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 2024. 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 2025*, pg. 143.

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 2025*, pg. 138.

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: INCREASE THE MAXIMUM PELL GRANT

Double the existing Pell Grant by 2029 and expand access to more students.

Effect on the deficit: +$123 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 $100 in Fiscal Year 2025 and set the path to double the Pell Grant by 2029, reaching over 7.2 million students with college financial aid.

Source: The Office of Management and Budget, *Budget of the United States Government for FY 2025*, 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 4: 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: -$71 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 $71 billion over ten years. Amtrak received approximately $2.4 billion in FY 2024 federal appropriations to subsidize intercity passenger rail services.

Source: Congressional Budget Office, *Spending Projections, by Budget Account,* January 2025. Total outlays 2025-2035 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 5: 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: -$47 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: Congressional Budget Office, *Options for Reducing the Deficit: 2025 to 2034*, Option No. 1, page 5.

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 6: ELIMINATE NASA'S DEEP SPACE EXPLORATION SYSTEMS BUDGET

Terminate NASA's Deep Space Exploration Systems program and budget.
Effect on the deficit: -$93 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: Congressional Budget Office, *Spending Projections, by Budget Account,* January 2025. Total outlays 2025-2035 for NASA's Space Explorations 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 7: REDUCE THE ANNUAL ACROSS-THE-BOARD ADJUSTMENT FOR FEDERAL CIVILIAN EMPLOYEE'S 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: -$58 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 2026 to 2034, 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: Congressional Budget Office, *Options for Reducing the Deficit: 2025 to 2034*, Option No. 41, page 50.

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.

CATEGORY TWO:

Options to Adjust National Security and Defense Spending

OPTION 8: REDUCE THE DEPARTMENT OF DEFENSE'S MANPOWER BUDGET

Reduce the Department of Defense's active military manpower across all branches by 17 percent by 2034.
Effect on the deficit: -$959 billion.

Description

Under this alternative, active military manpower would be reduced by 17 percent by 2034. The number of most types of units would be reduced in proportion to their 2025 level of funding in the 2025 Future Years Defense Program (FYDP).

Source: Congressional Budget Office, *Options for Reducing the Deficit: 2025-2034*, Option No. 28, page 37.

Proponents Say

- The defense budget is too big—it consumes more than 45 percent of all discretionary spending and over 10 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 9: REDUCE THE DEPARTMENT OF DEFENSE'S PROCUREMENT AND RESEARCH & DEVELOPMENT BUDGET

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Reduce the Department of Defense's budget by delaying or halting development, research, and purchasing of advanced equipment or weapons.

Effect on the deficit: -$75 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: 2025 to 2034*, Option Nos. 31-35, pages 40-44.

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 10: REPEAL THE ONE BIG BEAUTIFUL BILL ACT'S INCREASES TO HOMELAND SECURITY FUNDING

Repeal funding increases to Immigration and Customs Enforcement (ICE), Customs and Border Protection, and physical border security enacted by the July 2025 reconciliation legislation, commonly known as the OBBBA.

Effect on the deficit: -$176 billion.

Description

The passage of the One Big Beautiful Bill Act (OBBBA) directed additional funding to Homeland Security to increase border protection efforts. Through 2029, the legislation includes an additional $75 billion of funding for Immigration and Customs Enforcement (ICE) and $45 billion for physical border infrastructure and a wall. The influx of funds available to ICE will, compared to the past 5-year average, double its annual budget over the next four years before inclusion of yearly appropriations from Congress.

This option would repeal the additional funding provided for border security measures and agencies.

Source: Committee for a Responsible Federal Budget, *What's In the One Big Beautiful Bill Act?*

Proponents Say

- Immigration reform would be a more cost-efficient use of taxpayer dollars as opposed to increasing enforcement tactics. We have a broken migration system and are trying to brute force a solution.

Opponents Say

- Illegal immigration has become a serious threat to national security and should be treated as such. Additional funding to our law enforcement agencies is key to protecting our borders.
- Historically, ICE has had a smaller budget and a smaller caseload. With millions of unlawful immigrants in the United States the agency will need more funding to ensure the sustainability of its efforts.

OPTION 11: 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 2028, 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: 2025 to 2034*, Option Nos. 10-11, pages 17-18.

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 12: REDUCE SPENDING ON INTERNATIONAL AFFAIRS (FOREIGN AID)

Reduce funding for international affairs programs by 30 percent.

Effect on the deficit: -$225 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. The Congressional Budget Office projects we will spend almost $70 billion annually on international affairs over the next decade. The Trump Administration has proposed, and in part enacted through the Rescissions Act of 2025, significant reductions in foreign aid.

This option would reduce foreign affairs spending by 30% over the next decade beginning in 2026. The Trump administration's FY26 budget proposal for foreign affairs would reduce annual spending by a similar margin. The proposal introduces strategic fiscal and financial investments abroad while eliminating USAID and consolidating a variety of other State Department activities.

Source: Concord Coalition Calculation; Office of Management and Budget, *Fiscal Year 2026 President's Discretionary Budget Request*; Congressional Budget Office, *Spending Projections, by Budget Account January 2025*

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 13: MEANS TEST THE DEPARTMENT OF VETERANS AFFAIRS DISABILITY COMPENSATION

Reduce VA payments to veterans eligible for disability compensation based on a gross household income threshold.

Effect on the deficit: -$253 billion.

Description

The Department of Veterans Affairs (VA) offers monthly, tax free payments to veterans who became sick, got injured, or had an existing condition worsen during their time in active service. The benefits are scaled to a veteran's degree of disability from 0 percent to 100 percent in increments of 10 percent. Each year, millions of veterans take advantage of these benefits. The program's spending per recipient, when adjusted for inflation, has more than doubled since 2000 despite the veteran population declining by 30 percent over the same period. The average compensation per recipient in 2024 was $25,446.

This option would means-test the VA's veteran disability payments based on a gross household income threshold set at the 70th percentile (about $129,200 in 2024). Veterans with incomes less than the threshold would continue to receive full benefits. For households with incomes above the threshold, every additional two dollars of gross income would decrease their disability compensation by one dollar.

Source: Congressional Budget Office, *Options for Reducing the Deficit 2023-2032 – Volume I: Larger Reductions*

Proponents Say

- Veterans who are most in need should be the focus of a program. Means-testing benefits would prioritize disabled veterans going through the most financial hardship while decreasing the VA's caseload.

Opponents Say

- Tying disability compensation to income improperly implies that veterans with incomes above the threshold should need no additional assistance. The program should aid disabled and injured service members regardless of their income level.
- Service members who were willing to give their lives to our country should not be the first target when finding budget cuts. They deserve the unfettered support of the United States government upon their return home.

CATEGORY THREE:

Options to Adjust Healthcare and Social Security Spending

OPTION 14: REDUCE PAYMENTS FOR HOSPITAL OUTPATIENT DEPARTMENTS

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: - $157 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 Congressional Budget Office, *Options for Reducing the Deficit: 2025 to 2034*, Option No. 16, page 23.

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 15: 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 16: REDUCE MEDICARE ADVANTAGE OVERPAYMENTS

Modify Payments to Medicare Advantage Plans for Health Risk.

Effect on the deficit: -$1,049 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.

To account for differences in coding, federal law currently requires CMS to apply an across-the-board reduction of at least 5.9 percent to Medicare Advantage plan payments to account for the difference in coding intensity between FFS and Medicare Advantage. This option would require CMS to increase this reduction to at least 20 percent.

Source: The Congressional Budget Office, *Options for Reducing the Deficit: 2025 to 2034*, Option No. 15, page 22.

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 17: 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 18: 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: -$510 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: 2025 to 2034*, Option No. 7, page 13.

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 19: REPEAL MEDICAID WORK REQUIREMENTS

Remove "community engagement" requirements for Medicaid eligibility as enacted in the One Big Beautiful Bill Act.
Effect on the deficit: +$326 billion.

Description

The One Big Beautiful Bill Act (OBBBA) enacted various changes to Medicaid and health insurance. The flagship policy of the Medicaid changes is added work requirements. To remain eligible for benefits, individuals must prove they are working, in school, receiving training, or performing community service for at least 80 hours per month. The Congressional Budget Office (CBO) estimates that there will be 4.8 million fewer Americans with health insurance in 2034 than there are today due to the changes in Medicaid eligibility. As of April 2025, more than 78 million Americans are enrolled in Medicaid.

This option would repeal the work requirements as enacted by the OBBBA.

Source: Congressional Budget Office, *Estimated Budgetary Effects of Public Law 119-21, to Provide for Reconciliation Pursuant to Title II of H. Con. Res. 14, Relative to CBO's January 2025 Baseline*

Proponents Say

- The enacted work requirements are too stringent. Adding bureaucracy and paperwork to government programs often drive individuals not to take advantage of benefits they are eligible to receive.
- Fewer Americans with access to preventative care and chronic illness management means more trips to the emergency room, straining our healthcare system and driving up costs.

Opponents Say

- Individuals who benefit from Medicaid today should be required to contribute to the funding mechanisms that ensure the program's sustainability for future generations and in times of economic hardship.
- By creating work requirements for eligibility, the federal government is ensuring that only those truly in need are able to access the available resources through what is effectively a screening process.

OPTION 20: MAKE PERMANENT THE AFFORDABLE CARE ACT'S ENHANCED TAX CREDIT

Permanently extend the enhanced premium tax credits for those above 400% of the poverty level.
Effect on the deficit: +$335 billion.

Description

The Affordable Care Act (ACA) enacted premium tax credits (PTC) that are available to individuals and families who do not have subsidized health insurance and purchase insurance on a federal or state exchange. These credits help lower the monthly cost of healthcare for households whose income is between 100 percent and 400 percent of the poverty level ($32,150 through $128,600 for a family of four in 2025).

The American Rescue Plan Act, passed in 2021, enhanced the PTC by expanding eligibility for and increasing the amount of the credit. Those households above 400 percent of the federal poverty level were newly eligible, assuming they met other administrative requirements. The Inflation Reduction Act of 2022 extended the enhanced tax credit through the end of 2025. Enrollment in ACA marketplaces has more than doubled from 11 million in 2020, the year before the enhanced credit was introduced, to 24 million in 2025.

This option would prevent the expiration of the enhanced PTC and extend it through the 10-year budget window.

Source: Congressional Budget Office, *Letter to Chairman Arrington and Chairman Smith*

Proponents Say

- If the enhanced PTC is not extended, 4.2 million fewer Americans will have health insurance by the year 2034 as a result. Fewer people on healthcare will mean less preventative care and more emergency room visits, putting upward pressure on costs and our provider system.
- The nation is in an affordability crisis and one of the inflection points is healthcare costs. Helping families better afford just one of the bare necessities amidst rising costs will make a tangible impact on quality of life.

Opponents Say

- The American Rescue Plan was a temporary measure designed to lift the country out of the COVID-19 pandemic economy. Extending the enhanced tax credit would be an overreach of the measure's original intent.
- Extending the credit would subsidize high earners with incomes four times greater than the poverty level. These are not the individuals who need the most help acquiring affordable health insurance.

OPTION 21: 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: -$95 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 1964 and 1981. As a result, for all workers born in 1981 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: 2025 to 2034*, Option No. 21, page 29.

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 averaging over 20, projected 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 22: 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: -$728 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 2025 (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: 2025 to 2034*, Option No. 62, page 73.

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 23: 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: -$278 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: 2025 to 2034*, Option No. 27, page 35.

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 24: INCREASE TAX ON LONG TERM CAPITAL GAINS AND DIVIDENDS BY 2 PERCENTAGE POINTS

Increase tax on long term capital gains and dividends by 2 percentage points.
Effect on the deficit: -$103 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: Congressional Budget Office, *Options for Reducing the Deficit: 2025 to 2034*, Option No. 47, page 57.

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 opportunity will once again be available to reach higher long term gains taxes.

OPTION 25: ELIMINATE THE ESTATE TAX

Eliminate the federal tax on estates.

Effect on the deficit: +$313 billion.

Description

The federal estate tax is a tax of up to 40 percent on inherited income. The One Big Beautiful Bill Act (OBBBA) increased and made permanent estate tax exemption levels enacted by the 2017 Tax Cuts and Jobs Act (TCJA). The law now exempts up to $15 million for an individual filer and up to $30 million for married filers, more than double the TCJA exemptions of $11 million and $22 million, respectively. The tax only applies to the value of an individual's inheritance over the exemption threshold.

With the latest data available in 2019, before the passage of the larger exemption in the OBBBA, less than 0.1 percent of people who died had an estate large enough to trigger the tax. This translates to just over 2,000 total estates out of the nearly 3 million that year.

Source: The Congressional Budget Office, *Estimated Budgetary Effects of Public Law 119-21, to Provide for Reconciliation Pursuant to Title II of H. Con. Res. 14, Relative to CBO's January 2025 Baseline* and *The Budget and Economic Outlook: 2025 to 2034, Table 1-8, page 36.*

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 less than 100 estates out of almost 3 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.

OPTION 26A AND 26B: INCREASE THE CORPORATE INCOME TAX RATE BY 1 PERCENTAGE POINT *OR* INCREASE THE CORPORATE INCOME TAX RATE BY 7 PERCENTAGE POINTS

CONCORD COALITION

26A - Raise the corporate income tax rate from 21 to 22 percent.

Effect on the deficit: -$136 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 22 percent.

Source: The Congressional Budget Office, Options for Reducing the Deficit: 2025 to 2034, Option No. 64, page 75.

26B - Raise the corporate income tax rate from 21 to 28 percent.

Effect on the deficit: -$1,350 billion.

Description

This option would increase the current rate from 21 percent to 28 percent, an exact middle point between current law and the pre-TCJA rate.

Source: The Office of Management and Budget, *Budget for the United States Government for FY 2025*, Table S-2, pg. 138.

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 27: REDUCE TAX SUBSIDIES FOR EMPLOYMENT-BASED HEALTH BENEFITS

This option would limit the exemption for employer-provided health care contributions from an employee's income for tax purposes.

Effect on the deficit: -$521 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: 2025 to 2034*, Option No. 56, page 66.

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 28: ELIMINATE CERTAIN TAX PREFERENCES FOR EDUCATIONAL EXPENSES

Eliminate the American Opportunity Tax Credit and Lifetime Learning Tax Credit.

Effect on the deficit: -$130 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: 2025 to 2034*, Option No. 58, page 69.

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 29: CHANGE THE TAXATION OF ASSETS TRANSFERRED AT DEATH

Eliminate the "stepped-up" basis for determining capital gains taxes when inherited assets are sold.

Effect on the deficit: -$197 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: 2025 to 2034*, Option No. 51, page 61.

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 30: 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: -$297 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 0.003 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: 2025 to 2034*, Option No. 74, page 86.

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 31: 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: -$212 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: 2025 to 2034*, Option No. 71, page 82.

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 32A: IMPOSE A TAX ON GREENHOUSE GAS EMISSIONS *OR* OPTION 32B: IMPOSE A VALUE ADDED TAX

32A - Impose a tax on emissions of greenhouse gases.
Effect on the deficit: -$919 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: 2025 to 2034*, Option No. 73, page 84.

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.

OPTION 32A: IMPOSE A TAX ON GREENHOUSE GAS EMISSIONS *OR* OPTION 32B: IMPOSE A VALUE ADDED TAX

32B - Impose a narrow-base, 5% consumption tax on the incremental increase in the value of a good or service.

Effect on the deficit: -$2,180 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: 2025 to 2034*, Option No. 72, page 83.

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 33: REINSTATE CLEAN ENERGY CREDITS FOR CONSUMERS AND BUSINESSES

Reinstate credits for electric vehicles, infrastructure, and renewable energy production and repeal accelerated timelines.
Effect on the deficit: +$425 billion.

Description

This option would reinstate the clean energy tax credits repealed by the One Big Beautiful Bill Act (OBBBA), originally enacted by the Biden administration through the Inflation Reduction Act (IRA). The IRA provided tax credits for electric vehicles (EV), energy efficient infrastructure, and energy production. Upon passage of the OBBBA, credits for EVs and energy efficient home and commercial buildings were immediately repealed.

For energy producing firms to be eligible for the clean energy investment tax credit or the clean energy production tax credits following the passage of OBBBA, projects must begin construction by July of 2026 or be in service by the end of 2027. This is a highly accelerated timeline compared to the original language in the IRA, in which those two credits would only begin to phase out once the energy industry reached a reduced greenhouse gas emissions threshold – 25 percent of 2022 energy industry emissions – or 2032, whichever is later.

Selecting this option would reinstate all the described credits as passed in the IRA, eliminating any accelerated phase out timelines.

Source: Congressional Budget Office, *Estimated Budgetary Effects of Public Law 119-21, to Provide for Reconciliation Pursuant to Title II of H. Con. Res. 14, Relative to CBO's January 2025 Baseline*

Proponents Say

- The federal government has a responsibility and the resources to move the needle on greenhouse gas emissions. Incentivizing better energy consumption and production practices are an important step in combatting climate change, which our nation is already feeling the effects of.
- Shortened timelines enacted by the OBBBA will leave projects rushed or unfinished, creating uncertainty and unrest in the energy sector.

Opponents Say

- EV credits do not generate enough sales of electric vehicles to those who wouldn't have otherwise purchased them to justify the fiscal and regulatory costs.
- Project requirements determining eligibility for the tax credits were far too complicated, invoking labor, location, and material guidelines. Tax incentives should be more streamlined and less disjointed to avoid a drag on productivity.

OPTION 34: REPEAL CERTAIN EXECUTIVE BRANCH TARIFFS

CONCORD COALITION

Repeal a selection of the Trump administration's tariff regime that is under legal question.

Effect on the deficit: +$2,400 billion.

Description

Since entering office in January of 2025, the Trump administration has imposed a variety of shifting tariffs on international imports. Tariffs are a tax paid on goods or services upon entering the country. For example, a tariff placed on China would mean that goods and services originating, or being exported from, China would be charged a percentage of their value upon entering the United States.

The tariffs as written would collect an impactful amount of revenue if left in place over the next decade. This option would repeal a subset of the tariffs that a federal appeals court has ruled went beyond the president's authority to impose without congressional approval. That issue is now before the Supreme Court, and the tariffs remain in place while the Court is crafting its decision.

CBO's estimates reflect tariff policies in effect as of November 20, 2025. CBO expects that businesses and consumers will adapt to the higher tariffs by reducing how much they import and by shifting to goods from countries with lower tariffs. Those changes push down receipts from customs duties in CBO's projections; in 2036, those receipts amount to 0.9 percent of GDP.

Source: Congressional Budget Office, February 2026 The Budget and Economic Outlook: 2026 to 2036

Proponents Say

- Tariffs on any scale are taxes that will be passed down to consumers through higher prices at the point of sale after import. Tariffs at a scale and scope as large as the ones in place are a burden on the middle-class, raising already unaffordable prices.
- The President does not have the authority to levy sweeping and changing tariffs without the authority of Congress. The power of the purse gives Congress the exclusive right to levy taxes and collect revenues. Congress should assert this authority in the matter and explicitly repeal them.

Opponents Say

- Tariffs are necessary to protect our most advanced technological and important historical industries. China and other nations are participating in intellectual theft and unfair trade practices, so we must level the global playing field.
- Smart tariff policy will encourage consumers to buy American goods, increasing investment and tax revenue in the United States.

OPTION 35: INTRODUCE A NEW PAYROLL TAX ON ALL EARNINGS

Impose a 1 percent payroll tax on all earnings that will contribute to the federal government's general revenues.

Effect on the deficit: -$1,282 billion.

Description

Payroll taxes are levied on an individual's yearly earnings. They are used to finance our major social insurance programs like Social Security and Medicare. These taxes have few adjustments, but in the case of Social Security there is a taxable maximum.

This option would introduce a new 1 percent payroll tax on all earnings, with no taxable maximum, that would contribute to the federal government's general revenues.

Source: Congressional Budget Office, *Options for Reducing the Deficit: 2025 to 2034*

Proponents Say

- Our federal budget is perennially underfunded. Adding more than $1 trillion in revenues would put us on the right track to pay for programs that are worth pursuing.
- Non-targeted revenues allow for flexibility in discretionary and mandatory spending. Adding a new payroll tax would open up Congress' budgeting options while also providing cushion for our mandatory programs (e.g. Social Security, Medicare) when they are in need of support.

Opponents Say

- The American people should not trust the federal government with additional, unassigned taxpayer dollars. Writing Congress a blank check would only empower them to continue their irresponsible budget and spending practices. The House and Senate have not completed a full budget since 1996 and have not shown a willingness to get our fiscal house in order.
- The amount of waste, fraud, and abuse that exists in our system today would funnel these revenues away from the programs that need it most. A payroll tax should have a program it is exclusively tied to.

OPTION 36: REPEAL THE INCREASED CHILD TAX CREDIT

Return the Child Tax Credit (CTC) to its pre-2017 value of $1,000 per eligible dependent.

Effect on the deficit: -$817 billion.

Description

The Child Tax Credit is available to those with dependents under 17 years old. The One Big Beautiful Bill Act (OBBBA) permanently enhanced and increased the Child Tax Credit (CTC) from $2,000 to $2,200 for each qualifying child. The value of the credit and its refundable quantity, up to $1,700, will both be indexed to inflation beginning in 2026. OBBBA also made permanent income thresholds of $200,000 for individual filers and $400,000 for joint filing. Those with gross annual income that exceeds those thresholds can still be eligible for a partial credit.

This option would repeal the increase as if the Tax Cuts and Jobs Act of 2017 expired as it was scheduled to in 2025, reverting the credit to $1,000 for each qualifying child.

Source: Tax Policy Center; Congressional Budget Office, *Estimated Budgetary Effects of Public Law 119-21, to Provide for Reconciliation Pursuant to Title II of H. Con. Res. 14, Relative to CBO's January 2025 Baseline*

Proponents Say

- Childhood poverty is not only an indicator of negative outcomes but can also generate negative outcomes relating to a child's health or cognitive development. Healthier children more prepared to become educated members of society are more likely to be productive and taxpaying members of society later on in life. It is in the federal government's interest to limit child poverty and invest in the future of the nation.
- Reducing poverty through a refundable tax credit will reduce reliance on other, already strained government programs. Benefitting children will reduce duplicative efforts in other sectors of the social safety net.

Opponents Say

- The lowest income families do not always take advantage of, or even qualify for, this tax credit. It is poorly targeted and the tax dollars lost could be used in more effective and specific welfare programs. The child tax credit is not fully refundable, meaning families who do not owe the full equivalent of the credit in taxes cannot take full advantage of the money. If the credit must be extended or expanded, it should be made fully refundable.

OPTION 37: RAISE INDIVIDUAL TAX RATES TO PRE-2017 LEVELS

Raise tax rates and shift tax brackets to pre-Tax Cuts and Jobs Act levels.

Effect on the deficit: -$2,193 billion.

Description

The One Big Beautiful Bill Act (OBBBA) made permanent the tax rates and brackets established by the Tax Cuts and Jobs Act (TCJA) in 2017. The OBBBA also made small adjustments for inflation to the 10% and 12% brackets. This option would enact a tax increase, returning rates and brackets to their pre-TCJA levels, including raising the top rate from 37% to 39.6%. Below is a table with these brackets and their single filer thresholds.

	Current Brackets		Option Brackets	
Bracket	Rate	Rate Begins at	Rate	Rate Begins at
1	10.0%	$0	10.0%	$0
2	12.0%	$12,250	15.0%	$12,200
3	22.0%	$49,750	25.0%	$49,600
4	24.0%	$106,100	28.0%	$120,100
5	32.0%	$202,550	33.0%	$250,450
6	35.0%	$257,200	35.0%	$544,550
7	37.0%	$642,950	39.6%	$546,750

Source: Tax Policy Center; Congressional Budget Office, *Estimated Budgetary Effects of Public Law 119-21, to Provide for Reconciliation Pursuant to Title II of H. Con. Res. 14, Relative to CBO's January 2025 Baseline*

Proponents Say

- The OBBBA and the TCJA tax cuts did more for the wealthy than it did for the middle and working class. The wealthy were paying more of their fair share under the previous rates.
- Lowering tax rates without having paid for them in 2017 and 2025 has left our nation burdened with trillions of dollars more in debt. We must right the ship by raising revenues.

Opponents Say

- TCJA and OBBBA produced the largest tax cut for the middle class in the 21st century, lowering bills for families across the country. Reversing these victories would cause unneeded economic hardship for those just getting on their feet with the help of the original TCJA tax cuts.
- The economic growth produced by the tax cuts is consistently underestimated. Increased productivity will offset revenue losses over the long term.

OPTION 38: REPEAL TEMPORARY TAX PROVISIONS IN THE OBBBA

Repeal temporary tax relief provisions that expire in 2028.

Effect on the deficit: -$252 billion.

Description

The One Big Beautiful Bill Act (OBBBA) cut taxes for some Americans by enacting a set of temporary tax provisions that expire at the end of 2028. No tax on tips, no tax on overtime, an increase in the senior standard deduction, and a deduction for car loan interest are some of the key changes in the tax code that President Trump campaigned on. This option would repeal those temporary tax deductions.

Source: Source: Congressional Budget Office, *Estimated Budgetary Effects of Public Law 119-21, to Provide for Reconciliation Pursuant to Title II of H. Con. Res. 14, Relative to CBO's January 2025 Baseline*

Proponents Say

- These changes make the tax code more complicated and serve small populations for a short period of time. The goal of tax reform should be to treat individuals with similar amounts of income similarly, and these provisions buck such principles.
- A no tax on tips policy could incentivize employers or employees to game the system and classify payments or earnings differently. Even non-tipped workers could shift their earnings to be classified as tips for tax avoidance purposes.

Opponents Say

- Rewarding working class Americans for their income and extra hours, instead of punishing them, will unlock the productive potential of individuals across the nation in the industries that support our day-to-day life.

OPTION 39: ELIMINATE THE STATE AND LOCAL TAX DEDUCTION (SALT)

Eliminate the state and local tax deduction, more commonly known as SALT, from the tax code.

Effect on the deficit: -$1,107 billion.

Description

Under the State and Local Tax Deduction, more commonly known as SALT, filers can write off a portion of their state and local tax payments in their federal filing. In other words, taxpayers can reduce their overall tax burden with the assistance of the federal tax code. Before the Tax Cuts and Jobs Act set a $10,000 cap on this deduction in 2017, over 30 percent of tax returns claimed a SALT deduction. Five years after the cap's introduction, in 2022, only 9 percent of returns claimed the deduction. The One Big Beautiful Bill Act raised the SALT cap to $40,000 in tax year 2025. The cap as enacted will increase by 1 percent each year through 2029, and in 2030 the cap will return to $10,000.

Distributionally, higher earners in high-tax states were most likely to take advantage of SALT. Before the cap was instituted, 91 percent of SALT claimants earned over $100,000 in income. This option would eliminate the state and local tax deduction in its entirety.

Source: Committee for a Responsible Federal Budget, *Build Your Own Tax Extensions*; Congressional Budget Office, *Estimated Budgetary Effects of Public Law 119-21, to Provide for Reconciliation Pursuant to Title II of H. Con. Res. 14, Relative to CBO's January 2025 Baseline*

Proponents Say

- The state and local tax deduction is a distributionally flawed tax policy. It benefits mainly high earners who already have a high tax burden due to a significant amount of wealth. Those earning less than $100,000 annually see little benefits from SALT as opposed to their wealthy counterparts. We should not allow the wealthy to write off their federal taxes just because they live in a high-tax state.
- It is unsustainable revenue policy for the federal government to provide tax relief to a group of filers concentrated in just a few states. The federal government's deficit problem would be greatly alleviated by actually collecting the taxes it is owed.

Opponents Say

- Our tax system should be designed with horizontal equity in mind and SALT embodies that principle. In other words, those who have similar incomes should be paying relatively similar tax rates. State and local taxes are expenditures that reduce available income to pay federal taxes, so the federal government is trying to level the playing field and achieve a similar tax burden despite where else an individual is being taxed.