APPENDIX

D

The Treatment of Federal Receipts and Expenditures in the National Income and Product Accounts

The fiscal transactions of the federal government are reported in two major sets of accounts that are conceptually quite different. The presentation generally discussed in the press and used by executive branch agencies and the Congress (and the one followed in this report) is the *Budget of the United States Government,* as reported by the Office of Management and Budget. It focuses on cash flows—revenues and outlays, or the collection of taxes and fees and the disbursement of cash for the various federal functions. The goal of the budget is to provide information to assist lawmakers in their policy deliberations, to control federal activities, and to help the Department of the Treasury manage its cash balances and determine its borrowing needs.

The national income and product accounts (NIPAs) also report the federal government's transactions, but with different goals. The NIPAs, which are produced by the Bureau of Economic Analysis (BEA) at the Department of Commerce, are intended to provide a comprehensive measure of current production and related income generated by the U.S. economy.[1] A well-known measure of current production in the NIPAs is gross domestic product, or GDP. The accounts, which are used extensively in macroeconomic analysis, divide the economy into four major sectors—business, household, government, and the rest of the world (the foreign sector), each with its own accounts.[2] The federal sector, which is the focus of this appendix, is one component of the government sector (the state and local sector is the other component).[3] Because the goals of the NIPAs differ from those of the budget, the two accounting systems treat some government transactions very differently. The differences, especially those resulting from comprehensive changes in the NIPAs this year, cause the receipts and expenditures in the NIPAs, as projected by the Congressional Budget Office (CBO), to exceed the corresponding budget totals by about 3.5 percent for the 2004-2014 period.

Conceptual Differences Between the NIPAs' Federal Sector and the Federal Budget

The budget of the federal government is best understood as an information and management tool. It focuses mostly on cash flows, recording for each period the in-

1. The discussion of the NIPAs in this appendix generally refers to Table 3.2 in the accounts, "Federal Government Current Receipts and Expenditures," which most closely resembles the presentation in the budget. For other discussions of the NIPAs, see Bureau of Economic Analysis, *Survey of Current Business* (March 2003); and *Budget of the United States Government, Fiscal Year 2004: Analytical Perspectives.*

2. Some accounts in the NIPAs, such as the domestic capital account (which shows saving and investment), focus on components of GDP or gross domestic income, rather than on a specific sector, and bring together relevant information from all four sectors.

3. More formally, BEA regards the federal government and the state and local governments as subsectors. The treatment of state and local governments' transactions in the NIPAs closely resembles that of the federal government's. In large part, the NIPAs rely on state and local budget data collected by the Bureau of the Census, which—like the federal budget data—are currently reported on a cash basis. The Government Accounting Standards Board now requires that state and local governments report transactions on an accrual basis; therefore, accrual-based estimates will appear in the Bureau of the Census's data at some point.

flow of revenues and the outflow of spending.[4] The main period of interest in the budget accounts is the fiscal year, which runs from October through September. There are a few exceptions to the general rule of recording transactions on a cash basis, but they are intended to improve the usefulness of the budget as a tool for making decisions. For example, when the federal government makes direct loans or provides loan guarantees (as with student loans), simply tracking flows of cash would give a misleading view of costs. So (under what is known as credit reform) the budget records the estimated subsidy costs at the time that the loans are made, along with the administrative costs (on a cash basis).

The federal sector of the NIPAs has none of the planning and management goals of the budget. Instead, it is focused on displaying how the federal government fits into a general framework that describes current production and income within specific periods and what happens to that production and income. The main periods of interest for the NIPAs are calendar years and calendar quarters, although approximate totals for fiscal years can be derived from the quarterly estimates.

From the point of view of the NIPAs, the federal government is both a producer and a consumer: its workforce produces government services, and its purchases consume some of the nation's production. In addition, the federal government affects the resources available to the private sector, through its taxes and transfers. The job of the NIPAs is to record all of those activities in a consistent manner.

The federal sector of the NIPAs tracks how much the government spends on consumption purchases, and it records the transfer of resources that occurs through taxes, payments to beneficiaries of federal programs, and federal interest payments. The federal sector's contribution to GDP is presented elsewhere in the NIPAs.[5]

Differences in Accounting for Major Transactions

The accounting differences between the NIPAs and the federal budget stem from the conceptual differences discussed above. In attempting to properly incorporate federal transactions into the framework used to determine GDP, the NIPAs reflect judgments about the best treatment of transactions such as government investment, sales and purchases of existing assets, federal credit, and activities that resemble those of businesses, along with transactions involving U.S. territories. In some cases, the appropriate treatment may be to exclude the transaction entirely from the NIPAs or to move it from the federal sector to another place in the NIPAs. In other cases, the appropriate treatment may involve recording an offsetting (negative) outlay as a receipt instead or adjusting the timing of a federal transaction to better match the timing of related production or income flows.[6]

The Measurement of National Saving

Several conventions in the NIPAs are intended to portray the federal government's contribution to national saving. Two major departures from the budget are the treatment of federal investment spending (for such things as ships, tanks, and office buildings) and the treatment of federal employee retirement programs.

The government's investment spending is not included in the federal sector of the NIPAs but instead is counted along with private investment spending in the domestic capital account, which shows saving and investment. The federal sector of the accounts does, however, record a depreciation charge for the current services of capital created by past government investment. In the budget, depreciation, or consumption of fixed capital, is not

4. Some budget accounts distinguish between on-budget and off-budget transactions and between federal funds and trust funds. Those distinctions do not affect the overall budget balance, have no economic implications, and do not appear in the NIPAs.

5. As part of its comprehensive revisions to the NIPAs (discussed in more detail later), BEA explicitly recognizes the services produced by the government as part of GDP and treats government purchases of goods and services (which are part of the business sector's contribution to GDP) as intermediate inputs to the production of government services. (Thus, the NIPAs now handle transactions in the government sector similarly to those in the business sector.) The changes shift the composition of GDP away from goods and toward services, because the government's purchases of goods are now classified as inputs to a new component of GDP, government services. Although that new treatment changes the relative importance of different components of GDP, it does not change the level of GDP or the transactions reported in the NIPAs' federal sector.

6. The resulting differences between the numbers in the NIPAs and the budget are sometimes divided into three groups: coverage, netting, and timing differences. While all three can affect total revenues or outlays, netting differences have no impact on the federal deficit or surplus because they affect revenues and outlays equally.

tracked. In *Table D-1,* this difference in coverage by the NIPAs and the budget is shown under "Treatment of investment and depreciation."[7]

The transactions of federal employee retirement programs are also handled very differently in the budget and the NIPAs. In the budget, federal employees' contributions to their retirement are recorded as revenues, whereas agencies' contributions on behalf of their employees (as well as interest payments from the Treasury to trust funds) have no overall budgetary effect because they are simply transfers of funds between two government accounts.[8] Benefit payments to retirees are recorded as outlays in the budget. By contrast, in the NIPAs, the aim is to make the measurement of saving by the federal government consistent with that by the private sector. Therefore, the NIPAs treat some of the transactions of federal retirement plans, except for the Railroad Retirement Fund, as part of the household sector.[9] The receipts from federal employers' and employees' retirement contributions (and the interest earned by retirement accounts) are considered part of the personal income of workers and thus are not recorded as federal transactions (receipts or negative expenditures).

On the outlay side, pension benefit payments to retirees are not recorded as federal expenditures in the NIPAs because they are treated as transfers from pension funds within the household sector. Some transactions, however, remain part of federal expenditures even though the corresponding receipts are recorded in the household sector. Namely, as part of compensation, the government's payments to its workers' retirement are counted as federal expenditures, as is the interest paid to federal retirement accounts. The different treatment of retirement contributions by federal employees shows up in Table D-1 under "Receipts"; the different treatment of contributions by federal employers, interest earnings, and benefit payments is shown under "Expenditures."

Capital Transfers and Exchanges of Existing Assets

The NIPAs measure current production and income rather than transactions involving existing assets. Thus, the NIPAs exclude capital transfers and asset exchanges, although the budget generally includes them. Capital transfers in the NIPAs include estate and gift taxes (which are taxes on private capital transfers), investment subsidies to businesses, and investment grants to state and local governments (for highways, transit, air transportation, and water treatment plants). Exchanges of existing assets include federal transactions for deposit insurance and sales and purchases of government assets (including assets that are not produced, such as land and the radio spectrum). In Table D-1, those differences between the NIPAs' federal sector and the budget accounts show up on the revenue side as estate and gift taxes and on the outlay side as capital transfers and lending and financial adjustments.

Credit Programs

The budget is not affected by all of the transactions associated with federal loans and loan guarantees—just the administrative costs and the estimated cost of subsidies. Loan disbursements, loan repayments, and interest are reported in what are termed financing accounts, which have no effect on revenues or outlays.

Like the budget, the NIPAs record administrative costs and generally exclude other cash flows considered exchanges of existing assets or financial and lending transactions unrelated to current production. Unlike the budget, however, the NIPAs do not record subsidy costs. Also, unlike the budget, the NIPAs include the interest receipts from credit programs (as part of federal receipts). Those differences in the treatment of credit programs are recorded in two places. Under "Expenditures" in Table D-1, the lending and financial adjustments show the differences in handling the loan subsidies, and under "Receipts," the difference in treating loan interest is captured as income receipts on assets.

7. The estimates and presentation of the reconciliation between the NIPAs and the budget in Table D-1 are based on CBO's interpretation of the revised methodology for the accounts, as presented in Bureau of Economic Analysis, *Survey of Current Business* (June 2003). The Administrations's budget will include a revised reconciliation table that will form the basis for CBO's future presentations.

8. In the budget, contributions by an agency for its employees' retirement are outlays for that agency and are offsetting receipts (negative outlays) for the trust funds. Thus, those intragovernmental transfers result in no net outlays or receipts for the total budget. That treatment is the same for Social Security and Medicare contributions by the federal government for its employees.

9. Social Security contributions and benefit payments for both private and government employees are kept in the federal sector as receipts and expenditures rather than moved to the household sector.

Table D-1.

Relationship of the Budget to the Federal Sector of the National Income and Product Accounts

(Billions of dollars)

	Actual 2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Receipts												
Revenues (Budget)[a]	1,782	1,817	2,049	2,256	2,385	2,506	2,644	2,786	3,036	3,272	3,441	3,629
Differences												
Coverage												
Contributions for government employees' retirement	-5	-4	-4	-4	-4	-4	-4	-3	-3	-3	-3	-3
Estate and gift taxes	-22	-24	-23	-26	-24	-25	-26	-19	-20	-40	-43	-47
Geographic adjustments	-4	-4	-4	-4	-5	-5	-5	-5	-5	-6	-6	-6
Universal Service Fund receipts	-6	-6	-6	-7	-7	-7	-7	-7	-7	-8	-8	-8
Subtotal, coverage	-36	-39	-38	-41	-39	-41	-42	-35	-36	-56	-59	-64
Timing shift of corporate estimated tax payments	6	*	-7	0	0	0	0	0	0	0	0	0
Netting												
Medicare	28	32	36	54	63	68	74	81	88	96	105	114
Deposit insurance premiums	*	*	*	1	1	1	1	2	2	2	2	2
Government contributions for OASDI and HI for employees	13	14	15	16	17	18	19	20	21	22	23	24
Income receipts on assets	18	19	20	21	23	25	25	26	27	28	29	31
Surpluses of government enterprises	-2	-3	-4	-3	-3	-3	-3	-3	-3	-3	-4	-4
Other	18	20	20	19	20	20	20	21	21	21	22	22
Subtotal, netting	76	82	87	108	120	129	136	146	156	166	177	189
Other adjustments	14	28	-7	-6	1	3	-1	-2	1	-4	1	1
Total Differences	61	71	36	61	81	90	94	109	122	106	119	126
Receipts in the NIPAs	1,843	1,888	2,085	2,317	2,467	2,596	2,738	2,895	3,158	3,378	3,560	3,755
Expenditures												
Outlays (Budget)[a]	2,158	2,294	2,411	2,525	2,652	2,783	2,912	3,047	3,198	3,296	3,457	3,616
Differences												
Coverage												
Treatment of investment and depreciation	-8	-10	-12	-14	-17	-20	-24	-28	-33	-38	-42	-47
Contributions for government employees' retirement	32	37	38	38	38	39	41	41	42	43	44	45
Capital transfers	-42	-46	-47	-49	-51	-51	-52	-53	-53	-54	-55	-56
Lending and financial adjustments	21	21	19	22	22	23	16	16	16	16	17	18
Geographic adjustments	-13	-14	-14	-14	-15	-16	-16	-17	-18	-19	-20	-21
Universal Service Fund receipts	-6	-6	-6	-6	-6	-6	-6	-7	-7	-7	-7	-7
Other	9	-4	2	2	4	6	8	11	12	14	17	19
Subtotal, coverage	-6	-21	-21	-21	-24	-25	-33	-37	-41	-43	-46	-49

(Continued)

Table D-1.

Continued

(Billions of dollars)

	Actual 2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Timing adjustments	0	0	-12	3	10	0	0	0	-15	15	0	0
Netting												
Medicare	28	32	36	54	63	68	74	81	88	96	105	114
Deposit insurance premiums	*	*	*	1	1	1	1	2	2	2	2	2
Government contributions for OASDI and HI for employees	13	14	15	16	17	18	19	20	21	22	23	24
Income receipts on assets	18	19	20	21	23	25	25	26	27	28	29	31
Surpluses of government enterprises	-2	-3	-4	-3	-3	-3	-3	-3	-3	-3	-4	-4
Other	18	20	20	19	20	20	20	21	21	21	22	22
Subtotal, netting	76	82	87	108	120	129	136	146	156	166	177	189
Total Differences	**70**	**61**	**54**	**89**	**107**	**103**	**103**	**109**	**100**	**138**	**131**	**140**
Expenditures in the NIPAs	2,228	2,355	2,465	2,614	2,759	2,886	3,015	3,156	3,298	3,434	3,588	3,756
Net Federal Government Saving												
Budget Deficit (-) or Surplus[a]	-375	-477	-362	-269	-267	-278	-268	-261	-162	-24	-16	13
Differences												
Coverage												
Treatment of investment and depreciation	8	10	12	14	17	20	24	28	33	38	42	47
Contributions for government employees' retirement	-37	-41	-42	-42	-42	-43	-44	-44	-45	-46	-47	-48
Estate and gift taxes	-22	-24	-23	-26	-24	-25	-26	-19	-20	-40	-43	-47
Capital transfers	42	46	47	49	51	51	52	53	53	54	55	56
Lending and financial adjustments	-21	-21	-19	-22	-22	-23	-16	-16	-16	-16	-17	-18
Geographic adjustments	9	10	10	10	10	11	11	12	12	13	14	14
Universal Service Fund payments	*	*	*	*	-1	-1	-1	-1	-1	-1	-1	-1
Other	-9	4	-2	-2	-4	-6	-8	-11	-12	-14	-17	-19
Subtotal, coverage	-30	-18	-17	-20	-16	-16	-9	2	5	-13	-13	-15
Timing adjustments	6	*	6	-3	-10	0	0	0	15	-15	0	0
Other adjustments	14	28	-7	-6	1	3	-1	-2	1	-4	1	1
Total Differences	**-10**	**10**	**-19**	**-29**	**-25**	**-13**	**-9**	*****	**22**	**-32**	**-12**	**-14**
Net Federal Government Saving	-385	-467	-380	-297	-292	-290	-278	-261	-140	-56	-28	-2

Source: Congressional Budget Office.

Note: * = between -$500 million and $500 million; OASDI = Old-Age, Survivors, and Disability Insurance; HI = Hospital Insurance.

a. Includes Social Security and the Postal Service.

Geographic Coverage

The NIPAs exclude all government transactions with Puerto Rico and the U.S. territories, whose current production is, by the NIPAs' definition, not part of U.S. GDP. Since federal transfers dominate those transactions, their exclusion tends to increase the NIPAs' depiction of the federal surplus (which the accounts now term net federal government saving) or decrease its depiction of the deficit, in comparison with that in the budget. That difference in coverage is shown as geographic adjustments in Table D-1.

Universal Service Fund

The budget, but not the NIPAs' federal sector, records the business activity of the Universal Service Fund, which provides resources to promote access to telecommunications. The fund receives federally required contributions from providers of interstate and international telecommunications service and disburses those funds to local providers that serve high-cost areas, low-income households, libraries, and schools, as well as to rural health care providers. The fund is administered by an independent nonprofit corporation (the Universal Fund Administration Company), which is regulated by the Federal Communications Commission.

Because of the limited role played by the government, the fund's receipts and payments are classified in the NIPAs as intracorporate transfers (from one business to another) and are not recorded in the federal sector of the accounts. The fund's revenues and outlays appear in the federal budget but have little net impact on the deficit or surplus. The difference in treatment of the Universal Service Fund is so labeled in Table D-1.

Timing Differences

The NIPAs attempt to measure income flows as much as possible on an accrual basis (when income is earned as opposed to when it is received) rather than on a cash basis.[10] That approach makes sense in an integrated system of accounts that is tracking both production and income, because on an accrual basis the value of what is produced in a period should (measurement problems aside) match the total income generated. For example, BEA attributes corporate tax payments to the year in which the liabilities are incurred rather than to the time when the payments are actually made. However, the NIPAs are not entirely consistent in this respect: personal tax payments are counted as they are made and are not attributed back to the year the liabilities were incurred. Currently, BEA is engaged in research to develop methods for preparing accrual-based estimates of personal tax payments.

Because the budget is mostly on a cash basis and the NIPAs' federal sector is much more on an accrual basis, differences exist in a number of areas in the timing for recording transactions.

Corporate Taxes. Tax legislation sometimes temporarily shifts the timing of corporate tax payments (usually from the end of one fiscal year to the beginning of the next one). The NIPAs exclude such timing shifts, which are not consistent with accrual accounting. The timing adjustments for the effects of the Economic Growth and Tax Relief Reconciliation Act of 2001 and the Jobs and Growth Tax Relief Reconciliation Act of 2003 (Public Law 108-27) are shown as the timing shift of corporate estimated tax payments in Table D-1.

Although corporations make estimated tax payments throughout the year, any shortfalls (or overpayments) are corrected in the form of final payments (or refunds) in subsequent years. The NIPAs shift those final payments back to the year in which the corporate profits that gave rise to the tax liabilities actually were generated, while the budget records them on a cash basis. The results of that difference are difficult to identify for recent history and thus appear under "Other adjustments" under "Receipts" in Table D-1.[11]

Personal Taxes. Although personal taxes are not recorded on an accrual basis in the NIPAs, nevertheless BEA attempts to avoid large, distorting upward or downward spikes in personal disposable income due to timing quirks. Such quirks occur, for example, in April of each

10. See United Nations, *System of National Accounts* (1993), section 3.19, which emphasizes reporting transactions on an accrual basis. Many of the conceptual changes to the NIPAs over time have been based on the guidelines enumerated in that U.N. document.

11. "Other adjustments" includes timing differences not shown elsewhere in Table D-1, plus discrepancies between figures in the NIPAs and the budget that may become much smaller after BEA makes its annual revisions in July 2004, at which time estimates of federal receipts for the past three years will be open to revision. Such revisions, which can be large at times, often reflect the effects on receipts of economic developments (such as lower-than-expected growth in profits) that do not show up until a year or more later when the Internal Revenue Service's tax data on corporate liabilities become available.

year, when most final settlements for the previous year's personal taxes are paid. In the NIPAs, therefore, those settlements are evenly spread over the four quarters of the calendar year in which they are paid. (That treatment avoids spikes, as would accrual accounting, but differs from accrual accounting in that it does not move payments back to the year in which the liabilities were incurred.) The smoothing can alter the relationship of the NIPAs and the budget accounts for fiscal years because it moves some receipts into the last quarter of the calendar year and thus into the following fiscal year. Those adjustments are difficult to identify for recent history and thus are not shown separately in Table D-1, but appear in the "Other adjustments" category under "Receipts."

Transfers and Military Compensation. Timing adjustments are needed on the spending side of the NIPAs to align military compensation and government transfer payments—for example, veterans' benefits, Supplemental Security Income (SSI) payments, and Medicare's payments to HMOs (health maintenance organizations)—with income that is reported on an accrual basis in the NIPAs. Misalignments can occur because of quirks in the calendar.

For example, although SSI payments are usually sent out on the first day of each month, the checks are sometimes mailed a day or more in advance. That typically occurs when the first of the month falls on a weekend or holiday. If that situation occurs for the October payments, the payments will be pushed into the previous fiscal year in the budget. In such cases, the NIPAs introduce a timing adjustment that effectively puts the payments back on the first day of the month. Hence, the NIPAs' adjustment always ensures that there are exactly 12 monthly SSI payments in a year, whereas in the budget, there can be 11 in some years and 13 in others.

For military compensation, which is paid twice a month (at the beginning and the middle), the adjustment in the NIPAs always ensures 24 payments in the year, whereas in the budget, there can be 23 in some years and 25 in others. The timing adjustments for expenditures in Table D-1 reflect that regularizing for transfers and for military pay.

Business Activities

The NIPAs and the federal budget both treat certain revenues as offsetting receipts (negative outlays) when they result from voluntary transactions with the public that resemble business activities, such as the proceeds from the sale of postage stamps or government publications. However, the NIPAs generally have a stricter view of what resembles a business transaction. In particular, Medicare premiums, deposit insurance premiums, rents, royalties, and regulatory or inspection fees are deemed equivalent to business transactions in the budget but not in the NIPAs. Consequently, those transactions (negative outlays in the budget) are treated in the NIPAs as government receipts (contributions for government social insurance and current transfers from business—fines and fees). Those differences are recorded under "Netting" in Table D-1. Because they affect total current receipts and total current expenditures by exactly the same amounts, they have no effect on the NIPAs' measure of federal saving.

Newly Revised Treatment of Federal Transactions in the NIPAs

As mentioned, BEA recently introduced comprehensive revisions to the NIPAs. Those changes align the accounts more consistently with international accounting guidelines, provide new information, and improve the measurement of the federal sector's contribution to GDP. The changes that affect the translation from the budget to the NIPAs are mostly timing changes and the reclassification of some items that previously were recorded as offsets to expenditures so that they now are deemed receipts. Medicare payments are now recorded on an accrual basis rather than on a cash basis, and taxes from the rest of the world, interest receipts, and the surpluses of government enterprises are now shown as part of federal receipts rather than as offsets to federal expenditures. Except for the timing change for Medicare's expenditures, the revisions do not alter federal saving because they affect receipts and expenditures by exactly the same amounts. That also is the case for a change in the treatment of in-kind military assistance that shifts some portion of GDP from the federal sector to the international sector (rest of world).

Medicare Payments

In the NIPAs, the shift from cash to accrual accounting for Medicare payments was made possible by new data. So now the NIPAs better show the link between the underlying economic activity (the medical services provided) and the associated federal transaction (payment for those services), which can be several months apart. That timing adjustment has only a small effect on the NIPAs' measure of federal saving.

Taxes from the Rest of the World

Previously, federal taxes from resident aliens and from U.S. citizens living abroad for more than a year were netted against federal transfers to the rest of the world on the expenditure side of the NIPAs' federal sector. BEA now reports those receipts and transfers separately, and those receipts now appear with other federal receipts rather than as offsets to expenditures. The new treatment is consistent with international accounting guidelines, under which taxes and transfers are reported separately. It also matches the treatment of such taxes in the federal budget, although the budget does not attempt to separately identify taxes paid by the rest of the world. The reclassification has no effect on the NIPAs' measurement of federal saving.

Interest Receipts

Previously in the NIPAs, interest received by the federal government from loans and other financial assets was netted against federal interest payments. As a result, federal interest costs were reported on a net basis in the NIPAs, as they are in the federal budget.[12] That treatment, however, is not consistent with international accounting practices, under which interest receipts and payments are reported separately and interest receipts are grouped with other types of government receipts. BEA now follows that international practice. The new treatment raises both federal expenditures and receipts in the NIPAs by the same amounts and thus has no effect on the accounts' measure of federal saving.

Surpluses of Government Enterprises

Under BEA's previous practices, the surpluses of government enterprises, such as the Postal Service, were combined with federal subsidies paid to government enterprises. As a result, the amount of such subsidies was not apparent. The new treatment provides more information by shifting the surpluses of government enterprises to a separate line on the receipts side of the federal sector in the NIPAs. That revision brings the NIPAs more in line with international accounting standards, which generally advocate reporting spending on a gross rather than a net basis. By contrast, surpluses of government enterprises are treated as negative outlays in the federal budget.

12. Small amounts of interest receipts, mainly interest penalties on late tax payments, are recorded as revenues in the federal budget.

Military Assistance in Kind

The NIPAs attempt to identify contributions to GDP by sector and therefore no longer classify military purchases of equipment and services for delivery to foreign governments as part of federal consumption. Instead, those transactions are now part of net exports in the NIPAs' foreign transactions account. The level of GDP for all of the NIPAs' sectors combined is unaffected, because the decline in federal consumption is exactly offset by more net exports. Within the federal sector, in-kind military assistance is now recorded as part of transfers to the rest of the world.

Presentation of the Federal Government's Receipts and Expenditures in the NIPAs

Like the budget, the federal sector of the NIPAs classifies receipts by type, but the categories differ *(see Table D-2).* The NIPAs' classifications help to determine measures of such things as disposable income and corporate profits after taxes. There are five major categories of current receipts. The largest one, current tax receipts, includes taxes on personal income, taxes on corporate income, taxes on production and imports, and taxes from the rest of the world. The next largest category is contributions for government social insurance, which consists of contributions and premiums for Social Security, Medicare, and unemployment insurance. The remaining categories are current transfer receipts (fines and fees), income receipts on assets (interest, rents, and royalties), and current surpluses of government enterprises (such as the Postal Service). As discussed above, those surpluses, as well as interest and some other receipts, previously were recorded on the expenditure side of the NIPAs' federal sector as offsetting (negative) expenditures.

In the NIPAs, the government's expenditures are classified according to their purpose. The major groups, which are much fewer than those in the federal budget, are consumption expenditures, or purchases of goods and services (broken out for defense and nondefense purchases); transfer payments (to persons, governments, and the rest of the world); interest payments; and subsidies to government enterprises.

Defense and nondefense consumption of goods and services consists of purchases made by the government for its immediate use in production. (The largest portion of such consumption is the compensation of military and

Table D-2.

Projections of Baseline Receipts and Expenditures as Measured by the National Income and Product Accounts

(Billions of dollars)

	Actual 2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Receipts												
Current Tax Receipts												
Personal current taxes	775	763	858	969	1,051	1,123	1,208	1,303	1,495	1,642	1,747	1,860
Taxes on corporate income	171	186	232	284	296	303	305	309	320	332	343	357
Taxes on production and imports	88	91	95	99	103	106	110	113	117	120	123	126
Taxes from the rest of the world	7	6	7	8	9	10	10	11	13	14	15	16
Subtotal	1,040	1,046	1,193	1,361	1,459	1,541	1,633	1,737	1,945	2,108	2,229	2,359
Contributions for Government Social Insurance[a]	755	790	838	897	946	989	1,036	1,087	1,139	1,192	1,249	1,309
Current Transfer Receipts	26	28	29	30	32	33	35	37	39	41	43	45
Income Receipts on Assets	23	27	28	31	33	35	36	38	39	41	42	44
Current Surplus of Government Enterprises	-2	-3	-4	-3	-3	-3	-3	-3	-3	-3	-4	-4
Current Receipts	**1,843**	**1,888**	**2,085**	**2,317**	**2,467**	**2,596**	**2,738**	**2,895**	**3,158**	**3,378**	**3,560**	**3,755**
Expenditures												
Consumption Expenditures												
Defense												
Consumption	365	412	428	439	448	459	471	483	495	507	519	531
Consumption of fixed capital	61	62	63	63	63	63	62	61	60	59	57	56
Nondefense[b]												
Consumption	200	208	215	219	224	229	233	239	244	249	255	260
Consumption of fixed capital	24	25	26	27	29	30	32	34	35	37	39	41
Subtotal	650	707	731	748	764	781	798	816	834	851	870	888
Current Transfer Payments												
Government social benefits												
To persons	956	996	1,040	1,114	1,189	1,250	1,315	1,393	1,474	1,553	1,651	1,758
To the rest of the world	3	3	3	3	3	3	4	4	4	4	4	5
Subtotal	959	998	1,043	1,118	1,192	1,253	1,318	1,397	1,478	1,557	1,655	1,762
Other transfer payments												
Grants-in-aid to state and local governments[b]	330	351	355	364	375	394	415	438	463	490	519	551
To the rest of the world	23	25	33	37	39	40	42	43	44	44	45	46
Subtotal	353	376	388	401	414	434	456	480	506	534	564	597
Interest Payments[b]	221	229	256	300	341	372	396	417	434	446	452	461
Subsidies	46	45	47	47	47	46	46	46	46	46	46	47
Current Expenditures	**2,228**	**2,355**	**2,465**	**2,614**	**2,759**	**2,886**	**3,015**	**3,156**	**3,298**	**3,434**	**3,588**	**3,756**
Net Federal Government Saving												
Net Federal Government Saving	-385	-467	-380	-297	-292	-290	-278	-261	-140	-56	-28	-2

Source: Congressional Budget Office.

a. Includes Social Security taxes, Medicare taxes and premiums, and unemployment insurance taxes.

b. Includes Social Security and the Postal Service.

civilian federal employees.) Among the consumption expenditures, the consumption of fixed capital—depreciation—corresponds to the services that the government receives from its stock of fixed assets, such as buildings or equipment.

Transfer payments (cash payments made directly to individuals and the rest of the world and grants to state and local governments or foreign nations) constitute another grouping. Most of the transfers to individuals are for social benefits. Grants-in-aid are payments that the federal government makes to state or local governments, which generally use them for transfers (such as benefits provided by the Temporary Assistance for Needy Families program) and consumption (such as the hiring of additional police officers). Grants-in-aid to foreigners include federal purchases of military equipment for delivery to foreign governments.

The NIPAs' category for federal interest payments shows only payments and thus differs from the budget, which contains a category labeled "net interest." In the NIPAs, federal interest receipts are classified with other federal receipts.

The NIPAs' category labeled subsidies primarily consists of grants paid by the federal government to businesses, including state and local government enterprises such as public housing authorities. Federal housing assistance dominates that category. Formerly, this category of expenditures was reduced by the inclusion of government enterprises' surpluses.