Principles & Priorities:
Budget Options Book

A Group Exercise in Fiscal Responsibility
from
The Concord Coalition

A NOTE ON ESTIMATES AND SOURCES:

Unless otherwise indicated, all cost estimates in this booklet are in billions of dollars over a 10-year period. For this exercise, cost estimates have been rounded to the nearest billion and in most cases do not take inflation into account.

Most of the policy descriptions and cost estimates in this booklet are from the Congressional Budget Office (CBO) and its biennial publication, *Options for Reducing the Deficit*. The most recent edition was published in December 2022. Some information and scoring are taken from older editions as well and can be found at www.cbo.gov/budget-options. Proposals not based on CBO estimates were developed by The Concord Coalition based on proposals included in presidential budget submissions or other resources.

The budget options presented in this exercise are not exhaustive, but we have tried to present a full spectrum of ideas. Arguments labeled “Proponent” and “Opponent” reflect political perspectives and should not be interpreted as recommendations or endorsements by The Concord Coalition.

CATEGORY ONE:

Options to Adjust General Government Spending

Option 1: Expand Access to Free, Universal Preschool

Fund a federal-state partnership that provides free, universal preschool offered in the setting of a parent's choice. **Effect on the deficit: +$200 billion.**

Description

Under this option, the budget would fund a federal-state partnership to provide universal free preschool. This program would provide high-quality, free preschool to all four-year-old children, with the flexibility for states to expand preschool to three-year-old children once high-quality preschool is fully available to four-year-old children. The mixed delivery style system would allow for both public and private childcare outfits to participate and provide preschool options.

Source: The Office of Management and Budget, *Budget of the United States Government for FY 2024*, pg. 140.

Proponents Say

- Investments in early childhood care are good for the economy in the long run because they set children up for success in later schooling and their careers.
- Existing childcare systems and preschool programs are out of reach for many American families due to their rising costs. This investment would provide more flexibility for parents in how they raise their children and pursue their careers.

Opponents Say

- It is the responsibility of parents and state governments, not the federal government, to provide childcare. Younger children are better off with a stay-at-home parent than in lower-quality childcare programs, which the government is ill-equipped to evaluate and identify.

Option 2: Provide National Paid Family and Medical Leave

Establish a national, comprehensive paid family and medical leave program administered by the Social Security Administration to care for family members, heal from their own illness, or address personal circumstances. **Effect on the deficit: +$325 billion.**

Description

Under this option, the federal government would establish a national, comprehensive paid family and medical leave program, providing up to 12 weeks of leave to allow eligible workers to take time off to care for and bond with a new child; care for a seriously ill loved one; heal from their own serious illness; address circumstances arising from a loved one's military deployment; or find safety from domestic violence, sexual assault, or stalking. The option would also provide up to three days of leave to grieve the death of a loved one. The Social Security Administration would be responsible for overseeing and administering the leave program.

Source: The Office of Management and Budget, *Budget of the United States Government for FY 2024*, pg. 142.

Proponents Say

- Many American workers are unable to access paid family leave through their employer, especially lower income workers. As many as one in five retirees leave the workforce earlier than planned to care for an ill family member, which negatively impacts families as well as the nation's labor supply and productivity.
- As more and more families build their life around two working parents, family leave is critical in ensuring that Americans are able to care for their loved ones, spend time with their children, and properly recover from illness or injury.

Opponents Say

- The federal government should not be subsidizing leave programs for all Americans – it is too costly for not enough economic return, if any at all. Family leave should be provided by employers through the systems of the market.
- Workers taking long periods of leave creates a resume gap and they may lose job-specific skills making re-entry into their field or the general job market a difficult task. If too many workers take long leaves, it could have an adverse impact on economic productivity.

Option 3: Provide Two Years of Tuition-Free Community College

Establish a federal grant program for states that would provide the equivalent of 100 percent of tuition costs for two years of community college for students in degree seeking programs. **Effect on the deficit: +$90 billion.**

Description

This proposal would establish grants to states to support community colleges conditioned on states waiving tuition, books, and fees for eligible students. The federal-state partnership will provide these grants to students enrolled in "high-quality programs that lead to a four-year degree or a good-paying job." An eligible student would be allowed to use other financial aid for which they qualify, such as Pell Grants, to offset other costs of attendance, such as housing and transportation.

Source: The Office of Management and Budget, *Budget of the United States Government for FY 2024*, pg. 141.

Proponents Say

- In today's economy, a college degree is essential. Higher education should be as universally accessible as high school.
- Tuition costs at four-year colleges and universities are prohibitively expensive for many. A more economical approach may be to spend the first two years at a reduced-cost community college before transferring to a four-year institution.

Opponents Say

- Many state and local governments already provide individuals with free community college. This sort of decision should remain within their purview and should not be a federal issue.
- A college degree increases a student's income so he or she should be responsible for financing it. It is not fair to have a lower-earning worker who did not attend college subsidizing college students who will become higher-earning workers.
- Community colleges will just increase the cost of tuition since the federal government (and taxpayers), not students, are paying the bill.

Option 4: Increase the Maximum Pell Grant

Double the existing Pell Grant by 2029 and expand access to more students. **Effect on the deficit: +$96 billion.**

Description

Pell Grants were created in 1965 by the Higher Education Act and serves students with exceptional financial need. A federal Pell Grant does not have to be repaid, unlike a loan. Federal Pell Grants usually are awarded to undergraduate students who have not earned another bachelor's or higher degree. The current maximum Pell Grant in the 2023-2024 school year is $7,395.

This option would increase the maximum Pell Grant by $500 in Fiscal Year 2024 and set the path to double the Pell Grant by 2029, reaching over 6.8 million students with college financial aid.

Source: The Office of Management and Budget, *Budget of the United States Government for FY 2024*, pg. 141.

Proponents Say

- Post-secondary education has become prohibitively expensive for many American families. Providing Pell Grants to low- and middle-income families will increase the potential for social mobility and a good-paying job for degree seeking Americans, young and old.
- Giving students no-risk support, unlike subsidized and unsubsidized loans, opens a path to a more sustainable working life for students directly out of their degree program. Minimizing debt from student loans relieves a common pressure experienced by college graduates.

Opponents Say

- Empirical studies have shown that when the federal government increases the maximum Pell Grant award, colleges and universities react by raising tuition. Government subsidies simply make higher education more expensive for everyone.

Option 5: Eliminate Federal Subsidies for Amtrak and Other Intercity Rail Systems

Eliminate federal subsidies for Amtrak and other intercity rail systems, including high-speed projects. **Effect on the deficit: -$64 billion.**

Description

When Amtrak was established in 1970, Congress anticipated providing subsidies for a limited time only, but Congress has renewed the transit company's support annually. Over the past 40 years, Amtrak has received more than $40 billion in federal subsidies. Eliminating taxpayer support for Amtrak and other intercity rail services, including high-speed rail, would save $64 billion over ten years. Amtrak received approximately $2.4 billion in FY 2022 federal appropriations to subsidize intercity passenger rail services.

Source: The Congressional Budget Office, *Spending Projections, by Budget Account,* May 2023. Total outlays 2024-2033 for Northeast Corridor Grants to the National Railroad Passenger Corporation (TID 069-1774-0-1-401) and National Network Grants to the National Railroad Passenger Corporation (TID 069-1775-0-1-401)

Proponents Say

- Federal funding subsidizes uneconomical services and routes (including sleeper-class service and many long-distance routes) that are not used extensively and provide little public benefit in terms of reducing emissions of greenhouse gasses or reducing congestion on highways and in airports.
- Eliminating federal subsidies would force Amtrak to become more efficient and profitable. For example, Amtrak could focus on services that have the most potential for profit, such as high-speed service between Washington and New York.

Opponents Say

- The Amtrak corridor from Washington, D.C. to Boston makes up just 2 percent of the land area of the United States yet is home to 17 percent of the population and 20 percent of U.S. jobs. Rail service significantly improves productivity in an already congested region and helps drive U.S. economic growth.
- Rail subsidies should be viewed in the overall context of the U.S. transportation system. Highways and the airlines receive substantial federal support, while rail receives little by comparison.
- Continuing to subsidize Amtrak and intercity rail in general reduces highway and airport congestion and provides critical transportation options in many parts of the country.

Option 6: Reduce Federal Subsidies in the Crop Insurance Program

Reduce subsidies the federal government provides to agricultural producers and crop insurance companies to help purchase crop insurance. **Effect on the deficit: -$28 billion.**

Description

The federal crop insurance program protects farmers from losses caused by natural disasters and low market prices. Farmers can choose various amounts and types of insurance protection. The Department of Agriculture sets premiums for federal crop insurance so that they equal the expected payments to farmers for crop losses. Under current law, the federal government pays about 60 percent of total premiums, on average, and farmers pay about 40 percent. This option would reduce premium subsidies for farmers and limit both the reimbursement rate for crop insurance companies' administrative expenses and the targeted rate of return on investment for those firms. The federal government subsidy would drop from 60 to 40 percent of crop insurance premiums, on average.

Source: The Congressional Budget Office, *Options for Reducing the Deficit, 2023 to 2032—Volume II: Smaller Reductions*, Option No. 2, page 6.

Proponents Say

- Increasing the farmers' share of premiums will not discourage them from obtaining crop insurance because private business lenders often require it.
- The government covers too much risk for farmers and provides overly generous subsidies. The benefits flow primarily to wealthy, corporate agricultural producers. Why should farmers get such extensive subsidies when other businesses do not?

Opponents Say

- Crop insurance subsidies help smaller farms that otherwise would have substantial difficulties insuring against crop losses. Withdrawing federal support for buying crop insurance could bankrupt many of these farms or cause them to sell to larger agricultural producers.
- With lower premium subsidies, farmers would probably buy less insurance, making it more likely that Congress would enact special relief programs to help farmers deal with significant difficulties. That would offset some of the government's savings from cutting the premium subsidies.
- Maintaining domestic agricultural production is a national security interest. Our nation should always be able to feed itself and not be overly dependent on food sources grown in other countries. We need to protect our farms and farmers.

Option 7: Eliminate NASA's Deep Space Exploration Systems Budget

Terminate NASA's Deep Space Exploration Systems program and budget. **Effect on the deficit: -$85 billion.**

Description

NASA's Deep Space Exploration Systems account directly supports the Artemis Campaign, which is focused on returning humans to the Moon, conducting pioneering research and technology development activities on the lunar surface, and enabling eventual missions to Mars and beyond. This entails developing, testing, and using systems and capabilities required to explore deep space with decreasing reliance on Earth. NASA's Deep Space Exploration Systems include the crew vehicle, rocket, and spaceport of the future that will enable the agency's new missions throughout the solar system.

Source: The Congressional Budget Office, Spending Projections, by Budget Account, May 2023. Total outlays 2024-2033 for NASA's Deep Space Explorations Systems Account (TID 080-0124-0-1-252)

Proponents Say

- The scientific instruments used to gather knowledge in space no longer rely on nearby human operation. NASA and other federal agencies have increasingly used robots to perform missions and keep humans out of harm's way. Resources might also be better spent on basic scientific research on earth.
- The fast-growing private space industry will take up the mantle for exploration and experimentation beyond Earth, which will no longer require NASA to spend federal funds in the same area of focus.

Opponents Say

- Eliminating human space flight beyond Earth would end the technical progress necessary to prepare for desired human missions to Mars. There are also scientific benefits to conducting experiments outside of low Earth orbit that could not be executed otherwise.
- The still budding private space industry (SpaceX, Blue Origin, Orbital, etc.) would likely face setbacks from lack of technical and institutional assistance from NASA and its contracts.
- If robotic missions prove too limiting, human space efforts would have to be restarted -- which would be inefficient and likely stall progress.

Option 8: Reduce Funding for Certain Grants to State and Local Governments

Reduce funding for a group of grants to states and localities. **Effect on the deficit: -$66 billion.**

Description

The federal government provides grants to state and local governments to finance local projects, encourage policy experimentation by state and local governments, and promote national priorities. Although federal grants to state and local governments fund a wide variety of programs, spending is concentrated in the areas of healthcare, income security, education, the environment, and transportation.

This option would reduce funding for a group of grants by 50 percent over two years. New funding would be decreased by 25 percent in 2024 and by 50 percent after 2024. The grants are illustrative of those made by the federal government to state and local governments. The option includes several possible changes across these departments: the Department of Energy, the Environmental Protection Agency (EPA), the Department of Housing and Urban Development (HUD), the Department of Education, and the Department of Justice.

Source: The Congressional Budget Office, *Options for Reducing the Deficit, 2023 to 2032—Volume II: Smaller Reductions*, Option No. 35, page 41.

Proponents Say

- These grant programs address primarily local concerns. Leaving the funding decisions to state and local governments will lead to a more efficient allocation of resources because they will weigh costs and benefits more carefully.
- State and local governments may reduce their own funding for certain programs when federal funds are available.

Opponents Say

- These grants support programs that state and local governments may lack the incentive or funding to promote to the extent desirable from a national perspective. In fact, many state and local governments face fiscal constraints that might make it difficult for them to compensate for the loss of federal funds.
- Reducing funding for grants that redistribute resources across jurisdictions could lead to more persistent inequities among communities or individuals. Less federal support could also limit Washington's ability to encourage experimentation and innovation at the state and local levels and to learn from those different approaches.

Option 9: Reduce the Annual Across-the-Board Adjustment for Federal Civilian Employees' Pay

Reduce annual pay adjustments for federal civilian workers by 0.5 percentage points through the Federal Employees Pay Comparability Act of 1990. **Effect on the deficit: -$57 billion.**

Description

Under the Federal Employees Pay Comparability Act of 1990 (FEPCA), most federal civilian employees receive a pay adjustment each January. The adjustment is equal to the annual growth in the employment cost index (ECI) for wages and salaries of workers in private industry minus 0.5 percentage points. In recent years, however, policymakers have often lowered the adjustment.

This option would reduce the pay adjustment specified in FEPCA by an additional 0.5 percentage points. As a result, from 2024 to 2032, the adjustment would equal the growth rate in the ECI minus 1 percentage point. If the growth rate for the ECI was less than 1 percent, which has not occurred since the enactment of FEPCA, then no across-the-board adjustment would be granted for that year.

Source: The Congressional Budget Office, *Options for Reducing the Deficit, 2023 to 2032—Volume II: Smaller Reductions*, Option No. 34, page 40.

Proponents Say

- Standardized pay raises are uncompetitive and encourage federal employees to leave for the private sector. Merit-based pay raises and policies matching that of similar private employers would better suit employees and the federal budget.
- Providing substantial, annual adjustments is rewarding less qualified employees to stay in their position.

Opponents Say

- Shortages of government workers due to burnout and uncompetitive salaries is a regular occurrence over the past decade. Reducing this adjustment would only exacerbate the problem.

Option 10: Adhere to Outyear Spending Caps Recommended in The Fiscal Responsibility Act (the 2023 Debt Limit Deal)

Obey the spending cap provisions recommended in The Fiscal Responsibility Act through 2029. **Effect on the deficit: -$552 billion.**

Description

H.R. 3746 established caps on discretionary appropriations for the next six years. For 2024 and 2025, the spending limits are enforced by sequestration (a post-policy rescission of enacted appropriations above the limits), but for 2026 through 2029, the caps are enforced via procedural points of order during consideration of appropriations legislation (a pre-policy procedural violation prior to enactment) that can be waived with sufficient support in the House (a simple majority) and Senate (three-fifths majority). Since Congress routinely waives these violations for appropriations legislation, it is widely assumed that future Congresses will exceed the outyear spending caps because there is no post-policy "forcing" mechanism to claw back any excess spending.

This option takes an alternative view and assumes future Congresses will adhere to the outyear spending caps.

Source: The Congressional Budget Office, *Letter to the Honorable Kevin McCarthy, Speaker of the House of Representatives regarding CBO's Estimate of the Budgetary Effects of H.R. 3746, the Fiscal Responsibility Act of 2023*, Table 3 Memorandum.

Proponents Say

- Obeying the spending limits set by Congress is a way to reduce future deficits without cutting future spending—the caps merely slow the rate of growth in the discretionary part of the budget.
- Opportunities to rein in spending do not often come from Congress, so this chance should not be wasted while the framework to make positive movement on the issue of deficit spending is available.

Opponents Say

- Discretionary spending is less than one-third of total federal spending each year. Slowing the rate of growth in discretionary spending below the rate of inflation puts programs that are already strapped for cash in a difficult position. Cutting mandatory spending programs would be much more effective in reducing future budget deficits.
- Congress is unlikely to follow these advised caps or will find procedural loopholes around them.

CATEGORY TWO:

Options to Adjust National Security and Defense Spending

Option 11: Reduce the Department of Defense's Manpower Budget

Reduce the Department of Defense's active military manpower across all branches by 18 percent by 2032. **Effect on the deficit: -$995 billion.**

Description

Under this alternative, active military manpower would be reduced by 18 percent by 2032. The number of most types of units would be reduced in proportion to their 2023 level of funding in the 2023 Future Years Defense Program (FYDP)—see the table below:

	Current ('000s)	Option ('000s)	Change ('000s)	Percent (%)
Navy	337	310	-27	-8.0
Marine Corps	174	147	-27	-15.5
Army	478	351	-127	-26.6
Air Force	327	268	-59	-18.0
TOTAL	**1,316**	**1,075**	**-240**	**-18.2**

Source: Congressional Budget Office, *Options for Reducing the Deficit, 2023 to 2032—Volume I: Larger Reductions*, Option No. 11, page 60.

Proponents Say

- The defense budget is too big—it consumes more than 45 percent of all discretionary spending and over 12 percent of total federal spending. Reducing expenditures on defense activities would free up resources to invest in families, education, and infrastructure.
- Healthcare costs are rising for the military too, not just the private sector. To ensure the Department of Defense can care for its soldiers and their families in the face of rising healthcare costs, the military should "rightsize" its manpower budget.

Opponents Say

- With ongoing international conflicts and growing external threats, this is no time to make cuts that could deprive the armed forces of needed resources to adequately address the national security threats to the country.
- When measured as a percent of GDP, DoD's budget as a share of the economy has shrunk substantially. During the 1960s, national defense spending averaged 8-9 percent of GDP. Today, the ratio is now less than half that.

Option 12: Reduce the Department of Defense's Procurement and Research & Development Budget

Reduce the Department of Defense's budget by delaying or halting development, research, and purchasing of advanced equipment or weapons.
Effect on the deficit: -$91 billion.

Description

This would decrease the size of the United States nuclear arsenal through retirement of existing weapons and purchasing fewer replacements. The option would also cease the construction of Ford Class aircraft carriers and cancel or defer research on aerial weapons and aircrafts. Few of the changes made in this option will have any immediate effect on existing military supplies and resources. The targeted funds are those to be expended for future projects, weapons, and updating arsenals over the course of the next 10 or more years.

Source: The Congressional Budget Office, *Options for Reducing the Deficit, 2023 to 2032—Volume II: Smaller Reductions*, Option Nos. 21-25, pages 27-31.

Proponents Say

- Since 1995, the Department of Defense's financial management practices routinely rank as "high risk" for waste, fraud, and abuse by the Government Accountability Office (the nation's auditors). Eliminating future programs that haven't started yet would help reduce future deficits without harming current programs.
- The United States has more nuclear weapons than it needs or could ever use.
- Allies of the United States need to spend more on their own national defense. We can't be the global police force.

Opponents Say

- With ongoing international conflicts and growing external threats, this is no time to make cuts that could deprive the armed forces of needed resources to adequately address the national security threats to the country.
- A nuclear axis hostile to the U.S. and its allies is forming among China, Russia, North Korea and now possibly Iran. We need a capable deterrence on all fronts and that means producing more technologically advanced weapons systems, including nuclear weapons.

Option 13: Cap Increases in Basic Pay for Military Service Members

Cap basic pay raises for military service members at half a percentage point below the increase in average wages and salaries in the private sector.
Effect on the deficit: -$22 billion.

Description

Basic pay is typically the largest component of military service members' cash compensation. Under current law, the annual pay raise for service members is, by default, set equal to the percentage change in the employment cost index (ECI) for wages and salaries of workers in private industry. Lawmakers have sometimes enacted pay raises that are larger or smaller than the default adjustment. This option would cap basic pay raises for military service members at 0.5 percentage points below the increase in the ECI through the end of calendar year 2028.

Source: The Congressional Budget Office, *Options for Reducing the Deficit, 2023 to 2032—Volume II: Smaller Reductions*, Option No. 19, page 25.

Proponents Say

- The Defense Department has consistently surpassed its goal of average compensation for military personnel exceeding wages and salaries earned by 70 percent of civilians with comparable education and work experience.
- Service members value pay and benefits, but many join for the stability, educational opportunities, and career development. If the military continues to provide these extra services capping pay becomes a more reasonable proposal.

Opponents Say

- Future military recruiting and retention could be compromised unless basic pay raises keep pace with the civilian workforce.
- Capping raises also would constrain what service members receive in other benefits, such as retirement annuities that are tied to the 36 highest months of basic pay over the course of a military career.

Option 14: Introduce TRICARE for Life Enrollment Fees and Out-of-Pocket Minimums

Reform the TRICARE for Life program to introduce enrollment fees and out-of-pocket minimums. **Effect on the deficit: -$48 billion.**

Description

TRICARE for Life (TFL) is a supplement to Medicare for military retirees and their Medicare-eligible family members. It is run by the Department of Defense's Military Health System and is wholly separate from traditional Veterans Administration care for veterans' service-related injuries. Approximately 2.1 million retirees and their family members are enrolled. TFL pays nearly all medical costs not covered by Medicare and has few out-of-pocket expenses. Healthcare costs have been among the fastest-growing portions of the defense budget over the past two decades, more than doubling in real (inflation-adjusted) terms since 2001.

This option would require most Medicare-eligible beneficiaries who enroll in TFL to pay an annual enrollment fee of $575 for individual coverage or $1,150 for family coverage. Members who received a disability benefit and survivors of members who died on active duty would be exempt. It would also introduce minimum out-of-pocket requirements for TFL beneficiaries. For calendar year 2026, TFL would not cover any of the first $850 of an enrollee's cost-sharing payments (like co-payments for office visits) under Medicare and would cover only 50 percent of the next $7,650 in such payments. Because all further costs would be covered by TFL, enrollees would not be obligated to pay more than $4,675 in 2026.

Source: Congressional Budget Office, *Options for Reducing the Deficit, 2023 to 2032—Volume II: Smaller Reductions*, Option Nos. 7-8, pages 12-13.

Proponents Say

- In the private sector, Medicare beneficiaries have cost-sharing requirements like monthly premiums and copays, and must meet minimum out-of-pocket costs before catastrophic coverage kicks in. Introducing similar cost-sharing arrangements for military retirees would help reduce healthcare costs in the defense budget, freeing up resources for active-duty personnel.

Opponents Say

- Current retirees joined the military with the understanding that they would receive free or very low-cost medical care in retirement in exchange for their years of service. It would be unfair to rewrite that social contract now.
- Many retirees are on fixed incomes and cannot readily adjust to unexpected additional expenses.
- Reducing healthcare benefits for retirees could affect future military recruitment and retention.

Option 15: Reduce Spending on International Affairs (Foreign Aid)

Reduce funding for international affairs programs by 25 percent. **Effect on the deficit: -$148 billion.**

Description

The budget for international affairs provides funding for the Department of State and the U.S. Agency for International Development (USAID). Through these two agencies the U.S. conducts diplomacy throughout the world. U.S. embassies and consular offices administer programs that provide humanitarian, economic development, and security assistance to other nations, conduct peacekeeping efforts, help curtail illegal drug trafficking, and assist Americans living or traveling abroad. In FY 2022, $72 billion was allocated for the international affairs budget.

This option would reduce the international affairs budget by 25 percent.

Source: The Congressional Budget Office, *Options for Reducing the Deficit, 2023 to 2032—Volume II: Smaller Reductions*, Option No. 29, page 35.

Proponents Say

- If we are going to reduce spending it makes sense to start with programs that primarily benefit other countries rather than our own.
- In a global economy like ours, the private sector will compensate for the lack of federal international support to protect their investments, their supply lines, their employees, and their business relationships abroad. The private sector might also be more efficient at deploying resources where needed.

Opponents Say

- Reducing foreign aid will make America less safe because it will harm bilateral and cooperative agreements with foreign governments and organizations that we rely on for security arrangements, including counter-terrorism and global health monitoring.
- If America retreats from the global community, authoritarian governments like China and Russia will step in to fill the void in developing economies, threatening democracy around the globe.
- Our relationships also contribute to increased economic opportunities in the United States and promote humanitarian and environmental efforts worldwide.

Option 16: Enhance Border Security by Enacting H.R. 2, Secure the Border Act of 2023

Enhance border security by enacting H.R. 2, Secure the Border Act of 2023. **Effect on the deficit: +$6 billion.**

Description

This option would resume construction of a physical barrier (wall) on the southwestern United States border and increase security measures for Department of Homeland Security operations. It would also limit non-U.S. nationals' eligibility to receive parole or asylum and the ability of some unaccompanied children to remain in the United States. H.R. 2 would also mandate that all U.S. employers use E-Verify, the federal web-based system for confirming eligibility to work. Although the bill would reduce spending in various immigration administration sectors and federal benefits to aliens, overall future deficits would increase because construction of the border wall would be larger than savings from reduced immigration.

Source: Congressional Budget Office, Estimate of the Budgetary Effects of H.R. 2, Secure the Border Act of 2023.

Proponents Say

- Illegal crossings at the southern U.S. border are out of control, posing a grave safety concern. The federal government's primary objective is to keep all Americans safe from harm. Securing the border should be a top priority.
- Combating illegal immigration is costly, especially for states along the southern border that bear a disproportionate share of the security and humanitarian costs. The federal government needs to do more to help.
- The U.S. economy can't support unfettered immigration—it hurts jobs, wages, and economic growth.

Opponents Say

- Immigrants (legal or otherwise) usually come to the U.S. for one of two reasons: economic opportunity or to flee danger and violence in their home country. As the world's largest and richest democracy, we have a moral obligation to help those less fortunate.
- Labor force growth is a key driver of economic growth, but our native-born workforce is shrinking because women are marrying later and having fewer children. To maintain our standard of living our economy must grow hence we need more immigration, not less, to boost our population and our workforce.
- Our current immigration system is broken, but H.R. 2 isn't the right solution.

CATEGORY THREE:

Options to Adjust Healthcare and Social Security Spending

Option 17: Equalizing Medicare Payments Regardless of Site-of-Care

Establish site-neutral reimbursement rates for Medicare services regardless of whether they are performed in a hospital outpatient department, a physician's office, or an ambulatory surgical center. **Effect on the deficit: -$217 billion.**

Description

The Medicare program pays higher reimbursement rates for medical services performed in hospital outpatient departments than it pays for the same services when performed at physicians' offices or ambulatory surgical centers, even when the care at these alternative sites is equally safe and effective. In some cases, the payment differentials are quite large. For example, Medicare pays hospital outpatient departments an average of 125 percent more than physicians' offices for an evaluation and management ("clinic") visit. Overall, Medicare reimbursement rates are nearly twice as high as rates for ambulatory surgical centers.

This option would revise Medicare payments at the lower-cost, site-neutral rate.

Source: The Committee for a Responsible Federal Budget, *Equalizing Medicare Payments Regardless of Site-of-Care*, Health Savers Initiative, February 2021.

Proponents Say

- Given the high and rising costs of healthcare in the federal budget, several bold policy changes will be needed to assure long-term affordability and sustainability of Medicare. Paying the same rate for the same service regardless of site-of-care makes sense.
- The historic rationale for higher payments in a hospital setting (regulatory burden, patient mix, complexity of services provided) no longer applies since hospitals are purchasing independent physician practices largely to take advantage of the higher rates by changing the office's designation. In these cases, the exact same services are delivered by the exact same personnel, but at a higher cost to public and private payers.
- This option has been endorsed by the independent Medicare Payment Advisory Commission (MedPAC). It was included in budgets proposed by Presidents Obama and Trump, indicating it has bipartisan support.

Opponents Say

- These differentials exist in the private sector as well and Medicare is just following standard industry practice. Commercial insurers generally pay more for the same services when they are delivered in a hospital outpatient department than in a physician's office.

Option 18: Provide Medicare Beneficiaries with Subsidies to Purchase Private Health Insurance

This "premium support" option would restructure the Medicare program from fee-for-service to one that provides seniors with a set amount of money to purchase private insurance of their choice. **Effect on the deficit: -$1,875 billion.**

Description

Medicare cost growth is a primary factor driving future deficits and debt. Converting Medicare to a "premium support" model would eliminate traditional fee-for-service Medicare and provide beneficiaries with a government stipend (based on income and health status) to purchase private market health insurance. Insurers would then bid for the right to provide a bundle of government-required benefits in exchange for the stipend but could also offer more comprehensive services. Premium support would work similarly to employer-provided insurance for workers in the private sector or in the Affordable Care Act health exchanges. Savings would accrue because all three parties—beneficiaries, insurers, and the federal government would have a role in cost control. Moreover, competition among health plans should reduce the price of insurance. Insurers unable to manage their bids and costs successfully would not participate.

Source: American Action Forum, *"Is It Time for Premium Support?"* and *Modernizing Medicare* by Douglas Holtz-Eakin, May 2023.

Proponents Say

- Medicare is on an unsustainable path and its cost growth must be slowed somehow. This proposal would reduce the federal government's overall commitment to healthcare and allow seniors more flexibility than under Medicare today.
- The marketplace would increase competition among health plans and lower costs.

Opponents Say

- Beneficiaries would face higher healthcare costs because of declining government assistance. The risk of healthcare inflation will be transferred to individuals instead of spread across the entire nation and the federal budget, where dramatic shifts are more easily absorbed.
- Beneficiaries would also face higher premiums in the private health insurance market than in a government-subsidized market since Medicare is more administratively efficient than the private insurance market. Furthermore, beneficiaries could face loss of their health plans in any given year since government support gets re-adjusted based on new insurance products each year.

Option 19: Reducing Medicare Advantage Overpayments

Convert Medicare from fee-for-service payments to episode-based "bundled payments." **Effect on the deficit: -$47 billion.**

Description

Evidence suggests that insurers who participate in the Medicare Advantage (MA) program, which allows Medicare beneficiaries to enroll in federally funded private health insurance plans, are currently overpaid. MA plans are incentivized to discover and code complete diagnostic information on enrollees. Those reporting incentives don't exist in traditional fee-for-service (FFS) Medicare—providers often code only enough diagnoses to justify the use of the specific procedure or service for which the provider is seeking payment. As a result, MA plan beneficiaries appear sicker than FFS beneficiaries, which leads to higher payments to MA program insurers. The Centers for Medicare and Medicaid Services (CMS) is supposed to adjust payments to account for differences in diagnostic reporting (called "coding intensity") but its adjustments have fallen well short of correcting the problem.

This option would adjust the "coding intensity" used in the calculation of Medicare payment ranges, providing more accurate figures, and thus cutting unnecessary costs.

Source: The Committee for a Responsible Federal Budget, *Reducing Medicare Advantage Payments,* Health Savers Initiative, February 2021.

Proponents Say

- Providers in the MA program are being overpaid for the same services provided by the traditional FFS program. Failure to address the problem will allow MA health plans to profit from the overpayments rather than through improvements in quality and efficiency.
- As the MA program grows in popularity, overall Medicare care costs will accelerate unless this problem is corrected.

Opponents Say

- Medicare FFS beneficiaries typically purchase extra Medigap insurance to cover costs not covered by traditional Medicare, so the comparison of MA reimbursement to FFS is not "apples-to-apples."
- Medicare Advantage program providers typically score higher on quality metrics than traditional FFS Medicare providers.

Option 20: Expand Types of Coverage Under the Medicare Program

Provide dental, vision, and hearing coverage under the Medicare program. **Effect on the deficit: +$358 billion.**

Description

Currently, Medicare Part A (hospital insurance) and B (medical insurance) provide beneficiaries with coverage for inpatient and outpatient care, surgeries, tests, some preventative care, and similar services from providers. Historically, Medicare has not included dental, vision, or hearing benefits.

Under this option, Medicare would add new benefits for dental, vision, and hearing care (including dentures, glasses, hearing aids, and preventive services). The Congressional Budget Office estimates that those provisions would increase direct spending by about $358 billion over a 10-year period. Of that amount, almost $238 billion would pay for dental care, $30 billion would pay for vision care, and $89 billion would pay for hearing services.

Source: The Congressional Budget Office, *Letter to the Honorable Frank Pallone Jr., Chairman of the House Committee on Energy and Commerce, Regarding the Budgetary Effects of H.R. 3, the Elijah E. Cummings Lower Drug Costs Now Act*, Pg. 10; Title VI.

Proponents Say

- The average American must pay out of pocket for most dental, vision, and hearing services. More than 70% of those who need dental or hearing care did not receive it, and more than 40% of those who had trouble seeing had not been to the eye doctor in a year. Adding these benefits to Medicare could be life changing for senior citizens.

Opponents Say

- Medicare is already financially vulnerable. Adding additional costs without a dedicated revenue source would be irresponsible and would threaten the viability of the entire Medicare program.
- The savings from more efficient Medicare Advantage plans can be, and often are, used to pay for and supplement varying types of coverage, including dental, vision, and hearing. Program efficiency like this should be rewarded and enhanced, rather than adding to other plans within Medicare.

Option 21: Increase the Premiums Paid for Medicare Part B

Raise the basic Medicare Part B premiums to 35 percent of the program's costs, phased in over five years. **Effect on the deficit: -$448 billion.**

Description

Medicare Part B's Supplemental Medicare Insurance Program offers coverage for physician and hospital outpatient services. Although the Part B premium paid by beneficiaries was initially intended to cover 50 percent of the cost of benefits, that share has greatly declined because premiums were not allowed to increase at the same rate as benefits. Low-income enrollees with few assets can receive subsidies through Medicaid to cover their Part B premium. Some enrollees pay an income-related premium (IRP) if their modified adjusted gross income (MAGI) exceeds a certain amount. Enrollees who pay an IRP fall in one of five tiers, depending on their income. The amounts are set so that the basic premium and the IRP together are expected to cover between 35 percent and 85 percent of average Part B costs for enrollees aged 65 or older.

This option would increase the Part B basic premium to 35 percent of expected costs per enrollee and freeze the income thresholds for IRPs. The basic premium would increase 2 percentage points each year for five years until the 35 percent threshold is reached. The IRP income thresholds would be frozen until 2032.

Source: The Congressional Budget Office, *Options for Reducing the Deficit, 2023 to 2032—Volume I: Larger Reductions*, Option No. 4, page 22.

Proponents Say

- Congress has prevented Part B premiums from keeping pace with the 50-percent financing target. The more reliant Medicare is on general fund financing, the less funding there will be to address other important priorities like national defense, education, and climate change.

Opponents Say

- Asking current beneficiaries, many of whom are retired and on fixed incomes, to pay more for Medicare is unfair. They have fewer options to raise their income and pay the higher premium.

Option 22: Establish Caps on Federal Spending for Medicaid

Index spending caps at CPI +1% for federal spending on Medicaid programs. **Effect on the deficit: -$501 billion.**

Description

Medicaid is a joint federal-state program that covers acute and long-term healthcare for low-income people. Subject to federal standards, states administer Medicaid programs and have flexibility to determine what populations and services to cover, how to deliver care, and how much to reimburse providers. States are guaranteed federal matching dollars without a cap for qualified services provided to eligible enrollees. The match rate for most Medicaid enrollees is determined by a formula in the law that provides a match of at least 50% and provides a higher federal match rate for states with lower per capita income. States may receive a higher match rate for certain services and populations.

This option caps the amount that states receive from the federal government to operate the program. If the combined federal and state costs of Medicaid exceeded the upper limit established by the federal government, then federal spending would not increase above the cap and states would be responsible for providing additional funds.

Source: The Congressional Budget Office, *Options for Reducing the Deficit, 2023 to 2032—Volume I: Larger Reductions*, Option No. 1, page 7.

Proponents Say

- If states choose to expand their model or methods of care, the federal government should not automatically fund those needs. Current law allows for states to take less and less responsibility the more expensive Medicaid becomes in their state.
- Forcing states to assume responsibility for promoting better health among its citizens will increase both quality of care and efficiency of healthcare spending.

Opponents Say

- The individual states, all by themselves, cannot control growing healthcare costs alone—the federal government has a role to play.
- Individuals needing the support of Medicaid will be directly harmed by capping federal spending. More personal savings and out-of-pocket spending will be required without the additional funding for Medicaid in their state. And those eligible for Medicaid do not have robust savings.

Option 23: Gradually Raise the Full Retirement Age for Social Security

Gradually raise the full retirement age for Social Security to 67 and 70 for staggered age groups. **Effect on the deficit: -$121 billion.**

Description

The age at which workers become eligible for full Social Security benefits depends on their year of birth. For anyone retiring after 2023, the early retirement age is 62 (which carries a penalty in the form of reduced lifetime benefits for early retirement) and the normal retirement age (for full benefits) is 67.

This option would increase the full retirement age from 67 by two months per birth year for workers born between 1961 and 1978. As a result, for all workers born in 1978 or later, the full retirement age would be 70. Workers could still choose to retire at 62, but the reduction in their initial scheduled monthly benefit for claiming benefits early would be larger.

Source: Congressional Budget Office, *Options for Reducing the Deficit, 2023 to 2032—Volume II: Smaller Reductions*, Option No. 13, page 18.

Proponents Say

- Raising the retirement age will help to adjust Social Security for gains in life expectancy. Life expectancy at age 65 in 1940 was 11.9 years for men and 13.4 for women. It is now 17 years for men and 19.7 for women and is expected to continue rising for decades. Thus, Social Security costs will increase as people collect benefits over longer lifetimes.
- Workers in physically taxing jobs will still be able to receive early (reduced) benefits at age 62 or apply for disability benefits.
- While this option to raise the retirement age would not save a lot of money in the first 10 years, over time it would save a more substantial amount (0.5% of GDP) and would help put Social Security on a more sustainable course.

Opponents Say

- Current law applies a penalty for retiring early in the form of permanently reduced benefits. Raising the retirement age without reducing the penalty (or raising the early retirement age the same amount) would harm workers with physically-intense jobs who typically retire early.
- Ageism is real and it is hard for older Americans to keep their jobs. Highest paid employees are often the first to be let go. Health issues common to the aging process also make it hard for older workers to find and keep employment.

Option 24: Increase the Taxable Earnings Subject to Social Security Payroll Tax

Increase the maximum taxable earnings that are subject to Social Security payroll taxes. **Effect on the deficit: -$670 billion.**

Description

Social Security is financed primarily by a 12.4 percent payroll tax levied on wage and salary income—half paid by the employer, half by the employee (self-employed persons pay the full amount). Investment income is not subject to the payroll tax. Only earnings up to a maximum are subject to the tax ($160,200, in 2023), and only earnings below the maximum are used to determine benefits.

When payroll taxes for Social Security were first collected in 1937, about 92 percent of earnings from jobs covered by the program were subject to the payroll tax. Today, that amount has fallen to about 80 percent. Even though the taxable maximum is indexed for wage inflation, earnings for the highest-paid workers have grown faster than average earnings so the amount of "covered" income has fallen.

This option would immediately increase the taxable share of wages from jobs covered by Social Security to 90 percent in calendar year 2023 (to $300,000 in wage income). In later years, the maximum would grow at the same rate as average wages as under current law. Because some workers would be paying more taxes into Social Security, they would also receive larger benefits under the current law formula.

Source: Congressional Budget Office, *Options for Reducing the Deficit, 2023 to 2032—Volume I: Larger Reductions,* Option No. 9, page 51.

Proponents Say

- Within a decade, the Social Security trust fund will be insolvent. It is important to preserve Social Security for all generations of retirees—today's and tomorrow's.
- Social Security is a transfer payment system: today's workers pay taxes that support today's retirees. But there aren't enough workers to support the cost of retiring Baby Boomers and the generations that follow. This is one way to add more revenue without taxing low-income people or cutting benefits.

Opponents Say

- The payroll tax is paid by employees and employers. Raising the cap—this much and this fast—would devastate small businesses and the self-employed.

Option 25: Use an Alternative Measure of Inflation to Index Mandatory Programs

Use chained CPI to index Social Security and other mandatory programs. **Effect on the deficit: -$257 billion.**

Description

Each year Social Security beneficiaries and other recipients of government transfer payments receive a cost-of-living-adjustment (COLA) to help counter the effects of inflation. The annual COLA is based on the change in prices as measured by the Consumer Price Index (CPI) which is calculated and published by the Bureau of Labor Statistics (BLS). Over the years, however, mounting evidence suggests that the CPI overstates inflation because it doesn't account for substitution effects (as apple juice gets more expensive, for example, consumers might shift to less expensive orange juice).

BLS computes another measure of inflation—the chained CPI—which is designed to account for these changes in spending patterns and to eliminate several types of statistical biases that exist in the traditional CPI measures. This option would primarily affect the growth of Social Security (but would also lower spending in other mandatory programs) by using the alternative measure of inflation, chained CPI. Many economists consider this measure to be more accurate because it reflects changes in consumer behavior. For example, when the price of apples goes up, some people will buy bananas instead. CBO estimates that the chained CPI is likely to grow 0.25 percent slower than the standard CPI each year.

Source: Congressional Budget Office, *Options for Reducing the Deficit, 2023 to 2032—Volume II: Smaller Reductions*, Option No. 18, page 23.

Proponents Say

- This proposal would help restrain the long-term costs of Social Security and could be a responsible step towards making the program fiscally sustainable.
- Social Security benefits would still grow over time. This isn't a benefit cut, but a reduction in the rate of growth in benefits.
- The CPI is not the only available index to adjust for changes in the cost of living. Beneficiaries should not receive benefit increases larger than necessary to protect them against inflation.

Opponents Say

- One of the largest categories of spending for seniors is healthcare, and healthcare costs are growing faster than inflation.
- The whole purpose of automatic inflation adjustments was to take politics out of benefit increases. This option would reintroduce politics into the process, which could result in future irresponsible adjustments.

CATEGORY FOUR:

Options for Cutting Taxes and for Raising Revenue

Option 26A and 26B: Increase Tax on Long Term Capital Gains and Dividends by 2 Percent

OR

Tax Carried Interest as Ordinary Income

26A - Increase tax on long term capital gGains and dividends by 2 percent. **Effect on the deficit: -$102 billion.**

Description

Capital gain is income from selling an asset for more than one paid for it. A dividend is income received during ownership of (primarily) corporate stock. The tax code currently gives a preference, in the form of a lower tax rate of 15 percent, to capital gains and dividend income. Under this option, each bracket of income would see a 2-percentage point increase in their tax rate on long term capital gains and dividends. The current tax rates for the three brackets are 0%, 15%, and 20%. If this option is selected, the new rates would be 2%, 17%, and 22%, respectively.

Source: The Congressional Budget Office, *Options for Reducing the Deficit: 2021-2030*.

Proponents Say

- By maintaining a preferential treatment to long term capital gains and dividends earnings, those who invest will still be rewarded for participating in economic growth. An incremental change will not disrupt existing markets while producing much needed revenue.
- This tax has been significantly higher in the past, during what some would consider a golden age of the American economy, without major hardship or consequence. A two percent increase will put us on the right track towards a balanced tax rate.

Opponents Say

- Moving investments and money around is difficult enough as it is. Under this option, it would only become more difficult and expensive for even the lowest tax bracket to become involved in investments.
- By increasing the tax by two percentage points, the government is giving itself an easy out with a minor policy change. If this option is implemented, it is uncertain when the political inertia will once again be available to reach higher long term gains taxes.

26B - Taxcarried interest as ordinary income. **Effect on the deficit: -$12 billion.**

Description

Investment funds—such as private equity funds, real estate funds, and hedge funds—are often organized as partnerships. Those partnerships typically have two types of partners: general partners and limited partners. General partners manage investment funds and typically receive two types of compensation: a management fee tied to a percentage of the fund's assets and a percentage of the fund's profits, which is called carried interest. Carried interest associated with gains from the sale of an asset held for more than three years is usually taxed at the long-term capital gains rate, which is typically lower than that for ordinary income. Additionally, carried interest is not subject to the self-employment tax.

This option would treat carried interest that general partners receive for performing investment management services as labor income, taxed at the rate of ordinary income and subject to the self-employment tax. Income those partners received as a return on their own capital contribution would not be affected.

Source: The Congressional Budget Office, Options for Reducing the Deficit, 2023 to 2032—Volume II: Smaller Reductions, Option No. 43, page 51.

Proponents Say

- Many economists view carried interest as performance-based compensation for management services provided by the general partner rather than as a return on financial capital invested. This suggests it is appropriate to tax some component of carried interest as ordinary income.
- There should be no difference in the tax treatment of income. A wealthy investor shouldn't pay a lower tax rate than their administrative assistant.

Opponents Say

- This option would disincentivize investment in non-public companies. Small companies rely on private equity and venture capital firms for the money needed to grow.

Option 27: Eliminate the Estate Tax

Eliminate the federal tax on estates. **Effect on the deficit: +$406 billion.**

Description

The federal estate tax is a tax of up to 40 percent on inherited income over $11 million per person or $22 million for a married couple. The 2017 tax law doubled those amounts from the previous thresholds of $4.5 and $11 million, respectively. The tax only applies to the value of an individual's inheritance over the exemption threshold. Of the roughly 2.7 million estates in the United States, approximately 1,800 will be subject to the estate tax each year.

Source: The Congressional Budget Office, The Budget and Economic Outlook: 2023 to 2033, Table 1-7, page 25.

Proponents Say

- The estate tax is unfair double taxation. It taxes the same dollar when it is earned and again when it is passed on to an heir.
- When estates that consist primarily of assets that aren't easily divisible are subject to the estate tax, it can force the heirs to sell family farms and small businesses to pay large tax bills.

Opponents Say

- Very few small businesses and family farms are subject to the estate tax: they account for around 30 estates out of 2.7 million each year.
- Repealing the estate tax would only benefit the wealthiest who can amass such large estates. Repeal would do nothing to incentivize work or other activities that promote economic growth.

Options 28: Extend the Temporary Individual Income Tax Cuts Enacted as Part of the 2017 Tax Law

Extend the temporary tax cuts enacted in the 2017 tax law that will expire at the end of 2025. **Effect on the deficit: +$2,488 billion.**

Description

In December 2017, Congress and the President enacted The Tax Cuts and Jobs Act of 2017 (TCJA). Among other changes, the law made substantial changes to the individual income tax affecting individuals and small businesses. Specifically, the measure reduced most marginal tax rates, nearly doubled the standard deduction, expanded the Child Tax Credit, capped the deduction for state and local income taxes paid, and changed the way mortgage interest on a home mortgage could be deducted. These changes to the individual income tax were only temporary, however, and will expire at the end of 2025. At that point, the tax law will revert to the rates and definitions in place in 2017.
This option would permanently extend the individual income tax cuts enacted in the 2017 tax law.

Source: The Congressional Budget Office, *Budgetary Outcomes Under Alternative Assumptions About Spending and Revenue*, Table 2, page 5.

Supporters Say

- Most of the corporate income tax cuts in the TCJA were permanent (they don't expire)—and that isn't fair. If big corporations received a permanent tax cut, so should hard working Americans.
- If the individual income tax cuts in the TCJA aren't extended, workers will owe higher taxes, further squeezing the middle class.
- Higher taxes reduce future economic growth.

Opponents Say

- The tax cuts were fiscally irresponsible. Permanently extending them would simply make projected deficits and debt worse.
- According to tax distribution tables from the Tax Policy Center, a majority of the 2017 tax cuts went to wealthy individuals. They can afford to pay higher taxes.

Option 29: Raise the Corporate Income Tax Rate

Raise the corporate income tax rate from 21 to 28 percent. **Effect on the deficit: -$1,326 billion.**

Description

The Tax Cuts and Jobs Act of 2017 (TCJA) reduced the top corporate tax rate from 35 percent to 21 percent -- a 40 percent reduction. This option would increase that rate from 21 percent to 28 percent.

Source: The Office of Management and Budget, *Budget for the United States Government for FY 2024*, Table S-2, pg. 136.

Proponents Say

- When the corporate rate was cut in 2017, it was assumed the cut would "pay for itself." Even though corporate tax collections rose after the cut, they would have risen even more without the rate cuts because corporate profits were growing before the new law was enacted.

Opponents Say

- According to the Organisation for Economic Co-operation and Development (OECD), prior to the 2017 tax cut, America's corporate income tax rate was among the highest among developed economies. The reduced rate makes businesses in the U.S. more competitive. It also discourages profit shifting to lower-tax jurisdictions, encourages new investment, higher wages, and increases employment.
- Economic research suggests that a large portion of the corporate income tax is shouldered by workers in the form of lower wages. If lawmakers raised the corporate income tax rate, it would reduce employment, hurt wages, and reduce economic growth.

Option 30: Reduce Tax Subsidies for Employment-Based Health Insurance

This option would limit the exemption for employer-provided health care contributions from an employee's income for tax purposes. **Effect on the deficit: -$500 billion.**

Description

Most employees' healthcare benefits are a major component of their compensation, yet health insurance premiums paid by employers on behalf of their employees are exempted from income and payroll taxes. As healthcare costs grow and consume larger portions of employees' compensation, this amount of untaxed income grows, resulting in substantial revenue loss to the federal government.

This option would cap the amount of premiums excluded from taxation. Total tax-free employer-paid premiums would be capped at $11,200 a year for individual coverage in 2026 and $27,600 a year for family coverage. These amounts reflect the projected 75th percentile of employment-based health insurance premiums in 2024, meaning that 75 percent of all premiums for single and family coverage would fall below those respective amounts in that year. In 2026 and later years, those caps would be inflated using the chained Consumer Price Index (CPI-U).

Source: The Congressional Budget Office, Options for Reducing the Deficit, 2023 to 2032—Volume I: Larger Reductions, Option No. 6, page 30.

Proponents Say

- The exclusion of employer-paid healthcare premiums distorts the health care market by encouraging higher levels of spending on health care (because employees don't see or pay the full cost). Taxing employer-provided benefits would generate new revenue and encourage lower levels of health care spending—two necessary steps to restore our nation's fiscal sustainability.

Opponents Say

- Taxing health care benefits will reduce overall healthcare spending because it decreases the generosity of one's health insurance plan. The flip side of the reduction in insurance is an increase in individuals' out-of-pocket costs for healthcare. As a result, sick individuals who utilize more healthcare services disproportionately suffer from this burden.
- This option represents a substantial middle-class tax increase and is no 'silver bullet' for containing healthcare costs: if individuals avoid consuming healthcare because of prohibitive costs, they might get sicker and more expensive to treat, defeating the money-saving goal of the option.

Option 31: Eliminate Some Tax Preferences for Educational Expenses

Eliminate the American Opportunity Tax Credit and Lifetime Learning Tax Credit. **Effect on the deficit: -$128 billion.**

Description

Some tax credits directly support students pursuing higher education. The American Opportunity Tax Credit (AOTC) permits certain qualifying taxpayers (those with household income below a threshold) to reduce their tax liability by up to $2,500 per eligible student for qualifying expenses related to higher education (books, tuition, etc.). The AOTC is also refundable: if the credit brings the amount of tax you owe to zero, up to 40 percent of any remaining amount of the credit (capped at $1,000) can be refunded to the taxpayer. It can be claimed only for four tax years per eligible student.

The Lifetime Learning Tax Credit (LLTC) provides up to $2,000 per household (not per student) for taxpayers with household income below a certain threshold for qualifying higher education expenses. Unlike the AOTC, however, the LLTC is not refundable but there is no limit on the number of tax years it can be claimed.

This option would eliminate both tax credits.

Source: The Congressional Budget Office, *Options for Reducing the Deficit, 2023 to 2032—Volume II: Smaller Reductions*, Option No. 46, page 54.

Proponents Say

- The current credits and deductions do not target their benefits to households that need assistance the most. Most low-income families do not have enough income tax liability to benefit from these provisions.
- Providing education benefits as tax expenditures instead of spending programs also adds complexity to the process of figuring out financial needs for education and fails to provide assistance during enrollment, when cash is needed most.

Opponents Say

- This option, especially if not combined with an increase in other forms of assistance, would increase the financial burden for education for those middle-class families that make too much income to qualify for current educational aid spending programs.

Option 32: Change the Tax Treatment of Capital Gains From the Sale of Inherited Assets

Eliminate the “stepped-up” basis for determining capital gains taxes when inherited assets are sold. **Effect on the deficit: -$156 billion.**

Description

When an asset—a business, real property, stocks, etc.—is sold, current tax law generally requires the seller to pay capital gains tax on the increase in value between the date of purchase and the date of sale. When a seller inherits an asset, however, tax law assumes the heir receives the asset at a price equal to the current market value (also called a “stepped-up” basis). When the inherited asset is sold, only the gain above the stepped-up basis is taxable even though the heir paid nothing to obtain it. A portion of the asset’s appreciation—the increase in value from the initial purchase price paid by the deceased and the heir’s stepped-up basis—is never taxed.

This option would eliminate the step-up basis rule—heirs would be responsible for paying the entire gain on an asset when it is eventually sold.

Source: The Congressional Budget Office, *Options for Reducing the Deficit, 2023 to 2032—Volume II: Smaller Reductions*, Option No. 40, page 48.

Proponents Say

- The original justification for the “step-up basis” was that heirs found it difficult to determine the original price paid for assets. In the digital age, such concerns are now overblown, if not moot.
- This option would increase productive investments during people’s lifetimes instead of incentivizing people to hold onto assets longer than they would otherwise simply to take advantage of this tax preference. It would also cut down on wasted resources devoted to tax planning because many tax shelters exist as a way of using step-up rules to avoid taxes.

Opponents Say

- Heirs will find it difficult to determine the original value of an asset if the decedent did not keep good records.

Option 33: Impose a Tax on Financial Transactions

Impose a 0.01 percent tax on the purchase of stocks and bonds, and derivative transactions. **Effect on the deficit: -$264 billion.**

Description

The United States is home to large financial markets with high volumes of trading. Under current federal tax law, no tax is imposed on the purchase of securities (stocks and bonds) or other financial products. However, the Securities and Exchange Commission charges a fee of approximately 0.002 percent on most transactions, and the federal government currently charges a 1 percent excise tax on the value of stock "buy-backs" (when a publicly traded company buys back some of its own stock to increase its share price).

In general, this option would impose a financial transactions tax of 0.01 percent tax of the value of the security traded. It would apply to all trading, but not on the initial issuance of stock or debt. It would be imposed on all transactions that occur in the United States and on overseas transactions involving a U.S. taxpayer.

Source: The Congressional Budget Office, *Options for Reducing the Deficit, 2023 to 2032—Volume II: Smaller Reductions*, Option No. 57, page 65.

Proponents Say

- A financial transaction tax would reduce short-term speculation and computerized trading. This type of trading is less productive and can destabilize markets, even leading to crashes that can potentially damage the economy.
- Even though the tax is small, it can generate significant revenue and increase the progressivity of the tax code since the major beneficiaries of high-frequency trading are wealthier individuals and corporations.

Opponents Say

- The tax would discourage all short-term trading, not just speculation, including some transactions by traders that help to stabilize markets by establishing efficient prices that reflect the fundamental value of assets. A transaction tax could make asset prices less stable.
- This tax could lead to traders developing alternative securities to avoid the tax or even cause them to move trading to another country. Even though some members of the European Union have similar taxes, there will always be places where trading could be set up to avoid taxation.

Option 34: Increase the Gas Tax and Index it to Inflation

Increase the excise taxes on all motor fuels by 15 cents per gallon and index them for inflation. **Effect on the deficit: -$240 billion.**

Description

Revenues from federal taxes on motor fuels—currently 18.4 cents on each gallon of gasoline purchased and 24.4 cents on each gallon of diesel fuel—are credited to the Highway Trust Fund and used to pay for highway construction and maintenance. Decades ago, these taxes used to be evaluated and increased (if necessary) as part of the reauthorization of the surface transportation system—but this practice stopped after 1993. This failure of gas taxes to keep up with inflation has affected the Department of Transportation's ability to make proper investments in America's roads, bridges, and highway systems. If these taxes had been indexed to inflation, motor fuel excise taxes would be approximately 15 cents higher than they are now.

Under this option, federal excise tax rates on gasoline and diesel fuel would increase by 15 cents per gallon. The tax would be indexed for inflation each year using the Chained Consumer Price Index.

Source: The Congressional Budget Office, *Options for Reducing the Deficit, 2023 to 2032—Volume II: Smaller Reductions*, Option No. 56, page 64.

Proponents Say

- The Highway Trust Fund is in deficit and the government is running out of money to maintain and repair roads, let alone build new ones. This increase would help deal with huge infrastructure needs, which would increase economic growth.
- Higher taxes on motor fuels would have environmental benefits as well. Fuel efficiency would increase, people would drive less, and carbon dioxide emissions would be less.

Opponents Say

- Gas taxes are already too high. With state and local excise taxes included, total average tax rates nationwide are 57.09 cents per gallon for gasoline and 64.64 cents per gallon for diesel fuel.
- An increase in the gas tax would harm economic growth and there are better ways to address congestion, such as tolls and congestion fees.
- Higher fuel prices mean higher prices for transported goods. This would impose a disproportionate cost on rural households while the benefits from the additional government revenue would mainly be felt in urban areas.

Option 35A: Impose a Tax on Greenhouse Gas Emissions
OR
Option 35B: Impose a Value Added Tax

35A - Impose a tax on emissions of greenhouse gasses. **Effect on the deficit: -$865 billion.**

Description

The accumulation of greenhouse gasses in the atmosphere—particularly of carbon dioxide (CO2) released when fossil fuels (such as coal, oil, and natural gas) are burned—contributes to climate change, which imposes costs and increases the risk of severe economic harm to countries around the globe, including the United States. The federal government regulates some emissions to reduce them, but emissions are not directly taxed.

This option would impose a tax of $25 per metric ton on most emissions of greenhouse gasses in the United States—specifically, on most energy-related emissions of CO2 (for example, from electricity generation, manufacturing, and transportation) and on some other greenhouse gas emissions from large manufacturing facilities. The tax would increase at a constant real (inflation-adjusted) rate of 5 percent per year.

Source: The Congressional Budget Office, *Options for Reducing the Deficit, 2023 to 2032—Volume I: Larger Reductions*, Option No. 17, page 88.

Proponents Say

- A carbon tax, according to most economists, is the most efficient way to reduce emissions and is a cost-effective way to steer the economy toward a greener future. Carbon pricing encourages changes in behavior by businesses and consumers and creates an incentive for investments in low-carbon technological improvements.

Opponents Say

- A carbon tax is regressive: by making fossil fuels more expensive, it imposes a harsher burden on those with lower incomes. It could also result in a sudden tax increase that could shock the economy, and it penalizes those who cannot switch to alternative energy sources.

35B - Impose a narrow-base, 5% consumption tax on the incremental increase in the value of a good or service. **Effect on the deficit: -$1,950 billion.**

Description

A value-added tax (VAT) is a type of consumption tax that is levied on the incremental increase in value of a good or service at each stage of the supply chain, up until the final point of sale. Currently, the United States does not have a broad consumption-based tax. Most states impose sales taxes, but unlike a VAT, those are only levied at the final point of sale.

This option would impose a 5 percent VAT on a narrow base of goods and services. Goods and services excluded from the VAT include financial services without explicit fees, existing housing services, primary and secondary education, services provided by government agencies and nonprofit organizations for a small fee or at no cost, government-reimbursed expenditures for healthcare (primarily costs paid by Medicare and Medicaid) and certain goods and services that are considered necessary for subsistence or that provide broad social benefits—specifically, new residential housing, food purchased for home consumption, healthcare, and postsecondary education. The tax base in this option would encompass about 37 percent of household consumption in 2024.

Source: The Congressional Budget Office, *Options for Reducing the Deficit, 2023 to 2032—Volume I: Larger Reductions*, Option No. 16, page 84.

Proponents Say

- A VAT is better for economic growth than an increase in the income tax because it does not tax savings or investment, and it tends to raise more tax revenue.
- Many economists agree it is an efficient and effective way to raise revenue, and policymakers could adjust the income tax at the same time to offset the relative shifting of the burden between the poor and the rich and ensure the U.S. tax code remains progressive.

Opponents Say

- A VAT would be regressive. Poorer households would spend a larger proportion of their income on taxes because they spend a greater share of their income on consumption than higher-income households, unless the VAT is introduced with other policy adjustments making it more progressive, which is not proposed in this option.
- A federal VAT could adversely affect states and the flexibility they now enjoy to tailor their sales taxes to their own needs and unique economies. States might also feel pressure to keep their sales tax rates within a narrow range, which would leave them little room to adjust to changes in their own tax base or to improve competitiveness with other states.

Option 36: Require EITC and Child Tax Credit Claimants to have Social Security Numbers Valid for Work in the U.S.

Require Earned Income Tax Credit and Child Tax Credit claimants to have a Social Security number that is valid for employment. **Effect on the deficit: -$25 billion.**

Description

The Earned Income Tax Credit (EITC) and the Child Tax Credit (CTC) are targeted to provide financial assistance to low-and moderate-income taxpayers who are employed. Both credits are refundable: if the amount of the credit is greater than the amount of income tax owed, the government refunds the remainder.

Some people can receive the EITC even though neither they nor their children possess a Social Security number (SSN) valid for work in the U.S. Typically, these individuals were issued numbers before 2003 in order to obtain drivers' licenses or to open bank accounts. SSA no longer issues Social Security numbers for such purposes, but the agency did not rescind the numbers obtained before the ban.

Under this option, people who are not authorized to work in the United States would not be eligible for either the EITC or the CTC. For both credits, taxpayers, spouses, and qualifying children would be required to have Social Security numbers issued to U.S. citizens and noncitizens authorized to work in the United States.

Source: The Congressional Budget Office, *Options for Reducing the Deficit, 2023 to 2032—Volume II: Smaller Reductions*, Option No. 48, page 56.

Proponents Say

- The EITC is a work-based refundable tax credit. Only people who are authorized to work in the U.S. should benefit from it.
- The Government Accountability Office (GAO) ranks the EITC and the CTC as two “high priority” risk programs for overpayment. Requiring claimants to possess an SSN valid for employment would help reduce waste, fraud, and abuse within the two programs.

Opponents Say

- The IRS is working hard to reduce erroneous payments in the EITC and CTC but lawmakers in Congress repeatedly refuse to provide the IRS with the resources it needs to enforce current law (much less new law).

Option 37: Impose a Vehicle-Miles-Traveled Tax

Impose a 1.7-cent Vehicle Miles Traveled (VMT) tax on all vehicles (trucks and cars). **Effect on the deficit: -$24 billion.**

Description

Since 1956, federal surface transportation programs have been largely funded by taxes on motor fuels that flow into the Highway Trust Fund (HTF). In the last 30 years, however, two things have disrupted this dynamic: the taxes that fund the Highway Transportation System have not been increased to keep pace with inflation despite higher costs for the labor and materials necessary to build and maintain the national network of roads and bridges; climate change is shifting consumer tastes to electric vehicles. Consequently, the motor fuel taxes aren't generating enough revenue to keep pace with demands from the HTF. Projections indicate that by the end of the current decade, the gap between dedicated surface transportation revenues and spending will average roughly $40 billion annually. One solution is to introduce a national vehicle-miles-traveled tax (VMT). A VMT would levy a set fee-per-mile traveled in the United States by trucks and cars.

This option would enact an average 1.7-cent excise tax per mile traveled by all registered vehicles traveling in the U.S. beginning in 2024.

Source: The Concord Coalition, in conjunction with data published by The Congressional Research Service *Funding and Financing Highways and Public Transportation Under the Infrastructure Investment and Jobs Act*, May 2023; and the Tax Foundation, Who Will Pay for the Roads, August 2020.

Proponents Say

- Electric vehicles cause just as much wear and tear on our roads and bridges as fossil fuel-fired vehicles, yet they don't share the cost to maintain them. A VMT is a more equitable financing solution.
- The motor fuels tax is not a viable long-term solution to funding our nation's transportation infrastructure needs.

Opponents Say

- This policy would be difficult to administer because it would require tracking millions of drivers each year. Questions of data collection and privacy are top concerns.
- Environmentalists worry that a VMT would slow the conversion to all-electric cars and trucks.
- A VMT, if layered on top of (rather than replacing) existing motor fuel taxes, would doubly penalize drivers of non-electric vehicles.