# MONTHLY BUDGET REVIEW

## Fiscal Year 2012

## A Congressional Budget Office Analysis

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

April 6, 2012

The federal government incurred a budget deficit of almost $780 billion in the first half of fiscal year 2012, CBO estimates—$53 billion less than the shortfall during the same period last year. Revenues were about 4.5 percent higher and outlays slightly lower than the amounts recorded in the first six months of fiscal year 2011.

**FEBRUARY RESULTS**

The Treasury reported a deficit of $232 billion for February, about $3 billion more than CBO's estimate based on the *Daily Treasury Statements.*

**ESTIMATES FOR MARCH**
(Billions of dollars)

| | Actual FY 2011 | Preliminary FY 2012 | Estimated Change |
|---|---|---|---|
| Receipts | 151 | 172 | 21 |
| Outlays | 339 | 368 | 29 |
| Deficit (-) | -188 | -196 | -8 |

Sources: Department of the Treasury; CBO.

CBO estimates that the deficit in March 2012 was $196 billion, about $8 billion more than the deficit in the same month a year earlier.

Receipts in March of this year were $21 billion (or 14 percent) higher than those in March 2011, CBO estimates. More than half of the gain can be attributed to lower individual income tax refunds (which were down by $12 billion, or 20 percent). Refunds were lower in large part because some that ordinarily would have been recorded in March were reported at the end of February.

Net receipts from corporate income taxes were up $7 billion in March, primarily because final payments of 2011 tax liabilities were higher than they were a year ago. (March is the month when most corporations made final tax payments based on their 2011 liability.)

Amounts withheld for income and payroll taxes were also up—by $4 billion. That increase indicates continued growth in wages and salaries and would have been slightly higher except for the fact that March 2012 had one fewer business day than March 2011.

A $2 billion decline in receipts from the Federal Reserve—resulting from its shift to a lower-yielding portfolio— offset some of those gains.

Outlays were $29 billion higher this March than they were in the same month last year, mostly because about $31 billion in payments that would ordinarily be made in April were instead made in March this year (as April 1 was a Sunday). In addition, revisions to the estimated cost of several credit programs—mostly the Troubled Asset Relief Program—added $7 billion to spending this March compared with outlays last March. Absent those effects, outlays would have been $9 billion less in March 2012 than in March 2011.

Compared with payments in March a year ago, outlays for Medicaid and unemployment benefits decreased by $4 billion and $3 billion, respectively, and spending for defense declined by $4 billion (after shifts in the dates of certain payments are taken into account). In addition, outlays for the Making Work Pay credit (which expired last year) fell by $3 billion. In contrast, spending for Social Security benefits increased by $4 billion.

**BUDGET TOTALS THROUGH MARCH**
(Billions of dollars)

| | Actual FY 2011 | Preliminary FY 2012 | Estimated Change |
|---|---|---|---|
| Receipts | 1,020 | 1,066 | 46 |
| Outlays | 1,849 | 1,842 | -7 |
| Deficit (-) | -829 | -777 | -53 |

Sources: Department of the Treasury; CBO.

CBO estimates that the Treasury will record a deficit of $777 billion for the first six months of fiscal year 2012. Compared with the budget figures at the same point last year, revenues this year were $46 billion higher and outlays were $7 billion lower.

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.

**REVENUES THROUGH MARCH**
(Billions of dollars)

| Major Source | Actual FY 2011 | Preliminary FY 2012 | Percentage Change |
|---|---|---|---|
| Individual Income | 476 | 486 | 2.1 |
| Social Insurance | 389 | 394 | 1.2 |
| Corporate Income | 55 | 84 | 53.2 |
| Other | 100 | 101 | 1.6 |
| **Total** | **1,020** | **1,066** | **4.5** |
| **Memorandum**: | | | |
| Combined Individual Income and Social Insurance Taxes | | | |
| Withheld | 894 | 910 | 1.7 |
| Other | -29 | -30 | 2.5 |
| Total | 865 | 880 | 1.7 |

Sources: Department of the Treasury; CBO.

Receipts in the first half of fiscal year 2012 were about $46 billion (or 4.5 percent) higher than the amounts collected in the same period last year, CBO estimates. Almost two-thirds of the gain stemmed from a $29 billion (or 53 percent) increase in net receipts from corporate income taxes, the result of higher payments (which were up by $11 billion, or 11 percent) and lower refunds (which were down by $18 billion, or 42 percent).

Withheld and nonwithheld individual income taxes rose by $15 billion and $7 billion, respectively, in the first half of fiscal year 2012, reflecting the strengthening of both wage and nonwage incomes. But total receipts from individual income taxes were up by only $10 billion (or about 2 percent), mainly because refunds increased by $11 billion, partly as a result of accelerated processing and reporting procedures.

Social insurance receipts for the first six months grew by $5 billion, mostly because collections of unemployment taxes rose by $4 billion (as states replenished their trust funds, which were depleted in the recent recession). Withheld payroll taxes grew by only $1 billion, in part because the 2 percentage-point reduction in the Social Security payroll tax, which took effect on January 1, 2011, was not in effect during the first three months of fiscal year 2011 (October to December 2010). By itself, that difference would have caused withheld collections this year to be $25 billion less than receipts for the comparable months last year. But growth in wage and nonwage incomes has offset much of that difference. For example, during the most recent three months, when the tax rates were the same in both years, withheld payroll taxes grew by $14 billion (or 8 percent).

Tax collections in April will provide important information about the likely growth in receipts this year.

**OUTLAYS THROUGH MARCH**
(Billions of dollars)

| | | | Percentage Change | |
|---|---|---|---|---|
| Major Category | Actual FY 2011 | Preliminary FY 2012 | Actual | Adjusted[a] |
| Defense–Military | 343 | 334 | -2.6 | -2.7 |
| Social Security Benefits | 356 | 374 | 5.1 | 5.1 |
| Medicare[b] | 226 | 232 | 2.6 | 2.9 |
| Medicaid | 145 | 121 | -16.3 | -16.3 |
| Unemployment Benefits | 67 | 52 | -21.8 | -21.8 |
| Other Activities | 587 | 572 | -2.6 | -2.7 |
| **Subtotal** | **1,724** | **1,685** | **-2.2** | **-2.2** |
| Net Interest on the Public Debt | 123 | 124 | 0.4 | 0.4 |
| TARP | 4 | 23 | n.m. | n.m. |
| Payments to GSEs | -2 | 10 | n.m. | n.m. |
| **Total** | **1,849** | **1,842** | **-0.4** | **-0.4** |

Sources: Department of the Treasury; CBO.

Note: TARP = Troubled Asset Relief Program; GSE = government-sponsored enterprise; n.m. = not meaningful.

a. Excludes the effects of payments shifted because of weekends or holidays and of prepayments of deposit insurance premiums.

b. Medicare outlays are net of offsetting receipts.

Outlays in the first half of the fiscal year were slightly lower they were in the first half of last year.

Spending for some major programs declined. Outlays for Medicaid fell by $24 billion (or 16 percent) because legislated increases in the federal government's share of the program's costs expired in July 2011. Spending for unemployment benefits dropped by $15 billion (or almost 22 percent) because fewer claims were filed in recent months. Defense spending declined by about $9 billion (or 3 percent).

In contrast, outlays recorded for the Troubled Asset Relief Program rose by $19 billion, mostly because of a change in the estimated cost of earlier transactions. Net payments to the government-sponsored enterprises Fannie Mae and Freddie Mac increased by $12 billion. As compared with spending in the first six months of fiscal year 2011, outlays for Social Security benefits were $18 billion (or 5 percent) higher, and net spending for Medicare was up by $6 billion (or 3 percent).

Expenditures for "Other Activities" were slightly lower than they were in the same period last year. Education spending dropped by $17 billion (or 32 percent), largely because of a decline in spending from funding provided in the American Recovery and Reinvestment Act. But spending for international assistance increased by $4 billion (or 50 percent), and net outlays to stabilize corporate credit unions rose by $13 billion, mostly because outlays in 2011 were reduced by loan repayments from credit unions.

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