



MONTHLY BUDGET REVIEW

Fiscal Year 2004

A Congressional Budget Office Analysis

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

May 6, 2004

Through April, the federal government incurred a deficit of \$284 billion for fiscal year 2004, the Congressional Budget Office (CBO) estimates, \$82 billion more than the shortfall recorded in the same period last year. Although the deficit will widen as the year goes on, recent trends suggest that the deficit in 2004 will be less than the \$477 billion that CBO projected in March. Outlays to date are consistent with CBO's expectations, but revenues are running \$30 billion to \$40 billion higher than anticipated.

MARCH RESULTS (Billions of dollars)

	Preliminary Estimate	Actual	Difference
Receipts	135	140	5
Outlays	205	213	7
Deficit (-)	-70	-73	-2

Sources: Department of the Treasury; CBO.

The Treasury reported a deficit of \$73 billion in March, about \$2 billion more than CBO had projected on the basis of the *Daily Treasury Statements*. That difference occurred largely because spending was higher than expected for the Departments of Veterans Affairs, Justice, Agriculture, and State. Both revenues and outlays were \$5 billion higher than expected in March because the Treasury recorded additional outlays for the earned income tax credit and correspondingly lower tax refunds to correct a reporting error that occurred in February. That adjustment did not affect the deficit.

ESTIMATES FOR APRIL (Billions of dollars)

	Actual FY2003	Preliminary FY2004	Estimated Change
Receipts	231	222	-9
Outlays	180	207	27
Surplus	51	15	-36

Sources: Department of the Treasury; CBO.

The budget surplus in April 2004—an estimated \$15 billion—was well below the \$51 billion surplus recorded in April 2003. Much of that difference resulted from shifts in the timing of payments, accounting adjustments made in 2003, and calendar effects. Because May 1, 2004, fell on a weekend, about \$11.5 billion in payments that would ordinarily have been made this month were

instead made at the end of April. In addition, outlays in April 2003 included a net reduction of \$5.6 billion to reflect changes in agencies' estimates of the subsidy cost of loans or loan guarantees made by the Export-Import Bank, the Department of Education, and the Small Business Administration. Excluding those two factors, outlays in April would have grown by about \$10 billion (or 5 percent) from 2003 to 2004, rather than by the \$27 billion that CBO estimates.

Receipts in April were about \$9 billion, or 4 percent, lower than last year, largely because refunds of individual income taxes were almost \$12 billion, or 30 percent, higher than they were last April. The calendar accounts for most of that difference. The Treasury reports the majority of refunds on Fridays, and April 2004 had five Fridays, which added roughly \$10 billion to the amount of refunds recorded in that month. Taxes paid with tax returns also contributed to the decline in revenues; they were about \$4.5 billion, or 4 percent, lower this April. In contrast, revenues from withheld income and payroll taxes were higher by about \$2 billion, or 2 percent, and net receipts from corporate income taxes were about \$5 billion, or 29 percent, higher than they were last April.

BUDGET TOTALS THROUGH APRIL (Billions of dollars)

	Actual FY2003	Preliminary FY2004	Estimated Change
Receipts	1,056	1,072	16
Outlays	1,258	1,357	99
Deficit (-)	-202	-284	-82

Sources: Department of the Treasury; CBO.

CBO estimates that the government recorded a deficit of \$284 billion for the first seven months of fiscal year 2004—an increase of \$82 billion over the same period last year. Receipts were about \$16 billion higher than last year's figure, but outlays grew by about \$99 billion.

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 FY2003	Preliminary FY2004	Percentage Change
Individual Income	494	473	-4.2
Corporate Income	63	91	44.6
Social Insurance	416	425	2.1
Other	<u>83</u>	<u>83</u>	0.0
Total	1,056	1,072	1.5

Sources: Department of the Treasury; CBO.

Through the first seven months of the fiscal year, receipts were \$16 billion, or 1.5 percent, higher than in the same period last year. Most of the increase in revenues so far this year is attributable to receipts from corporate income taxes, which have risen by \$28 billion, or about 45 percent, as a result of strong growth in corporate profits. In addition, receipts from social insurance (payroll) taxes have risen by \$9 billion, or 2 percent, in large part because of higher payroll tax withholding from wage and salary income.

So far this fiscal year, receipts from individual income taxes are about \$21 billion, or 4 percent, below the figure for the corresponding period last year. Most of that decline occurred because refunds of income taxes rose by \$18 billion, boosted both by the tax cuts enacted last year and, temporarily, by the extra Friday this April. (May of this year will have one fewer Friday.) In addition, nonwithheld receipts through April fell by \$8 billion, mostly reflecting tax liabilities for 2003. Withheld income taxes rose by \$6 billion.

The Internal Revenue Service has completed tabulating payments from individual tax returns filed by April 15, and most refunds due to taxpayers have been disbursed. After the remaining refunds are processed by the end of May, CBO expects that net receipts from tax return filings—payments minus refunds—will be about \$30 billion more than CBO projected in March.

The causes of the unexpected strength in net receipts from tax return filings cannot be fully understood until information from tax returns becomes available later this year and next year. CBO believes that the loss of revenue resulting from the 2003 tax cuts was offset, in part, by a number of factors, which may include the following: income was greater than expected in 2003; the effective tax rates on that income were higher than anticipated; and more of the taxes on that income were paid in 2004 than was projected.

The unexpected strength in receipts so far this year indicates that total revenues for fiscal year 2004 will probably be higher than CBO forecast in March. In addition to stronger-than-projected net receipts from tax return filings, receipts from corporate income taxes and withheld income and payroll taxes have also been slightly higher than expected. As a result, total revenues to date are \$30 billion to \$40 billion higher than CBO anticipated.

OUTLAYS THROUGH APRIL
(Billions of dollars)

Major Category	Actual FY2003	Preliminary FY2004	Percentage Change	
			Actual	Adjusted ^a
Defense—Military	216	254	17.4	16.0
Social Security				
Benefits	270	281	4.3	4.3
Medicare	159	173	8.8	6.9
Medicaid	91	102	12.3	12.3
Other Programs and Activities	<u>424</u>	<u>451</u>	6.4	5.2
Subtotal	1,161	1,263	8.7	7.8
Net Interest on the Public Debt	<u>97</u>	<u>94</u>	-3.1	-3.1
Total	1,258	1,357	7.8	6.9

Sources: Department of the Treasury; CBO.

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

Outlays in the first seven months of fiscal year 2004 were about 7 percent higher than spending during the same period last year (after adjusting for payment dates that were shifted because of weekends or holidays). That rate of increase is about the same as the growth in spending from 2002 to 2003 and is consistent with CBO's current baseline projections for fiscal year 2004.

The rates of growth for defense spending, Social Security, and Medicare were similar to those recorded in 2003. After adjustments for accounting changes, defense spending increased by about 16 percent in 2003 and continues to grow at that rate this year. For the entire fiscal year 2004, defense outlays are likely to be close to 50 percent higher than they were in 2001.

Spending for Medicaid has risen at an annual rate of more than 12 percent so far this year, compared with an increase of about 9 percent in 2003. The 2004 figure is bolstered by a temporary increase in the federal matching rate, which took effect last April and expires at the end of this June. The growth rate for the entire year is likely to be between 8 percent and 9 percent.