NATIONAL PRIORITIES PROJECT

Bringing the Federal Budget Home

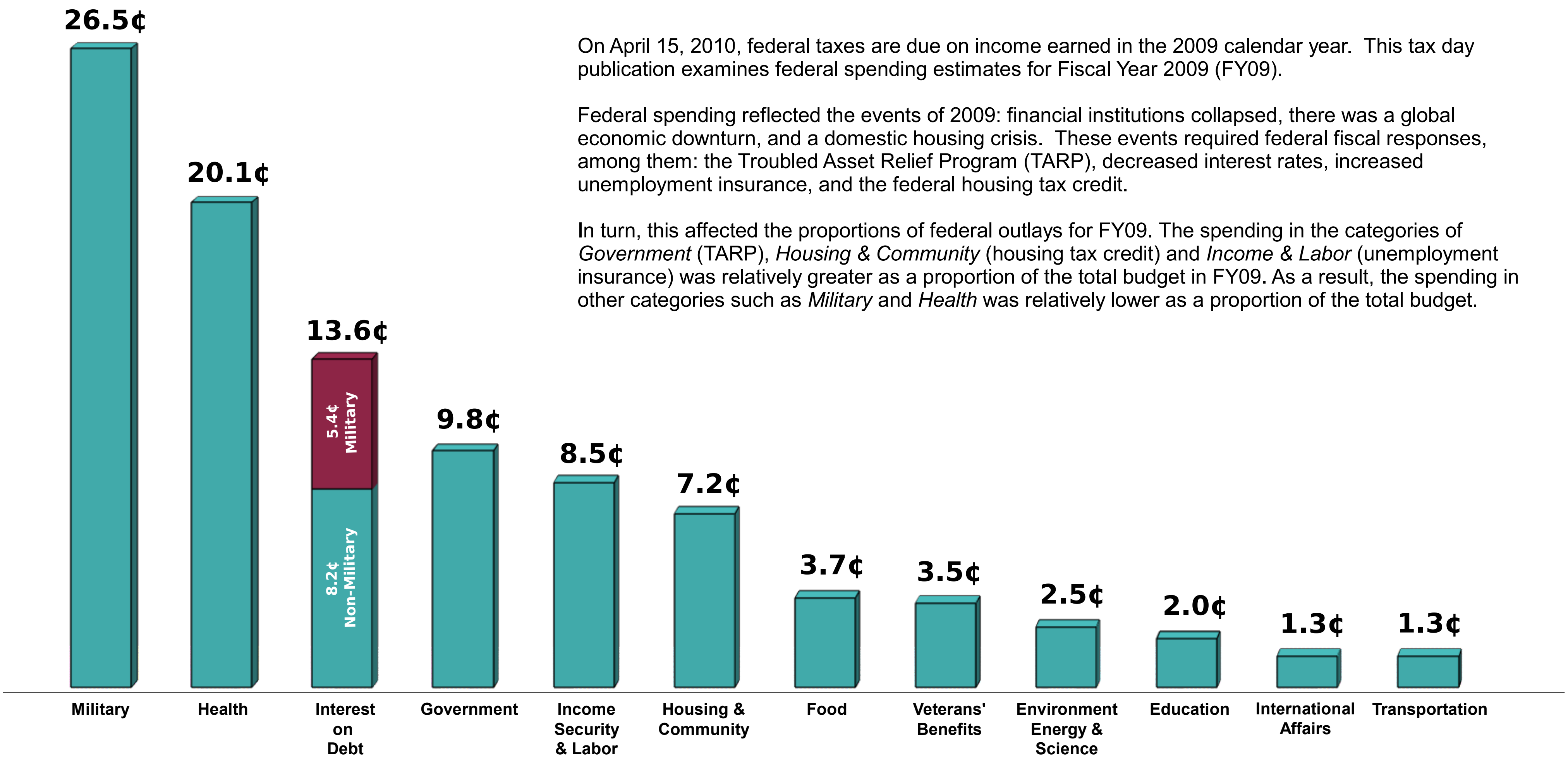
Where did your tax dollars go?

April 2010

On April 15, 2010, federal taxes are due on income earned in the 2009 calendar year. This tax day publication examines federal spending estimates for Fiscal Year 2009 (FY09).

Federal spending reflected the events of 2009: financial institutions collapsed, there was a global economic downturn, and a domestic housing crisis. These events required federal fiscal responses, among them: the Troubled Asset Relief Program (TARP), decreased interest rates, increased unemployment insurance, and the federal housing tax credit.

In turn, this affected the proportions of federal outlays for FY09. The spending in the categories of *Government* (TARP), *Housing & Community* (housing tax credit) and *Income & Labor* (unemployment insurance) was relatively greater as a proportion of the total budget in FY09. As a result, the spending in other categories such as *Military* and *Health* was relatively lower as a proportion of the total budget.



Federal Budget - The breakdown of the federal income tax dollar is based on an analysis of each agency's federal fund outlays according to function and subfunction for FY09. Agency budgets are from Budget of the United States Government, FY11, Analytical Perspectives and Public Budget Database FY11. These numbers include both mandatory and discretionary spending. *Interest on debt* - The proportion of the military debt was computed by (a) assessing national defense spending as a proportion of outlays less net interest for each year from 1940 to 2009, and (b) taking the average proportion over these years and applying it to the interest on the cumulative debt. *Military* includes National Defense, Atomic Energy Defense Activities, and International Security Assistance. *Health* includes Health and Medicare. *Income Security & Labor* includes job training, disability, retirement, unemployment insurance, and social security. *Housing & Community* includes housing assistance and credit, community development, and services supporting social needs. *Food* includes agriculture and nutritional assistance. *Government* includes commerce, law enforcement, overhead costs of the federal government and undistributed offsetting receipts. *International Affairs* includes diplomatic, development, and humanitarian activities abroad. Please see Notes & Sources online for this publication at http://www.nationalpriorities.org/TaxDay2010.

Where do revenues come from?

Revenues come from individual income taxes, FICA taxes, corporate taxes, excise taxes, estate and gift taxes, and other special collections as well as from borrowing. Revenues are categorized as either "trust funds" or "federal funds." Trust funds generated from, for example, FICA taxes, earmark revenues for particular purposes (i.e., Social Security, SSDI, Railroad Retirement). For the purposes of understanding how a tax dollar is spent, we focus on federal funds, money available for general spending. In FY09, the federal government financed over half – 57 cents of each dollar of the $2.7 trillion federal fund outlays for FY09 – through borrowing. Collected revenues accounted for only 43 cents of each dollar of federal fund outlays.

What is a deficit?

Simply stated, in FY09, the government spent more than the revenues it collected and therefore incurred a *deficit*. To finance its spending in FY09, the government had to borrow funds, similar to when individuals use a credit card to finance purchases that exceed their budget.

Where is the money borrowed from?

The "borrowed" 57 cents of each dollar spent in FY09, largely comes from two sources. Money can be borrowed from trust funds within the budget, such as when the government borrows from Social Security surplus to pay for other programs. Money can also be borrowed from sources external to the budget, such as by issuing bonds and federal securities which are purchased, for example, by Japan, China and U.S. residents.

Why is money borrowed?

Fifty-seven cents may seem like a large amount of each dollar to borrow, and depending on circumstances, this amount has varied from 73 cents in 1943 to 0 cents in 2000. Why is the government borrowing a relatively large amount in FY09? The federal response to the collapse of financial institutions, the global economic downturn and the domestic housing crisis resulted in a large deficit and high level of borrowing. In FY09, this response took the form of TARP, the Recovery Act and the Housing Tax Credit.

How is the borrowing paid for?

The *national debt,* currently $12.6 trillion, is the total of annual deficits and surpluses (when there have been surpluses) dating back to 1940. The national debt is similar to the revolving balance on a credit card where every month a new purchase is added to the account. When evaluating the size of deficits and the debt, we should consider what the funds have been spent on as well as the current costs and potential future benefits. For example, an assessment of our credit card balance would be quite different if the balance represents a shopping spree vs. payment for a needed medical procedure.

Regardless of whether debt is considered "good" or "bad," it's important to know avenues to debt reduction. There are really only two: (1) decreased spending and (2) increased revenues. Decreased spending can mean the loss of federally supported programs. Increased revenues can mean higher taxes. It's worth noting that in FY09, individual income tax payments contributed **6.6 times more** than corporate taxes to federal revenues whereas thirty years ago, individual income taxes were **3.3 times greater** than corporate contributions to federal revenues. In other words, in FY09, individuals contributed $915 billion to the $2.7 trillion total federal fund outlays whereas corporations only contributed $138 billion.

2009 Federal Fund Outlay Sources