



MONTHLY BUDGET REVIEW

Fiscal Year 2009

A Congressional Budget Office Analysis

Based on the *Monthly Treasury Statement* for March and the *Daily Treasury Statements* for April

May 7, 2009

The federal government incurred a deficit of close to \$800 billion for the first seven months of fiscal year 2009, CBO estimates—\$646 billion more than the deficit recorded through April 2008. That estimate includes outlays for the Troubled Asset Relief Program (TARP) measured on a net-present-value basis (adjusted for market risk), consistent with statutory requirements and with the approach used in the President’s budget request for fiscal year 2010, which was transmitted today. On a present-value basis, CBO estimates that outlays for the TARP were \$116 billion through April.

MARCH RESULTS

The Treasury reported a deficit of \$192 billion for March, about \$1 billion higher than CBO’s estimate for March on the basis of the *Daily Treasury Statements*.

ESTIMATES FOR APRIL (Billions of dollars)

	Actual FY2008	Preliminary FY2009	Estimated Change
Receipts	404	264	-140
Outlays	244	282	38
Surplus/Deficit (-)	159	-19	-178

Sources: Department of the Treasury; CBO.

CBO estimates that the Treasury will report a deficit of \$19 billion for April. In most years, the federal government has run a surplus in April because of the large inflow of tax payments due by April 15. However, this April the budget will show a deficit because of a steep drop in receipts and strong growth in spending.

Receipts in April were about \$140 billion (or 35 percent) lower than receipts in April 2008, CBO estimates. The sharpest drop was in corporate receipts; net corporate receipts in April, largely representing corporations’ first quarterly tax payment for 2009, declined by about \$29 billion (or 69 percent). Nonwithheld receipts for individual income and payroll taxes—mainly amounts paid with income tax returns filed in April—accounted for more than half of the total decline, falling by \$84 billion (or 36 percent). Refunds of individual income taxes increased by \$11 billion (or 24 percent). That change in net receipts associated with income tax filings was roughly in line with CBO’s expectations.

Compared with receipts in April 2008, withholding for income and payroll taxes fell about \$14 billion (or 10 percent). CBO estimates that more than one-third of that decline is attributable to provisions of the recently enacted American Recovery and Reinvestment Act of 2009 (ARRA), most notably the Making Work Pay credit. Those provisions will continue to contribute to year-over-year declines in withholding for the next 11 months.

Outlays were \$38 billion higher than last April, CBO estimates. Medicaid spending increased by \$8 billion; over half of that increase was due to provisions in ARRA that temporarily increase the share of Medicaid costs paid by the federal government. Unemployment benefits rose by \$8 billion compared with such spending last April. Together those programs accounted for over 40 percent of the total increase in spending. Social Security benefits were nearly \$5 billion higher than last April, and outlays for defense increased by \$3 billion. The April total also includes the payment of \$2.5 billion to Egypt and Israel for military aid; last year, those payments were made in January.

BUDGET TOTALS THROUGH APRIL (Billions of dollars)

	Actual FY2008	Preliminary FY2009	Estimated Change
Receipts	1,550	1,254	-296
Outlays	1,703	2,053	350
Deficit (-)	-153	-799	-646

Sources: Department of the Treasury; CBO.

CBO estimates that the Treasury will report a deficit of \$799 billion for the first seven months of fiscal year 2009, compared with a shortfall of \$153 billion for the same period last year.

Note: Unless otherwise indicated, the figures in this report include the Social Security trust funds and the Postal Service fund, which are off-budget. Numbers may not add up to totals because of rounding.

RECEIPTS THROUGH APRIL

(Billions of dollars)

Major Source	Actual FY2008	Preliminary FY2009	Percentage Change
Individual Income	748	566	-24.3
Corporate Income	171	69	-59.7
Social Insurance	528	528	0.0
Other	<u>103</u>	<u>91</u>	-11.7
Total	1,550	1,254	-19.1

Sources: Department of the Treasury; CBO.

Receipts in the first seven months of this fiscal year were about \$296 billion (or 19 percent) lower than in the same period last year. Although individual income and payroll tax receipts through April of this year have been roughly in line with the amount CBO anticipated when it prepared its most recent baseline projection in March, corporate receipts have continued to lag and are running \$25 billion to \$30 billion less than anticipated. Net corporate receipts decreased by \$102 billion (or 60 percent) in the October–April period, as lower corporate tax liabilities translated into both declines in gross payments and higher refunds. Continued weakness in corporate profits, recently enacted legislation (most notably, bonus depreciation), and the ability of firms to use current-year losses to reduce tax liabilities from previous years all contributed to lower liabilities.

Nonwithheld receipts of individual income and payroll taxes, consisting mainly of quarterly estimated payments of taxes made in January and April and final payments of taxes for 2008 made during the February–April tax-filing season, decreased by about 28 percent in the first seven months of the year, contributing about \$98 billion to the decrease in total receipts. The decline probably stems, at least in part, from a substantial fall in nonwage income in 2008.

Withholding of income and payroll taxes fell by about \$52 billion (or 5 percent), largely because of the ongoing effects of the recession on wage and salary disbursements. In addition, an increase in refunds of individual income taxes of \$30 billion (or 17 percent) added to the net decrease in total receipts. Those refunds mainly resulted from the tax returns taxpayers filed for 2008. Other tax receipts declined by \$12 billion (or 12 percent) during the past seven months.

OUTLAYS THROUGH APRIL

(Billions of dollars)

Major Category	Actual FY2008	Preliminary FY2009	Percentage Change	
			Actual	Adjusted ^a
Defense—Military	342	369	7.7	7.7
Social Security				
Benefits	350	377	7.7	7.7
Medicare ^b	220	242	10.2	10.2
Medicaid	117	142	20.9	20.9
Other Activities	<u>525</u>	<u>642</u>	22.3	22.3
Subtotal	1,555	1,773	14.0	14.0
Net Interest on the				
Public Debt	148	105	-29.5	-29.5
TARP	0	116	n.a.	n.a.
Payments to GSEs	<u>0</u>	<u>60</u>	n.a.	n.a.
Total	1,703	2,053	20.5	20.5

Sources: Department of the Treasury; CBO.

Notes: TARP = Troubled Asset Relief Program; n.a. = not applicable; GSE = government-sponsored enterprise.

a. Excludes the effects of payments that were shifted because of weekends or holidays.

b. Medicare outlays are net of proprietary receipts.

Outlays through April totaled nearly \$2.1 trillion, CBO estimates—\$350 billion more than in the first seven months of 2008. CBO estimates that outlays for the TARP totaled \$116 billion (on a net-present-value basis). Payments to Fannie Mae and Freddie Mac totaled \$60 billion; spending for other programs, excluding net interest, grew by 14 percent (or \$218 billion). Defense spending rose by 8 percent and nondefense spending by 16 percent. In contrast, outlays for net interest on the public debt were down nearly 30 percent (or \$44 billion) compared with last year, primarily because of lower costs for inflation-indexed securities and a decline in short-term interest rates.

The largest percentage increase in spending through April occurred in “other activities.” That spending grew by 22 percent, boosted by increases in unemployment benefits, which have more than doubled compared with the same period in 2008. Increased lending to credit unions, lower earnings credited to certain government funds, and increased payments for food and nutrition programs also contributed to that growth.

Spending for Medicaid rose by 21 percent (or \$25 billion) through April compared with last year. Over half of that growth resulted from provisions in ARRA that increased the government’s share of Medicaid payments. Spending for Medicare grew by 10 percent (or \$22 billion), but that growth is overstated because it reflects a \$4 billion reduction in Medicare spending last year to correct for previous overpayments to prescription drug providers. Adjusting for that reduction, Medicare spending rose by 8 percent.