



WHERE DO YOUR TAX DOLLARS GO?

NOTES AND SOURCES

April 2005

Breakdown of the Individual Income Tax Dollar: Your income taxes go towards the Federal funds budget, so this is the budget that has been broken down for the chart on page 1 of *Where Do Your Tax Dollars Go?* The total federal government budget includes the Federal funds and the trust funds budgets. Trust funds include Social Security, Railroad Retirement, and others. All numbers are derived from the tables of individual federal agency budgets as provided in the Office of Management and Budget (OMB), *Budget of the U.S. Government, FY2006, Appendix*, available at www.whitehouse.gov/omb/budget/fy2006/. The breakdown is for outlays (as opposed to budget authority) in fiscal year 2004, since this most closely corresponds to your tax filing. Total Federal funds outlays in 2004 were \$1,705,657 million. We have defined the categories on the bar chart as follows:

- Military and Defense (\$511.2 billion) includes the *function area* (referring to government categories) of *national defense*, plus the Department of Homeland Security, and most of *international military assistance*. Not all homeland security spending is included. A portion of homeland security spending cannot be identified in the tax dollar analysis as separate from other types of spending because of limitations in the data released by the OMB in the budget materials. Other homeland security spending would appear elsewhere in the budget, but would mainly fall into *transportation* (in *other* category on the chart). Adding in this amount would only marginally impact the percentages, and since we round off the numbers, the overall chart would not be changed. See below for more information.
- Health (\$345.8 billion) is the Federal funds portion of all health spending by the federal government, including the Federal funds spending on Medicare.
- Interest on the Debt (\$317.3 billion) refers to the interest payments paid on the national debt. The military share of the interest payment is based on the average historical share of *national defense* spending. Since interest payments are on the debt which has been accumulated over time, the allocation of shares between military and non-military spending takes this into account.
- Income Security (\$112.3 billion) includes Federal funds outlays on the *function area income security* with the exception of *housing assistance*, and *food and nutrition assistance*, which are separately illustrated on the graph. This category includes Supplemental Security Income (\$36.4 billion) which provides cash assistance to disabled, elderly and blind who have very low incomes; payments where Earned Income Tax Credit exceeds tax liability (\$33.1 billion); Temporary Assistance for Needy Families (\$17.7 billion); payments where child credit exceeds tax liability (\$8.9 billion); foster care and adoption assistance (\$6.3 billion); child care spending and a variety of other small programs for children and families.
- Education (\$62.6 billion) includes all Federal funds outlays on *elementary, secondary, and vocational education, higher education, and research and general education aids*, subfunctions defined by the government.

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- Veterans' Benefits and Services (\$58.6 billion) includes the Federal funds portion of the Department of Veterans' Affairs and any other Federal funds spending on the function area *veterans' benefits and services*.
- Nutrition (\$45.9 billion) includes any Federal funds outlays classified as *food and nutrition assistance*, including the Food Stamp program, all child nutrition programs (such as the National School Lunch Program) and others.
- Housing (\$36.6 billion) includes all Federal funds outlays defined by the federal government as *housing assistance*.
- Natural Resources and the Environment (\$29.4 billion) includes all spending on the government-defined function area *natural resources and the environment*.
- Job Training (\$6.7 billion) includes the total for *training and employment services* as defined by the government.
- Other (\$179.3 billion) includes everything else not list above and is comprised of the following function and subfunction areas: *international affairs* aside from most of *international security assistance* (included above in *military*); *general science, space and technology*; *energy*; *agriculture*; *commerce and housing credit*; *transportation*; *community and regional development*; *labor and social services* outside of *training and employment services*; *justice*; *general government*; and *undistributed offsetting receipts*.

Average Household Income Taxes: The average household income taxes were computed first by forecasting 2004 income levels by state, city, town and county based on data from the 1990 and 2000 Censuses. Then, the tax estimate was computed by assuming standard deductions and exemptions for a married couple with one dependent. No other deductions or credits were assumed. This methodology provided the best estimates consistent with available IRS data on income taxes paid by taxfilers. Additional data and statistics on income and taxes are available at: NPP Database – www.nationalpriorities.org/database; Census Bureau – www.census.gov; Internal Revenue Service – www.irs.gov.

Distribution of Security Dollars: Military (\$484.3 billion) is as above without the Department of Homeland Security. Homeland Security (\$29.3 billion) is based on the OMB, *Budget of the U.S. Government, FY2005, Mid-Session Review and the Public Database, FY2006*. There appears to be \$29 billion in discretionary outlays classified as homeland security, plus \$434 million in mandatory outlays minus \$163 million in trust funds in the DHS budget. Preventive measures (\$16.9 billion) refer to all non-military forms of international assistance.

Mortgage interest tax deduction: See Joint Committee on Taxation, 'Correction Of Error In Table 3 Of JCS-1-05, Estimates Of Federal Tax Expenditures For Fiscal Years 2005-2009,' March 17, 2005 at <http://www.house.gov/jct/x-13-05.pdf>.

Veterans' benefits: See Veterans' organizations alternative budget at www.pva.org/independentbudget/ .

The National Priorities Project creates reliable estimates using data culled from various sources, primarily the federal government. Much of the raw data are available through NPP's interactive database at www.nationalpriorities.org/database.