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Where Do Our Federal Tax Dollars Go?

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

Note: We use estimates for 2023 to illustrate the composition of the federal budget and taxes under normal circumstances in this analysis. While the 2020 and 2021 COVID-19 relief packages have largely expired, total federal spending in 2023 is about $165 billion higher than it would have been without the relief packages. Over nine-tenths of federal pandemic spending was delivered by 2022 — with most occurring in 2020 and 2021 — but some occurs in 2023, primarily for health and nutrition assistance.

In fiscal year 2023, the federal government is estimated to spend $6.3 trillion, amounting to 24.2 percent of the nation's gross domestic product (GDP). Of that $6.3 trillion, over $4.8 trillion is estimated to be financed by federal revenues. The remaining amount will be financed by net borrowing.

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

- **Social Security**: In 2023, 21 percent of the budget, or $1.4 trillion, will be paid for Social Security, which will provide monthly retirement benefits averaging $1,836 to 48.6 million retired workers. Social Security also expects to provide benefits to 2.7 million spouses and children of retired workers, 5.9 million surviving children and spouses of deceased workers, and 8.8 million disabled workers and their eligible dependents.

- **Health insurance**: Four health insurance programs — Medicare, Medicaid, the Children's Health Insurance Program (CHIP), and Affordable Care Act (ACA) marketplace health insurance subsidies — together account for 24 percent of the budget in 2023, or $1.5 trillion. One-half of this amount, or $828 billion, goes to Medicare, which provides health coverage to around 66 million people who are aged 65 and older or have disabilities. The rest of this category funds the federal costs of Medicaid, CHIP, and ACA subsidy and marketplace costs. (Both Medicaid and CHIP require states to pay some of their total costs.)

  In May 2023, Medicaid and CHIP provided health care or long-term care to about 94 million low-income children, parents, older adults, and people with disabilities. That is elevated from 71 million people prior to the pandemic due to a temporary pandemic-related coverage protection that expired in April 2023. Enrollment is projected to decline by about 15 million by October 2024, but projections are highly uncertain. In February 2023, 14.3 million of the 15.7 million people estimated to be

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enrolled in health insurance through ACA marketplaces received subsidies that lower their premiums and out-of-pocket costs, at an estimated cost of about $88 billion.
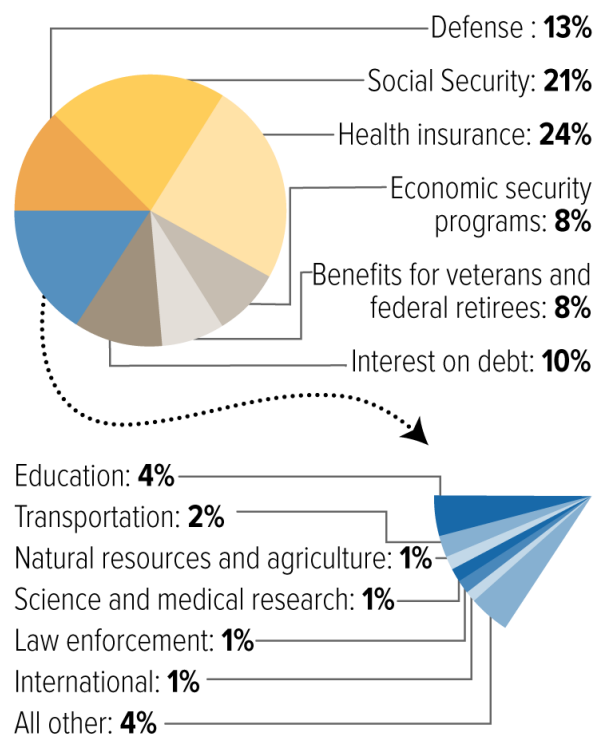
- **Defense**: Another 13 percent of the budget, or $806 billion, will be paid for national defense activities. About 95 percent of the spending in this category reflects the underlying costs of the Defense Department, largely for operations and maintenance; military personnel; procurement of weapons; and research, development, testing, and evaluation.

Three other categories together account for one-quarter of spending:

- **Economic security programs**: About 8 percent (or $522 billion) of the federal budget in 2023 supports programs that provide aid (other than health insurance or Social Security benefits) to individuals and families facing hardship. Economic security programs include: the refundable portions of the Earned Income Tax Credit and Child Tax Credit, which assist low- and moderate-income working families; programs that provide cash payments to eligible individuals or households, including unemployment insurance and Supplemental Security Income for low-income people who are over age 65 or disabled; various forms of in-kind assistance for low-income people, including the Supplemental Nutrition Assistance Program (formerly known as food stamps), school meals, low-income housing assistance, child care assistance, and help meeting home energy bills; and other programs such as those that aid abused or neglected children.

    Such programs keep millions of people above the poverty line each year. COVID relief and other government assistance lifted a record 53 million people above the poverty line in the pandemic, including a record 12 million children in 2021, a CBPP analysis found using Census data and the Supplemental Poverty Measure (SPM), which accounts for government benefits

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

Defense : **13%**
Social Security: **21%**
Health insurance: **24%**
Economic security programs: **8%**
Benefits for veterans and federal retirees: **8%**
Interest on debt: **10%**

Education: **4%**
Transportation: **2%**
Natural resources and agriculture: **1%**
Science and medical research: **1%**
Law enforcement: **1%**
International: **1%**
All other: **4%**

Note: Percentages do not add to 100 percent due to rounding.
Source: 2023 figures from the Congressional Budget Office, May 12, 2023

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and taxes. Not counting any government benefits and tax policies, 23.8 percent of the U.S. population would have had incomes below the poverty line in 2021; this was triple the poverty rate of 7.8 percent using the SPM. These programs reduced the extent of poverty for millions more, even when not bringing them above the poverty line.

With the expiration of COVID relief, poverty rose substantially in 2022, despite strong labor market gains that helped hold inflation-adjusted pre-tax cash incomes steady for the lowest-income one-fifth of households.

While racial inequities continue to exist, government economic security programs noticeably reduce racial and ethnic differences.

- **Benefits for veterans and federal retirees**: In 2023, about 8 percent of the budget provides benefits to veterans and former career employees of the federal government, both civilian and military, totaling $477 billion. About nine-tenths of the benefits available to all veterans are either disability payments or medical care, which is often specialized to deal with the unusual conditions that military service may impose. There are currently more than 18.5 million veterans of U.S. military service, of whom 2.2 million are retired career military who have earned monthly retiree pensions or survivor benefits. There are also 2.8 million federal civil service retirees.

- **Interest on debt**: The federal government must make regular interest payments on the money it borrowed to finance past deficits — that is, on the net federal debt, which is projected to reach $23.8 trillion by the end of fiscal year 2023. This year, these interest payments will claim $663 billion, or about 10 percent of the budget.

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

While critics often decry "government spending," it is important to look beyond the rhetoric and determine whether the actual public services and investments that government provides are valuable. Federal revenues are used to pay for these services and investments. Consequently, when thinking about the costs that taxes impose, it is essential to balance those costs against the benefits the nation receives from the expenditure of those funds.

Appendix

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

We based our estimates of spending in fiscal year 2023 on the most recent estimates released by the Congressional Budget Office on May 12, 2023. (Fiscal year 2023 runs from October 1, 2022, to September 30, 2023.)

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

Social Security:

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

Health insurance:

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

Defense:

This category is the national defense function (050).

Economic security programs:

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

Benefits for veterans and federal retirees:

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

Interest on debt:

This category contains the net interest function (900).

Remaining program areas:

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

- **Education**: This subcategory combines three subfunctions of the education, training, employment, and social services function: elementary, secondary, and vocational education; higher education; and research and general educational aids (subfunctions 501, 502, and 503, respectively).
- **Transportation**: This subcategory consists of the entire transportation function (400).
- **Natural resources and agriculture**: This subcategory consists of the natural resources and environment function (300) and the agriculture function (350).

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- **Science and medical research:** This subcategory consists of the general science, space, and technology function (250) and the health research and training subfunction (552).
- **Law enforcement:** This subcategory consists of the administration of justice function (750).
- **International:** This subcategory consists of the international affairs function (150).
- **All other:** This subcategory consists of all other federal expenditures.

Updated September 28, 2023

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

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