



MONTHLY BUDGET REVIEW

Fiscal Year 2005

A Congressional Budget Office Analysis

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

May 5, 2005

Substantial tax receipts in April helped reduce the federal deficit for the current year to date well below the corresponding figure for fiscal year 2004. The Congressional Budget Office (CBO) estimates that, through April, the 2005 deficit was about \$235 billion, \$49 billion below the shortfall of \$284 billion recorded for the same seven-month period in 2004. Much of the rapid growth in receipts was anticipated in CBO's baseline projections. To the extent that the additional strength—especially in corporate tax receipts—persists, the deficit for fiscal year 2005 will probably be well below \$400 billion, perhaps in the vicinity of \$350 billion.

MARCH RESULTS (Billions of dollars)

	Preliminary Estimate	Actual	Difference
Receipts	148	149	1
Outlays	216	220	4
Deficit (-)	-68	-71	-3

Sources: Department of the Treasury; CBO.

The Treasury reported a deficit of \$71 billion in March, \$3 billion more than CBO had projected on the basis of the *Daily Treasury Statements*. Outlays were \$4 billion higher than projected, largely because of higher-than-expected spending for veterans' affairs, homeland security, and international assistance. Revenues were about \$1 billion above CBO's projections.

ESTIMATES FOR APRIL (Billions of dollars)

	Actual FY2004	Preliminary FY2005	Estimated Change
Receipts	220	277	57
Outlays	203	217	15
Surplus	18	60	42

Sources: Department of the Treasury; CBO.

The federal government ran a surplus of \$60 billion in April, according to CBO estimates, about \$42 billion more than the surplus recorded in April 2004.

Receipts in April totaled \$277 billion, CBO estimates, \$57 billion (or 26 percent) above last April's amounts. Nonwithheld receipts of income and payroll taxes, largely

from filings of income tax returns, rose by about \$38 billion, or 33 percent, to their highest level in four years. Because more of the nonwithheld receipts from tax returns will be recorded in May of this year than were counted during the same month last year, the growth rate of nonwithheld receipts for the April-May period will be even greater than indicated by April's figures alone. Net receipts of corporate income taxes in April rose by about \$11 billion, or 47 percent, continuing the strong growth of recent months. Withheld income and payroll taxes grew by about \$6 billion, or 5 percent.

Outlays were about \$15 billion greater this April than they were last April, CBO estimates. Net interest on the public debt was up substantially compared with the same month last year, reflecting higher interest rates and increased debt. Higher spending for defense, Social Security, Medicare, and agricultural price supports accounted for much of the remaining increase.

BUDGET TOTALS THROUGH APRIL (Billions of dollars)

	Actual FY2004	Preliminary FY2005	Estimated Change
Receipts	1,070	1,216	146
Outlays	1,354	1,451	97
Deficit (-)	-284	-235	49

Sources: Department of the Treasury; CBO.

CBO estimates that the government incurred a deficit of \$235 billion in the first seven months of 2005, which is about \$49 billion less than the shortfall recorded for the same period last year. Total receipts through the first seven months of the fiscal year were about \$146 billion (or 13.6 percent) higher than those recorded in the same period last year. Outlays have risen by about \$97 billion, or 7 percent, CBO estimates.

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 FY2004	Preliminary FY2005	Percentage Change
Individual Income	471	547	16.0
Corporate Income	91	134	47.9
Social Insurance	425	449	5.7
Other	<u>83</u>	<u>86</u>	2.9
Total	1,070	1,216	13.6

Sources: Department of the Treasury; CBO.

Individual income and social insurance (payroll) tax receipts, the two largest sources of revenues, have together accounted for about two-thirds of the increase in receipts: individual income taxes have increased by about \$75 billion, or 16 percent, and payroll taxes by \$24 billion, or 5.7 percent. Receipts of corporate income taxes rose sharply—by \$43 billion, or 48 percent.

Both withheld and nonwithheld receipts have contributed to the increases in individual income and payroll taxes so far this year. Receipts withheld from taxpayers' paychecks have increased by about \$52 billion, or 6 percent, in the first seven months of the fiscal year. Withheld receipts are a rough measure of the current strength of total wages and salaries in the economy. Nonwithheld receipts, both from payments made with the filings of tax returns for 2004 and from quarterly payments of estimated income taxes, have increased by about \$45 billion, or 24 percent. Most of that increase occurred in April with the filing of tax returns. In its baseline projections, CBO anticipated strong growth in nonwithheld receipts for April. However, receipts have risen somewhat more than expected, suggesting several possibilities: certain types of income grew even faster in 2004 than expected; income growth was more concentrated than expected among high-tax-rate taxpayers; the impact of tax-law changes may have differed from that projected; or some combination of all three scenarios.

Receipts from corporate income taxes have totaled \$134 billion so far this year, which is more than CBO expected at this point. In its baseline budget projections, CBO estimated that corporate receipts would total \$216 billion this fiscal year, an increase of \$27 billion, or 14 percent, over 2004 amounts. The 48 percent increase so far this year suggests that corporate receipts for the year are likely

to exceed CBO's previous projections. However, corporate receipts over the remaining months of the fiscal year are especially uncertain because various corporate-tax-law changes take effect this year.

Corporate taxes paid so far this fiscal year almost entirely reflect corporations' 2004 activity. Even corporations' quarterly estimated payments in April—the first for tax year 2005—may be based on the prior year's tax liability, rather than on profits earned in the first quarter of 2005. Those payments therefore convey only limited information about profits in 2005; the estimated payments due in June will be the first to reflect profits earned in the first half of 2005 and will provide a firmer guide to the remainder of the fiscal year.

OUTLAYS THROUGH APRIL
(Billions of dollars)

Major Category	Actual FY2004	Preliminary FY2005	Percentage Change
Defense—Military	254	273	7.6
Social Security			
Benefits	282	297	5.2
Medicare	174	191	9.6
Medicaid	102	105	2.6
Other Programs			
and Activities	<u>449</u>	<u>482</u>	7.4
Subtotal	1,260	1,347	6.9
Net Interest on the			
Public Debt	<u>94</u>	<u>104</u>	11.0
Total	1,354	1,451	7.1

Sources: Department of the Treasury; CBO.

The 7 percent increase in outlays so far this year is consistent with CBO's current projections for 2005, assuming enactment of supplemental appropriations for military activities in Iraq and Afghanistan. Including spending from those appropriations, CBO estimates that outlays in 2005 will total \$2,455 billion.

Defense outlays through April were about 8 percent higher than in the same period last year, a rate of growth well below the double-digit increases recorded in the past three fiscal years. By contrast, outlays for net interest on the public debt are rising much faster than they did last year, increasing by an estimated 11 percent through April, compared with 3 percent in fiscal year 2004.