Insight

Highlights of CBO's 2024 Budget Options Report

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Executive Summary

- The Congressional Budget Office (CBO) has released its Options for Reducing the Deficit: 2025 to 2034 report, outlining 76 policy options and their 10-year impact on the federal budget.
- The policy options outlined in the report would save anywhere from $6 billion on the low end to $3.4 trillion over the fiscal year 2025–2034 budget window.
- A majority of the policy options featured in CBO's report are updated projections of the fiscal impact of long-standing policy solutions in important budgetary areas such as Social Security and Medicare.
- CBO's report shows that there are many options for policymakers to consider as they look for ways to reduce federal spending and to offset the cost of tax cut extensions.

Introduction

The Congressional Budget Office (CBO) has released its Options for Reducing the Deficit: 2025 to 2034 report that outlines 76 policy options and their impact on the federal budget over the fiscal year (FY) 2025–2034 budget window. The policy options CBO analyzed would reduce budget deficits by anywhere from $6 billion on the low end to $3.4 trillion over the FY 2025–2034 period. The report updates CBO's last set of budget options that was published in 2022 and includes a detailed explanation of each policy option, the 10-year impact of each option on deficits, and information about the economic and distributional effects of each option. CBO does not account for any interactions between the policy options.

The bulk of the policy options featured in CBO's report are updated projections of the

impact of long-standing policy solutions (many of which the American Action Forum included in its plan to address the nation's debt problem) in important budgetary areas such as Social Security and health care, though CBO does include several new policy options, including options to introduce site-neutral payments in Medicare. CBO did not include an estimate of a tariff policy option, which is notable given the prominence of tariffs in the incoming administration's agenda.

A Closer Look at CBO's 2024 Budget Options Report

The table below highlights several policy options in each major budgetary category. They show that there are many options for policymakers to consider, especially as they look for ways to reduce federal spending and to offset the cost of tax cut extensions.

Policy Option	**2025-2034 Savings**
Health Care	
Modify Medicare Advantage (MA) risk-adjustment policy	$1.0 trillion
Cap per-enrollee Medicaid spending growth at inflation	$893 billion
Cap overall Medicaid spending growth at inflation	$742 billion
Eliminate the safe harbor exception in Medicaid provider taxes	$612 billion
Remove the Federal Medical Assistance Percentage (FMAP) for enrollees made eligible by the Affordable Care Act	$561 billion
Remove the FMAP floor	$530 billion
Increase Medicare Part B premiums from 25 percent to 35 percent	$510 billion
Reduce MA benchmarks by 10 percent	$489 billion
Apply site-neutral payments to both on- and off-campus Hospital Outpatient Departments in Medicare	$157 billion
Change cost-sharing rules for Medicare and restrict Medigap insurance	$129 billion
Establish a grant program for Graduate Medical Education	$103 billion
Eliminate Medicare's coverage of bad debt	$54 billion
Social Security	

Set Social Security benefits to 125 percent of the federal poverty guidelines for new beneficiaries	$607 billion
Slow Social Security benefit growth for high-income seniors	$197 billion
Increase the Social Security normal retirement age from 67 to 70	$95 billion
Require Social Security Disability Insurance applicants to have worked more in recent years	$60 billion
Other Mandatory	
Means-test eligibility for VA disability compensation	$384 billion
Use the Chained Consumer Price Index to index Social Security and other federal programs	$278 billion
Discretionary	
Reduce the Department of Defense's annual budget	$1.1 trillion
Reduce nondefense discretionary spending by cutting one-third of funding for grants to state and local governments for transportation and education	$339 billion
Reduce international affairs spending	$187 billion
Individual Income Taxes	
Eliminate itemized deductions	$3.4 trillion
Impose a 1-percent surtax on Adjusted Gross Income(AGI) above $20,000 ($40,000 for couples)	$1.4 trillion
Increase all individual income tax rates by one percentage point	$1.2 trillion
Expand Net Investment Income Tax base to include pass-through business income	$420 billion
Limit charitable deduction to 2 percent of AGI	$348 billion
Eliminate head-of-household tax filing status	$209 billion
Replace stepped-up basis with carryover basis	$197 billion
Increase capital gains tax rates by two percentage points	$103 billion
Payroll Taxes	

Impose a 2-percent payroll tax on all income	$2.5 trillion
Subject income greater than $250,000 to the 12.4 percent Social Security payroll tax	$1.4 trillion
Corporate Taxes	
Tax all foreign incomes of U.S. corporations at 21-percent corporate tax rate	$340 billion
Raise the corporate tax rate from 21 percent to 22 percent	$136 billion
Other Taxes	
Impose a 5-percent value-added tax on most goods and services	$3.4 trillion
Impose a $25 per metric ton carbon tax and increase tax 5 percent annually, adjusted for inflation	$919 billion
Impose a financial transactions tax on the purchase of securities and derivatives	$297 billion
Increase gas tax by 15 cents per gallon, indexed annually for inflation	$212 billion
Increase taxes on alcoholic beverages to $16 per proof gallon, indexed annually to inflation	$102 billion

Source: CBO.

In conjunction with the release of the report, CBO also updated its interactive tool that includes the 76 policy options featured in the 2024 report as well as the fiscal impact of other policy options CBO has estimated.