

Can Tax Reform Solve the Debt Problem—or Just Slow It?

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Will McBride Chief Economist & Stephen J. Entin Fellow in Economics

Key Findings

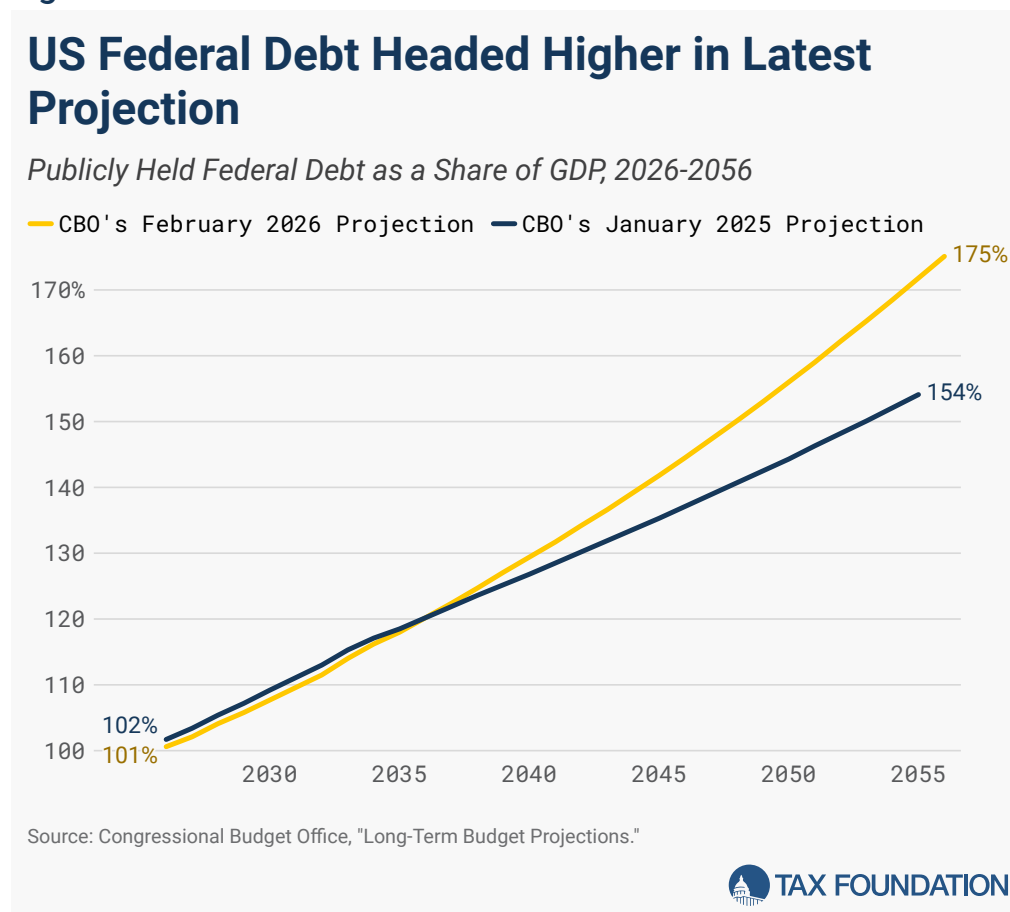
- The US federal government faces several fiscal challenges in the coming decades, as the Congressional Budget Office projects that, under current law, publicly held debt as a share of GDP will rise to a new record high within the next four years and continue rising to 175 percent of GDP by 2056. While revenues are projected to grow as a share of GDP, spending will grow faster so that deficits rise to 9.1 percent of GDP by 2056.
- Most of the projected deficit is from rising interest payments on the debt, but the primary deficit that excludes interest costs is also large, averaging more than 2 percent of GDP over the next decade, and growing in the long run primarily due to growth in spending on Social Security and Medicare.
- Closing the primary deficit is the key to debt sustainability, but attempting to do so by tax adjustments alone would involve unprecedented tax hikes that slow the economy and encourage avoidance, reducing revenue gains over time.
- This study simulates several large tax increases and consistently finds that even tax increases large enough to close the primary deficit in the near term will lose ground over time and fail to put the debt on a sustainable course.
- The most popular proposals, from hiking taxes on the rich to raising tariffs, tend to target a narrow set of taxpayers and produce the least sustainable revenues. These options are likely to introduce large economic distortions and slow economic growth without substantially improving the debt trajectory.
- The results suggest deficit reduction efforts should focus first on reducing the growth of major entitlements, and second on relatively efficient, broad-based tax increases.

Introduction

The federal budget has undergone major changes over the past year, yet in one key respect little has changed: the federal budget remains far out of balance both in the short term and long term, with deficits and debt rising unsustainably.¹ The Congressional Budget Office (CBO) projects that, under current law, deficits as a share of GDP will rise from 5.8 percent this year to 6.7 percent in 2036, representing the largest sustained deficits in the country's history, and will continue rising to 9.1 percent in 2056. Debt held by the public will top 100 percent of GDP this year and is expected to reach a new record high of 106 percent within the next four years and continue rising to 120 percent in 2036 and 175 percent in 2056.²

Figure 1 compares this year's projection of publicly held debt as a share of GDP to the one the CBO made in January 2025, indicating remarkably similar results over the first decade and then a worsening debt burden thereafter.³ The CBO attributes these changes to many factors, including faster economic growth, the One Big Beautiful Bill Act's (OBBBA) income tax cuts partially offset by spending cuts and higher tariffs, and larger nominal deficits and debt that become more costly to finance over time.⁴

Figure 1.



1 William McBride, Erica York, Alex Durante, and Garrett Watson, "The Unsustainable US Debt Course and Impacts of Potential Tax Changes," Tax Foundation, Jan. 14, 2025, <https://taxfoundation.org/research/all/federal/us-debt-budget-taxes-spending-social-security-medicare/>; William McBride, Erica York, Alex Durante, and Garrett Watson, "The Sustainability of U.S. Debt and Potential Reforms: Fiscal Rules, Spending and Taxes, and a Fiscal Commission," *Public Budgeting & Finance* 45:1 (Spring 2025), <https://onlinelibrary.wiley.com/doi/10.1111/pbaf.12381>.

2 Congressional Budget Office, "The Budget and Economic Outlook: 2026 to 2036," Feb. 11, 2026, <https://www.cbo.gov/publication/61882>.

3 Congressional Budget Office, "Long-Term Budget Projections," <https://www.cbo.gov/data/budget-economic-data#1>.

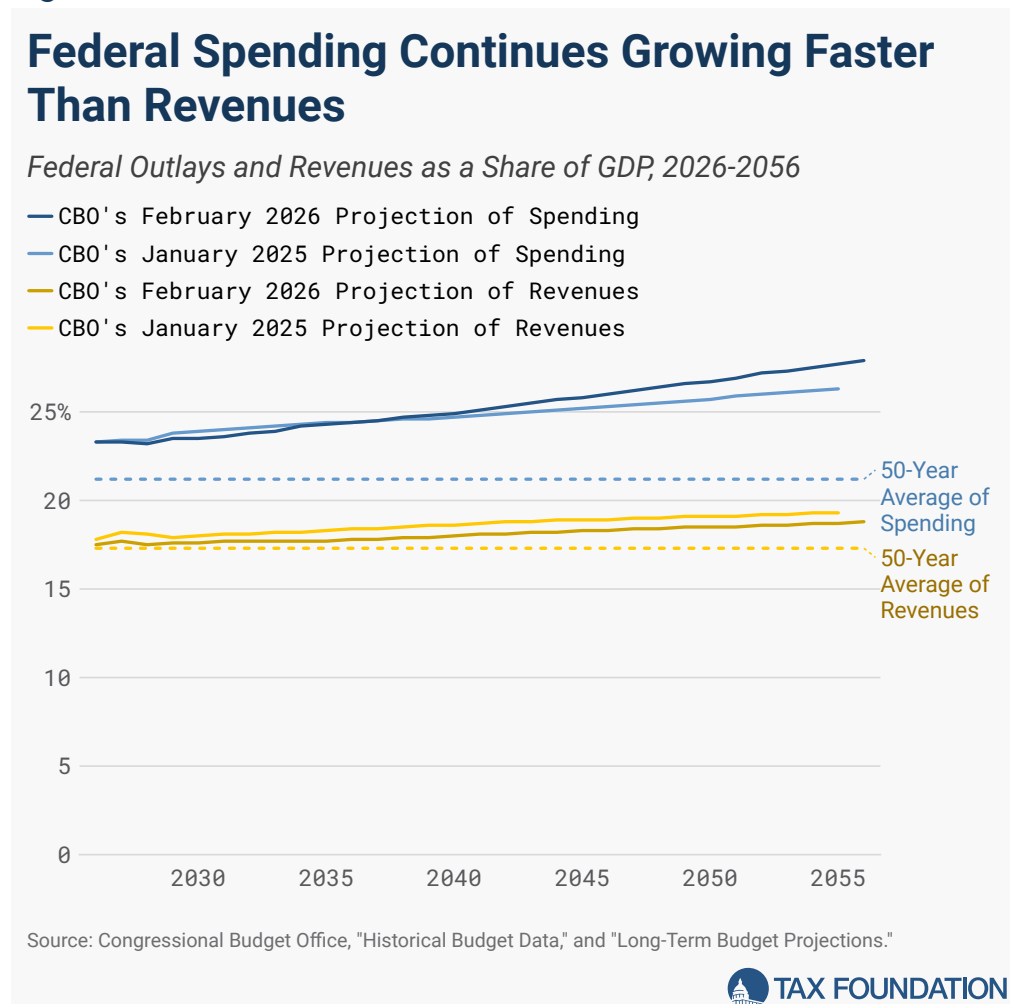
4 The CBO's estimates are based on laws generally in place as of January 14, 2026, and tariff policies in place as of November 20, 2025, and thus do not account for the Supreme Court's February 20, 2026, ruling that terminates certain tariffs, which, all else equal, worsens deficits and debt. On March 5, 2026, the CBO estimated the termination of the affected tariffs adds \$2 trillion to deficits over the 2026-2036 period, but as of this writing, it has not published an estimate of the impact of additional tariffs the Trump administration has announced in the wake of the Supreme Court ruling. See: Congressional Budget Office, "An Update About CBO's Projections of the Budgetary Effects of Tariffs," Mar. 5, 2026, <https://www.cbo.gov/publication/62210>. See also: Erica York and Alex Durante, "Tariff Tracker: Impact of Trump Tariffs & Trade War by the Numbers," Tax Foundation, Feb. 23, 2026, <https://taxfoundation.org/research/all/federal/trump-tariffs-trade-war/>.

Underlying the unsustainable debt trajectory are unsustainable trends in federal spending and revenues, though they have persisted for several years. Spending and revenues, which are now above historical averages, are projected to continue growing as a share of the economy in the coming decades, with no signs of stopping.

The CBO's latest projection indicates spending will grow from 23.3 percent of GDP in 2026 to 24.4 percent in 2036, steadily rising thereafter and reaching 27.9 percent by 2056. Relative to the projection the CBO made in January 2025, spending is slightly lower over the next decade but grows at a faster rate after that. In both projections, spending is far above the average spending level over the 50 years from 1976 to 2025 of 21.1 percent of GDP.⁵

Revenues are now projected to grow from 17.5 percent of GDP in 2026 to 17.8 percent in 2036 and 18.8 percent in 2056—growing faster than the economy but not as fast as spending. Revenues grow faster than GDP mainly because of bracket creep, as incomes are expected to grow faster than the inflation measure used to index federal tax brackets.⁶ Furthermore, while revenues are lower in this year's projection by about a half percentage point compared to last year's projection, they are higher than the 50-year historical average of 17.3 percent of GDP.

Figure 2.



⁵ Congressional Budget Office, "Historical Budget Data," <https://www.cbo.gov/data/budget-economic-data#2>.

⁶ The Tax Cuts and Jobs Act changed the indexing of brackets to a less generous measure of inflation. See: Alex Durante, "2025 Tax Brackets," Tax Foundation, Jan. 1, 2026, <https://taxfoundation.org/data/all/federal/2025-tax-brackets/>; See also: Congressional Budget Office, "The Budget and Economic Outlook: 2026 to 2036," Feb. 11, 2026, <https://www.cbo.gov/publication/61882>.

The major entitlement programs, including Social Security, Medicare, and other major health care programs, are the core drivers of higher spending levels. After growing faster than the economy for decades, they now comprise almost half the federal budget. Social Security and Medicare are projected to continue growing faster than the economy, together exceeding 10 percent of GDP within the next decade, driven by demographic aging of the population and rising healthcare costs.

The only major category of spending growing faster than the major entitlement programs is net interest on the debt, which is now at a record high of 3.3 percent of GDP and headed to 6.9 percent in 30 years, when it will be a quarter of the federal budget. Spending on entitlements and interest on the debt is crowding out other federal spending, including defense and nondefense discretionary spending, and putting upward pressure on deficits and debt.

All else equal, additional debt issuance pushes interest rates up, leading to greater interest costs for the federal government as well as borrowers in the private sector. New debt issued without the explicit backing of new revenue also puts upward pressure on inflation and nominal interest rates, particularly when the Federal Reserve steps in to buy the debt, as was the case during the pandemic.⁷ The high inflation that ensued after more than \$5 trillion of deficit-financed emergency spending during the pandemic has yet to fully abate, as inflation remains above the Federal Reserve's target of 2 percent. The pandemic spending surge came on top of underlying growth in entitlement spending, which economist Eric Leeper has described as creating an "insidious" inflationary pressure due to the somewhat imperceptible growth of this spending over time.⁸ To combat inflation, the Federal Reserve raised interest rates more than 5 percentage points beginning in 2022 and has yet to bring rates back down to the low levels that prevailed for much of the last quarter century.

The combined effects of high interest rates and inflation have greatly contributed to the affordability challenges that many Americans are feeling today. Inflation over the last five years has reduced the purchasing power of the dollar by more than 20 percent.⁹ Higher interest rates have substantially increased the cost of mortgages as well as other consumer and business loans.¹⁰

7 Francesco Bianchi, Renato Faccini, and Leonardo Melosi, "A Fiscal Theory of Persistent Inflation," *The Quarterly Journal of Economics* 138:4 (November 2023), <https://doi.org/10.1093/qje/qjad027>; George J. Hall and Thomas J. Sargent, "Fiscal Consequences of the US War on COVID," *International Economic Review* 66:5 (December 2025), <https://onlinelibrary.wiley.com/doi/10.1111/iere.70022>; Drago Bergholt, Fabio Canova, Francesco Furlanetto, Nicol Maffei-Faccioli, and Pal Ulvedal, "What Drives the Recent Surge in Inflation? The Historical Decomposition Roller Coaster," *American Economic Journal: Macroeconomics* (Forthcoming), <https://www.aeaweb.org/articles?id=10.1257/mac.20240209&&from=f>; Domenico Giannone and Giorgio Primiceri, "The Drivers of Post-Pandemic Inflation," NBER Working Paper 32859, August 2024, <https://www.nber.org/papers/w32859>; David Andolfatto and Fernando M. Martin, "Monetary Policy and the Great COVID-19 Price Level Shock," Federal Reserve Bank of St. Louis Working Paper 2025-004, Feb. 14, 2025, <https://fedinprint.org/item/fedlwp/99576/original>; Miguel Faria-e-Castro, "A Look at Inflation in Recent Years Through the Lens of a Macroeconomic Model," Federal Reserve Bank of St. Louis, Jan. 6, 2025, <https://www.stlouisfed.org/on-the-economy/2025/jan/look-inflation-recent-years-lens-macroeconomic-model>; Eric Leeper and Joe Anderson, "A Fiscal Accounting of COVID Inflation," Mercatus Center at George Mason University, Dec. 5, 2023, <https://www.mercatus.org/research/research-papers/fiscal-accounting-covid-inflation>; John Cochrane, "Expectations and the Neutrality of Interest Rates," *Review of Economic Dynamics* 53 (July 2024), <https://doi.org/10.1016/j.red.2024.04.004>; Robert Barro and Francesco Bianchi, "Fiscal Influences on Inflation in OECD Countries, 2020-2023," NBER Working Paper 31838, July 2025, <https://www.nber.org/papers/w31838>; Ricardo Reis, "Why Did Inflation Rise and Fall in 2021-24? Channels and Evidence from Expectations," CEPR Discussion Paper No. 21277, <https://cepr.org/publications/dp21277>; Francesco Grigoli and Damiano Sandri, "Public Debt and Household Inflation Expectations," IMF Working Paper No. 2023/066, Mar. 17, 2023, <https://www.imf.org/en/Publications/WP/Issues/2023/03/20/Public-Debt-and-Household-Inflation-Expectations-530644>; John Cochrane, *The Fiscal Theory of the Price Level* (Princeton, NJ: Princeton University Press, 2023); George J. Hall and Thomas J. Sargent, "Three World Wars: Fiscal-Monetary Consequences," *Proceedings of the National Academy of Sciences* 119:18 (April 2022), <https://www.pnas.org/doi/10.1073/pnas.2200349119>; Eric Leeper, "Fiscal Dominance: How Worried Should We Be?" Mercatus Center at George Mason University, Apr. 3, 2023, <https://www.mercatus.org/research/policy-briefs/fiscal-dominance-how-worried-should-we-be>; Michael D. Bordo and Mickey D. Levy, "Do Enlarged Fiscal Deficits Cause Inflation: The Historical Record," NBER Working Paper No. 28195, December 2020, <https://www.nber.org/papers/w28195>.

8 Eric Leeper, "Fiscal Dominance: How Worried Should We Be?," Mercatus Center at George Mason University, Apr. 3, 2023, <https://www.mercatus.org/research/policy-briefs/fiscal-dominance-how-worried-should-we-be>.

9 US Bureau of Labor Statistics, "Consumer Price Index," <https://www.bls.gov/cpi/>.

10 Consumer Financial Protection Bureau, "Data Spotlight: The Impact of Changing Mortgage Rates," Sep. 17, 2024, <https://www.consumerfinance.gov/data-research/research-reports/data-spotlight-the-impact-of-changing-mortgage-interest-rates/>.

Leeper and other economists predict that elevated inflation and interest rates will continue so long as large deficits persist, as the Federal Reserve faces increasing pressure to accommodate the debt through easy money policies.¹¹

One potential solution is to increase taxes, which exacerbates affordability concerns directly for affected taxpayers and indirectly through slower growth in the economy, investment, wages, and jobs. Tax increases large enough to close projected fiscal gaps would trigger substantial macroeconomic effects and avoidance behavior, reducing the revenue they actually raise. As a result, it is uncertain how effective various tax proposals would be both in terms of how sustainable the revenues are and how much they can offset the rising spending and deficits.

After exploring in more detail the scale of the spending challenge, this study uses simulations to evaluate the degree to which various tax proposals can or cannot effectively finance the projected spending over the long run and rein in deficits. In general, the results indicate that the most popular proposals, from wealth taxes to tariffs, cannot produce sustainable revenues sufficient to address the debt crisis. Instead, they are likely to introduce large economic distortions and slow economic growth without substantially improving the debt trajectory.

The Steadily Rising Tide of Spending on Entitlements

Spending on Social Security and the major healthcare programs has grown faster than the economy for many decades and is projected to continue doing so. While spending on these programs started small, it is now a dominant and growing share of the federal budget.

The largest and fastest-growing category of federal spending is major healthcare programs, including Medicare, Medicaid, Affordable Care Act (ACA) subsidies, and the Children's Health Insurance Program (CHIP). In 1966, around the time Medicare and Medicaid were created, federal spending on major healthcare programs was about 0.6 percent of the federal budget. In 1996, after 30 years of rapid growth in Medicare and Medicaid, it had grown to about 17 percent of the budget. Now, with another 30 years of growth and the introduction of CHIP in 1997 and the ACA in 2010, spending on major healthcare programs has grown to almost 26 percent of the budget and is projected to reach almost 29 percent by 2056.

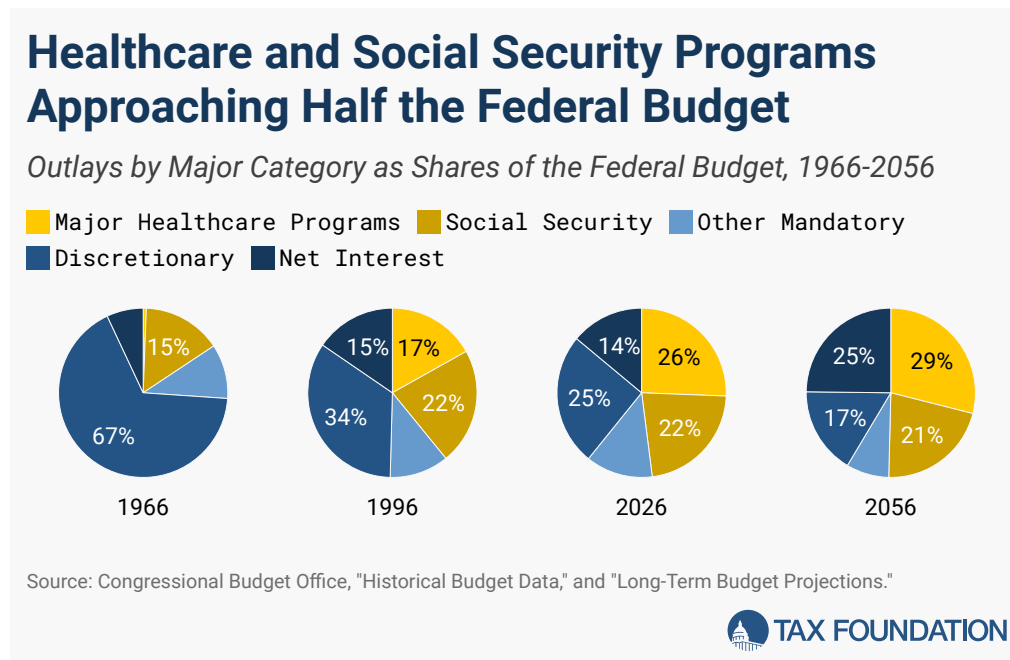
Spending on Social Security has grown from about 15 percent of the federal budget in 1966 to 22 percent in 1996, and since then has stabilized at roughly 22 percent. Spending on Social Security and the major healthcare programs together is approaching half of the federal budget, at 48 percent in 2026 and surpassing 50 percent by 2032.

11 Eric Leeper and Joe Anderson, "A Fiscal Accounting of COVID Inflation," Mercatus Center at George Mason University, Dec. 5, 2023, <https://www.mercatus.org/research/research-papers/fiscal-accounting-covid-inflation>; George J. Hall and Thomas J. Sargent, "Fiscal Consequences of the US War on COVID," *International Economic Review* 66:5 (December 2025), <https://onlinelibrary.wiley.com/doi/10.1111/iere.70022>; Francesco Bianchi, Renato Faccini, and Leonardo Melosi, "A Fiscal Theory of Persistent Inflation," *The Quarterly Journal of Economics* 138:4 (November 2023), <https://doi.org/10.1093/qje/qjad027>.

Meanwhile, other spending outside of interest on the debt has shrunk as a share of the budget. Defense and nondefense discretionary spending—i.e., the category of spending that is subject to Congress’s annual appropriations process—has shrunk from 67 percent of the budget in 1966 to 25 percent this year and is headed to 17 percent by 2056. Other mandatory spending, at 13 percent of the budget this year, is not much different from typical levels in the past and projected future levels (though this spending can balloon during crises, such as the pandemic).

Finally, net interest on the debt is currently near the high level seen in the 1990s (14 percent this year versus 15 percent in 1996). However, it is projected to grow to almost 25 percent of the budget by 2056.

Figure 3.



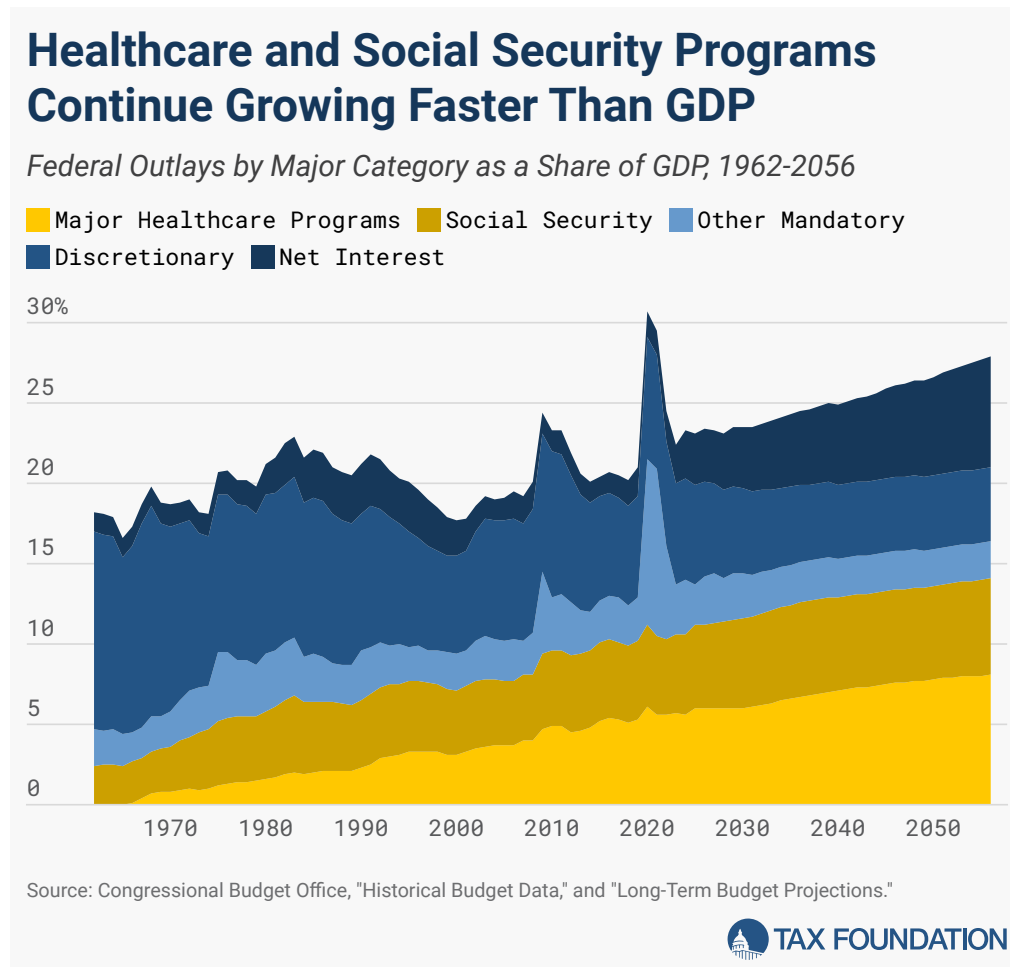
Measured as a share of GDP, spending on major healthcare programs has risen from less than 0.1 percent in the early 1960s to almost 6 percent this year, or approximately 1 percentage point of GDP per decade. Going forward, spending on major healthcare programs is projected to reach 6.7 percent of GDP by 2036 and 8.1 percent by 2056, driven mainly by growth in Medicare, as the OBBBA reduced growth in spending on Medicaid and ACA premium tax credits.

Spending on Social Security has risen from about 2.5 percent in the early 1960s to 5.2 percent this year and is projected to grow to almost 6 percent by 2056. Combined, spending on Social Security and major healthcare programs has grown from 2.5 percent of GDP in the early 1960s to 11.2 percent this year and is projected to grow to 14.1 percent by 2056.

The rest of the budget outside of interest on the debt has shrunk considerably as a share of GDP over the last several decades and is projected to continue doing so. This is mainly because discretionary spending has dropped in half, from about 12 percent of GDP in the 1960s to 5.9 percent this year, and is projected to fall further to 4.6 percent by 2056. However, the decline of discretionary spending has not fully offset the growth in entitlements, as total noninterest spending has grown from about 17 percent of GDP in the 1960s to 20.1 percent this year and is projected to grow to 21 percent by 2056.

Interest on the debt is rapidly growing from 3.3 percent of GDP this year to 6.9 percent by 2056. Combined, the fast-growing parts of the budget (Social Security, major healthcare programs, and interest) will reach 14.5 percent of GDP this year and rise to 17.1 percent by 2036 and more than 21 percent by 2056, alone far exceeding revenues that year.

Figure 4.



The factors driving growth in Social Security and the major healthcare programs, which, as mentioned, are primarily the demographic aging of the population and rising healthcare costs, have been understood and documented by the CBO and others for decades. For instance, while the CBO projects the combined Social Security trust funds will be insolvent by 2033, this has been the approximate prediction published in the Social Security Trustees' Reports since the early 1990s, based on projected declining birth rates and longer life spans that lead to a rising share of the population in retirement.¹²

The benefit formulas for these programs also ensure increasingly generous benefits per enrollee over time. For instance, the CBO estimates that real spending (i.e., adjusted for inflation) per Social Security beneficiary will increase by 17 percent over the next 30 years, because benefits are tied to wages, which

12 Congressional Budget Office, "The Budget and Economic Outlook: 2026 to 2036," Feb. 11, 2026, <https://www.cbo.gov/publication/61882>; Emerson Sprick, "2025 Social Security Trustees Report Explained," Bipartisan Policy Center, Aug. 5, 2025, <https://bipartisanpolicy.org/article/2025-social-security-trustees-report-explained/>; Barry F. Huston, "Social Security: Trust Fund Status in the Early 1980s and Today and the 1980s Greenspan Commission," Congressional Research Service, Mar. 4, 2022, https://www.congress.gov/crs_external_products/R/PDF/R47040/R47040.3.pdf; Social Security Administration, "A History of the Social Security Administration During the Clinton Administration, Chapter 3: Program Insolvency," December 2000, <https://www.ssa.gov/history/ssa/ssa2000chapter3.html>.

tend to grow faster than inflation.¹³ The CBO projects real spending per Medicare beneficiary will increase by 41 percent over the next 30 years, mainly due to increasing use of medical care, which also adds 18 percent to costs for Medicaid and 26 percent for premium tax credits.

These benefit formulas and eligibility rules were generally established decades ago, when the programs were set up, and have seldom been subject to revision or reform. Indeed, these programs are called mandatory because they are generally outside the normal budget process and not subject to annual appropriations processes, instead mainly growing on autopilot. An exception is the OBBBA, which used reconciliation to reform eligibility rules for Medicaid and premium tax credits, curtailing growth in spending on those programs. However, the largest and fastest-growing programs, Social Security and Medicare, have escaped reform or even much attention from policymakers in recent decades.

Can Tax Hikes Close the Fiscal Gap?

Growth in the costs of servicing the debt can be contained by closing the primary deficit, i.e., the difference between total noninterest spending and revenues, thereby stabilizing debt as a share of GDP at approximately the current level. This goal, more attainable than eliminating the total deficit, would at least put the debt trajectory on a sustainable course.

The CBO projects that under current law, the primary deficit will average about 2.1 percent of GDP over the next 30 years and remain roughly stable as revenues grow at about the same rate as noninterest spending. The primary deficit is projected to shrink initially from 2.6 percent of GDP this year to 1.9 percent in 2041, and grow thereafter slowly but steadily, reaching 2.2 percent by 2056.

Other projections show an even more challenging fiscal outlook. For example, the Treasury Department's Financial Report of the United States Government assumes certain tax and spending policies that expire under current law will be extended. This results in primary deficits that grow to an average of about 3.3 percent of GDP over the next decade and continue growing to a peak of 4.2 percent in 2046, staying at about that level for several more decades before gradually decreasing to 3.1 percent of GDP in 2100.¹⁴

These primary deficits are extraordinarily large, even at the low end of estimates exceeding any of the tax increases that have been implemented since World War II.¹⁵ The really bad news, if we hope to be able to close the primary deficits with additional taxes, is that few if any proposed tax hikes are big enough in the short run and the long run. Indeed, essentially all proposals, even if scaled to the size of the short-run primary deficit, will struggle to maintain the revenue bump, much less close a primary deficit that is growing as a share of GDP in the long run.

13 Congressional Budget Office, "The Budget and Economic Outlook: 2026 to 2036," Feb. 11, 2026, <https://www.cbo.gov/publication/61882>; See also: Alex Durante, "Social Security: Lessons for Reform," Tax Foundation, Sep. 24, 2024, <https://taxfoundation.org/research/all/federal/social-security-reform-options/>.

14 US Treasury Department, "Financial Report of the United States Government," Mar. 18, 2026, <https://fiscal.treasury.gov/reports-statements/financial-report/current-report.html>; Mark Warshawsky and colleagues also project long-run deficits that are larger than CBO's baseline deficits, due to rising healthcare costs and other factors. See: Mark Warshawsky, "Updated Fiscal Projections," American Enterprise Institute, Mar. 13, 2026, <https://www.aei.org/research-products/working-paper/a-new-long-run-economic-model-basis-for-projecting-the-finances-of-the-us-government/>.

15 After the Revenue Act of 1942, which increased revenues by about 5 percent of GDP, and the Revenue Act of 1941, which increased revenues by about 2.2 percent of GDP, the next largest tax increase was the Revenue Act of 1951, which increased revenues by about 1.5 percent of GDP. See: Erica York and Alex Durante, "Tariff Tracker: Impact of Trump Tariffs & Trade War by the Numbers," Tax Foundation, Feb. 23, 2026, <https://taxfoundation.org/research/all/federal/trump-tariffs-trade-war/>.

We simulate nine tax increases, covering every major category of potential revenue, including taxes on individual income, corporate income, payroll, consumption, and wealth, as well as tariffs. The table below summarizes the results, showing revenues raised from each proposal and the level of publicly held debt, measured as a share of GDP in 2027, 2036, and 2056. In 2027, revenues raised are shown under conventional assumptions (static), which keep GDP and other economic aggregates unaffected by the tax changes, and under dynamic assumptions that allow those aggregates to change. Dynamic estimates are shown for other years and for publicly held debt.

Table 1. Federal Revenues Raised and Publicly Held Debt Under Various Tax Proposals

	Revenues Raised as a Share of GDP by Year				Publicly Held Debt as a Share of GDP		
	2027 (Static)	2027 (Dynamic)	2036 (Dynamic)	2056 (Dynamic)	2027 (Dynamic)	2036 (Dynamic)	2056 (Dynamic)
Raise Top Individual Income Tax Rates	0.31%	0.21%	0.14%	0.16%	103%	120%	171%
Raise All Individual Income Tax Rates	0.76%	0.55%	0.54%	0.60%	103%	116%	159%
Tax Employer-Sponsored Health Insurance	0.89%	0.62%	0.60%	0.64%	103%	116%	157%
Raise Corporate Tax Rate to 35%	0.73%	0.68%	0.45%	0.36%	102%	116%	162%
Institute a Wealth Tax	0.45%	0.45%	0.31%	0.14%	102%	117%	166%
Raise Tariffs to 50%	1.12%	0.65%	0.65%	0.61%	104%	116%	158%
Eliminate Social Security Payroll Tax Cap	0.69%	0.27%	0.24%	0.21%	104%	120%	170%
Raise Social Security Payroll Tax Rates	0.61%	0.49%	0.48%	0.46%	103%	116%	161%
Institute a Value-Added Tax	2.14%	1.76%	1.75%	1.72%	102%	105%	121%

Source: Tax Foundation General Equilibrium Model, April 2026.

Individual Income Taxes

The federal government's primary source of revenue is the individual income tax, so this is naturally the first place to look for additional revenue. There are several ways to raise individual income taxes—e.g., by broadening the base or raising rates in various ways—but the most typical proposal raises income tax rates for high earners. For instance, Senator Cory Booker (D-NJ) has introduced legislation that would increase the tax rates for the top two brackets from 35 percent and 37 percent currently to 41 percent and 43 percent, respectively, and Senator Chris Van Hollen (D-MD) has introduced legislation that would create a new surtax on adjusted gross income above \$1 million, ranging from 5 to 12 percent.¹⁶

¹⁶ These plans would also reduce taxes for low-income earners, with the net effect increasing deficits. See: Garrett Watson and Erica York, "Details and Analysis of the Booker and Van Hollen Tax Cut Plans," Tax Foundation, Mar. 16, 2026, <https://taxfoundation.org/research/all/federal/van-hollen-cory-booker-tax-cut-plans/>.

A study by economists at the Joint Committee on Taxation (JCT) finds that the top individual income tax rate is already near the peak of the Laffer curve, beyond which raising the rate yields close to zero additional revenue.¹⁷ In particular, it finds that raising the top individual income tax rate from 37 percent to 40 percent, the approximate peak of the Laffer curve, would increase federal revenue about 0.5 percent, or roughly 0.1 percent of GDP, after accounting for avoidance and economic effects.

Tax Foundation analysis also finds limited upside to raising top individual income tax rates, as high marginal tax rates reduce incentives to work, save, and invest.¹⁸ For example, using our Taxes and Growth Model, we find that increasing the top two tax rates to 41 percent and 43 percent, as proposed by Senator Booker (which is a broader tax increase than those considered in the JCT study), would boost federal revenue by 0.31 percent of GDP initially as measured on a conventional basis, but reduce economic output by 0.7 percent over the long run. After accounting for reduced economic growth, the revenue gain would decline from 0.21 percent of GDP in 2027 to 0.14 percent in 2036. Because of bracket creep, the revenue gain would grow slightly in the second and third decades to 0.16 percent of GDP in 2056 (see Figure 5). The limited and declining revenue increase leaves publicly held debt growing unsustainably to 171 percent of GDP by 2056, about four percentage points less than the CBO's baseline projection (see Figure 6).¹⁹

Raising all individual income tax rates is a more broad-based approach with more revenue potential, though still progressive, as the increased burden would fall disproportionately on higher earners. For example, increasing all ordinary individual income tax rates by 10 percent would boost revenue by 0.76 percent of GDP initially as measured on a conventional basis, but it would reduce GDP by just over 1 percent in the long run, bringing the dynamic revenue gain to 0.55 percent of GDP in 2027, 0.54 percent in 2036, and 0.60 percent in 2056. The effects of bracket creep are more apparent in this scenario, almost offsetting the dynamic effects of reduced incentives to work, save, and invest after 30 years, resulting in a semblance of revenue stability, if not revenue growth that matches spending growth. However, this stability comes from subjecting an increasing share of the population to higher tax rates perpetually—effectively a series of tax increases. Needless to say, no one has proposed this option, though a similar type of tax increase would have occurred if the individual provisions of the Tax Cuts and Jobs Act (TCJA) had been allowed to expire on schedule at the end of 2025. While such a broad-based tax increase is too big to be politically palatable, it is too small and grows too slowly to stabilize either the primary deficit, which rises from 1.4 percent of GDP in 2040 to 1.6 percent in 2056, or the debt ratio, which climbs to 159 percent of GDP by 2056.

Another option is to broaden the income tax base by curtailing special preferences or tax expenditures, which would raise revenue while potentially simplifying the tax code and making it more neutral.²⁰ Preferences for health care, such as the ACA premium tax credits and the exclusion for employer-sponsored

17 Rachel Moore, Brandon Pecoraro, and David Splinter, "Is the Laffer Curve Flat?," Feb. 6, 2026, <https://www.davidsplinter.com/LafferCurves.pdf>.

18 William McBride, "What is the Evidence on Taxes and Growth?," Tax Foundation, Dec. 18, 2012, <https://taxfoundation.org/research/all/federal/what-evidence-taxes-and-growth/>; Alex Durante, "Reviewing Recent Evidence of the Effect of Taxes on Economic Growth," Tax Foundation, May 21, 2021, <https://taxfoundation.org/research/all/federal/reviewing-recent-evidence-effect-taxes-economic-growth/>; Robert Carroll, "The Excess Burden of Taxes and the Economic Cost of High Tax Rates," Aug. 14, 2009, <https://taxfoundation.org/research/all/federal/excess-burden-taxes-and-economic-cost-high-tax-rates/>.

19 Raising the top two rates further would generate additional revenue but do more economic damage, undermining long-run revenue potential. For instance, raising the top two tax rates to 45 percent and 50 percent would boost revenue by 0.6 percent of GDP initially on a conventional basis but cause GDP to fall 1.4 percent in the long run, resulting in dynamic revenue increases of 0.38 percent of GDP in 2027, 0.23 percent in 2036, and 0.26 percent in 2056. In that scenario, publicly held debt would continue climbing to 169 percent of GDP by 2056. In this and all scenarios considered in this paper, it is assumed that non-interest spending continues as under CBO's current law baseline, which is consistent with CBO's "rules-of-thumb" regarding how changes in economic conditions affect spending. See: CBO, "Workbook for How Changes in Economic Conditions Might Affect the Federal Budget: 2025 to 2035," Mar. 13, 2025, <https://www.cbo.gov/publication/61183>.

20 William McBride, "Cleaning Up the Tax Code Could Raise Trillions for Tax Reform," Tax Foundation, Feb. 6, 2025, <https://taxfoundation.org/blog/tax-credits-expenditures-spending-offset-tax-cuts/>.

health insurance premiums (ESI), are among the largest and fastest growing, together reducing income tax revenue by about 1.6 percent of GDP in 2024 with the loss approaching 2 percent of GDP over the next decade, according to the Treasury Department.²¹ We estimate eliminating the income tax exclusion for ESI, the single largest preference, would boost revenue by 0.89 percent of GDP initially on a conventional basis, while reducing GDP by almost 1.1 percent over the long run due to higher marginal tax rates on compensation. On a dynamic basis, the revenue gain would fall to 0.62 percent of GDP in 2027 and 0.60 percent in 2036 before recovering slightly to 0.64 percent in 2056. The debt would continue rising on an unsustainable course to 157 percent of GDP by 2056.

Corporate Income Taxes

Beyond the individual income tax, raising corporate income taxes is often proposed as another way to generate substantial revenues from high-income taxpayers. For instance, former President Joe Biden and former Vice President Kamala Harris both proposed raising the corporate tax rate from 21 percent to 28 percent. However, several studies find corporate taxes encourage tax planning and avoidance and reduce investment and wages over time, limiting the revenue that can be gained from hiking corporate taxes and shifting a portion of the burden to individuals of modest means.²² For example, we find that increasing the corporate tax rate from 21 percent to 35 percent (the rate prior to the TCJA) would initially boost revenue by 0.73 percent of GDP but would reduce GDP in the long run by more than 1.1 percent, resulting in a dynamic revenue gain that falls over time from 0.68 percent in 2027 to 0.45 percent in 2036 and 0.36 percent by 2056. The debt ratio would continue climbing to 162 percent of GDP by 2056.

Wealth Taxes

Another idea is to tax the wealth directly owned by the wealthiest households, seemingly a large and growing tax base according to many reports. While some project wealth accumulation at the top continues to grow at least as fast as GDP, there is considerable uncertainty about the distribution of wealth and projected trends.²³ Taxing wealth in a broad sense, a hypothetical that has never been tried in the US, runs into several major challenges. Beyond legal concerns about the constitutionality of a wealth tax, many studies document the practical difficulties and problems associated with wealth taxes where they have been implemented in other countries, including: tax avoidance and the mobility of wealth and the wealthy; administrative and compliance costs relating to valuation of assets; and dampened incentives for entre-

21 William McBride, "The Unaffordable Healthcare Subsidies that Led to a Government Shutdown," Tax Foundation, Oct. 10, 2025, <https://taxfoundation.org/blog/unaffordable-healthcare-subsidies-government-shutdown/>.

22 William McBride, "What is the Evidence on Taxes and Growth?," Tax Foundation, Dec. 18, 2012, <https://taxfoundation.org/research/all/federal/what-evidence-taxes-and-growth/>; Alex Durante, "Reviewing Recent Evidence of the Effect of Taxes on Economic Growth," Tax Foundation, May 21, 2021, <https://taxfoundation.org/research/all/federal/reviewing-recent-evidence-effect-taxes-economic-growth/>; Stephen J. Entin, "Labor Bears Much of the Cost of the Corporate Tax," Tax Foundation, Oct. 24, 2017, <https://taxfoundation.org/research/all/federal/labor-bears-corporate-tax/>; Clemens Fuest, Andreas Peichl, and Sebastian Sieglöckh, "Do High Corporate Taxes Reduce Wages? Micro Evidence from Germany," *American Economic Review* 108:2 (February 2018), <https://www.aeaweb.org/articles?id=10.1257/aer.20130570>; Gabriel Chodorow-Reich, Owen Zidar, and Eric Zwick, "Lessons from the Biggest Business Tax Cut in US History," *Journal of Economic Perspectives* 38:3 (Summer 2024), <https://www.aeaweb.org/articles?id=10.1257/jep.38.3.61>; Jeffrey L. Coles, Elena Patel, Nathan Seegert, and Matthew Smith, "How Do Firms Respond to Corporate Taxes?," *Journal of Accounting Research* 60:3 (September 2021), <https://onlinelibrary.wiley.com/doi/10.1111/1475-679X.12405>.

23 Matthew Smith, Owen Zidar, and Eric Zwick, "Top Wealth in America: New Estimates Under Heterogeneous Returns," *The Quarterly Journal of Economics* 138:1 (February 2023), <https://academic.oup.com/qje/article-abstract/138/1/515/6678447>; John Cochrane, "Wealth and Taxes," Cato Institute, Feb. 25, 2020, <https://www.cato.org/publications/tax-budget-bulletin/wealth-taxes>; Penn Wharton Budget Model, "Senator Elizabeth Warren's Wealth Tax: Budgetary and Economic Effects," Dec. 12, 2019, <https://budgetmodel.wharton.upenn.edu/legacy-briefs/2019-12-12-senator-elizabeth-warrens-wealth-tax-projected-budgetary-and-economic-effects/>.

preneurship, saving, and wealth accumulation, and a loss of US ownership of productive assets to foreigners and other tax-exempt entities, reducing national income and increasing trade deficits.²⁴ These factors tend to reduce the revenue potential of a wealth tax, even if one could be implemented in the US.

Nonetheless, several members of Congress have endorsed a wealth tax, including recent proposals by Senators Bernie Sanders (I-VT) and Elizabeth Warren (D-MA).²⁵ The Sanders proposal would establish a 5 percent annual wealth tax on billionaires, i.e., on the assessed value of assets held by a taxpayer when that value exceeds a threshold of \$1 billion indexed to inflation. In analyzing the proposal, economists Emmanuel Saez and Gabriel Zucman estimate that the tax would raise about \$4.4 trillion over 10 years, or 1.2 percent of GDP per year.²⁶ For the tax base, they rely on the Forbes 400 annual ranking of the richest Americans, which they claim indicates billionaire wealth has grown faster than the economy in recent years.²⁷ Further, they assume an avoidance rate of 10 percent, which, in their estimation, reduces the growth of the tax base to that of the US economy.

However, this assumed avoidance rate is far lower than the rate found in most studies of actual wealth taxes that have been implemented historically in other countries.²⁸ Estimates vary considerably, but averaging across the studies indicates the avoidance rate for a wealth tax of 5 percent would be about 33 percent. Accounting for this and other underlying avoidance of capital income taxes, tax scholar Kyle Pomerleau estimates the tax would raise \$2.3 trillion over 10 years, nearly half what Saez and Zucman estimate, and notes revenue would be reduced further after accounting for how reduced wealth reduces income tax collections.²⁹ Another factor that reduces net revenue collections is reduced economic activity, including reduced entrepreneurship and labor supply, an effect that builds over time.³⁰

Finally, the wealth data used by Saez and Zucman, the Forbes 400 annual ranking of the richest Americans, substantially overstates taxable wealth since it represents dynastic family wealth that “spans multiple generations and many tax returns,” according to analysis by economist David Splinter and others.³¹ Splinter estimates allocating wealth to income tax returns reduces the top 400’s wealth by 39 percent (this may differ somewhat from the distribution of a hypothetical set of wealth tax returns, but presumably a similar effect applies).

- 24 Cristina Enache, “The High Cost of Wealth Taxes,” Tax Foundation, Jun. 26, 2024, <https://taxfoundation.org/research/all/eu/wealth-tax-impact/>; Huaqun Li and Karl Smith, “Analysis of Sen. Warren and Sen. Sanders’ Wealth Tax Plans,” Tax Foundation, Jan. 28, 2020, <https://taxfoundation.org/research/all/federal/wealth-tax/>; Kyle Pomerleau, “Senator Sanders’s Wealth Tax Won’t Raise \$4.4 Trillion,” American Enterprise Institute, Mar. 2, 2026, <https://www.aei.org/economics/senator-sanderss-wealth-tax-wont-raise-4-4-trillion/>; Garrett Watson and Alex Durante, “How Much Revenue Would Senator Sanders’ Wealth Tax Proposal Really Raise?,” Tax Foundation, Mar. 5, 2026, <https://taxfoundation.org/blog/bernie-sanders-wealth-tax-billionaires/>; Joshua Rauh, Benjamin Jaros, Matheus Cosso, and John Doran, “Wealth Tax Primer,” Hoover Institution, Feb. 28, 2026, <https://dx.doi.org/10.2139/ssrn.6264759>; Martin Jacob, “Wealth Taxes – Mind the Economic Distortions,” Tax Policy Network, Feb. 27, 2026, <https://taxpolicynetwork.org/wealth-taxes-mind-the-economic-distortions/>; Jeff Neal, “Does the Constitution Allow a Billionaire Tax?,” Harvard Law Today, Oct. 28, 2021, <https://hls.harvard.edu/today/does-the-constitution-allow-a-billionaire-tax/>; Joe Bishop-Henchman, “Is a Wealth Tax Constitutional?,” National Taxpayers Union Foundation, Oct. 25, 2021, <https://www.ntu.org/foundation/detail/is-a-wealth-tax-constitutional>.
- 25 Alexander Bolton, “Sanders Proposes \$4.4 Trillion Tax on Billionaires,” The Hill, Mar. 3, 2026, <https://www.sanders.senate.gov/press-releases/news-sanders-and-khanna-introduce-legislation-to-tax-billionaire-wealth-and-invest-in-working-families/>; Senator Elizabeth Warren, “Ultra-Millionaire Tax Act of 2026,” March 2026, https://www.warren.senate.gov/imo/media/doc/ultra-millionaire_tax_act_one-pager.pdf.
- 26 Emmanuel Saez and Gabriel Zucman, Mar. 2, 2026, <https://www.sanders.senate.gov/wp-content/uploads/saez-zucman-sanders2026wealthtax.pdf>.
- 27 Forbes, “Forbes 400,” <https://www.forbes.com/forbes-400/>.
- 28 Florian Scheuer and Joel Slemrod, “Taxing Our Wealth,” *Journal of Economic Perspectives* 35:1 (Winter 2021), <https://www.aeaweb.org/articles?id=10.1257/jep.35.1.207>; Penn Wharton Budget Model, “Senator Elizabeth Warren’s Wealth Tax: Budgetary and Economic Effects,” Dec. 12, 2019, <https://budgetmodel.wharton.upenn.edu/legacy-briefs/2019-12-12-senator-elizabeth-warrens-wealth-tax-projected-budgetary-and-economic-effects/>.
- 29 Kyle Pomerleau, “Senator Sanders’s Wealth Tax Won’t Raise \$4.4 Trillion,” American Enterprise Institute, Mar. 2, 2026, <https://www.aei.org/economics/senator-sanderss-wealth-tax-wont-raise-4-4-trillion/>.
- 30 Penn Wharton Budget Model, “Senator Elizabeth Warren’s Wealth Tax: Budgetary and Economic Effects,” Dec. 12, 2019, <https://budgetmodel.wharton.upenn.edu/legacy-briefs/2019-12-12-senator-elizabeth-warrens-wealth-tax-projected-budgetary-and-economic-effects/>.
- 31 David Splinter, “Comment on ‘How Much Tax Do Billionaires Pay?’,” August 2025, <https://www.davidsplinter.com/Toptax.html>; Matthew Smith, Owen Zidar, and Eric Zwick, “Top Wealth in America: New Estimates Under Heterogeneous Returns,” *The Quarterly Journal of Economics* 138:1, February 2023, <https://academic.oup.com/qje/article-abstract/138/1/515/6678447>.

Accounting for these factors, we estimate the Sanders wealth tax proposal would boost revenue by about 0.45 percent of GDP initially, but the revenue gain would diminish over time to 0.31 percent in 2036 and 0.14 percent in 2056. The debt ratio would continue rising unsustainably to 166 percent of GDP by 2056.

Using similar methods and assumptions, Saez and Zucman also analyze Senator Warren’s proposal, which is a wealth tax that applies to wealth above \$50 million, estimating it would raise \$6.2 trillion over a decade, or about 1.7 percent of GDP.³² However, Tax Foundation modeling of a similar proposal by Warren indicates it would raise considerably less revenue than claimed by Saez and Zucman, and the revenue raised would shrink over time as a share of GDP by approximately 30 to 40 percent over the first 10 years.³³

Incremental changes in the direction of wealth taxation would produce more incremental revenue increases that similarly shrink over time as a share of the economy due to avoidance and disincentives for wealth creation. Former President Joe Biden and Vice President Kamala Harris, in their campaigns for president, both proposed taxing unrealized capital gains on a mark-to-market basis for taxpayers with net wealth above \$100 million. The proposal was estimated to reach its peak revenue in the first five years, about \$60 billion annually or about 0.2 percent of GDP, and trend lower after that, according to conventional analysis by the Office of Management and Budget that ignores macroeconomic effects.³⁴ Senator Ron Wyden (D-OR) has introduced similar legislation, taxing a narrower base of unrealized gains held by taxpayers with net wealth above \$1 billion, likely meaning still less revenue potential.³⁵ Biden and Harris also proposed taxing unrealized capital gains at death and raising the tax rate on capital gains, but this would yield less than 0.1 percent of GDP in new revenue.³⁶

Tariffs

President Trump has at various times claimed tariffs could replace all income tax revenue and be used to pay down the debt, while reducing imports. These claims overstate the revenue potential of tariffs, failing to acknowledge that reducing imports works at cross purposes with the goal of raising revenue from tariffs.³⁷ The CBO estimates that Trump’s tariff policies (assuming permanence for the policies in effect as of November 20, 2025) will push collections of customs duties to 1.3 percent of GDP in 2026, up from 0.6 percent in 2025 and 0.3 percent in 2024, but projects collections will drop to 0.9 percent by 2036 and 0.7 percent by 2056, “as consumers and businesses adjust their behavior (by importing less and by shifting from purchasing goods from countries with higher tariffs to purchasing goods from countries with lower tariffs).”³⁸

32 Emmanuel Saez and Gabriel Zucman, Mar. 23, 2026, https://www.warren.senate.gov/imo/media/doc/ultra-millionaire_tax_act_score.pdf.

33 Huaqun Li and Karl Smith, “Analysis of Sen. Warren and Sen. Sanders’ Wealth Tax Plans,” Tax Foundation, Jan. 28, 2020, <https://taxfoundation.org/research/all/federal/wealth-tax/>.

34 William McBride, Erica York, Garrett Watson, and Alex Muresianu, “Kamala Harris Tax Plan Ideas: Details and Analysis,” Tax Foundation, Oct. 16, 2024, <https://taxfoundation.org/research/all/federal/kamala-harris-tax-plan-2024/>; Garrett Watson and Erica York, “Analysis of Harris’s Billionaire Minimum Tax on Unrealized Capital Gains,” Tax Foundation, Sep. 4, 2024, <https://taxfoundation.org/blog/harris-unrealized-capital-gains-tax/>; Garrett Watson, Erica York, William McBride, Alex Muresianu, Huaqun Li, and Alex Durante, “Details and Analysis of President Biden’s Fiscal Year 2025 Budget Proposal,” Tax Foundation, Jun. 21, 2024, <https://taxfoundation.org/research/all/federal/biden-budget-2025-tax-proposals/>.

35 US Senate Committee on Finance, “Wyden, Cohen, Beyer Introduce the Billionaires Income Tax Act,” Sep. 17, 2025, <https://www.finance.senate.gov/ranking-members-news/wyden-cohen-beyer-introduce-the-billionaires-income-tax-act>.

36 William McBride, Erica York, Garrett Watson, and Alex Muresianu, “Kamala Harris Tax Plan Ideas: Details and Analysis,” Tax Foundation, Oct. 16, 2024, <https://taxfoundation.org/research/all/federal/kamala-harris-tax-plan-2024/>; Garrett Watson, Erica York, William McBride, Alex Muresianu, Huaqun Li, and Alex Durante, “Details and Analysis of President Biden’s Fiscal Year 2025 Budget Proposal,” Tax Foundation, Jun. 21, 2024, <https://taxfoundation.org/research/all/federal/biden-budget-2025-tax-proposals/>.

37 Erica York, “Trump’s Income Tax Math Doesn’t Add Up,” *The Washington Post*, Oct. 29, 2024, <https://www.washingtonpost.com/opinions/2024/10/29/trump-income-tax-tariffs/>; Erica York and Emily Kraschel, “Liberation Day Was One Year Ago: Did the President’s Tariff Promises Happen?,” Tax Foundation, Mar. 30, 2026, <https://taxfoundation.org/blog/liberation-day-trump-tariffs/>.

38 Congressional Budget Office, “The Budget and Economic Outlook: 2026 to 2036,” Feb. 11, 2026, <https://www.cbo.gov/publication/61882>; Congressional Budget Office, “The Long-Term Budget Outlook Data: 2026 to 2056,” Feb. 25, 2026, <https://www.cbo.gov/publication/62044>.

Assuming the CBO's baseline tariff revenues remain in place or are substantially replaced with similar tariff revenues, Tax Foundation modeling indicates the potential for raising additional revenue in this category is limited due to a reduction in imports, taxpayer avoidance, an offsetting effect on income tax and other sources of revenue, and a reduction in economic output. Raising tariffs to a universal rate of 50 percent would approximately maximize tariff revenues, boosting total revenues by 1.12 percent of GDP in the first year, measured on a conventional basis, while reducing GDP by more than 1.8 percent over the long run. On a dynamic basis, tax revenue would increase by just over 0.65 percent in the first year, with the gain declining subsequently to just under 0.65 percent by 2036 and 0.61 percent by 2056. The debt ratio would continue climbing to 158 percent of GDP by 2056.

Figure 5.

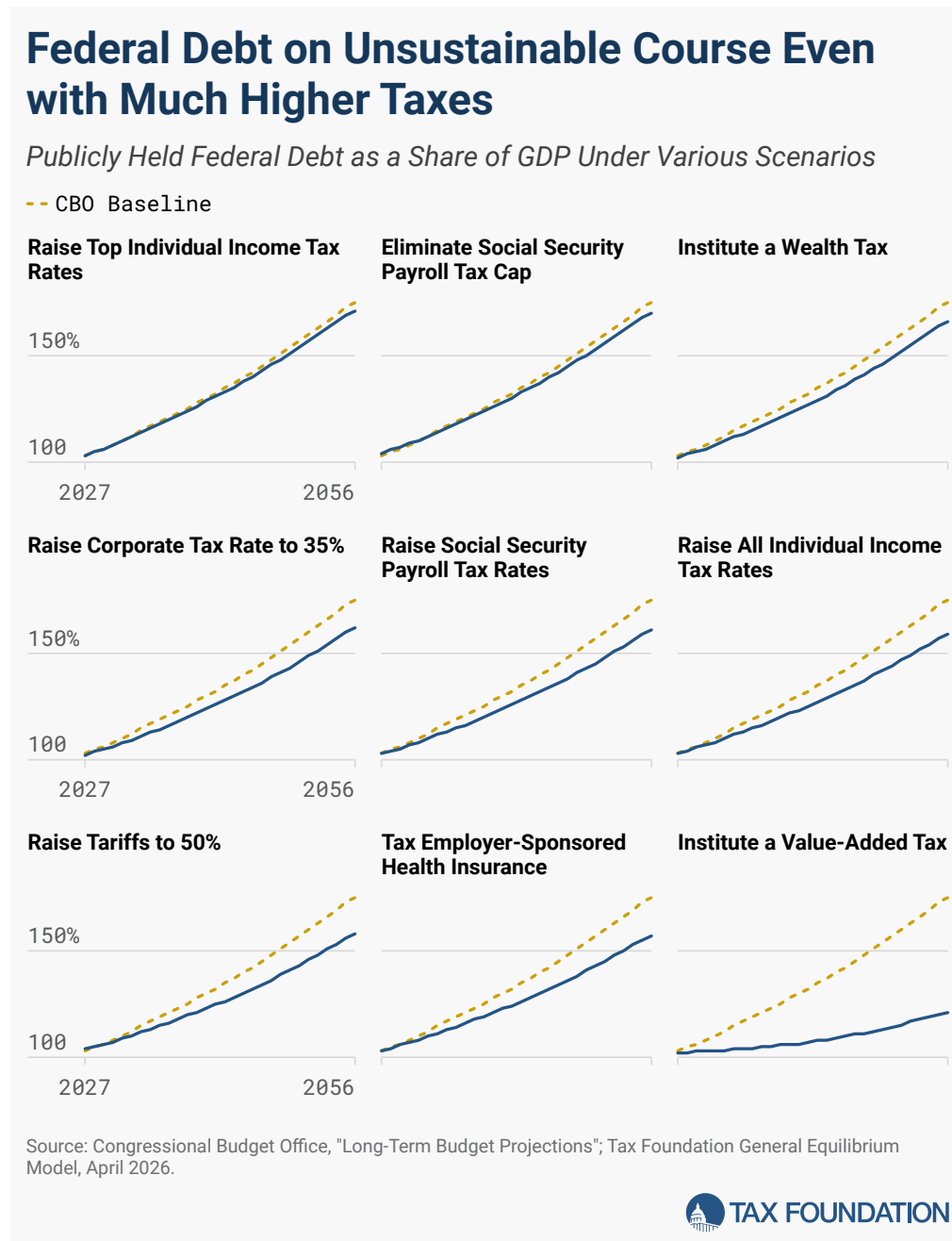
Major Tax Hike Proposals Fall Short of Closing Long-Run Primary Deficit

Revenues Raised from Various Tax Proposals Compared to CBO's Projected Primary Deficit, as a Share of GDP in 2027, 2036, and 2056

	2027 (Static)	2027 (Dynamic)	2036 (Dynamic)	2056 (Dynamic)
CBO Baseline Primary Deficit	2.38%	2.38%	2.06%	2.20%
Institute a Value-Added Tax	2.14%	1.76%	1.75%	1.72%
Raise Tariffs to 50%	1.12%	0.65%	0.65%	0.61%
Tax Employer-Sponsored Health Insurance	0.89%	0.62%	0.60%	0.64%
Raise All Individual Income Tax Rates	0.76%	0.55%	0.54%	0.60%
Raise Corporate Tax Rate to 35%	0.73%	0.68%	0.45%	0.36%
Eliminate Social Security Payroll Tax Cap	0.69%	0.27%	0.24%	0.21%
Raise Social Security Payroll Tax Rates	0.61%	0.49%	0.48%	0.46%
Institute a Wealth Tax	0.45%	0.45%	0.31%	0.14%
Raise Top Individual Income Tax Rates	0.31%	0.21%	0.14%	0.16%

Source: Congressional Budget Office, "Long-Term Budget Projections"; Tax Foundation General Equilibrium Model, April 2026.

Figure 6.



Payroll Taxes

Another major source of revenue for the federal government is payroll taxes, primarily the 12.4 percent tax on payroll implemented as part of the Federal Insurance Contributions Act (FICA) to support the Social Security trust funds. FICA payroll tax applies to the first \$184,500 in wage and salary income in 2026, a taxable maximum that is adjusted for inflation every year. Members of Congress have proposed both raising the taxable maximum and increasing payroll tax rates.³⁹

³⁹ Alex Durante, "The Federal Payroll Tax: A Primer," Tax Foundation, Feb. 5, 2026, <https://taxfoundation.org/research/all/federal/payroll-taxes-social-security-medicare/>; Garrett Watson, "Sustainably Reforming Social Security and Medicare Will Need More than Just Tax Hikes," Tax Foundation, Feb. 28, 2024, <https://taxfoundation.org/blog/medicare-social-security-tax-spending-deficits/>.

We estimate that eliminating the taxable maximum so that all wages and salaries are subject to FICA tax would boost revenue by 0.69 percent of GDP initially on a conventional basis. However, because it would substantially increase marginal tax rates on highly compensated labor, this policy would shrink GDP by more than 1.4 percent in the long run, resulting in a diminishing revenue gain of 0.27 percent of GDP in 2027, 0.24 percent in 2036, and 0.21 percent in 2056. Under this option, assuming Social Security benefits are unchanged, the debt ratio would climb to 170 percent of GDP by 2056.

Raising payroll tax rates on the current wage and salary base is less economically damaging per dollar of revenue raised, leading to more sustained revenue gains. For example, we estimate that increasing FICA payroll tax rates by two percentage points would boost conventionally measured tax revenue by 0.61 percent of GDP initially while shrinking GDP by 0.5 percent in the long run, resulting in revenue gains of 0.49 percent of GDP in 2027, 0.48 percent in 2036, and 0.46 percent in 2056. Under this option, again assuming no change in benefits, the debt ratio would climb to 161 percent by 2056.

Consumption Taxes

Lastly, unlike most countries, the US does not rely heavily on taxing consumption as a source of revenue, primarily due to the absence of a value-added tax (VAT), which is a broad-based tax on consumption found in all Organisation for Economic Co-operation and Development (OECD) countries except the US.⁴⁰ We estimate that introducing a VAT at a relatively low rate of 5 percent would raise a substantial amount of revenue, initially about 2.1 percent of GDP on a conventional basis, which is almost sufficient to close the primary deficit in the short term. However, while a VAT is a relatively efficient revenue raiser, it does reduce returns to labor, slowing economic growth. We estimate a 5 percent VAT would reduce GDP by 1.3 percent in the long run, resulting in smaller revenue gains of 1.76 percent of GDP in 2027, 1.75 percent in 2036, and 1.72 percent in 2056. This option would come closest to putting federal debt on a sustainable trajectory, substantially slowing the growth of the debt ratio so that it reaches 121 percent by 2056.

The federal government does apply relatively low excise taxes to certain types of consumption, mainly gas and diesel fuel. Whereas most OECD countries collect 1-2 percent of GDP from fuel excise taxes, the US collects less than 0.5 percent of GDP, with most of the revenue coming from state taxes, indicating substantially more federal revenue could be collected by this means.⁴¹ However, gas and diesel fuel are a declining source of revenue due to the increasing prevalence of electric vehicles, hybrids and other fuel-efficient vehicles. Our estimates indicate raising federal tax rates on gas and diesel fuel and indexing the rates to inflation would boost revenue, but the revenue gain would fall over time as a share of GDP.⁴²

Replacing the federal gas and diesel taxes with a vehicle miles traveled (VMT) tax is a better alternative for many reasons, including more sustainable revenues. However, the latest projections indicate vehicle miles driven are expected to grow somewhat slower than GDP, so that even a well-designed VMT would be a declining source of revenue. For example, we estimate a VMT that covers projected spending from

40 Cristina Enache, "Sources of Government Revenue in the OECD," Tax Foundation, May 22, 2025, <https://taxfoundation.org/data/all/global/oecd-tax-revenue-by-country/>.

41 OECD, "Pricing Greenhouse Gas Emissions," Nov. 3, 2022, https://www.oecd.org/en/publications/pricing-greenhouse-gas-emissions_e9778969-en.html.

42 Alex Muresianu and Jacob Macumber-Rosin, "How to Refuel the Highway Trust Fund," Tax Foundation, Nov. 17, 2025, <https://taxfoundation.org/research/all/federal/refuel-highway-trust-fund/>.

the federal Highway Trust Fund would increase revenue by 0.15 percent of GDP in the first year, falling to a 0.13 percent of GDP increase after a decade before accounting for dynamic effects, which would further reduce revenues.⁴³

Another excise tax option is a carbon tax or a carbon emissions trading system, which has been implemented in several countries. In a few (primarily European) countries, these policies raise substantial revenues—in some cases exceeding 1 percent of GDP—but they typically raise significantly less revenue than fuel excise taxes, in part due to exemptions for certain sectors.⁴⁴ Furthermore, in many developed countries, including the US, the tax base (i.e., carbon or, more broadly, greenhouse gas emissions) has been in decline for several years and is projected to decline further, making this a diminishing source of potential revenue as well.⁴⁵

Conclusion

The latest fiscal projections for the federal government indicate publicly held debt continues to rise indefinitely on an unsustainable course driven mainly by growth in spending on entitlement programs, especially Social Security and Medicare. Due to demographic aging of the population, rising healthcare costs, and benefit formulas that were established decades ago, these programs have grown to dominate the federal budget and, if left unchecked, are projected to grow faster than GDP for the foreseeable future, producing extraordinarily high deficits.

Federal revenues are also projected to grow faster than GDP, mainly due to bracket creep as real incomes increase, but noninterest spending is projected to outpace this growth, resulting in primary deficits that grow in the long run unsustainably. The CBO's current law projections show primary deficits growing modestly above 2 percent of GDP over the next 30 years, but the Treasury Department's current policy projections are more dire, indicating primary deficits will exceed 3 percent of GDP over the next decade and grow to more than 4 percent of GDP over the next 20 years.

While the cost of servicing the debt is alarmingly high and projected to consume a quarter of the budget within 30 years, closing the primary deficit is key to putting the debt trajectory on a sustainable course. Higher revenues can make progress toward that goal, but relying on higher revenues entirely would be extraordinarily challenging and introduce a variety of economic distortions.

The first challenge is the size of the primary deficit, which at more than 2 percent of GDP exceeds every tax increase implemented since World War II by a wide margin. Even if revenues were raised from this year's 17.5 percent of GDP to 20 percent, a level reached only twice in the country's history (1944 and 2000), it would close less than half of this year's total deficit and not quite close this year's primary deficit. Furthermore, it would fall significantly short of closing long-run primary deficits, unless revenues grow over time to unprecedented levels well above 20 percent of GDP.

⁴³ Ibid. This conventional estimate assumes the current federal taxes on gas and diesel would remain in addition to a new VMT.

⁴⁴ OECD, "Pricing Greenhouse Gas Emissions"; Alex Muresianu, Alex Mengden, and Michael Hartt, "How Well Do Carbon Taxes Match Their Promise? A New Proposed Metric," Tax Foundation, Nov. 9, 2023, <https://taxfoundation.org/research/all/federal/carbon-tax-rankings/>.

⁴⁵ Samuel Jonsson, Anders Ydstedt, and Elke Asen, "Looking Back on 30 Years of Carbon Taxes in Sweden," Tax Foundation Europe, Sep. 23, 2020, <https://taxfoundation.org/research/all/eu/sweden-carbon-tax-revenue-greenhouse-gas-emissions/>; US Energy Information Administration, "Annual Energy Outlook 2026," Apr. 8, 2026, <https://www.eia.gov/outlooks/aeo/>.

The second challenge is that essentially all potential revenue increases fail to grow fast enough over time to match growth in spending and deficits, due to the impacts of higher taxes on economic growth and avoidance behavior. Simulating several major tax hikes shows that none of the most discussed options, from hiking taxes on the rich to raising tariffs, can plausibly put the federal government's finances on a sustainable course. In general, the most effective tax-based solutions involve broad-based tax increases, including on the middle class, for example, via the introduction of a VAT or an across-the-board increase in individual income tax rates (which amounts to a perpetual rise in income tax rates due to bracket creep).

Senator Sanders' wealth tax proposal performs especially badly, with revenue gains as a share of GDP dropping by more than two-thirds after 30 years, relative to the conventional estimate in the first year. Eliminating the Social Security payroll tax cap exhibits a similar pattern. Raising tax rates on high-earners and corporations also fails to deliver over the long term, with revenue gains dropping roughly in half over 30 years. Raising tariffs can produce substantial new revenues, but those revenue gains measured as a share of GDP drop by about 46 percent over 30 years. These tax increases would create large economic distortions; reduce jobs, wages and standards of living; and yet still fail to put the debt trajectory on a sustainable course.

Though generally unpopular, broad-based tax increases perform better in this regard. Introducing a 5 percent VAT would nearly erase the near-term primary deficit and with relatively little economic damage, such that the revenue gain as a share of GDP falls about 20 percent over 30 years. While even this option would not put the debt on a sustainable course, it would effectively delay the more dangerous debt levels projected under the CBO's baseline by several years. An across-the-board increase in individual income tax rates is almost as effective as a VAT, though aided by bracket creep, with initial revenue increases falling about 21 percent over 30 years. Raising Social Security tax rates has a similar effect, with revenue gains falling about 23 percent over three decades. Lastly, broadening the income tax base by eliminating the exclusion for ESI would produce a substantial revenue gain that falls about 28 percent over 30 years.

The revenue options analyzed in this paper could be combined to produce more significant deficit reduction, e.g., increasing corporate and individual income tax rates, but the economic downsides would generally compound, further limiting the revenue gains over time. In the end, the results point to the need to focus primarily on reducing spending growth to reduce the debt, especially growth in the major entitlement programs, and secondarily on relatively efficient, broad-based tax increases. These results are consistent with several studies and strands of literature that also point to the importance of focusing on spending reductions, particularly entitlement reforms, as the avenue most likely to lead to a successful fiscal consolidation that sustainably reduces debt without undue damage to the economy.⁴⁶

For instance, a recent study analyzing various tax and spending adjustments intended to address the approaching insolvency of the Social Security trust funds finds that gradually reforming benefits, including by raising the retirement age and changing the inflation-indexing of benefits, comes closest to bringing the trust funds into long-term balance and would have an increasingly strong positive effect on economic growth driven by increased private saving and investment.⁴⁷ The study finds the reforms would be most beneficial for today's children and future generations: "Younger and future cohorts gain more because

46 William McBride, Erica York, Alex Durante, and Garrett Watson, "The Unsustainable US Debt Course and Impacts of Potential Tax Changes"; William McBride, Erica York, Alex Durante, and Garrett Watson, "The Sustainability of U.S. Debt and Potential Reforms: Fiscal Rules, Spending and Taxes, and a Fiscal Commission".

47 Seul Ki (Sophie) Shin and Kent Smetters, "Social Security Reform with Dynamics," Penn Wharton Budget Model, Mar. 19, 2026, <https://budgetmodel.wharton.upenn.edu/p/2026-03-09-six-options-to-restore-social-securitys-financial-balance/>.

they benefit from improved macroeconomic conditions over their entire working lives, whereas older cohorts bear transition costs with fewer years to recoup them.”

The CBO finds a similar trade-off would occur, though more jarring and abrupt, if Social Security benefits were simply allowed to fall to their legally authorized level, matching dedicated trust fund revenues upon insolvency. In this scenario, which is the default if no legislative action is taken, the CBO estimates benefits would drop by an average of 28 percent beginning in 2033, causing GDP to fall by 0.7 percent that year. However, the economy would quickly recover, with GDP rising by 1 percent above baseline by 2036 due to “the effects of increased work and savings and reduced federal borrowing.”⁴⁸

To avoid this sudden drop in benefits, lawmakers should act now by gradually phasing in reforms and potentially exploring offsetting adjustments to reduce the transition costs. Likewise, to avoid a similar fate for Medicare benefits as its trust funds are also headed for insolvency in the next few years, lawmakers should institute reforms that reduce waste in healthcare spending, improve efficiency, and reduce cost pressures.⁴⁹

Reforming the major entitlement programs is essential, not only to ensure the stability and reliability of program benefits in the years to come, but also to put the federal government’s finances on a sustainable path, which would ease pressure to finance the programs through distortionary tax increases or (worse) through inflation. This will require lawmakers and other stakeholders to take a longer-term perspective, beyond the current election cycle, recognizing, among other things, the future economic and other benefits of reform for today’s children and future generations.

48 Congressional Budget Office, “The Budget and Economic Outlook: 2026 to 2036,” Feb. 11, 2026, <https://www.cbo.gov/publication/61882>.

49 Committee for a Responsible Federal Budget, “Analysis of the 2025 Medicare Trustees’ Report,” Jun. 18, 2025, <https://www.crfb.org/papers/analysis-2025-medicare-trustees-report>; Peter G. Peterson Foundation, “Almost 25% of Healthcare Spending is Considered Wasteful. Here’s Why,” Apr. 3, 2023, <https://www.pgpf.org/article/almost-25-percent-of-healthcare-spending-is-considered-wasteful-heres-why/>; William McBride, Erica York, Alex Durante, and Garrett Watson, “The Unsustainable US Debt Course and Impacts of Potential Tax Changes”; William McBride, Erica York, Alex Durante, and Garrett Watson, “The Sustainability of U.S. Debt and Potential Reforms: Fiscal Rules, Spending and Taxes, and a Fiscal Commission.”