



MONTHLY BUDGET REVIEW

Fiscal Year 2005

A Congressional Budget Office Analysis

Based on the *Monthly Treasury Statement* for May and the *Daily Treasury Statements* for June

July 7, 2005

In the first three-quarters of fiscal year 2005, the federal government incurred a deficit of about \$251 billion, CBO estimates, \$76 billion smaller than the shortfall recorded in the same period last year. Both revenues and spending are running ahead of last year's pace, up by about 15 percent and 7 percent, respectively. With robust growth in revenues in May and June, CBO now expects that the 2005 deficit will be significantly less than \$350 billion, perhaps below \$325 billion, assuming that no other legislation is enacted that affects spending or revenues. CBO will release updated budget projections for the 2005-2015 period on August 15.

MAY RESULTS (Billions of dollars)

| | Preliminary Estimate | Actual | Difference |
|----------|-------------------------|--------|------------|
| Receipts | 152 | 153 | 1 |
| Outlays | 188 | 188 | * |
| Deficit | -36 | -35 | 1 |

Sources: Department of the Treasury; CBO.
Note: * = between zero and \$500 million.

The Treasury reported a deficit of \$35 billion for May, about \$1 billion less than CBO had projected on the basis of the *Daily Treasury Statements*. Most of that difference resulted from higher-than-expected revenues.

ESTIMATES FOR JUNE (Billions of dollars)

| | Actual FY2004 | Preliminary FY2005 | Estimated Change |
|----------|------------------|-----------------------|---------------------|
| Receipts | 214 | 235 | 21 |
| Outlays | 195 | 214 | 18 |
| Surplus | 19 | 21 | 2 |

Sources: Department of the Treasury; CBO.

The federal government ran a surplus of \$21 billion in June, CBO estimates, about \$2 billion more than the surplus recorded in June 2004.

Receipts were almost \$21 billion, or 10 percent, higher this June than in June 2004. Net payments of corporate income taxes, which grew by 27 percent, accounted for \$12 billion of that increase. Most firms make payments of estimated taxes for the second quarter in June, and those payments continued their strong growth of recent

quarters. Nonwithheld payments by individuals, largely representing quarterly payments of income and payroll taxes, grew by 20 percent, or \$8 billion. Receipts of individual income and payroll taxes from employer withholding (the method by which most receipts are transmitted to the Treasury) grew by 1 percent, or \$1 billion. That month-over-month growth was reduced by the fact that the Memorial Day holiday in 2004 occurred on the last day of May, pushing roughly \$5 billion in receipts into June 2004. Adjusted for the effect of the holiday, withholding in June was almost 6 percent higher than in June 2004.

Outlays were \$18 billion larger this June than they were last June, CBO estimates. Spending for defense and net interest on the public debt both grew by about \$4 billion. Medicare outlays were up by about \$3 billion, and Social Security spending grew by \$2 billion. Outlays this June also included more than \$3 billion to reflect the Administration's revised estimates of the subsidy cost of various loans and loan guarantees made in previous years.

BUDGET TOTALS THROUGH JUNE (Billions of dollars)

| | Actual FY2004 | Preliminary FY2005 | Estimated Change |
|----------|------------------|-----------------------|---------------------|
| Receipts | 1,400 | 1,604 | 204 |
| Outlays | 1,727 | 1,855 | 128 |
| Deficit | -327 | -251 | 76 |

Sources: Department of the Treasury; CBO.

CBO estimates that the government recorded a deficit of \$251 billion for the first three-quarters of fiscal year 2005. Receipts were about \$204 billion, or 14.6 percent, higher than in the same nine months last year, and outlays were about \$128 billion, or 7.4 percent, higher.

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 JUNE

(Billions of dollars)

| Major Source | Actual FY2004 | Preliminary FY2005 | Percentage Change |
|-------------------|------------------|-----------------------|----------------------|
| Individual Income | 596 | 701 | 17.6 |
| Corporate Income | 140 | 198 | 40.8 |
| Social Insurance | 556 | 594 | 6.9 |
| Other | <u>108</u> | <u>111</u> | 3.2 |
| Total | 1,400 | 1,604 | 14.6 |

Sources: Department of the Treasury; CBO.

Higher individual income tax receipts accounted for more than half of the revenue growth in the first nine months of the fiscal year; net collections from individuals were up by \$105 billion, or about 18 percent. Almost two-thirds of that increase, or \$66 billion, resulted from higher receipts from nonwithheld taxes, most of which were recorded in April and May when taxpayers filed income tax returns for 2004.

Net corporate income taxes grew by about \$57 billion, or 41 percent, in the first nine months of the fiscal year. Gross payments increased by \$47 billion, or 27 percent, and refunds decreased by \$11 billion, or 31 percent. Corporate income tax payments have been strong throughout the fiscal year to date, a reflection of economic activity in both 2004 and the first half of 2005. Changes in law, including the expiration of depreciation provisions enacted in 2002 and 2003, have contributed to the increase. With one of the quarterly estimated tax payments remaining in this fiscal year, CBO expects that corporate receipts will grow by 40 percent or more over the entire year.

Social insurance receipts were about \$39 billion, or 7 percent, higher in the first nine months of 2005 than in the comparable period last year, primarily because of gains in withheld payroll taxes of about \$34 billion, or 7 percent. Total withholding, which also includes withheld individual income taxes, has grown by \$65 billion, or 6 percent, so far this year. Those gains generally result from increases in wages and salaries in the economy.

OUTLAYS THROUGH JUNE

(Billions of dollars)

| Major Category | Actual FY2004 | Preliminary FY2005 | Percentage Change |
|---------------------|------------------|-----------------------|----------------------|
| Defense—Military | 322 | 347 | 7.8 |
| Social Security | | | |
| Benefits | 364 | 383 | 5.4 |
| Medicare | 222 | 244 | 10.1 |
| Medicaid | 134 | 138 | 3.0 |
| Other Programs | | | |
| and Activities | <u>562</u> | <u>601</u> | 6.9 |
| Subtotal | 1,604 | 1,714 | 6.8 |
| Net Interest on the | | | |
| Public Debt | <u>123</u> | <u>141</u> | 14.5 |
| Total | 1,727 | 1,855 | 7.4 |

Sources: Department of the Treasury; CBO.

Outlays in the first nine months of fiscal year 2005 were 7.4 percent higher than in the same period last year, CBO estimates. Defense and nondefense outlays have increased at similar rates so far this year: 7.8 percent and 7.3 percent, respectively.

The fastest-growing category of spending is net interest on the public debt; it rose by \$18 billion, or 14.5 percent, through June. The increase in net interest payments was most pronounced in the third quarter, when costs jumped by \$12 billion, or 28 percent, compared with the same quarter last year. Higher short-term interest rates accounted for much of that increase; growing federal debt and rising costs for inflation-indexed bonds also played a role.

Social Security and Medicare payments have also been growing more quickly this year than last year, rising by 5.4 percent and 10.1 percent, respectively, through June after increasing by 4.5 percent and 8.5 percent in 2004. The much slower growth in Medicaid outlays—3 percent through June—reflects the unusually high level of spending that occurred in the first nine months of 2004 because of a temporary increase in the federal share of the program's costs. With those temporary payments excluded, Medicaid outlays through June were about 8 percent higher than in the same period last year.

Outlays for other programs and activities grew by 6.9 percent through June—roughly double their rate of growth in 2004. The Departments of Agriculture, Education, and Homeland Security have recorded the largest increases; outlays for each of those agencies have increased by 20 percent or more through June.