



MONTHLY BUDGET REVIEW

Fiscal Year 2012

A Congressional Budget Office Analysis

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

August 7, 2012

CBO estimates that the Treasury Department will report a deficit of \$975 billion for the first 10 months of fiscal year 2012, \$125 billion less than the \$1.1 trillion deficit incurred through July 2011. Through the end of July, revenues were about 6 percent higher this year than at the same point last year; outlays were about the same in both years. Because October 1, 2011, occurred on a Saturday, roughly \$31 billion in payments that would have been made in 2012 were made in 2011. In the absence of that shift, the deficit so far this year would have been about \$93 billion smaller than last year's figure.

JUNE RESULTS

The Treasury reported a deficit of \$60 billion for June, the same as CBO's estimate based on the *Daily Treasury Statements*.

ESTIMATES FOR JULY (Billions of dollars)

	Actual FY 2011	Preliminary FY 2012	Estimated Change
Receipts	159	183	24
Outlays	288	254	-35
Deficit (-)	-129	-71	58

Sources: Department of the Treasury; CBO.

The deficit in July was \$71 billion, CBO estimates, \$58 billion less than the shortfall recorded a year ago. Spending last month was influenced by the shift of certain payments from July to June; if not for those timing shifts, the deficit in July 2012 would have been \$22 billion less than the shortfall in July 2011.

Receipts in July were \$24 billion (or 15 percent) higher than those in July 2011, CBO estimates. Most of that gain (\$19 billion) was the result of increased receipts from individual income and payroll taxes. Withholding for income and payroll taxes rose by \$12 billion (or 9 percent). About half of that increase occurred because July 2012 had one more business day than July 2011; the rest of the gain can be explained by higher wage and salary income. In addition, collections of state unemployment taxes rose by \$6 billion. Together, receipts from excise taxes, estate and gift taxes, corporate taxes, and miscellaneous fees and fines rose by \$5 billion.

Outlays were \$35 billion lower this July than they were in the same month last year, mostly because about \$36 billion in payments that would ordinarily have been made in July were instead made in June this year (because July 1 fell on a Sunday). Without that timing shift, outlays would have been \$1 billion (or less than 1 percent) higher in July 2012 than in July 2011.

Spending for Social Security benefits was \$4 billion higher than in July 2011. Excluding the effects of timing shifts for some payments, outlays were also higher for Medicare (by \$3 billion) and for defense spending (by \$2 billion). In contrast, net interest on the public debt was \$4 billion lower than in July 2011. Also, net outlays for the Tennessee Valley Authority (TVA) were about \$2 billion lower, mainly because TVA's net investments were higher in July 2011 than July 2012.

BUDGET TOTALS THROUGH JULY (Billions of dollars)

	Actual FY 2011	Preliminary FY 2012	Estimated Change
Receipts	1,893	2,007	114
Outlays	2,993	2,982	-11
Deficit (-)	-1,100	-975	125

Sources: Department of the Treasury; CBO.

In CBO's estimation, the government recorded a deficit of \$975 billion through July 2012, \$125 billion less than the deficit for the same period last year. Revenues rose by \$114 billion, and outlays declined by \$11 billion.

REVENUES

Total revenues in the first 10 months of fiscal year 2012 were 6 percent higher than those in the same period last year, CBO estimates.

Through July, the largest percentage increase was in net receipts from corporate income taxes, which grew by \$42 billion (or 30 percent). The growth in corporate receipts this year is largely attributable to changes in tax rules in recent years—in particular, the rules governing how quickly firms may deduct the cost of their investments in equipment.

Individual income tax receipts grew by \$37 billion (or 4 percent). Growth in wages boosted withholding by \$28 billion (or 3 percent). Nonwithheld payments also increased—by \$11 billion (or 4 percent). Those gains were partially offset by an increase of \$2 billion (or 1 percent) in refunds.

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 JULY

(Billions of dollars)

Major Source	Actual FY 2011	Preliminary FY 2012	Percentage Change
Individual Income	891	927	4.1
Social Insurance	686	711	3.8
Corporate Income	141	183	30.0
Other	<u>176</u>	<u>185</u>	5.1
Total	1,893	2,007	6.0
Memorandum:			
Combined Individual Income and Social Insurance Taxes			
Withheld	1,437	1,478	2.9
Other	<u>139</u>	<u>161</u>	15.1
Total	1,576	1,639	4.0

Sources: Department of the Treasury; CBO.

Social insurance tax receipts rose by \$26 billion (or 4 percent) in the first 10 months of fiscal year 2012. Withholding for payroll taxes grew by about \$14 billion (or 2 percent). The current 2 percentage-point reduction in the payroll tax was not in effect for the first quarter of fiscal year 2011 (October through December 2010); if it had been in effect during that time, the year-over-year increase in withholding for payroll taxes would have been larger by about \$25 billion (or about 6 percent), CBO estimates. Collections of state unemployment taxes rose by \$12 billion (or 26 percent) as states replenished their trust funds, depleted by the recent recession.

Receipts from other sources increased, on net, by about \$9 billion. Collections from estate and gift taxes rose by \$5 billion, as did receipts from excise taxes; together, revenues from customs duties and miscellaneous fees and fines also increased by \$5 billion. Those gains were partially offset by a decline of \$6 billion in receipts from the Federal Reserve, stemming from lower interest rates and a shift to lower-yielding, less risky assets in its portfolio, which resulted in smaller profits and hence smaller remittances to the Treasury.

OUTLAYS

Adjusted for shifts in the timing of payments, outlays through July increased by less than 1 percent compared with spending in the same period last year. Some of that increase resulted from changes recorded in the budget for the estimated cost of credit activities in previous years (mainly those of the Troubled Asset Relief Program, or TARP). Excluding those revisions, spending through July was about 1 percent less than outlays in the first 10 months of 2011.

OUTLAYS THROUGH JULY

(Billions of dollars)

Major Category	Actual FY 2011	Preliminary FY 2012	Percentage Change	
			Actual Adjusted ^a	
Defense—Military	558	540	-3.3	-2.6
Social Security				
Benefits	598	633	5.8	5.8
Medicare ^b	384	386	0.5	4.3
Medicaid	235	209	-11.4	-11.4
Unemployment				
Benefits	104	82	-21.1	-21.1
Other Activities	<u>926</u>	<u>888</u>	-4.2	-2.8
Subtotal	2,806	2,737	-2.5	-1.3
Net Interest on the				
Public Debt	226	221	-2.1	-2.1
TARP	<u>-39</u>	<u>24</u>	n.m.	n.m.
Total	2,993	2,982	-0.4	0.7

Sources: Department of the Treasury; CBO.

Note: TARP = Troubled Asset Relief Program; n.m. = not meaningful.

- Excludes the effects of payments shifted because of weekends or holidays and of prepayments of deposit insurance premiums.
- Medicare outlays are net of offsetting receipts.

Spending for Medicaid fell by \$27 billion (or 11 percent) because legislated temporary increases in the federal share of the program's costs expired in July 2011. Outlays for unemployment benefits dropped by \$22 billion (or 21 percent), mostly because fewer people have been receiving benefits in recent months. Payments to military personnel remained steady, while other defense outlays fell by about \$14 billion (or 3 percent). (These figures and those for other spending programs discussed here are adjusted for timing shifts.)

Expenditures in the broad category "Other Activities" declined by \$25 billion (or 3 percent) so far this year, reflecting a \$14 billion decrease in spending associated with the Making Work Pay tax credit (which expired last year). The refundable portion of that credit is recorded in the budget as an outlay. In addition, net outlays for the Department of Education decreased by \$8 billion (or 14 percent), largely because of lower spending from the American Recovery and Reinvestment Act. (Most of that spending occurred before 2012.)

In the other direction, outlays recorded for the TARP rose by \$63 billion, mainly because adjustments to the estimated cost of the program reduced outlays by \$42 billion in 2011 and increased them by \$21 billion in 2012. Payments for Social Security benefits increased by \$35 billion (or 6 percent), and net spending for Medicare was up by \$17 billion (or 4 percent).