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Options for Reducing the Deficit, 2023 to 2032

Volume II: Smaller Reductions

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Notes

The estimates for the options in this report were completed in October 2022. They may differ from previous or subsequent cost estimates for legislative proposals that resemble the options presented here.

Unless this report indicates otherwise, all years referred to regarding budgetary spending and revenues are federal fiscal years, which run from October 1 to September 30 and are designated by the calendar year in which they end.

Some of the tables in this report give values for two related concepts: budget authority and outlays. Budget authority is the authority provided by federal law to incur financial obligations that will result in immediate or future outlays of federal government funds. Outlays generally represent the issuance of checks, disbursement of cash, or electronic transfer of funds made to liquidate an obligation.

The numbers in the text and tables are in nominal (current-year) dollars. Those numbers may not add up to totals because of rounding. In the tables, for changes in outlays, revenues, and the deficit, negative numbers indicate decreases, and positive numbers indicate increases. Thus, negative numbers for outlays and positive numbers for revenues reduce the deficit, and positive numbers for outlays and negative numbers for revenues increase it.

Certain changes in tax provisions would reduce outlays for refundable tax credits; those effects are incorporated in the estimates.

The budgetary effects of options are generally calculated relative to the 10-year spending and revenue projections in Congressional Budget Office, *The Budget and Economic Outlook: 2022 to 2032* (May 2022), www.cbo.gov/publication/57950. Consistent with CBO's regular practice, spending and revenue projections are updated to reflect legislation as it is enacted. For this volume, unless otherwise noted, estimates include the effects of the 2022 reconciliation act (Public Law 117-169) and other legislation enacted before August 17, 2022.

CBO's website includes a search tool that allows users to filter options by savings amount, major budget category, budget function, topic, and date (www.cbo.gov/budget-options). The tool includes all the options that appear in this report. It also includes options that were analyzed in the past and were not updated for this report but that remain informative. In addition, the website includes previous editions of this report (www.cbo.gov/about/products/major-recurring-reports#4).

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Chapter 1: Introduction

The Congress faces an array of policy choices as it confronts large federal deficits and rising federal debt. In May 2022, under the assumption that current laws governing taxes and spending generally would not change, the Congressional Budget Office projected that the federal deficit would average $1.6 trillion per year between 2023 and 2032, or 5.1 percent of gross domestic product (GDP) over that period.[1] In comparison, over the past 50 years, the annual deficit averaged 3.5 percent of GDP.

CBO also projected that federal debt held by the public would rise to 110 percent of GDP at the end of 2032. Debt would continue to increase thereafter, reaching 185 percent of GDP by 2052.[2] Debt that is high and rising as a percentage of GDP could slow economic growth, raise interest payments to foreign holders of U.S. debt, heighten the risk of a fiscal crisis, elevate the likelihood of less abrupt adverse effects, make the U.S. fiscal position more vulnerable to an increase in interest rates, and cause lawmakers to feel more constrained in their policy choices.[3]

To help inform lawmakers as they address budgetary challenges, CBO periodically issues a compendium of policy options and their effects on the federal budget; this is the most recent in that series. This year, the agency separated the options into two volumes on the basis of the magnitude of savings produced by the options. This volume provides estimates of the budgetary savings from 59 options that would each decrease federal spending or increase federal revenues over the next decade by less than $300 billion. Volume I of *Options for Reducing the Deficit, 2023 to 2032* contains estimates for and detailed discussions of options that would each reduce the deficit by more than $300 billion as well as Social Security options that have comparably large effects in later decades.[4]

The options in this report come from various sources. Some originated in proposed legislation or budget proposals of various Administrations; others come from Congressional offices, federal agencies, or the private sector. As a collection, the options are intended to reflect a range of possibilities, not a ranking of priorities or an exhaustive list. Inclusion or exclusion of any particular option does not imply approval or disapproval by CBO, and the report makes no recommendations.

The options cover many areas in the federal budget (see Table 1-1). The budgetary effects identified for the options span the 10 years from 2023 to 2032 (the period covered by the baseline budget projections CBO produced in May 2022). This document presents options in the following categories:

- **Mandatory spending** (or direct spending), which includes outlays for some federal benefit programs and for certain other payments to people, businesses, and state and local governments. Such outlays are generally governed by statutory criteria and are not normally constrained by the annual appropriation process.
- **Discretionary spending**, which is controlled by appropriation acts in which policymakers specify how much money will be provided for certain government programs and activities in specific years.
- **Revenues,** the majority of which are generated from individual income and payroll taxes.

The estimates in this volume generally reflect changes in the behavior of individuals, businesses, and other entities. They do not incorporate any feedback from macroeconomic effects—that is, behavioral changes that affect total output in the economy.

1. Congressional Budget Office, *The Budget and Economic Outlook: 2022 to 2032* (May 2022), www.cbo.gov/publication/57950.
2. For CBO's most recent long-term projections of federal debt, see Congressional Budget Office, *The 2022 Long-Term Budget Outlook* (July 2022), www.cbo.gov/publication/57971.
3. For an analysis of the economic effects of delaying the stabilization of federal debt, see Congressional Budget Office, *The Economic Effects of Waiting to Stabilize Federal Debt* (April 2022), www.cbo.gov/publication/57867.
4. Congressional Budget Office, *Options for Reducing the Deficit, 2023 to 2032—Volume I: Larger Reductions* (December 2022), www.cbo.gov/publication/58164.

Options that would increase an excise tax (or any other indirect tax imposed at an intermediate stage of production and sale) or employers' contributions for payroll taxes would reduce the amount of income subject to income and payroll taxes. The estimates for options in this report that increase indirect taxes or employers' contributions for payroll taxes include an offset that accounts for that reduction.[5]

Estimates for options could differ from cost estimates for similar proposals that CBO or the staff of the Joint Committee on Taxation (JCT) might produce later for several reasons. First, the proposals on which those estimates would be based might not precisely match the options presented here. Second, the baseline budget projections against which such proposals would be measured might have changed and thus would differ from the projections used for this report. Third, future estimates might reflect more recent data and improvements in estimating methodology. And finally, estimates for legislation directly affecting one program might include indirect effects on other programs that are not encompassed by the estimates in this volume.

Many of the options in this report could be used as building blocks for broader changes. In some cases, however, combining various spending or revenue options would produce budgetary effects that would differ from the sums of those estimates as presented here because some options would overlap or interact in ways that would change their budgetary impact. Furthermore, some options are mutually exclusive.

5. For information on CBO's method for estimating income and payroll tax offsets, see Congressional Budget Office, *CBO's Use of the Income and Payroll Tax Offset in Its Budget Projections and Cost Estimates* (October 2022), www.cbo.gov/publication/58421. For information on the Joint Committee on Taxation's (JCT's) method for estimating income and payroll tax offsets to payroll taxes, see Joint Committee on Taxation, *The Income and Payroll Tax Offset to Changes in Payroll Tax Revenues,* JCX-89-16 (November 18, 2016), www.jct.gov/publications/2016/jcx-89-16. For information on JCT's method for estimating income and payroll tax offsets to excise taxes, see Joint Committee on Taxation, *The Income and Payroll Tax Offset to Changes in Excise Tax Revenues*, JCX-59-11 (December 23, 2011), www.jct.gov/publications/2011/jcx-59-11. For JCT's current excise tax offsets, see Joint Committee on Taxation, *Income and Payroll Tax Offsets to Changes in Excise Tax Revenues for 2022–2032*, JCX-6-20 (April 29, 2022), www.jct.gov/publications/2022/jcx-6-22.

Table 1-1.

Projected Savings From Options for Reducing the Deficit

Billions of Dollars

Option	Title	Savings, 2023–2032[a]
	Mandatory Spending	
1	Eliminate Title I Agriculture Programs	49
2	Reduce Subsidies in the Crop Insurance Program	28
3	Limit ARC and PLC Payment Acres to 30 Percent of Base Acres	24
4	Raise Fannie Mae's and Freddie Mac's Guarantee Fees and Decrease Their Eligible Loan Limits	7 to 16
5	Eliminate the Add-On to Pell Grants, Which Is Funded With Mandatory Spending	51[b]
6	Adopt a Voucher Plan and Slow the Growth of Federal Contributions for Federal Employees' Health Benefits	16 to 18[b]
7	Introduce Enrollment Fees in TRICARE for Life	16
8	Introduce Minimum Out-of-Pocket Requirements in TRICARE for Life	33
9	Change the Cost-Sharing Rules for Medicare and Restrict Medigap Insurance	27 to 122
10	Reduce Medicare's Coverage of Bad Debt	23 to 74
11	Consolidate and Reduce Federal Payments for Graduate Medical Education at Teaching Hospitals	68 to 81
12	Eliminate Subsidies for Certain Meals in the National School Lunch, School Breakfast, and Child and Adult Care Food Programs	11
13	Raise the Full Retirement Age for Social Security	121
14	Require Social Security Disability Insurance Applicants to Have Worked More in Recent Years	57
15	End VA's Individual Unemployability Payments to Disabled Veterans at the Full Retirement Age for Social Security	9 to 47
16	Reduce VA's Disability Benefits for Veterans Who Are Older Than the Full Retirement Age for Social Security	15
17	Narrow Eligibility for VA's Disability Compensation by Excluding Veterans With Low Disability Ratings	7 to 48
18	Use an Alternative Measure of Inflation to Index Social Security and Other Mandatory Programs	257
	Discretionary Spending	
19	Cap Increases in Basic Pay for Military Service Members	22[b]
20	Replace Some Military Personnel With Civilian Employees	19[b]
21	Stop Building Ford Class Aircraft Carriers	7
22	Reduce the Size of the Nuclear Triad	12 to 18
23	Cancel the Long-Range Standoff Weapon	16
24	Cancel the Army's Future Vertical Lift Aircraft	15
25	Defer Development of the B-21 Bomber	34
26	Reduce the Size of the Bomber Force by Retiring the B-1B	8
27	Reduce the Size of the Fighter Force by Retiring the F-22	27
28	Reduce the Basic Allowance for Housing to 80 Percent of Average Housing Costs	15[b]
29	Reduce Funding for International Affairs Programs	148
30	Eliminate Federal Funding for National Community Service	10
31	Tighten Eligibility for Pell Grants	14 to 30[b]
32	Increase Prescriptions Drug Copayments for All Veterans	27
33	End Enrollment in VA Medical Care for Veterans in Priority Groups 7 and 8	122[b]
34	Reduce the Annual Across-the-Board Adjustment for Federal Civilian Employees' Pay	73[b]
35	Reduce Funding for Certain Grants to State and Local Governments	66
36	Repeal the Davis-Bacon Act	17[b]

Continued

Table 1-1. Continued

Projected Savings From Options for Reducing the Deficit

Billions of Dollars

Option	Title	Savings, 2023–2032[a]
	Revenues	
37	Raise the Tax Rates on Long-Term Capital Gains and Qualified Dividends by 2 Percentage Points	102
38	Eliminate or Modify Head-of-Household Filing Status	71 to 192
39	Limit the Deduction for Charitable Giving	257 to 272
40	Change the Tax Treatment of Capital Gains From Sales of Inherited Assets	156
41	Eliminate the Tax Exemption for New Qualified Private Activity Bonds	35
42	Expand the Base of the Net Investment Income Tax to Include the Income of Active Participants in S Corporations and Limited Partnerships	249
43	Tax Carried Interest as Ordinary Income	12
44	Include VA's Disability Payments in Taxable Income	161
45	Further Limit Annual Contributions to Retirement Plans	152
46	Eliminate Certain Tax Preferences for Education Expenses	128
47	Lower the Investment Income Limit for the Earned Income Tax Credit and Extend That Limit to the Refundable Portion of the Child Tax Credit	12
48	Require People Who Claim the Earned Income Tax Credit and Child Tax Credit to Have a Social Security Number That Is Valid for Employment	25
49	Expand Social Security to Include Newly Hired State and Local Government Employees	132
50	Increase the Corporate Income Tax Rate by 1 Percentage Point	129
51	Repeal the "Last In, First Out" Approach to Inventory Identification and the "Lower of Cost or Market" and "Subnormal Goods" Methods of Inventory Valuation	90
52	Require Half of Advertising Expenses to Be Amortized Over 5 or 10 Years	76 to 154
53	Repeal the Low-Income Housing Tax Credit	77
54	Increase All Taxes on Alcoholic Beverages to $16 per Proof Gallon and Index Them for Inflation	92 to 114
55	Increase Excise Taxes on Tobacco Products	42
56	Increase Excise Taxes on Motor Fuels and Index Them for Inflation	240
57	Impose a Tax on Financial Transactions	264
58	Increase Certain Fees Charged by U.S. Citizenship and Immigration Services and Customs and Border Protection by 20 Percent	5 to 11
59	Increase Federal Civilian Employees' Contributions to the Federal Employees Retirement System	44

Data sources: Congressional Budget Office; staff of the Joint Committee on Taxation.

ARC = Agriculture Risk Coverage; PLC = Price Loss Coverage; VA = Department of Veterans Affairs.

a. For options affecting primarily mandatory spending or revenues, savings sometimes would derive from changes in both. When that is the case, the savings shown include effects on both mandatory spending and revenues. For options affecting primarily discretionary spending, the savings shown are the decrease in discretionary outlays.

b. Savings do not encompass all budgetary effects.

Chapter 2: Mandatory Spending Options

Option 1—Mandatory Spending | Function 350

Eliminate Title I Agriculture Programs

Billions of Dollars	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	Total 2023–2027	Total 2023–2032
Change in Outlays	0	-1.4	-1.2	-6.0	-7.7	-8.4	-7.5	-6.0	-5.5	-5.6	-16.4	-49.3

This option would take effect in October 2023.

Lawmakers enact, and often modify, a variety of programs that support commodity prices, farm income, and agricultural producers' liquidity. The Agriculture Improvement Act of 2018, known as the 2018 farm bill, was the most recent comprehensive legislation addressing farm income and price support programs. Title I of that bill authorized specialized programs for dairy and sugar and programs for producers of other major commodities.

Under this option, Title I programs would not be renewed for the 2024 crop year, when authorizations under the 2018 farm bill expire. (A crop year begins in the month that the crop is harvested and ends 12 months later.) In addition, the permanent agriculture legislation enacted in 1938 and 1949 that provides income and price support (which is normally suspended for the duration of each farm bill) would be suspended or repealed, and permanent authorizations for the following disaster assistance programs would be repealed: the Economic Adjustment Assistance for Textile Mills program, the Supplemental Agricultural Disaster Assistance program, and the Noninsured Crop Disaster Assistance program.

Related Options in This Volume: Option 2, "Reduce Subsidies in the Crop Insurance Program" (page 6), Option 3, "Limit ARC and PLC Payment Acres to 30 Percent of Base Acres" (page 7)

Option 2—Mandatory Spending **Function 350**

Reduce Subsidies in the Crop Insurance Program

Billions of Dollars	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	Total 2023–2027	Total 2023–2032
Change in Outlays												
Reduce premium subsidies	-0.3	-2.3	-2.3	-2.3	-2.3	-2.3	-2.3	-2.3	-2.4	-2.4	-9.2	-20.9
Limit administrative expenses and the rate of return	-0.2	-0.8	-0.8	-0.8	-0.8	-0.8	-0.8	-0.8	-0.8	-0.8	-3.4	-7.4
Total	-0.5	-3.1	-3.1	-3.1	-3.1	-3.1	-3.1	-3.1	-3.2	-3.2	-12.6	-28.3

This option would take effect in June 2023.

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. The federal government pays about 60 percent of total premiums, on average, and farmers pay about 40 percent.

Private insurance companies sell and service policies purchased through the program, and the federal government reimburses them for their administrative costs. The Standard Reinsurance Agreement sets a limit for those administrative expenses (currently roughly $1.5 billion per year) and establishes the terms and conditions under which the federal government provides subsidies and reinsurance on eligible crop insurance contracts sold or reinsured by private insurance companies. Current law targets the rate of return for the private insurance companies at 14.5 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 would subsidize 40 percent of crop insurance premiums, on average. The option would also limit the federal reimbursement to crop insurance companies for administrative expenses to an average of 9.25 percent of estimated premiums (or roughly $950 million each year from 2024 through 2032) and target the rate of return on investment for those companies at 12 percent each year.

Related Options in This Volume: Option 1, "Eliminate Title I Agriculture Programs" (page 5), Option 3, "Limit ARC and PLC Payment Acres to 30 Percent of Base Acres" (page 7)

Related CBO Publication: *Options to Reduce the Budgetary Costs of the Federal Crop Insurance Program* (December 2017), www.cbo.gov/publication/53375

Option 3—Mandatory Spending **Function 350**

Limit ARC and PLC Payment Acres to 30 Percent of Base Acres

Billions of Dollars	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	Total 2023–2027	Total 2023–2032
Change in Outlays	0	0	0	-3.1	-4.2	-4.5	-4.0	-3.0	-2.7	-2.8	-7.3	-24.4

This option would take effect in crop year 2024.

The Agriculture Improvement Act of 2018 (known as the 2018 farm bill) provides support to producers of certain covered commodities through the Agriculture Risk Coverage (ARC) and Price Loss Coverage (PLC) programs. Eligibility under the ARC and PLC programs is determined by a producer's planting history. Only producers who have established base acres with the Department of Agriculture (USDA) under statutory authority granted by previous farm bills may participate.

The ARC program pays farmers when revenue in a crop year falls short of guaranteed amounts at either the county level (ARC-County, or ARC-CO) or the individual farm level (ARC-Individual Coverage, or ARC-IC). (A crop year begins in the month that the crop is harvested and ends 12 months later.) The PLC program pays farmers when the national average market price for a covered commodity in a given crop year falls below a reference price specified in the law. When a payment is triggered, total payments are calculated by multiplying the payment per acre by a producer's payment acres for that crop. For ARC-CO and PLC, the number of payment acres equals 85 percent of base acres; for ARC-IC, it is 65 percent of base acres.

This option would limit payment acres for ARC-CO and for PLC to 30 percent of base acres and payment acres for ARC-IC to 23 percent of base acres. Under the current programs, producers enter into contracts with USDA that extend through 2023. Therefore, the Congressional Budget Office assumes that the option's new limits on payment acres would take effect in crop year 2024, after the current farm bill expires. Savings would begin in fiscal year 2026, when ARC and PLC payments for crop year 2024 would be made.

Related Options in This Volume: Option 1, "Eliminate Title I Agriculture Programs" (page 5), Option 2, "Reduce Subsidies in the Crop Insurance Program" (page 6)

Option 4—Mandatory Spending **Function 370**

Raise Fannie Mae's and Freddie Mac's Guarantee Fees and Decrease Their Eligible Loan Limits

											Total	
Billions of Dollars	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2023–2027	2023–2032
Change in Outlays[a]												
Increase guarantee fees	-1.4	-1.6	-1.7	-1.4	-0.8	-0.6	-0.7	-0.9	-0.9	-1.1	-6.9	-11.1
Decrease loan limits	-0.3	-0.7	-0.9	-0.9	-0.7	-0.5	-0.6	-0.6	-0.8	-1.1	-3.5	-7.1
Implement both alternatives[b]	-1.5	-2.1	-2.3	-2.0	-1.3	-1.0	-1.1	-1.2	-1.4	-1.7	-9.2	-15.6

This option would take effect in January 2023.

a. Excludes the potential effects on spending by the Federal Housing Administration and the Government National Mortgage Association. Spending by those agencies is governed by annual appropriation acts and thus is classified as discretionary, whereas spending by Fannie Mae and Freddie Mac is not determined by appropriation acts and thus is classified by the Congressional Budget Office as mandatory.

b. If both alternatives were enacted together, the total effects would be less than the sum of the effects for each alternative because of interactions between the approaches.

Fannie Mae and Freddie Mac are government-sponsored enterprises (GSEs) that were federally chartered to help ensure a stable supply of financing for residential mortgages. The GSEs carry out that mission in the secondary mortgage market (the market for buying and selling mortgages after they have been issued): They buy mortgages from lenders and pool those mortgages to create mortgage-backed securities (MBSs), which they sell to investors and guarantee (for a fee) against losses from defaults. Under current law, in 2022 Fannie Mae and Freddie Mac generally can purchase mortgages of up to $970,800 in areas with high housing costs and $647,200 in other areas; regulators can alter those limits if house prices change, and those limits will be higher in 2023.

In September 2008, the federal government took Fannie Mae and Freddie Mac into conservatorship. As a result, the Congressional Budget Office concluded, the institutions effectively became governmental entities whose operations should be reflected in the federal budget. By contrast, the Administration considers the GSEs to be nongovernmental entities. CBO projects that under current law, the mortgage guarantees issued by the GSEs will have a budgetary cost—that is, the cost of the guarantees is expected to exceed the fees received by the GSEs.

This option includes two alternatives. In the first alternative, the average guarantee fee that Fannie Mae and Freddie Mac assess on loans they include in their MBSs would increase by 5 basis points starting in January 2023. (A basis point is one one-hundredth of a percentage point. Under current law, the average guarantee fee is projected to be about 55 basis points in 2023.) In the second alternative, the size of the mortgages that Fannie Mae and Freddie Mac can include in their MBSs would be reduced. The maximum mortgage in all areas would be set at $647,200 (eliminating the higher limit in high-cost areas) and then reduced by 5 percent per year until it reached about $408,000 by 2032.

Related CBO Publications: *Effects of Recapitalizing Fannie Mae and Freddie Mac Through Administrative Actions* (August 2020), www.cbo.gov/publication/56496; *Accounting for Fannie Mae and Freddie Mac in the Federal Budget* (September 2018), www.cbo.gov/publication/54475; *Transitioning to Alternative Structures for Housing Finance: An Update* (August 2018), www.cbo.gov/publication/54218; *Modeling the Subsidy Rate for Federal Single-Family Mortgage Insurance Programs* (January 2018), www.cbo.gov/publication/53402; *Transferring Credit Risk on Mortgages Guaranteed by Fannie Mae or Freddie Mac* (December 2017), www.cbo.gov/publication/53380; *The Effects of Increasing Fannie Mae's and Freddie Mac's Capital* (October 2016), www.cbo.gov/publication/52089; *The Federal Role in the Financing of Multifamily Rental Properties* (December 2015), www.cbo.gov/publication/51006

Option 5—Mandatory Spending **Function 500**

Eliminate the Add-On to Pell Grants, Which Is Funded With Mandatory Spending

Billions of Dollars	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	Total 2023–2027	Total 2023–2032
Change in Mandatory Outlays	-1.3	-4.9	-5.1	-5.2	-5.4	-5.5	-5.7	-5.8	-6.0	-6.1	-21.9	- 51.1
Change in Discretionary Spending												
Budget authority	-0.1	-0.2	-0.2	-0.2	-0.2	-0.1	-0.1	-0.1	-0.1	-0.1	-0.9	-1.6
Outlays	*	-0.2	-0.2	-0.2	-0.2	-0.2	-0.1	-0.1	-0.1	-0.1	-0.8	-1.5

This option would take effect in July 2023.

The estimates for this option are relative to the Congressional Budget Office's May 2022 baseline, which does not reflect the effects of the Administration's recent proposed changes to student loans.

* = between -$50 million and zero.

The Federal Pell Grant Program is the largest source of federal grant aid to low-income students for undergraduate education. Eligibility for Pell grants is chiefly determined by an individual's student aid index (SAI)—the amount, calculated using a formula established under federal law, that the federal government expects a family to pay toward the student's postsecondary education expenses.

Funding for the Pell grant program has both discretionary and mandatory components. The maximum award funded by the discretionary component is set in each fiscal year's appropriation act. There are two mandatory components. One is funding from the Higher Education Act that is dedicated to supporting the discretionary program. The other mandatory component is known as add-on funding, which under current law increases the maximum award by $1,060.

This option would eliminate the mandatory add-on component of Pell grant funding. The reduction in discretionary outlays is caused by a small overall decline in postsecondary enrollment and in the number of Pell grant recipients, due to the lower award amount.

Related Options in This Volume: Option 31, "Tighten Eligibility for Pell Grants" (page 37), Option 46, "Eliminate Certain Tax Preferences for Education Expenses" (page 54)

Related CBO Publications: *The Volume and Repayment of Federal Student Loans: 1995 to 2017* (November 2020), www.cbo.gov/publication/56706; *Federal Aid for Postsecondary Students* (June 2018), www.cbo.gov/publication/53736; *Distribution of Federal Support for Students Pursuing Higher Education in 2016* (June 2018), www.cbo.gov/publication/53732; *The Pell Grant Program: Recent Growth and Policy Options* (September 2013), www.cbo.gov/publication/44448

Option 6—Mandatory Spending Function 550

Adopt a Voucher Plan and Slow the Growth of Federal Contributions for Federal Employees' Health Benefits

Billions of Dollars	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	Total 2023–2027	Total 2023–2032
Adopt a Voucher Plan, With Growth Based on the CPI-U												
Change in Mandatory Outlays[a]	0	0	*	-0.5	-1.2	-1.9	-2.5	-3.1	-3.7	-4.3	-1.7	-17.3
Change in Revenues[b]	0	0	*	*	*	-0.1	-0.2	-0.3	-0.4	-0.4	-0.1	-1.4
Decrease (-) in the Deficit From Changes in Mandatory Outlays and Revenues[c]	0	0	*	-0.5	-1.1	-1.8	-2.3	-2.9	-3.4	-4.0	-1.6	-16.1
Change in Discretionary Spending												
Budget authority	0	0	-0.4	-1.0	-1.7	-2.5	-3.2	-3.9	-4.6	-5.4	-3.1	-22.8
Outlays	0	0	-0.4	-1.0	-1.7	-2.5	-3.2	-3.9	-4.6	-5.4	-3.1	-22.8
Adopt a Voucher Plan, With Growth Based on the Chained CPI-U												
Change in Mandatory Outlays[a]	0	0	-0.1	-0.6	-1.4	-2.1	-2.8	-3.5	-4.1	-4.9	-2.1	-19.6
Change in Revenues[b]	0	0	*	*	*	-0.2	-0.2	-0.3	-0.3	-0.4	-0.1	-1.5
Decrease (-) in the Deficit From Changes in Mandatory Outlays and Revenues[c]	0	0	-0.1	-0.6	-1.3	-2.0	-2.6	-3.2	-3.8	-4.5	-2.0	-18.1
Change in Discretionary Spending												
Budget authority	0	0	-0.5	-1.1	-1.9	-2.8	-3.6	-4.3	-5.1	-6.0	-3.5	-25.3
Outlays	0	0	-0.5	-1.1	-1.9	-2.8	-3.6	-4.3	-5.1	-6.0	-3.5	-25.3

Data sources: Congressional Budget Office; staff of the Joint Committee on Taxation.

This option would take effect in January 2025.

CPI-U = consumer price index for all urban consumers; * = between -$50 million and zero.

a. Includes estimated savings by the Postal Service, whose spending is classified as off-budget.

b. Estimates include the effects on Social Security payroll tax receipts, which are classified as off-budget.

c. As the dashed line indicates, changes in discretionary spending are not included in the total because they would be realized only if future appropriations were adjusted accordingly and because the Congress uses different procedures to enforce its budgetary goals related to discretionary spending.

The Federal Employees Health Benefits (FEHB) program provides health insurance coverage to federal workers and annuitants, as well as to their dependents and survivors. Policyholders, whether they are active employees or annuitants, generally pay 25 percent of the premium for lower-cost plans and a larger share for higher-cost plans; the federal government pays the rest of the premium. Currently, the FEHB program also provides health insurance coverage for postal workers and annuitants, but the government contribution for those participants is determined through collective bargaining and paid primarily by the Postal Service (USPS). Beginning in 2025, those benefits will be provided through the Postal Service Health Benefits (PSHB) program.

Both the FEHB and PSHB programs would be affected by this option. It consists of two alternatives to replace the current premium-sharing structure with a voucher, which would not be subject to income and payroll taxes. Under both alternatives, the value of the voucher in 2025 for each type of coverage (self only, self plus one, and family) would be equal to the government's average expected contributions to FEHB or PSHB premiums in 2024, adjusted for inflation. Under the first alternative, the value of the voucher in 2025 and each subsequent year would be determined using the projected rate of inflation as measured by the consumer price index for all urban consumers (CPI-U). The second alternative would index the voucher to the chained CPI-U, which is another measure of inflation designed to account

for changes in spending patterns and to address several types of statistical biases that exist in the traditional CPI measures. Since 2001, the chained CPI-U has grown by an average of about 0.25 percentage points per year more slowly than the traditional CPI-U.

Government spending on premiums for annuitants and postal workers is classified as mandatory spending, whereas spending on premiums for other federal employees is classified as discretionary. Both alternatives would reduce mandatory spending for the FEHB and PSHB programs because the federal government would make smaller payments for premiums for annuitants and postal workers than it would under current law. The alternatives would also decrease mandatory spending because some FEHB and PSHB participants would leave the program. The net effect of those disenrolled participants on changes in mandatory spending would be small relative to savings from the vouchers.

Revenues would also be affected because more people would have employment-based health insurance outside of the FEHB and PSHB programs. That change would reduce federal tax revenues by shifting some of employees' compensation from taxable wages to tax-favored health insurance. Both alternatives would also reduce discretionary spending by lowering federal agencies' payments for FEHB premiums for current employees and their dependents if appropriations were reduced to reflect those lower payments.

Option 7—Mandatory Spending **Function 550**

Introduce Enrollment Fees in TRICARE for Life

Billions of Dollars	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	Total 2023–2027	Total 2023–2032
Change in Outlays												
MERHCF	0	0	-1.2	-2.1	-2.6	-2.9	-3.0	-3.2	-3.3	-3.5	-5.9	-21.8
Medicare	0	0	0.2	0.5	0.8	0.9	0.9	0.9	1.0	1.0	1.5	6.2
Total	0	0	-1.0	-1.6	-1.8	-2.0	-2.1	-2.3	-2.3	-2.5	-4.4	-15.6

This option would take effect in January 2025.

MERHCF = Department of Defense Medicare-Eligible Retiree Health Care Fund.

TRICARE for Life (TFL) is a supplement to Medicare for military retirees and their Medicare-eligible family members. Beneficiaries who are eligible for TRICARE are automatically enrolled in TFL, and there are no enrollment fees (although beneficiaries must pay their premium for Medicare Part B, which covers physicians' and other outpatient services).

This option would require most Medicare-eligible beneficiaries who choose to 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 retirement and survivors of members who died on active duty would not be required to pay the fee.) The enrollment fees would be set to match the Congressional Budget Office's estimate (for 2025) of the fees for the preferred-provider plan in TRICARE paid by retirees who were not yet eligible for Medicare and who entered service after 2017. The enrollment fees would be indexed to grow at the same rate as average Medicare costs in later years. This option would result in some beneficiaries switching to other Medicare supplemental plans, which would cause Medicare spending to increase because some costs currently paid by TFL would shift to Medicare.

Related Option in This Volume: Option 8, "Introduce Minimum Out-of-Pocket Requirements in TRICARE for Life" (page 13)

Related CBO Publications: *Long-Term Implications of the 2021 Future Years Defense Program* (September 2020), www.cbo.gov/publication/56526; *Approaches to Changing Military Compensation* (January 2020), www.cbo.gov/publication/55648; *Approaches to Changing Military Health Care* (October 2017), www.cbo.gov/publication/53137

Option 8—Mandatory Spending **Function 550**

Introduce Minimum Out-of-Pocket Requirements in TRICARE for Life

Billions of Dollars	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	Total 2023–2027	Total 2023–2032
Change in Outlays												
MERHCF	0	0.1	0.1	-1.8	-2.9	-3.1	-3.3	-3.5	-3.7	-3.8	-4.5	-21.9
Medicare	0	0	0	-0.5	-1.3	-1.6	-1.7	-1.8	-1.9	-1.9	-1.8	-10.7
Total	0	0.1	0.1	-2.3	-4.2	-4.7	-5.0	-5.3	-5.6	-5.7	-6.3	-32.6

This option would take effect in January 2026, although some changes to outlays would occur earlier.

MERHCF = Department of Defense Medicare-Eligible Retiree Health Care Fund.

TRICARE for Life (TFL) is a supplement to Medicare for military retirees and their Medicare-eligible family members. The program pays nearly all medical costs not covered by Medicare and requires few out-of-pocket fees.

This option would 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 (those for which enrollees are responsible when they receive health care) 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. Thereafter, those dollar limits would be indexed to grow at the same rate as average Medicare costs (excluding Part D drug benefits). To reduce beneficiaries' incentive to avoid out-of-pocket costs by switching to military facilities (which currently charge no copayments for hospital services provided to TFL beneficiaries), this option would also require TFL beneficiaries seeking care from those facilities to make payments roughly comparable to the charges they would face at civilian facilities. This option would reduce spending for Medicare as well as for TFL because higher out-of-pocket costs would lead beneficiaries to use fewer medical services.

Related Options in This Volume: Option 7, "Introduce Enrollment Fees in TRICARE for Life" (page 12), Option 9, "Change the Cost-Sharing Rules for Medicare and Restrict Medigap Insurance" (page 14)

Related CBO Publications: *Long-Term Implications of the 2021 Future Years Defense Program* (September 2020), www.cbo.gov/publication/56526; *Approaches to Changing Military Compensation* (January 2020), www.cbo.gov/publication/55648; *Approaches to Changing Military Health Care* (October 2017), www.cbo.gov/publication/53137

Option 9—Mandatory Spending Function 570

Change the Cost-Sharing Rules for Medicare and Restrict Medigap Insurance

Billions of Dollars	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	Total 2023–2027	Total 2023–2032
Change in Outlays												
Establish uniform cost sharing and an out-of-pocket cap for Medicare	0	0	0	-3	-4	-4	-4	-4	-4	-4	-7	-27
Restrict medigap policies	0	0	0	-10	-13	-14	-14	-15	-16	-17	-23	-100
Implement both alternatives[a]	0	0	0	-13	-17	-17	-18	-18	-19	-20	-30	-122

This option would take effect in January 2026.

a. Although the total savings of this alternative would approximate the sum of the savings from the first two alternatives, that relationship might not apply if different dollar amounts for the deductible and catastrophic cap were used.

In the traditional fee-for-service (FFS) portion of the Medicare program, cost sharing—the payments for which enrollees are responsible when they receive health care—varies significantly depending on the type of service provided. Cost sharing in FFS Medicare can take the following forms: deductibles, coinsurance, or copayments. Deductibles are the amount of spending an enrollee incurs before coverage begins, and coinsurance (a specified percentage) and copayments (a specified dollar amount) represent the portion of spending an enrollee pays at the time of service.

Under Medicare Part A, which primarily covers services provided by hospitals and other facilities, enrollees are liable for an initial copayment (sometimes called the Part A deductible) of $1,556 (in 2022) for each "spell of illness" that requires hospitalization and substantial daily copayments for extended stays. Under Medicare Part B, which mainly covers outpatient services, enrollees pay an annual deductible of $233 (in 2022) and generally pay 20 percent of allowable costs in excess of that deductible. There is no catastrophic cap on Medicare cost sharing. Therefore, most people enrolled in FFS Medicare have some form of supplemental insurance that reduces or eliminates their cost-sharing obligations and protects them from high medical costs. Most commonly, people either purchase an individual medigap policy directly from an insurer, or they retain coverage from a former employer as retirees. Medicaid also covers Medicare's cost sharing for most people who enroll in both Medicare and Medicaid.

This option consists of three alternatives. The first alternative would replace Medicare's current cost-sharing requirement with a single annual deductible of $850 for all Part A and Part B services, a uniform coinsurance rate of 20 percent for all spending above that deductible, and an annual out-of-pocket cap of $8,500. The second alternative would leave Medicare's cost-sharing rules unchanged but would restrict existing and new medigap policies. Specifically, it would bar those policies from paying any of the first $850 of an enrollee's cost-sharing obligations for Part A and Part B services in calendar year 2026 and would limit coverage to 50 percent of the next $7,650 of an enrollee's cost sharing. Medigap policies would cover all further cost-sharing obligations, so policyholders would not pay more than $4,675 in cost sharing in 2026. The third alternative would combine the changes from the first and second alternatives. After 2026, dollar amounts in all three alternatives, such as the combined deductible and cap (the first and third alternatives) and the medigap thresholds (the second and third alternatives), would be indexed to the rate of growth of average FFS Medicare spending per enrollee.

Related Option in This Volume: Option 8, "Introduce Minimum Out-of-Pocket Requirements in TRICARE for Life" (page 13)

Related CBO Publication: Noelia Duchovny and others, *CBO's Medicare Beneficiary Cost-Sharing Model: A Technical Description*, Working Paper 2019-08 (October 2019), www.cbo.gov/publication/55659

Option 10—Mandatory Spending **Function 570**

Reduce Medicare's Coverage of Bad Debt

Billions of Dollars	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	Total 2023–2027	Total 2023–2032
Change in Outlays												
Reduce the percentage of allowable bad debt to 45 percent	0	-0.7	-1.5	-2.4	-2.6	-2.9	-2.8	-3.1	-3.3	-3.6	-7.1	-22.8
Reduce the percentage of allowable bad debt to 25 percent	0	-1.3	-3.0	-4.8	-5.1	-5.7	-5.6	-6.3	-6.6	-7.2	-14.2	-45.7
Eliminate the coverage of allowable bad debt	0	-2.2	-4.8	-7.8	-8.3	-9.3	-9.1	-10.2	-10.8	-11.7	-23.1	-74.2

This option would take effect in October 2023.

When hospitals and other health care providers cannot collect out-of-pocket payments from their patients, those uncollected funds are called bad debt. Historically, Medicare has paid some of the bad debt owed by fee-for-service beneficiaries. The unpaid and uncollectible cost-sharing amounts for covered services provided to Medicare beneficiaries are referred to as allowable bad debt. In the case of dual-eligible beneficiaries—Medicare beneficiaries who also are enrolled in Medicaid—out-of-pocket obligations that remain unpaid by Medicaid are uncollectible and therefore are also included in Medicare's allowable bad debt. Under current law, Medicare reimburses eligible facilities—hospitals, skilled nursing facilities, various types of health care centers, and facilities treating end-stage renal disease—for 65 percent of allowable bad debt.

This option consists of three alternatives. Under the first and second alternatives, the percentage of allowable bad debt that Medicare reimbursed to participating facilities would be reduced to 45 percent and 25 percent, respectively. Under the third alternative, Medicare's coverage of allowable bad debt would be eliminated. The reductions would start to take effect in 2024 and would be phased in evenly until becoming fully implemented in 2026.

Option 11—Mandatory Spending **Functions 550, 570**

Consolidate and Reduce Federal Payments for Graduate Medical Education at Teaching Hospitals

Billions of Dollars	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	Total 2023–2027	Total 2023–2032
Change in Outlays												
Establish a grant program, with growth of funding based on the CPI-U	0	-2.5	-3.5	-4.8	-6.3	-7.4	-8.7	-10.2	-11.6	-13.2	-17.1	-68.2
Establish a grant program, with growth of funding based on the CPI-U minus 1 percentage point	0	-3.0	-4.3	-5.8	-7.4	-8.8	-10.4	-12.0	-13.7	-15.5	-20.5	-80.9

This option would take effect in October 2023.

CPI-U = consumer price index for all urban consumers.

Under certain circumstances, hospitals with teaching programs can receive funds from Medicare and Medicaid for costs related to graduate medical education (GME). Medicare's payments cover two types of costs: those for direct graduate medical education (DGME) and those for indirect medical education (IME). DGME costs are for the compensation of medical residents and institutional overhead. IME costs are other teaching-related costs—for instance, costs associated with the added demands placed on staff as a result of teaching activities and the greater number of tests and procedures ordered by residents as part of the educational process. Additionally, the federal government matches a portion of what state Medicaid programs pay for GME. The Congressional Budget Office projects that total mandatory federal spending for hospital-based GME will grow at an average annual rate of 7 percent from 2023 to 2032 (about 4 percentage points faster than the average annual growth rate of the consumer price index for all urban consumers, or CPI-U).

This option would consolidate all mandatory federal spending for GME into a grant program for teaching hospitals. Total funds available for distribution in 2024 would be fixed at an amount equaling the sum of Medicare's 2022 payments for DGME and IME and the federal share of Medicaid's 2022 payments for GME. CBO examined two alternatives for how the funding for the grant program would grow over time; both would result in less funding than what CBO projects for the existing programs under current law. Under the first alternative, funding for the grant program would grow with the CPI-U; under the second alternative, funding for the grant program would grow with the CPI-U minus 1 percentage point per year.

Option 12—Mandatory Spending Function 600

Eliminate Subsidies for Certain Meals in the National School Lunch, School Breakfast, and Child and Adult Care Food Programs

											Total	
Billions of Dollars	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2023–2027	2023–2032
Change in Outlays	-0.1	-0.8	-1.0	-1.2	-1.2	-1.3	-1.3	-1.3	-1.4	-1.4	-4.3	-11.1

This option would take effect in July 2023.

The National School Lunch Program, the School Breakfast Program, and the Child and Adult Care Food Program provide funds that enable public schools, nonprofit private schools, child and adult care centers, and residential child care institutions to offer subsidized meals and snacks to participants. The programs provide subsidies for all meals served, though those subsidies are larger for meals served to participants from households with income at or below 185 percent of the federal poverty guidelines (commonly known as the federal poverty level, or FPL).

This option would eliminate the subsidies for meals and snacks served to participants from households with income greater than 185 percent of the FPL through the National School Lunch Program and the School Breakfast Program, and in child and adult care centers through the Child and Adult Care Food Program. Meals and snacks served to participants from households with income at or below 185 percent of the FPL would still be subsidized. Similarly, all meals served in schools participating in the Community Eligibility Provision would still be subsidized. This option would not affect Child and Adult Care Food Program participants in day care homes.

Related Option in *Options for Reducing the Deficit, 2023 to 2032—Volume I: Larger Reductions*, www.cbo.gov/publication/58164: Option 10, "Reduce Spending on Other Mandatory Programs"

Related CBO Publication: *Child Nutrition Programs: Spending and Policy Options* (September 2015), www.cbo.gov/publication/50737

Option 13—Mandatory Spending **Function 650**

Raise the Full Retirement Age for Social Security

Billions of Dollars	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	Total 2023–2027	Total 2023–2032
Change in Outlays	0	*	-1	-2	-4	-6	-12	-20	-32	-45	-7	-121

This option would take effect in January 2024.

Estimates include budgetary effects for Social Security benefits; that spending is classified as off-budget.

* = between zero and -$500 million.

The age at which workers become eligible for full retirement benefits from Social Security—known as the full retirement age (FRA)—depends on their year of birth. For workers born after 1959, the FRA is 67. (For workers born earlier, the FRA is lower.) Workers, regardless of when they were born, may claim benefits as early as age 62. Their scheduled benefit is adjusted on the basis of how much earlier or later than their FRA they choose to start receiving benefits. Up to age 70, the later a worker begins receiving benefits, the larger the monthly benefit.

Under this option, the FRA would increase from 67 by two months per birth year for workers born between 1962 and 1978. As a result, for all workers born in 1978 or later, the FRA would be 70. As under current law, workers could still choose to begin receiving benefits at age 62, but the reduction in their initial scheduled monthly benefit for claiming benefits early would be larger under this option than under current law. An increase in the FRA would reduce scheduled lifetime benefits for every affected Social Security recipient, regardless of the age at which a person claimed benefits. Under this option, workers could maintain the same scheduled monthly benefit as under current law by claiming benefits at a later age, but they would then receive benefits for fewer months.

Related CBO Publications: *CBO's 2021 Long-Term Projections for Social Security: Additional Information* (July 2021), www.cbo.gov/publication/57342; *Social Security Policy Options, 2015* (December 2015), www.cbo.gov/publication/51011; *Raising the Ages of Eligibility for Medicare and Social Security* (January 2012), www.cbo.gov/publication/42683

Option 14—Mandatory Spending Function 650

Require Social Security Disability Insurance Applicants to Have Worked More in Recent Years

											Total	
Billions of Dollars	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2023–2027	2023–2032
Change in Outlays	0	-0.7	-2.0	-3.5	-5.1	-6.5	-7.9	-9.2	-10.5	-11.8	-11.3	-57.2

This option would take effect in January 2024.

Estimates include budgetary effects for Social Security benefits; that spending is classified as off-budget.

Estimates include effects on Social Security only; they do not include effects on other federal programs that could be affected, such as Supplemental Security Income, Medicare, Medicaid, and subsidies for coverage obtained through marketplaces established by the Affordable Care Act.

To be eligible for benefits under Social Security Disability Insurance, most disabled workers must have worked 5 of the past 10 years. Specifically, workers over age 30 must have earned at least 20 quarters of coverage in the past 10 years. (In this option, the 10-year time frame is referred to as the look-back period.)

This option would increase the share of recent years that disabled workers must have worked and shorten the look-back period. It would require disabled workers older than 30 to have earned 16 quarters of coverage in the past 6 years—usually equivalent to working 4 of the past 6 years. That change in policy would apply to new applicants seeking benefits and would not affect blind applicants, who are exempt from the recency-of-work requirement. Disabled workers already receiving disability benefits would not be affected.

Related CBO Publications: *Social Security Disability Insurance: Participation and Spending* (June 2016), www.cbo.gov/publication/51443; *Social Security Policy Options, 2015* (December 2015), www.cbo.gov/publication/51011; *Policy Options for the Social Security Disability Insurance Program* (July 2012), www.cbo.gov/publication/43421

Option 15—Mandatory Spending Function 700

End VA's Individual Unemployability Payments to Disabled Veterans at the Full Retirement Age for Social Security

Billions of Dollars	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	Total 2023–2027	Total 2023–2032
Change in Outlays												
End IU payments to all veterans age 67 or older	0	-3.1	-4.8	-5.0	-5.2	-5.9	-5.0	-5.8	-6.0	-6.3	-18.1	-47.1
End IU payments to all veterans age 67 or older who would begin receiving IU after December 2023	0	-0.1	-0.3	-0.6	-0.8	-1.1	-1.1	-1.5	-1.7	-2.0	-1.7	-9.2

This option would take effect in January 2024.

IU = Individual Unemployability.

The Department of Veterans Affairs (VA) provides disability compensation to veterans with medical conditions or injuries that were incurred or worsened during active-duty service. The amount of compensation depends on the severity of their disabilities (which are rated between zero and 100 percent) and other factors. In addition, VA may increase certain veterans' disability compensation to the 100 percent level even though the department has not rated their service-connected disabilities at that level. To receive the resulting supplemental compensation, termed Individual Unemployability (IU) payments, disabled veterans must apply for the benefit and meet two criteria. First, they generally must be rated between 60 percent and 90 percent disabled. Second, VA must determine that the veterans cannot maintain "substantial gainful employment" because of the severity of a service-connected disability. Receipt of IU is not based on age, voluntary withdrawal from work, or other factors.

This option consists of two alternatives. Under the first, VA would stop making IU payments to veterans age 67 or older (the full retirement age for Social Security benefits for those born after 1959). That restriction would apply to both current and prospective recipients. When veterans reach age 67, all VA disability payments would revert to the amount associated with the rated disability level; veterans age 67 or older who are already receiving IU payments would no longer receive them after the effective date of the option. Under the second alternative, veterans who began receiving the IU supplement after December 2023 would no longer receive those payments once they reached age 67, and no new applicants age 67 or older would be eligible for IU benefits after that date. Veterans who are currently receiving IU payments and who would reach age 67 or older after the effective date of the option would continue to collect the IU supplement.

Related Options in This Volume: Option 16, "Reduce VA's Disability Benefits for Veterans Who Are Older Than the Full Retirement Age for Social Security" (page 21), Option 17, "Narrow Eligibility for VA's Disability Compensation by Excluding Veterans With Low Disability Ratings" (page 22), Option 44, "Include VA's Disability Payments in Taxable Income" (page 52)

Related Option in *Options for Reducing the Deficit, 2023 to 2032—Volume I: Larger Reductions*, www.cbo.gov/publication/58164: Option 10, "Reduce Spending on Other Mandatory Programs"

Related CBO Publications: *Possible Higher Spending Paths for Veterans' Benefits* (December 2018), www.cbo.gov/publication/54881; *Veterans' Disability Compensation: Trends and Policy Options* (August 2014), www.cbo.gov/publication/45615

Option 16—Mandatory Spending Function 700

Reduce VA's Disability Benefits for Veterans Who Are Older Than the Full Retirement Age for Social Security

Billions of Dollars	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	Total 2023–2027	Total 2023–2032
Change in Outlays	0	-0.3	-0.7	-1.0	-1.3	-1.7	-2.0	-2.4	-2.8	-3.2	-3.2	-15.3

This option would take effect in January 2024.

Veterans with medical conditions or injuries that occurred or worsened during active-duty service receive disability compensation from the Department of Veterans Affairs (VA). By law, VA's disability ratings (the basis for disability payments) are to be based, as far as practicable, on the average earnings that veterans would be expected to lose given the severity of their service-connected medical conditions or injuries. Those ratings do not depend on whether a particular veteran's conditions reduced the person's earnings. Disability compensation is not means-tested: Veterans who work are eligible for benefits, and most working-age veterans who receive such compensation are employed. After veterans reach Social Security's full retirement age, VA's disability payments continue at the same level. By contrast, the income that people receive from Social Security or private pensions after they retire usually is less than their earnings from wages and salary before retirement.

Under this option, veterans who start receiving disability compensation payments in 2024 or later would have those payments reduced by 30 percent at age 67. (Social Security's full retirement age is 67 for people born after 1959.) Social Security and pension benefits would be unaffected by this option. Veterans who are already collecting disability compensation would see no reduction in their VA disability benefits when they reached age 67.

Related Options in This Volume: Option 15, "End VA's Individual Unemployability Payments to Disabled Veterans at the Full Retirement Age for Social Security" (page 20), Option 17, "Narrow Eligibility for VA's Disability Compensation by Excluding Veterans With Low Disability Ratings" (page 22), Option 44, "Include VA's Disability Payments in Taxable Income" (page 52)

Related Option in *Options for Reducing the Deficit, 2023 to 2032—Volume I: Larger Reductions*, www.cbo.gov/publication/58164: Option 10, "Reduce Spending on Other Mandatory Programs"

Related CBO Publications: *Possible Higher Spending Paths for Veterans' Benefits* (December 2018), www.cbo.gov/publication/54881; *Veterans' Disability Compensation: Trends and Policy Options* (August 2014), www.cbo.gov/publication/45615

Option 17—Mandatory Spending **Function 700**

Narrow Eligibility for VA's Disability Compensation by Excluding Veterans With Low Disability Ratings

Billions of Dollars	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	Total 2023–2027	Total 2023–2032
Change in Outlays												
Require disability ratings of 30 percent or higher for disability compensation for all veterans	0	-2.9	-4.2	-4.5	-4.9	-5.4	-5.8	-6.3	-6.7	-7.2	-16.5	-47.9
Require disability ratings of 30 percent or higher for disability compensation for new applicants	0	-0.1	-0.3	-0.4	-0.6	-0.8	-1.0	-1.2	-1.4	-1.6	-1.4	-7.4

This option would take effect in January 2024.

Veterans with medical conditions or injuries that occurred or worsened during active-duty service may receive disability compensation from the Department of Veterans Affairs (VA). The base amount of compensation veterans receive depends on the severity of their disabilities, which are rated between zero (least severe) and 100 percent (most severe) in increments of 10. By law, VA's disability ratings (the basis for disability payments) are to be based, as far as practicable, on the average earnings that veterans would be expected to lose given the severity of their service-connected medical conditions or injuries. Those ratings do not depend on whether a particular veteran's conditions reduced his or her earnings.

Under this option's first alternative, VA would narrow eligibility for disability compensation by requiring a disability rating of 30 percent or higher for all veterans; as a result, some current recipients would no longer receive benefits. The second alternative would require a 30 percent or higher disability rating only for new disability compensation applicants. (Current recipients would not be affected.)

Related Options in This Volume: Option 15, "End VA's Individual Unemployability Payments to Disabled Veterans at the Full Retirement Age for Social Security" (page 20), Option 16, "Reduce VA's Disability Benefits for Veterans Who Are Older Than the Full Retirement Age for Social Security" (page 21), Option 44, "Include VA's Disability Payments in Taxable Income" (page 52)

Related Option in *Options for Reducing the Deficit, 2023 to 2032—Volume I: Larger Reductions*, www.cbo.gov/publication/58164: Option 10, "Reduce Spending on Other Mandatory Programs"

Related CBO Publications: *Possible Higher Spending Paths for Veterans' Benefits* (December 2018), www.cbo.gov/publication/54881; *Veterans' Disability Compensation: Trends and Policy Options* (August 2014), www.cbo.gov/publication/45615

Option 18—Mandatory Spending **Multiple Functions**

Use an Alternative Measure of Inflation to Index Social Security and Other Mandatory Programs

Billions of Dollars	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	Total 2023–2027	Total 2023–2032
Change in Outlays												
Social Security	0	-2.5	-6.1	-10.0	-14.2	-18.7	-23.4	-28.3	-33.4	-38.7	-32.6	-175.2
Other benefit programs with COLAs[a]	0	-0.6	-1.6	-2.5	-3.3	-4.4	-5.2	-6.3	-7.4	-8.1	-8.1	-39.4
Effects on SNAP from interactions with COLA programs[b]	0	0.1	0.2	0.3	0.4	0.5	0.5	0.6	0.7	0.8	0.8	4.0
Health programs[c]	0	-0.3	-1.1	-2.0	-2.5	-3.4	-4.4	-6.9	-10.6	-10.0	-5.9	-41.3
Other federal spending[d]	0	*	-0.2	-0.2	-0.3	-0.5	-0.6	-0.8	-0.9	-1.1	-0.7	-4.6
Total	0	-3.4	-8.8	-14.4	-20.0	-26.5	-33.1	-41.7	-51.7	-57.1	-46.5	-256.6
Change in Revenues[e]	0	*	*	-0.1	*	*	*	*	*	*	-0.1	-0.1
Decrease (-) in the Deficit	0	-3.4	-8.7	-14.3	-20.1	-26.5	-33.1	-41.7	-51.7	-57.1	-46.5	-256.5

Data sources: Congressional Budget Office; staff of the Joint Committee on Taxation.

This option would take effect in January 2024.

Estimates include budgetary effects for Social Security benefits; that spending is classified as off-budget.

COLA = cost-of-living adjustment; SNAP = Supplemental Nutrition Assistance Program; * = between -$50 million and zero.

a. Other benefit programs with COLAs include civil service retirement, military retirement, Supplemental Security Income, veterans' pensions and compensation, and other retirement programs whose COLAs are linked directly to those for Social Security or civil service retirement.

b. The policy change would reduce payments from other federal programs to people who also receive benefits from SNAP. Because SNAP benefits are based on a formula that considers such income, a decrease in those other payments would lead to an increase in SNAP benefits.

c. Outlays for health programs consist of spending for Medicare (net of premiums and other offsetting receipts), Medicaid, and the Children's Health Insurance Program, as well as outlays to subsidize health insurance purchased through the marketplaces established by the Affordable Care Act and related spending.

d. Other federal spending includes changes to benefits and various aspects (eligibility thresholds, funding levels, and payment rates, for instance) of other federal programs, such as those providing Pell grants and student loans, SNAP, child nutrition programs, and programs (other than health programs) linked to the federal poverty guidelines. (The changes in spending on SNAP included here are those besides the changes in benefits that result from interactions with COLA programs.)

e. The effects on revenues reflect slightly higher enrollment in employment-based health insurance coverage under the option.

Cost-of-living adjustments (COLAs) for Social Security and many other parameters of federal programs are indexed to increases in traditional measures of the consumer price index (CPI). The CPI measures overall inflation and is calculated by the Bureau of Labor Statistics (BLS). In addition to the traditional measures of the CPI, BLS computes another measure of inflation—the chained CPI—which is designed to account for changes in spending patterns and to eliminate several types of statistical biases that exist in the traditional CPI measures. Under current law, the chained CPI is used for indexing most parameters of the tax system, including the individual income tax brackets. Since 2001, the chained CPI has grown by an average of about 0.25 percentage points more slowly per year than the traditional CPI measures have, and the Congressional Budget Office expects that trend to continue.

This option would expand the use of the chained CPI. It would be used to determine COLAs for Social Security and to compute inflation-indexed parameters of other federal programs.

Related CBO Publication: Testimony of Jeffrey Kling, Associate Director for Economic Analysis, before the Subcommittee on Social Security, Committee on Ways and Means, U.S. House of Representatives, *Using the Chained CPI to Index Social Security, Other Federal Programs, and the Tax Code for Inflation* (April 18, 2013), www.cbo.gov/publication/44083

Chapter 3: Discretionary Spending Options

Option 19—Discretionary Spending — Functions 050, 950

Cap Increases in Basic Pay for Military Service Members

Billions of Dollars	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	Total 2023–2027	Total 2023–2032
Change in Discretionary Spending												
Budget authority	0	-0.4	-1.0	-1.7	-2.4	-3.1	-3.4	-3.5	-3.6	-3.7	-5.5	-22.8
Outlays	0	-0.4	-1.0	-1.6	-2.3	-3.0	-3.3	-3.5	-3.6	-3.7	-5.3	-22.4
Change in Mandatory Outlays	0	0.1	0.3	0.5	0.7	0.9	1.0	1.0	1.1	1.1	1.6	6.7

This option would take effect in January 2024.

About 30 percent of the discretionary savings displayed are reductions in intragovernmental payments. Such transactions would transfer resources from one category of the budget to another: Capping increases in basic pay would lower the Department of Defense's payments for retirement accruals and Social Security contributions, but those smaller payments would reduce federal receipts by an equal amount and thus would fully offset the savings. The increase in mandatory outlays shown above represents the reduction in those offsetting receipts.

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.

Related Option in This Volume: Option 34, "Reduce the Annual Across-the-Board Adjustment for Federal Civilian Employees' Pay" (page 40)

Related CBO Publications: *Long-Term Costs of the Administration's 2022 Defense Budget* (January 2022), www.cbo.gov/publication/57541; *Long-Term Implications of the 2021 Future Years Defense Program* (September 2020), www.cbo.gov/publication/56526; *Approaches to Changing Military Compensation* (January 2020), www.cbo.gov/publication/55648; *Analysis of the Long-Term Costs of the Administration's Goals for the Military* (December 2017), www.cbo.gov/publication/53350

Option 20—Discretionary Spending Functions 050, 950

Replace Some Military Personnel with Civilian Employees

Billions of Dollars	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	Total 2023–2027	Total 2023–2032
Change in Discretionary Spending												
Budget authority	0	-0.3	-0.9	-1.6	-2.2	-2.6	-2.8	-2.9	-3.1	-3.3	-5.0	-19.7
Outlays	0	-0.2	-0.8	-1.4	-2.0	-2.5	-2.6	-2.8	-3.0	-3.2	-4.4	-18.5
Change in Mandatory Outlays	0	0.1	0.3	0.5	0.8	0.9	1.0	1.0	1.0	1.0	1.7	6.6

This option would take effect in October 2023.

About 40 percent of the discretionary savings displayed are reductions in intragovernmental payments. Such transactions would transfer resources from one category of the budget to another: Fewer military personnel would lower the Department of Defense's (DoD's) payments for retirement accruals and Social Security contributions, but those lower payments would reduce federal receipts by an equal amount and thus would fully offset the savings. The increase in mandatory outlays above represents the reduction in those offsetting receipts.

The reduced cost to DoD of fewer military personnel would be partially offset by the increased cost to DoD of more civilian personnel and the increased cost to the Department of Veterans Affairs (VA) of some veterans' receiving health care benefits earlier than anticipated in CBO's baseline. For this budget option, all of the increased cost to VA is classified as discretionary. However, some of that cost could be paid from the Toxic Exposure Fund (TEF) established by Public Law 117-168, the Honoring Our PACT Act, enacted on August 10, 2022; TEF is a mandatory appropriation.

The workforce of the Department of Defense (DoD) consists of members of the active-duty and reserve military, federal civilian employees, and private contractors. According to data from DoD, more than 300,000 active-duty members of the military work in support, or commercial, jobs that could be performed by civilian employees or contractors. In CBO's assessment, fewer civilians could provide the same quantity and quality of services provided by military personnel at a lower overall cost to the federal government because those civilians would receive less on-the-job training, would not have to devote part of the work year to general military training, and would probably not rotate among positions as rapidly as military personnel do.

Under this option, DoD would replace, over four years, 80,000 active-duty military personnel in commercial jobs with 64,000 civilian employees.

Related CBO Publication: *Replacing Military Personnel in Support Positions With Civilian Employees* (December 2015), www.cbo.gov/publication/51012

Option 21—Discretionary Spending Function 050

Stop Building Ford Class Aircraft Carriers

Billions of Dollars	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	Total 2023–2027	Total 2023–2032
Change in Planned Defense Spending												
Budget authority	0	0	0	-1.2	-1.8	-1.5	-2.2	-2.2	-4.1	-5.0	-3.0	-18.0
Outlays	0	0	0	*	-0.3	-0.7	-1.0	-1.3	-1.7	-2.3	-0.4	-7.3

This option would take effect in October 2023.

Estimates of savings displayed in the table are based on the Department of Defense's 2023 Future Years Defense Program and the Congressional Budget Office's extension of that plan.

* = between -$50 million and zero.

The Navy's current 30-year shipbuilding plan includes the construction of new aircraft carriers.

Under this option, the Navy would stop building new aircraft carriers after completion of the fourth of its modern Ford class carriers, which lawmakers authorized in 2019 and which is expected to be completed in 2032. Plans to start building the fifth Ford class carrier in 2028 would be canceled, as would the Navy's plans to purchase additional carriers in subsequent years. To estimate the savings for this option, CBO assumed the Navy would purchase that fifth carrier in 2033; if the Navy purchased it in 2032, then the savings would be slightly greater over the 10 years.

Related CBO Publications: *An Analysis of the Navy's Fiscal Year 2023 Shipbuilding Plan* (November 2022), www.cbo.gov/publication/58447; *Long-Term Implications of the 2021 Future Years Defense Program* (September 2020), www.cbo.gov/publication/56526; *How CBO Estimates the Cost of New Ships* (April 2018), www.cbo.gov/publication/53785; *Comparing a 355-Ship Fleet With Smaller Naval Forces* (March 2018), www.cbo.gov/publication/53637; *Costs of Building a 355-Ship Navy* (April 2017), www.cbo.gov/publication/52632

Option 22—Discretionary Spending Function 050

Reduce the Size of the Nuclear Triad

Billions of Dollars	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	Total 2023–2027	Total 2023–2032
Retain a Nuclear Triad With 10 Submarines, 300 ICBMs, and 1,550 Warheads												
Change in Planned Defense Spending												
Budget authority	0	-3.2	-1.0	-5.5	-1.1	-0.6	-0.2	-1.3	-0.5	-1.4	-10.8	-14.8
Outlays	0	-0.2	-0.9	-1.4	-2.2	-2.1	-1.8	-1.3	-1.1	-1.0	-4.7	-12.0
Retain a Nuclear Triad With 8 Submarines, 150 ICBMs, and 1,000 Warheads												
Change in Planned Defense Spending												
Budget authority	0	-3.4	-1.3	-5.8	-1.5	-0.9	-0.8	-3.3	-5.0	-7.9	-12.0	-29.9
Outlays	0	-0.2	-1.0	-1.5	-2.5	-2.5	-2.3	-2.0	-2.2	-3.3	-5.2	-17.5

This option would take effect in October 2023.

Estimates of savings displayed in the table are based on the Department of Defense's 2023 Future Years Defense Program, the Department of Energy's 2023 Future Years Nuclear Security Program, and the Congressional Budget Office's extension of those plans.

ICBM = intercontinental ballistic missile.

The United States' nuclear deterrence strategy is built around the strategic nuclear triad, which comprises long-range bombers, intercontinental ballistic missiles (ICBMs), and submarines that launch ballistic missiles (SSBNs). The United States maintains a strategic nuclear force that complies with the limits of the New START arms control treaty. That force consists of the following components: 12 deployed (14 total) Ohio class SSBNs that together carry up to 1,090 warheads on 240 missiles; 400 deployed (454 total) Minuteman III ICBMs, each carrying a single warhead; and 60 deployed (66 total) B-52H and B-2A bombers, each of which counts as a single warhead under the terms of New START. Almost all components of the triad are scheduled to be modernized (refurbished or replaced by new systems) over the next 20 years.

This option would reduce modernization costs for the ICBM and SSBN systems (two components of the triad) by retiring some existing delivery systems early and by purchasing fewer of the new systems. The Congressional Budget Office examined two alternative approaches. The first would maintain the current number of deployed warheads at 1,550 (as defined by the terms of New START) but would reduce forces to 10 SSBNs and 300 ICBMs. The Navy would retire 4 Ohio class SSBNs at a rate of one per year starting in 2024; delay by one year the purchase of new SSBNs included in its current shipbuilding plan beginning with the third SSBN; and cancel orders for the last 2 SSBNs scheduled to be purchased under the current plan. In addition, the Department of Defense would retire 150 ICBMs—50 each year for three years starting in 2024—and procure 482 new ICBMs instead of the 642 that are in the current plan. The second alternative would make deeper cuts to forces and reduce the number of deployed warheads to 1,000 but still retain a triad structure. The Navy would field 8 SSBNs, and the Air Force would deploy 150 ICBMs.

Related Option in This Volume: Option 23, "Cancel the Long-Range Standoff Weapon" (page 29)

Related CBO Publications: *Projected Costs of U.S. Nuclear Forces, 2021 to 2030* (May 2021), www.cbo.gov/publication/57130; *The Potential Costs of Expanding U.S. Strategic Nuclear Forces If the New START Treaty Expires* (August 2020), www.cbo.gov/publication/56475; *Approaches for Managing the Costs of U.S. Nuclear Forces, 2017 to 2046* (October 2017), www.cbo.gov/publication/53211

Option 23—Discretionary Spending Function 050

Cancel the Long-Range Standoff Weapon

Billions of Dollars	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	Total 2023–2027	Total 2023–2032
Change in Planned Defense Spending												
Budget authority	0	-2.0	-1.9	-1.9	-2.2	-2.5	-2.9	-2.8	-2.5	-0.3	-8.0	-19.0
Outlays	0	-1.1	-1.7	-1.7	-1.6	-1.7	-1.9	-2.2	-2.4	-2.0	-6.1	-16.3

This option would take effect in October 2023.

Estimates of savings displayed in the table are based on the Department of Defense's 2023 Future Years Defense Program, the Department of Energy's 2023 Future Years Nuclear Security Program, and the Congressional Budget Office's extension of those plans.

The Department of Defense (DoD) and the Department of Energy (DOE) currently oversee two programs aimed at developing nuclear weapons for the new B-21 stealth bomber. In the B61-12 life extension program (LEP), DOE is working to refurbish and combine several varieties of the B61 bomb into a single hybrid design. In the other program, DoD is developing the Long-Range Standoff Weapon (LRSO), a new nuclear air-launched cruise missile designed to replace the ALCM (the air-launched cruise missile currently carried by the B-52H). DOE is producing a warhead, the W80-4, for the LRSO to carry.

This option would cancel the LRSO and W80-4 warhead development program but retain the B61-12 LEP. Thus, the Air Force would stop equipping bombers with cruise missiles armed with nuclear warheads after the current ALCMs reached the end of their service life (around 2030). This option would not change the planned size of the strategic bomber fleet or its ability to conduct non-nuclear missions, and aircraft that are capable of carrying nuclear bombs would still be able to do so.

Related Option in This Volume: Option 22, "Reduce the Size of the Nuclear Triad" (page 28)

Related CBO Publications: *Long-Term Costs of the Administration's 2022 Defense Budget* (January 2022), www.cbo.gov/publication/57541; *Projected Costs of U.S. Nuclear Forces, 2021 to 2030* (May 2021), www.cbo.gov/publication/57130

Option 24—Discretionary Spending Function 050

Cancel the Army's Future Vertical Lift Aircraft

Billions of Dollars	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	Total 2023–2027	Total 2023–2032
Change in Planned Defense Spending												
Budget authority	0	-1.0	-1.5	-1.4	-2.5	-2.5	-2.8	-2.7	-2.6	-3.6	-6.4	-20.8
Outlays	0	-0.4	-1.0	-1.2	-1.5	-1.8	-2.0	-2.2	-2.3	-2.5	-4.1	-15.0

This option would take effect in October 2023.

Estimates of savings displayed in the table are based on the Department of Defense's 2023 Future Years Defense Program and the Congressional Budget Office's extension of that plan.

The Department of Defense (DoD) established the Future Vertical Lift (FVL) initiative to focus on research and development of technologies for the next generation of vertical lift aircraft for U.S. armed forces. Although all branches of the armed forces would benefit from the FVL initiative, the Army has been its primary developer and most funding has been provided in Army appropriation accounts. The Army is developing two new aircraft as part of its FVL efforts: the Future Attack Reconnaissance Aircraft (FARA) and the Future Long-Range Assault Aircraft (FLRAA). The FARA is expected to fill the role of the retired Kiowa Warrior scout helicopter, and the FLRAA is expected to eventually replace the Blackhawk transport helicopter. Both are designed to be faster and have longer ranges than their predecessors. They are expected to enter service later this decade or in the early 2030s.

This option would end development of the FARA and FLRAA. The Army would continue to operate its current fleet of helicopters, most of which have been purchased or refurbished within the past 15 years.

Related CBO Publication: *The Cost of Replacing Today's Army Aviation Fleet* (May 2019), www.cbo.gov/publication/55180

Option 25—Discretionary Spending Function 050

Defer Development of the B-21 Bomber

Billions of Dollars	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	Total 2023–2027	Total 2023–2032
Change in Planned Defense Spending												
Budget authority	0	-5.4	-5.8	-5.5	-5.7	-5.1	-4.5	-4.2	-4.3	-4.6	-22.3	-45.0
Outlays	0	-1.4	-3.0	-4.0	-4.6	-4.7	-4.4	-4.2	-4.1	-4.0	-13.0	-34.4

This option would take effect in October 2023.

Estimates of savings displayed in the table are based on the Department of Defense's 2023 Future Years Defense Program and the Congressional Budget Office's extension of that plan.

The Air Force is developing a new bomber—designated the B-21—which it plans to field in the mid- to late 2020s. The Air Force currently operates a fleet of long-range bombers that entered service between the 1960s and 1990s and should be able to continue flying through at least the late 2030s.

This option would defer further development of the B-21 bomber until after 2032. The Air Force would continue to operate its current fleet of bombers.

Related Option in This Volume: Option 26, "Reduce the Size of the Bomber Force by Retiring the B-1B" (page 32)

Related CBO Publications: *Long-Term Costs of the Administration's 2022 Defense Budget* (January 2022), www.cbo.gov/publication/57541; *The Potential Costs of Expanding U.S. Strategic Nuclear Forces If the New START Treaty Expires* (August 2020), www.cbo.gov/publication/56475; *Approaches for Managing the Costs of U.S. Nuclear Forces, 2017 to 2046* (October 2017), www.cbo.gov/publication/53211

Option 26—Discretionary Spending Function 050

Reduce the Size of the Bomber Force by Retiring the B-1B

Billions of Dollars	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	Total 2023–2027	Total 2023–2032
Change in Planned Defense Spending												
Budget authority	0	-1.4	-1.4	-1.2	-1.3	-1.0	-0.8	-0.5	-0.2	0	-5.3	-7.9
Outlays	0	-1.0	-1.3	-1.2	-1.3	-1.1	-0.8	-0.6	-0.3	-0.1	-4.7	-7.7

This option would take effect in October 2023.

Estimates of savings displayed in the table are based on cost estimates from the Air Force.

The Air Force uses B-1B bombers for conventional (nonnuclear) missions. Although the Air Force plans to replace them with B-21 bombers that are under development, the potential service life of many B-1B bombers extends well into the 2030s.

This option would retire the entire B-1B bomber fleet in 2024 and eliminate the military personnel positions in the squadrons that would be removed from the force. If the positions were reassigned to other parts of the Air Force rather than eliminated, then the outlay savings over the 10-year period would be $2.3 billion less.

Related Option in This Volume: Option 25, "Defer Development of the B-21 Bomber" (page 31)

Related CBO Publication: *Long-Term Costs of the Administration's 2022 Defense Budget* (January 2022), www.cbo.gov/publication/57541

Option 27—Discretionary Spending Function 050

Reduce the Size of the Fighter Force by Retiring the F-22

Billions of Dollars	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	Total 2023–2027	Total 2023–2032
Change in Planned Defense Spending												
Budget authority	0	-3.5	-3.5	-3.6	-3.7	-3.0	-3.0	-3.0	-3.0	-3.1	-14.3	-29.3
Outlays	0	-1.8	-2.8	-3.2	-3.4	-3.5	-3.4	-3.2	-3.1	-3.1	-11.1	-27.3

This option would take effect in October 2023.

Estimates of savings displayed in the table are based on cost estimates from the Air Force.

The Air Force's F-22 fighter aircraft are designed to engage in combat with enemy aircraft. Built to be a stealthy fighter, the F-22 is difficult for enemy radar to detect. The F-22 represents only one part of the Air Force's stealth fighter fleet.

This option would retire the entire F-22 fleet in 2024 and eliminate the military personnel positions in the squadrons that would be removed from the force. The Air Force would rely on other aircraft, stealthy and non-stealthy, to carry out the F-22's mission. If the positions were reassigned to other parts of the Air Force rather than eliminated, then the outlay savings over the 10-year period would be $5.2 billion less.

Related CBO Publication: *The Cost of Replacing Today's Air Force Fleet* (December 2018), www.cbo.gov/publication/54657

Option 28—Discretionary Spending **Functions 050, 700**

Reduce the Basic Allowance for Housing to 80 Percent of Average Housing Costs

Billions of Dollars	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	Total 2023–2027	Total 2023–2032
Change in Discretionary Spending												
Budget authority	0	-0.1	-0.3	-0.7	-1.1	-1.5	-2.0	-2.5	-3.0	-3.6	-2.2	-14.8
Outlays	0	-0.1	-0.3	-0.7	-1.1	-1.5	-2.0	-2.5	-3.0	-3.5	-2.2	-14.7
Change in Mandatory Outlays	0	*	*	-0.1	-0.2	-0.4	-0.4	-0.6	-0.8	-0.9	-0.4	-3.7

This option would take effect in January 2024.

* = between -$50 million and zero.

The Department of Defense provides assistance to eligible personnel and their families to ensure they have access to affordable and quality housing. If government-owned military housing is not available (which is typically the case because it is very limited), service members are provided a basic allowance for housing (BAH) to offset most of their costs for rent and utilities. Initially, that allowance was set to cover about 80 percent of the costs for rent and utilities, but it now covers 95 percent of average costs.

This option would return BAH to its original level by reducing it by 1.7 percentage points each January for nine years. (To minimize disruptions for service members currently in private housing, BAH would not change until they moved.) As a result, by 2032, BAH would once again cover 80 percent of rental and utility costs. Because the housing benefit that the Department of Veterans Affairs (VA) provides as part of the Post-9/11 GI Bill is tied to BAH rates, this option would also reduce VA's mandatory spending.

Option 29—Discretionary Spending **Function 150**

Reduce Funding for International Affairs Programs

Billions of Dollars	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	Total 2023–2027	Total 2023–2032
Change in Spending												
Budget authority	0	-18	-18	-19	-19	-20	-20	-21	-21	-22	-74	-178
Outlays	0	-6	-12	-15	-17	-18	-19	-20	-20	-21	-50	-148

This option would take effect in October 2023.

The budget for international affairs funds diplomatic and consular programs, global health initiatives, security assistance, and other programs. Most funding for international affairs programs is administered by the Department of State or the Agency for International Development.

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

Option 30—Discretionary Spending Function 500

Eliminate Federal Funding for National Community Service

Billions of Dollars	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	Total 2023–2027	Total 2023–2032
Change in Spending												
Budget authority	0	-1.2	-1.2	-1.3	-1.3	-1.3	-1.4	-1.4	-1.4	-1.5	-4.9	-11.8
Outlays	0	-0.2	-0.8	-1.0	-1.1	-1.2	-1.2	-1.3	-1.3	-1.4	-3.1	-9.5

This option would take effect in October 2023.

The Corporation for National and Community Service (CNCS), which operates the AmeriCorps and Senior Corps programs, receives public funding—from federal, state, and local governments—and funding from private entities. CNCS programs provide financial and in-kind assistance to students, seniors, and others who volunteer in their communities in areas such as education, public safety, the environment, and health care. Participants in those programs receive one or more types of compensation, which include living allowances, training, health coverage, and child care. In addition, upon completing their service, participants in certain programs can earn education awards, paid from the National Service Trust (NST), which is managed by CNCS.

This option would eliminate all federal funding for CNCS except for funding for the NST. In the absence of federal funding, the volunteer programs would continue to operate only to the extent that state and local governments and private entities chose to fund them.

Option 31—Discretionary Spending Function 500

Tighten Eligibility for Pell Grants

Billions of Dollars	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	Total 2023–2027	Total 2023–2032
Restrict Pell Grants to Students Eligible for the Maximum Award												
Change in Discretionary Spending												
Budget authority	-5.8	-2.6	-2.7	-2.8	-2.9	-3.1	-3.2	-3.2	-3.2	-3.3	-16.8	-32.8
Outlays	-1.5	-4.9	-2.6	-2.7	-2.8	-2.9	-3.1	-3.2	-3.2	-3.2	-14.5	-30.1
Change in Mandatory Outlays	-0.5	-1.7	-1.1	-1.1	-1.1	-1.2	-1.3	-1.3	-1.3	-1.3	-5.5	-11.9
Limit Pell Grants to Students From Families With Income Below 250 Percent of Federal Poverty Guidelines												
Change in Discretionary Spending												
Budget authority	-0.8	-1.3	-1.3	-1.3	-1.3	-1.7	-1.7	-1.8	-1.8	-1.8	-6.0	-14.8
Outlays	-0.2	-0.9	-1.3	-1.3	-1.3	-1.4	-1.7	-1.8	-1.8	-1.8	-5.0	-13.5
Change in Mandatory Outlays	-0.1	-0.5	-0.6	-0.6	-0.6	-0.6	-0.8	-0.8	-0.8	-0.8	-2.4	-6.2

This option would take effect in July 2023.

The estimates for this option are relative to the Congressional Budget Office's May 2022 baseline, which does not reflect the effects of the Administration's recent proposed changes to student loans.

The Federal Pell Grant Program is the largest source of federal grant aid to low-income students for undergraduate education. Eligibility for Pell grants is chiefly determined by an individual's student aid index—the amount, calculated using a formula established under federal law, that the government expects a family to contribute toward the cost of the student's postsecondary education. Funding for the Pell grant program has both discretionary and mandatory components.

This option consists of two alternatives that would tighten eligibility for Pell grants. The first alternative would restrict eligibility to students eligible for the maximum award, based on the student's financial need and enrollment status. The second would limit eligibility to students from families with adjusted gross income below 250 percent of the federal poverty guidelines (commonly known as the federal poverty level).

Related Options in This Volume: Option 5, "Eliminate the Add-On to Pell Grants, Which Is Funded With Mandatory Spending" (page 9), Option 46, "Eliminate Certain Tax Preferences for Education Expenses" (page 54)

Related CBO Publications: *Federal Aid for Postsecondary Students* (June 2018), www.cbo.gov/publication/53736; *Distribution of Federal Support for Students Pursuing Higher Education in 2016* (June 2018), www.cbo.gov/publication/53732; *The Pell Grant Program: Recent Growth and Policy Options* (September 2013), www.cbo.gov/publication/44448

Option 32—Discretionary Spending Function 700

Increase Prescription Drug Copayments for All Veterans

Billions of Dollars	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	Total 2023–2027	Total 2023–2032
Change in Planned Defense Spending												
Budget authority	-1.9	-2.0	-2.4	-2.4	-2.8	-2.9	-3.1	-3.3	-3.5	-3.9	-11.5	-28.1
Outlays	-1.7	-1.9	-2.3	-2.4	-2.7	-2.8	-3.0	-3.2	-3.5	-3.8	-11.0	-27.4

This option would take effect in January 2023.

Veterans who enroll in the health care system of the Department of Veterans Affairs (VA) have little or no out-of-pocket costs for medications that treat health conditions not connected to the veteran's military service. Veterans who have a service-connected disability rating of at least 50 percent, who have a disability that makes them unemployable, or who have received the Medal of Honor do not have to pay for prescriptions. Most other veterans have small copayments, which are tiered by type of drug: preferred generic, nonpreferred generic and some over-the-counter, and brand name.

In 2021, copayments ranged from $5 to $11 for a 30-day prescription, with an annual limit of $700. Those rates and the annual limit have not changed since 2017.

This option would remove the annual $700 cap and increase copayments for all enrolled veterans to rates similar to those paid by TRICARE beneficiaries at retail pharmacies. Under this option, copayments would range from $14 to $68 for a 30-day prescription, depending on the type of drug. Rates would be adjusted for inflation, similar to how retail prescription copayments are calculated under the TRICARE program.

Related Option in This Volume: Option 33, "End Enrollment in VA Medical Care for Veterans in Priority Groups 7 and 8" (page 39)

Option 33—Discretionary Spending Function 700

End Enrollment in VA Medical Care for Veterans in Priority Groups 7 and 8

Billions of Dollars	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	Total 2023–2027	Total 2023–2032
Change in Planned Defense Spending												
Budget authority	0	-11	-12	-12	-12	-12	-13	-13	-14	-14	-57	-124
Outlays	0	-11	-11	-12	-12	-12	-13	-13	-14	-14	-56	-121
Change in Mandatory Outlays	0	3	4	4	4	4	4	4	4	4	18	40

This option would take effect in October 2023.

These estimates do not reflect the effects of the Honoring Our PACT Act (Public Law 117-168). That law will decrease the number of veterans who are enrolled in priority groups 7 and 8 and, therefore, will reduce the estimated savings from this option.

The Department of Veterans Affairs (VA) provides a wide range of medical services at little to no charge to enrolled veterans, including inpatient and outpatient care, prescription coverage, and assistive devices (such as hearing aids and prosthetics). Veterans who seek medical care from VA are assigned to one of eight priority groups on the basis of disability status and income, among other factors. Veterans in priority group 7 do not have compensable service-connected disabilities, and their annual income is above a national threshold set by VA (about $35,000 for a household of one in 2021) but below a geographically adjusted threshold (which is generally higher than the national one). Those in priority group 8 do not have compensable service-connected disabilities, and their income is above both the national and the geographic thresholds. In 2021, about 2 million veterans were enrolled in priority groups 7 and 8.

Because of budgetary constraints, VA ended enrollment of veterans in priority group 8 in 2003. Veterans who were enrolled at that time were allowed to remain in VA's health care system. Since then, enrollment in that group has been reopened to certain veterans.

This option would end enrollment in VA's health care system for all veterans in priority groups 7 and 8: No new enrollees would be accepted, and current enrollees would be disenrolled starting in October 2023. Some of those veterans would be eligible for Medicare and would shift their health care from VA to Medicare, increasing mandatory spending.

Related Option in This Volume: Option 32, "Increase Prescription Drug Copayments for All Veterans" (page 38)

Option 34—Discretionary Spending **Multiple Functions**

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

Billions of Dollars	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	Total 2023–2027	Total 2023–2032
Change in Discretionary Spending												
Budget authority	0	-1.1	-2.6	-4.2	-6.0	-7.8	-9.8	-11.8	-14.0	-16.2	-13.9	-73.5
Outlays	0	-1.1	-2.5	-4.1	-5.9	-7.7	-9.7	-11.7	-13.9	-16.1	-13.6	-72.7
Change in Mandatory Outlays	0	0.2	0.5	0.9	1.3	1.7	2.1	2.5	3.0	3.5	2.9	15.7

This option would take effect in January 2024.

About 20 percent of the discretionary savings displayed are reductions in intragovernmental payments. Such transactions would transfer resources from one category of the budget to another: Reducing future increases in federal pay would lower agencies' contributions for federal employees' retirement, Social Security, and Medicare, but those smaller payments would reduce federal receipts by an equal amount and thus would offset part of the savings. The increase in mandatory outlays shown above represents the reduction in those offsetting receipts.

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.

Related Option in This Volume: Option 19, "Cap Increases in Basic Pay for Military Service Members" (page 25)

Related CBO Publications: Justin Falk and Nadia Karamcheva, *Comparing the Effects of Current Pay and Defined Benefit Pensions on Employee Retention*, Working Paper 2018-06 (June 2018), www.cbo.gov/publication/54056; *Comparing the Compensation of Federal and Private-Sector Employees, 2011 to 2015* (April 2017), www.cbo.gov/publication/52637

Option 35—Discretionary Spending Multiple Functions

Reduce Funding for Certain Grants to State and Local Governments

Billions of Dollars	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	Total 2023–2027	Total 2023–2032
Reduce Department of Energy Grants for Energy Conservation and Weatherization												
Change in Spending												
Budget authority	0	-0.1	-0.2	-0.2	-0.2	-0.2	-0.3	-0.3	-0.3	-0.3	-0.8	-2.1
Outlays	0	*	-0.1	-0.1	-0.2	-0.2	-0.2	-0.2	-0.3	-0.3	-0.4	-1.6
Reduce Environmental Protection Agency Funding for Wastewater and Drinking Water Infrastructure and Other Grants[a]												
Change in Spending												
Budget authority	0	-4.0	-8.2	-8.2	-2.4	-2.5	-2.5	-2.6	-2.6	-2.7	-22.7	-35.7
Outlays	0	-0.2	-1.7	-4.3	-6.2	-5.9	-4.5	-3.5	-2.8	-2.6	-12.4	-31.7
Reduce Department of Housing and Urban Development Funding for Community Development Block Grants												
Change in Spending												
Budget authority	0	-1.3	-2.6	-2.7	-2.7	-2.8	-2.8	-2.9	-2.9	-3.0	-9.2	-23.7
Outlays	0	0	-0.2	-0.8	-1.5	-2.0	-2.2	-2.4	-2.5	-2.6	-2.5	-14.2
Reduce Funding for Certain Department of Education Grants												
Change in Spending												
Budget authority	0	-0.4	-0.9	-0.9	-0.9	-0.9	-0.9	-1.0	-1.0	-1.0	-3.1	-7.8
Outlays	0	0	-0.3	-0.6	-0.8	-0.9	-0.9	-0.9	-0.9	-1.0	-1.7	-6.4
Reduce Funding for Certain Department of Justice Grants												
Change in Spending												
Budget authority	0	-0.9	-1.9	-1.9	-2.0	-2.0	-2.1	-2.1	-2.1	-2.2	-6.7	-17.2
Outlays	0	-0.1	-0.3	-0.7	-1.2	-1.6	-1.9	-2.0	-2.1	-2.1	-2.3	-11.9
Total												
Change in Spending												
Budget authority	0	-6.7	-13.8	-13.9	-8.2	-8.4	-8.6	-8.9	-8.9	-9.2	-42.5	-86.5
Outlays	0	-0.3	-2.6	-6.5	-9.9	-10.6	-9.7	-9.0	-8.6	-8.6	-19.3	-65.8

This option would take effect in October 2023.

* = between -$50 million and zero.

a. These estimates include savings in budget authority that was specified by division J of Public Law 117-58, the Infrastructure Investment and Jobs Act (IIJA), which provided funding through 2026 for certain programs. In the Congressional Budget Office's baseline, IIJA funding is projected to continue in future years; these estimates do not include that projected funding.

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 health care, 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 that could be implemented individually or together. Those changes would reduce funding for the following programs:

- The Department of Energy's grants for energy conservation and weatherization through the Weatherization and Intergovernmental Programs Office.
- The Environmental Protection Agency's grants for wastewater and drinking water infrastructure, as well as other grants that help states implement federal water, air, waste, and chemical programs.
- The Department of Housing and Urban Development's Community Development Block Grant (CDBG) program. The reduction includes only base CDBG funding and does not include any possible funding for future disaster recovery efforts.
- Certain Department of Education grants, like those for the 21st Century Community Learning Centers, which fund nonacademic programs that address students' physical, emotional, and social well-being.
- Certain Department of Justice grants to nonprofit community organizations and state and local law enforcement agencies. Those grants include State and Local Law Enforcement Assistance programs, Juvenile Justice programs, Community Oriented Policing Services grants, and grants administered through the Office on Violence Against Women.

Related Option in *Options for Reducing the Deficit, 2023 to 2032—Volume I: Larger Reductions*, www.cbo.gov/publication/58164: Option 12, "Reduce Nondefense Discretionary Spending"

Related CBO Publication: *Federal Grants to State and Local Governments* (March 2013), www.cbo.gov/publication/43967

Option 36—Discretionary Spending | Multiple Functions

Repeal the Davis-Bacon Act

Billions of Dollars	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	Total 2023–2027	Total 2023–2032
Change in Discretionary Spending												
Spending authority	0	-1.5	-3.0	-3.0	-2.6	-2.7	-2.8	-2.8	-2.9	-2.9	-10.2	-24.3
Budget authority	0	-0.8	-1.6	-1.6	-1.2	-1.2	-1.2	-1.3	-1.3	-1.3	-5.2	-11.5
Outlays	0	-0.6	-1.7	-1.9	-2.0	-2.1	-2.1	-2.1	-2.1	-2.1	-6.3	-16.7
Change in Mandatory Outlays	0	*	*	*	*	*	*	*	*	*	-0.2	-0.4

This option would take effect in October 2023.

Spending authority includes both budget authority and obligation limitations (such as those for certain transportation programs).

These estimates include savings in budget authority that was specified by division J of Public Law 117-58, the Infrastructure Investment and Jobs Act (IIJA), which provided funding through 2026 for certain programs. In the Congressional Budget Office's baseline, IIJA funding is projected to continue in future years; these estimates do not include that projected funding.

* = between -$50 million and zero.

The Davis-Bacon Act requires that workers on all federally funded or federally assisted construction projects whose contracts total more than $2,000 be paid no less than the prevailing wages in the area where the project is located. In 2022, about half of all federal or federally financed construction was funded through the Department of Transportation.

This option would repeal the Davis-Bacon Act, thereby lowering the federal government's costs for construction. The reduction in wages and benefits would account for most of the savings from repeal; repealing the Davis-Bacon Act would also reduce contractors' administrative costs associated with compliance. To reflect those lower costs, the option would make corresponding reductions in mandatory and discretionary appropriations and in limits on the government's authority to enter into obligations for certain transportation programs. Most of the spending for federal or federally financed construction is discretionary, but this option would also result in a small reduction in mandatory outlays.

Chapter 4: Revenue Options

Option 37—Revenues

Raise the Tax Rates on Long-Term Capital Gains and Qualified Dividends by 2 Percentage Points

											Total	
Billions of Dollars	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2023–2027	2023–2032
Decrease (-) in the Deficit	-2.7	-11.7	-11.3	-11.0	-10.4	-10.6	-10.8	-10.9	-11.2	-11.6	-47.1	-102.1

Data source: Staff of the Joint Committee on Taxation.

This option would take effect in January 2023.

When people sell an asset for more than the price at which they obtained it, they generally realize a net capital gain that is subject to taxation. Under current law, long-term capital gains (those realized on assets held for more than a year) and qualified dividends (which includes most dividends) are usually taxed at lower rates than other sources of income, such as wages and interest. The statutory rate on most long-term capital gains and qualified dividends is 0 percent, 15 percent, or 20 percent, depending on a taxpayer's filing status and taxable income.

This option would raise the statutory tax rates on long-term capital gains and qualified dividends by 2 percentage points. The new rates would then be 2 percent, 17 percent, and 22 percent. It would not change other provisions of the tax code that affect taxes on capital gains and dividends.

Related Options in This Volume: Option 40, "Change the Tax Treatment of Capital Gains From Sales of Inherited Assets" (page 48), Option 42, "Expand the Base of the Net Investment Income Tax to Include the Income of Active Participants in S Corporations and Limited Partnerships" (page 50), Option 50, "Increase the Corporate Income Tax Rate by 1 Percentage Point" (page 58), Option 57, "Impose a Tax on Financial Transactions" (page 65)

Related Option in *Options for Reducing the Deficit, 2023 to 2032—Volume I: Larger Reductions*, www.cbo.gov/publication/58164: Option 13, "Increase Individual Income Tax Rates"

Related CBO Publications: *The Distribution of Major Tax Expenditures in 2019* (October 2021), www.cbo.gov/publication/57413; *The Distribution of Asset Holdings and Capital Gains* (August 2016), www.cbo.gov/publication/51831; Tim Dowd, Robert McClelland, and Athiphat Muthitacharoen, *New Evidence on the Tax Elasticity of Capital Gains*, Working Paper 2012-09 (June 2012, updated August 2012), www.cbo.gov/publication/43334

Option 38—Revenues

Eliminate or Modify Head-of-Household Filing Status

Billions of Dollars	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	Total 2023–2027	Total 2023–2032
Decrease (-) in the Deficit												
Eliminate head-of-household filing status	-15.0	-22.0	-22.9	-18.5	-17.0	-17.8	-18.5	-19.3	-20.0	-20.8	-95.4	-191.8
Limit head-of-household filing status to unmarried people with a qualifying child under age 17	-5.2	-7.7	-8.1	-6.8	-6.4	-6.8	-7.1	-7.4	-7.7	-8.0	-34.2	-71.3

Data source: Staff of the Joint Committee on Taxation.

This option would take effect in January 2023.

On their tax returns, people must indicate their filing status (such as married, single, or head of household), which has implications for the amount of taxes they owe. Those who are not married generally file as single or as head of household. People who file as heads of households receive tax preferences that are not available to other unmarried individuals: They are eligible for a larger standard deduction, and lower tax rates apply to a greater share of their income. Moreover, heads of households qualify for some tax preferences at higher levels of income than those who file as single.

To qualify for head-of-household filing status, unmarried people must pay most of the costs of maintaining the household in which they have resided with a qualifying person for more than half of the year. The rules for claiming a qualifying person vary. In addition to meeting certain residency and relationship criteria, a child claimed as a qualifying person must be under the age of 19, under 24 and a full-time student, or permanently and totally disabled. Other dependent relatives, who also must meet residency and relationship criteria, must receive more than half of their support from the head of household and have gross income below a specified amount ($4,400 in calendar year 2022).

This option consists of two alternatives. The first alternative would eliminate the head-of-household filing status. The second alternative would retain that status but limit it to taxpayers who pay more than half of the costs of maintaining the household in which they have resided with a qualifying child under the age of 17.

Related CBO Publication: *How Dependents Affect Federal Income Taxes* (January 2020), www.cbo.gov/publication/56004

Option 39—Revenues

Limit the Deduction for Charitable Giving

Billions of Dollars	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	Total 2023–2027	Total 2023–2032
Decrease (-) in the Deficit												
Limit deductibility to charitable contributions in excess of 2 percent of adjusted gross income	-3.3	-16.5	-17.2	-20.6	-31.9	-33.4	-34.9	-36.3	-37.9	-39.5	-89.5	-271.5
Limit deductibility to cash contributions	-3.5	-17.7	-19.2	-21.9	-28.2	-30.0	-31.8	-33.3	-34.9	-36.6	-90.5	-257.0

Data source: Staff of the Joint Committee on Taxation.

This option would take effect in January 2023.

Taxpayers who itemize can deduct the value of their contributions to qualifying charitable organizations. Two restrictions apply to the deduction. First, deductible charitable contributions may not exceed a certain percentage of a taxpayer's adjusted gross income (AGI). (AGI includes income from all sources not specifically excluded by the tax code, minus certain deductions.) The second restriction, which was temporarily lifted but will resume in 2026, reduces the total value of certain itemized deductions—including the deduction for charitable donations—for taxpayers with higher income.

This option consists of two alternatives that would limit the deduction for charitable donations. Under the first alternative, only the amount of a taxpayer's contributions that exceeded 2 percent of his or her AGI would be deductible. Under the second alternative, the deduction would be eliminated for noncash contributions. Both alternatives would be limited to taxpayers who itemize, and higher-income taxpayers would still be subject to the additional reduction in the total value of certain deductions after 2025.

Related Option in *Options for Reducing the Deficit, 2023 to 2032—Volume I: Larger Reductions*, www.cbo.gov/publication/58164: Option 14, "Eliminate or Limit Itemized Deductions"

Related CBO Publication: *Options for Changing the Tax Treatment of Charitable Giving* (May 2011), www.cbo.gov/publication/41452

Option 40—Revenues

Change the Tax Treatment of Capital Gains From Sales of Inherited Assets

Billions of Dollars	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	Total 2023–2027	Total 2023–2032
Decrease (-) in the Deficit	-2.0	-7.2	-10.2	-12.8	-15.1	-17.3	-19.5	-21.7	-24.1	-26.6	-47.3	-156.4

Data source: Staff of the Joint Committee on Taxation.

This option would take effect in January 2023.

When people sell an asset for more than the price for which they obtained it, they realize a net capital gain. The net gain is typically calculated as the sale price minus the asset's adjusted basis—generally the original purchase price adjusted for improvements and depreciation. To calculate the gains on inherited assets, taxpayers generally use the asset's fair-market value at the time of the owner's death, often referred to as stepped-up basis, instead of the adjusted basis derived from the asset's value when the decedent initially acquired it. When the heir sells the asset, capital gains taxes are assessed only on the change in the asset's value relative to the stepped-up basis. As a result, any appreciation in value that occurred while the decedent owned the asset is not included in taxable income and therefore is not subject to the capital gains tax.

Under this option, taxpayers would generally adopt the adjusted basis of the decedent (known as carryover basis) on assets they inherit. As a result, the decedent's unrealized capital gain would be taxed at the heirs' tax rate when they eventually sell the assets. (This option would adjust the basis of some bequeathed assets that would be subject to both the estate tax and the capital gains tax. That adjustment would minimize the extent to which the asset's appreciation in value would be subject to both taxes.)

Related Option in This Volume: Option 37, "Raise the Tax Rates on Long-Term Capital Gains and Qualified Dividends by 2 Percentage Points" (page 45)

Related CBO Publications: *Understanding Federal Estate and Gift Taxes* (June 2021), www.cbo.gov/publication/57129; *The Distribution of Asset Holdings and Capital Gains* (August 2016), www.cbo.gov/publication/51831

Option 41—Revenues

Eliminate the Tax Exemption for New Qualified Private Activity Bonds

Billions of Dollars	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	Total 2023–2027	Total 2023–2032
Decrease (-) in the Deficit	-0.1	-0.6	-1.4	-2.1	-3.0	-3.8	-4.7	-5.5	-6.4	-7.2	-7.2	-34.9

Data source: Staff of the Joint Committee on Taxation.

This option would take effect in January 2023.

These estimates do not include any potential interaction between private activity bonds and the low-income housing tax credit.

The U.S. tax code permits state and local governments to finance certain projects by issuing bonds whose interest payments are exempt from federal income taxes. For the most part, proceeds from tax-exempt bonds are used to finance public projects, such as the construction of highways and schools. In some cases, however, state and local governments issue tax-exempt bonds to finance private-sector projects. Such bonds—known as qualified private activity bonds—may be used to fund private projects that provide at least some public benefits. Eligible projects include the construction of infrastructure, such as roads, airports, broadband networks, and carbon dioxide capture facilities, as well as certain activities undertaken by nonprofit organizations, such as building schools and hospitals.

This option would eliminate the tax exemption for new qualified private activity bonds.

Related Option in This Volume: Option 53, "Repeal the Low-Income Housing Tax Credit" (page 61)

Related CBO Publications: Testimony of Joseph Kile, Director of Microeconomic Analysis, before the Senate Committee on Finance, *Options for Funding and Financing Highway Spending* (May 18, 2021), www.cbo.gov/publication/57206; *Public-Private Partnerships for Transportation and Water Infrastructure* (January 2020), www.cbo.gov/publication/56003; *Federal Support for Financing State and Local Transportation and Water Infrastructure* (October 2018), www.cbo.gov/publication/54549; *Federal Grants to State and Local Governments* (March 2013), www.cbo.gov/publication/43967; Testimony of Frank Sammartino, Assistant Director for Tax Analysis, before the Senate Committee on Finance, *Federal Support for State and Local Governments Through the Tax Code* (April 25, 2012), www.cbo.gov/publication/43047

Option 42—Revenues

Expand the Base of the Net Investment Income Tax to Include the Income of Active Participants in S Corporations and Limited Partnerships

											Total	
Billions of Dollars	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2023–2027	2023–2032
Decrease (-) in the Deficit	-14.6	-22.1	-23.9	-24.2	-25.1	-25.9	-26.9	-27.8	-28.7	-29.7	-109.9	-248.9

Data source: Staff of the Joint Committee on Taxation.

This option would take effect in January 2023.

In addition to the individual income tax, high-income taxpayers face two taxes on certain types of income above specified thresholds. The first—the additional Medicare tax—is a 0.9 percent tax on wages and self-employment income in excess of those thresholds (bringing their overall Medicare tax rate to 3.8 percent). The second tax faced by high-income taxpayers—the net investment income tax (NIIT)—is a 3.8 percent tax on qualifying investment income, such as interest, dividends, capital gains, rents, royalties, and passive income from businesses not subject to the corporate income tax.

Income generated by certain types of businesses—specifically, limited partnerships (wherein certain partners are not liable for the debts of the business in excess of their initial investment) and S corporations (which are not subject to the corporate income tax because they meet certain criteria defined in subchapter S of the tax code)—may be excluded from both taxes under certain circumstances. If a high-income taxpayer is actively involved in running such a business, as some limited partners and most owners of S corporations are, that person's share of the firm's net profits is not subject to either the additional Medicare tax or the NIIT. If the taxpayer receives a salary from the firm, however, that income is subject to the additional Medicare tax.

This option would impose the NIIT on all income derived from business activity that is subject to the individual income tax but not to the additional Medicare tax.

Related Option in This Volume: Option 37, "Raise the Tax Rates on Long-Term Capital Gains and Qualified Dividends by 2 Percentage Points" (page 45)

Related CBO Publication: *Taxing Businesses Through the Individual Income Tax* (December 2012), www.cbo.gov/publication/43750

Option 43—Revenues

Tax Carried Interest as Ordinary Income

											Total	
Billions of Dollars	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2023–2027	2023–2032
Decrease (-) in the Deficit	-0.9	-1.3	-1.2	-1.1	-1.1	-1.1	-1.2	-1.2	-1.2	-1.2	-5.6	-11.5

Data source: Staff of the Joint Committee on Taxation.

This option would take effect in January 2023.

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.

Related Option in This Volume: Option 37, "Raise the Tax Rates on Long-Term Capital Gains and Qualified Dividends by 2 Percentage Points" (page 45)

Related Option in *Options for Reducing the Deficit, 2023 to 2032—Volume I: Larger Reductions*, www.cbo.gov/publication/58164: Option 13, "Increase Individual Income Tax Rates"

Related CBO Publication: Testimony of Peter R. Orszag, Director, before the House Committee on Ways and Means, *The Taxation of Carried Interest* (September 6, 2007), www.cbo.gov/publication/19113

Option 44—Revenues

Include VA's Disability Payments in Taxable Income

											Total	
Billions of Dollars	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2023–2027	2023–2032
Decrease (-) in the Deficit	-1.3	-12.6	-12.6	-14.2	-17.7	-18.8	-20.7	-19.7	-21.0	-22.2	-58.4	-160.8

Data source: Staff of the Joint Committee on Taxation.

This option would take effect in January 2023.

The Department of Veterans Affairs (VA) provides disability compensation to veterans with medical conditions or injuries that occurred or worsened during active-duty service. By law, VA's disability ratings (the basis for disability payments) are to be based, as far as practicable, on the average earnings that veterans would be expected to lose given the severity of their service-connected medical conditions or injuries, whether or not a particular veteran's condition reduced his or her earnings. Disability compensation is not means-tested (that is, restricted to those with income below a certain amount), and payments are exempt from income taxes. Payments are in the form of monthly annuities and typically continue until the beneficiary's death.

This option would include VA's disability benefit payments in taxable income.

Related Options in This Volume: Option 15, "End VA's Individual Unemployability Payments to Disabled Veterans at the Full Retirement Age for Social Security" (page 20), Option 16, "Reduce VA's Disability Benefits for Veterans Who Are Older Than the Full Retirement Age for Social Security" (page 21), Option 17, "Narrow Eligibility for VA's Disability Compensation by Excluding Veterans With Low Disability Ratings" (page 22)

Related Option in *Options for Reducing the Deficit, 2023 to 2032—Volume I: Larger Reductions*, www.cbo.gov/publication/58164: Option 10, "Reduce Spending on Other Mandatory Programs"

Related CBO Publication: *Veterans' Disability Compensation: Trends and Policy Options* (August 2014), www.cbo.gov/publication/45615

Option 45—Revenues

Further Limit Annual Contributions to Retirement Plans

Billions of Dollars	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	Total 2023–2027	Total 2023–2032
Decrease (-) in the Deficit	-9.2	-12.7	-13.1	-14.4	-15.8	-16.9	-17.4	-17.5	-17.5	-17.8	-65.2	-152.3

Data source: Staff of the Joint Committee on Taxation.

This option would take effect in January 2023.

To the extent that the option would affect Social Security payroll taxes, a portion of the decrease in the deficit would be off-budget. In addition, the option would increase outlays for Social Security by a small amount. The estimates do not include those effects on outlays.

Current law allows taxpayers to make contributions to certain types of tax-preferred retirement plans up to a maximum annual amount that varies depending on the type of plan and the age of the taxpayer. The most common such plans are defined contribution plans (any plan that does not guarantee a particular benefit amount upon retirement) and individual retirement accounts (IRAs). Defined contribution plans are sponsored by employers. Some—most commonly, 401(k) plans—accept contributions by employees; others are funded entirely by the employer. IRAs are established and funded by the participants themselves. Traditional tax-preferred retirement plans allow participants to exclude contributions from their taxable income and defer the payment of taxes until they withdraw funds. Contributions to Roth retirement plans, by contrast, cannot be excluded from taxable income but are not subject to tax when withdrawn.

People under the age of 50 may contribute up to $20,500 to 401(k) and similar employment-based plans in 2022; participants ages 50 and above are also allowed to make “catch-up” contributions of up to $6,500. Contributions to 457(b) plans, which are available primarily to employees of state and local governments, are subject to a separate limit. Employers may also contribute to their workers’ defined contribution plans, up to a maximum of $61,000 per person in 2022, minus any contributions made by the employee.

Under current law, combined contributions to traditional and Roth IRAs are limited to $6,000 for taxpayers under the age of 50. People age 50 or older can make additional catch-up contributions of up to $1,000. Taxpayers with income above certain thresholds are not allowed to contribute to Roth IRAs. However, some participants can circumvent those limits by contributing to a traditional IRA and then converting it to a Roth IRA. Annual contribution limits for all types of plans (except IRA catch-up contributions) are adjusted, or indexed, to include the effects of inflation.

Under this option, a participant’s maximum allowable contributions would be reduced to $17,500 per year for 401(k)–type plans and $5,000 per year for IRAs, regardless of the person’s age. The option would also require that all contributions to employment-based plans—including 457(b) plans—be subject to a single combined limit. Total allowable employer and employee contributions to a defined contribution plan would be reduced from $61,000 per year to $51,000. As under current law, those limits would be indexed. Finally, conversions of traditional IRAs to Roth IRAs would not be permitted for taxpayers whose income is above the top threshold for making Roth contributions.

Option 46—Revenues

Eliminate Certain Tax Preferences for Education Expenses

Billions of Dollars	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	Total 2023–2027	Total 2023–2032
Decrease (-) in the Deficit	-2.9	-14.4	-14.2	-14.1	-14.2	-14.0	-13.8	-13.6	-13.4	-13.2	-59.8	-127.7

Data source: Staff of the Joint Committee on Taxation.

This option would take effect in January 2023.

These estimates are relative to a baseline that does not reflect the effects of the Administration's recent proposed changes to student loan forgiveness and income-driven repayment plans.

Certain tax preferences, including two tax credits, directly support students pursuing higher education. First, the American Opportunity Tax Credit (AOTC) covers qualifying educational expenses for up to four years of postsecondary education. In 2022, the AOTC can total as much as $2,500 per student and is partially refundable—that is, families whose income tax liability (before the credit is applied) is less than the total amount of the credit may receive a portion of the credit as a payment. (Such payments are classified as outlays in the federal budget.) Second, the nonrefundable Lifetime Learning Tax Credit provides up to $2,000 per tax return per year for qualifying tuition and fees. The two credits are available to taxpayers whose income is below certain thresholds.

This option would eliminate the AOTC and the Lifetime Learning Tax Credit.

Related Options in This Volume: Option 5, "Eliminate the Add-On to Pell Grants, Which Is Funded With Mandatory Spending" (page 9), Option 31, "Tighten Eligibility for Pell Grants" (page 37)

Related CBO Publication: *Distribution of Federal Support for Students Pursuing Higher Education in 2016* (June 2018), www.cbo.gov/publication/53732

Option 47—Revenues

Lower the Investment Income Limit for the Earned Income Tax Credit and Extend That Limit to the Refundable Portion of the Child Tax Credit

Billions of Dollars	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	Total 2023–2027	Total 2023–2032
Decrease (-) in the Deficit	*	-1.3	-1.3	-1.3	-1.2	-1.2	-1.2	-1.3	-1.3	-1.3	-5.1	-11.6

Data source: Staff of the Joint Committee on Taxation.

This option would take effect in January 2023.

* = between -$50 million and zero.

People with low or moderate income are eligible for certain refundable tax credits if they meet specified criteria. Refundable tax credits differ from other tax preferences, such as deductions, in that their value may exceed the amount of income taxes that the person owes. If the amount of a refundable tax credit exceeds a person's tax liability before that credit is applied, the government pays the excess to that person. Refundable tax credits thus can result in net payments from the government to a taxpayer, and those payments are classified as outlays in the federal budget. Two refundable tax credits are available only to workers: the earned income tax credit (EITC) and the refundable portion of the child tax credit (referred to in the tax code as the additional child tax credit).

To qualify for the EITC and the refundable portion of the child tax credit, people must meet several income requirements. First, they must have income from wages, salaries, or self-employment. Second, their income cannot exceed certain thresholds, which vary according to family characteristics. Finally, for the EITC only, eligibility is restricted to filers with investment income below a certain threshold. In 2022, that threshold is $10,300. (Investment income comprises interest, including tax-exempt interest; dividends; capital gains; royalties and rents from personal property; and returns from passive activities—that is, business pursuits in which the person is not actively involved.)

This option would lower the EITC threshold for investment income to $1,800. As under current law, that threshold would be adjusted, or indexed, to include the effects of inflation. Moreover, the option would extend the investment threshold to the refundable portion of the child tax credit.

Related Option in This Volume: Option 48, "Require People Who Claim the Earned Income Tax Credit and Child Tax Credit to Have a Social Security Number That Is Valid for Employment" (page 56)

Related CBO Publications: *The Distribution of Major Tax Expenditures in 2019* (October 2021), www.cbo.gov/publication/57413; *Marginal Federal Tax Rates on Labor Income, 1962 to 2028* (January 2019), www.cbo.gov/publication/54911; *Effective Marginal Tax Rates for Low- and Moderate-Income Workers in 2016* (November 2015), www.cbo.gov/publication/50923; *Growth in Means-Tested Programs and Tax Credits for Low-Income Households* (February 2013), www.cbo.gov/publication/43934; *Refundable Tax Credits* (January 2013), www.cbo.gov/publication/43767

Option 48—Revenues

Require People Who Claim the Earned Income Tax Credit and Child Tax Credit to Have a Social Security Number That Is Valid for Employment

											Total	
Billions of Dollars	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2023–2027	2023–2032
Decrease (-) in the Deficit	-0.1	-2.8	-2.7	-2.7	-2.6	-2.8	-2.8	-2.7	-2.7	-2.6	-10.9	-24.5

Data source: Staff of the Joint Committee on Taxation.

This option would take effect in January 2023.

The earned income tax credit (EITC) and the child tax credit both provide assistance to certain taxpayers with low or moderate income, but the eligibility rules differ. Most EITC claimants and their qualifying children must have a Social Security number that is issued by the Social Security Administration solely to people authorized to work in the United States. (However, there are exceptions for some Social Security numbers issued before 2003.) By contrast, eligibility for the child tax credit currently requires only the qualifying child to have a Social Security number that is valid for employment purposes. After 2025, noncitizens will be able to claim the credit if they and their qualifying child have a Social Security number (with no restriction on the reason for issuance) or individual taxpayer identification number, which are issued by the Internal Revenue Service (IRS) to anyone who is required to file a tax return but cannot obtain a Social Security number.

Under this option, people who are not authorized to work in the United States would not be eligible for either the EITC or the child tax credit. For both credits, taxpayers, spouses, and qualifying children would be required to have a Social Security number issued to U.S. citizens and noncitizens authorized to work in the United States. The IRS would be authorized to deny the credits using "mathematical and clerical error" (math error) procedures when taxpayers and their children did not have Social Security numbers that were valid for employment purposes. Using math error procedures prevents the credits from being paid to those taxpayers and does not require the IRS to take further action, although the taxpayers retain the right to dispute the IRS's determination.

Related Option in This Volume: Option 47, "Lower the Investment Income Limit for the Earned Income Tax Credit and Extend That Limit to the Refundable Portion of the Child Tax Credit" (page 55)

Related CBO Publications: *How Dependents Affect Federal Income Taxes* (January 2020), www.cbo.gov/publication/56004; *How Changes in Immigration Policy Might Affect the Federal Budget* (January 2015), www.cbo.gov/publication/49868; *Growth in Means-Tested Programs and Tax Credits for Low-Income Households* (February 2013), www.cbo.gov/publication/43934; *Refundable Tax Credits* (January 2013), www.cbo.gov/publication/43767

Option 49—Revenues

Expand Social Security to Include Newly Hired State and Local Government Employees

Billions of Dollars	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	Total 2023–2027	Total 2023–2032
Decrease (-) in the Deficit	-1.7	-4.1	-6.6	-9.3	-12.2	-14.7	-17.0	-19.5	-22.2	-24.2	-33.9	-131.5

Data source: Staff of the Joint Committee on Taxation.

This option would take effect in January 2023.

An offset to reflect reduced income and payroll taxes has been applied to the estimates in this table.

The decrease in the deficit would consist of an increase in receipts from Social Security payroll taxes (which would be off-budget), offset in part by a reduction in individual tax revenues (which would be on-budget). In addition, the option would increase outlays for Social Security by a small amount in the short term. The estimates do not include those effects on outlays.

Under federal law, state and local governments can opt out of enrolling their employees in the Social Security program if they provide a separate retirement plan for those workers. As a result, about a quarter of workers employed by state and local governments are not covered by Social Security.

Under this option, Social Security coverage would be expanded to include all state and local government employees hired after December 31, 2022. Consequently, all newly hired state and local government employees would pay the Social Security payroll tax. Expanding Social Security coverage to all newly hired state and local government employees would have little impact on the federal government's spending for Social Security in the short term; therefore, the 10-year estimates shown above do not include any effects on outlays. The increased outlays for Social Security would grow in the following decades and would partly offset the additional revenues generated by newly covered employees.

Related CBO Publications: *CBO's Use of the Income and Payroll Tax Offset in Its Budget Projections and Cost Estimates* (October 2022), www.cbo.gov/publication/58421; *The 2022 Long-Term Budget Outlook* (July 2022), www.cbo.gov/publication/57971; *CBO's 2019 Long-Term Projections for Social Security: Additional Information* (September 2019), www.cbo.gov/publication/55590; *Social Security Policy Options, 2015* (December 2015), www.cbo.gov/publication/51011

Option 50—Revenues

Increase the Corporate Income Tax Rate by 1 Percentage Point

											Total	
Billions of Dollars	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2023–2027	2023–2032
Decrease (-) in the Deficit	-8.2	-11.2	-11.3	-12.6	-13.3	-13.8	-14.2	-14.5	-14.8	-15.4	-56.6	-129.3

Data source: Staff of the Joint Committee on Taxation.

This option would take effect in January 2023.

The U.S. statutory corporate income tax rate is 21 percent.

This option would increase the corporate income tax rate by 1 percentage point, to 22 percent.

Option 51—Revenues

Repeal the "Last In, First Out" Approach to Inventory Identification and the "Lower of Cost or Market" and "Subnormal Goods" Methods of Inventory Valuation

Billions of Dollars	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	Total 2023–2027	Total 2023–2032
Decrease (-) in the Deficit	-10.1	-20.2	-20.3	-20.3	-11.0	-1.6	-1.7	-1.7	-1.7	-1.8	-81.9	-90.4

Data source: Staff of the Joint Committee on Taxation.

This option would take effect in January 2023.

To compute its taxable income, a business must first deduct from its receipts the cost of purchasing or producing the goods it sold during the year. Most companies calculate the cost of those goods by adding the value of the inventory at the beginning of the year to the cost of goods purchased or produced during the year, and then subtracting from that total the value of the inventory at the end of the year. To determine the value of its year-end inventory, a business must distinguish between goods that were sold from inventory that year and goods that remain in inventory.

Businesses can choose among several approaches to identify and determine the value of items in their inventory. Under one approach, the specific-identification approach, firms itemize and value goods by tracking each item in inventory and matching it to its actual cost. Other approaches do not require firms to track specific items. The "last in, first out" (LIFO) approach permits them to assume that the last goods added to the inventory were the first ones sold; the "first in, first out" (FIFO) approach allows them to assume that the first goods added to their inventory were the first ones sold.

Firms that use the FIFO approach or the specific-identification approach can then value their inventory using the "lower of cost or market" (LCM) method. The LCM method allows firms to use the current market value of an item (that is, the current-year cost to reproduce or repurchase it) in their calculation of year-end inventory values if that market value is less than the cost assigned to the item. In addition, businesses can qualify for the "subnormal goods" method of inventory valuation, which allows a company to value its inventory below cost if its goods cannot be sold at cost because they are damaged or flawed.

This option would eliminate the LIFO approach to identifying inventory, as well as the LCM and subnormal-goods methods of inventory valuation. Businesses would be required to use either the specific-identification or the FIFO approach to account for goods in their inventory and to set the value of that inventory on the basis of cost. Those changes would be phased in over a period of four years.

Option 52—Revenues

Require Half of Advertising Expenses to Be Amortized Over 5 or 10 Years

Billions of Dollars	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	Total 2023–2027	Total 2023–2032
Decrease (-) in the Deficit												
Require half of advertising expenses to be amortized over 5 years	-13.4	-19.6	-14.7	-10.0	-4.7	-2.5	-2.6	-2.8	-2.9	-3.0	-62.4	-76.3
Require half of advertising expenses to be amortized over 10 years	-14.1	-22.5	-20.8	-19.7	-18.3	-16.3	-14.1	-11.9	-9.5	-7.0	-95.4	-154.2

Data source: Staff of the Joint Committee on Taxation.

This option would take effect in January 2023.

Business expenses can generally be categorized as either investments, which create assets whose value persists over a multiyear period, or current expenses, which go toward goods or services whose value dissipates during the first year after they are purchased. The two categories are often treated differently for tax purposes: Current expenses can be deducted from income in the year they are incurred, but some investment costs, such as the cost of constructing buildings, must be deducted over a multiyear period. Advertising is treated by the tax system as a current expense; its costs can therefore be immediately deducted, even in cases in which it creates longer-term value.

This option consists of two alternatives. Both would recognize half of advertising expenses as immediately deductible current expenses. The other half would be treated as an investment in brand image and would be amortized over a period of years. Under the first alternative, that period of amortization would be 5 years; under the second alternative, it would be 10 years.

Related CBO Publication: *How Taxes Affect the Incentive to Invest in New Intangible Assets* (November 2018), www.cbo.gov/publication/54648

Option 53—Revenues

Repeal the Low-Income Housing Tax Credit

											Total	
Billions of Dollars	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2023–2027**	**2023–2032**
Decrease (-) in the Deficit	-0.2	-0.9	-2.3	-4.2	-6.1	-8.2	-10.3	-12.6	-14.9	-17.1	-13.7	-76.8

Data source: Staff of the Joint Committee on Taxation.

This option would take effect in January 2023.

Real estate developers who provide rental housing to people with low income may qualify for low-income housing tax credits (LIHTCs), which are designed to encourage investment in affordable housing. The credits, which can be used to reduce the federal income tax liability of the developer or an investor in the project over a period of 10 years, cover a portion of the costs of constructing new housing units or substantially rehabilitating existing units. For a property to qualify for the credits, developers must agree to meet two requirements for at least 30 years. First, they must set aside a certain percentage of rental units for people whose income is below a certain threshold. Second, they must agree to limit the rent they charge on the units occupied by low-income people.

This option would repeal the LIHTC, although real estate investors could continue to claim credits granted before 2023 until those credits expired.

Related Option in This Volume: Option 41, “Eliminate the Tax Exemption for New Qualified Private Activity Bonds” (page 49)

Related CBO Publication: *Federal Housing Assistance for Low-Income Households* (September 2015), www.cbo.gov/publication/50782

Option 54—Revenues

Increase All Taxes on Alcoholic Beverages to $16 per Proof Gallon and Index Them for Inflation

Billions of Dollars	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	Total 2023–2027	Total 2023–2032
Decrease (-) in the Deficit												
Increase tax	-6.6	-8.9	-9.2	-9.2	-9.4	-9.5	-9.6	-9.7	-9.8	-9.9	-43.3	-91.8
Increase tax and index for inflation	-6.6	-9.6	-10.5	-10.9	-11.4	-12.0	-12.5	-13.0	-13.5	-14.1	-49.0	-114.1

Data source: Staff of the Joint Committee on Taxation.

This option would take effect in January 2023.

An offset to reflect reduced income and payroll taxes has been applied to the estimates in this table.

Alcoholic beverages are not taxed uniformly: Beer (including other malt beverages and most hard seltzers) and wine (including ciders) are taxed by volume, whereas distilled spirits are taxed by alcohol content. After accounting for alcohol by volume, the alcohol content of beer and wine is taxed at a lower rate than the alcohol content of distilled spirits. The highest tax rate on distilled spirits is $13.50 per proof gallon. (A proof gallon is a liquid gallon that is 50 percent alcohol by volume.) A tax rate of $13.50 per proof gallon translates to about 21 cents per ounce of pure alcohol. The general tax on beer is equivalent to about 9 cents per ounce of pure alcohol, and the general tax on wine is about 6 cents per ounce of pure alcohol.

Several factors affect how specific alcoholic beverages are taxed. Tax rates are generally lower for quantities of alcoholic beverages below certain thresholds for producers of all sizes. Wines with higher volumes of alcohol and sparkling wines face a higher tax per gallon. Additionally, specific provisions of tax law can lower the effective tax rate on small quantities of beer for certain small producers. Finally, small volumes of beer and wine that are produced for personal or family use are exempt from taxation.

This option consists of two alternatives. The first alternative would standardize the base on which the federal excise tax is levied by using the proof gallon as the measure for all alcoholic beverages. The tax rate would be raised to $16 per proof gallon, or 25 cents per ounce of pure alcohol. The first alternative would also eliminate the provisions of law that allow for reduced tax rates below certain thresholds and that lower effective tax rates for small producers, thus making the tax rate equal for all producers and quantities of alcohol. The second alternative would also raise the tax rate to $16 per proof gallon and eliminate the provisions that lower effective tax rates, but it would adjust, or index, the tax for the effects of inflation each year. Under both alternatives, exporters of alcoholic beverages would no longer be able to claim drawbacks (or refunds) of excise taxes on beverages for which they have not paid such taxes. (That ability was created by a recent court ruling.)

Related Option in This Volume: Option 55, "Increase Excise Taxes on Tobacco Products" (page 63)

Related CBO Publication: *CBO's Use of the Income and Payroll Tax Offset in Its Budget Projections and Cost Estimates* (October 2022), www.cbo.gov/publication/58421

Option 55—Revenues

Increase Excise Taxes on Tobacco Products

Billions of Dollars	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	Total 2023–2027	Total 2023–2032
Change in Outlays	*	*	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.3	-0.9
Change in Revenues	3.1	4.1	4.1	4.1	4.1	4.2	4.3	4.4	4.4	4.5	19.6	41.4
Decrease (-) in the Deficit	-3.1	-4.2	-4.2	-4.2	-4.3	-4.3	-4.4	-4.5	-4.6	-4.6	-19.9	-42.3

Data sources: Staff of the Joint Committee on Taxation; Congressional Budget Office.

This option would take effect in January 2023.

An offset to reflect reduced income and payroll taxes has been applied to the estimates in this table.

* = between -$50 million and zero.

The federal government taxes tobacco products, including cigarettes, cigars, pipe tobacco, and roll-your-own tobacco. The federal excise tax on cigarettes is just over $1.00 per pack. Large cigars are taxed at 52.75 percent of the manufacturer's sales price, with a maximum tax of 40.26 cents per cigar. Pipe and roll-your-own tobacco are taxed at $2.83 and $24.78 per pound, respectively.

This option would make several changes to the federal excise taxes on tobacco products. It would raise the federal excise tax on all tobacco products by 50 percent. In addition, it would raise the tax on pipe tobacco to equal that for roll-your-own tobacco and set a minimum tax rate on large cigars equal to the tax rate on cigarettes. Under this option, exporters of tobacco products would no longer be able to claim drawbacks (or refunds) of excise taxes on tobacco products for which they have not paid such taxes. (That ability was created by a recent court ruling.) This option would also reduce mandatory outlays, mainly because improvements in people's health would lead to reduced spending for Medicaid and Medicare.

Related Option in This Volume: Option 54, "Increase All Taxes on Alcoholic Beverages to $16 per Proof Gallon and Index Them for Inflation" (page 62)

Related CBO Publications: *CBO's Use of the Income and Payroll Tax Offset in Its Budget Projections and Cost Estimates* (October 2022), www.cbo.gov/publication/58421; *Raising the Excise Tax on Cigarettes: Effects on Health and the Federal Budget* (June 2012), www.cbo.gov/publication/43319

Option 56—Revenues

Increase Excise Taxes on Motor Fuels and Index Them for Inflation

Billions of Dollars	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	Total 2023–2027	Total 2023–2032
Decrease (-) in the Deficit	-14.9	-21.8	-22.8	-23.2	-23.9	-24.8	-25.8	-26.7	-27.7	-28.6	-106.6	-240.1

Data source: Staff of the Joint Committee on Taxation.

This option would take effect in January 2023.

An offset to reflect reduced income and payroll taxes has been applied to the estimates in this table.

Since 1993, federal excise tax rates on traditional motor fuels have been set at 18.4 cents per gallon of gasoline and 24.4 cents per gallon of diesel fuel. The revenues from those taxes are credited to the Highway Trust Fund to pay for highway construction and maintenance as well as for investment in mass transit. (A small portion of the fuel tax—0.1 cent per gallon—is credited to the Leaking Underground Storage Tank Trust Fund.) Those tax rates are not adjusted for inflation.

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.

Related CBO Publications: *CBO's Use of the Income and Payroll Tax Offset in Its Budget Projections and Cost Estimates* (October 2022), www.cbo.gov/publication/58421; *Reauthorizing Federal Highway Programs: Issues and Options* (May 2020), www.cbo.gov/publication/56346; *Issues and Options for a Tax on Vehicle Miles Traveled by Commercial Trucks* (October 2019), www.cbo.gov/publication/55688; *Approaches to Making Federal Highway Spending More Productive* (February 2016), www.cbo.gov/publication/50150; *How Would Proposed Fuel Economy Standards Affect the Highway Trust Fund?* (May 2012), www.cbo.gov/publication/43198

Option 57—Revenues

Impose a Tax on Financial Transactions

Billions of Dollars	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	Total 2023–2027	Total 2023–2032
Increase or Decrease (-) in the Deficit	10.9	-9.2	-23.2	-29.5	-31.9	-33.3	-34.7	-36.1	-37.5	-39.0	-82.9	-263.7

Data source: Staff of the Joint Committee on Taxation.

This option would take effect in January 2024, although an increase in the deficit would occur earlier because of an immediate reduction in the value of financial assets.

An offset to reflect reduced income and payroll taxes has been applied to the estimates in this table.

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.

This option would impose a tax on the purchase of most securities and on transactions involving derivatives (contracts requiring one or more payments that are calculated by reference to the change in an observable variable). For purchases of stocks, bonds, and other debt obligations, the tax generally would be 0.01 percent of the value of the security. For purchases of derivatives, the tax would be 0.01 percent of all payments made under the terms of the contract, including the price paid when the contract was written, any periodic payments, and any amount paid when the contract expired. The tax would not apply to the initial issuance of stock or debt securities, transactions of debt obligations with fixed maturities of no more than 100 days, or currency transactions (although transactions involving currency derivatives would be taxed). It would be imposed on transactions that occurred within the United States and on transactions that took place outside the country and involved at least one U.S. taxpayer (whether a corporation, partnership, citizen, or resident).

Related Option in This Volume: Option 37, "Raise the Tax Rates on Long-Term Capital Gains and Qualified Dividends by 2 Percentage Points" (page 45)

Related CBO Publication: *CBO's Use of the Income and Payroll Tax Offset in Its Budget Projections and Cost Estimates* (October 2022), www.cbo.gov/publication/58421

Option 58—Revenues

Increase Certain Fees Charged by U.S. Citizenship and Immigration Services and Customs and Border Protection by 20 Percent

Billions of Dollars	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	Total 2023–2027	Total 2023–2032
Decrease (-) in the Deficit												
USCIS fees	0	-0.2	-0.6	-0.6	-0.6	-0.6	-0.6	-0.6	-0.6	-0.6	-2.1	-5.2
CBP fees[a]	0	-0.2	-0.6	-0.7	-0.7	-0.7	-0.7	-0.8	-0.8	-0.1	-2.2	-5.4
Total	0	-0.4	-1.3	-1.3	-1.3	-1.3	-1.4	-1.4	-1.5	-0.8	-4.2	-10.6

This option would take effect in October 2023.

An offset to reflect reduced income and payroll taxes has been applied to the estimates in this table.

CBP = Customs and Border Protection; USCIS = U.S. Citizenship and Immigration Services.

a. The decrease in the deficit in 2032 is smaller than in other years because, under current law, certain fees collected by CBP—the Consolidated Omnibus Budget Reconciliation Act (COBRA) customs fees and merchandise processing fees—expire at the end of 2031.

U.S. Citizenship and Immigration Services (USCIS) and U.S. Customs and Border Protection (CBP) are agencies within the Department of Homeland Security that oversee lawful immigration and work to prevent unlawful entry into the United States. USCIS assesses fees on immigration and naturalization applicants and collected about $5.2 billion in fees in 2021. CBP collected about $3.6 billion in user fees in 2021, including fees for merchandise processing. The fees serve as an important funding source for both agencies, and under current law, both have the authority to spend most fees they collect to support their operations without further appropriation. The Congressional Budget Office projects that CBP's fees will grow at a faster rate than USCIS's over the 2023–2032 period.

This option would introduce a 20 percent surcharge on some fees assessed by UCSIS: immigration examinations fees, H-1B nonimmigrant petitioner fees for highly skilled foreign workers, and fraud prevention and detection fees. It would add the same surcharge to certain fees collected by CBP; those fees are immigration inspection user fees, the Consolidated Omnibus Budget Reconciliation Act (COBRA) customs fees, and merchandise processing fees. Unlike the current fees, many of which are spent for the agencies' operational costs, the revenue from the new surcharge would remain with the Treasury, thereby reducing the federal deficit.

Related CBO Publication: *CBO's Use of the Income and Payroll Tax Offset in Its Budget Projections and Cost Estimates* (October 2022), www.cbo.gov/publication/58421

Option 59—Revenues

Increase Federal Civilian Employees' Contributions to the Federal Employees Retirement System

Billions of Dollars	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	Total 2023–2027	Total 2023–2032
Decrease (-) in the Deficit	-1.4	-2.8	-4.1	-5.4	-5.3	-5.2	-5.1	-5.0	-4.9	-4.7	-18.9	-43.8

This option would take effect in January 2023.

The federal government provides most of its civilian employees with a defined benefit retirement plan through the Federal Employees Retirement System (FERS). The plan provides eligible retirees with a monthly benefit in the form of an annuity. Those annuities are jointly funded by the employees and the federal agencies that hire them. Employees' contributions are counted as federal revenues. Over 98 percent of federal employees participate in FERS, and most of them contribute 0.8 percent of their salary toward their future annuity. However, the contribution rates for employees hired in 2013 or later are generally higher: Most employees hired in 2013 contribute 3.1 percent, and most hired in 2014 or later contribute 4.4 percent.

Under this option, most employees enrolled in FERS would contribute 4.4 percent of their salary toward their retirement annuity. The increase in the contribution rates (of 3.6 percentage points for employees who enrolled in FERS before 2013 and 1.3 percentage points for those who enrolled in 2013) would be phased in over four years. The dollar amount of future annuities would not change under the option, and the option would not affect employees hired in 2014 or later who already contribute 4.4 percent. Agencies' contributions would remain the same under the option.

Related CBO Publications: Justin Falk and Nadia Karamcheva, *Comparing the Effects of Current Pay and Defined Benefit Pensions on Employee Retention*, Working Paper 2018-06 (June 2018), www.cbo.gov/publication/54056; *Options for Changing the Retirement System for Federal Civilian Workers* (August 2017), www.cbo.gov/publication/53003; *Comparing the Compensation of Federal and Private-Sector Employees, 2011 to 2015* (April 2017), www.cbo.gov/publication/52637

About This Document

At the request of the House and Senate Committees on the Budget, the Congressional Budget Office periodically issues a compendium of budget options to help inform federal lawmakers about the implications of possible policy choices that would reduce the deficit. This year, the report is presented in two volumes. This volume, *Options for Reducing the Deficit, 2023 to 2032—Volume II: Smaller Reductions*, contains short descriptions of 59 options that would each reduce the deficit by less than $300 billion over the next 10 years. *Options for Reducing the Deficit, 2023 to 2032—Volume I: Larger Reductions* (www.cbo.gov/publication/58164) contains detailed descriptions of 17 options that would each reduce the deficit by more than $300 billion over that 10-year period or, in the case of Social Security options, would have a comparably large effect in later decades.

The options come from a variety of sources, including legislative proposals, budget proposals from various Administrations, Congressional staff, federal agencies, and private groups. The options are intended to reflect a range of possibilities rather than to rank priorities or present a comprehensive list. The inclusion or exclusion of a particular option does not represent an endorsement or a rejection by CBO. In keeping with CBO's mandate to provide objective, impartial analysis, this report makes no recommendations.

This volume is the result of work by more than 80 people at CBO, whose names are listed on the following pages, as well as by the staff of the Joint Committee on Taxation. This volume of the report is available on CBO's website at www.cbo.gov/publication/58163.

CBO seeks feedback to make its work as useful as possible. Please send comments to communications@cbo.gov.

Phillip L. Swagel
Director
December 2022

Overview

The spending estimates that appear in this volume were prepared by the staff of CBO's Budget Analysis Division (supervised by Theresa Gullo, Leo Lex, Sam Papenfuss, Christina Hawley Anthony, Chad Chirico, Elizabeth Cove Delisle, Justin Humphrey, Paul Masi, Sarah Masi, David Newman, and Susan Willie); Health Analysis Division (supervised by Carrie H. Colla, Chapin White, Berna Demiralp, Tamara Hayford, and Alexandra Minicozzi); Financial Analysis Division (supervised by Sebastien Gay); and National Security Division (supervised by David Mosher and Edward G. Keating). Most of the estimates of tax provisions were prepared by the staff of the Joint Committee on Taxation, although some were done by CBO's Tax Analysis Division (supervised by John McClelland, Joseph Rosenberg, Edward Harris, and Joshua Shakin) and Budget Analysis Division.

The discussions of the options were written and reviewed by analysts and managers throughout CBO in the five divisions just mentioned, as well as in the Labor, Income Security, and Long-Term Analysis Division (supervised by Julie Topoleski, Molly Dahl, and Xiaotong Niu) and the Microeconomic Studies Division (supervised by Joseph Kile and Nicholas Chase). Vinay Maruri and Joshua Varcie helped fact-check this volume.

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Editing and Publishing

The editing and publishing of this volume were handled by CBO's editing and publishing group, supervised by Lora Engdahl and John Skeen, and the agency's communications team, supervised by Deborah Kilroe. Caitlin Verboon edited this volume, Jorge Salazar created the graphics and prepared the text for publication, and R. L. Rebach illustrated the cover. Annette Kalicki prepared the online version of budget options, and Elizabeth Ash prepared a consolidated table of the options to be posted online.