



# MONTHLY BUDGET REVIEW

## Fiscal Year 2006

### A Congressional Budget Office Analysis

Based on the *Monthly Treasury Statement* for July and the *Daily Treasury Statements* for August

September 7, 2006

The federal budget deficit was about \$307 billion in the first 11 months of fiscal year 2006, CBO estimates, \$47 billion less than in the same period last year. CBO anticipates that a surplus in September, stemming from quarterly payments of estimated income taxes, will bring the deficit down to about \$260 billion for the fiscal year ending September 30.

#### JULY RESULTS (Billions of dollars)

	Preliminary Estimate	Actual	Difference
Receipts	160	160	*
Outlays	192	193	1
Deficit (-)	-33	-33	*

Sources: Department of the Treasury; CBO.

Note: \* = between -\$500 million and zero.

The Treasury reported a deficit of \$33 billion in July 2006, about the same as CBO's projection based on the *Daily Treasury Statements*.

#### ESTIMATES FOR AUGUST (Billions of dollars)

	Actual FY2005	Preliminary FY2006	Estimated Change
Receipts	155	153	-2
Outlays	207	221	14
Deficit (-)	-51	-67	-16

Sources: Department of the Treasury; CBO.

The deficit in August was about \$67 billion, CBO estimates, \$16 billion more than the shortfall incurred in the same month last year.

Estimated receipts and outlays in August were both reduced by about \$6 billion to reflect a correction that the Treasury has apparently made in the amounts recorded since 2002. In recent years, the amounts shown in the budget as income taxes withheld from Social Security checks were higher than the actual amounts withheld. Outlays for Social Security benefits were equivalently overstated. (No tax payments by individuals or benefit payments to individuals were affected—only the accounting was in error.) Those corrections do not affect the overall budget deficit.

Receipts were about \$2 billion (or 1 percent) lower in August than they were last August, CBO estimates. Excluding the one-time adjustment for withheld income taxes from Social Security benefits, receipts were almost \$4 billion (or 2 percent) higher than receipts were last August. Net corporate income taxes accounted for that gain, part of which may have resulted from delayed filings of tax returns allowed for certain firms affected by Hurricane Katrina in August 2005. Withholding for income and payroll taxes showed no growth over amounts recorded in August 2005, in part because this August contained one fewer Monday, the biggest withholding day. Even after adjusting for that effect, withholding grew more slowly than in recent months.

Outlays were about \$14 billion (or 7 percent) greater this August than they were last August, CBO estimates. Two unusual occurrences held down that increase, however. In addition to the \$6 billion accounting adjustment involving Social Security benefits, net spending in August was also reduced by a \$1.3 billion repayment by Russia of outstanding agricultural loans. In the absence of those one-time reductions in outlays, spending in August would have grown by about 10 percent from 2005 to 2006. Medicare spending was about \$7.5 billion (or 25 percent) higher in August 2006 than in August 2005. Spending for defense, Medicaid, and interest on the public debt accounted for much of the remaining increase.

#### BUDGET TOTALS THROUGH AUGUST (Billions of dollars)

	Actual FY2005	Preliminary FY2006	Estimated Change
Receipts	1,902	2,123	221
Outlays	2,256	2,430	174
Deficit (-)	-354	-307	47

Sources: Department of the Treasury; CBO.

CBO estimates that the government ran a deficit of about \$307 billion for the first 11 months of fiscal year 2006, about 13 percent less than the shortfall recorded for the same period last year. Growth in spending has been more than offset by a substantial increase in receipts.

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 AUGUST**  
(Billions of dollars)

Major Source	Actual FY2005	Preliminary FY2006	Percentage Change
Individual Income	830	932	12.3
Corporate Income	208	268	28.8
Social Insurance	727	768	5.8
Other	<u>137</u>	<u>154</u>	12.5
Total	1,902	2,123	11.6

Sources: Department of the Treasury; CBO.

Total receipts for the first 11 months of fiscal year 2006 were \$221 billion (or 11.6 percent) higher than in the same period in fiscal year 2005, CBO estimates. Individual income taxes showed the largest gain—\$102 billion, or 12.3 percent—above 2005 levels. Without the \$6 billion correction for individual income taxes on Social Security benefits, that rate of increase would have been about 13 percent. Social insurance (payroll tax) receipts grew by about \$42 billion, or almost 6 percent.

Withheld receipts of income and payroll taxes were \$97 billion, or 7 percent, higher than in the same period last year. Those receipts tend to follow growth in wages and salaries in the economy. Nonwithheld receipts of income and payroll taxes were \$59 billion, or about 19 percent, higher than in the first 11 months of 2005. About two-thirds of that growth occurred from March through May, reflecting payments made with tax returns for 2005.

Corporate income tax receipts rose by about \$60 billion, or 29 percent, through the first 11 months of fiscal year 2006. This year marks the third year in a row that corporate receipts have showed impressive gains, reflecting continued strength in corporate profits.

**OUTLAYS THROUGH AUGUST**  
(Billions of dollars)

Major Category	Actual FY2005	Preliminary FY2006	Percentage Change	
			Actual	Adjusted <sup>a</sup>
Defense—Military	428	453	6.0	6.7
Social Security				
Benefits	471	499	5.9	6.2
Medicare	303	349	15.3	16.6
Medicaid	167	167	-0.1	-0.1
Other Programs and Activities	<u>713</u>	<u>746</u>	4.6	6.3
Subtotal	2,081	2,214	6.4	7.3
Net Interest on the Public Debt	<u>175</u>	<u>216</u>	23.5	23.9
Total	2,256	2,430	7.7	8.6

Sources: Department of the Treasury; CBO.

a. Excludes the effects of payments that were shifted because of weekends, holidays, or changes in the accounting of certain payments of the Department of Defense. Also excludes the August 2006 adjustment involving withheld taxes on Social Security benefits; instead, corrects the figures on a month-by-month basis.

Outlays through August were 7.7 percent higher than in the same period last year, CBO estimates. Adjusted for calendar-related timing shifts and accounting changes, spending rose by 8.6 percent. One of the fastest growing areas is net interest on the public debt, which has increased by about 24 percent because of higher interest rates and rising debt. Spending for programs and activities (total outlays excluding net interest) rose by about 7 percent through August.

Defense outlays were up by less than 7 percent relative to spending in the first 11 months of 2005 (on an adjusted basis), compared with a 7.7 percent increase last year. Most of that difference resulted from slower growth in spending for military personnel (up by 3.5 percent through August compared with 8.8 percent in 2005).

Nondefense spending increased by about 7.5 percent through August (on an adjusted basis), driven by gains in a handful of programs. Over half of the 16.6 percent increase in Medicare outlays was due to the new prescription drug program. In contrast, Medicaid spending has been flat so far this year, partly because the Medicare drug program covers some costs previously paid by Medicaid.

About three-fourths of the increase in outlays through August for other programs and activities—up by about 6 percent—was for activities related to the 2005 hurricane season. Excluding those programs, spending for this category rose by about 2 percent.