



Monthly Budget Review: December 2020

January 11, 2021

The federal budget deficit was \$572 billion in the first quarter of fiscal year 2021, the Congressional Budget Office estimates—\$215 billion more than the deficit recorded during the same period last year. Revenues were about the same and outlays were 18 percent higher from October through December than during the same period in fiscal year 2020.

As was the case in fiscal year 2020, outlays increased in the first quarter of 2021 because certain payments that otherwise would have been due on January 1, a holiday, were instead made in December. In addition, unlike last year, certain payments, totaling \$24 billion, that normally are made on the third of the month were shifted from January 2021 into December 2020 because January 3 fell on a Sunday. If not for those shifts, the first-quarter deficit (through December 2020) would have been \$525 billion, or \$191 billion more than the first-quarter deficit of \$334 billion in fiscal year 2020.

Table 1.
Budget Totals, October–December

Billions of Dollars	Actual, FY 2020	Preliminary, FY 2021	Estimated Change
Receipts	807	803	-3
Outlays	<u>1,163</u>	<u>1,375</u>	<u>212</u>
Deficit (-)	-357	-572	-215

Data sources: Congressional Budget Office; Department of the Treasury. Based on the *Monthly Treasury Statement* for November 2020 and the *Daily Treasury Statements* for December 2020.

FY = fiscal year.

Total Receipts: Little Changed in the First Three Months of Fiscal Year 2021

Receipts totaled \$803 billion during the first three months of fiscal year 2021, CBO estimates—\$3 billion (or 0.4 percent) less than during the same period last year. Changes between last year and this year are described below.

Table 2.
Receipts, October–December

Billions of Dollars

Major Program or Category	Actual, FY 2020	Preliminary, FY 2021	Estimated Change	
			Billions of Dollars	Percent
Individual Income Taxes	385	347	-38	-9.9
Payroll Taxes	290	321	31	10.7
Corporate Income Taxes	65	66	1	0.8
Other Receipts	<u>67</u>	<u>70</u>	<u>3</u>	5.2
Total	807	803	-3	-0.4
Memorandum:				
Combined Individual Income and Payroll Taxes				
Withheld taxes	636	620	-17	-2.6
Other, net of refunds	<u>38</u>	<u>47</u>	<u>9</u>	24.7
Total	675	667	-7	-1.1

Data sources: Congressional Budget Office; Department of the Treasury.

FY = fiscal year.

- **Individual income and payroll (social insurance) taxes** together fell by \$7 billion (or 1 percent).
 - Amounts withheld from workers' paychecks fell by \$17 billion (or 3 percent) because of a decline in wages and because of legislation enacted in response to the coronavirus pandemic. The Coronavirus Aid, Relief, and Economic Security (CARES) Act allowed most employers to defer payment of their portion of the Social Security payroll tax and certain Railroad Retirement taxes on wages paid from March 27, 2020, through December 31, 2020. In addition, the Families First Coronavirus Response Act provided refundable credits against payroll taxes to compensate employers for paid sick leave and for family and medical leave; the CARES Act provided a refundable credit against payroll taxes for employee retention.
 - Nonwithheld payments of income and payroll taxes rose by \$8 billion (or 15 percent), and individual income tax refunds rose by \$2 billion (or 10 percent), decreasing net receipts. Those two sources of payments are generally small at this point in the fiscal year.
 - Unemployment insurance receipts (one type of payroll tax) rose by \$4 billion (or 66 percent).
- **Corporate income taxes** increased, on net, by \$1 billion (or 1 percent).
- Receipts from **other sources**, on net, increased by \$3 billion (or 5 percent).
 - Federal Reserve remittances rose by \$8 billion (or 54 percent), in part as a result of lower short-term interest rates. The Federal Reserve sets targets for those rates by adjusting the interest rate that it pays on bank reserves. Lower rates this year have reduced those interest expenses and therefore increased remittances to the Treasury. As part of its efforts to carry out monetary policy in response to the pandemic, the Federal Reserve also

has significantly increased its holdings of assets, an action that tends to further increase remittances while interest rates are low.

- Excise taxes declined by \$5 billion (or 26 percent) because certain aviation excise taxes were suspended through the end of calendar year 2020 and because of a general reduction in economic activity.
- Customs duties decreased by \$3 billion (or 13 percent), largely reflecting a drop in imports.
- Other miscellaneous receipts increased by \$2 billion (or 40 percent) and estate and gift taxes increased by \$1 billion (or 31 percent).

Total Outlays: Up by 18 Percent in the First Quarter of Fiscal Year 2021

Outlays in the first quarter were \$1,375 billion, \$212 billion more than they were during the same period last year, CBO estimates. If not for the shift of certain payments from January to December both in 2019 and in 2020 (those shifts were different in each year), outlays so far this year would have been \$47 billion less, and the increase from fiscal year 2020 to fiscal year 2021 would have been \$188 billion. The discussion below reflects adjustments to exclude the effects of those timing shifts.

Table 3.
Outlays, October–December

Billions of Dollars

Major Program or Category	Actual, FY 2020	Preliminary, FY 2021	Estimated Change	Estimated Change With Adjustments for Timing Shifts in Outlays ^a	
				Billions of Dollars	Percent
Social Security Benefits	265	301	36	13	4.9
Medicare ^b	165	171	6	6	3.9
Medicaid	<u>101</u>	<u>124</u>	<u>23</u>	<u>23</u>	22.7
Subtotal, Largest Mandatory Spending Programs	530	596	66	42	8.0
Unemployment Compensation	7	80	73	73	n.m.
DoD—Military ^c	187	195	7	7	4.1
Net Interest on the Public Debt	102	89	-13	-13	-12.4
Other	<u>336</u>	<u>415</u>	<u>79</u>	<u>78</u>	24.5
Total	1,163	1,375	212	188	16.5

Data sources: Congressional Budget Office; Department of the Treasury.

DoD = Department of Defense; FY = fiscal year; n.m. = not meaningful.

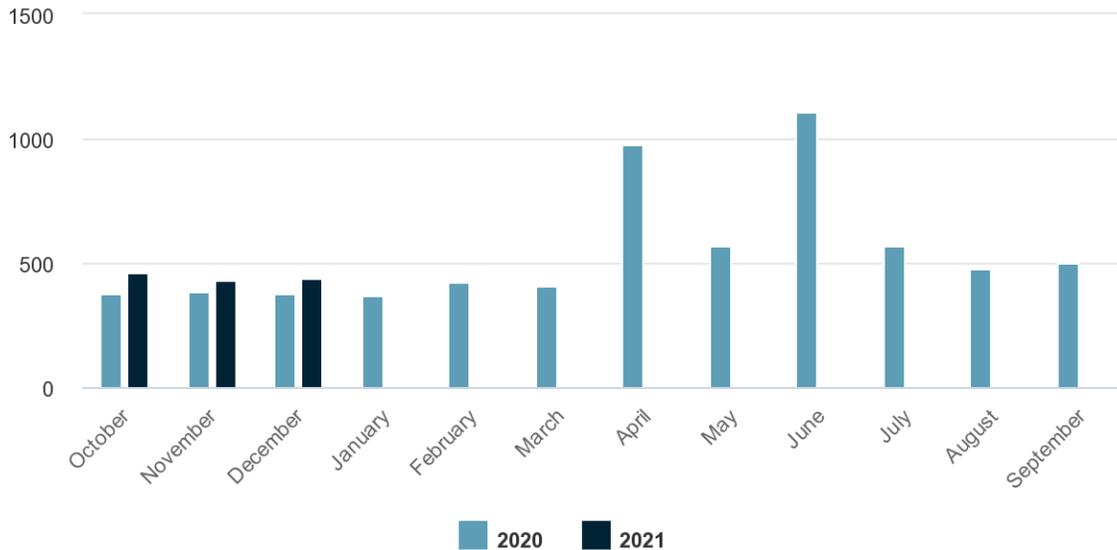
a. Adjusted amounts exclude the effects of shifting payments that otherwise would have been made on a holiday or weekend. If not for those timing shifts, outlays would have been \$1,329 billion in fiscal year 2021 and \$1,141 billion in fiscal year 2020.

b. Medicare outlays are net of offsetting receipts.

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

Monthly Total Outlays Fiscal Years 2020 and 2021

Billions of Dollars



Data sources: Congressional Budget Office; Department of the Treasury.
The value shown for December 2021 is CBO's estimate.
All months have been adjusted to exclude the effects of timing shifts.

Almost 40 percent of the increase in the first quarter was in outlays for **unemployment compensation**, which rose from \$7 billion during the first quarter of fiscal year 2020 to \$80 billion during the same period this year. That rise is attributable both to increased regular unemployment compensation and to enhanced benefits authorized by the CARES Act.

Outlays for the largest mandatory spending programs increased by 8 percent:

- **Social Security** benefits rose by \$13 billion (or 5 percent), because of increases both in the number of beneficiaries and in the average benefit payment.
- **Medicare** outlays grew by \$6 billion (or 4 percent) because of an increase in the number of beneficiaries and growth in the amount and cost of services for those beneficiaries.
- **Medicaid** outlays increased by \$23 billion (or 23 percent), largely because of the legislative response to the pandemic. In particular, federal Medicaid matching rates were raised by 6.2 percentage points and states were required to maintain coverage for all Medicaid recipients enrolled during the emergency period, regardless of changes in circumstances that might otherwise cause some beneficiaries to lose eligibility.

Other major changes in outlays in first quarter were as follows:

- Spending by the **Department of Agriculture** increased by \$19 billion (or 36 percent), largely because of payments made to farmers under the Coronavirus Food Assistance Program to cover increased marketing costs associated with the pandemic. Spending on the Supplemental Nutrition Assistance Program also increased.

- Spending by the **Department of Homeland Security** was \$12 billion (or 81 percent) higher than in 2020. That increase is mostly the result of spending from the Disaster Relief Fund to pay for unemployment benefits under the provisions of a memorandum issued by the President in August.¹
- Spending for military programs of the **Department of Defense** rose by \$7 billion (or 4 percent); the largest increases occurred in personnel and operation and maintenance.
- Net outlays for **interest on the public debt** decreased by \$13 billion (or 12 percent), largely because of lower interest rates.

For other programs and activities, spending increased or decreased by smaller amounts.

Estimated Deficit in December 2020: \$143 Billion

The federal government incurred a deficit of \$143 billion in December 2020, CBO estimates—\$129 billion more than the deficit in December 2019. Outlays in December of each year were affected by shifts in the timing of certain federal payments that otherwise would have been due on a holiday or weekend. Payment shifts from January into December *increased* outlays by \$47 billion in December 2020. In contrast, because December 1, 2019, fell on a weekend, some payments also moved from December into November, so that, on net, payment shifts *decreased* outlays by \$27 billion in December 2019. If not for those shifts, the deficit in December 2020 would have been \$96 billion, or \$55 billion more than the deficit in December 2019.

Table 4.
Budget Totals for December

Billions of Dollars

	Actual, FY 2020	Preliminary, FY 2021	Estimated Change	Estimated Change With Adjustments for Timing Shifts in Outlays ^a	
				Billions of Dollars	Percent
Receipts	336	346	10	10	3
Outlays	<u>349</u>	<u>489</u>	<u>140</u>	<u>65</u>	17
Deficit (-)	-13	-143	-129	-55	135

Data sources: Congressional Budget Office; Department of the Treasury.

FY = fiscal year.

a. Adjusted amounts exclude the effects of shifting payments that otherwise would have been made on a holiday or weekend. If not for those shifts, the budget would have shown a deficit of \$96 billion in December 2020 and a deficit of \$41 billion in December 2019, CBO estimates.

CBO estimates that receipts in December 2020 totaled \$346 billion—\$10 billion (or 3 percent) more than those in the same month last year. That change is explained by an increase of \$7 billion (or 3 percent) in individual income and payroll taxes. In addition, remittances from the Federal Reserve increased by \$3 billion (or 56 percent) and corporate income taxes increased by \$2 billion (or 3 percent), on net. Partially offsetting those increases was a \$2 billion (or 32 percent) decrease in excise taxes.

1. See the White House, Presidential Memoranda, “Memorandum on Authorizing the Other Needs Assistance Program for Major Disaster Declarations Related to Coronavirus Disease 2019” (August 8, 2020), <https://go.usa.gov/xGFJr>.

Total spending in December 2020 was \$489 billion, CBO estimates. If not for timing shifts that *decreased* spending in December 2019 and *increased* spending in December 2020, outlays in December 2020 would have been \$65 billion (or 17 percent) more than in December 2019.

The largest changes in outlays were as follows (the amounts reflect adjustments to exclude the effects of the timing shifts):

- Outlays for **unemployment compensation** grew from \$3 billion in December 2019 to \$28 billion in the same month in 2020, an increase of \$25 billion. That rise is attributable both to increased regular unemployment compensation and to enhanced benefits authorized by the CARES Act.
- Outlays for **Medicaid** rose by \$12 billion (or 36 percent).
- **Social Security** benefits rose by \$5 billion (or 6 percent).
- Net outlays for **interest on the public debt** decreased by \$7 billion; lower interest rates and lower inflation more than offset the effects of a larger federal debt.

Spending for other programs and activities increased or decreased by smaller amounts.

Actual Deficit in November 2020: \$145 Billion

The Treasury Department reported a deficit of \$145 billion for November—\$1 billion less than CBO estimated last month, on the basis of the *Daily Treasury Statements*, in the *Monthly Budget Review for November 2020*.

Each month, CBO issues an analysis of federal spending and revenues for the previous month and the fiscal year to date. This report is the latest in that series, found at <https://go.usa.gov/xfwBH>. In keeping with CBO's mandate to provide objective, impartial analysis, this report makes no recommendations. Nathaniel Frentz and Dawn Sauter Regan prepared the report with assistance from Aaron Feinstein and with guidance from Christina Hawley Anthony, Theresa Gullo, Sam Papenfuss, and Joshua Shakin. It was reviewed by Mark Hadley and Robert Sunshine, edited by Kate Kelly, and prepared for publication by Janice Johnson. An electronic version is available on CBO's website, www.cbo.gov/publication/56953.



Phillip L. Swagel
Director