



# MONTHLY BUDGET REVIEW

## Fiscal Year 2008

### A Congressional Budget Office Analysis

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

May 6, 2008

Receipts from tax returns filed by the April 15 deadline were about 6 percent higher than such receipts last year, about what CBO anticipated when it prepared its most recent budget projections in March. Nevertheless, the federal government recorded a deficit of \$151 billion for the first seven months of fiscal year 2008, CBO estimates—\$70 billion more than the shortfall incurred in the same period last year.

#### MARCH RESULTS (Billions of dollars)

	Preliminary Estimate	Actual	Difference
Receipts	177	179	2
Outlays	223	227	4
Deficit (-)	-47	-48	-1

Sources: Department of the Treasury; CBO.

The Treasury reported a deficit of \$48 billion in March, about \$1 billion more than CBO had projected on the basis of the *Daily Treasury Statements*. Most of the differences in revenues and outlays are attributable to the composition of tax refunds, and they offset each other. Refunds of individual income tax payments (which count as revenue reductions) were \$2 billion lower than CBO had anticipated, and refundable tax credits (which count as outlays) were \$2 billion higher.

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

	Actual FY2007	Preliminary FY2008	Estimated Change
Receipts	384	403	19
Outlays	206	243	37
Surplus	178	160	-17

Sources: Department of the Treasury; CBO.

Because of the large inflow of tax payments due by April 15, the government runs a budget surplus in April. This year, that surplus was \$160 billion, CBO estimates, or \$17 billion less than the surplus recorded in the same month last year. That reduction was due to the effect of the calendar on the timing of certain outlays.

In fact, receipts in April were about \$19 billion *higher* than receipts in April 2007, CBO estimates. Most of the increase—\$18 billion—stemmed from nonwithheld receipts for individual income and payroll taxes, mainly amounts paid with income tax returns filed in April. With amounts recorded in the beginning of May included, nonwithheld receipts rose by about 6 percent, roughly in

line with CBO's expectations when it prepared its March baseline projections. Withholding for income and payroll taxes rose by about \$4 billion (or 3 percent) for the month. Refunds of individual income taxes increased by \$3 billion (or 7.5 percent); about \$1 billion of that increase resulted from issuance of the first rebates for individuals enacted in the Economic Stimulus Act of 2008 (Public Law 110-185). Most of the rebates will be disbursed in May and June. Net corporate receipts fell by about \$3 billion (or 6 percent), marking the 10th consecutive month with a decline relative to last year's level; but the drop was much smaller than the 16 percent rate of the decline in the first half of the fiscal year.

Outlays were \$37 billion higher this April than in the same month last year because of growth in spending and the effects of the calendar. April 1, 2007, fell on a weekend, which shifted about \$20 billion in outlays from April into March last year. Without that timing shift, the increase in outlays this April would have amounted to about 7 percent. Spending for defense and the three major entitlement programs (Social Security, Medicare, and Medicaid) accounted for much of that percentage increase. In addition, about \$2 billion of the increase was the result of rebate payments stemming from the Economic Stimulus Act of 2008. (When the rebate exceeds an individual's federal income tax payments, the excess is classified as an outlay in the budget.)

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

	Actual FY2007	Preliminary FY2008	Estimated Change
Receipts	1,505	1,549	44
Outlays	1,585	1,700	115
Deficit (-)	-81	-151	-70

Sources: Department of the Treasury; CBO.

CBO estimates that the government recorded a deficit of \$151 billion in the first seven months of fiscal year 2008, compared with a shortfall of \$81 billion in the same period last year. Outlays rose by about \$115 billion (or 7 percent) over last year's level, while revenues grew by an estimated \$44 billion (or 3 percent).

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 FY2007	Preliminary FY2008	Percentage Change	
			Actual	Adjusted <sup>a</sup>
Individual Income	705	745	5.6	
Corporate Income	201	173	-13.6	
Social Insurance	508	528	4.0	
Other	<u>90</u>	<u>102</u>	13.3	
Total	1,505	1,549	2.9	

Sources: Department of the Treasury; CBO.

For the fiscal year to date, receipts from income and payroll taxes are about 5 percent above last year's level. Through April, withholding of income and payroll taxes rose by about \$49 billion (or nearly 5 percent), reflecting continued increases in wages and salaries. Those receipts grew at a slower rate than the nearly 7 percent increase recorded in both 2006 and 2007.

Nonwithheld receipts of individual income and payroll taxes, consisting mainly of quarterly estimated payments of taxes made in January and April and final payments of taxes for 2007 made during the February-April tax filing season, increased by about 7 percent in the first seven months of the year; they contributed about \$24 billion to the increase in total receipts.

An increase in refunds of individual income taxes of \$13 billion (or 8 percent) dampened the effects of the gains in withholding and nonwithheld income and payroll taxes. Those refunds resulted mainly from taxpayers' filing of tax returns for 2007—not from this year's tax rebates. CBO expects that the Treasury will provide slightly more than \$100 billion in rebates over the next several months, with almost \$70 billion classified as a reduction in revenues (refunds) and roughly \$35 billion as an increase in outlays (to taxpayers for whom the rebates exceed the amount of their income taxes for 2007).

Corporate receipts decreased by \$27 billion, or 14 percent, in the October-April period, reflecting weakening corporate profits. Those receipts rose rapidly between 2003 and 2007, but in the first seven months of this year, they fell to about the same level as in the October-April period of two years ago.

Other receipts rose by \$12 billion during the past seven months, with almost half of that increase arising from payments to the Treasury from the Federal Reserve attributable to changes in the value of its portfolio of securities and to gains in its holdings of foreign currencies.

## OUTLAYS THROUGH APRIL

(Billions of dollars)

Major Category	Actual FY2007	Preliminary FY2008	Percentage Change	
			Actual	Adjusted <sup>a</sup>
Defense—Military	307	341	11.1	10.2
Social Security				
Benefits	332	350	5.5	5.5
Medicare <sup>b</sup>	215	220	2.1	4.4
Medicaid	110	117	6.2	6.2
Other Programs and Activities	<u>482</u>	<u>523</u>	8.7	7.4
Subtotal	1,446	1,552	7.3	7.0
Net Interest on the Public Debt	<u>139</u>	<u>148</u>	6.7	6.7
Total	1,585	1,700	7.2	7.0

Sources: Department of the Treasury; CBO.

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

b. Medicare outlays are net of proprietary receipts.

Outlays increased by about 7 percent relative to those in the first seven months of fiscal year 2007, CBO estimates. Spending for military activities grew faster than the other major categories of spending, rising by 10 percent through April; spending for nondefense programs and for net interest on the public debt rose by about 6 percent and 7 percent, respectively.

The increase in defense outlays resulted from double-digit growth in costs for operations and maintenance, procurement, and military construction. Such spending is rising faster this year than the 6 percent to 7 percent annual increases experienced in fiscal years 2006 and 2007.

Through April, outlays for Social Security, Medicare, and Medicaid rose by an average of 5 percent (adjusted for shifts in payment dates), somewhat less than the annual gains of about 7 percent averaged over the previous two fiscal years. The results through April partly reflect a smaller cost-of-living adjustment for Social Security benefits and reductions in Medicare's net payments to prescription drug plans to correct for overpayments made in 2006.

Spending for the broad category of other programs and activities was 7 percent higher than it was in the first seven months of 2007, in part because of substantial growth in the payments for unemployment benefits, veterans' health care, and food and nutrition programs.