



## Insight

# CBO: FY 2025 Budget Deficit Totaled \$1.8 Trillion

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### Executive Summary

- The Congressional Budget Office (CBO) released its final Monthly Budget Review for fiscal year (FY) 2025, showing a \$1.8 trillion budget deficit for the year - the net effect of \$5.2 trillion of revenue collections and \$7.0 trillion of spending and an estimated 5.9 percent of gross domestic product (GDP).
- The FY 2025 deficit is \$8 billion lower than the \$1.8 trillion deficit recorded in FY 2024 and \$56 billion lower than the \$1.9 trillion deficit CBO projected in its most recent baseline.
- This reduction in the deficit can be explained by \$221 billion in greater mandatory and discretionary spending, \$80 billion in higher interest payments on the national debt, and \$308 billion in higher revenue collections.
- Interest payments on the national debt surpassed \$1 trillion, making net interest the second-largest federal government expenditure behind Social Security.

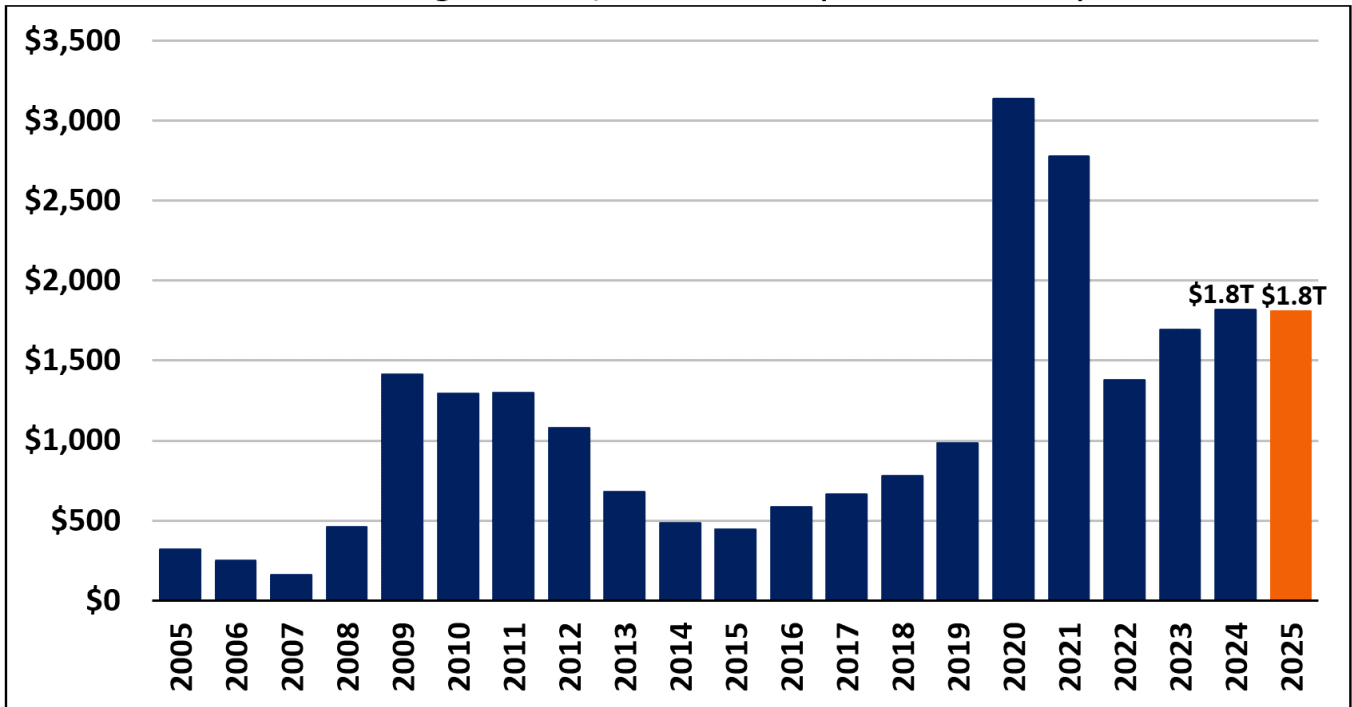
### A Closer Look at the \$1.8 Trillion FY 2025 Deficit

The Congressional Budget Office (CBO) has released its final [Monthly Budget Review](#) for fiscal year (FY) 2025, showing a \$1.8 trillion budget deficit for the year. The \$1.8 trillion deficit is the net effect of \$5.2 trillion of revenue collections and \$7.0 trillion of spending. The FY 2025 deficit is \$56 billion (3 percent) lower than the \$1.9 trillion deficit CBO projected in its [most recent baseline](#) and \$8 billion (0.4 percent) smaller than the [\\$1.8 trillion deficit](#) recorded in FY 2024.

As a share of the economy, the FY 2025 deficit was an estimated 5.9 percent of gross domestic product (GDP), 0.5 percentage points of GDP lower than the 6.4 percent of GDP FY

2024 deficit.

**Annual Budget Deficits, FY 2005–2025 (Billions of Dollars)**



Source: CBO.

The \$8 billion reduction in the deficit between FY 2024 and FY 2025 can be explained by \$221 billion in greater mandatory and discretionary spending, \$80 billion in higher interest payments on the national debt, and \$308 billion in higher revenue collections.

According to CBO, revenue collections increased by \$308 billion (6 percent) between FY 2024 and FY 2025, rising from \$4.9 trillion to \$5.2 trillion. As a share of the economy, revenue fell by an estimated 0.2 percentage points of GDP, from 17.1 percent of GDP to an estimated 16.9 percent of GDP.

Individual income tax revenue increased by \$239 billion (10 percent), from \$2.4 trillion to \$2.7 trillion, and payroll tax revenue rose by \$21 billion (1 percent). This was driven by a \$185 billion increase in the amounts withheld from workers' paychecks as wages and salaries grew, a \$95 billion increase in nonwithheld payments of individual income and payroll taxes, and a \$26 billion boost in individual income tax refunds.

Corporate income tax revenue declined by \$77 billion (15 percent), from \$530 billion to \$453 billion, driven in part by a provision in the One Big Beautiful Bill that allowed businesses to take larger tax deductions for certain investments in 2025. In addition, a delay in tax payments for corporations located in areas affected by natural disasters shifted

corporate income taxes that would've been collected in FY 2023 into FY 2024, thus inflating the amount of corporate income tax revenue collected in FY 2024.

Customs duties surged by \$118 billion (153 percent), from \$77 billion to \$195 billion, because of the Trump Administration's tariffs.

Revenue from other sources increased by \$7 billion (4 percent), from \$176 billion to \$183 billion. Specifically, excise tax revenue grew by \$3 billion (2 percent), from \$101 billion to \$104 billion. Remittances from the Federal Reserve to the U.S. Treasury increased by \$2 billion (75 percent), from \$3 billion to \$5 billion. Estate and gift tax revenue fell by \$2 billion (6 percent), from \$32 billion to \$30 billion. Other miscellaneous fees and fines rose by \$4 billion (10 percent), from \$40 billion to \$44 billion.

CBO estimates that federal spending increased by \$301 billion (4 percent) between FY 2024 and FY 2025, rising from \$6.7 trillion to \$7.0 trillion. As a share of the economy, spending fell by an estimated 0.6 percentage points of GDP, from 23.4 percent of GDP to an estimated 22.8 percent of GDP.

Social Security spending increased by \$121 billion (8 percent), from \$1.4 trillion to \$1.6 trillion, due to higher average benefit payments and an increase in Social Security beneficiaries. Medicare spending rose by \$117 billion (13 percent), from \$870 billion to \$987 billion, because of increased enrollment and higher payment rates for services. Medicaid spending increased by \$52 billion (8 percent), from \$618 billion to \$669 billion, due to higher per-enrollee costs.

Spending on refundable tax credits (including the Earned Income Tax Credit, the Child Tax Credit, and the Affordable Care Act's (ACA) Premium Tax Credits) rose by \$26 billion (13 percent), from \$199 billion to \$225 billion, primarily due to increased enrollment in health insurance purchased in the ACA marketplaces. Spending on veterans' benefits and services rose by \$53 billion (16 percent), from \$325 billion to \$378 billion, due to increased per-person spending and use of health care facilities by veterans. Environmental Protection Agency spending increased by \$23 billion (167 percent), from \$14 billion to \$37 billion, because of a disbursement of funds in November and December of 2024 for a grants program established by the Inflation Reduction Act.

Department of Education spending decreased by \$234 billion (87 percent), from \$268 billion to \$34 billion, for several reasons. One is an accounting maneuver in which the Trump Administration recorded a \$131 billion reduction in outlays in September to reflect the One Big Beautiful Bill's modifications to the federal student loan program. Another reason is a roughly \$50 billion reduction in the estimated costs of outstanding federal student loans.

The final reason is a \$42 billion reduction in spending from the Education Stabilization Fund.

Federal Deposit Insurance Corporation spending fell by \$63 billion (171 percent), from \$37 billion to -\$26 billion, and Small Business Administration spending decreased by \$32 billion (97 percent), from \$33 billion to \$1 billion.

Net interest payments on the national debt increased by \$80 billion (8 percent), from \$949 billion to \$1.0 trillion. Interest spending was the second-largest federal government expenditure, exceeded only by Social Security.

### **Looking Forward**

The \$1.8 trillion FY 2025 deficit, though ever so slightly smaller than the FY 2024 deficit, is evidence that reforms are needed to shore up Social Security and Medicare, raise additional revenue, curb wasteful government spending, and put the national debt on a sustainable long-term trajectory.