the phaseout threshold for that deduction. (Expensing under section 179 is mostly claimed by small and medium-sized businesses because of the limit on the amount that can be expensed and the phaseout based on the amount of total investment.) The act also allows expenditures on domestic research to be fully expensed. Before that change, domestic research expenditures were required to be deducted over five years. In addition, the law changed the measure of income used to determine the interest expenses that businesses can deduct for tax purposes. As a result, businesses can deduct more of their interest expenses when calculating taxable income.

Tax Treatment of International Income. The 2025 reconciliation act made several changes that, on net, reduce the tax liability on international income. Some of those changes relate to deductions for global intangible low-tax income (GILTI) and for foreign-derived intangible income (FDII). As a result of those deductions, certain types of international income are taxed at less than the statutory rate. Before the reconciliation act became law, those deductions were scheduled to decrease in 2026. The act increased the deductions (in relation to amounts under prior law) and changed the definitions of eligible income. Under prior law, only foreign income that exceeded a 10 percent return on tangible assets was subject to U.S. tax at the reduced rate. Now, that exclusion is eliminated and a larger pool of foreign income, known as net controlled foreign corporation tested income (NCTI), is subject to U.S. taxation at a reduced rate. Similarly, under prior law, only foreign-derived U.S. income that exceeded a 10 percent return on tangible assets was eligible for the reduced rate. The reconciliation act eliminated that exclusion and made all foreign-derived deduction-eligible income (FDDEI) eligible for the reduced rate. The reconciliation act also changed rules about foreign tax credits and the calculation of the base erosion minimum tax, further reducing the tax liability of multinational firms.[12]

Energy-Related Taxes. The 2025 reconciliation act repealed or modified many energy-related tax provisions included in the 2022 reconciliation act (P.L. 117-169) and made other changes to energy-related taxes. In JCT's estimates, those changes reduce primary deficits over the 2025–2034 period by $0.5 trillion, on net, relative to CBO's January 2025 baseline projections.[13] Most of the reduction stems from repealing tax credits that support

11. The effective marginal tax rate on capital income is the share of the return on an additional investment made in a particular year that will be paid in taxes over the life of that investment. Unlike statutory tax rates, effective marginal tax rates account for the tax treatment of depreciation and various other features of the tax code. See Paul Burnham and Dorian Carloni, *CBO's Model for Estimating the Effect That Federal Taxes Have on Capital Income From New Investment*, Working Paper 2022-01 (Congressional Budget Office, February 2022), www.cbo.gov/publication/57429; and Congressional Budget Office, "CBO's Model for Estimating the Effects on New Investment of Deductions to Recover the Cost of Capital" (December 2024), www.cbo.gov/publication/60985.

12. The base erosion minimum tax is meant to prevent corporations from avoiding tax liability by shifting profits out of the United States.

13. The changes to energy-related taxes made in title VII, subtitle A, chapter 5, subchapters A and B of the 2025 reconciliation act are reflected as legislative changes to individual and corporate income taxes and outlays in CBO's projections (see Chapter 5).

investments in wind and solar power and tax credits for purchasing clean (mainly electric) vehicles.

In CBO's assessment, repealing tax credits for investments in wind and solar power and reducing tax credits for clean energy manufacturing increase the user cost of capital for such investments and thus reduce the amount of those investments. Because investment in wind and solar power and clean energy manufacturing is small compared with economywide business investment, the amount of investment affected by those changes is limited.[14]

Other Changes to Taxes. The 2025 reconciliation act contains many other tax provisions that variously increase or decrease projected primary deficits over the 2025–2034 period.[15] One provision that increases primary deficits is a new tax credit for individual contributions to tax-exempt scholarship-granting organizations. (That tax credit is available in states that choose to participate in the program.)

The act's provisions related to opportunity zones (designated areas in lower-income census tracts) also increase primary deficits. Opportunity zones were designated as such in 2018, and investors can claim certain tax benefits for investments located in them. Under the reconciliation act, new opportunity zones will be designated every 10 years, thus making permanent the favorable tax treatment for investments in such areas.

The 2025 reconciliation act's elimination of the de minimis rule for commercial shipments was estimated by CBO to reduce primary deficits over the 2025–2034 period. Before the reconciliation act became law, de minimis shipments—those worth less than $800—could enter the United States duty-free from every country but China. The reconciliation act would have repealed the de minimis rule for commercial shipments effective July 1, 2027. That change was preempted by an executive order suspending the de minimis rule on August 29, 2025.[16] Repealing the de minimis rule results in higher tariffs on imported goods.

Changes to Health Care and Other Federal Programs

The 2025 reconciliation act changed many federal programs. All told, those changes reduce primary deficits over the 2025–2034 period by an estimated $1.2 trillion relative to CBO's January 2025 baseline projections (see Table A-2 on page 124). The changes to health care programs (especially Medicaid), higher education, SNAP, and spectrum auctions reduce primary deficits; that reduction is partly offset by increased spending on national defense, immigration-related activities, and agriculture programs.[17] Like the other estimates reported in this section of the appendix, estimates of the budgetary effects of changes to federal programs do not account for budgetary feedback from macroeconomic changes.

Health Care. In CBO and JCT's estimates, the changes made to health care programs by the 2025 reconciliation act (including tax changes related to health care) reduce primary deficits over the 2025–2034 period by $1.0 trillion.[18] Most of that reduction stems from changes to Medicaid.

The 2025 reconciliation act significantly changed the Medicaid program.[19] In CBO and JCT's estimates, the net effect of those changes is to reduce Medicaid enrollment by 12.9 million (including about 1.5 million enrollees whose records reflected duplicate enrollment and who would retain Medicaid eligibility in their current state of residence) and increase the number of people without health insurance by 7.5 million in 2034.

The act modified eligibility and enrollment processes in the program and imposed a community engagement requirement for certain able-bodied adults. The act also changed the way the Medicaid program is financed.

14. For more details, see Congressional Budget Office, *Business Tax Credits for Wind and Solar Power* (April 2025), www.cbo.gov/publication/61188.

15. Other changes to taxes made in title VII, subtitle A of the 2025 reconciliation act are reflected as legislative changes to individual and corporate income taxes, excise taxes, customs duties, and outlays in CBO's projections (see Chapter 5).

16. Executive Order 14324, "Suspending Duty-Free De Minimis Treatment for All Countries," 90 Fed. Reg. 37775 (August 5, 2025), https://tinyurl.com/2w9uvafv.

17. Administered by the Federal Communications Commission, spectrum auctions are auctions of licenses and permits for the commercial use of the electromagnetic spectrum.

18. That estimate includes all changes made in title VII, subtitle B of the act. In CBO's projections, the act's changes to health care are reflected as legislative changes to outlays for Medicaid, premium tax credits, and Medicare and other health programs, as well as legislative changes to revenues (see Chapter 5).

19. For details about CBO's estimates of the Medicaid-related provisions in the 2025 reconciliation act, including information about the effects of each provision on the number of people without health insurance, see Congressional Budget Office, supplemental cost estimate for Public Law 119-21, to provide for reconciliation pursuant to title II of H. Con. Res. 14, title VII, Finance, subtitle B, Health, chapter 1, Medicaid, as enacted on July 4, 2025 (October 28, 2025), www.cbo.gov/publication/61837.

States are now prevented from increasing existing taxes on health care providers or creating new tax arrangements for them. In CBO and JCT's assessment, limiting those taxes reduces primary deficits because states use the amounts collected from those taxes to increase their Medicaid spending, which, in turn, increases federal matching payments. In addition, the act lowers limits on state-directed payments that managed care organizations make to hospitals and nursing facilities and for physicians' services provided at academic medical centers. Partly offsetting those reductions is additional funding for states to bolster access to rural hospitals, improve and promote technological innovations, and support the long-term financial solvency of rural hospitals.

The reconciliation act also reduces primary deficits through changes to the premium tax credit, an advanceable and refundable credit that reduces enrollees' out-of-pocket costs for the premiums they pay for health insurance obtained through the marketplaces established by the Affordable Care Act.[20] Specifically, the act restricted eligibility for the premium tax credit for certain immigrants and imposed new reporting requirements and limits on beneficiaries' ability to receive the premium tax credit in advance.

The changes to Medicaid increase incentives to work. As a result, CBO expects that a small number of people who would otherwise have remained outside the labor force will join it. A small part of that effect is offset by a decrease in the incentives to work among health care providers.

Direct Appropriations for Defense, Homeland Security, and Immigration Enforcement. Funds provided directly for activities related to defense, homeland security, and immigration enforcement in the 2025 reconciliation act are estimated to increase primary deficits over the 2025–2034 period by $350 billion in relation to CBO's January 2025 baseline projections. Included in that amount is funding for the Department of Defense to expand its shipbuilding programs, undertake air and missile defense activities, and purchase munitions; for the Coast Guard to buy vessels and aircraft and improve its facilities; for Customs and Border Protection to construct, upgrade, and replace components of the barrier system along U.S. borders; for Immigration and Customs Enforcement to hire additional agents and increase detention capacity; and for the Department of Justice to hire additional immigration judges. In CBO's assessment, the increase in funding for immigration enforcement and detention will increase the number of people who leave the United States and the number of people held in detention centers.

Higher Education. In CBO's estimates, changes to higher education in the 2025 reconciliation act reduce primary deficits over the 2025–2034 period by $284 billion, on net—mostly by amending the terms of federal student loans. CBO estimates the lifetime costs of the federal student loan program on a net-present-value basis, as required by the Federal Credit Reform Act of 1990.[21] (In accordance with that act, changes to the costs of future student loans are shown in the years in which CBO expects those loans to be originated. Changes to the costs of outstanding loans are shown in the years in which the legislation that modifies their terms is enacted.)

Most of the budgetary effects of the reconciliation act's changes to federal student loans arise from eliminating previous repayment plans for student loans and replacing them with new repayment plans under which borrowers are expected to pay more, on average. Other changes to student loans that reduce primary deficits include modifications to the annual and lifetime limits for loans to graduate students, the elimination of certain loans to graduate students, and lower borrowing limits for loans to parents of students. Those reductions are partly offset by modifications to the Federal Pell Grant Program and the appropriation of additional funds for that program.

In CBO's assessment, the provisions that modify student loans reduce student enrollment and slightly increase hours worked because people will work more instead of enrolling in an educational program.

Supplemental Nutrition Assistance Program. Changes to SNAP in the 2025 reconciliation act, including an expansion of work requirements, changes to how benefits are calculated, and modifications to how the program is administered, are estimated to reduce primary deficits

20. An advanceable tax credit is available in advance of filing an income tax return. A refundable tax credit is one in which, if the amount of the credit exceeds a filer's tax liability before the credit is applied, the government pays the excess amount to the filer.

21. A present value is a single number that expresses a flow of current and future income or payments in terms of an equivalent lump sum received or paid at a specific time. The present value of future cash flows depends on the discount rate used to convert those cash flows into their equivalent value at a given time. The Federal Credit Reform Act of 1990 specifies discount rates as the rates on Treasury securities with similar terms to maturity.

over the 2025–2034 period by $187 billion relative to CBO's January 2025 baseline projections.[22]

The reconciliation act expanded the number of SNAP recipients subject to work requirements, restricted states' ability to waive work requirements in certain areas, and limited SNAP eligibility based on citizenship and immigration status. CBO expects those changes to reduce the number of people receiving benefits from SNAP. The act also reduced benefit amounts for SNAP participants by capping increases in the maximum benefit amount and by changing how certain deductions from income are calculated.

In addition, the reconciliation act is projected to decrease federal spending on SNAP because of changes in the way costs are shared between the federal government and state governments. Beginning in 2028, the act requires states with a payment error rate of 6 percent or higher to pay a portion of benefit payments (previously, the federal government paid the full cost of benefits). CBO expects that in response, some states will maintain current benefits and eligibility while others will modify or leave the program. The act also increased the percentage of states' administrative expenses that they are required to pay, from 50 percent to 75 percent.

In CBO's assessment, the changes to SNAP slightly increase incentives to work, largely because of the expansion of work requirements.

Spectrum Auctions. The 2025 reconciliation act reinstated the Federal Communications Commission's (FCC's) general auction authority through September 30, 2034. The act also required the FCC to identify and auction at least 800 megahertz of the electromagnetic spectrum, subject to specified timelines and milestones, and provided funding for related federal analyses and reporting. To account for the implementation of those provisions, CBO decreased its projections of primary deficits over the 2025–2034 period by $85 billion.[23]

Agriculture, Conservation, and Forestry. Changes to agriculture, conservation, forestry, and related programs in the 2025 reconciliation act are estimated to increase primary deficits over the 2025–2034 period by $66 billion, on net—mostly by providing additional assistance to farmers.

Specifically, the act increased payments under the Price Loss Coverage and Agriculture Risk Coverage programs, which provide support payments to producers of covered agricultural commodities when prices or revenues drop below guaranteed amounts. In addition, the act increased spending on marketing assistance loans, crop insurance, programs to support agricultural trade and research, and support for producers of various agricultural products, among other changes.

Other Changes. Taken together, all other provisions in the 2025 reconciliation act are estimated to reduce primary deficits over the 2025–2034 period by $45 billion, on net.

Some changes codified in those other provisions reduce primary deficits, including the following:

- The reconciliation act imposed new fees on non-U.S. nationals seeking benefits under the Immigration and Nationality Act, including applying for or renewing work authorization or visas.
- The act increased the number of lease sales for oil, gas, and coal development on federal lands and expanded the authority to commingle oil and gas production from multiple sources. CBO expects those changes to increase federal receipts from leasing and energy production. Those effects are partly offset by reduced royalty rates for new oil and gas leases and for all coal leases.
- The act rescinded funds provided for various projects in the 2022 reconciliation act, including projects that aim to reduce air pollution; support low-carbon energy, materials, and transmission; and increase reporting about greenhouse gas emissions.

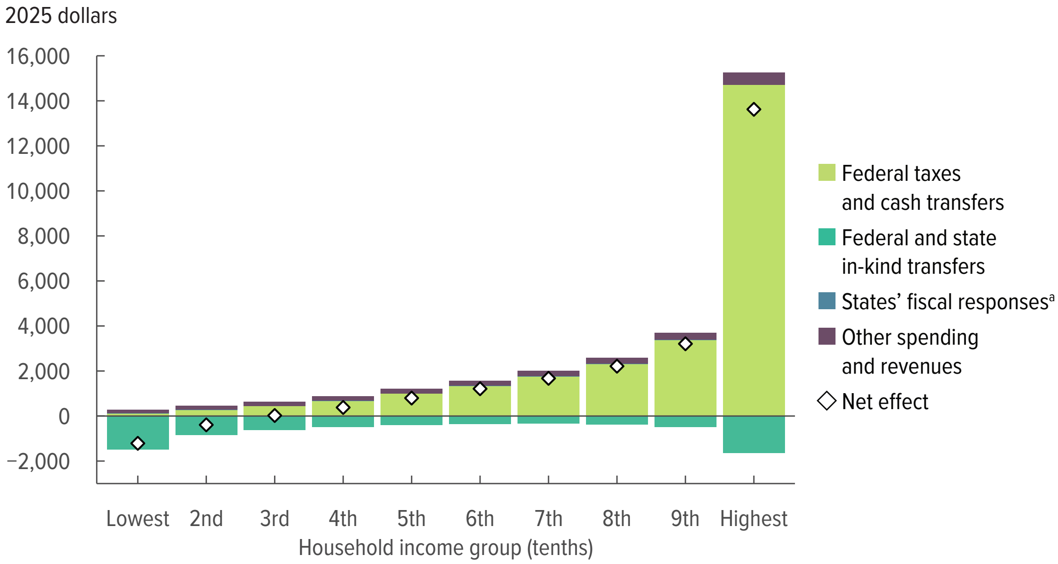
Other changes codified in those other provisions increase primary deficits and thus partly offset the provisions' deficit-reducing effects. Those changes include the following:

22. For more details about CBO's estimates of the effects of the changes to SNAP, including information about effects on the number of people receiving SNAP benefits, see Congressional Budget Office, "Estimated Effects of Public Law 119-21 on Participation and Benefits Under the Supplemental Nutrition Assistance Program" (August 11, 2025), www.cbo.gov/system/files/2025-08/61367-SNAP.pdf.

23. For more details about CBO's estimates of the budgetary effects of changes to spectrum auctions, see Congressional Budget Office, supplemental cost estimate for Public Law 119-21, to provide for reconciliation pursuant to title II of H. Con. Res. 14, title IV, Committee on Commerce, Science, and Transportation, section 40002, Spectrum Auctions, as enacted on July 4, 2025 (October 28, 2025), www.cbo.gov/publication/61838.

Figure A-2.

Average Annual Change in Households' Resources Attributable to the 2025 Reconciliation Act, 2026 to 2034



The resources of households in the lowest tenth of the income distribution are projected to decrease, mainly because of reductions in in-kind transfers, such as benefits from Medicaid and SNAP. The resources of households in the middle and at the top of the income distribution are projected to increase (the most for the latter), mainly because of changes to federal taxes.

Data sources: Congressional Budget Office; staff of the Joint Committee on Taxation. See www.cbo.gov/publication/61882#data.

The estimates shown here were developed in relation to CBO's January 2025 baseline projections. For details about those projections, see Congressional Budget Office, *The Budget and Economic Outlook: 2025 to 2035* (January 2025), www.cbo.gov/publication/60870. The figure replicates previously published data that were based on an analysis by CBO and the staff of the Joint Committee on Taxation. For more details, see Congressional Budget Office, letter to the Honorable Brendan F. Boyle, the Honorable Hakeem Jeffries, the Honorable Jeff Merkley, and the Honorable Chuck Schumer about the distributional effects of Public Law 119-21 (August 11, 2025), www.cbo.gov/publication/61367.

Years are fiscal years.

SNAP = Supplemental Nutrition Assistance Program.

a. States' fiscal responses consist of the changes to taxes and spending that states implement in response to changes in their fiscal position. The effects of those responses are too small to perceive in this figure but are included in the totals shown here. The amounts of those effects are also included in the supplemental data that accompany this report.

- The reconciliation act provided additional funding for projects related to air transportation and space exploration.
- The act reauthorized and expanded the Radiation Exposure Compensation Act, which provides payments to certain people who were potentially exposed to radiation from nuclear weapons tests or from work in the uranium industry and who subsequently developed cancer.

In CBO's estimation, the provisions that increase federal receipts from leasing and energy production also increase private investment, mainly in the oil and gas sector.

Effects on Households' Resources

In CBO and JCT's estimates, the 2025 reconciliation act increases the resources available to households, on average.[24] The changes in resources are not evenly distributed among households. In general, resources decrease for households toward the bottom of the income distribution, whereas resources increase for households in the

24. For a discussion of how the reconciliation act affects households' resources, including the law's tax and spending provisions, see Congressional Budget Office, letter to the Honorable Brendan F. Boyle, the Honorable Hakeem Jeffries, the Honorable Jeff Merkley, and the Honorable Chuck Schumer about the distributional effects of Public Law 119-21 (August 11, 2025), www.cbo.gov/publication/61367. That analysis includes most, but not all, provisions of P.L. 119-21. CBO's analysis does not reflect the effects of the additional debt-service costs or the macroeconomic effects of the law. The distributional analysis of changes to taxes and tax-related outlays is based on JCT's analysis. See Joint Committee on Taxation, *Distribution of the Estimated Revenue Effects Relative to the Present Law Baseline of the Tax Provisions in Public Law 119-21*, JCX-37-25 (July 29, 2025), www.jct.gov/publications/2025/jcx-37-25.

Table A-4.

Changes in CBO's Economic Forecast Attributable to the 2025 Reconciliation Act

	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
Output (percent)										
Real GDP	0.4	0.9	0.7	0.6	0.5	0.6	0.7	0.7	0.7	0.7
Real potential GDP[a]	*	0.2	0.4	0.6	0.6	0.6	0.7	0.7	0.7	0.7
Nominal GDP	0.4	0.9	0.8	0.7	0.7	0.8	0.8	0.8	0.8	0.8
Total factor productivity (percent)[b]	*	*	*	*	*	*	*	*	*	*
Labor market										
Labor force (percent)[c]	*	0.2	0.3	0.5	0.5	0.5	0.5	0.5	0.4	0.4
Unemployment rate (percentage points)	-0.1	-0.4	-0.2	-0.1	*	*	0	0	0	0
CPI-U (percent)	*	*	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Interest rates (percentage points)										
Federal funds rate	*	0.2	0.3	0.2	0.1	0.1	0.1	0.1	0.1	0.1
3-month Treasury bills	*	0.2	0.3	0.2	0.1	0.1	0.1	0.1	0.1	0.1
10-year Treasury notes	0.1	0.2	0.2	0.1	0.1	0.1	0.2	0.2	0.1	0.1
Addendum:										
Real GDP growth (percentage points)	0.4	0.5	-0.2	-0.1	*	0.1	*	*	*	*
Nominal GDP growth (percentage points)	0.4	0.6	-0.2	-0.1	*	0.1	*	*	*	*

Data source: Congressional Budget Office. See www.cbo.gov/publication/61882#data.

The estimates shown here were developed in relation to CBO's January 2025 baseline projections. For details about those projections, see Congressional Budget Office, *The Budget and Economic Outlook: 2025 to 2035* (January 2025), www.cbo.gov/publication/60870.

Years are calendar years.

Real values are nominal values adjusted to remove the effects of inflation.

CPI-U = consumer price index for all urban consumers; * = between -0.05 and 0.05 percentage points.

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

b. The average real output (that is, the output adjusted to remove the effects of inflation) per unit of combined labor and capital services.

c. The number of people age 16 or older in the civilian noninstitutionalized population who have jobs or are unemployed (available for work and either seeking work or expecting to be recalled from a temporary layoff). The civilian noninstitutionalized population excludes members of the armed forces on active duty and people in penal or mental institutions, detention facilities, or homes for the elderly or infirm.

middle and toward the top of the income distribution (see Figure A-2 on page 133).

How the reconciliation act affects the distribution of households' resources has implications for its effects on the economy because higher- and lower-income households adjust their spending differently, on average, in response to changes in their disposable income. In CBO's assessment, higher-income households spend a smaller share of that incremental disposable income than lower-income households do.

Effects on the Economy

The 2025 reconciliation act is estimated to increase real GDP over the 2025–2034 period by an average of 0.7 percent a year relative to CBO's January 2025 projections (see Table A-4). The act boosts real GDP by 0.4 percent in 2025 and by 0.9 percent in 2026, when its effect on real GDP peaks. The growth of real GDP is 0.5 percentage points faster in 2026 than CBO projected in January 2025. The act's effect on real GDP growth turns negative in 2027 as the growth effects of the law's tax provisions wane and economic activity is temporarily dampened by the slowing of the Federal Reserve's decrease in the target range for the federal funds rate. As the effects of the Federal Reserve's actions diminish, the reconciliation act's impact on real GDP growth turns positive again in 2030; beyond 2034, real GDP grows at about the same rate as previously estimated. In 2034, real GDP is 0.7 percent larger than CBO projected in January 2025, and nominal GDP (which includes the act's effect on prices) is 0.8 percent larger.

Real potential GDP—a measure of the economy's maximum sustainable output—is greater in every year of the projection period because of the reconciliation act's effects on the labor supply, investment, and productivity. In 2034, real potential GDP and real GDP are both 0.7 percent larger than CBO projected in January 2025 because of the effects of the act. From 2025 to 2028, the increase in real GDP exceeds the increase in real potential GDP, a change mainly driven by the boost in overall demand for goods and services. The result is that the output gap—the amount by which real GDP exceeds real potential GDP—is larger than it would have been otherwise.

That larger output gap through 2028 puts upward pressure on prices and reduces the unemployment rate. Inflation (as measured by changes in the CPI-U) is slightly higher than it otherwise would have been over the first few years of the projection period and then is unchanged. The reconciliation act reduces the unemployment rate through 2028 relative to CBO's January 2025 baseline projection.

CBO anticipates that the larger output gap and greater inflationary pressure attributable to the 2025 reconciliation act will prompt the Federal Reserve to reduce interest rates more slowly over the next few years than it otherwise would have. In CBO's estimates, the rate for 3-month Treasury bills is higher by 0.2 percentage points in 2026 than it would have otherwise been. In 2034, that rate is 0.1 percentage point higher than CBO projected in January 2025, mainly because of an increase in the debt-to-GDP ratio that increases Treasury rates in the long run. The interest rate on 10-year Treasury notes is an average of 14 basis points higher over the 2025–2034 period than CBO previously projected.[25]

Potential Output

Various provisions of the 2025 reconciliation act directly affect the productive potential of the U.S. economy. They do so by spurring increases in the labor supply and investment. The act is also projected to slightly increase total factor productivity. On net, the act gradually increases potential output over the 2025–2034 period; the peak of that effect is in 2034, when potential output is projected to be 0.7 percent higher than CBO estimated in January 2025.

Labor Supply. The 2025 reconciliation act is projected to boost potential output by increasing the labor supply through increases in the potential labor force and in the potential average number of hours worked per worker.[26] The reconciliation act increases the incentives to work, particularly by lowering effective marginal tax rates on labor income (see Table A-3 on page 128) and changing work requirements for some federal programs. For example, changes to work requirements for certain Medicaid and SNAP recipients increase incentives to work, causing some people who otherwise would have remained outside the labor force to join it.

All told, the increase in total potential hours worked stemming from the changes to work incentives averages 0.6 percent over the 2025–2034 period; a boost of 0.8 percent in 2028 is the peak of that effect. Those estimates reflect increases in both the potential labor force and potential average hours worked per worker. The increase in the potential labor force that stems from changes in work incentives is partly offset by a reduction in the size of the civilian noninstitutionalized population caused by increases in federal spending on immigration enforcement and detention.[27] In total, the potential labor force is estimated to be 0.4 percent larger, on average, over the 2025–2034 period as a result of the reconciliation act. Those estimates reflect CBO's assessment that people's responses to changes in fiscal policy are not always immediate. For example, the estimate reflects the time that people take to learn about and adapt to changes in their incentives to work and to correspondingly adjust the amount they work.

Private Investment. Increases in investment also boost potential output by increasing the stock of capital—structures, equipment, intangible assets, and inventories—used to produce output. The reconciliation act affects private investment through three channels: changes in incentives, crowding out (which occurs when increased federal borrowing raises interest rates and thus reduces the incentive to invest), and changes in economic activity.

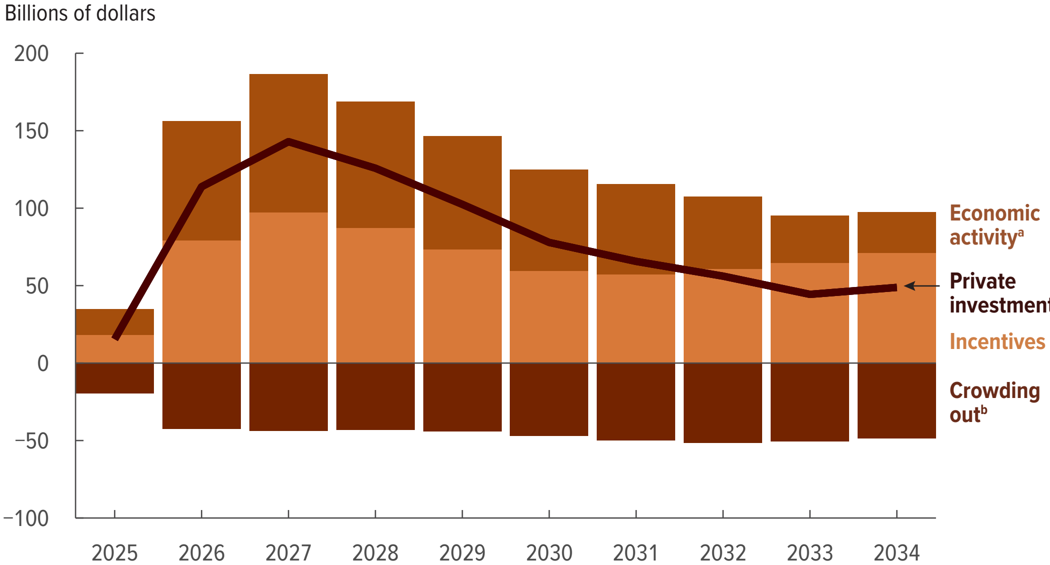
25. For more information about the basis of CBO's estimates of the reconciliation act's economic effects, see the agency's forthcoming working paper, *Key Methods That CBO Used to Estimate the Macroeconomic Effects of the 2025 Reconciliation Act.*

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

27. The civilian noninstitutionalized population excludes members of the armed forces on active duty and people in penal or mental institutions or in homes for the elderly or infirm. People held in detention facilities are excluded from the agency's projections of the civilian noninstitutionalized population age 16 or older (the population that the agency uses to project the size of the labor force).

Figure A-3.

Changes in Private Investment Attributable to the 2025 Reconciliation Act



The reconciliation act is estimated to increase private investment directly through its effect on businesses' incentives to invest and indirectly through its effect on the rest of the economy. Those increases are partly offset by the crowding out of investment attributable to higher interest rates.

Data source: Congressional Budget Office. See www.cbo.gov/publication/61882#data.

The estimates shown here were developed in relation to CBO's January 2025 baseline projections. For details about those projections, see Congressional Budget Office, *The Budget and Economic Outlook: 2025 to 2035* (January 2025), www.cbo.gov/publication/60870.

Years are calendar years.

a. Increases in the demand for goods and services and the supply of labor increase investment.

b. The crowding out of investment occurs when increased federal borrowing raises interest rates and thus reduces the incentive to invest.

The 2025 reconciliation act is estimated to increase total business fixed investment—which consists of investment in nonresidential structures, equipment, and intellectual property products—over the 2025–2034 period by $1.1 trillion in relation to CBO's January 2025 baseline projections. Such investment is boosted by changes in incentives and stronger economic activity but dampened by crowding out from increased federal borrowing. By contrast, the act reduces residential investment by $297 billion over that same period.

The increase in private investment (comprising business fixed investment, inventory investment, and residential investment) peaks in 2027 and then declines as the effect of increased economic activity diminishes and the effect from crowding out grows (see Figure A-3). On net, the increase in private investment averages 0.2 percent of GDP over the projection period and declines as a percentage of GDP after peaking in 2027. The increase in total business fixed investment peaks at 0.5 percent of GDP in 2027 and averages 0.3 percent over the 2025–2034 period, in CBO's estimates. The reduction in residential investment is largest in 2031, when it amounts to 0.1 percent of GDP.

Changes in Incentives. The reconciliation act affects investment in the United States by changing incentives to invest. Several provisions in the act reduce the user cost of capital and thus decrease the minimum return that an investment must achieve to be profitable. The provision allowing full expensing of capital investments in new equipment and certain other assets is the largest factor contributing to the lower user cost of capital throughout the 2025–2034 period. Temporary full expensing for property (affecting mainly manufacturing structures and property used in agricultural or chemical production) reduces the user cost of capital through 2028.

In addition, the changes to taxes on pass-through business income, domestic research expenditures, and interest income provide more modest reductions to the user cost of capital over that period. The effects of those provisions are partly offset by changes to energy-related tax provisions and changes to individual income taxes that limit deductions for property taxes and mortgage interest, which increase the user cost of capital.

The 2025 reconciliation act affects the user cost of capital in different ways for the three kinds of business fixed investment and for residential investment. Over the 2025–2034 period, relative to CBO's January 2025 baseline projections, tax-driven changes to incentives:

- Boost investment in equipment by $433 billion;
- Increase investment in nonresidential structures by $150 billion, with most of that growth occurring from 2026 to 2029 because of temporary full expensing for production property;
- Boost investment in intellectual property products by $264 billion; and
- Reduce residential investment by $297 billion because of changes that limit deductions for property taxes and mortgage interest.

In addition to those tax-driven changes, the reconciliation act increases the incentive for businesses to invest in their inventory and in the oil and gas sector; however, those effects are partly offset by a reduction in the incentive to invest in the health care sector. On net, those changes to incentives are estimated to increase private investment over the 2025–2034 period by $115 billion relative to CBO's January 2025 baseline projections.

Crowding Out. In CBO's assessment, greater federal borrowing ultimately reduces private investment by increasing interest rates and thus the user cost of capital. When the government borrows, it does so from people and businesses whose savings would otherwise finance private investment. Although an increase in government borrowing strengthens the incentive to save through its effect on interest rates, the resulting increase in saving is not as large as the increase in government borrowing; national saving, or the amount of domestic resources available for private investment, is therefore diminished. However, private investment decreases by less than national saving does in response to government deficits because the higher interest rates that result from increased federal borrowing tend to attract more foreign capital to the United States.

The effects on private saving, net foreign investment, and interest rates depend on the policy changes that caused federal borrowing to change. On net, under the policy changes in the reconciliation act, the increase in federal borrowing is estimated to reduce private investment over the 2025–2034 period by $440 billion—an average of 10 cents per dollar of increased federal borrowing—relative to CBO's January 2025 baseline projections.

The reconciliation act's effect on interest rates, and therefore on crowding out, depends on its effect on the amount of debt held by the public as a percentage of GDP, the Federal Reserve's response to changes in the economy, and other factors that affect the natural rate of interest.[28]

- A key driver of crowding out comes from the reconciliation act's effect on debt as a percentage of GDP. The increase in interest rates attributable to the increase in government borrowing reduces private investment over the 2025–2034 period by $384 billion.
- The reduction in investment is made larger by the Federal Reserve's monetary policy response to the act's effect on labor markets and inflation, which further reduces private investment by $61 billion over the first half of the period.
- Finally, other factors that affect the natural rate of interest—such as changes in labor force growth, TFP growth, and the private saving rate—increase private investment by $6 billion, slightly offsetting the crowding out that occurs through the other two channels.

The effects on private investment depend on how the mix of policies in the reconciliation act affect different aspects of the economy. For example, taken together, several effects are projected to reduce the size of the Federal Reserve's response to the act's impact on the economy and to reduce the amount of crowding out that occurs over the first few years of the projection period. In particular, most of the increase in primary deficits during those years derives from tax reductions among higher-income households. Because higher-income households spend, on average, a smaller share of the increase in their after-tax income than lower-income households do, the act has a smaller effect on aggregate demand. At the same time, the reconciliation act increases the supply of goods and services through its effect on the labor supply and private investment, which partly offsets the act's effect on inflation and the output gap.

The effect of crowding out on different categories of investment depends on how sensitive the investments are to interest rates. In general, interest rates constitute a larger share of the user cost of capital for types of capital that depreciate slowly, so changes in interest rates have a

28. The natural rate of interest is the short-term real return that balances the demand and supply of savings in equilibrium, absent fluctuations in the business cycle and other temporary factors.

larger effect on investment in those types of capital. For example, a 1 percent increase in mortgage rates would have a proportionately larger impact on residential investment than a 1 percent increase in corporate bond rates would have on businesses' purchases of computers. Consequently, investment in structures bears a disproportionate share of the impact of larger deficits. The 2025 reconciliation act's crowding-out effects vary not only by type of investment but also over time as net interest costs resulting from the act increase (see Table A-1 on page 120).

Changes in Economic Activity. When the supply of labor increases, businesses purchase additional capital for the new workers to use. Additionally, as the demand for businesses' output increases, they add capital to meet that additional demand. Those investments then increase the potential output of the economy because a larger capital stock increases the businesses' ability to produce output. Once businesses have invested enough to meet the additional demand and to supply workers with the necessary capital, the only further increase in investment comes from the need to gradually replace the additional capital as it depreciates. The boost to economic activity attributable to the 2025 reconciliation act's effects on the labor supply, overall demand for goods and services, and spending to replace depreciated capital is estimated to increase private investment over the 2025–2034 period by $564 billion relative to CBO's January 2025 baseline projections.

In CBO's assessment, as the reconciliation act expands the supply of labor, businesses must purchase additional capital for the new workers to use. However, because businesses adjust their stocks of capital more slowly than they adjust the amount of labor they use, the response of investment to changes in the labor supply is gradual. In response to the increased supply of labor, businesses are estimated to increase investment over the 2025–2034 period by $471 billion.

The reconciliation act increases demand mainly by increasing households' demand for goods and services over the next few years, thus widening the output gap. Consequently, businesses invest to add the production capacity to meet that additional demand. The act's effect on investment through that channel, known as the accelerator effect, is positive during periods when the output gap is larger than it would have been without the effects of the reconciliation act and negative when it is smaller. Additionally, as the size of the economy grows, businesses increase investment in the long run to replace capital that has depreciated. Together, those effects increased CBO's projections of private investment over the 2025–2034 period by $93 billion.

Potential Productivity. In CBO's estimates, the reconciliation act slightly increases TFP growth, on net, over the next few years, reflecting small and mostly offsetting effects on productivity. After 2028, the act has little effect on TFP growth, but the level of TFP is higher than it otherwise would have been. The act's provisions related to oil and gas, infrastructure, research and development, and spectrum auctions slightly increase TFP growth. Provisions related to higher education reduce TFP growth, as does the reduction in the number of workers in science, technology, engineering, and mathematics fields driven by the increase in immigration enforcement and detention.

Actual Output

The 2025 reconciliation act is estimated to boost the demand for goods and services relative to CBO's January 2025 baseline projections. That increase in demand accelerates the growth of actual output relative to the growth of potential output over the first half of the 2025–2034 period. As a result, the output gap is an average of 0.4 percentage points larger from 2025 to 2027 than it otherwise would have been. In the later years of the projection period, the act's effects on actual output are driven by changes in potential output (which have already been described). In those years, the output gap is unchanged from what it otherwise would have been.

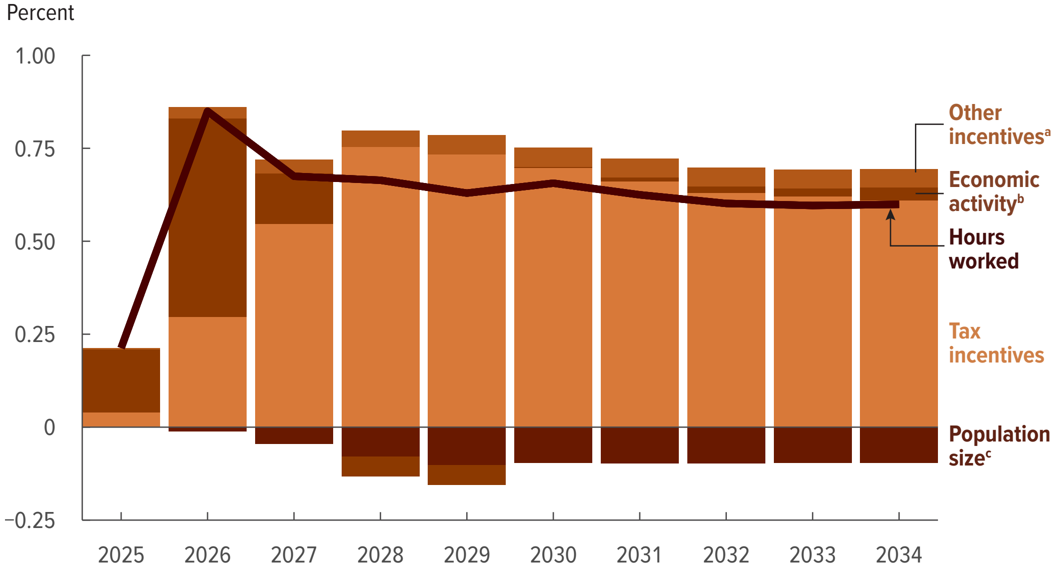
Heightened overall demand for goods and services is projected to increase consumer spending, decrease the unemployment rate, and slightly increase inflation. On net, the act increases interest rates on Treasury securities over the 2025–2034 period relative to CBO's January 2025 projections.

The estimated effect of the reconciliation act on real GDP over the next few years derives largely from its impact on consumer spending. The act's permanent tax provisions and its temporary provisions (such as the tax treatment of overtime pay and tips) reduce individual income taxes, which increases households' disposable income and thereby their spending.

Higher- and lower-income households adjust their spending differently, on average, in response to such increases in disposable income. CBO accounted for those differences by assessing the distributional effects of the reconciliation act among income groups. In the

Figure A-4.

Changes in Hours Worked Attributable to the 2025 Reconciliation Act



The reconciliation act is estimated to increase the number of hours worked in the economy through its impact on people's incentives to work, mainly through reductions in marginal tax rates. In the near term, the demand for labor grows, pushes up wages, and increases the number of hours people choose to work.

Data source: Congressional Budget Office. See www.cbo.gov/publication/61882#data.

The estimates shown here were developed in relation to CBO's January 2025 baseline projections. For details about those projections, see Congressional Budget Office, *The Budget and Economic Outlook: 2025 to 2035* (January 2025), www.cbo.gov/publication/60870.

Years are calendar years.

a. Includes changes to work requirements for beneficiaries of the Supplemental Nutrition Assistance Program and Medicaid.

b. An increase in the demand for goods and services boosts labor demand, and an increase in wages boosts labor supply.

c. Refers to the civilian noninstitutionalized population age 16 or older, which excludes members of the armed forces on active duty and people in penal or mental institutions, detention facilities, or homes for the elderly or infirm.

agency's assessment, lower-income households spend a larger share of the additional income in such cases than higher-income households do. Additionally, the act's permanent tax provisions produce a net increase in people's perceived wealth through the increase in the present discounted value of their projected lifetime income. That perceived increase in wealth leads some people to increase their consumption earlier than others who may be financially constrained from doing so.

Other effects of the reconciliation act cause people to increase their consumption in response to changes in their wealth. The act is projected to boost equity prices, thus increasing the wealth of households that own equities. That effect, however, is partly offset by the act's downward pressure on housing wealth as a result of its change to the limits on property tax and mortgage interest deductions and its effect on interest rates.

The Labor Market

The reconciliation act's effect on the labor market reflects changes in both the demand for and the supply of labor. The act's effect on people's incentives to work is reflected in the change to the labor supply. The boost in economic activity attributable to the act results in an increase in the demand for labor that is largest in 2025 and 2026; an increase in the average wage rate boosts the number of hours worked throughout the 2025–2034 period.

The 2025 reconciliation act is estimated to increase the number of hours worked over the 2025–2034 period by an average of 0.6 percent relative to CBO's January 2025 baseline projections (see Figure A-4). The peak of that effect is an increase of 0.8 percent in 2026, largely reflecting the changes to tax policy and their effect on incentives to work and on economic activity. Changes to tax policy drive most of the increase in the number of hours worked—notably the reduction in effective marginal tax rates on labor income, which boosts incentives to work. Other provisions in the reconciliation act also increase those incentives, such as the changes to Medicaid, SNAP, and student loan programs.

The 2025 reconciliation act boosts the demand for labor because it increases the demand for goods and services. Initially, that increase in the demand for labor exceeds the increase in the labor supply. As a result, the unemployment rate is estimated to decline by 0.4 percentage points in 2026, wage growth is estimated to increase in the near term, and the number of hours worked is estimated to increase through 2034. In CBO's assessment, the labor market will adjust to the effects of the 2025 reconciliation act over time, such that the unemployment rate reaches the noncyclical rate of unemployment by 2030.[29] Finally, the increase in the number of hours worked is partly offset by a gradual reduction in the size of the civilian noninstitutionalized population that stems from the act's effect on net immigration—an effect that peaks in 2029. (Net immigration is the number of people who enter the United States minus the number who leave.)

Inflation

The reconciliation act is estimated to boost the demand for goods and services by more than it increases their supply over the next few years. As a result, the act slightly increases inflation (as measured by changes in the CPI-U) in the early part of the projection period but has no effect on inflation after 2030 (see Figure A-1 on page 121). The peak of its effect is in 2027, when inflation increases by 4 basis points (that is, four hundredths of a percentage point); the CPI-U is about 0.1 percent higher that year than CBO projected in January 2025 and remains 0.1 percent higher through 2034.

Interest Rates

The 2025 reconciliation act is estimated to increase interest rates on Treasury securities over the 2025–2034 period relative to CBO's January 2025 baseline projections. In the long run, an increase in the debt-to-GDP ratio increases the natural rate of interest. In the short run, the reconciliation act increases aggregate demand and employment and puts modest upward pressure on inflation. CBO expects that in response to those economic changes, the Federal Reserve will slow the decrease of the target range for the federal funds rate—thus increasing that range relative to CBO's January 2025 projections.[30] The reconciliation act's effect on the natural rate of interest is modest in the short run because of offsetting pressures that stem from faster labor force growth and an increase in the rate of private saving. However, over time, the increase in the debt-to-GDP ratio increases the natural rate of interest, which, in the long run, is projected to boost the Federal Reserve's target range for the federal funds rate.[31]

In the near term, the change in the path of the target range for the federal funds rate increases the federal government's short-term borrowing rates. That increase in short-term borrowing rates in turn puts upward pressure on longer-term borrowing rates, such as the interest rate on 10-year Treasury notes.

In the longer run, the reconciliation act increases government borrowing rates through its impact on the natural rate of interest and the 10-year term premium, which is influenced by the act's effect on federal borrowing.[32]

The reconciliation act is estimated to increase the interest rate on 10-year Treasury notes over the 2025–2034 period by an average of 14 basis points relative to CBO's January 2025 projections. In the long run, the increase in the natural rate of interest boosts the rate on 3-month Treasury bills, mainly because it leads to an increase in the debt-to-GDP ratio. Additionally, the greater debt-to-GDP ratio increases the 10-year term premium. The act increases the effective interest rate on government debt by 12 basis points in 2034 compared with what CBO projected in January 2025.[33]

Uncertainty of CBO and JCT's Estimates

CBO and JCT's estimates of the budgetary and economic effects of the 2025 reconciliation act are subject to significant uncertainty. CBO is particularly uncertain about how the act will be implemented, what policies state governments might change in response to the act, how households and businesses will respond to changes in incentives to work and invest, and how the act will affect other aspects of the economy.

29. The noncyclical rate of unemployment is the rate of unemployment resulting from all sources except changes in aggregate demand.

30. The federal funds rate is the interest rate that financial institutions charge each other for overnight loans of their monetary reserves, which affects interest rates throughout the economy. The Federal Reserve sets a target range for the federal funds rate to conduct monetary policy.

31. See Andre R. Neveu and Jeffrey Schafer, *Revisiting the Relationship Between Debt and Long-Term Interest Rates*, Working Paper 2024-05 (Congressional Budget Office, December 2024), www.cbo.gov/publication/60314.

32. The term premium on a 10-year Treasury note is the difference between the yield on the note and the average expected short-term interest rate over the next 10 years.

33. The effective interest rate on government debt is the ratio of net interest costs within a year to the amount of debt held by the public at the start of the year.

In addition, the estimates reported in this appendix were developed in relation to CBO's January 2025 baseline, updated to reflect judicial decisions and administrative actions through April 10, 2025. Developments that have occurred later, including changes to tariff rates and immigration policy, interact with the provisions of the 2025 reconciliation act and will have an impact on those provisions' budgetary and economic effects. As a result, actual outcomes will deviate from the estimates reported here, which account for only the impact of the reconciliation act.

Furthermore, in addition to those broad categories of uncertainty, there is significant uncertainty about the ways people and businesses will respond to various provisions in the act. For example, CBO is uncertain about how health care providers and enrollees will respond to changes to Medicaid, how borrowers will respond to changes in the terms of student loans, and how bidders will respond to changes in spectrum auctions.

Implementation

The way that various government agencies implement provisions of the 2025 reconciliation act will partly determine how households and businesses respond to those provisions. For example, the regulations implementing tax provisions allowing deductions for amounts received as qualified overtime pay and tips, deductions for interest paid on loans for passenger vehicles, and changes in capital recovery allowances for businesses may differ from what JCT and CBO initially anticipated. In that case, the cost of those provisions and the agencies' assessments of their effects on after-tax income and the labor supply would change. In addition, the timing of federal spending on defense, homeland security, and immigration enforcement will be partly determined by actions of the agencies responsible for carrying out such spending.

State Governments' Responses

State governments could respond to the 2025 reconciliation act in unanticipated ways, altering the act's effects on the economy and the federal budget. For example, although many states' income tax systems conform to the federal income tax system, states could choose not to adopt certain provisions of the act, such as those involving personal deductions and full expensing. That step would affect how households and businesses respond to those provisions. In addition, the act's new tax credit for individual contributions to tax-exempt scholarship-granting organizations will be available only in states that decide to participate in the program, and those decisions are ongoing. The effects of changes to Medicaid also depend on responses from states. For example, significant uncertainty exists about how states will implement the program's community engagement requirement. The effects of requiring states to pay a portion of SNAP benefit payments also depend on how states respond to that requirement.

Decisions to Work, Spend, Save, and Invest

Many economic effects of the 2025 reconciliation act stem from its impact on people's decisions to work, spend, and save, and on businesses' decisions to invest. CBO's estimates of those effects reflect the agency's assessment of how changes in effective marginal tax rates for people and businesses will affect the supply of labor and investment, how work requirements will affect the supply of labor, and how changes in individuals' disposable income and wealth will affect consumer spending and savings. If, for example, fewer people than CBO expects responded to lower marginal tax rates by working more, the increase in potential GDP would be smaller than the agency estimated. If the response of businesses to lower user costs of capital from expensing was larger than CBO expects, then the increase in investment, and thus GDP, would be larger than the agency estimated.

Effects on the Overall Economy

There is also uncertainty about how the 2025 reconciliation act will affect elements of the overall economy, including the demand for goods and services, total factor productivity, and interest rates. The effect on the demand for goods and services depends on how people and businesses respond to changes in their available resources. Although CBO's estimates account for the way that people with differing amounts of income respond to such changes, those estimates are nonetheless uncertain. Additionally, the act's effect on interest rates may differ from CBO's projections because the Federal Reserve may respond differently than the agency anticipates, which would affect the path of short-term interest rates. And finally, the effect of increased federal borrowing on interest rates is subject to considerable uncertainty.

Appendix B: The Outlook for Major Federal Trust Funds

Overview

The federal government uses several accounting mechanisms to link earmarked receipts (that is, money designated for a specific purpose) with corresponding expenditures. One of those mechanisms is trust funds.[1] The largest of the government's many trust funds are for Social Security's Old-Age and Survivors Insurance (OASI) program and retirement programs for military and civilian personnel.

When the receipts designated for trust funds exceed the amounts needed to pay benefits, the funds are credited with nonmarketable debt instruments known as Government Account Series (GAS) securities. Those securities are held by federal agencies and trust funds to invest temporary cash reserves. They are not available to the public and cannot be sold to outside investors; instead, they are issued and redeemed directly by the Treasury.

The federal budget has numerous trust funds, although most of the money credited to them goes to the three largest ones. At the end of fiscal year 2025, federal trust funds held $6.3 trillion in such securities (see Table B-1).[2] That balance will rise in 2026, to $6.4 trillion, according to the Congressional Budget Office's current baseline projections. (Unless indicated otherwise, all the years discussed in this appendix are federal fiscal years.)

Last year, CBO projected a total trust fund surplus of $108 billion for 2026.[3] That amount has declined in this year's projections, to $100 billion (see Table B-2). That total for 2026 reflects surpluses in the retirement trust funds for military and civilian personnel and smaller trust funds, partly offset by deficits in Social Security's OASI trust fund and, to a much smaller extent, the transportation trust funds.

Starting in 2027, spending from all the trust funds combined is projected to exceed the funds' collective income, resulting in a projected deficit of $102 billion in that year. That deficit grows to $514 billion in 2036. Over the 2027–2036 period, the trust funds are projected to incur a cumulative deficit of $3.2 trillion, mostly because of mounting shortfalls in the OASI trust fund.[4]

If Congress does not address the shortfalls, the balances of two trust funds will be exhausted within the next 10 years, CBO projects: the Highway Trust Fund (in 2028) and the OASI trust fund (in 2032). No provisions in law dictate the funds' procedures once their balances are depleted. If that situation occurred, the government would continue to collect excise and payroll taxes designated for the funds, and the funds would continue to make payments. But because the government would not have the legal authority to make payments in excess of receipts, it would no longer be able to pay the full

1. Other mechanisms serving that purpose are special funds (such as the fund that the Department of Defense uses to finance its health care program for military retirees, known as TRICARE for Life) and revolving funds (such as the Federal Employees' Group Life Insurance fund).

2. Debt issued in the form of GAS securities is included in a measure of federal debt called gross debt. Because that debt is intragovernmental in nature (meaning that it constitutes transactions between different federal agencies, departments, or branches), it is not included in the measure called debt held by the public. For a discussion of different measures of federal debt, see Congressional Budget Office, *Federal Debt: A Primer* (March 2020), www.cbo.gov/publication/56165.

3. Congressional Budget Office, "10-Year Trust Fund Projections" (supplemental material for *The Budget and Economic Outlook: 2025 to 2035*, January 2025), www.cbo.gov/data/budget-economic-data#5.

4. In keeping with the rules in section 257 of the Balanced Budget and Emergency Deficit Control Act of 1985, CBO's baseline reflects the assumption that scheduled payments will continue to be made in full after the balance of the trust fund has been exhausted, although there is no legal authority to make such payments. The manner in which those payments continued would depend on future legislation.

Table B-1.

CBO's Baseline Projections of Trust Fund Balances

Billions of dollars

	Actual, 2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036
Social Security												
Old-Age and Survivors Insurance[a]	2,401	2,194	1,934	1,621	1,260	849	384	0	0	0	0	0
Disability Insurance	215	256	300	346	397	452	513	578	648	723	801	885
Subtotal	2,616	2,450	2,234	1,967	1,657	1,301	897	578	648	723	801	885
Medicare												
Supplementary Medical Insurance (Parts B and D)	154	168	190	189	217	235	257	284	278	295	354	395
Hospital Insurance (Part A)	253	277	298	290	325	333	337	334	286	255	252	210
Subtotal	407	445	488	479	542	569	594	618	564	550	605	605
Military retirement	1,807	2,016	2,084	2,146	2,219	2,287	2,357	2,432	2,496	2,573	2,661	2,743
Civilian retirement[b]	1,131	1,163	1,195	1,228	1,262	1,298	1,333	1,367	1,401	1,433	1,465	1,496
Unemployment insurance	89	93	91	85	69	73	79	85	91	97	104	112
Highway and mass transit[a]	69	45	15	0	0	0	0	0	0	0	0	0
Airport and Airway	19	21	23	26	28	31	35	38	43	47	52	58
Railroad Retirement (Treasury holdings)[c]	4	3	3	3	3	3	3	3	3	3	3	3
Other[d]	134	137	142	146	151	155	159	164	168	173	178	183
Total trust fund balance	**6,275**	**6,374**	**6,275**	**6,080**	**5,931**	**5,717**	**5,456**	**5,285**	**5,415**	**5,600**	**5,871**	**6,085**
Addendum:												
Railroad Retirement (non-Treasury holdings)[c]	27	27	26	26	26	26	26	26	26	26	26	27

Data source: Congressional Budget Office. See www.cbo.gov/publication/61882#data.

These balances are for the end of the fiscal year and include only securities invested in Treasury holdings.

a. In keeping with the rules in section 257 of the Balanced Budget and Emergency Deficit Control Act of 1985, CBO's baseline reflects the assumption that scheduled payments will continue to be made in full after the trust fund's balance has been exhausted, although there is no legal authority to make such payments. Because the manner in which those payments continued would depend on future legislation, if the trust fund's balance is projected to be exhausted, the table shows zero rather than a cumulative negative balance after the exhaustion date.

b. Includes trust funds for civil service retirement and foreign service retirement, as well as several smaller retirement funds.

c. The Railroad Retirement and Survivors' Improvement Act of 2001 established an entity, the National Railroad Retirement Investment Trust, that is allowed to invest in non-Treasury securities, such as stocks and corporate bonds.

d. Consists primarily of trust funds for federal employees' health and life insurance, the Superfund program, and various insurance programs for veterans.

amounts scheduled or projected under current law.[5] (For more information about CBO's estimates of income and outlays for the OASI trust fund, see Appendix C.)

How Trust Funds Work

When a trust fund receives income that is not needed immediately to pay benefits or cover other expenses, the Treasury issues GAS securities in that amount to the fund (that is, the Treasury borrows the money from the trust fund) and then uses the extra cash to finance the government's activities, just as it uses other revenues. As a result, the government borrows less from the public than it would without that extra net income. The reverse happens when a trust fund's income falls short of its expenses; in that case, the fund redeems the GAS securities (in other words, returns them to the Treasury, which then must borrow from the public or generate the resources to make the necessary payments).

The balance of a trust fund is a measure of the cumulative difference between the related program's past receipts and expenditures. That balance (in the form of GAS securities) is an asset for the individual program, such as Social Security, but a liability for the rest of the government. The resources used to redeem a trust fund's

5. For more information about the legal issues related to exhaustion of a trust fund, see Barry F. Huston, *Social Security: What Would Happen If the Trust Funds Ran Out?* Report RL33514, version 34 (Congressional Research Service, September 28, 2022), https://go.usa.gov/xEtaw. See also Congressional Budget Office, *The Long-Term Budget Outlook: 2025 to 2055* (March 2025), Chapter 2, www.cbo.gov/publication/61187.

Table B-2.

CBO's Baseline Projections of Trust Fund Deficits and Surpluses

Billions of dollars

													Total	
	Actual, 2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2027–2031	2027–2036
Social Security														
Old-Age and Survivors Insurance[a]	-182	-207	-260	-313	-361	-411	-465	-525	-569	-611	-651	-691	-1,810	-4,859
Disability Insurance	37	41	44	46	51	56	60	65	70	74	79	84	256	629
Subtotal	-144	-166	-217	-267	-310	-355	-404	-460	-499	-537	-573	-608	-1,554	-4,230
Medicare														
Supplementary Medical Insurance (Parts B and D)	-11	14	23	-2	29	18	22	27	-6	17	59	41	89	227
Hospital Insurance (Part A)	18	24	20	-7	35	8	3	-3	-48	-31	-4	-42	59	-67
Subtotal	7	38	43	-9	63	27	25	24	-54	-14	55	-1	149	160
Military retirement	208	209	68	61	73	68	70	75	65	77	88	82	341	727
Civilian retirement[b]	35	32	32	33	35	36	35	34	33	33	32	31	170	333
Unemployment insurance	15	4	-2	-6	-16	5	5	6	6	6	7	8	-15	19
Highway and mass transit[a,c]	-26	-24	-33	-34	-33	-33	-33	-33	-34	-35	-36	-37	-166	-340
Airport and Airway	2	3	2	2	3	3	3	4	4	5	5	6	13	36
Other[c]	-12	4	4	4	4	4	4	4	5	5	5	5	22	46
Total trust fund deficit (-) or surplus	**85**	**100**	**-102**	**-215**	**-182**	**-246**	**-294**	**-346**	**-474**	**-460**	**-417**	**-514**	**-1,039**	**-3,249**
Minus: Intragovernmental transfers to trust funds[d]	-1,198	-1,306	-1,239	-1,323	-1,328	-1,402	-1,468	-1,538	-1,682	-1,726	-1,766	-1,944	-6,760	-15,416
Net effect on the budget of the trust fund programs[e]	**-1,113**	**-1,206**	**-1,342**	**-1,537**	**-1,510**	**-1,648**	**-1,761**	**-1,884**	**-2,155**	**-2,186**	**-2,183**	**-2,458**	**-7,799**	**-18,665**
Addendum:														
Contributions to the deficit (-) or surplus from baseline assumptions about continuation of taxes and payments														
Programs with excise taxes that are assumed to be extended after expiration														
Airport and Airway[c]	0	0	0	0	24	24	25	26	27	28	29	31	73	215
Other[c,f]	0	*	*	*	1	2	2	2	3	3	3	3	5	19
Subtotal	0	*	*	*	25	26	27	29	30	31	32	33	79	234
Program with outlays assumed to continue after exhaustion of certain funds														
Old-Age and Survivors Insurance[a]	0	0	0	0	0	0	0	-142	-569	-611	-651	-691	0	-2,665
Program with excise taxes and outlays assumed to continue														
Highway and mass transit[a,c]	0	0	-3	-20	-33	-33	-33	-33	-34	-35	-36	-37	-121	-295
Total	**0**	*****	**-2**	**-19**	**-9**	**-7**	**-6**	**-146**	**-573**	**-615**	**-655**	**-695**	**-42**	**-2,726**

Data source: Congressional Budget Office. See www.cbo.gov/publication/61882#data.

Negative numbers indicate that the trust fund transactions add to total budget deficits.

* = between zero and $500 million.

a. CBO projects that this trust fund will be exhausted during the 2026–2036 period. However, in keeping with the rules in section 257 of the Balanced Budget and Emergency Deficit Control Act of 1985, CBO's baseline reflects the assumption that scheduled payments will continue to be made in full after the trust fund's balance has been exhausted, although there is no legal authority to make such payments. The manner in which those payments continued would depend on future legislation.

b. Includes trust funds for civil service retirement and foreign service retirement, as well as several smaller retirement funds.

c. Under current law, certain excise taxes dedicated to the Airport and Airway and certain other trust funds will expire during the 2026–2036 period. However, in keeping with provisions of the Deficit Control Act, CBO's baseline reflects the assumption that those expiring excise taxes will be extended, although there is no legal authority to continue collecting those revenues.

d. Consists mainly of trust funds for railroad workers' retirement, federal employees' health and life insurance, the Superfund program, and various insurance programs for veterans.

e. Includes interest paid to trust funds, payments from the Treasury's general fund to the Supplementary Medical Insurance Trust Fund, the government's share of payments for federal employees' retirement, lump-sum payments to the trust funds for civil service and military retirement, taxes on Social Security benefits, and smaller miscellaneous payments.

f. Includes trust funds for leaking underground storage tanks, sport fish restoration and boating, and smaller miscellaneous funds.

securities—and thereby pay for benefits or other spending—in some future year must be generated through taxes, income from other governmental sources, or borrowing from the public in that future year. Trust funds have legal meaning in that their balances are a measure of the amounts that the government has the legal authority to spend for certain purposes under current law, but they have little relevance in an economic or budgetary sense unless the limits of that authority are reached.

Trust Funds' Effects on the Budget

To assess how all federal activities, taken together, affect the economy and financial markets, it is useful to include the cash receipts and expenditures of trust funds in budget totals, along with the receipts and expenditures of other federal programs. CBO, the Office of Management and Budget, and other fiscal analysts generally follow that practice.

Some of the trust funds' income is in the form of intragovernmental transfers. Those transfers shift resources from one category of the budget to another and have no net effect on revenues, outlays, the budget deficit, or the government's borrowing needs. Those transfers include interest credited to the trust funds; payments from the Treasury's general fund to cover most of the costs of payments for outpatient medical services (including payments to physicians) and for prescription drugs under Parts B and D of Medicare; and the government's share of payments for federal employees' payroll taxes and retirement programs.

Transfers have also been made to protect trust funds from the financial effects of certain legislative policies. Recent examples include transfers to offset the reduction in Social Security payroll taxes during calendar years 2011 and 2012, transfers to maintain timely deposits when employers were allowed to defer their share of Social Security payroll taxes in calendar year 2020, and transfers to offset reductions in Social Security payroll taxes for payroll tax credits in calendar years 2020 and 2021. Intragovernmental transfers are projected to total $1.3 trillion in 2026 and to reach $1.9 trillion in 2036.

Excluding those transfers and counting only payments from external sources (such as payroll taxes and premiums paid by Medicare enrollees), CBO estimates that the trust fund programs' spending will exceed designated receipts by $1.2 trillion in 2026. That difference—the amount that the programs add to federal deficits—is projected to be $1.3 trillion in 2027 and to grow to $2.5 trillion in 2036 (see Table B-2 on page 145).

Those estimates are calculated following procedures specified in section 257 of the Balanced Budget and Emergency Deficit Control Act of 1985 (Public Law 99-177). Section 257(b) requires CBO to assume for programs with entitlement authority that the federal government will make required payments in full, regardless of the status of the trust funds, and that excise taxes dedicated to a trust fund, if expiring, will be extended. Section 257(c) requires CBO to assume that the discretionary budgetary resources that control most of the spending from the transportation trust funds will increase each year at the rate of inflation.

Social Security's Trust Funds

Social Security provides benefits to retired workers, their families, and some survivors of deceased workers through the OASI program; it also provides benefits to some people with disabilities and their families through the Disability Insurance (DI) program. Those benefits are financed mainly through payroll taxes that are collected on workers' earnings at a rate of 12.4 percent—half of which is paid by the worker and half by the employer. Of that 12.4 percent tax, 10.6 percentage points is credited to the OASI trust fund and the remaining 1.8 percentage points to the DI trust fund.

Old-Age and Survivors Insurance

The OASI trust fund, which held $2.4 trillion in GAS securities at the end of 2025, is the largest federal trust fund. CBO projects that the fund's annual income, excluding interest earned on those securities, will steadily rise from $1.2 trillion in 2026 to $1.8 trillion in 2036 (see Table B-3, top panel).[6] Expenditures from the fund are projected to be $1.5 trillion in 2026—exceeding noninterest income by $265 billion—and, assuming that full benefits are paid every year, the fund's expenditures are projected to grow more quickly than noninterest income over the next 10 years, rising to $2.5 trillion in 2036.

6. Although the federal government is an employer, it does not pay taxes. Instead, to cover the employer's share of the Social Security payroll tax for federal workers, it makes an intragovernmental transfer from the general fund of the Treasury to the OASI and DI trust funds. That transfer is included in the income lines in Table B-3.

Table B-3.

CBO's Baseline Projections of Balances in the OASI, DI, and HI Trust Funds

Billions of dollars

	Actual, 2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	Total 2027–2031	Total 2027–2036
								OASI trust fund[a]						
Beginning-of-year balance	2,582	2,401	2,194	1,934	1,621	1,260	849	384	0	0	0	0	n.a.	n.a.
Income (excluding interest)	1,176	1,241	1,292	1,342	1,399	1,457	1,514	1,572	1,632	1,692	1,756	1,821	7,005	15,478
Expenditures	-1,422	-1,506	-1,602	-1,701	-1,798	-1,896	-1,996	-2,098	-2,201	-2,304	-2,407	-2,512	-8,993	-20,515
Noninterest deficit (-) or surplus	-245	-265	-310	-359	-399	-439	-482	-526	-569	-611	-651	-691	-1,988	-5,037
Interest received	64	58	50	46	37	28	17	*	0	0	0	0	178	179
Total deficit (-) or surplus	-182	-207	-260	-313	-361	-411	-465	-525	-569	-611	-651	-691	-1,810	-4,859
End-of-year balance	**2,401**	**2,194**	**1,934**	**1,621**	**1,260**	**849**	**384**	**0**	**0**	**0**	**0**	**0**	**n.a.**	**n.a.**
								DI trust fund						
Beginning-of-year balance	178	215	256	300	346	397	452	513	578	648	723	801	n.a.	n.a.
Income (excluding interest)	191	201	209	217	226	235	244	253	263	272	282	292	1,132	2,495
Expenditures	-160	-166	-174	-181	-188	-194	-201	-208	-216	-224	-233	-243	-938	-2,061
Noninterest deficit (-) or surplus	30	35	35	36	39	41	43	45	47	48	49	49	194	433
Interest received	6	6	8	10	12	15	17	20	23	26	30	34	62	195
Total deficit (-) or surplus	37	41	44	46	51	56	60	65	70	74	79	84	256	629
End-of-year balance	**215**	**256**	**300**	**346**	**397**	**452**	**513**	**578**	**648**	**723**	**801**	**885**	**n.a.**	**n.a.**
								HI trust fund						
Beginning-of-year balance	235	253	277	298	290	325	333	337	334	286	255	252	n.a.	n.a.
Income (excluding interest)	459	488	512	535	559	584	608	633	660	687	716	745	2,798	6,239
Expenditures	-450	-474	-503	-555	-537	-590	-619	-650	-721	-730	-730	-797	-2,804	-6,432
Noninterest deficit (-) or surplus	9	14	9	-20	22	-6	-11	-17	-61	-43	-14	-52	-6	-193
Interest received	8	11	12	12	13	14	14	14	13	12	11	10	66	125
Total deficit (-) or surplus	18	24	20	-7	35	8	3	-3	-48	-31	-4	-42	59	-67
End-of-year balance	**253**	**277**	**298**	**290**	**325**	**333**	**337**	**334**	**286**	**255**	**252**	**210**	**n.a.**	**n.a.**

Data source: Congressional Budget Office. See www.cbo.gov/publication/61882#data.

Balances shown are invested in Government Account Series securities issued by the Treasury.

DI = Disability Insurance; HI = Hospital Insurance; OASI = Old-Age and Survivors Insurance; n.a. = not applicable; * = between zero and $500 million.

a. In keeping with the rules in section 257 of the Balanced Budget and Emergency Deficit Control Act of 1985, CBO's baseline reflects the assumption that scheduled payments will continue to be made in full after the trust fund's balance has been exhausted, although there is no legal authority to make such payments. Because the manner in which those payments continued would depend on future legislation, the table shows zero rather than a cumulative negative balance in the trust fund after the exhaustion date. For the same reason, the table shows zero interest received rather than an interest payment, which implicitly reflects the assumption that future legislation would not require the funds to pay financing costs.

With expenditures growing by an average of about 5 percent a year and noninterest income (mostly from payroll taxes) increasing by an average of about 4 percent a year, the annual cash flows of the OASI program, excluding interest credited to the trust fund, would add to federal deficits in every year of the coming decade by amounts reaching $691 billion in 2036, CBO estimates. As those deficits grew, the balance of the OASI trust fund would steadily decline, reaching zero in 2032. At that point, under current law, the balance of the fund would be exhausted. If the trust fund's outlays were limited to its income after taking reductions to collections of income taxes on OASI benefits into account, benefits would be reduced by 28 percent per year, on average, in the years after exhaustion, CBO estimates.

The projected exhaustion date of the balance of the OASI trust fund is one year earlier than the date projected in CBO's January 2025 *Budget and Economic Outlook*. That shift is primarily the result of higher projected cost-of-living adjustments (which increase outlays for benefits) and lower estimates of revenues credited to the trust fund.

Disability Insurance

The DI trust fund is much smaller than the OASI trust fund; its balance at the end of 2025 was $215 billion. In CBO's current baseline projections, the annual income of the DI fund, excluding interest, is projected to grow gradually, reaching $292 billion in 2036 (see Table B-3 on page 147, middle panel). As with the OASI fund, expenditures from the DI fund are projected to increase steadily over the next decade—but more slowly, by about 4 percent a year—rising from $174 billion in 2027 to $243 billion in 2036. For each of the next 10 years, the DI trust fund's income exceeds its expenditures, resulting in noninterest surpluses over the decade.

As a result, the balance of the DI trust fund is projected to grow to more than $800 billion in 2035 (exceeding CBO's previous projection of nearly $700 billion for that year), reaching $885 billion in 2036. The projected increase results from more payroll taxes being paid into the trust fund and fewer outlays for DI benefits (mainly owing to a decrease in the estimated number of DI beneficiaries).

Trust Funds for Federal Employees' Retirement Programs

After Social Security, the largest trust fund balances at the end of 2025 were held by the Military Retirement Trust Fund ($1.8 trillion) and by various civilian employee retirement funds (a total of $1.1 trillion).[7] Those accounts are mainly funded through transfers from federal agencies, payroll deductions from workers, and supplemental payments from the Treasury. Unlike Social Security's OASI fund and Medicare's trust funds (discussed next), those retirement funds are projected to have surpluses throughout the coming decade. In CBO's baseline projections, the combined annual surpluses total $241 billion in 2026 and then average about $100 billion per year through 2036.[8]

Of the cumulative growth in the retirement funds' projected balances over the 10-year period, about two-thirds is attributable to the Military Retirement Trust Fund (see Table B-1 on page 144). In CBO's current baseline projections, that fund's balance increases by an average of 3 percent annually over the coming decade, reaching $2.7 trillion in 2036. Balances in the civilian retirement funds are also projected to grow, by an average of roughly 3 percent annually over the next decade, totaling $1.5 trillion at the end of 2036.

Medicare's Trust Funds

The Medicare program provides health insurance for people 65 or older, as well as younger people with specific disabilities or conditions. Payments for Medicare benefits are made from two trust funds. The Hospital Insurance (HI) Trust Fund is used to make payments under Part A of the program, and the Supplementary Medical Insurance (SMI) Trust Fund is used to make payments for services provided under Parts B and D of the program.[9]

Hospital Insurance Trust Fund

The HI trust fund, which had a balance of $253 billion at the end of 2025, is currently the larger of Medicare's two funds. It is used to make payments to hospitals and providers of post-acute care services. The fund's income is derived primarily from the Medicare payroll tax (which amounts to 2.9 percent of workers' earnings, divided equally between the worker and the employer, or 3.8 percent on earnings above an income threshold, with the extra 0.9 percent paid by the worker). In 2025, that tax accounted for 87 percent of the $459 billion in noninterest income credited to the fund. An additional 9 percent came from part of the income taxes on Social Security benefits collected from beneficiaries. The remaining 4 percent of the HI trust fund's noninterest income consisted of premiums paid by beneficiaries; amounts recovered from overpayments to providers; fines, penalties, and other amounts collected by the Health Care Fraud and Abuse Control program; and other transfers and appropriations. In addition, the trust fund is credited with interest on its balances; that interest amounted to $8 billion in 2025.

The HI trust fund's noninterest income is projected to increase by about 4 percent each year, rising from $488 billion in 2026 to $745 billion in 2036 (see Table B-3 on page 147, bottom panel). But annual

7. Those civilian retirement funds include the Civil Service Retirement Trust Fund, the Foreign Service Retirement Trust Fund, and several smaller retirement funds.

8. The amount of the surplus decreases after 2026 because the Treasury is no longer required to make additional payments to increase the size of the Military Retirement Trust Fund so that it aligns better with projected liabilities.

9. Part C of Medicare (known as Medicare Advantage) specifies the rules under which private health care plans can assume responsibility for, and be paid for, providing benefits covered under Parts A and B of the program.

expenditures from the fund are projected to grow more rapidly—at an average annual rate of 5 percent—rising from $474 billion in 2026 to $797 billion in 2036. If current laws governing the program remained in place and full benefits continued to be paid, CBO estimates that the fund's balance would generally increase through 2031 before annual expenditures outstripped income in each year through 2036.

Supplementary Medical Insurance Trust Fund

The SMI trust fund contains two accounts. One pays for physicians' services and other health care provided on an outpatient basis under Part B of Medicare (Medical Insurance), and the other pays for prescription drug benefits under Part D.

Most of the SMI trust fund's income comes from routine transfers from the general fund of the Treasury. The amount of those transfers is automatically adjusted to cover the difference between the program's spending and specified revenues. In 2025, for example, transfers to the SMI fund accounted for about three-quarters of its income. Thus, the balance of the SMI fund cannot be exhausted.

The funding mechanisms used for the two accounts differ slightly.

- The Part B portion of the SMI fund is financed mainly through transfers from the general fund of the Treasury and through monthly payments of premiums from Medicare beneficiaries. The basic monthly premium for Part B is set to cover approximately 25 percent of the program's expected spending (and is adjusted to maintain a contingency reserve to cover unexpected spikes in spending). Beneficiaries with relatively high income pay a larger monthly premium. The amount transferred from the general fund equals about three times the amount expected to be collected from basic premiums minus the amount collected from the income-related premiums, fees from drug manufacturers, and interest income.
- The Part D portion of the SMI fund is financed mainly through transfers from the general fund, monthly premium payments from beneficiaries, and transfers from states (which are based on the number of people in a state who would have received prescription drug coverage under Medicaid in the absence of Part D). In 2025, the basic monthly premium for Part D was subject to a stabilization policy that limited growth from prior-year base premiums to 6 percent. The amount transferred from the general fund is set to cover total expected spending for benefits and administrative costs net of the amounts transferred from states and collected from basic and income-related premiums.

At the end of 2025, the SMI fund held $154 billion in GAS securities. Those holdings are projected to increase to $395 billion in 2036. That increase reflects the Centers for Medicare & Medicaid Services' goal to maintain a larger asset reserve.

Highway Trust Fund

The Highway Trust Fund is made up of two accounts: the highway account, which funds the construction of highways and the enforcement of highway safety programs, and the transit account, which funds mass transit programs. Revenues credited to the Highway Trust Fund are derived primarily from excise taxes on gasoline and certain other motor fuels.[10] Most of the revenues credited to the fund are from taxes that are scheduled to expire on September 30, 2028.[11] (CBO's baseline projections are required by law to reflect the assumption that expiring excise taxes dedicated to a trust fund will be extended beyond their scheduled expiration—in this case, beyond 2028.) Almost all spending from the fund is controlled by limitations on obligations set in appropriation acts.

From 2008 to 2025, the fund's outlays exceeded its revenues by a total of $238 billion. As a result, lawmakers authorized a series of transfers totaling over $275 billion to the Highway Trust Fund from the general fund of the Treasury to avoid delaying payments to state and local governments.

In CBO's baseline projections, the obligation limitations that are set in appropriation acts and that control most of the spending from the trust fund are assumed to increase each year at the rate of inflation. Under that assumption, the combined balance of the two accounts

10. The other revenues credited to the Highway Trust Fund come from excise taxes on trucks and trailers, on truck tires, and on the use of certain kinds of vehicles.

11. The taxes that are scheduled to expire include those on tires, truck and trailer sales, and all but 4.3 cents per dollar of the federal tax on motor fuels.

will be exhausted in 2028.[12] That date is consistent with the projections that CBO made in January 2025.

If the balance was exhausted, the fund's spending would then be limited to the amount collected in receipts. In 2029, the first year after the balance's projected exhaustion, outlays from the fund would be 40 percent below the amounts in the baseline projections, CBO estimates. The gap between the fund's revenues and spending would remain consistently near that percentage through 2036.

12. The balance of the fund that finances mass transit projects is projected to be exhausted in 2027, one year earlier than the balance of the highway account.

Appendix C: Limiting Social Security Benefits to Payable Amounts

Overview

As required by law, the Congressional Budget Office's baseline projections reflect the assumption that Social Security will pay benefits as scheduled under current law regardless of the status of the program's trust funds.[1] In those baseline projections, the balance of the Old-Age and Survivors Insurance (OASI) Trust Fund is exhausted (that is, reaches zero) in fiscal year 2032. (All years discussed in this appendix are federal fiscal years.) At that time, the program would have insufficient funds to pay, on a timely basis, the full amounts that OASI beneficiaries are entitled to under current law.[2] The Disability Insurance Trust Fund would be exhausted sometime after 2036, beyond the 10-year period covered by CBO's baseline. If their balances were combined, the Old-Age, Survivors, and Disability Insurance trust funds would be exhausted in 2033.

In the illustrative scenario examined in this appendix, retirement and survivors' benefits would be limited to the amounts payable from dedicated funding sources beginning in 2032, the year of the OASI trust fund's exhaustion.[3] To project the effects of that change, CBO estimated the total reduction in Social Security benefits that would be necessary for the program's outlays to match its revenues in each year from 2032 to 2036. Before accounting for economic effects, CBO estimates that the reduction would amount to $2.8 trillion over the 2032–2036 period.[4] That amount reflects an average reduction in benefits of 28 percent per year in the years after the exhaustion of the OASI trust fund's balance (see Figure C-1).[5]

For simplicity, this illustrative scenario incorporates the assumption that once the OASI trust fund was exhausted, OASI benefits paid to all existing and new beneficiaries would be reduced by those percentages. That is, benefits paid to all beneficiaries would be reduced by 7 percent in 2032 and by an average of 28 percent per year from 2033 to 2036. The method for reducing payments is not prescribed in current law, and different methods would have different effects on beneficiaries, the economy, and the budget. In addition, in this scenario, the reduction in benefits would not be announced until the beginning of 2032, and people would not adjust their work and saving behavior before the announcement. Differences in that timing would lead to different macroeconomic effects (that is, effects that result from changes in the economy).

This appendix presents estimates of the budgetary and economic effects of a reduction in OASI benefits paid through 2036 and discusses the longer-run effects qualitatively. CBO will release estimates of those longer-term effects later this year.

1. Provisions in section 257 of the Deficit Control Act require CBO to project spending for certain programs, including Social Security, under the assumption that they will be fully funded and thus able to make all scheduled payments, even if the trust funds associated with those programs do not have sufficient resources to make full payments. See sec. 257(b)(1) of the Balanced Budget and Emergency Deficit Control Act of 1985, Public Law 99-177 (codified at 2 U.S.C. § 907(b)(1)).

2. The balances of the trust funds represent the total amount that the government is legally authorized to spend. For details about legal issues related to exhaustion of a trust fund, see Barry F. Huston, *Social Security: What Would Happen If the Trust Funds Ran Out?* Report for Congress RL33514, version 34 (Congressional Research Service, September 28, 2022), www.congress.gov/crs-product/RL33514.

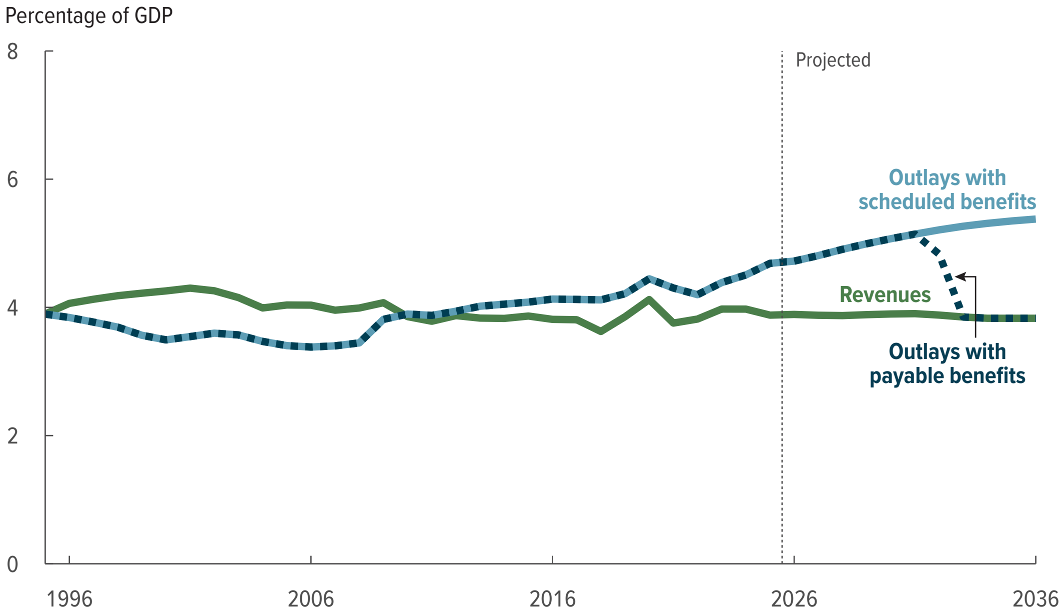
3. Social Security is financed by payroll taxes and income taxes on benefits that are credited to the OASI trust fund and the Disability Insurance Trust Fund. The two trust funds are separate.

4. In this illustrative scenario, reduced collections of taxes on OASI benefits increase the shortfall by $129 billion over the 2032–2036 period.

5. CBO's baseline projections implicitly incorporate transfer payments from the Treasury's general fund to the OASI trust fund to cover any shortfall. In the current baseline, that shortfall and, therefore, those payments total $2.8 trillion over the 2032–2036 period.

Figure C-1.

Revenues and Outlays for the Old-Age and Survivors Insurance Program, With Scheduled and Payable Benefits



Without legislative action, the balance of the OASI trust fund is projected to be exhausted in 2032. Before accounting for economic effects, CBO projects that outlays for OASI would total 3.8 percent of GDP in 2036 if benefit payments were limited to the program's annual income after the fund's exhaustion. Outlays would total 5.4 percent of GDP in 2036 if the program paid the full benefits scheduled under current law.

Data source: Congressional Budget Office. See www.cbo.gov/publication/61882#data.

OASI = Old-Age and Survivors Insurance.

Outcomes in the Payable-Benefits Scenario

CBO estimates that limiting OASI benefits to the amounts payable once the trust fund was exhausted would make budget deficits and debt significantly smaller than they are in the agency's baseline projections. Doing so also would affect the economy in several ways.

Budgetary Effects

The primary deficit (which excludes net outlays for interest) would be smaller in the payable-benefits scenario than it is in CBO's baseline projections. For example, accounting for economic effects, CBO estimates that in 2036, the primary deficit would be $0.3 trillion instead of $1.0 trillion—a reduction of $0.7 trillion. The associated reduction in net outlays for interest would reduce the total deficit in 2036 by an additional $0.2 trillion (a net reduction of $0.9 trillion), bringing the total deficit to $1.2 trillion from $2.1 trillion. Federal debt held by the public would be $52.8 trillion in 2036, rather than $56.2 trillion. Measured as a percentage of gross domestic product (GDP), such debt would be 8.1 percentage points lower in 2036—112 percent rather than 120 percent of GDP.

For simplicity, CBO's analysis of this illustrative scenario does not include changes in federal spending that would result from greater participation in other benefit programs. For example, the decrease in OASI benefits would lead to increases in benefits from other programs: The smaller benefits would give some OASI beneficiaries an incentive to apply for Disability Insurance, and others would become newly eligible for, or would qualify for larger benefits from, means-tested programs such as Supplemental Security Income and the Supplemental Nutrition Assistance Program.

Economic Effects

In the short term, a reduction in demand for goods and services resulting from the reduction in benefits would cause GDP to decline. Over time, the effects of increased work and savings and reduced federal borrowing would more than offset that initial reduction in demand and cause GDP to rise. Those changes would affect different groups of people to various degrees.

Short-Term Economic Effects. Initially, the reduction in Social Security payments would cause consumer spending to decrease and the overall demand for goods and services to decline. The resulting reduction in real GDP (that is, the nation's economic output adjusted to remove the effects of changes in prices) would coincide with an increase in the unemployment rate and a reduction in the rate of inflation. In CBO's view, the Federal Reserve would respond to those effects by lowering interest rates as part of its dual mandate to pursue maximum employment and price stability.

The Federal Reserve's actions would offset some of the decline in the demand for goods and services brought on by the reduction in Social Security payments. Additionally, the reduction in payments would cause savings and the supply of labor to increase. On net, real GDP in 2033—the year after the OASI trust fund's exhaustion—would be 0.7 percent lower than it is in the baseline projections. In later years, it would be greater than projected in the baseline.

The reduction in debt as a percentage of GDP and the increase in the saving rate would further reduce interest rates, though the increase in the labor supply would partly offset those effects by raising the rate of return on capital. On net, the interest rate on 10-year Treasury notes would be 0.4 percentage points lower in 2033, in CBO's estimation.

Long-Term Economic Effects. In 2036, output would be 1.0 percent greater than it is in CBO's baseline projections, for three main reasons. First, the labor supply would expand as some people worked more or stayed in the labor force longer to make up for smaller benefits. Second, an increase in private investment would follow a rise in private savings as some workers saved more while working to offset the effect of smaller benefits on their income and spending in retirement. Third, smaller budget deficits would reduce interest rates, increase the amount of funds available for private investment, and boost output. Effects after 2036 are outside the projection period covered in this report.

In CBO's assessment, increases in private investment and the capital stock would cause output and average wages to be higher and interest rates to be lower over the long term in the payable-benefits scenario than they are in the baseline projections.[6] The larger labor supply would put downward pressure on wages, partly offsetting that wage growth, and would amplify the increase in output and the decline in interest rates.

Distributional Effects. People would be affected differently by the reduction in benefits, depending on their wealth, employment status, income, and age. Beneficiaries who relied on Social Security for much, if not all, of their monthly income would immediately reduce their spending. Beneficiaries with wealth also would reduce their spending on average, but by smaller proportions, slowing the rate at which they drew down that wealth to make their resources last longer.

The reduction in benefits also would affect people's decisions about work, and those effects would differ depending on their employment status. Some Social Security beneficiaries, particularly those who had stopped working relatively recently, might return to work to supplement their income. And some workers, especially older workers, would choose to work more hours and might delay claiming Social Security to increase their income and savings.

On average, people would increase the amount they worked over their lifetime, but those effects would vary with income. The increases would be larger, in percentage terms, for people with lower income than for those with higher income.

The reduction in Social Security benefits and the associated effects on the economy would generally decrease income and wealth for older people. At older ages, people would have less time to adjust their work and saving behavior and less time to benefit from the eventual increase in the size of the economy. Conversely, the effects of the reduction in benefits would generally increase income and wealth for younger people, who would have more time to change their behavior and to benefit from the eventual increase in the size of the economy and higher wages. That boost in wealth and income would be largest, in percentage terms, for younger people with higher income.

How CBO Projected Those Outcomes

In this illustrative scenario, the reduction in benefits is unexpected and, as a result, workers do not adjust their decisions about work or saving beforehand. Therefore, projections for the payable-benefits scenario do not differ from the baseline projections until 2032, when the

6. The capital stock is the stock of long-lasting assets used to produce goods and services. It includes tangible assets (such as computers and transportation equipment) as well as intangible assets (such as software and patents).

reduction in benefits begins. From 2032 onward, benefits are reduced to the amounts payable from dedicated funding sources, and people alter their behavior to reflect their expectation that their Social Security benefits will be adjusted as the available funding for those benefits changes over time. For simplicity, this scenario does not incorporate changes in participation in other federal programs, including means-tested transfer programs.

CBO analyzed the macroeconomic effects of the reduction in Social Security benefits by using a suite of models.[7] Although CBO has not analyzed every way in which the payable-benefits scenario would affect the economy, the agency analyzed four key channels for this report:

- The reduction in benefits would decrease retirees' income, dampening the overall demand for goods and services and causing output to be lower than it otherwise would have been.
- The reduction in benefits would cause some people to work more or stay in the labor force longer than they would have otherwise. Both factors would cause the labor supply, and thus the economy's output, to be greater than it otherwise would have been.
- In CBO's assessment, some workers who had not yet retired would respond to the prospect of smaller benefit payments by boosting their saving and reducing their spending.[8] Those changes would lessen the effect that smaller benefit payments in the future would have on people's future income and spending. The increase in saving also would boost the capital stock and GDP.
- Federal debt would be less than it is in the baseline projections, which would increase the amount of money available for private investment in capital goods and services, boost the stock of private capital, and expand output.

Uncertainty of CBO's Projections

The budgetary and economic effects of the policies underlying the payable-benefits scenario are highly uncertain. That uncertainty has three main sources: uncertainty about how much people might anticipate benefit reductions and how those expectations would affect budgetary and economic outcomes, uncertainty about how reductions in Social Security benefits would affect the budget and the economy, and uncertainty about future economic conditions.

In this scenario, the reduction in benefits is not announced until the beginning of 2032, and people do not adjust their work and saving behavior beforehand. If people anticipated the change in benefits earlier, they would change their behavior earlier, which would alter the macroeconomic effects of the benefit reduction.[9] In addition, the budgetary and economic effects of the reduction in benefits would depend on what specific actions the Social Security Administration would take if a trust fund was insolvent and on what economic effects any specific reduction in benefits would have. If those factors or others differed from the assumptions underlying CBO's projections, budgetary and economic outcomes would differ, too.

7. For information about those models, see Congressional Budget Office, "CBO's Policy Growth Model" (April 2021), www.cbo.gov/publication/57017, and "An Overview of CBO's Life-Cycle Growth Model" (February 2019), www.cbo.gov/publication/54985; Nathaniel Frentz and others, *A Simplified Model of How Macroeconomic Changes Affect the Federal Budget*, Working Paper 2020-01 (Congressional Budget Office, January 2020), www.cbo.gov/publication/55884; and Felix Reichling and Charles Whalen, *Assessing the Short-Term Effects on Output of Changes in Federal Fiscal Policies*, Working Paper 2012-08 (Congressional Budget Office, May 2012), www.cbo.gov/publication/43278.

8. In this analysis, CBO did not address the potential effects of households' moving their savings into or out of tax-deferred or taxable savings accounts.

9. Evidence suggests that some people expect Social Security benefits to be reduced from the amounts scheduled under current law. See Emily Ekins and Hunter Johnson, *New Poll: Most Americans Expect Social Security Benefit Cuts; a Third Believe the Program Won't Exist When They Retire* (Cato Institute, December 2025), https://tinyurl.com/cato-survey; and Erzo F. P. Luttmer and Andrew A. Samwick, "The Welfare Cost of Perceived Policy Uncertainty: Evidence From Social Security," *American Economic Review*, vol. 108, no. 2 (February 2018), pp. 275–307, http://doi.org/10.1257/aer.20151703.

Appendix D: CBO's Economic Projections for Each Year Through 2036

The tables in this appendix show the Congressional Budget Office's economic projections for each year from 2026 to 2036. Those projections reflect trade policy as of November 20, 2025; the agency's latest demographic projections, which are based on laws and policies in place as of September 30, 2025; and economic developments and laws in place as of December 3, 2025. For the projections by calendar year, see Table D-1; for the projections by fiscal year, see Table D-2.

Table D-1.

CBO's Economic Projections, by Calendar Year

Percent

	Estimated, 2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036
					Change from year to year							
Gross domestic product												
Real[a]	2.0	2.4	1.9	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8
Nominal	4.8	5.1	4.3	4.0	3.9	3.8	3.8	3.8	3.8	3.8	3.8	3.8
Inflation												
PCE price index	2.6	2.7	2.4	2.2	2.1	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Core PCE price index[b]	2.8	2.9	2.4	2.2	2.1	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Consumer price index[c]	2.8	2.9	2.5	2.4	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3
Core consumer price index[b]	3.0	3.1	2.6	2.4	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3
GDP price index	2.7	2.7	2.4	2.2	2.1	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Employment cost index[d]	3.5	3.4	3.4	3.1	3.0	3.0	3.0	2.9	2.9	2.9	2.9	2.9
					Calendar year average							
Unemployment rate	4.3	4.6	4.5	4.5	4.4	4.3	4.3	4.3	4.2	4.2	4.2	4.2
Payroll employment (monthly change, in thousands)[e]	70[f]	105	31	42	43	44	44	45	45	45	45	45
Interest rates												
3-month Treasury bills	4.1[f]	3.3	3.2	3.2	3.2	3.2	3.2	3.1	3.1	3.1	3.1	3.1
10-year Treasury notes	4.3[f]	4.1	4.3	4.3	4.3	4.3	4.4	4.4	4.4	4.4	4.4	4.4
Tax bases (percentage of GDP)												
Wages and salaries	42.3	42.0	42.0	42.1	42.1	42.2	42.2	42.2	42.2	42.1	42.1	42.1
Domestic corporate profits[g]	11.3	11.1	10.8	10.4	10.0	9.9	9.9	9.9	10.0	10.0	10.1	10.1
Tax bases (billions of dollars)												
Wages and salaries	13,000	13,552	14,135	14,721	15,309	15,912	16,526	17,146	17,783	18,440	19,121	19,829
Domestic corporate profits[g]	3,464	3,598	3,619	3,625	3,649	3,740	3,874	4,037	4,207	4,384	4,573	4,767
Nominal GDP (billions of dollars)	30,705	32,274	33,652	35,002	36,351	37,743	39,175	40,650	42,185	43,777	45,431	47,147

Data source: Congressional Budget Office. See www.cbo.gov/publication/61882#data.

PCE = personal consumption expenditures.

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

b. Excludes prices for food and energy.

c. The consumer price index for all urban consumers.

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

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

f. Actual value for 2025.

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

Table D-2.

CBO's Economic Projections, by Fiscal Year

Percent

	Actual, 2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036
					Change from year to year							
Gross domestic product												
Real[a]	2.2	2.3	2.0	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8
Nominal	4.9	5.2	4.4	4.1	3.9	3.8	3.8	3.8	3.8	3.8	3.8	3.8
Inflation												
PCE price index	2.6	2.8	2.5	2.2	2.1	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Core PCE price index[b]	2.8	2.9	2.6	2.3	2.1	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Consumer price index[c]	2.7	3.0	2.6	2.4	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3
Core consumer price index[b]	3.1	3.2	2.7	2.4	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3
GDP price index	2.6	2.8	2.4	2.2	2.1	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Employment cost index[d]	3.6	3.4	3.4	3.2	3.0	3.0	3.0	2.9	2.9	2.9	2.9	2.9
					Fiscal year average							
Unemployment rate	4.2	4.6	4.5	4.5	4.4	4.3	4.3	4.3	4.2	4.2	4.2	4.2
Payroll employment (monthly change, in thousands)[e]	117	96	40	42	43	44	44	45	45	45	45	45
Interest rates												
3-month Treasury bills	4.2	3.4	3.3	3.2	3.2	3.2	3.2	3.2	3.1	3.1	3.1	3.1
10-year Treasury notes	4.3	4.1	4.2	4.3	4.3	4.3	4.3	4.4	4.4	4.4	4.4	4.4
Tax bases (percentage of GDP)												
Wages and salaries	42.2	42.0	42.0	42.0	42.1	42.2	42.2	42.2	42.2	42.1	42.1	42.1
Domestic corporate profits[f]	11.5	11.2	10.9	10.5	10.1	9.9	9.9	9.9	10.0	10.0	10.1	10.1
Tax bases (billions of dollars)												
Wages and salaries	12,812	13,405	13,990	14,575	15,160	15,761	16,371	16,990	17,622	18,274	18,948	19,650
Domestic corporate profits[f]	3,481	3,569	3,616	3,626	3,635	3,712	3,836	3,998	4,164	4,341	4,525	4,718
Nominal GDP (billions of dollars)	30,363	31,902	33,315	34,666	36,010	37,391	38,813	40,277	41,796	43,373	45,012	46,712

Data source: Congressional Budget Office. See www.cbo.gov/publication/61882#data.

PCE = personal consumption expenditures.

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

b. Excludes prices for food and energy.

c. The consumer price index for all urban consumers.

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

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

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

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About This Document

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

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

The following pages list CBO's staff members who contributed to this report by preparing the economic, revenue, and spending projections; writing the report; reviewing, editing, fact-checking, designing, and publishing it; compiling the supplemental materials posted along with it on CBO's website; and providing other support. The report is available at www.cbo.gov/publication/61882.

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

Phillip L. Swagel
Director
February 2026

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