

Overview of the FY2025 Federal Budget Projections

January 3, 2025

Congressional deliberations continue over federal discretionary funding for the rest of FY2025. This Insight gives a high-level overview of the federal budget using Congressional Budget Office (CBO) [current-law baseline projections](#) issued last June. CBO is to issue new baseline projections in [January 2025](#). Federal budgetary trends over time are discussed [here](#).

Select Budget Concepts

Congress provides budget authority (BA) that permits federal officials to obligate the federal government through hiring employees, administering grants, and signing contracts, or in other ways. BA provided by and controlled by annual appropriations laws is called *discretionary* spending. BA provided by other types of laws is called *mandatory*, or in [budget law](#), *direct* spending. The 1990 [Budget Enforcement Act](#) (BEA) defined those categories.

Charts here show revenues and outlays, because those determine the budget deficit and because outlays better reflect the scale of mandatory programs.

Budget functions categorize federal funding for activities within broad policy areas (e.g., national defense, agriculture) that often cut across several federal agencies. *Superfunctions* group functions together and *subfunctions* divide funding by narrower policy areas. Congressional budget resolutions and other fiscal plans and reports use [functional categories](#).

Revenues are divided in source categories, namely, individual income taxes, corporate income taxes, social insurance taxes and contributions (payroll taxes), excise taxes on goods and services, estate and gift taxes, customs duties, and miscellaneous government receipts.

Projected Revenues and Outlays for FY2025

Figure 1 gives a comprehensive view of projected FY2025 revenues, outlays, and tax expenditures. Each rectangle's area corresponds to outlay totals and its color reflects the projected change from FY2024. The top rectangle shows incoming funds to support federal operations, such as tax revenues and offsetting collections. Proceeds from selling Treasury securities bridge the gap between outlays and revenues, that

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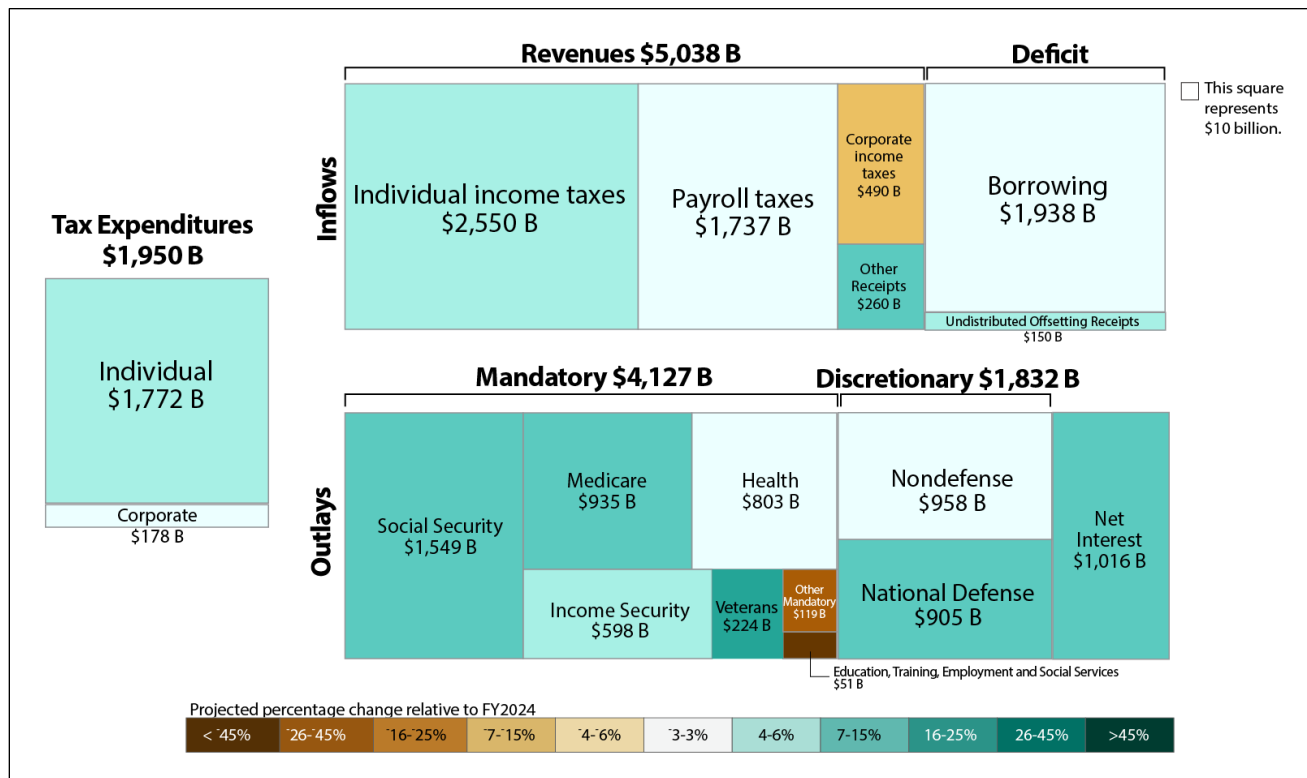
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is, the federal budget deficit. Additional borrowing through selling bills, notes, and bonds provides cash flow to fund expansions of federal credit programs.

Figure 1. Overview of Projected FY2025 Federal Budget

June 2024 current-law CBO baseline, in \$Billions



Source: CRS analysis based on CBO June 2024 [baseline](#). FY2024 amounts estimated, FY2025 amounts are current law projections. The Joint Committee on Taxation (JCT) estimates [tax expenditures](#).

Notes: Congressional clients click [here](#) for larger version. Tax expenditures are revenue losses resulting from tax provisions that grant special tax relief designed to encourage certain behaviors or to aid certain categories of taxpayers. Mandatory Medicare amount includes \$210 billion in offsetting receipts.

Projected FY2025 outlays totaled \$6,975 billion after \$150 billion in offsets (considered negative spending). Fiscal Responsibility Act (FRA; P.L. 118-5) caps on discretionary spending are projected to reduce nondefense discretionary outlays by \$31 billion and defense discretionary outlays by \$9 billion.

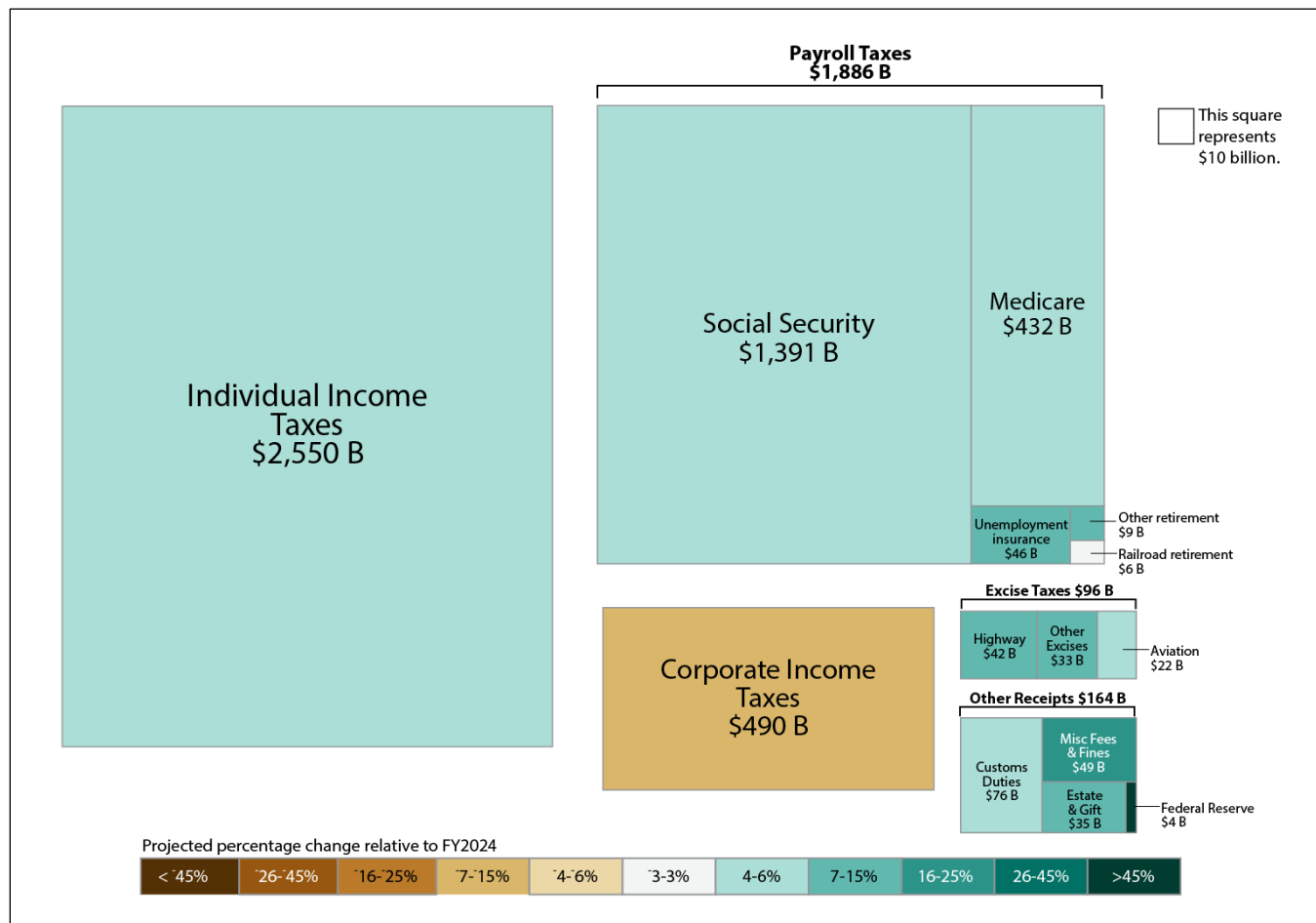
[Tax expenditures](#) are revenue losses resulting from tax provisions that grant special tax relief designed to encourage certain behaviors or to aid certain taxpayer types.

Revenues

Figure 2 shows projected FY2025 revenues. Individual income taxes account for about half of total revenues. Payroll taxes, mostly for Social Security and Medicare, account for another 37% of that total. Corporate taxes have been a [falling share](#) of that total in recent decades. Excise taxes on fuel support highway project costs, and those on airline travel support airport infrastructure. Customs duties, including tariffs and other fees, are 1.5% of total revenues. [Estate and gift tax collections](#) also have been falling in recent decades. Increased interest rates sharply reduced [Federal Reserve remittances](#) to the U.S. Treasury.

Figure 2. Projected FY2025 Federal Revenues

June 2024 current-law CBO baseline, in \$Billions

**Source:** CRS analysis based on CBO June 2024 baseline.**Note:** Congressional clients click [here](#) for a larger version.

Outlays

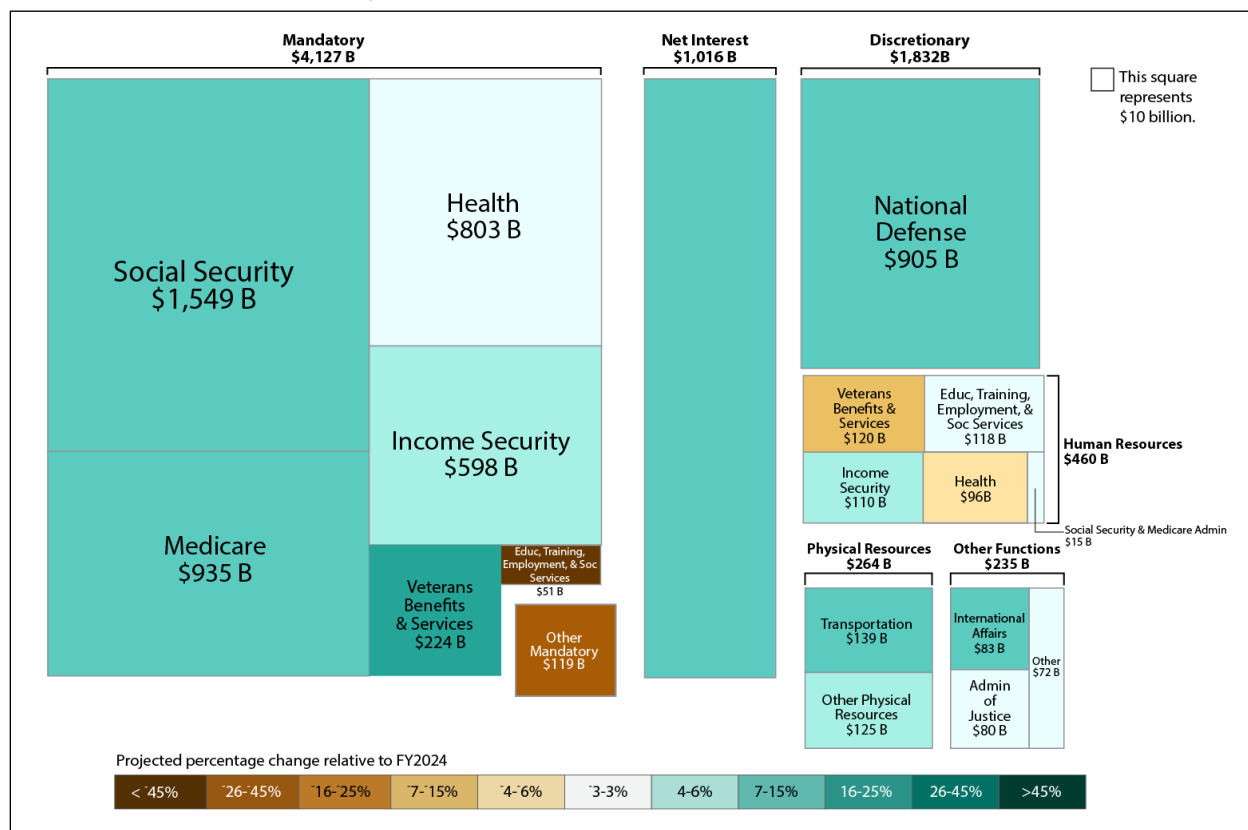
Figure 3 shows projected FY2025 outlays by BEA category and budget function. Mandatory outlays have been a growing share of outlays, comprising 59% of projected FY2025 outlays. Most mandatory outlays support activities within the Human Resources budget superfunction, including Social Security, Medicare, the federal share of Medicaid, various income support programs, and other federal health programs. Rising interest rates since 2022, and rising federal debt, elevated net interest costs to over \$1 trillion.

In many years, discretionary outlays have been, in rough measure, divided equally between defense (budget function 050) and nondefense (all other functions). Human Resources superfunction outlays account for about half of nondefense outlays. Veterans Benefits and Services take up the largest share of that, followed by Education, Training, Employment, and Social Services. Physical Resources outlays account for slightly over a quarter of the rest, with the largest share of that devoted to Transportation.

The International Affairs and Administration of Justice functions each account for about 8% of nondefense discretionary spending. Other functions, mostly General Government, together account for just under 8% of that total.

Figure 3. Projected FY2025 Federal Outlays by Budget Function

June 2024 current-law CBO baseline, in \$Billions

**Source:** See **Figure 1**.**Note:** Congressional clients click here a larger version.

Discretionary Outlays

Figure 4 shows projected FY2025 discretionary outlays by budget function and [subfunction](#).

Defense outlays are further divided by appropriations title. Department of Defense [military activities](#) comprise most of the National Defense (050) budget function. Department of Energy nuclear weapons programs and cleanups account for a much smaller share, as do various Federal Bureau of Investigation counterterrorism and Department of Homeland Security cybersecurity activities.

[Transportation](#) outlays are the largest part of nondefense discretionary outlays, with ground transportation comprising two-thirds of that amount. Since 2008, Congress has used discretionary funds to [support highway transportation](#) as fuel excise tax collections have lagged.

[Veterans benefits](#) are the next-largest share of nondefense discretionary outlays and have been its fastest growing component in recent decades. Veterans health benefits account for nearly 90% of that amount.

Over two-thirds of the discretionary Education, Training, Employment, and Social Services outlays support [primary](#), [secondary](#), and [postsecondary](#) education. Most student loans are issued through mandatory programs, and only estimated credit subsidy costs carry budgetary scores.

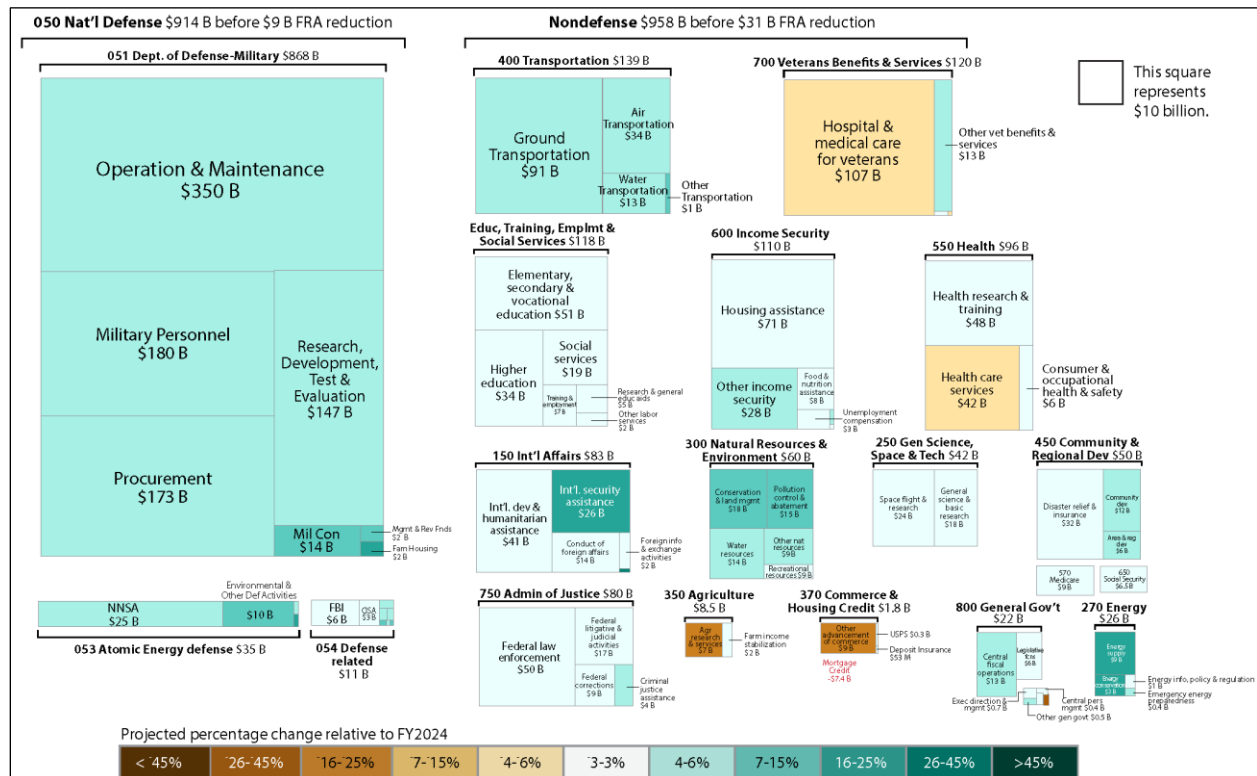
Mandatory funding supports most Income Security and Health program costs, but discretionary funding supports some housing assistance, biomedical research, healthcare training, and public health programs.

International Affairs costs were a significant share of federal outlays during the late 1940s when the **Marshall Plan** was helping rebuild postwar Europe. Now those costs are less than 9% of discretionary nondefense outlays.

General Government accounts for 2% of nondefense discretionary outlays, including \$13 billion for Treasury and Internal Revenue Service fiscal operations and \$6 billion for the Legislative Branch.

Figure 4. Projected FY2025 Federal Discretionary Outlays by Subfunction

June 2024 current-law CBO baseline, in \$Billions



Source: See **Figure 1**.

Notes: Congressional clients click [here](#) for a larger version and may click [here](#) for data table.

CISA=Cybersecurity and Infrastructure Security Agency

FBI=Federal Bureau of Investigation

NNSA=National Nuclear Security Administration

USPS=U.S. Postal Service

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