



US ECONOMY ► FISCAL POLICY

US Federal Budget Breakdown

The Budget Components and Impact on the US Economy

BY [KIMBERLY AMADEO](#)  Updated June 25, 2019

On March 11, 2019, [President Donald Trump](#) released his budget request for [fiscal year](#) 2020. Under his proposal, the [federal budget](#) would be a record \$4.746 trillion. The [U.S. government estimates](#) it will receive \$3.645 trillion in revenue. That creates a \$1.101 trillion deficit for October 1, 2019, through September 30, 2020.

To fund the government, Congress must pass appropriations bills before the fiscal year begins on October 1, 2019. If Congress does not do so, it creates continuing resolutions to keep government departments operational. If it doesn't, the [government will shut down](#).

Government spending is in three categories: Mandatory, which is at \$2.841 trillion; Discretionary at \$1.426 trillion; and [interest on the national debt](#), \$479 billion. This article provides a detailed breakdown of each. You can also find links to past budgets at the end.

Revenue



Photo: David Freund/Getty Images

The federal government estimated it would receive \$3.645 trillion in [revenue](#). Most of the taxes are paid by you, either through income or payroll taxes:

- Income taxes contribute \$1.824 trillion or 50% of total receipts.
- Social Security, Medicare, and other [payroll taxes](#) add \$1.295 trillion or 36%.
- [Corporate taxes](#) supply \$255 billion or 7%.
- Excise taxes and [tariffs](#) contribute \$157 billion or 4%.
- Earnings from the Federal Reserve's holdings add \$49 billion or 2%. Those are interest payments on the U.S. Treasury debt the Fed acquired through [quantitative easing](#).
- Estate taxes and other miscellaneous revenue supply the remaining 2%.

It's estimated that each taxpayer works until late April each year to pay for all federal revenue collected. That's [Tax Freedom Day](#). Can you think of anything else for which you've worked as hard and long?



the balance





Spending



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The government expects to [spend](#) \$4.746 trillion. Almost 60% pays for mandated benefits such as Social Security, Medicare, and Medicaid.

Interest on the [U.S. debt](#) will be \$479 billion. The U.S. Treasury must pay it to avoid a [U.S. debt default](#). Interest on the approximately \$22 trillion debt is already the [fastest growing federal expense](#).

The remaining \$1.4 trillion pays for everything else. It's called discretionary spending. The [U.S. Congress](#) changes this amount each year. It uses the president's budget as a starting point.



Mandatory Spending



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The budget estimates [mandatory spending](#) will be \$2.841 trillion in FY 2020. Social Security was by far the biggest expense at \$1.102 trillion. Medicare was next at \$679 billion, followed by Medicaid at \$418 billion.

Social Security costs are currently covered 100% by [payroll taxes](#) and interest on investments. Until 2010, there was more coming into the [Social Security Trust Fund](#) than being paid out. Thanks to its investments, the Trust Fund is still running a surplus. But, the [Trust Fund's Board estimates that this surplus will be depleted by 2032](#). Social Security revenue, from payroll taxes and interest earned, will cover only 77% of the benefits promised to retirees.

Medicare is already underfunded. Medicare taxes don't pay for all benefits, so this program relies on general tax dollars to pay for a portion of it. Medicaid is 100% funded by the general fund



↻ Discretionary Spending



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The [discretionary budget](#) will be \$1.426 trillion. More than half goes toward military spending, including the [Department of Veterans Affairs](#) and other defense-related departments. The rest must pay for *all* other domestic programs. The largest are Health and Human Services, Education, and Housing and Urban Development.

There is an emergency fund of \$200.1 billion. Most of it goes to Overseas Contingency Operations to pay for wars. A growing portions is set aside for disaster relief for hurricanes and wildfires.

Military Spending



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[Military spending](#) was included in the budget. The biggest expense was the [Department of Defense base budget](#) at \$576 billion. Overseas Contingency Operations were estimated to cost approximately \$174 billion. That pays for the [war on terror costs](#) triggered by the [9/11 attacks](#). These include ongoing costs from the [war in Iraq](#) and the [Afghanistan war](#).

Military spending included \$212.9 billion for defense-related departments. These include Homeland Security, the [State Department](#), and Veterans Affairs. These departments also receive emergency funding of \$26.1 billion. Add it up, and the total U.S. spending on defense is \$989 billion.

👉 The Deficit



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The [budget deficit](#) is estimated at \$1.101 trillion. That's the difference between \$3.645 trillion in revenue and \$4.746 trillion in spending. The article on "[Deficit by President](#)" shows which U.S. president racked up the highest expenses. A look at the [deficit by year](#) will reveal trends in the country's annual deficits.

C7 How the Deficit Contributes to the National Debt



Photo: Image Source/Getty Images

Each year, the [deficit adds to the U.S. debt](#). This anticipated tax slows [economic growth](#). It's like driving a car with the brakes on. It raises interest rates, as investors demand more return. They become hesitant to purchase Treasury notes because they fear not being repaid.

Now that the economy has recovered, [deficit spending](#) is not necessary. Congress should create a budget surplus to reduce the national debt burden. But it isn't being done because politicians, who slice popular programs, usually find themselves cut out from the next election.

Budget Process



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Congress created the [budget process](#). It is supposed to follow these four steps:

1. The [Executive Office of Management and Budget](#) prepares the budget.
2. The president submits it to Congress on or before the first Monday in February.
3. Congress responds with spending appropriation bills that go to the president by June 30.
4. The president has 10 days to reply.

Since the [FY 2010 budget](#), Congress has only followed the budget process twice.

The hard deadline for budget approval is September 30. If Congress doesn't approve it by then, [the government can shut down](#). It did just that in 2013, January 2018, and in December 2018. To avoid that, Congress usually passes continuing resolutions. They keep the government running at spending levels of the last budget. If the government does shut down, it signals a complete breakdown in the budget process.

[Compare to Earlier Budgets](#)



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