The Campaign to Fix the Debt

Highlights of the President's FY 2016 Budget Proposal

On February 2, 2015, the White House unveiled its federal budget request for Fiscal Year (FY) 2016. Below are some highlights of the proposal. Read a more in-depth analysis from the Committee for a Responsible Federal Budget here.

- ***Stabilizes debt, but at a very high level.*** According to the White House's own projections, debt held by the public will fall slightly from 74 percent of the economy (as measured by GDP) today to 73 percent in 2025. This means that debt will remain at record high levels previously seen only during World War II. In dollar terms, debt will rise from about $13 trillion today to over $20 trillion by 2025.

- ***Keeps deficits steady by growing spending and revenue.*** Between 2015 and 2025, spending will grow from 20.9 percent of GDP to 22.2 percent and revenue from 17.7 percent of GDP to 19.7 percent. Historically, spending and revenue have averaged 20.1 and 17.4 percent of GDP, respectively.

- ***Pays for new initiatives.*** The budget proposes a number of ambitious new tax breaks and spending programs on everything from an expanded earned income tax credit to universal preschool to free community college. Commendably, however, the President proposed spending reductions and new revenues to pay for all new costs, and actually reduces deficits by over $900 billion over the next decade.

- ***Reduces Medicare costs, but leaves extensive entitlement spending growth.*** The President's budget calls for nearly $300 billion of health savings (after factoring in a "doc fix" for Medicare physician payments) from delivery system reforms, reductions in prescription drug costs, lower payments to providers, higher Medicare premiums for wealthy seniors, and other changes. Despite this, Medicare and Medicaid costs will still grow by about 75 percent over the next decade. Social Security costs, which are barely addressed at all in the President's budget, will rise similarly.

- ***Replaces sequester and funds infrastructure.*** The President's budget would reduce the bulk of the automatic cuts from "sequestration" in 2016, and a significant but declining share of those cuts thereafter. It would also fully fund and increase highway spending. Sequester relief would be paid for with a variety of spending cuts and tax loophole closures, while highway spending would come from one-time transition revenue raised from multinational corporations during tax reform.

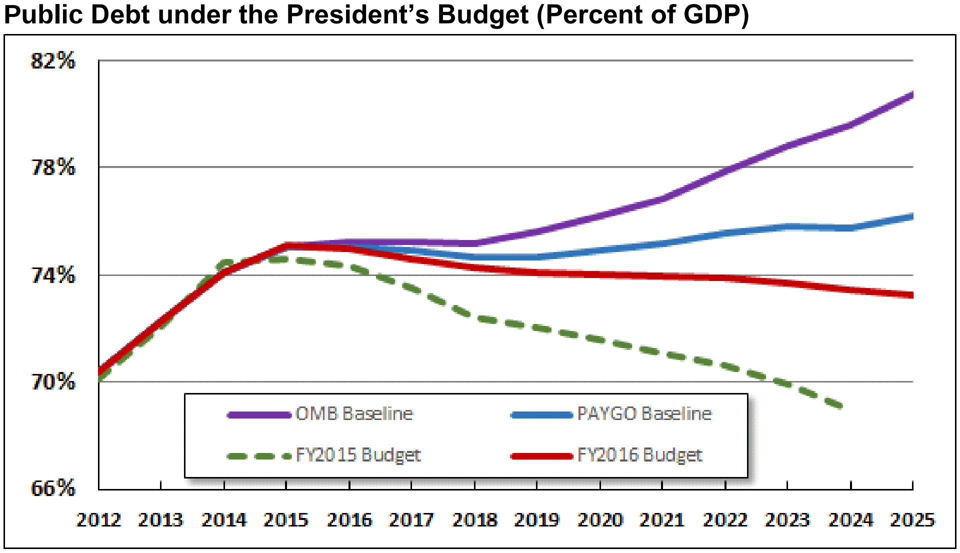
- ***Calls for business tax reform.*** The President's budget calls for pro-growth business tax reform which would reduce business tax breaks in order to lower the corporate tax rate to 28 percent. On the international side, it calls for replacing current rules with a 19 percent global minimum tax on foreign-earned income, while imposing a one-time 14 percent transition tax on past untaxed foreign income to fund transportation spending.

- ***Misses an opportunity to encourage action.*** The President has an enormous bully pulpit to inform the country about the budget challenges ahead and to foster bipartisan action in Congress. Acting sooner rather than later will make the required changes less severe.

Policies in the President's Budget

	Ten-Year Savings
New Spending Initiatives	**$1,120 billion**
Reduce the sequester cuts	$590 billion
Provide universal pre-kindergarten, expand child care, other children's initiatives	$170 billion
Offer free community college, increase higher education spending	$100 billion
Increase transportation spending	$115 billion
Other spending increases	$145 billion
New Tax Breaks	**$475 billion**
Extend and expand refundable credits for children, work, and education	$280 billion
Expand child care incentives, provide tax credit for second-earners	$140 billion
Enact other tax breaks	$60 billion
Revenue Increases	**-$1,845 billion**
Limit tax breaks for high earners	-$640 billion
Use one-time tax on foreign income for highway shortfall	-$270 billion
Reform and increase estate tax	-$215 billion
Increase and reform capital gains taxes	-$210 billion
Impose a fee on large financial institutions	-$110 billion
Increase cigarette taxes, close tax loopholes, and other revenue	-$400 billion
Health Care Reforms	**-$290 billion**
Avoid cuts to physicians by changing the Sustainable Growth Rate (SGR)	$155 billion
Reduce spending on prescription drugs	-$155 billion
Increase means-testing of Medicare premiums and cost sharing	-$75 billion
Reform the delivery system, reduce provider payments, and other reforms	-$215 billion
Other Mandatory Savings	**-$120 billion**
Reduce farm subsidies	-$15 billion
Increase the premiums companies pay for pension guarantees	-$20 billion
Close loopholes, improve enforcement, and reduce waste and fraud	-$35 billion
Other savings	-$45 billion
Enact Immigration Reform	**-$160 billion**
Net Interest	**-$120 billion**
Total Change in Deficit	**-$930 billion**

Public Debt under the President's Budget (Percent of GDP)



* PAYGO baseline generally assumes continuation of current law and a troop drawdown in Iraq and Afghanistan as in the President's budget.