



Monthly Budget Review for December 2014

The federal government’s budget deficit was \$175 billion for the first three months of fiscal year 2015, \$3 billion more than the shortfall recorded in the same period last year, CBO estimates. Revenues and outlays were both higher (by 11 percent and 9 percent, respectively) than they were at the same point in fiscal year 2014.

Budget Totals, October–December (Billions of dollars)			
	Actual, FY 2014	Preliminary, FY 2015	Estimated Change
Receipts	666	740	74
Outlays	<u>839</u>	<u>916</u>	<u>77</u>
Deficit	-173	-175	-3

Sources: Congressional Budget Office; Department of the Treasury. Based on the *Monthly Treasury Statement* for November 2014 and the *Daily Treasury Statements* for December 2014.
Note: FY = fiscal year.

Total Receipts: Up by 11 Percent in the First Quarter of Fiscal Year 2015

Receipts through December totaled \$740 billion, CBO estimates—\$74 billion more than the amount collected in the same period last year.

Receipts, October–December (Billions of dollars)				
Major Program or Category	Actual, FY 2014	Preliminary, FY 2015	Estimated Change	
			Billions of Dollars	Percent
Individual Income Taxes	306	338	32	10.4
Payroll Taxes	225	229	3	1.4
Corporate Income Taxes	69	98	29	41.8
Other Receipts	<u>65</u>	<u>75</u>	<u>10</u>	15.4
Total	666	740	74	11.1
Memorandum: Combined Individual Income and Payroll Taxes				
Withheld taxes	507	535	29	5.7
Other, net of refunds	<u>25</u>	<u>31</u>	<u>6</u>	23.9
Total	532	567	35	6.5

Sources: Congressional Budget Office; Department of the Treasury.
Note: FY = fiscal year.

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 add up to totals because of rounding.

The largest increases in first-quarter receipts were in the following categories:

- **Individual income taxes and payroll (social insurance) taxes** together rose by \$35 billion (or 7 percent).
 - An increase of \$29 billion (or 6 percent) in the amounts withheld from workers' paychecks accounted for the bulk of that gain. Growth in wages and salaries probably explains that increase.
 - Nonwithheld receipts, from taxpayers who received filing extensions for their 2013 income tax returns or who submitted estimated payments for 2014, rose by \$8 billion (or 23 percent). That increase was slightly offset by a decline in receipts from unemployment insurance taxes, which were down by \$2 billion.

- **Corporate income taxes** rose by \$29 billion (or 42 percent). Those receipts included the final quarterly estimated payments for tax year 2014 for most corporations; they were due by December 15. That growth in receipts probably does not reflect a corresponding increase in taxable profits, however, because the size of those payments may have been boosted by the expiration of a number of tax provisions that reduced firms' tax liabilities and that were later retroactively extended for 2014. (That extension was enacted into law, in Public Law 113-295, just days after the due date for estimated payments.) To the extent that receipts in December increased for that reason, corporate tax payments are likely to be smaller, or refunds larger, in the current quarter, when most firms make their final settlements for tax year 2014 and can take full advantage of the extension of those provisions for that year.

Total Outlays: Up by 9 Percent Compared With Spending During the First Quarter of Fiscal Year 2014

Outlays for the first three months of fiscal year 2015 were \$77 billion more than they were during the same period last year, CBO estimates.

Outlays, October–December (Billions of dollars)					
Major Program or Category	Actual, FY 2014	Preliminary, FY 2015	Estimated Change	Estimated Change With Adjustments for Timing Shifts ^a	
				Billions of Dollars	Percent
Social Security Benefits	205	214	9	9	4.4
Medicare ^b	119	137	18	18	14.8
Medicaid	68	84	16	16	23.5
Subtotal, Largest Mandatory Programs	393	436	43	43	10.9
DoD – Military ^c	154	155	1	1	0.6
Net Interest on the Public Debt	59	60	1	1	1.4
Exchange Subsidies ^d	0	5	5	5	n.m.
Net Outlays for GSEs	-39	-7	32	32	n.m.
Other	271	266	-5	-6	-2.3
Total	839	916	77	76	9.2

Sources: Congressional Budget Office; Department of the Treasury.

Note: FY = fiscal year; DoD = Department of Defense; GSEs = government-sponsored enterprises, Fannie Mae and Freddie Mac; n.m. = not meaningful.

a. Adjusted amounts exclude the effects of shifting payments that were scheduled to be made on weekends or holidays. Without those timing shifts, outlays would have been \$821 billion through the first three months of fiscal year 2014 and \$897 billion through the first three months of fiscal year 2015.

b. Medicare outlays are net of offsetting receipts.

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

d. Subsidies for health insurance purchased through exchanges established under the Affordable Care Act.

Outlays increased for several major categories of spending:

- Outlays rose for each of the three largest mandatory programs: **Medicare**, by \$18 billion (or 15 percent), primarily because of a large payment made to prescription drug plans in November 2014 to account for unanticipated spending increases in calendar year 2014; **Medicaid**, by \$16 billion (or 23 percent), largely because some of the provisions of the Affordable Care Act did not take effect until January 2014; and **Social Security benefits**, by \$9 billion (or 4 percent).
- Much of the increase in spending occurred because payments to the Treasury from the government-sponsored enterprises **Fannie Mae and Freddie Mac** were \$32 billion less in December 2014 than they were in December 2013, when Freddie Mac made a onetime payment of about \$24 billion after a revaluation of certain tax assets significantly increased its net worth. (Those payments are recorded in the budget as offsetting receipts—that is, as negative outlays.)

Changes in outlays for other programs boosted spending by an additional \$1 billion, on net.

Estimated Surplus in December 2014: \$3 Billion

CBO estimates that the government recorded a surplus of \$3 billion in December 2014—\$50 billion less than the surplus in December 2013. But most of the difference between the two surpluses is explained by shifts in the timing of payments that occur when scheduled payment dates fall on weekends or holidays. In 2013, December 1 fell on a weekend, so certain payments were made in November. Furthermore, spending for December is always boosted by payments that are scheduled for January 1, New Year’s Day. Without those timing shifts, CBO estimates, the December 2014 surplus would have been only \$13 billion less than the December 2013 surplus.

Budget Totals for December (Billions of dollars)					
	Actual, FY 2014	Preliminary, FY 2015	Estimated Change	Estimated Change With Adjustments for Timing Shifts ^a	
				Billions of Dollars	Percent
Receipts	285	336	51	51	17.9
Outlays	<u>232</u>	<u>333</u>	<u>101</u>	<u>64</u>	25.5
Surplus	53	3	-50	-13	-36.4

Sources: Congressional Budget Office; Department of the Treasury.
Note: FY = fiscal year.

a. Adjusted amounts exclude the effects of shifting payments that were scheduled to be made on weekends or holidays. Without those timing shifts, the surplus would have been \$35 billion in December 2013 and \$22 billion in December 2014.

CBO estimates that receipts in December totaled \$336 billion—\$51 billion (or 18 percent) more than those in the same month last year. Individual income taxes and payroll taxes together rose by \$20 billion (or 10 percent). Corporate income taxes, which included most corporations’ final quarterly estimated payments for tax year 2014, rose by \$23 billion (or 37 percent).

Spending in December 2014 was \$333 billion, CBO estimates—\$101 billion more than outlays in the same month in 2013. If not for the effects of timing shifts, spending would have been \$64 billion (or 25 percent) higher than in December 2013. (The month-over-month changes discussed below reflect adjustments to account for those shifts.) Among the larger changes in outlays for the month, compared with those made in December last year, were the following:

- Outlays for **Fannie Mae and Freddie Mac** increased by \$32 billion, reflecting the large onetime payment from Freddie Mac to the Treasury that reduced outlays in 2013, as discussed above.

- Spending for the three major entitlement programs—**Social Security, Medicare, and Medicaid**—rose by \$15 billion (or 11 percent).
- Subsidy payments for health insurance purchased through exchanges created under the **Affordable Care Act** resulted in outlays of \$2 billion. Those subsidies did not begin until January 2014, so no subsidy payments were made in December 2013.

Deficit in November 2014: \$57 Billion

The Treasury Department reported a deficit of \$57 billion for November, which is \$2 billion less than the amount that CBO estimated, on the basis of *Daily Treasury Statements*, in the *Monthly Budget Review* for November 2014.

This document was prepared by David Rafferty and Joshua Shakin.
It is available at www.cbo.gov/publication/49867