Congressional Budget Office
Nonpartisan Analysis for the U.S. Congress

A Primer on CBO's Projections of Federal Receipts and Expenditures in the National Income and Product Accounts

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The federal government's fiscal transactions are recorded in two principal sets of accounts: *The Budget of the U.S. Government* (often called the federal budget), in which the Office of Management and Budget (OMB) records receipts and outlays resulting from laws enacted by Congress, and the national income and product accounts (NIPAs), which are produced by the Department of Commerce's Bureau of Economic Analysis (BEA).[1] The federal budget is the framework generally used by executive branch agencies and Congress to track agencies' budgetary resources and their expenditures, oversee their activities, and implement legislation. The NIPAs, by contrast, are not intended to help the government plan or manage its activities. Instead, those accounts provide a general framework for measuring the economic activity of the United States as a whole, not just that of the federal government.[2]

Each year, the Congressional Budget Office publishes projections of what federal revenues and outlays would be in the current fiscal year and over the next 10 years if laws governing taxes and spending generally remained unchanged. Those baseline budget projections reflect the standard structure for budgetary accounting and are consistent with OMB's presentation of the budget. CBO translates those baseline projections of revenues and outlays into the NIPA framework, with its categories of current receipts and expenditures, to prepare the agency's forecast of the economy. Many of those translations—as well as reconciliations between them and the agency's budget projections—are available on CBO's website at www.cbo.gov/recurring-publication/55138. This report explains the differences between the two frameworks seen in those reconciliations.

The projected budget totals under the two sets of accounts are similar but not identical because of differences in which transactions are recorded, which side of the ledger they are recorded on, and when they are recorded. (For example, federal investment is included in outlays in the budget, but it is not included in current expenditures in the NIPAs.) CBO's baseline budget projections include federal deficits or surpluses, which are calculated by subtracting outlays from revenues. In the NIPAs, net federal government saving is calculated by subtracting current expenditures from current receipts. When current expenditures exceed current receipts, net federal government saving is negative and akin to a budget deficit.

What Is the Federal Budget?

The budget of the federal government is best understood as an information and management tool that policymakers use to allocate the government's resources. It is intended to assist in policy deliberations, facilitate the management and control of federal activities, and help the Treasury manage cash balances and determine borrowing needs. The budget follows the federal fiscal year, which runs from October 1 to September 30.

In most cases, revenues and outlays are recorded in the federal budget when receipts are collected and payments are made. In some cases, however, lawmakers have decided that other accounting approaches would provide more complete information about costs than cash-based accounting does. For credit programs in particular,

1. For a fuller discussion of the NIPAs, see Bruce E. Baker and Pamela A. Kelly, "BEA Briefing: A Primer on BEA's Government Accounts," *Survey of Current Business*, vol. 88, no. 3 (Bureau of Economic Analysis, March 2008), https://tinyurl.com/y338pyxk.

2. An alternative approach to assessing the government's fiscal performance is used in the annual *Financial Report of the United States Government*, which measures assets and liabilities, recognizes revenues on a modified cash basis, and records expenses when they are accrued rather than when payments are made. See Congressional Budget Office, *Comparing Budget and Accounting Measures of the Federal Government's Fiscal Condition* (December 2006), www.cbo.gov/publication/18262.

cash-based accounting is ill-suited: Tracking only the annual cash flows of federal direct loans or loan guarantees would give a misleading view of the true costs or savings associated with those transactions. To address that problem, the budget records the estimated net lifetime costs or savings of direct loans and loan guarantees as increases or decreases in outlays when the loans are originated—a method known as accrual accounting.[3] Such estimates can be revised in response to unexpected changes in interest rates or other factors.

What Are the National Income and Product Accounts?

Rather than help the government plan or manage its activities, the NIPAs provide a general framework that describes the entire U.S. economy, including how the federal government fits within it. The NIPAs track current economywide production and the resulting income for specific periods, and they report the major sources of production and the recipients of the income in different sectors of the economy. Measures of the federal government's economic activities are recorded in the NIPAs in a sector called the federal sector over calendar years and calendar quarters. Totals for fiscal years can be derived from the quarterly estimates.

In the context of the NIPAs, the federal government is both a producer and a consumer. Its workforce uses purchased goods and services and government-owned capital (that is, structures, equipment, software, and research and development) to provide services (such as national defense) to the public. Because those services are consumed by the public, they are, by convention, regarded in the NIPAs as federal consumption expenditures.[4] The federal government also affects the resources available to the private sector through taxes and transfers. (Transfers are payments made to a person or organization for which no current or future goods or services are required.) All those activities are recorded in a way that is consistent with the NIPAs' treatment of other sectors of the economy.

How Do the NIPAs and the Federal Budget Differ?

Because the federal budget and the NIPAs serve different purposes, the two frameworks account for certain transactions in different ways. BEA groups those differences into three categories:

- **Coverage differences** arise because some transactions are included in either the budget or the NIPAs but not both. Certain transactions—such as the sale or purchase of existing assets or federal investment—affect revenues or outlays in the federal budget but do not affect the NIPAs' measures of current receipts or expenditures, either because they are not closely related to current economic activity or because they are not included in the federal sector in the NIPAs. Other items that are recorded in the NIPAs, such as imputed interest costs and depreciation, are not recorded in the federal budget.
- **Netting differences** result from transactions that are recorded as outlays in the budget but as receipts in the NIPAs, or as revenues in the budget but as expenditures in the NIPAs. For example, in the budget, Medicare premiums are considered receipts that offset the cost of the program and are thus recorded as negative outlays, but in the NIPAs, they are classified as receipts.
- **Timing differences** stem from transactions for which both the budget and the NIPAs record the same amount but in different periods. The budget generally records a transaction when receipts are collected or payments are made, but the NIPAs might record that transaction at a different time to better align it with the timing of related production or accrued income.

Those conceptual differences can cause projected negative net federal saving in the NIPAs to be greater than or less than projected budget deficits (see Figure 1).

Differences in Coverage

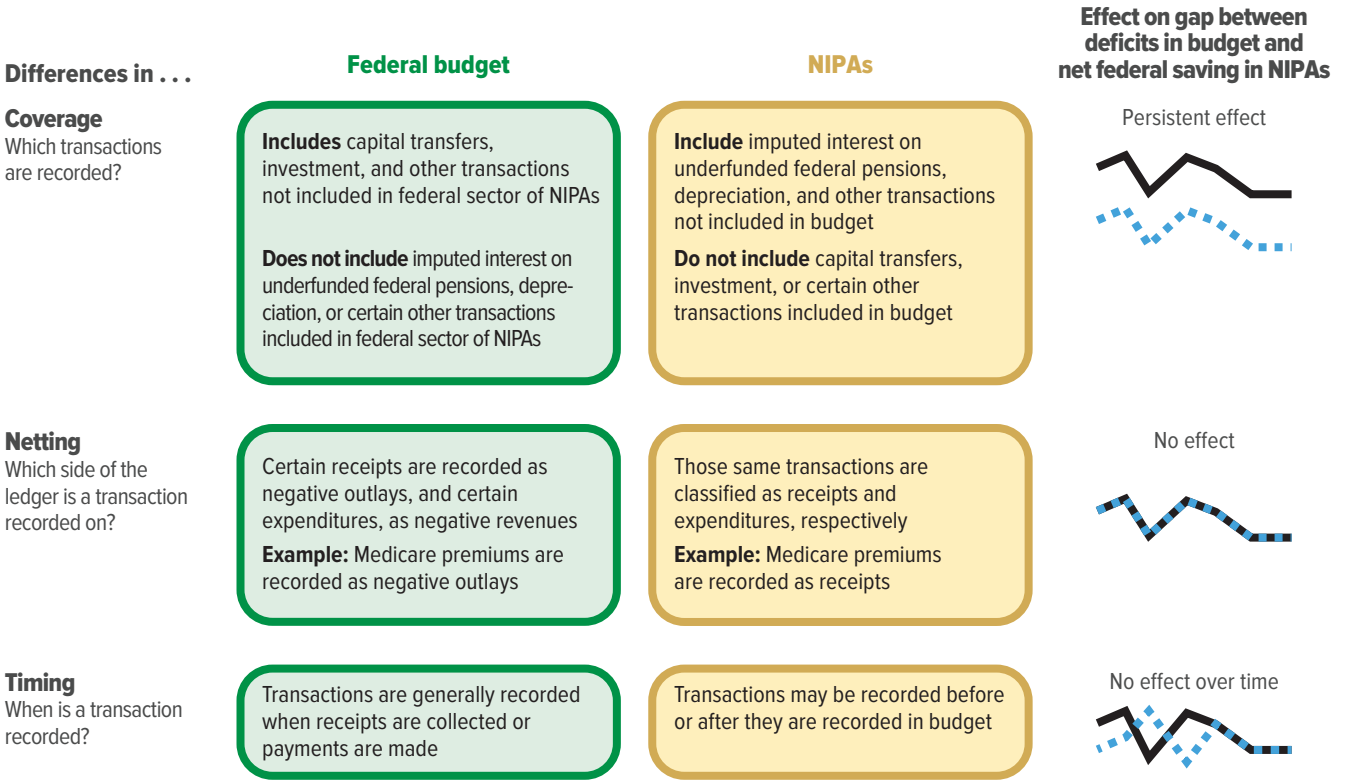
Differences in coverage lead to a gap between federal deficits in the budget and negative net federal saving in the NIPAs that can be large and persistent. Some of those differences cause CBO's projections of negative net federal saving to exceed the agency's projections of deficits, and others have the opposite effect.

3. Those net lifetime costs or savings are the net present value of all expected cash flows. A present value is a single number that expresses a flow of current and future income or payments as an equivalent lump sum received or paid at a specific time. The present value of future cash flows depends on the rate of interest, known as the discount rate, used to convert those cash flows into their equivalent value at a given time. As required by the Federal Credit Reform Act of 1990, the budget generally records the cost of loans and loan guarantees on the basis of their average expected default rates and associated losses. For a more in-depth discussion of cash-based and accrual accounting, see Congressional Budget Office, *Cash and Accrual Measures in Federal Budgeting* (January 2018), www.cbo.gov/publication/53461.

4. Federal consumption expenditures exclude government sales to other sectors and spending on fixed assets that the government produces for its own use (for example, spending on research and development performed by the government).

Figure 1.

How Conceptual Differences Between the Federal Budget and NIPAs Affect CBO's Translation of Its Baseline Budget Projections Into the NIPA Framework



The Bureau of Economic Analysis groups conceptual differences between revenues and outlays in the federal budget and current expenditures and receipts in the federal sector of the NIPAs into three categories, each of which affects the gap between deficits in the budget and net federal saving in the NIPAs differently.

NIPAs = national income and product accounts.

Capital Transfers. Capital transfers are transfers of an asset—or of cash to purchase an asset—from one economic entity to another. Transfer payments, such as grants from the federal government to state and local governments to build highways, are recorded in the budget as outlays; transfer receipts, including estate and gift taxes, are recorded as revenues. But because those transfers are not directly associated with current production, they do not affect the NIPAs' measures of current expenditures or receipts. As a result, such transactions do not directly affect estimates of net federal government saving in the NIPAs.

Federal Pension Plans. The treatment of federal pension plans in the NIPAs differs from their treatment in the budget in several ways:

- **Interest payments.** When the Treasury makes an interest payment to one of the trust funds that finance federal employees' pensions, both a payment and a receipt are recorded in the federal budget (the latter as an offset to outlays). That is, amounts are moved from one fund of the federal government to another, leaving total federal outlays unaffected. In the NIPAs, however, pension plans are classified as financial corporations that receive contributions and property income on behalf of plan participants but have no saving or net worth of their own. Thus, the interest payment from the Treasury and its receipt in the trust fund do not offset each other in the federal sector of the NIPAs. Instead, the payment is recorded as a current federal expenditure, and the receipt of the payment is recorded in the pension subsector of the financial corporate sector.

- **Imputed interest costs.** BEA adds interest costs—a practice known as imputing additional interest costs—for periods in which the government's pension plans are underfunded (that is, when the plans' financial assets are insufficient to cover promised future benefits). BEA imputes that additional cost because in the NIPA framework, the government has effectively borrowed from those plans. Because no cash payment was made for that imputed interest, no corresponding amount appears in the federal budget.
- **Cash-based versus accrual accounting.** The federal budget reports the cash payments of benefits from the government's defined benefit pension plans to federal retirees. By contrast, the NIPAs record as a federal expenditure the value of the benefits that federal employees accrue in a given year.

Those differences affect the relationship between the NIPAs' measures and budgetary ones in different ways. The additional interest payments (both actual and imputed) cause expenditures in the NIPAs to exceed outlays in the budget, whereas the NIPAs' use of accrual accounting for pension plans trims those expenditures in relation to outlays. Typically, the differences in how pension plans are accounted for in the two frameworks cause negative net federal government saving to exceed budget deficits.

Investment and Depreciation. When the government purchases new capital, that investment spending is recorded as an outlay in the federal budget. By contrast, purchases of new federal capital are not counted as current expenditures in the NIPAs because those expenditures include only the cost of capital inputs currently used to produce government services.[5] That cost is an estimate of the depreciation (or consumption) of the government's stock of fixed capital and is not included in the budget.

Lending and Financial Adjustments. Some differences between outlays in the federal budget and current federal expenditures in the NIPAs are related to lending and financial adjustments. Federal credit programs account for most of those differences. In the budget, the estimated net lifetime costs (or savings) of loans disbursed or guaranteed are recorded as outlays in the year the loans are made. In subsequent years, those estimates of loans' net lifetime costs are revised, as necessary, and the difference between the original and updated estimates is recorded as an increase or decrease in outlays. Instead of recording estimates of future costs and savings, the NIPAs record certain cash flows associated with the underlying loans.

Universal Service Fund. The business activity of the Universal Service Fund, which provides resources to promote access to telecommunications, is recorded in the budget but not in the federal sector of the NIPAs. The Universal Service Fund receives federally required payments from providers of interstate and international telecommunications services and disburses those funds to local providers that serve high-cost areas, low-income households, libraries, schools, and rural health care providers. The fund is administered by the Universal Service Administrative Company, an independent nonprofit corporation regulated by the Federal Communications Commission. Although the Universal Service Fund's revenues and outlays appear in the federal budget, they have little net effect on the deficit because they are about equal. In the NIPAs, the fund's receipts and payments are classified as transactions from one business to another within the corporate sector.

Differences in Netting and Timing

Revenues and outlays in the federal budget may also differ from receipts and expenditures in the NIPAs because of netting and timing differences. Unlike coverage differences, however, netting and timing differences do not lead to a gap between deficits and net federal saving that persists over several years, because those differences offset when calculating net federal saving in a single year or over time, respectively.

Netting Differences. Netting differences affect revenues and outlays equally. Because revenues and outlays increase or decrease by the same amounts, they do not contribute to any difference between surpluses or deficits in the budget and net federal government saving in the NIPAs. For example, premiums paid by Medicare enrollees are recorded as negative outlays in the budget but as receipts in the NIPAs. As a result, both receipts and expenditures in the NIPAs are greater than revenues and outlays in the budget by the amount of those premiums.

Timing Differences. Differences in timing may cause annual values for budgetary measures of federal activities to differ from those for the NIPAs' measures, but over

5. Although investment spending is not counted as a current expenditure, that spending is ultimately included in the federal government's contributions to gross domestic product. See Bureau of Economic Analysis, *NIPA Handbook: Concepts and Methods of the U.S. National Income and Product Accounts*, Chapter 2, www.bea.gov/resources/methodologies/nipa-handbook.

time, the gap between the two sets of measures that arises from such differences closes. CBO can estimate only some of those timing effects and does so by accounting for the shifts in outlays between fiscal years that occur for certain programs scheduled to make payments on October 1, the first day of the fiscal year. When that date falls on a weekend, those payments are instead made at the end of September and thus are shifted into the previous fiscal year. In particular, some payments for Medicare, veterans' compensation, and pay for military personnel that are scheduled to be made on October 1 may be shifted into the previous year.

In response to interest expressed by Members of Congress, the Congressional Budget Office regularly translates its baseline projections of revenues and outlays into the framework of the national income and product accounts (NIPAs). This report provides background information that helps explain those translations. In keeping with CBO's mandate to provide objective, impartial analysis, the report makes no recommendations.

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Jeffrey Kling reviewed the report, Bo Peery edited it, and R. L. Rebach created the figure and prepared the text for publication.

This report is available on the agency's website at www.cbo.gov/publication/62778. The series of publications that present CBO's projections in the NIPA framework is available at www.cbo.gov/recurring-publication/55138.

CBO seeks feedback to make its work as useful as possible. Please send comments to communications@cbo.gov.

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