Congressional Budget Office

November 7, 2019

# Monthly Budget Review: Summary for Fiscal Year 2019

In fiscal year 2019, which ended on September 30, the federal budget deficit totaled $984 billion—$205 billion more than the shortfall recorded in 2018. The deficit increased to 4.6 percent of the nation's gross domestic product (GDP) in 2019, up from 3.8 percent in 2018 and 3.5 percent in 2017. As a result, federal debt held by the public rose to 79.2 percent of GDP, up from 77.4 percent at the end of fiscal year 2018.

Outlays in 2018 were reduced by a shift in the timing of certain payments; those payments were instead made in fiscal year 2017 because October 1, 2017 (the first day of fiscal year 2018), fell on a weekend. If not for that shift, the deficit in 2018 would have been $823 billion, or 4.0 percent of GDP.

**Fiscal Year Totals**

Billions of Dollars

| | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|---|---|---|---|---|---|
| Receipts | 3,021 | 3,250 | 3,268 | 3,316 | 3,329 | 3,462 |
| Outlays | 3,506 | 3,692 | 3,853 | 3,982 | 4,108 | 4,447 |
| Deficit (–) | | | | | | |
| Amount | –485 | –442 | –585 | –665 | –779 | –984 |
| Percentage of GDP | –2.8 | –2.4 | –3.2 | –3.5 | –3.8 | –4.6 |

Sources: Congressional Budget Office; Office of Management and Budget; Department of the Treasury.

GDP = gross domestic product.

In 2019, the government's revenues amounted to $3.5 trillion—$133 billion (or 4 percent) more than in 2018. As a percentage of GDP, revenues fell from 16.4 percent in 2018 to 16.3 percent in 2019, remaining below the average (17.4 percent) for the past 50 years.

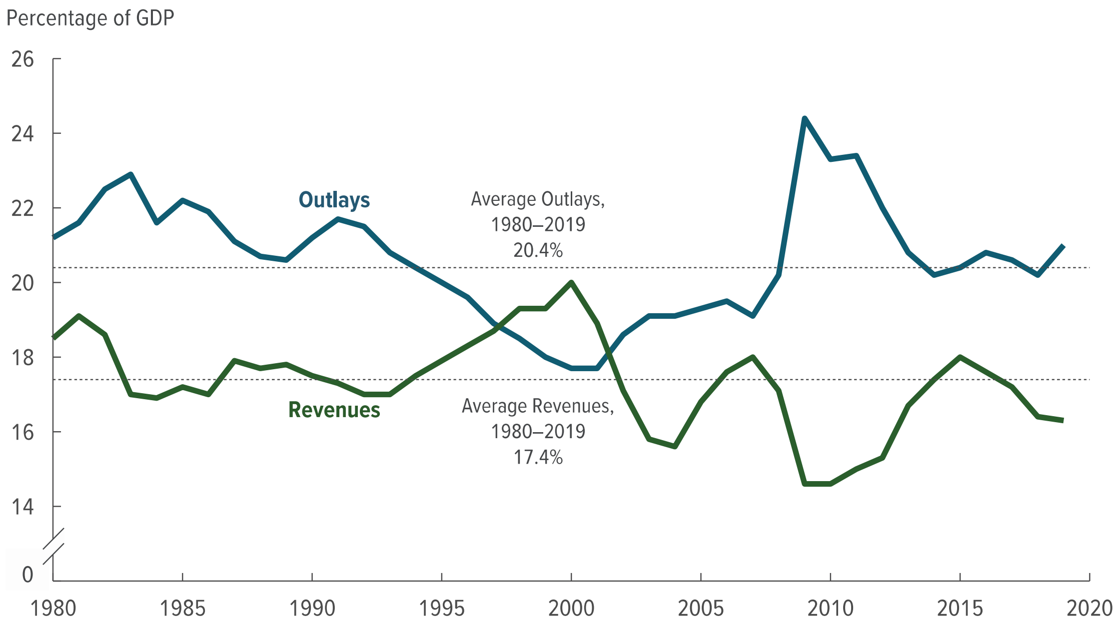
Net spending by the government was $4.4 trillion in 2019—$339 billion (or 8 percent) more than in 2018. Outlays amounted to 21.0 percent of GDP in 2019, compared with 20.2 percent in 2018, and above the 50 year average (20.4 percent). If not for the shift in the timing of certain payments, outlays in 2018 would have equaled 20.4 percent of GDP.

## Total Receipts: Up by 4 Percent in Fiscal Year 2019

Each of the major sources of revenues increased relative to the amounts recorded in 2018:

- Receipts from **individual income taxes,** the largest source of revenues, rose by $34 billion (or 2 percent). As a share of the economy, those receipts fell from 8.3 percent of GDP in 2018 to 8.1 percent of GDP in 2019, remaining just above the 50-year average of 8.0 percent.

Note: The amounts shown in this report include the surplus or deficit in the Social Security trust funds and the net cash flow of the Postal Service, which are off-budget. Numbers may not sum to totals because of rounding.




- o Income taxes withheld from workers' paychecks increased by $3 billion (or less than 1 percent). That change largely reflects increases in wages and salaries, which were partly offset by two factors. First, a decline in the share of income withheld for taxes occurred because the Internal Revenue Service issued new withholding tables in January 2018 to reflect changes made by the 2017 tax act (Public Law 115-97). All employers were required to begin using the new tables by February 15, 2018. Those new withholding rates were in effect for the entire 2019 fiscal year, but only for seven and a half months of the prior fiscal year. Second, the Treasury Department recategorized some payroll taxes as income taxes during fiscal year 2018, and then did the reverse for fiscal year 2019. Those reallocations boosted individual income taxes in 2018 by $21 billion and reduced them in 2019 by $7 billion. The amounts of total withholding initially recorded for income and payroll taxes are made on the basis of estimates. Reallocations are made as detailed tax return information becomes available.
- o Nonwithheld payments of income taxes rose by $8 billion (or 1 percent).
- o Individual income tax refunds declined by $23 billion (or 9 percent), boosting net receipts.

- ■ Receipts from **payroll (social insurance) taxes,** the second-largest revenue source, increased by $72 billion (or 6 percent), and increased as a share of the economy from 5.8 percent in 2018 to 5.9 percent in 2019, climbing just above the 50-year average of 5.9 percent. The increase in payroll tax receipts reflects higher wages and salaries and the reallocations made between payroll and individual income taxes described above, which reduced payroll taxes reported for 2018 and increased payroll taxes reported for 2019.
- ■ Receipts from **corporate income taxes,** the third-largest source of revenues, increased by $26 billion (or 12 percent) in 2019, rising from 1.0 percent of GDP to 1.1 percent. Those revenues as a percentage of GDP remain among the lowest recorded since 2009 and below the 50-year average of 1.9 percent of GDP. Those receipts include payments for activity in both the 2018 and the 2019 tax years.
- ■ Receipts from **other sources** increased by $1 billion (or less than 1 percent), remaining at 1.3 percent of GDP. Increases in receipts from excise taxes and customs duties were partially offset by declines in remittances from the Federal Reserve and revenues from fees and fines as well as from estate and gift taxes.
    - o Custom duties rose by $29 billion (or 71 percent). That increase is primarily because of new tariffs imposed by the Administration during the past year on certain imports from China.

- o Excise taxes increased by $4 billion (or 4 percent), largely reflecting the timing of payments for a tax on health insurance providers. The payments for 2018 were due on Sunday, September 30, 2018; because that deadline fell on a weekend, $5 billion was recorded in fiscal year 2018 and $9 billion was recorded in fiscal year 2019, CBO estimates. (That tax was suspended for fiscal year 2019, so no payment was due on September 30, 2019.)
- o Remittances from the Federal Reserve to the Treasury fell by $18 billion (or 25 percent), largely because short-term interest rates were higher, leading the central bank to pay depository institutions more interest on reserves.
- o Miscellaneous fees and fines fell by $8 billion (or 20 percent).
- o Estate and gift taxes decreased by $6 billion (or 27 percent), reflecting changes made by the 2017 tax act, which doubled the value of the estate tax exemption.

**Total Receipts**

Billions of Dollars

| Major Source | 2017 | 2018 | 2019 | Percentage Change, 2018 to 2019 |
|---|---|---|---|---|
| Individual Income Taxes | 1,587 | 1,684 | 1,718 | 2.0 |
| Payroll Taxes | 1,162 | 1,171 | 1,243 | 6.2 |
| Corporate Income Taxes | 297 | 205 | 230 | 12.5 |
| Other Receipts | 270 | 270 | 271 | 0.5 |
| | **3,316** | **3,329** | **3,462** | **4.0** |
| Percentage of GDP | 17.2 | 16.4 | 16.3 | n.a. |

Sources: Congressional Budget Office; Office of Management and Budget; Department of the Treasury.

n.a. = not applicable.

## Total Outlays: Up by About 8 Percent in Fiscal Year 2019

Overall, net outlays increased by 8.2 percent from 2018 to 2019. That increase would have been about $44 billion smaller—resulting in an increase of 7.1 percent—if not for the shift of certain payments from October 2017 to September 2017 because October 1 fell on a weekend. The discussion below reflects adjustments to remove the effects of that timing shift.

Outlays increased for all major spending categories and for most federal agencies. Most of the overall increase resulted from greater spending for Social Security, net interest on the public debt, and defense:

- ■ Spending for the three largest entitlement programs—**Social Security, Medicare,** and **Medicaid**—rose by $56 billion (or 6 percent), $39 billion (or 6 percent), and $20 billion (or 5 percent), respectively. Social Security outlays grew because of increases both in the number of beneficiaries (1.7 percent) and in the average benefit payment (4.0 percent). Spending for the retirement portion of Social Security grew by 6.6 percent; in contrast, spending for the disability component grew by less than 1 percent. Medicare spending increased in part because of increased payment rates for beneficiaries enrolled in Medicare Advantage plans. Medicaid outlays have risen by 36 percent over the past five years, largely because new enrollees were added through expansions of coverage authorized by the Affordable Care Act. The annual rate of growth in Medicaid spending, however, has fallen sharply since 2015, when it was 16 percent. Combined outlays for the three programs exceeded $2 trillion for the first time, equal to 47 percent of federal spending and 9.9 percent of GDP in 2019.
- ■ Outlays for **net interest on the public debt** increased by $52 billion (or 14 percent), because interest rates were higher on average than they were in 2018 and because the amount of federal debt is larger than it was a year ago. As a share of GDP, net interest climbed to 2.0 percent, its highest level since 2001.

- Spending for military activities of the **Department of Defense** (DoD) rose by $48 billion (8 percent) in 2019, increasing for the third consecutive year. All major categories of defense spending increased: operation and maintenance by $15 billion (or 6 percent), research and development by $12 billion (or 16 percent), procurement by $12 billion (or 11 percent), and military personnel by $6 billion (or 4 percent). As was true in both 2017 and 2018, growth in spending by the Air Force was the fastest (10 percent), with growth for the Navy (7 percent) and the Army (6 percent) somewhat slower. Military spending by DoD was 3.1 percent of GDP in 2019, slightly higher than its level in the past three years, but lower than in any other year since 2002.

**Total Outlays**

Billions of Dollars

| | | | | Percentage Change, 2018 to 2019 | |
|---|---|---|---|---|---|
| Major Category | 2017 | 2018 | 2019 | Actual | Adjusted [a] |
| Social Security Benefits | 934 | 977 | 1,033 | 5.8 | 5.8 |
| Medicare [b] | 595 | 585 | 648 | 10.7 | 6.4 |
| Medicaid | 375 | 389 | 409 | 5.2 | 5.2 |
| **Subtotal** | **1,903** | **1,951** | **2,090** | 7.1 | 5.9 |
| DoD—Military [c] | 569 | 601 | 654 | 8.9 | 8.0 |
| Net Interest on the Public Debt | 310 | 371 | 423 | 14.0 | 14.0 |
| Other | 1,200 | 1,185 | 1,279 | 8.0 | 6.6 |
| **Total** | **3,982** | **4,108** | **4,447** | 8.2 | 7.1 |
| Percentage of GDP | 20.6 | 20.2 | 21.0 | n.a. | n.a. |

Sources: Congressional Budget Office; Office of Management and Budget; Department of the Treasury.

DoD = Department of Defense; GDP = gross domestic product; n.a. = not applicable.

a. Adjusted amounts exclude the effects of shifting payments that otherwise would have been made on a weekend. If not for that timing shift, outlays would have been $4,151 billion in fiscal year 2018.

b. Medicare outlays are net of offsetting receipts.

c. Excludes a small amount of spending by DoD on civil programs.

- On net, all other outlays increased by $79 billion or 7 percent (see “Other” in the table). Most categories had significant increases, but two saw significant decreases:
  - Outlays for the **Department of Education** rose by $41 billion (or 64 percent), mostly because the department made an upward revision of $28 billion to the estimated net subsidy costs of loans and loan guarantees issued in prior years—a change very different from the $9 billion *downward* revision made in 2018. If the effects of those revisions were excluded, outlays for the department for the fiscal year would have risen by $3 billion (or 5 percent).
  - Spending by the **Department of Veterans Affairs** increased by $15 billion (or 8 percent) because the number of people receiving disability compensation rose, average disability benefits increased, and spending rose for a program that allows veterans to receive treatment in facilities other than those operated by the department.
  - Spending by the **Department of Agriculture** rose by $13 billion (or 10 percent), primarily because of Trade Mitigation payments announced by the administration for crop years 2018 and 2019. In addition, spring flooding in the Midwest resulted in large crop insurance payments to farmers whose planting was prevented by the weather. Unlike other crop insurance payments, which typically occur in the following fiscal year, such payments are made in the fiscal year in which the loss occurs.

- Outlays for the refundable portion of the **earned income** and **child tax credits** rose by $11 billion (or 14 percent). That increase reflects an expansion of the child tax credit, including the refundable portion, made by the 2017 tax act.
- In contrast to those increases, outlays for the **Department of Housing and Urban Development** decreased by $25 billion (or 47 percent), primarily because the department made a downward revision of $14 billion to the estimated net subsidy costs of loans and loan guarantees issued in prior years—a change very different from the $14 billion *upward* revision made in 2018. If the effects of those revisions were excluded, outlays for the department would have been $2 billion more than they were in 2018.
- Spending by the **Department of Homeland Security** decreased by $12 billion (or 18 percent), largely because outlays for disaster relief declined.

For other programs and activities, spending increased or decreased by smaller amounts, increasing outlays by an additional $37 billion, on net.

## Estimates for October 2019

The government recorded a deficit of $133 billion in October, CBO estimates, about $33 billion more than the shortfall recorded in the same month last year.

Each month, CBO issues an analysis of federal spending and revenues for the previous month and the fiscal year to date. This report is the latest in that series, at https://go.usa.gov/xnpcA. In keeping with CBO's mandate to provide objective, impartial analysis, it makes no recommendations. Nathaniel Frentz, David Rafferty, Jennifer Shand, and Jon Sperl prepared the report with guidance from Sam Papenfuss and Joshua Shakin. It was reviewed by Robert Sunshine, edited by Kate Kelly, and prepared for publication by Janice M. Johnson. An electronic version is available on CBO's website, www.cbo.gov/publication/55824.