



MONTHLY BUDGET REVIEW

Fiscal Year 2010

A Congressional Budget Office Analysis

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

August 5, 2010

The federal budget deficit was about \$1.2 trillion for the first 10 months of fiscal year 2010, CBO estimates—about \$90 billion less than the roughly \$1.3 trillion deficit incurred through July 2009. Outlays are about 2½ percent lower than they were last year at this time, and revenues are about 1 percent higher.

JUNE RESULTS

(Billions of dollars)

	Preliminary Estimate	Actual	Difference
Receipts	251	251	*
Outlays	320	319	1
Deficit (-)	-69	-68	-1

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

The Treasury reported a deficit of \$68 billion for June, about \$1 billion less than CBO had projected on the basis of the *Daily Treasury Statements*.

ESTIMATES FOR JULY

(Billions of dollars)

	Actual FY 2009	Preliminary FY 2010	Estimated Change
Receipts	151	156	4
Outlays	332	325	-7
Deficit (-)	-181	-169	11

Sources: Department of the Treasury; CBO.

The deficit in July was \$169 billion, CBO estimates, \$11 billion less than the shortfall recorded a year ago.

According to CBO's estimates, receipts were about \$4 billion (or 3 percent) higher in July 2010 than they were in July 2009. For the sixth consecutive month, net corporate income taxes were higher than those in the same month in fiscal year 2009—up by about \$3 billion. That increase, which came almost equally from higher gross corporate receipts and lower refunds of corporate taxes, is primarily attributable to stronger corporate profits in 2010. Receipts from the Federal Reserve continued to be higher than those in 2009, up by \$3 billion in July; that increase reflects changes in the

size and composition of the Federal Reserve's portfolio of assets.

Partially offsetting those increases in revenues were declines of about \$1 billion each in receipts from unemployment insurance taxes and excise taxes. Although July 2010 had one fewer weekday than July 2009, withholding for income and payroll taxes was about the same as it was in July 2009 because the average amount withheld per day was higher.

Outlays were \$7 billion lower in July than in the same month last year, CBO estimates. Spending for the Troubled Asset Relief Program (TARP) was about \$20 billion lower this July than in July 2009. Outlays for Medicare fell by \$2 billion, after adjusting for shifts in payment dates, and outlays for unemployment benefits fell by \$1 billion. Those decreases were partially offset by a \$2 billion increase in spending for agriculture and defense programs and Social Security benefits, and by smaller increases in spending for a number of other programs.

BUDGET TOTALS THROUGH JULY

(Billions of dollars)

	Actual FY 2009	Preliminary FY 2010	Estimated Change
Receipts	1,740	1,753	13
Outlays	3,007	2,926	-81
Deficit (-)	-1,267	-1,174	93

Sources: Department of the Treasury; CBO.

CBO estimates that the government recorded a deficit of \$1,174 billion for the first 10 months of fiscal year 2010, \$93 billion less than the deficit recorded during the same period last year. Outlays fell by \$81 billion and revenues increased by \$13 billion.

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 2009	Preliminary FY 2010	Percent Change
Individual Income	750	720	-4.0
Corporate Income	104	139	33.1
Social Insurance	754	727	-3.7
Other	<u>131</u>	<u>167</u>	27.5
Total	1,740	1,753	0.7

Sources: Department of the Treasury; CBO.

Increases both in net corporate income taxes and in receipts from the Federal Reserve have bolstered this year's receipts. Those increases have been partially offset by declines in individual income and payroll taxes.

Corporate income taxes rose by about \$35 billion (or 33 percent) during the first 10 months of the year; the increase resulted primarily from higher taxable profits, a consequence of improved economic conditions and lower depreciation charges. (Legislation that allowed taxpayers to take higher depreciation charges in 2009 expired at the end of last year.) With an increase of \$37 billion, receipts from the Federal Reserve were more than double the amount received in the comparable period in 2009. The larger remittances stemmed from higher profits earned by the Federal Reserve, which primarily reflect the central bank's much larger portfolio and its shift to riskier and thus higher-yielding investments in support of the housing market and the broader economy.

Combined receipts from individual income and payroll taxes declined by about \$58 billion (or 4 percent) compared with receipts in the same period last year. Withheld income and payroll taxes fell by about \$29 billion (or 2 percent), and nonwithheld receipts fell by about \$37 billion (or 12 percent). In both instances, the declines occurred earlier in this fiscal year and were largely attributable to lower collections from tax liabilities incurred in 2009. Collections for the past three months, which were almost exclusively for taxes based on income for 2010, showed gains for withholding and nonwithheld taxes of about 3 percent and 4 percent, respectively.

The overall declines in those two sources were partially offset by a \$4 billion reduction in individual income tax refunds, mainly representing 2009 tax liabilities, and by a \$4 billion increase in collections of unemployment insurance taxes, resulting primarily from the efforts of states to replenish their unemployment trust funds.

OUTLAYS THROUGH JULY

(Billions of dollars)

Major Category	Actual FY 2009	Preliminary FY 2010	Percentage Change	
			Actual	Adjusted ^a
Defense–Military	531	559	5.4	5.3
Social Security				
Benefits	546	578	5.8	5.8
Medicare ^b	371	387	4.5	3.8
Medicaid	210	227	8.3	8.3
Unemployment				
Benefits	96	135	40.7	40.7
Other Activities	<u>840</u>	<u>917</u>	9.1	9.1
Subtotal	2,593	2,803	8.1	8.0
Net Interest on the				
Public Debt	162	191	18.0	18.0
TARP	169	-108	-163.9	-163.9
Payments to GSEs	<u>83</u>	<u>41</u>	-50.6	-50.6
Total	3,007	2,926	-2.7	-2.8

Sources: Department of the Treasury; CBO.

Note: TARP = Troubled Asset Relief Program; GSE = government-sponsored enterprise.

- a. Excludes the effects of payments that were shifted because of weekends or holidays.
- b. Medicare outlays are net of proprietary receipts.

Adjusted for calendar-related shifts of certain payments, outlays through July were about \$85 billion (or about 3 percent) lower than in the same period last year. That decline reflects a net reduction in outlays recorded for the TARP (down \$277 billion), federal deposit insurance (down \$50 billion, mostly because of a required prepayment of premiums), and Treasury payments to Fannie Mae and Freddie Mac (down \$42 billion).

Excluding those financial programs, spending through July was \$284 billion (or 10 percent) higher than it was in 2009. Several major entitlement programs accounted for about a third of that increase. Social Security and Medicare payments grew by \$32 billion (or 6 percent) and by \$13 billion (or 4 percent), respectively. Excluding spending under the American Recovery and Reinvestment Act (ARRA), outlays for unemployment benefits were \$33 billion higher and federal spending for Medicaid was \$10 billion higher than a year earlier.

An additional one-third of the growth in outlays stemmed from ARRA spending, particularly for grants to states made by the Department of Education, additional unemployment benefits, refundable tax credits, and the increased federal share of Medicaid assistance.

Outlays for net interest on the public debt were \$29 billion (or 18 percent) more than in the same period in 2009. Most of that growth reflects adjustments to the value of inflation-indexed securities.